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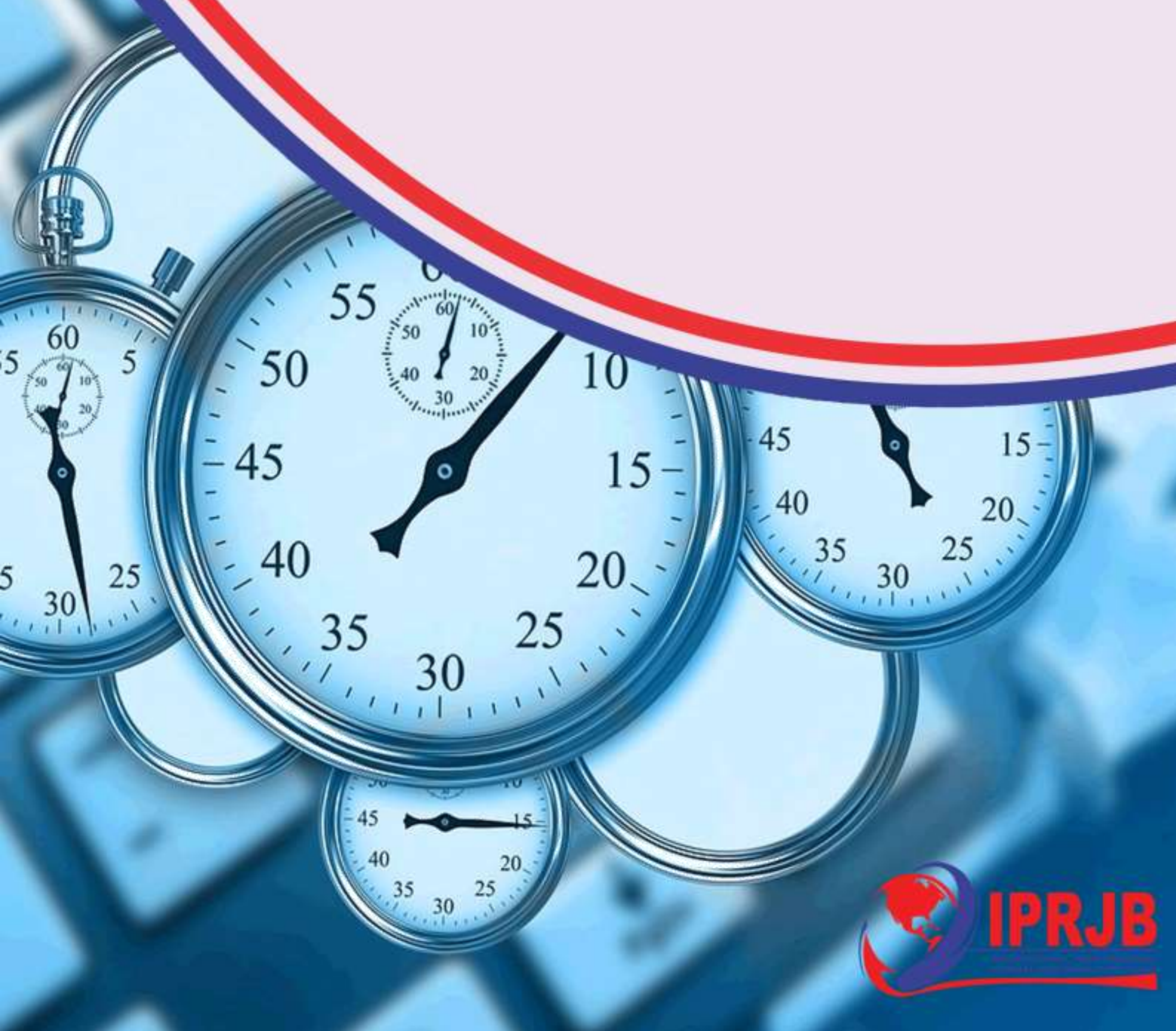

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The Influence of Compensation Plans on Firm Performance: Evidence from Non-Financial Firms Listed on the Nairobi Securities Exchange, Kenya

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Abstract

Purpose: This study examined the influence of compensation plans on the performance of non-financial firms listed on the Nairobi Securities Exchange (NSE), Kenya. It responds to limited sector-specific evidence on whether executive compensation functions as an effective governance mechanism for aligning managerial incentives with organizational performance in an emerging capital-market context.

Methodology: The study was theoretically informed by Agency Theory, Managerial Power Theory, and Stewardship Theory and adopted a positivist research philosophy and an explanatory research design. A census approach was used to target all 42 listed non-financial firms on the NSE. Primary data were collected from company secretaries using structured questionnaires, with 36 firms participating, representing an 85.7% response rate. Data were analyzed using descriptive statistics, Principal Component Analysis, reliability analysis, and ordinal logistic regression.

Findings: The findings established that compensation plans have a positive and statistically significant influence on firm performance ($\beta = 1.469$, $p = 0.008$). The ordinal logistic regression model was statistically significant ($\chi^2 = 8.994$, $p = 0.003$), while compensation plans accounted for approximately 24.9% of the variation in firm performance. The findings suggest that compensation arrangements that link executive rewards to organizational and performance objectives can contribute to improved firm performance. The study extends Agency Theory by providing empirical evidence that appropriately structured compensation mechanisms can strengthen the alignment between managerial interests and organizational outcomes in an emerging-market setting.

