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Assessing the relationship between performance and the directors' remuneration in the Kenyan commercial banks.

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ASSESSING THE RELATIONSHIP BETWEEN PERFORMANCE AND THE DIRECTORS' REMUNERATION IN THE KENYAN COMMERCIAL BANKS

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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30th May, 2023

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DEDICATION

To God, for His unending graces and to my mother Bernadette, wife - Ruth and daughters Lisa and Laura, for their unquestionable love.

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LIST OF ABBREVIATIONS

BOD:	Board of Directors
CAR:	Capital Adequacy Ratio
CBK:	Central Bank of Kenya
CEO:	Chief Executive Officer
CET:	Common Equity Tier
CFO:	Chief Finance Officer
COVID-19:	Corona Virus Disease of 2019
FY:	Financial Year
KDIC:	Kenya Deposit Insurance Corporation
NSE:	Nairobi Securities Exchange
OECD:	Organization for Economic Co-operation and Development
PG:	Prudential Guidelines
ROA:	Return on Assets
ROE:	Return on Equity
RWA:	Risk-Weighted Assets
SPSS:	Statistical Package for Social Sciences
UK:	United Kingdom
US:	United States
IV:	Independent Variable
DV:	Dependent Variable

DEFINITION OF KEY TERMS

Directors: Abdalkrim (2019) defines directors as the people in charge of running organizations, whose job is to act as the primary liaison between the board of directors and the other parties or levels within the company. In this study, directors refer to members of the Board of Directors: Managing Director, CEO, Executive Director and Non-Executive Director. Consequently, the terms directors and executives will be used interchangeably.

Directors' Remuneration: Refers to the total emoluments (excluding fixed salaries) payable to the Directors within a 12-month period, as per the published audited financial statements. The remuneration is due to each director who has worked for at least a full year to guarantee completeness.

Performance: This refers to the firm or bank performance over the period of study and shall be measured using key performance indicators. Companies Act (2015) defines key performance indicators as "factors by reference to which the development, performance or position of the company's business can be measured effectively". This study therefore uses return on assets, return on equity, liquidity, capital adequacy and credit risk as measures of bank performance.

Non-Financial Characteristics: Kang (2010) considered age, educational qualifications, tenure in the organization and total experience as part of the non-financial characteristics of the directors. In this study age, qualifications and experience have been classified as non-financial characteristics of the directors or simply directors' characteristics.

ABSTRACT

According to the agency theory, directors who represent shareholders may profit from the company by paying themselves high remuneration. Managers who get a set salary as their sole form of remuneration have no motivation to grow shareholder value because they are not entitled to any of the resulting gains. By making a portion of an executive's remuneration based on the company's financial performance, this incentive problem can be mitigated. The study was guided by agency and tournament theories. In Kenya, Companies Act (2015) requires that the directors' remuneration should be based on the firm performance and that details of the directors' benefits should be included in the company's annual financial statement's notes. The study's objectives were first to determine the forms of directors' remuneration; the second objective sought to examine compliance with the Companies Act, 2015 using key performance indicators namely return on assets, return on equity, liquidity, capital adequacy and credit risk, and lastly evaluate the non-financial characteristics to be considered in determining directors' remuneration. Both positivism and post-positivism research philosophies were used in the study and a multiple regression analysis covering the period 2015 and 2021 was also conducted. The study was both quantitative and qualitative and data was gathered using questionnaires for the case of non-financial data and annual reports for the case of financial data. To ensure reliability and affordability, the researcher used google forms to set up the questions and the link was shared with the respondents via email. Having thoroughly recognized all the sources, this study guarantees originality in the definition of the research and chosen content. The study findings indicated that executives receive retirement/ pension benefits, insurance benefits as well as bonuses while non-executive directors receive sitting allowance, travelling allowance, and a monthly fee. The findings showed that return on assets had a positive and significant impact on directors' remuneration; capital adequacy and liquidity had a negative and significant effect on the directors' remuneration; while return on equity and credit risk had no significant effect on directors' remuneration. The findings further indicated that non-financial characteristics are critical in determining the directors' remuneration. Finally, bank size is a significant factor when it comes to directors' remuneration. The study recommends banks' management should review policy on directors' remuneration. Based on the findings, there is very weak relationship between bank performance and directors' remuneration. The Central Bank of Kenya should review the Compliance Act (2015) to ensure that the directors' remuneration is not exaggerated at the expense of shareholders. The banks' management should strengthen the use of non-financial characteristics as determinants of directors' remuneration. In particular, the study should focus on experience, qualifications, past track record, leadership skills, attitude and age.

