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# Executive Remuneration Structure and Corporate Firm Value Among 25 Index Listed Firms at the Nairobi Securities Exchange, Kenya

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**Abstract:**
**Purpose:** This study examined the effect of executive remuneration structure on corporate firm value among the 25 Index listed firms at the Nairobi Securities Exchange. The research aimed to determine how fixed remuneration, short-term incentives, and long-term incentives influenced firm value, considering the moderating role of financial leverage.
**Methodology:** The study adopted a quantitative research design to examine relationships between executive remuneration components and firm value. The target population comprised firms listed under the Nairobi Securities Exchange 25 Share Index over a five-year period from 2018 to 2022. Secondary data were obtained from annual reports and financial statements of the listed companies. Data were analyzed using Econometric Views (EViews) software, applying descriptive statistics, correlation analysis, and panel regression.
**Findings:** The findings indicated that long-term remuneration components had a positive and statistically significant effect on firm value. Conversely, fixed remuneration, short-term incentives, and other executive perks were not statistically significant in explaining variations in firm value. Financial leverage was found to significantly moderate the relationship between executive remuneration and firm value, with higher leverage increasing firm risk and weakening the positive influence of long-term incentives.
**Unique Contribution to Theory, Practice and Policy:** The study contributes to corporate governance literature by providing empirical evidence on the effectiveness of executive remuneration structures in enhancing firm value in emerging markets. Practically, it reveals the importance of emphasizing long-term incentive schemes in executive compensation packages. From a policy perspective, the findings offer insights to regulators such as the Capital Markets Authority and corporate remuneration committees.

**Keywords**: *Firm Value, Fixed Remuneration, Short-Term Remuneration, Long-Term Remuneration and Financial Leverage*

**JEL Classification:** *G30, G34, J33, M12*

## 1.0 INTRODUCTION

The securities market is a major money-making avenue for the youth and other investors to put their money in companies quoted in the Nairobi Securities Exchange (NSE). Nonetheless, it was unfortunate that even with the opportunity market capitalization (KES 1,530.85 billion in September 2023) comprised only 15.53 per cent of the country's GDP (KES 9,851.32 billion). The investor's low uptake of shares was being seen at a period in which the performance of companies declined leading to delisting and suspension of companies from the securities market. For example, companies such as the Atlas Plc, ARM Cement, Deacons East Africa, Kenya Airways, Mumias and Uchumi Market were either delisted or suspended from NSE over the past six years prior to 2023 due to performance related issues, with some directors being taken to court for mismanagement of resources (Nzunga et al, 2022). Empirically, the performance of a company is a dependent on a combination of systematic factors such as inflation rate, market risks and idiosyncratic factors such as resource allocation and risk aversion which depend on decision undertaken by management. While the macro – economic factors play a role in company performance, there are idiosyncratic factors tend to have a bearing of corporate firm overall worth. Groysberg et.al (2023), argued that corporate firm value was a result of management efficiency and efficacy since a decline in firm value could be attributed to inefficiency in resource management by the decision makers. This inefficiency in management decision making in light of the executive management remuneration is consistent with the presumption that managers are rent seekers and will act to benefit themselves when not efficiently monitored.

In corporate governance, the principal-agent dilemma has been at the heart of the power divide between shareholders and management. Managers were seen as self –interested individuals who pursue their well-being by setting high salary at the expense of shareholders whose interests are wealth maximization if they are not perfectly monitored (Abdalkarim, 2019). The packaging of executive compensation has been used to partly alleviate this agency problem by ensuring that executive pay is based on indicators that were aligned with shareholder value maximization. The agency theory specifically advocated for the executive remuneration to incorporate equity –based component that directly links management rewards to value maximization objective of the company. The tournament theory is another instrumental theory underpinning the role of structuring executive remuneration. According to this theory, compensation packaging was a tool to attract and retain high value talent. Compensation is an instrument to ensure that key executives are continuously working towards the ultimate prize. In order to draw and keep talent, the tournament theory supports a larger fixed component that is set by the market. Additionally, the fixed component should be augmented with performance incentives (bonuses) where executives are rewarded for efforts above the expected minimum output.

### 1.2 Firm Value

Firm value denotes the perceived net value of an entity at a given point in time. Essentially, firm value differs from the total assets as disclosed in the annual financial statements. Firm value aligns right with core firm objective which is maximization of shareholders wealth, and has an explicit association with the prosperity of shareholders. Ibrahim (2020) contends that due to its strong correlation with the company's share prices, the firm value is frequently understood to represent the market value. As a matter of fact, a high share price makes a firm to be highly valued, which in turn affects the investor's sentiments towards the current firm performance.

Measuring shareholder/firm value is thus important to investors as they attempt to quantify the wealth created. Business value assessment includes reporting financial data through methods such as enterprise value (EV) along with economic value added (EVA). Financial measures serve as indicators to evaluate an organization's financial standing. Market-based metrics use observable market data to calculate total shareholder return (TSR) and Tobin's Q ratio which serve as indicators of perceptions and performance held at the marketplace.

### 1.3 Executive Remuneration Structure

The executive remuneration structure basically relates to the payment packaging to the key management within an organization. Executive officers serve at upper-level company management who maintain contact between board directors and workforce personnel throughout multiple organizational strata according to Shelley et al. (2013). Executives work to maintain clear communication channels and decision-making capabilities throughout the organization while uniting board director and workforce priorities. The remuneration of executives has received considerable scrutiny as the proponents of high executive pay attribute it to attraction of skilled personnel and increased chances for higher performance. The executive compensation structure was intended to reward to executives for positive results and creation of shareholder value. Mironski and Dembwoski (2017) stated that CEO remuneration packages frequently include elements that are dependent on the success of the business, including base pay, bonuses, long-term incentives, and other benefits including pensions, allowances, and benefits. Frequently, cash or other financial assets like stocks and options are required to make these payments.