Unique Contribution to Theory, Practice and Policy: The study recommends that boards and remuneration committees should strengthen compensation systems by linking executive rewards to clearly defined, measurable, and strategically relevant performance targets, with appropriate emphasis on longer-term organizational outcomes. Regulators should promote transparent remuneration policies, effective board oversight, and disclosure practices that enhance accountability and protect shareholder interests. The findings provide evidence relevant to corporate governance practice and remuneration policy in emerging capital markets.

Keywords: *Compensation Plans, Executive Compensation, Corporate Governance, Firm Performance, Nairobi Securities Exchange, Kenya*

JEL Classification: *G30, G32, J33, M52*

INTRODUCTION

Corporate governance provides the mechanisms through which companies are directed, monitored, and held accountable, with important implications for investor confidence, resource allocation, and firm performance. Executive compensation is a central governance mechanism because it can align managerial incentives with organizational and shareholder interests. The G20/OECD Principles of Corporate Governance emphasize that remuneration should be aligned with the longer-term interests of the company and its shareholders and supported by appropriate performance criteria and effective board oversight (OECD, 2023). From an agency perspective, compensation can mitigate conflicts arising from the separation of ownership and control by encouraging managers to pursue value-enhancing decisions (Jensen & Meckling, 1976). However, the performance implications of compensation depend on how rewards are structured, the measures used to assess performance, and the governance and institutional context in which they operate.

Executive compensation is multidimensional, encompassing fixed remuneration, short-term performance incentives, long-term equity-based rewards, and other benefits. These components may generate different managerial incentives: fixed pay can support recruitment and retention, short-term incentives can motivate achievement of immediate operational targets, while long-term equity rewards can encourage alignment with sustained shareholder value. However, poorly designed incentives may also encourage short-termism, excessive risk-taking, or behaviour directed toward maximizing private rewards rather than sustainable firm performance. International governance standards therefore emphasize the alignment of remuneration with long-term corporate objectives and effective oversight (OECD, 2023). The Financial Stability Board (FSB, 2024) similarly emphasizes the importance of appropriately designed compensation arrangements in preventing incentives that encourage excessive risk-taking. Thus, compensation should not be presumed to have a uniformly positive effect on firm performance.

The relationship is particularly relevant in emerging economies, where corporate governance and capital-market institutions differ from those of developed markets. The African Development Bank (AfDB, 2023) identifies institutional capacity, information asymmetry, investment risk, and relatively shallow domestic capital markets among the structural challenges affecting private-sector investment across African economies. Such conditions can shape corporate financing, governance practices, managerial incentives, and the effectiveness of market-based mechanisms for aligning managers with investors. Consequently, evidence on executive compensation generated largely in developed and highly liquid markets may not fully capture the institutional conditions under which remuneration arrangements operate in African firms. Context-specific evidence is therefore important for understanding whether compensation mechanisms translate into improved firm performance within African capital markets.

In Kenya, listed companies operate within a corporate governance and capital-market framework that emphasizes board accountability, transparency, disclosure, and responsible remuneration practices. The Capital Markets Authority (CMA) requires boards to oversee remuneration and provides for compensation structures that are consistent with corporate strategy, long-term objectives, and corporate performance (CMA, 2015). The Capital Markets (Public Offers, Listings and Disclosures) Regulations further reinforce governance and disclosure requirements for listed issuers (CMA, 2023). Executive compensation is consequently an important governance mechanism within firms listed on the Nairobi Securities Exchange (NSE). However, the effectiveness of remuneration arrangements may vary with firm characteristics, ownership structures, governance practices, and the nature of firms' operations.

A sector-specific examination is warranted because non-financial firms operate under substantially different conditions from financial institutions. Financial institutions are subject to specialized prudential requirements relating to capital adequacy, liquidity, leverage, and risk exposure, with executive compensation closely connected to risk management and financial stability (FSB, 2024). Non-financial firms, in contrast, operate primarily through productive and service activities and face performance challenges involving investment efficiency, asset utilization, productivity, innovation, and market expansion. These differences shape managerial decisions and the performance outcomes to which executive rewards may be linked. Evidence from financial institutions therefore cannot be assumed to generalize to non-financial firms listed on the NSE.

Within this context, examining compensation among non-financial NSE-listed firms provides an opportunity to assess how remuneration operates within a distinct operational, governance, and emerging-market environment. The study consequently focuses on compensation plans as a specific corporate governance mechanism and on non-financial firms as a distinct population, providing a basis for addressing the empirical and methodological issues identified in the subsequent problem statement.

Therefore, the objective of the study was to examine the influence of compensation plans on the performance of non-financial firms listed on the Nairobi Securities Exchange, Kenya.