Keywords: Directors' Remuneration, Performance and Non-Financial Characteristics

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Directors can simply be defined as the people in charge of running organizations, whose job is to act as the primary liaison between the board of directors and the other parties or levels inside the company (Abdalkrim, 2019). Additionally, they are exclusively accountable for the success or failure of the company and maintain and carry out corporate policies.

Accordingly, they are not permitted to use their position of trust and confidence to further their private interests (Bebchuk & Fried, 2003) and thus are required to work in the best interest of the shareholders and the company. According to the agency theory, due to the possibility that not all shareholders would be able to participate in the management process, shareholders designate directors to represent them. The principal-agent relationship and ultimately, the agency problem will be caused by this appointment (Meckling, 2019).

Agency problem arises in cases where the directors' interests and those of shareholders conflict; and as a stimulating mechanism to reduce the agency problem, the relationship between CEO compensation and business performance has been one of the most hotly disputed topics and a central research subject in the developing corporate governance literature (Surenderrao, 2016).

According to Meckling (2019), the agency problem emerges when the directors gain from the business at the expense of the shareholders. The directors gain by creating remuneration packages that include large salaries for themselves as well as additional perks that could be highly expensive for the company and diminish profits that are available for distribution to the shareholders (Meckling, 2019). If directors' remuneration is poorly organized, according to Bebchuk (2003), it could potentially exacerbate the agency problem. Directors also hold a strategic role within the organizational hierarchy that might affect how much they are paid (Bratton, 2012).

Agency theory points out that the issues of asymmetric information and moral hazard that frequently result from the division of managerial control and ownership in publicly traded companies (Coughlan, 1985) frequently give managers the opportunity to pursue self-serving goals that may not be in the best interests of shareholders (Sanders, 2002).

Accordingly, agency theorists have proposed taming managers' excesses by tying director's remuneration to observed firm performance (Chaigneau, 2018). This promotes a balance between managers' and shareholders' interests (Buachoom, 2017). A number of studies for

example Olaniyi, Obembe and Oni (2017), Omamo, Kobonyo and Muindi (2022) and Tarus (2014) have looked at firm performance as a key factor in CEO remuneration in an effort to uncover the relationship's hidden details, but the conclusions they have reached have remained ambiguous and conflicting.

There are numerous solutions to the agency problem. The majority of the recommendations are found in a set of corporate governance principles that businesses are urged to follow, and in certain nations, they are required by law. A remuneration committee should be appointed by companies and should have the responsibility of designing the directors pay for the company, according to one of the recommendations of corporate governance principles (OECD, 1999); (Main, Jackson, Pymm & Wright;, 2008). The remuneration committee is required to base directors' remuneration on the company performance when determining their remuneration (Bebchuk & Fried, 2004). This strategy's major goal is to match the interests of the directors with those of the shareholders. Directors should be driven to work effectively in order to raise their own pay if executive compensation is dependent on the company performance, and this will also benefit shareholders (Bebchuk & Fried, 2004).

This research was motivated by factors such as; the need to safeguard the banks and depositors by ensuring that those charged with governance are in conformity with the requirements of the Companies Act (2015). Secondly, the study assists in providing an appropriate model of pegging the directors' remuneration of the commercial banks as well as assessing the appropriateness and reliability of the existing model. According to OECD (1999), corporate governance relates to the internal means by which corporations are operated and controlled and therefore weakness in the corporate governance is likely to weaken the organization's structures.