### 1.4 The Nairobi Securities Exchange 25 Share Index (NSE-25)

The NSE -25 Index is a composite of top 25 companies listed in the NSE based on weighted -index market capitalization. Investors have utilized this index to assess the overall performance of the Kenyan securities market as it offers a quick overview of the country's securities (African Financials, 2020). The number of shares that are open for public trade, or the free-float market capitalization, is frequently the basis for the NSE-25 Index. To qualify for inclusion in the NSE-25 Index, companies must have a primary listing at the NSE, at least 20% of their shares quoted, a minimum market capitalization of Kes. 1 billion, and be regarded as a "blue chip" with a demonstrated record of outstanding profitability and dividend payments (NSE, 2020).

### 1.5 Statement of the Problem

Although, research on the relationship between CEO compensation and financial success is commonly carried out, there are still knowledge gaps as to how compensation structure determines financial performance. According to past researchers, there had been relentless focus on how much the executives were paid, which was a diversion from the real problem, which was the structuring of the CEO pay. By focusing on the remunerations structure or levels, this report sought to provide a basis for determining whether there is need for policy or regulation of remuneration structure in the NSE for better performance and discourage executives from inherent rent seeking behaviour. The combination of remuneration and performance variable was also a research gap as no single measure has been determined to be appropriate. Abdakarim (2019), Chen and Hasan (2017) and Ataunal and Aybars (2018) used either or a balance of ROE, Tobin’s Q, and ROA as the parameters for corporate performance.

However, for this analysis, the financial reporting measures will be Tobin's Q ratio as it helps gauge managerial efficiency and ability to maximize shareholder wealth as determined by capital gain and the dividend distributions.

Executive pay normally consists of all three components, including direct salary; financial rewards (profit-related, short and long term); and benefits in kind. Wijweera et al (2022) studied compensation elements and categorized them as short-term performance bonuses, stable income packages, and incentives towards long term goals. Equivalently, Nzunga and colleagues used metrics like regular salary, performance bonus, equity option and others to evaluate top executive pay structure. The compensation structure variable for this study will be based on the ASX Corporate Governance's suggested compensation structure, which includes performance-based compensation, equity-based compensation, fixed compensation, and termination payments. Another research gap from the past researchers is the focus on NSE 25 Index Listed Stocks. Nzunga et.al (2022) analysed the remuneration structure among all NSE Listed shares, with the Tarus et al. (2014) solely examined how CEO compensation interacted with the financial performance among firms in the insurance industry, with ROA as the dependent variable. The choice of NSE 25 Index provides an opportunity to engage companies that share similar characteristics such as market cap, have superior profitability and have a higher regulation requirement at the NSE.

As a result, this study aims to address the methodological and contextual shortcomings that other studies have found. The study's core resolve is to evaluate how CEO compensation affects the value of the corporate business. Tobin's Q ratio will be the foundation for the firm value analysis as it facilitates the integration of market value and total investment. The executive remuneration structure will be based on three components, that is, short–term, fixed, and long–term remuneration. The moderating variable for the study will be financial leverage which is firm–specific. The analysis will focus on all firms that constitute the NSE 25 Index.

### 1.6 Objectives of the Study

The research objectives are categorized into general and specific objectives as discussed herein. The General Objective of the Study was to assess the effects of executive remuneration structure being implemented by Nairobi Securities Exchange Listed firms on the corporate firm value. The Specific Objectives of the Study were:

(i) To determine the effects of fixed remuneration component on the firm value of listed Nairobi Securities Exchange Index Firms.
(ii) To establish the relationship between short –term compensation and the firm value of listed Nairobi Securities Exchange Index Firms.
(iii) To assess the effects of equity and long –term equity compensation component on the firm value of listed Nairobi Securities Exchange Index Firms.
(iv) To examine the moderating effects of financial leverage on the relationship between directors' remuneration and firm value of listed Nairobi Securities Exchange Index Firms.

### 1.7 Research Hypotheses

$H_{01}$: Fixed remuneration does not have significant effect with the corporate firm value of listed Nairobi Securities Exchange Index Firms

$H_{02}$: Short –term compensation does not have a significant relationship with the corporate firm value of listed Nairobi Securities Exchange Index Firms

$H_{03}$: long –term equity compensation does not have significant effect with the corporate firm value of listed Nairobi Securities Exchange Index Firms

$H_{04}$: Financial leverage does not have a moderating effect on the relationship between directors' remuneration and firm value of listed Nairobi Securities Exchange Index Firms

### 1.8 Scope of the Study

This present research investigated the linkage between executive pay structure and firm valuation after accounting for the effect of financial gearing. The study based its research on three central of executive compensation scheme which included a guaranteed salary, an incentive's part tied to short term achievements and a rewards element tied to long term results. In assessing financial leverage, the investigation employed total D/A ratio to reflect on the two major financing components available to firms to finance their assets. The research measured company value by utilizing Tobin's Q ratio which integrated both market capitalization with total assets under financial reporting guidelines. A study of executive compensation structures and firm value used the NSE 25 Index listed companies based on market capitalization from 2018 to 2022. The study relied on fixed-effects panel regression to assess the cause-effect relationships that exists between executive remuneration and firm value.

## 2.0 LITERATURE REVIEW

### 2.1 Theoretical Review

The theories anchored the study were agency theory, tournament theory and lastly management power perspective.

#### 2.1.1 Agency Theory

Majority of the executive compensation research are grounded on agency theory to decipher how CEO incentive incentives align with company performance. The agency theory emerged from Jensen and Meckling's (1976) work to show how principal-agent relationships create competing interests. An agency relationship forms when shareholders act as principals to create formal agreements that name executive management as agents for conducting company operations. Agency costs emerge through divergent goals between principals and agents together with the incomplete information they exchange within their relationship. According to Aggarwal & Ghosh (2015) executive officials served as agents who must conduct daily firm operations based on principal-established conditions. Executive compensation packages that used performance-based incentives were designed to match agents' interests with those of principals which boosts value maximization and improves governance efficiency. This agency relationship separated the ownership of the company from control of corporate affairs which creates a conflict that was so invisible since it permeating and familiar. Agency theory contends that humans are inherently self –interested and will thus have conflict of interest over issues whenever they engage in corporate endeavors.