Problem Statement

Executive compensation is intended to align managerial behaviour with organizational and shareholder objectives, but its effect on firm performance remains theoretically and empirically contingent. Performance-linked remuneration may strengthen managerial incentives, whereas poorly designed compensation can encourage short-termism, excessive risk-taking, or managerial rent extraction. The central governance problem is therefore whether compensation arrangements function effectively as performance-enhancing mechanisms within the institutional and market conditions in which firms operate.

This problem remains insufficiently resolved among non-financial firms listed on the Nairobi Securities Exchange (NSE). Kenyan studies have examined executive compensation and corporate governance, but much of the evidence either considers compensation alongside broader governance mechanisms or concentrates on financial and selected sectors. Such approaches limit the ability to isolate the independent contribution of compensation plans to firm performance. Findings from financial institutions are also not directly transferable to non-financial firms because of differences in prudential regulation, capital structures, risk exposure, operating activities, and performance drivers. Thus, sector-specific evidence on the compensation–performance relationship among non-financial NSE-listed firms remains limited.

A further empirical and methodological concern is the treatment of compensation as an undifferentiated construct. Fixed remuneration, short-term incentives, long-term equity-based rewards, and other benefits may generate different managerial incentives and performance consequences. In addition, the incentive value of equity-based compensation may be conditioned by the liquidity and market depth of an emerging capital market such as the NSE. These limitations create insufficient clarity regarding whether compensation plans, considered as a distinct and multidimensional governance mechanism, influence firm performance in Kenya's non-financial listed sector.

Resolving this gap has implications for corporate governance practice and policy. Evidence from the study can assist boards and remuneration committees in designing performance-linked compensation arrangements, inform investors' assessment of managerial incentives and governance quality, and support regulators and policymakers in strengthening remuneration disclosure, oversight, and governance standards for listed firms. The study therefore addresses the identified sectoral, empirical, and methodological gaps by examining the influence of compensation plans on the performance of non-financial firms listed on the NSE.

Hypothesis

H_{01}: Compensation plans do not significantly influence the performance of non-financial firms listed on the Nairobi Securities Exchange, Kenya.

LITERATURE REVIEW

Theoretical Review

Agency Theory posits that conflicts arise because managers (agents) may pursue personal interests that diverge from those of shareholders (principals), resulting in agency costs and reduced organizational performance. Compensation is viewed as an important governance mechanism for mitigating these conflicts by aligning managerial incentives with shareholders' wealth through performance-based rewards. Compensation structures linked to financial and strategic performance encourage executives to make decisions that maximize firm value, strengthen accountability, and enhance long-term organizational performance (Bendickson et al., 2016; Zogning, 2022).

Managerial Power Theory offers a counter-perspective, arguing that powerful executives may influence boards and remuneration committees to secure compensation that is weakly aligned with firm performance (Bebchuk & Fried, 2004, 2020). Compensation may therefore fail to improve performance, or even increase agency costs, where managerial influence weakens board oversight or permits poorly designed performance targets.

Stewardship Theory (Donaldson & Davis, 1991) challenges the assumption of purely self-interested managerial behaviour by proposing that executives may be intrinsically committed to organizational objectives. Compensation can consequently function as a means of motivating, recognizing, and retaining managers rather than merely controlling opportunism. Collectively, the three perspectives provide a multi-paradigm explanation: compensation may enhance performance through incentive alignment, be weakened by managerial power, or operate alongside managerial stewardship. This integrated perspective provides the theoretical basis for examining the compensation–performance relationship among non-financial firms listed on the Nairobi Securities Exchange.

Compensation Plans and Firm Performance

Studies by Frydman and Jenter (2022) and Jensen and Murphy (2023) have shown that an appropriately designed compensation scheme, one that is documented to link pay to performance, can strengthen managerial accountability and improve a firm's financial results. These scholars concluded that performance incentives, such as bonuses and stock options,

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contribute to accountability culture, which in its turn will have a positive effect on the key performance indicators such as the return on assets and market valuation. When set on a global scale, according to the study conducted by Conyon and He (2023), the ratio of compensations granted in form of stock-based incentives does not only incentivize long-term strategic thinking, but is also tied to better operational efficiency and sustainable growth. This implies that when the executive compensation processes are effective, open and sensitive to performance, the agency issues can be minimized and investor confidence can be enhanced in various market conditions.

Moreover, international research findings have reported that executive compensation is a critical controlling factor that influences stakeholder view of the company and the corporate reputation. As one instance, in their European and American company comparison study, Baker et al. (2021) discovered that other factors equal, more dynamic corporations are also more responsive corporations, for example, have a higher pay-performance sensitivity tendency. On the contrary, Li and Sun (2022) explained in their article that the improperly high or misaligned strategies in compensation packages may result in complacency by managers and even raise the agency problem, which negatively impacts the long-term performance.

Compensation plans focus on the same mode by aligning managers and stockholders by giving rewards based on performance with financial and non-financial benefits. Goh, Krishnan, and Lee (2021) revealed that performance-based pay systems contributed significantly to accountability and general performance of managerial firms in general of Asia listed firms. This study was conducted in a longitudinal research design where it was discovered that the successful firms in terms of compensation plans resulted into a 10 percent greater return of equity (ROE) outcome granted that a compensation plan was not given as compared to its counterparts.