In order to demystify the requirements of the law, Companies Act 2015 was read together with the CBK (2013) Prudential Guidelines. Companies Act 2015 postulates that the directors' remuneration shall be pegged on the firm performance. Performance was measured using key performance indicators. The Act defines key performance indicators as "factors by reference to which the development, performance or position of the company's business can be measured effectively". The Act is therefore, prescriptive but does not explicitly define the possible factors that show "the position of the company's business", hence the study discussed measures of performance as used in the empirical studies.

Additionally, according to CBK (2013) the remuneration of directors and the chief executive shall be commensurate with the nature, size of operations of the institution and the remuneration offered for similar positions in the market. Again, the Act does not clearly define how the "nature, size of operations of the institution should be measured" as such, the empirical studies were also employed.

The study therefore sought to explore compliance with the Act, evaluate the measures of performance and identify those that are more applicable and finally understand the basis of directors' remuneration and whether it is consistent, assuming the Act was non-existent.

1.1.1 Directors' Remuneration

Directors' remuneration is sensitive, especially when it appears that they are receiving compensation that is excessive and detrimental to the company (Hill, 2006). Excessive remuneration for the directors, fraud, and financial statement manipulation are sometimes mentioned as contributing factors to business failures, as in the situations of Enron, WorldCom, and Parmalat (Hill, 2006).

Numerous studies have found a positive correlation between directors' remuneration and firm performance, which is consistent with the agency theory (Mohamed, 2017); (Murphy, 1990). This denotes a convergence of managerial and shareholder interests. Consequently, Al-Najjar (2017) and Komera (2016) found no relationship between firm performance as a determinant of director's remuneration. Existing research has produced a variety of contradictory conclusions.

According to Dias, Vieira and Figlioli (2020) the compensation package should be created in a way that increases shareholders' wealth and lowers the likelihood of managers' opportunistic behaviors that can induce them to act for their own benefit. As a result, when ownership and control are seen as two different dimensions, compensation mechanisms are more pertinent in overcoming agency problems (Al Farooque, Buachoom, & Hoang, 2019).

Some studies have argued against the impact of firm performance on the directors' remuneration. The first problem is with measuring firm performance (Bliss & Rosen, 2001). This is due to the fact that a number of factors affect how well a company performs, and they come from both internal and external sources (Bliss & Rosen, 2001). The identification of the primary performance parameters is the other problem. Businesses, according to Kaplan and Norton (2001), often place a greater focus on quantitative performance assessment measures

than they do on qualitative aspects of performance analysis, such as customer happiness and innovation.

Additionally, according to Kerin (2003), organizations should balance executive fixed and variable pay. A fixed pay guarantees that the directors have served the business regardless of how well it operates while the variable component is the sum that should be tied to performance, such as bonuses. However, other studies have shown that there should be other determinants of directors' remuneration in addition to the firm performance. Such factors include experience, age, and qualification so that organizations can also employ the services of talented executives (Combs & Skill, 2003).

Olaniyi, Obembe and Oni (2017) discovered evidence of a positive relationship and that there was existence of asymmetric information phenomenon in the relationship between CEO pay and firm performance in Nigeria's listed firms and this gave an indication that positive shocks in firm performance impacted positively on the CEO pay and thus CEOs were rewarded for good performance in Nigeria's listed firms. Mustapha (2022) in the study of oil and gas companies in Nigeria affirms Olaniyi's findings that CEO remuneration has a positive and significant association with the firm financial performance.

Omamo, Kobonyo and Muindi (2022) conducted a study whose objective was to determine how organizational performance affected the computation of CEO compensation for companies listed on the NSE. According to the study, the listed companies offered their CEOs a basic salary as well as perks including medical insurance, pensions, club memberships, cars with drivers and gas, family education funds, and body guard security in addition to other amenities. Stock ownership and bonuses were also part of the annual remuneration. The results indicated that there was a positive and significant relationship between the organizational performance and CEO'S compensation.

The efficiency of the methods employed by organizations to inspire and compensate their personnel heavily influences whether a corporation succeeds or fails. This is attributable to the quality of human capital, which is currently regarded as the primary growth factor in industrialized countries both at the microeconomic and macroeconomic levels (Balcerzak, 2016). The success of an organization should be judged by the accomplishment of its long- and short-term goals, as well as the performance of its managers who are in charge of it.