#### 2.1.2 Tournament Theory

Lazear and Rosen (1981) initially proposed the tournament theory in an effort to comprehend how pay disparities affect company compensation plans. This theory provided a broad framework in support of giving CEOs more compensation in order to promote success across the board in the company. According to this theory, the compensation policy is based on an internal remuneration framework within an organization that created a competition among employees internally (Chen et.al, 2011). This internal competition for promotion created a 'tournament' as employees and executives sought to win the ultimate prize which is the highest reward for the company.

The tournament theory focused on the internal structures that had been put in place to motivate employees at all levels to work towards securing the optimal goals of a firm. This theory advocated for having a compensation package that would encourage executives to get better compensation as a result of augmented performance related rewards (Rosen, 1986). Executives would thus decide on the amount of effort to apply in order to get a higher reward for their effort. The tournament theory directly linked a greater effort and large salary for executives across different firms to improved corporate value. According to Waldman (2013) the tournament theory was further classified as classical approach and market-based approach. In the classical approach, the higher managerial compensation was linked to higher efficiency and more output while a low executive remuneration was associated with low performance. The high executive remuneration served to incentivize executives exert maximum effort and not rely on past achievements (Conyon et.al, 2001). The classical approach advocated for the use of performance incentives to unlock higher rewards as management were required to commit to a specified output level, that is, firms would be able to commit the minimum output that executives should attain in order to earn the augmented rewards (bonus) above the fixed reward.

### 2.1.3 Management Power Perspective

This theory is constructed upon the principle of the distinction between ownership and control over a firm's assets and the process of stewardship. According to Weisbach's (2006) managerial power theory, ownership was distributed among several common stockholders, but a small number of managers wielded the majority of the authority and influence over business operations. The dispersed nature of ownership and subsequent concentration of power at the hands of few executives resulted into a situation where management interest was divergent from those of the shareholders in absence of clear checks and balances (Chen et.al, 2011). The safeguards against managers who had a tendency to solidify their position or used of organizational resources in order to further their personal interests were removed when ownership and control are separated. Power, according to this view, refers to the capacity of managers to leverage their connections to exert influence in order to accomplish their objectives. Executives could then affect their compensation package, typically to the prejudice of shareholders, thanks to management authority. Ozgen et.al (2024) explained that executive power manifested itself through different forms such as structural power, ownership powers and prestige powers.

## 2.2 Empirical Reviews

An empirical review of literature encompasses the evaluation of previous studies that are similar to the one being proposed about acquiring the knowledge of their conceptualization, methodologies, contextualization, findings, and conclusions. This allows reproaches to determine the gaps to be filled with this study (Kothari, 2012). The focus was on independent variables and dependent variable for review of basic salary, cash benefits, bonuses, non-cash benefits and long-term incentives.

### 2.2.1 Fixed Remuneration and Firm Value

Mohammed *et.al* (2023), the focus was on effects executive compensation on listed non – financial organizations in Nigeria. As per the study, firm performance was represented by ROE and the fixed component of the remuneration structure was represented by salary emolument.

The research applied the two –step GMM analysis to test the hypothesis and determined that there was a negative association between ROE and salary emolument, that is, an increase in salary emolument resulted into a reduction in the performance of firms. However, this negative association was not statistically significant an indication that relationship was generalizable hence no association between salary and performance. These assertions were affirmed by Wijeweera, et.al (2022), who established that the fixed component and market capitalization were negatively but not statistically significant in explaining relationship which implies that it was not tied to firm value. The inverse association implied that as the fixed salary increases, executives are less likely to enhance company performance.
Nzunga et.al (2022) scrutinized financial performance and executive reward structure in NSE Securities that are listed in Kenya. The researchers used basic salary to indicate the fixed remuneration element of managerial remuneration whereas the performance index of the firm was ROA (Return on Asset). Nzunga et.al applied the panel regression model to ascertain the direct effects of the basic salary on ROA. The study discovered that the inclusion of basic salary in the reimbursement of the managers showed a positive correlation on the returns to assets of the corporation. In effect the research concluded that an increase in the basic salary may serve as a reason behind the performance of the firms and that increasing the basic salary of the executives would largely enhance the company's financial performance.

### 2.2.2 Short –Term Incentive and Firm Value

Wijeweera, Rampling and Eddie (2022) used publicly listed ASX entities in Australia to study the association that existed between executive remuneration and firm value. The short -term incentive was the remuneration component that was linked to short –term performance targets set for senior executives, while the market capitalization was one of the parameters of firm value. The investigation of the association between firm value and executive remuneration structure was based on FE panel –regression method. According to the research finding, it was established that short –term incentive to executives was positively related to the market capitalization. The relationship short –term incentive and market capitalization were also determined to be statistically significant Nzunga *et.al* (2022) also examined the interaction between short -term incentives and firm performance in Kenya. The study employed the use of executive bonuses in the measurement of to investigate the impact of short-term incentive and the performance measure used was the performance based on returns on assets (ROA).

### 2.2.3 Equity and Long –Term Compensation and Firm Value

Mohammed, Ibrahim and Maitala (2023) who used Nigeria's listed Non-Financial Firms companies to evaluate the influence of incorporating rewards linked to long -term targets on their performance. The research used equity-based compensation as the representation for long -term managerial rewards and firm performance for the listed companies was represented using the ROE. The research established that among the listed Non-Financial Organizations, the use of stock-based remuneration had a negative and statistically insignificant. According to the study, increasing the payment of executives using share instrument would negatively affect firm performance and its inclusion was not significant on the executive remuneration structure. These findings contradicted the research by Chen and Hassan (2022), Mohammed et.al (2023), Wijeweera et.al (2022) who established that positive and significant association existed between corporate value and long -term component of executive remunerations.