Furthermore, Liu et al. (2021) investigated how performance-based compensation influenced executive behavior in the listed firms. They established that the practice of linking some of the compensation plans to stock market performance and long-term growth performance metrics had the effect of not only motivating the executives to take strategic decisions that increased the performance of the firm but also decreased the probability of managerial opportunism, like risk taking that would have damaged the firm in the longer run. Such a compensation plans makes the executive responsible with his or her decisions and promotes the actions that are beneficial to trace the long-term financial health of the firm.

The findings of Ghosh and Wilkins (2022) on a global scale concerning such tech firms as Apple and Google also demonstrate the significance of a compensation plan. In their study, they found that there is a direct and positive effect of the implementation of stock option-based compensation plans on both the innovation output and overall performance of these firms. Since the employees working in such companies are also motivated by the stock options, there will be alignment of their interests with the shareholders, and this scenario can encourage innovation, enhance financial numbers, as well as market share. In contrast, according to a report issued by the International Monetary Fund (2021), in the banking industry, excessive amount of compensation plans based on short-term performance measures may cause excessive risk-taking. The financial crisis that sparked the world in 2008 has proved the risks of a poorly designed compensation system, which tends to make executives concentrate on short-term gains by neglecting long-term sustainability. This is to emphasize the need to tie pay plans with long-term and risk-adjusted performance objectives.

Compensation plans in the emerging economies have been particularly seen as an important strategic factor to enhance the performance of firms especially in the technology, manufacturing, and financial services. The study conducted by Jain and Banerjee (2019) on the Indian publicly traded companies analyzed the effects of compensation packages that are intertwined with the firm performance outcomes on the actions of the executive level. The researchers concluded that performance-based compensation packages such as the stock option models and profit-sharing provisions positively influenced profitability of firms, particularly when it is designed in such a way that it is long-lived oriented (Jain & Banerjee, 2019). Similarly, a study carried out by Silva et al. (2020), in Brazil, focused on discussing the relationship between compensation plans and the firm performance through an analysis of large, publicly listed firms. The authors discovered that there was a positive correlation between performance-based incentives and profitability of firms and their stock market performance, especially in sectors such as energy and retail. Brazilian firms that had implemented long term incentive plans found it easier to ride out the economic changes and continue with a consistent growth and this is very important in the emerging economy where the economic conditions may be very volatile.

According to the research done by Mkhize et al. (2022) in South Africa, the publicly traded firms realized better financial results because their compensation plans were connected to lengthy-term performance drivers, for example, increase in shareholder value, and the attainment of corporate sustainability goals. Firms like Naspers, one of the largest companies based in South Africa have come up with performance-based executive remuneration plans, where both long-term strategic objectives, as well as short term profitability plans, are considered in the payment of the performance-based pay. A research carried out by Nyamwange et al. (2020) in regard to Kenyan listed firms, on telecommunications and banking issued firms established a positive gain in the listings concerning the effect of performance-based compensation plans to the profitability of those firms. It has been established that firms such as Safaricom and Equity Bank that adopted reward packages anchored to individual performance and corporate performance improved their performance in terms of profitability and growth of market share excellently with their peers. For example, Safaricom's executive compensation plan that is closely attached to performance-based measurements (such as the growth of subscribers and the customer satisfaction levels) has been attributed to leading to Safaricom having an unprecedented growth in the telecommunications market in Kenya (Safaricom Annual Report, 2021). Ndirangu (2022) reviewed compensation plans of listed companies in NSE and concluded that a properly designed compensation scheme influenced positively employee motivation and firm performance.

Other studies dispute the widely held belief that compensation plans have a direct influence on enhancing the performance of firms. According to Bebchuk and Fried (2020), executive compensation plans tend to become inconsistent with achieving managerial incentives as they are not able to match those of the shareholders, mostly because of the control of senior management executives who keep bending compensation plans toward their profitability. They indicate the problematic focus of their study that was on the idea that performance-based compensation is usually not an effective way to achieve better results in firms but it tends to include high earnings without a corresponding rise in performance. This is specifically common in companies that lack good corporate governance and the company executive rely heavily on compensation committees so the compensation provided to the executive is based on managerial performance and not on the performance of the company.

Similarly, Cooper, Gulen, and Rau (2019) proved that excessive compensation plans, and in particular in terms of stock options, can stimulate over-ambitious risks being taken instead of the creation of long-term value. Their research on sample firms in different industries concluded that firms that implemented aggressive stock-based compensation plans had greater volatility in their stock price and were more inclined to earnings manipulation. This is contrary to the belief that there are benign consequences to tying compensation to corporate performance because it creates the incentive to do short-term financial shenanigans to the detriment of long-term prosperity. These facts indicate, on the one hand, that compensation plans might cause performance when it is necessary; however, they can also bring about perverse incentives that will harm the stability of firms and shareholder value.

Therefore, the literature indicates that compensation plans can influence firm performance through incentive alignment, managerial motivation, and retention, but the relationship is not uniformly positive. Agency Theory explains the potential performance-enhancing role of aligned incentives, whereas Managerial Power Theory and Stewardship Theory highlight conditions under which compensation may be weakened by managerial influence or complemented by intrinsic managerial commitment. Empirical evidence remains mixed, with substantial variation across institutional and capital-market contexts.