The standard operating procedures are such that bank directors' remuneration should be based on a well rolled out framework (CBK, 2013). The Executive Directors' compensation package

consists of essential fixed components (basic salary, pension and insurance benefits). Although they are not eligible to receive fees or sitting allowances, executive directors are allowed to take part in the Group's bonus program, which is based on the attainment of KPIs. On the other hand, non-executive directors are entitled to sitting allowances for attending Board and committee meetings as well as an out-of-station per diem for conducting Group business away from their usual place of employment or abode. Non-executive directors are not paid a salary and are not eligible for the Group's bonus programs or pension plan. Non-executive directors are entitled to any accrued but unpaid directors' fees or reasonably incurred expenses upon retirement or termination, but are not entitled to any further compensation (CBK, 2013)

According to Doucouliagos et al. (2007) in a study of Australian banks, total directors' remuneration included fixed fees and salaries, bonuses and incentive based remuneration as well as retirement benefits. Additionally, total remuneration for CEO's included stocks and options granted. The results revealed a strong support for a pay-performance association for Australian banking CEOs. ROE, ROA and EPS lagged one year were all positively and statistically significantly related to CEO compensation. EPS lagged twice is also related to CEO compensation, as it was with total directors' pay.

According to Aduda and Musyoka (2011), CEO compensation in the Kenyan banking industry can be divided into salaries, allowances, cash bonuses and fees for services as directors. Another key benefit obtained by directors is the ease of access to loans with all the listed banks having advanced loans to their directors.

Based on the above scenarios, this study sought to evaluate the incremental effect of the directors' remuneration and establish if the increment is tied in any way to the bank performance.

1.1.2 Bank Financial Performance

The measurement of a bank's operations and policies in money terms is called financial performance. It also helps to compare other banks within the banking industry at the same time and displays a bank's overall financial health over time. In his study, Toutou and Xiaodong (2011) defined financial performance as a general measure of how well a bank generates revenues from its capital. According to Suka (2010), financial success is a subjective indicator of how effectively a company utilizes the resources from its main business model to generate income.

Macey and O'Hara (2003) noted that (a) banks receive most of their funding from debt with relatively little derived from equity; (b) on demand deposits make up the bulk of banks' liabilities; and (c) most of their assets are long-term loans. Doucouliagos, Haman & Askary (2007) in a study of Australian banking sector used return on assets (ROA); return on shareholder equity (ROE); earnings per share (EPS); and shareholder returns measures of bank performance. They measured shareholder returns by considering both share price movements and dividends received.

This study therefore assessed the performance of banks from the period following the enactment of the Companies Act in 2015 to 2021; and their effect on the remuneration of the directors.

1.1.3 Non-Financial Characteristics

Kang (2010) conducted a study on the influence of non-financial characteristics of the executive directors on their compensation. Four characteristics of the directors - age, educational qualifications, tenure in the organization and total experience were considered and the findings revealed no significant influence of non-financial characteristics on the compensation of directors.

In a study of companies listed on Johannesburg Stock Exchange (JSE), Padia and Callaghan (2021) used age of the director, race, gender, education and tenure as individual director covariates. Given the historical context of the country, race variables were included, namely for Black African and Coloured Indian categories to capture legacy effects of the country's history of discrimination and transformation (Nzukuma & Bussin, 2011). In order to partially eliminate gender (female) impacts on compensation, gender was additionally included (Adelekan & Bussin, 2018).

1.1.4 Overview of Commercial Banks in Kenya

Commercial banks are financial intermediary organizations that, among other financial services, offer credit and accept deposits. In Kenya, the banking industry dominates the financial sector, notably in terms of leveraging savings and extending credit.

As at April 2022, the Kenyan banking sector had 38 banking institutions (CBK, 2022). The 38 banks were such that 14 were foreign owned, 6 had government's stake and 18 were locally owned (CBK, 2022). The soundness of the Kenyan banking sector came under scrutiny following the placement of two commercial banks under receivership and one under statutory management by the CBK (Deloitte, 2016). Consequently, the sector classified banks into 3

Tiers. Tier 1 banks control 49.99% market share, Tier 2 banks control 41.7% of the market share and Tier 3 banks accounted for the remaining 8.31% market share (CBK, 2022).