### 2.2.4 Executive Remuneration Structure, Financial Leverage on Compensation and Firm Value

Marzinzik (2021) used Austrian and German listed firms to study the interactions between corporate performance and CEO remuneration between 2012 and 2019. The researchers used EVA, Tobin's Q ratio, total shareholder Return and ROA as the variables for corporate performance. The fixed component and variable components were the variables in executive remuneration structure. The research's control variable was financial leverage, and the measure for financial leverage used was the D/A ratio. Marzinzik found that the control variable financial was negatively and significantly linked to firm value a fact that was attributed to inefficient investment of borrowed funds. The study by Tarkovska (2017) sought to assess how CEO pay slice and corporate firm value were related among the UK Listed companies for the period between 1997 and 2010. Tarkovska used the dynamic system GMM to test and hypothesis and draw inference on this relationship and found that leverage had a positive controlling relationship in the interaction between firm value and executive structure. These findings contradicted Marzinzik (2021) and Santos (2012) as it inferred that leverage increase would enhance the firm value.

## 2.3 Conceptual Framework

This study conceptualized the effect of independent variables, executive remuneration structure on the dependent variable corporate firm value amongst the sample of NSE 25 Index Listed Firms. Independent variables included short- term compensation, fixed remuneration and long- term compensation of executive remuneration structure that has been implemented by most of the NSE 25 Listed Firms currently. Financial leverage treated as an independent variable was moderate in evaluating the interactions among the components of executive remuneration and the firm value. The dependent variable was the firm value and was assessed in terms of Tobin Q ratio. The conceptual model of the interactions of the variables and ideological framework was represented in the diagram below.

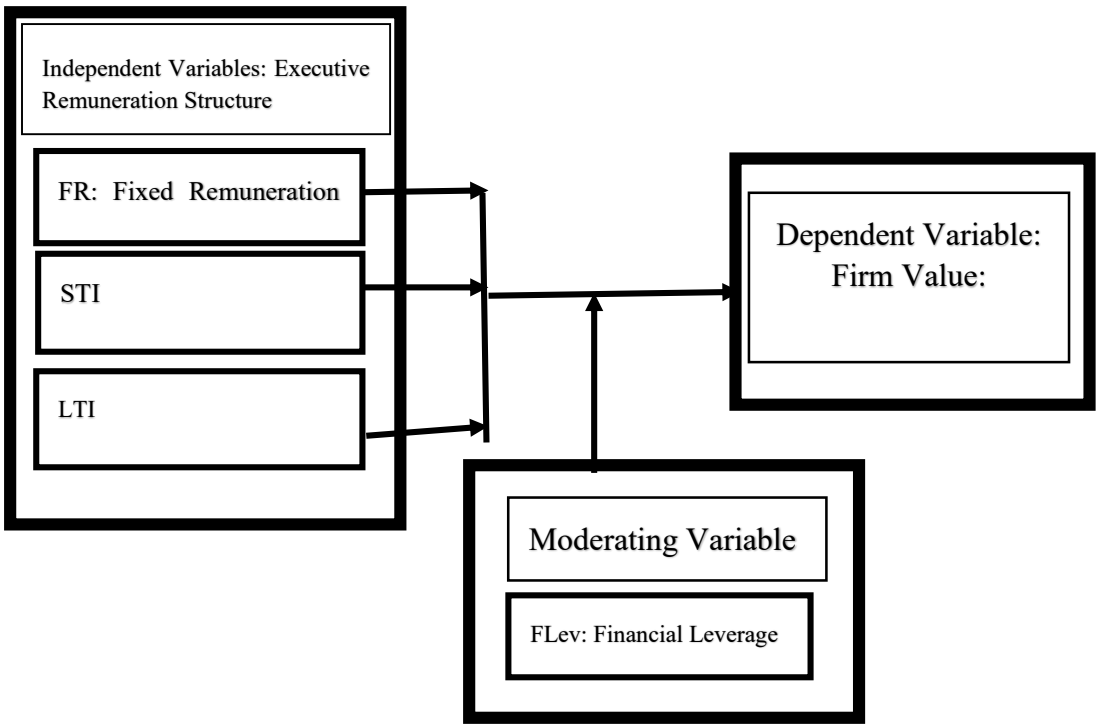

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**Figure 1: Conceptual Framework**

**Source: Researcher, 2026**

## 3.0 RESEARCH METHODOLOGY

### 3.1 Research Design

The quantitative research design was used as the strategy to attain the study goal, which was to ascertain if the existing executive compensation structure used by NSE 25 Listed businesses had an effect on the company value. This quantitative research strategy is perfect as it aims to verify established hypotheses, show how important factors relate to one another, and forecast results using the data at hand. Additionally, Mugenda and Mugenda (2003) argued that the use of quantitative research design for research would ensure that objectivity requirements in research process are adhered to, consequently increasing the generalizability of research outcomes.

### 3.2 Empirical Model

The ability to offer a thorough description of the observed phenomena from the model makes empirical modelling a crucial component of research studies. Das (2019) defined empirical model as a mathematical representation that connects the predictor and explained variables in an order to facilitate the analysis of a phenomenon under investigation. The panel -regression model was best placed for this study as the cross - sectional nature of data which involved study of listed companies over a specific time. The generic panel regression model was represented in the forms of

#### 3.2.1 The Direct Effect Model

$Y\ it = \alpha i + \beta i Xit + \mu it \propto t$=1 …….. (Equation 1)

Where; (Y)it = Dependent Variable (Firm Value)

$X$it=Value for independent variables of component (i) at time (t)

$\beta i$ = Beta coefficients of the independent variable,

αi = coefficient of the equation, representing the constant term,

μ= refers to the error term.