Despite growing evidence on executive compensation, limited research isolates its independent effect on non-financial firms listed on the NSE, while existing studies often rely on broader governance measures or sector-specific evidence. Moreover, the effectiveness of equity-based incentives may differ in emerging markets because of structural characteristics such as trading liquidity and market depth. The present study addresses these gaps by examining the influence of compensation plans, conceptualized as a multidimensional governance mechanism, on firm performance among non-financial NSE-listed firms. Accordingly, the study hypothesizes that Compensation plans do not influence performance of non-financial firms listed in Nairobi Securities Exchange, Kenya.

Equity-Based Compensation in Emerging Stock Markets

Equity-based compensation can align executive and shareholder interests by linking managerial wealth to firm value. However, its effectiveness may be constrained in emerging stock markets characterized by lower trading liquidity and market depth than developed markets. Limited trading activity can weaken the immediacy and realizability of equity rewards and may reduce the extent to which market prices reflect underlying firm fundamentals. Consequently, the incentive effects of shares and stock options may differ across capital-market contexts, making evidence from highly liquid developed markets less readily generalizable to emerging economies.

This consideration is relevant to the Nairobi Securities Exchange (NSE), where the effectiveness of equity-based incentives may depend on security liquidity, vesting conditions, valuation, and executives' ability to realize the value of their awards. While equity compensation remains consistent with the incentive-alignment logic of Agency Theory, its effectiveness may be conditioned by the structural characteristics of the market. This suggests that compensation-performance relationships should be examined within the specific institutional and capital-market context of Kenyan non-financial listed firms rather than inferred from evidence generated in more liquid markets.

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Conceptual Framework

The framework recognizes that the relationship between compensation plans and firm performance can be explained differently by the three theoretical perspectives. From the Agency Theory perspective, compensation is expected to improve performance by aligning managerial interests with those of shareholders. Managerial Power Theory provides a contrasting explanation in which compensation may be weakened by managerial influence over remuneration decisions, particularly where boards or remuneration committees are ineffective. Stewardship Theory suggests that compensation may support performance by recognizing, motivating, and retaining managers who are committed to organizational objectives. These theoretical perspectives provide alternative explanations for the expected relationship without being treated as additional empirical variables in the model.

Firm performance represents the dependent variable and refers to the extent to which a firm achieves its desired organizational and financial outcomes. The study therefore examines whether variations in compensation plans are associated with differences in firm performance among non-financial firms listed on the NSE. The conceptual relationship is presented in Figure 1.

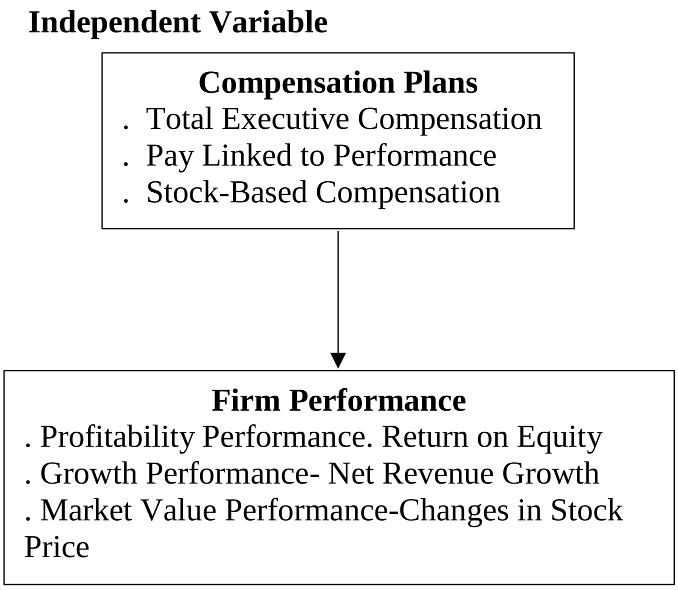

Figure 1: Conceptual Framework

Source: Researcher's Conceptualization (2026)

METHODOLOGY

The study adopted a positivist philosophy and explanatory cross-sectional research design. The target population comprised all forty-two non-financial firms listed on the Nairobi Securities Exchange. A census approach was employed because of the relatively small population. Corporation secretaries served as key respondents due to their knowledge of board governance practices.

Primary data were collected using structured questionnaires, while secondary information was obtained from annual reports and organizational records. Reliability was assessed using Cronbach's Alpha, where the compensation plan construct achieved an alpha coefficient of

0.904, indicating excellent internal consistency. Principal Component Analysis confirmed construct validity, with one component explaining 83.99% of total variance.

Ordinal logistic regression was employed because firm performance was categorized into ordered performance levels. Diagnostic tests confirmed that the selected analytical approach was appropriate.

RESULTS

Response Rate

A total of 36 out of the 42 targeted non-financial firms listed on the Nairobi Securities Exchange participated in the study, yielding a response rate of 85.7% (Table 1).

Table 1: Response Rate

Category	Number of Firms	Percentage (%)
Targeted Non-Financial Firms	42	100.0
Firms that Participated	36	85.7
Firms that Did Not Participate	6	14.3

This response rate exceeds the minimum threshold recommended for organizational surveys and is considered adequate for statistical analysis and generalization of the findings.

Reliability and Validity of the Measurement Scale

The reliability and construct validity of the study variables were assessed prior to hypothesis testing. Table 2 presents the results of the internal consistency and principal component analyses.

Table 2: Reliability and Construct Validity Results

Construct	Number of Items	Cronbach's Alpha	Decision
Compensation Plans	3	0.904	Highly Reliable
Performance of Non-financial Firms	6	0.975	Highly Reliable

Component	Initial Eigenvalues Total	Initial Eigenvalues % of Variance	Initial Eigenvalues Cumulative %	Extraction Sums of Squared Loadings Total	Extraction Sums of Squared Loadings % of Variance	Extraction Sums of Squared Loadings Cumulative %
1	2.520	83.990	83.990	2.520	83.990	83.990
2	.450	15.002	98.992			
3	.030	1.008	100.000			

Extraction Method: Principal Component Analysis.

As presented in Table 2, the construct achieved a Cronbach's alpha coefficient of 0.904, indicating excellent internal consistency. Principal Component Analysis (PCA) further confirmed construct validity, with all measurement items loading strongly on a single component that explained 83.99% of the total variance. The Kaiser-Meyer-Olkin statistic and Bartlett's Test of Sphericity also confirmed the suitability of the data for factor analysis, demonstrating that the measurement scale was both reliable and valid for subsequent regression analysis.

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Descriptive Statistics

Compensation Plans

The descriptive statistics presented in Table 3 indicate that compensation plans were moderately to highly implemented among the listed non-financial firms.

Table 3: Compensation Plans

	N	Minimum	Maximum	Mean	Std. Deviation
The total executive compensation package is effectively aligned with the company's strategic objectives and performance metrics	36	1	5	4.11	.887
A significant portion of the executive compensation package is linked to the company's performance metrics, such as sales or profit targets	36	1	5	3.78	.832
Stock-based compensation effectively aligns executive interests with long-term shareholder value	36	1	5	3.19	.856
Valid N (listwise)	36				

The overall mean score for the construct as shown in Table 3 was 3.69, suggesting that respondents generally agreed that their organizations had established executive compensation systems aligned with organizational objectives.

Among the individual indicators, the statement that executive compensation is aligned with organizational strategy recorded the highest mean score (M = 4.11), indicating strong agreement among respondents. Similarly, performance-linked compensation recorded a relatively high mean (M = 3.78), demonstrating that firms increasingly reward executives based on organizational performance. Conversely, stock-based compensation registered the lowest mean score (M = 3.19), suggesting that equity-based incentive schemes remain relatively less adopted among Kenyan non-financial listed firms. The relatively low standard deviations observed across the items indicate a high level of consistency in respondents' perceptions.

Firm Performance

The study assessed the performance of the 36 non-financial firms listed on the Nairobi Securities Exchange across several financial and operational indicators. Table 4 presents the descriptive statistics for the items used to construct the Firm Performance.

Table 4: Firm Performance

	N	Minimum	Maximum	Mean	Std. Deviation
Our firm has consistently achieved high returns on shareholders' equity over the past three years	36	1	5	2.97	1.276
The firm's financial management strategies have effectively maximized shareholders' value.	36	1	5	3.11	1.166
The firm's share price has shown positive growth over the past financial periods.	36	1	5	2.67	1.434
Investor confidence in the firm is reflected in steady or increasing stock prices.	36	1	5	3.06	1.330
The firm has experienced continuous growth in net revenues over the past three year.	36	1	5	2.81	1.527
Revenue growth in the firm reflects successful business expansion strategies.	36	1	5	2.69	1.348
Valid N (listwise)	36				

The findings in Table 4 show that the extent to which firms have consistently achieved high returns on shareholders' equity over the past three years had a mean of 2.97 (SD = 1.276), indicating moderate performance in terms of equity returns. The item assessing whether financial management strategies have effectively maximized shareholder value recorded a slightly higher mean of 3.11 (SD = 1.166), suggesting that firms generally implement strategies aimed at optimizing shareholder wealth. In terms of share price performance, firms reported a mean of 2.67 (SD = 1.434) for positive growth over past financial periods, while investor confidence reflected in steady or increasing stock prices had a mean of 3.06 (SD = 1.330), indicating moderate market performance. Regarding revenue growth, firms had a mean score of 2.81 (SD = 1.527) for continuous net revenue growth over the past three years, and a mean of 2.69 (SD = 1.348) for revenue growth reflecting successful business expansion strategies, suggesting moderate success in generating and expanding revenues.

Therefore, the descriptive statistics suggest that the sampled firms exhibit moderate performance levels, with relatively stronger outcomes in shareholder value management and investor confidence, while revenue growth and share price appreciation are more variable across firms. These findings provide a firm-level context for analyzing the influence of corporate governance mechanisms and digital agility on organizational performance.