The empirical model will be:

Tobin's Q = $\alpha i + \beta_1$FR$it + \beta_2$STI$it + \beta_3$LTI$it + \beta_4$FLev$it$ + e $it$ … (Equation 2)

where: αi = constant term of the equation

$\beta_1, \beta_1, \beta_1\ \beta_1\ \beta_1$ = The estimated beta coefficients of the independent variables

FR = Fixed remuneration component

STI = Short -Term Incentive

LTI = Long – Term Incentive

FLev = Financial Leverage

#### 3.2.2 The Moderating Effect Model

The financial leverage ratio was used as a moderator variable in the study to examine how it interacted with corporate value and the executive remuneration structure. According to Bell et.al (2022), the moderators can be qualitative variables or quantitative variables. The analysis of moderating variable was important in understanding whether the presence of financial leverage further influenced the presence, strength or direction of relationship that existed between corporate firm value and executive remuneration structure.To analyze its impact, the moderating variable assumed a quantitative variable, where the financial leverage ratio was analyzed based on its interaction with the other independent variables on the firm value.

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**Vol. 3, Issue. No. 2, 2026**

Tobin's Q = $\alpha i + \beta_1 FRit + \beta_2 STIit + \beta_3 LTIit + \beta_1(FRit * FLevit) + \beta_3(STIit * FLevit) + \beta_3(LTIit * FLevit) + e\ it$ ..... (Eq.3)

The interaction effect is incorporated using the components

$$\beta_1(FRit * FLevit) + \beta_3(STIit * FLevit) + \beta_3(LTIit * FLevit) + e\ it$$

### 3.4 Operationalization and Measurement of Study Variables

**Table 1: Operationalization and Measurement of Study Variables**

| Type | Variable | Operationalization | Measurement | Hypothesis Direction |
|---|---|---|---|---|
| **Dependent** | Firm Value | This is the measure of wealth created by executives to shareholders as determined by ratio of market capitalization to total asset base. | Tobin's Q = Market Value / Total Assets | +/- |
| **Independent** | Fixed Remuneration | This is the component of remuneration structure that is guaranteed by the employee such as salary. | Basic Salary | +/- |
| **Independent** | Short -Term Remuneration | This encompasses the short –term performance-based bonus and cash that have been earned within the same financial period. | Bonuses | +/- |
| **Independent** | Long-Term Remuneration | These are the equity options and other deferred long –term benefit that will be granted to the executive in future periods based on the performance. | Equity Options | +/- |
| **Moderating** | Financial Leverage | This is the moderating variable and shows the proportion of a firm's capital structure that is sourced from creditors. | Total Debt / Total Assets | +/- |

**Source: Researcher (2026)**

### 3.5 Target Population

The target of this research was all publicly traded firm listed on the NSE 25 Index that constitutes the top 25 company in the Nairobi Securities Exchange ranking by market capitalization as of September 2023 with the latest index update. In addition, data from these firms for years 2017 to 2022 has been gathered in adherence with the defined research period.

### 3.6 Sample and Sampling Design

This research used the census sampling design to select samples for the study. According Mugenda and Mugenda (2008), census sampling allows for the inclusion of all population constituents in the analysis. This census sampling design is effective when the population parameters are not excessive large. Accordingly, this design required that all the NSE 25 Index listed companies be incorporated as a part of samples to be analyzed.

### 3.7 Data Collection Procedures

This research relied on the secondary data sources such as such as websites and annual reports to attain research objectives as the sources were readily available and cost effective to acquire. The research relied on the published audited financial statement for the listed companies and the yahoo finance website. The choice of audited financial reports was based on statutory obligation placed upon companies by the Companies Act Cap 486 and CMA who are tasked with ensuring reporting companies. Data on the independent variable was focused on the disclosures relating to remuneration of directors and the annual financial statement which documents the financial leverage parameters, that is, total liabilities and total debt. For the dependent variable, the parameter of Tobin's Q, was obtained from financial statements (total assets and numbers of shares outstanding) and historical share price for each company was obtained from yahoo finance website. Additionally, the study widely used the Microsoft Excel as a collection tool to capture key data parameters for each company as per Appendix (II). The data collected was then transformed based on the research parameters in order to cater for the uniqueness on the director remuneration across different listed companies in the NSE Index.

## 4.0 RESULTS AND DISCUSSIONS

### 4.1 Descriptive Statistics

This is the foundation of quantitative research analysis as it attempts to provide a summary of the dataset characteristic. It provides the summary statistics such as measures of central tendency, dispersion and data distribution of the factors to the research.

**Table 2: Summary of Descriptive Statistics**

| Variables | Mean | Max | Min | Std. Dev. | N |
|---|---|---|---|---|---|
| TOBIN'S_Q RATIO (%) | 0.6089 | 6.6705 | 0.0089 | 1.2488 | 115 |
| FIXED OTHER PERKS (million) | 97.1302 | 316.0850 | 6.5330 | 64.2994 | 115 |
| SHORT TERM_REMUNERATION (million) | 37.5250 | 296.4000 | - | 73.0101 | 115 |
| LONG TERM_REMUNERATION (million) | 5.6219 | 50.6640 | - | 11.5255 | 115 |
| FINANCIAL_LEVERAGE (%) | 0.6329 | 0.8795 | 0.0532 | 0.2486 | 115 |

**Source: Research Data (2026)**

The results in Table 2 showed that the average Tobin's Q for NSE 25 Index Listed Companies was 0.61, with a standard deviation of 1.25. The analysis signalled that for the period between 2018 and 2022, most firms in the NSE 25 Index were undervalued as investors in the stock market acquired shares at KES 0.62 for every KES1 invested in the company's assets base. The standard deviation of 1.25 also showed that there existed low disparity between the firm values which could be attributed to the fact that NSE 25 Listed firms are compiled based on similar features such as asset base and market capitalization. The study found that Tobin's Q for the NSE 25 Index Listed companies ranged from a minimum of 0.009x and maximum of

6.67x, an indication that while most firms are undervalued, other firms were overvalued as their Tobin's Q ratio exceeded one.