Effect of Compensation Plans on Firm Performance

The study employed ordinal logistic regression to determine whether compensation plans significantly influence firm performance. Before estimating the regression model, the assumptions of ordinal logistic regression were assessed.

Table 5 presents the ordinal logistic regression model diagnostics used to assess the overall model fit, goodness-of-fit, explanatory power, and proportional odds assumption before hypothesis testing.

Table 5: Ordinal Logistic Regression Model Diagnostics for Compensation Plans

Model Fitting Information				
Model	**-2 Log Likelihood**	**Chi-Square**	**df**	**Sig.**
Intercept Only	37.679			
Final	28.685	8.994	1	.003
Goodness-of-Fit				
	Chi-Square		**Df**	**Sig.**
Pearson	10.812		11	.459
Deviance	13.742		11	.248
Pseudo R-Square				
Cox and Snell		.221		
Nagelkerke		.249		
McFadden		.114		
Test of Parallel Lines				
Model	**-2 Log Likelihood**	**Chi-Square**	**df**	**Sig.**
Null Hypothesis	28.685			
General	33.955[b]	.[c]	1	.

As shown in Table 5, the ordinal logistic regression model provided a significantly better fit than the intercept-only model ($\chi^2 = 8.994$, $p = .003$), indicating that compensation plans significantly improved the prediction of firm performance. The goodness-of-fit statistics were non-significant (Pearson $\chi^2 = 10.812$, $p = .459$; Deviance $\chi^2 = 13.742$, $p = .248$), confirming that the model adequately fitted the observed data. The pseudo R-square statistics indicated moderate explanatory power, with the Nagelkerke R^2 of 0.249 suggesting that compensation plans explained approximately 24.9% of the variation in firm performance. Furthermore, the Test of Parallel Lines indicated that the proportional odds assumption was satisfied, confirming the suitability of the ordinal logistic regression model for subsequent parameter estimation.

Table 6 presents the ordinal logistic regression parameter estimates used to test the hypothesis regarding the influence of compensation plans on the performance of non-financial firms listed on the Nairobi Securities Exchange.

Table 6: Ordinal Logistic Regression Parameter Estimates for Compensation Plans

		Estimate	**Std. Error**	**Wald**	**df**	**Sig.**	**95% Confidence Interval Lower Bound**	**95% Confidence Interval Upper Bound**
Threshold	[FIRM_PERFORMANCE_LEVEL = Low Performance]	4.883	2.086	5.480	1	.019	.795	8.972
	[FIRM_PERFORMANCE_LEVEL = Moderate Performance]	6.413	2.202	8.478	1	.004	2.096	10.730
Location	Compensation Plans	1.469	.555	7.011	1	.008	.382	2.557

Link function: Logit.

As presented in Table 6**,** compensation plans had **a** positive and statistically significant effect on firm performance (β = 1.469, SE = 0.555, Wald = 7.011, *p* = .008). The positive coefficient indicates that improvements in compensation plans increased the likelihood of firms attaining higher performance categories. Consequently, the null hypothesis (**H_{01}**) that compensation plans do not significantly influence the performance of non-financial firms listed on the Nairobi Securities Exchange was rejected.

Discussion

The findings of this study demonstrate that compensation plans have a positive and statistically significant influence on the performance of non-financial firms listed on the Nairobi Securities Exchange (NSE), Kenya. The ordinal logistic regression results revealed that compensation plans significantly predicted firm performance (β = 1.469, *p* = .008), indicating that firms with well-designed compensation systems were more likely to attain higher performance levels than those with less developed compensation structures. The model diagnostics further confirmed that the regression model adequately fitted the data, while the Nagelkerke R^2 value of 0.249 suggests that compensation plans explain a meaningful proportion of the variation in firm performance, although organizational performance remains influenced by other governance and environmental factors.

The descriptive findings complement the regression results by indicating that most firms had established executive compensation systems that were aligned with organizational strategy and performance objectives. The relatively high mean scores for strategic alignment and performance-linked remuneration suggest that listed non-financial firms increasingly recognize executive compensation as a strategic governance mechanism rather than merely an administrative function. However, the comparatively lower adoption of stock-based compensation indicates that equity-based incentive schemes remain cautiously implemented within the Kenyan corporate environment, possibly reflecting concerns regarding ownership dilution, regulatory requirements, and the long-term implications of equity incentives.

The findings provide empirical support for Agency Theory, which argues that executive compensation reduces agency conflicts by aligning the interests of managers with those of shareholders (Jensen & Meckling, 1976). Performance-based compensation encourages managers to pursue organizational objectives that maximize shareholder value while improving accountability and reducing opportunistic behaviour. The positive relationship observed in this study suggests that compensation systems linked to organizational performance can serve as effective governance mechanisms for enhancing managerial commitment and organizational effectiveness. The findings therefore reinforce the proposition that executive remuneration should be structured around measurable organizational outcomes rather than fixed salary components alone.

The results are consistent with previous empirical studies conducted in both developed and emerging economies. Frydman and Jenter (2022) observed that executive compensation linked to organizational performance strengthens managerial accountability and improves financial performance by encouraging executives to pursue long-term strategic objectives. Similarly, Li and Sun (2022) concluded that well-designed executive compensation systems improve corporate governance effectiveness by aligning managerial incentives with shareholder interests and organizational goals. Evidence from South Africa reported by Mkhize et al. (2022) further demonstrated that executive remuneration linked to long-term shareholder value and sustainability objectives contributes positively to firm performance. Comparable findings have also been reported among Kenyan listed firms, where performance-based compensation has been associated with improved profitability and market performance (Nyamwange et al., 2020). Collectively, these studies reinforce the present findings by demonstrating that appropriately structured executive compensation contributes to superior organizational performance across different institutional settings.

The findings, however, differ from studies that question the effectiveness of executive compensation in improving organizational outcomes. Bebchuk and Fried (2020) argued that executive remuneration may fail to align managerial and shareholder interests where executives exert excessive influence over compensation committees, resulting in remuneration packages that reward managers irrespective of organizational performance. Likewise, Cooper et al. (2019) reported that excessive reliance on equity-based incentives may encourage short-term risk-taking and earnings management, thereby undermining long-term firm value. The divergence between these findings and the present study may be attributed to differences in institutional and regulatory environments. Listed firms on the Nairobi Securities Exchange operate under corporate governance guidelines issued by the Capital Markets Authority, which require greater board oversight, transparency, and disclosure of executive remuneration. Such governance mechanisms may reduce the likelihood of opportunistic compensation practices and strengthen the effectiveness of performance-based incentive systems.

The findings further suggest that compensation plans should not be viewed as independent drivers of organizational success but rather as one component of a broader corporate governance framework. Although compensation plans significantly influenced firm performance, the moderate explanatory power of the model indicates that other governance mechanisms, organizational capabilities, and external environmental conditions also contribute to performance outcomes. Consequently, firms are likely to realize greater performance improvements when compensation systems are integrated with broader governance practices, including effective board oversight, strategic leadership, and organizational accountability.

Overall, the findings provide robust empirical evidence that executive compensation constitutes an important corporate governance mechanism for enhancing firm performance among non-financial firms listed on the Nairobi Securities Exchange. By demonstrating a significant positive relationship between compensation plans and organizational performance, this study extends the limited empirical evidence available from Kenya and contributes to the growing body of literature on executive remuneration in emerging markets. The findings also underscore the importance of designing transparent, performance-oriented compensation systems that align managerial incentives with long-term organizational objectives and sustainable value creation.

Conclusion

This study examined the influence of compensation plans on the performance of non-financial firms listed on the Nairobi Securities Exchange (NSE), Kenya. The findings established that compensation plans exert a positive and statistically significant effect on firm performance, indicating that organizations adopting performance-oriented executive remuneration systems are more likely to achieve superior performance outcomes. The results further revealed that executive compensation aligned with strategic objectives and organizational performance serves as an effective corporate governance mechanism for enhancing accountability, motivating executives, and improving organizational performance. These findings underscore

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the importance of designing compensation systems that reward long-term value creation rather than short-term financial outcomes.

Theoretical Implications

From a theoretical perspective, the study provides empirical support for Agency Theory by demonstrating that performance-based executive compensation aligns the interests of managers with those of shareholders, thereby reducing agency conflicts and enhancing organizational performance. The findings extend the application of Agency Theory within the context of emerging economies by providing evidence from Kenyan non-financial firms, where empirical studies focusing specifically on executive compensation remain limited. Consequently, the study contributes to the growing body of corporate governance literature by demonstrating that executive remuneration constitutes an important governance mechanism capable of improving firm performance when appropriately aligned with organizational strategy and performance objectives.

Practical Implications

The findings also have important practical implications for corporate boards, remuneration committees, and policymakers. Boards of directors should strengthen the adoption of transparent, performance-based executive compensation systems that incorporate measurable financial and strategic performance indicators. Remuneration committees should place greater emphasis on long-term incentive structures, including appropriately designed equity-based compensation, to encourage sustainable value creation while minimizing short-term managerial opportunism. Furthermore, regulators such as the Capital Markets Authority should continue promoting transparency and accountability in executive remuneration disclosures to strengthen investor confidence and corporate governance practices among listed firms.

Future Research

Although compensation plans were found to significantly influence firm performance, the study established that they explain only part of the variation in organizational performance, suggesting that other governance mechanisms and organizational factors also contribute to firm success. The study was further limited to non-financial firms listed on the Nairobi Securities Exchange and adopted a cross-sectional research design, which limits the generalizability of the findings and the ability to establish causal relationships over time.

Future studies should therefore adopt longitudinal research designs to examine the long-term effects of executive compensation on firm performance. Comparative studies involving both financial and non-financial listed firms would provide broader insights into sectoral differences in compensation practices. In addition, future research should investigate the interaction between executive compensation and other corporate governance mechanisms, such as board composition, ownership structure, or board independence, to better understand their combined influence on organizational performance. Further research may also examine the effectiveness of environmental, social, and governance (ESG)-linked executive compensation in promoting sustainable organizational performance within emerging markets.

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