According to the research findings, on average the executive directors were paid KES 97.14m in fixed remuneration with a standard deviation of KES 64.30m. For firms that remunerated their executives using short – term remuneration packages, the average payment was KES 37.52m with a standard deviation of KES 73.01m. Additionally, the mean payment for executives from long –term remuneration was KES 5.62m with a standard deviation of KES 11.52m. The study found that the fixed component comprising of fixed contract salary, benefits and other allowance had the highest allocation in the remuneration packaging with the lowest allocation being payment of executives through long –term instruments such as share options. The short –term remuneration components such as bonuses paid to executives had the highest disparity with as some firm did not pay bonus while the highest reward from bonuses amounted to KES 296.4m. This disparity was explained by the metric for setting bonuses and the revenues differ among the firms in the NSE 25 Index. The analysis of moderating variable financial leverage of the NSE 25 Listed Firms for the period between 2018 and 2022 found a mean ratio of 63% and a volatility of 5.3%. This implied that most firms in the NSE 25 Index had 63% more debt financing in their capital structure than equity financing with low volatility between the ratios among the different firms in the index. The high financial leverage ratio is anchored on the MM Proposition which advocates for higher debt to take advantage of tax shield and lower the cost of borrowing but to sustainable levels that do not cause financial distress.

### 4.2 Correlation Analysis

Correlation analysis is an aspect in data analysis as it shows strength and direction of the linear regression that coexists among the variables. The magnitude of association between variables is determined by the correlation coefficient while the direction is determined by the positive or negative signs that precede the correlation coefficient. The Table 3 shows the summary of the ordinary correlation analysis of the Tobin's Q, executive remuneration constituents and financial leverage.

**Table 3: Correlation Analysis:**

| Covariance Analysis: Ordinary | | | | | |
|---|---|---|---|---|---|
| Probability | TOBIN_S_Q | FIXED___OTHER_PERKS | SHORT__TERM_REMUNERATION | LONG__TERM_REMUNERATION | FINANCIAL_LEVERAGE |
| TOBIN_S_Q | 1.000000 | | | | |
| | ----- | | | | |
| FIXED___OTHER_PERKS | 0.275194 | 1.000000 | | | |
| | 0.0029 | ----- | | | |
| SHORT__TERM_REMUNERATION | 0.129983 | 0.407926 | 1.000000 | | |
| | 0.1662 | 0.0000 | ----- | | |
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| LONG__TERM_ REMUNERATI ON | 0.503055 | 0.300183 | 0.022613 | 1.000000 | |
| | 0.0000 | 0.0011 | 0.8104 | ----- | |
| FINANCIAL_LE VERAGE | -0.365635 | 0.318674 | 0.253146 | 0.122576 | 1.000000 |
| | 0.0001 | 0.0005 | 0.0063 | 0.1919 | ----- |

***Source: Research Data (2026)***

The Table 3 of the correlation analysis shows that fixed remuneration and other perks (r = 0.28 p=0.00) had a 'slight' positive correlation with the dependent variable Tobin's Q ratio that was statistically significant. This is an indication that an increase in fixed remuneration and other perks for executives tend to increase the market firm value. The analysis also found that long -term remuneration (r=0.50 p=0.00) had a 'fairly' positive correlation with the Tobin's Q ratio that is also statistically significant. The analysis suggests that an increase in remuneration of executives in form of long -term incentives will likely lead to an increased firm value. Additionally, the correlation analysis found that short -term remuneration (r = 0.13 p=0.17) had a 'negligible' positive correlation with Tobin's Q ratio, that was statistically insignificant. This implies that while an increase in short -term incentives will likely lead to an increased firm value, there was no sufficient evidence to assert that short -term remuneration and Tobin's Q ratio have a linear relationship. On the contrary, the correlation analysis established that financial leverage (r = -0.37 p = 0.01) has a 'slight' significant negative relationship with the Tobin's Q ratio. The negative relationship infers an inverse relationship such that an increase in financial leverage corresponds with a decrease in the firm value.

### 4.3 Regression Model Regression

#### 4.3.1 Regression Coefficients

Table 4: Fixed Effect Panel –Regression Model Regression Coefficients

| **Dependent Variable: TOBIN_S_Q** | | | | |
|---|---|---|---|---|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 1.546447 | 0.584319 | 2.646579 | 0.0097 |
| FIXED___OTHER_PERKS | 0.559560 | 1.147507 | 0.487631 | 0.6271 |
| SHORT__TERM_REMUNERATION | -0.732135 | 1.124898 | -0.650845 | 0.5169 |
| LONG__TERM_REMUNERATION | 18.52949 | 6.078260 | 3.048486 | 0.0031 |
| FINANCIAL_LEVERAGE | -1.688490 | 0.919011 | -1.837290 | 0.0697 |

**Source: Research Data (2026)**

The Table 4 indicates the intercept of the panel regression model was determined to be 1.546, and this showed the expected value of the Tobin's Q, assuming the executive remuneration variables and financial leverage are equal to zero. This is the average Tobin's Q ratio for NSE 25 Listed Firms before taking into consideration the remuneration structure and the financial leverage of a firm an indication of over-valued firms. The analysis found that fixed remuneration and other perks (0.5596), and long -term remuneration (18.5295) had positive relationship with the Tobin's Q ratio an indicator that increasing the executive remuneration on long -term incentives will have an increasing effect on the firm's value. However, the coefficient of the long -term incentive was the largest positive coefficient an indication that it was the most impactful remuneration component on increasing a firm's value. On the contrary, short -term remuneration (-0.7321) and the moderating variable financial leverage (-1.6188) in the regression equation when used an independent regressors had negative coefficients a possible indication that increase in short -term remuneration and financial leverage had decreasing effect on firm value.

### 4.3.2 The Moderating Effect Regression Model

The study used the financial leverage as a moderating variable with the presumption that debt levels had the ability to influence the interaction between executive remuneration component and firm value. The moderating effect was modelled into the regression through a product term resulting to a new equation (Equation3)

Tobin's Q = $\alpha i + \beta_1 FRit + \beta_2 STIit + \beta_3 LTIit + \beta_1(FRit * FLevit) + \beta_3(STIit * FLevit) + \beta_3(LTIit * FLevit) + e\ it$ ……. (Equation 3)

The interaction effect is incorporated using the components
$\beta_1(FRit * FLevit) + \beta_3(STIit * FLevit) + \beta_3(LTIit * FLevit) + e\ it$

Tobin's Q = 0.8325 – 2.2024FR + 34.929 STI + 173.855 LTI – 1.1757FLev + 5.2015($FRit$ * $FLevit$) – 41.952($STIit$ * $FLevit$) – 182.402($LTIit$ * $FLevit$) + e $it$

**Table 5: Moderating Effect Regression Model Output**

| Dependent Variable: TOBIN_S_Q | | | | |
|---|---|---|---|---|
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 1.007118 | 0.692861 | 1.453565 | 0.1499 |
| FIXED__OTHER_PERKS | 0.338342 | 5.193141 | 0.065152 | 0.9482 |
| SHORT__TERM_REMUNERATION | 9.204719 | 5.043655 | 1.825010 | 0.0717 |
| LONG__TERM_REMUNERATION | 68.98119 | 20.61677 | 3.345878 | 0.0012 |
| FINANCIAL_LEVERAGE | -0.880696 | 1.049354 | -0.839275 | 0.4038 |
| FIXED OTHER_PERKS*FINANCIAL LEVERAGE | 0.164587 | 6.454845 | 0.025498 | 0.9797 |
| SHORT TERM REMUNERATION*FINANCIAL LEVERAGE | -11.90251 | 6.493294 | -1.833046 | 0.0705 |
| LONG TERM REMUNERATION*FINANCIAL LEVERAGE | -71.94052 | 27.53658 | -2.612544 | 0.0107 |
| | Effects Specification | | | |

| | | | |
|---|---|---|---|
| Cross-section fixed (dummy variables) | | | |
| Period fixed (dummy variables) | | | |
| Root MSE | 0.291685 | R-squared | 0.944970 |
| Mean dependent var | 0.608924 | Adjusted R-squared | 0.922550 |
| S.D. dependent var | 1.248849 | S.E. of regression | 0.347553 |
| Akaike info criterion | 0.965020 | Sum squared resid | 9.784221 |
| Schwarz criterion | 1.776565 | Log likelihood | -21.48866 |
| Hannan-Quinn criter. | 1.294422 | F-statistic | 42.14902 |
| Durbin-Watson stat | 1.820869 | Prob(F-statistic) | 0.000000 |

**Source: Research Data (2026)**

The Table 5 shows the moderating effect regression model output. The model had a R-squared of 94.50% which is an indication that main effect of executive remuneration component, coupled with moderating effect of financial leverage accounted for more than 90% of changes in Tobin's Q. The F –Statistic of the regression model was 42.15 with a p-value of 0.00 which showed that financial leverage had a significant moderating effect on the interaction between of executive remuneration component and firm value. In terms of main effect, the analysis shows that fixed and other perks remuneration, short term perks and long-term perks had positive influence on the firm value as represented by Tobin's Q ratio. However, in terms of statistical significance, the results showed that that fixed and other compensation, short term compensation were not significant. Additionally, the moderator variable, which was financial leverage was determined to be inversely and insignificant in explaining the changes in firm value. In terms of interactive effect of financial leverage of fixed remuneration component with (coefficient: 0.164 and p-value: 0.9797) showed that the positive relationship between fixed and other perks component and market firm value is strengthened even when a firm increases its financial leverage but was insignificant. The coefficients (-11.90, p-value: 0.07) and (-71.94 p-value: 0.0107) for interactive effect of short –term and long –term remuneration component respectively shows that the direct effect of short –term and long –term remuneration on firm value is diminished as the degree of leverage increased. However, only the interactive effect of long –term remuneration is statistically significant in justifying the changes in firm value**.**

### 4.4 Hypothesis Testing

#### 4.4.1 Fixed Remuneration Component and Corporate Firm Value

The relationship between fixed remuneration component and corporate firm value was founded on, the null hypothesis has no meaningful relationship between fixed remuneration and corporate firm value of listed NSE Index Firms. As the analysis in table 4 above indicated, the coefficient of -0.056 and p -value of 0.9618 of fixed and other remuneration component imply that the null hypothesis was not rejected and the implication that fixed remuneration was not significantly correlated with the corporate firm value of listed NSE Index Firms. These results were consistent with the results of Wijeweera et al. (2022) and Chen and Hassan (2022), who determined in their papers that basic compensation and fixed constituent of executive pay did not play a statistically significant role in explaining the value of a firm.

This also was contrary to the research of Nzunga et.al (2022) and Mohammed et.al (2023) which determined that fixed component of executive remuneration was statistically significant in explaining the firm value.

### 4.4.2 Short term remuneration and Corporate Firm Value

Short-term remuneration element was examined by explaining the null hypothesis as per which the short-term compensation is not significantly related to the corporate firm value of listed NSE Index Firms. Table 12 showed that the p-value of the short -term remuneration was 0.00. The p-value of 0.00 did not exceed 0.05 and this means that we reject the null hypothesis. This simply implies that short -term compensation has high levels of statistical association with corporate firm value of index NSE Firms listed. These findings agreed with the study conducted by Mohammed et.al (2023) who determined that a payout of bonuses and short-term incentives by the executive was not significantly linked to the value of corporate firms but goes against the outcome of the study by Wijeweera et al. (2022) and Nzunga (2022) who asserted that short-term incentives were positively and significantly correlated with corporate performance.

### 4.4.3 Long -term Incentive and Corporate Firm Value

Long -term incentive in terms of proportion of remuneration structure was as well examined to ascertain its effects on corporate firm value. The null hypothesis under which the statement of the analysis was carried out was as follows: long -term equity compensation has no significant relationship with the corporate firm value of listed NSE Index Firms. The long -term inventive had an inventive co- eigenvector of 173.86 at -value of 0.00. The p-value of 0.00 falls short of the critical value of 0.05 and this means that we reject the null hypothesis and accept that there is a significant relationship that exists between long -term incentive and firm -value. These results can be consistent with the studies of Wijeweera et.al. (2022), Chen and Hassan (2022), and Mohammed et.al (2023), which determined that the use of long -term incentives in executive compensation was statistically significant in the elucidation of the firm value. Nonetheless, such data are in contrast to a study by Nzunga et.al (2022) who discovered that long -term incentive was not significantly relevant in explaining firm value.

### 4.4.4 The Moderating Effect Financial Leverage on Executive Remuneration and Firm Value

Another major variable that was employed to determine the relationship between the executive remuneration structure and corporate firm value is financial leverage. The null hypothesis used in the analysis was that the relationship between the remuneration of directors and the value of the firm does not contain significantly moderating effect by financial leverage. This objective was achieved using product terms to establish the interactive effect through the moderating effects models. F-Statistic p -value of the interaction model was 0.00 meaning that financial leverage is a statistically significant moderating variable used to determine the interaction between executive remuneration and firm value.

## 5.0 CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Conclusions

This study focused on examining how the executive remuneration structure determined the corporate firm value in NSE 25 Listed Firms with a time span of between 2018 and 2022. The study concluded that executive compensation of NSE Listed companies was largely organized in the form of fixed and other compensation, STI and LTI constituents. The first goal was to evaluate the impact of the fixed remuneration component on the value of the listed NSE 25 Index Firms. The analysis found a moderate correlation between fixed and other remuneration and the Tobin Q a positive cause -effect on the value of the firm, though not significant. This meant that although payment of executives through base salary and allowance enhanced firm value, they were generally not impactful on increasing firm value. This was attributed to the fact that fixed remuneration is usually aimed at attracting and retaining talent and is not usually linked to long –term indicators such as value creation.

The second purpose of the research was to determine the relationship between the short-term compensation and the firm value of listed NSE Index Firms. Based on the analysis, the correlation analysis revealed a weak relationship between short-term remuneration and firm value and a statistically non-significant negative cause -effect was found. These findings showed that in the current executive remuneration framework, the payment of bonus to executives generally short –term targets were not in synchronization with the long –term objectives of shareholder wealth maximization. The statistical insignificance can be attributed to the fact that bonus is usually set based on short –term operational objectives such as revenue and profits as opposed to firm value which is a long –term measure.

The next goal was to determine the impact of equity and long -term equity compensation component on the firm value of listed NSE Index Firms. The findings supported existence of relatively moderate correlation exists between long -term remuneration and the firm value, and that this relationship had a positive cause –effect that was also statistically significant. The evidence substantiated the use of equity -based incentives such as share options to assist in aligning the reward with an improvement in firm value and the significance reasons that, long -term remuneration is the most crucial remuneration factor which must be integrated in reward schemes in situations where the aim is to maximize shareholder wealth.

The final aim of the paper was to investigate the moderating role of the financial leverage in the correlation between remuneration of directors and the value of listed within the NSE 25 Index. The result found that the financial leverage and the Tobin's Q ratio were negative and significantly correlated. A further analysis on the direct cause –and –effect relationship, the study found a negative non-significant effect of financial leverage on firm market value. .These results supported the claims that an increase in the level of financial leverage subject firms to expensive cost of borrowing and financial distress. The moderated equation confirms the use of financial leverage as a moderator and shows the specific effects to each component of executive remuneration. The analysis shows that financial leverage had no significant effect on interactions between fixed remuneration and short –term remuneration as executive remuneration components on the firm value. Financial leverage was significant in negating the positive effects of long –term remuneration a possible indication that increased leverage increases risk which creates managerial strategic tension between ensuring survival and meeting long –term objectives.

### 5.2 Recommendations

One of the recommendations from the study is the need to adopt a mix of fixed and performance-based compensation for executives as it encourages managers to pursue wealth maximization for shareholders. The fixed remuneration component, while not aligned to management should be adequate to attract and retain talent. The performance-based compensation should have a short -term and long -term component, with both set on KPIs that focus on creating wealth. The study emphasizes the need for corporates to adopt a long -term incentive when designing executive remuneration packages. This component is more reliable in ensuring that management decisions are aligned with creation of sustainable wealth and as such remuneration instruments such as share options, share plans and deferred bonus should be highly encouraged.

Additionally, there is need to re-align the current short -term remuneration key performance indicators among the NSE Listed firms. Currently, executives earn more from short -term incentives than from long -term incentives but these payments were not aligned to enhancement of shareholder value. There is need to ensure that key performance indicators that are considered in determination of bonuses motivate managers to pursues firm value maximization. Lastly, there should be prudent management of debt for companies to unlock the value maximization. The combination of financial leverage and a structured remuneration scheme provide a greater opportunity to reduce agency cost and align management decision to wealth maximization. However, there is need to determine optimal levels are increased debt levels not only reduces firm value but reduces the positive effect of inclusion of long -term incentives.

The Fixed Effect panel regression applied in this research had reasonably high R -squared value, an indication that the model was relatively robust for further analysis. The model uses financial leverage which was established to be an effective moderating variable but was not a significant regressor variable in explaining changes in the Tobin's Q. Future research should thus consider incorporating a different financial ratio that has more connection to Tobin's Q ratio such as ATR ratio. The ATR ratio can be more aligned to Tobin's Q as it would show the degree to which management used its assets for sales generation a better indicator for decision making efficiency and effectiveness which would further reflect in market value.

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