According to the Bank Supervision Annual Report of 2021, the Kenyan banking system displayed resilience and this was partly ascribed to the country's low financial integration into the global financial market, intense supervision, and sound regulatory reforms. Consequently, the banking industry came into 2021 on solid ground and was ready to recover from the coronavirus (COVID-19) outbreak. Due to the different steps implemented at the start of the epidemic, Kenya's economy showed resilience to the COVID-19 shock.

The majority of earlier studies have mainly emphasized executive compensation as a factor in corporate performance. On the other hand, this study opted for a multi-directional strategy in which firm success can influence directors' remuneration and vice versa. This strategy is required to handle the issues and uncertainties surrounding performance-based compensation as well as the reality that the level of directors' remuneration can be either motivating or demotivating factors.

1.2 Problem Statement

According to Fareed et al. (2016) any business needs to make money in order to survive and maintain its reputation. The ability to generate profits, or profitability, is a crucial component for a company's continued survival. A very challenging process is determining a company's profitability or taking into account how well a corporation is conducted. In other words, a firm's performance and its growth are closely related and are both tied to the organizations ability to generate profits.

In order to guarantee the organization's survival and reputation, companies are encouraged to appoint a remuneration committee that takes into account firm performance when determining executive remuneration (Fama, 1980); (Parks & Conlon, 1995). Fleming and Schaupp (2012) argue that providing managers with salary and incentives in line with their qualifications and experience is another option to providing them with the salary and incentives on the basis of firm performance. Additionally, Combs and Skill (2003) contend that remuneration committees should consider the director's experience, age, and qualifications (academic and professional) into account in addition to the firm's performance as measured using key performance indicators. This was in line with earlier research by Hogan and McPheters (1980) who examined the top 45 executives in the US and discovered a substantial positive correlation between executive compensation and firm performance, experience, and age.

Injeni (2010) conducted a study on the relationship between the directors' remuneration and firm performance in a study of listed companies at the Nairobi Securities Exchange. The findings showed a weak positive correlation between executive pay and firm performance and weak negative correlation between executive pay and stock market returns.

According to a survey by PricewaterhouseCoopers in 2020, salaries for the Kenyan bank's CEO's are on the rise. The survey indicated that CEO's of listed Kenyan banks on average earned a basic monthly salary of KShs. 3,625,507.00, a monthly allowance of KShs. 959,691.00 and annual incentives amounting to KShs. 54,571,176.00. Consequently, in the 2019/2020, the banking sector CEO earned 339 times the minimum wage while the manufacturing sector CEO earned 139 times the minimum wage. The minimum wage in Kenya stood at KShs. 13,572 according to the Kenya Gazette Supplement 1, Special Issue (2019). The disparity between the minimum wage and the CEO compensation is thus excessive and absurd (Anabtawi, 2005).

CBK (2013) rolled out elaborate prudential guidelines that acted as standard operating procedures (SOPs) in the banking sector. In the framework, executive directors' compensation package should consist of essential fixed components (basic salary, pension and insurance benefits) while the non-executive directors are entitled to sitting allowances for attending board and committee meetings as well as out-of-station per diem for conducting group business away from their usual place of employment or abode. This study therefore sought to evaluate the incremental effect of the directors' remuneration and establish if the increment, over and above the SOP, is tied in any way to the bank performance. Additionally, the study explored compliance with the Companies Act (2015), evaluated the measures of performance, identifying those that were more applicable and largely understand the basis of directors' remuneration and whether it was consistent, assuming the Act was non-existent.

Based on the above discussions the main problem that this study focused on was derived from the principal-agent relationship such that if the directors of Kenyan banks do not base their pay on the performance of the companies, then they may be benefiting at the expense of the shareholders. As such, it is not clear which performance measures should be used and also what non-financial characteristics should be taken into consideration in coming up with the directors' remuneration.

This study sought to fill these gaps by employing the quantitative variables or indicators of firm performance such us return on assets, return on equity, liquidity, capital adequacy and

credit risk; as well as qualitative factors like age, experience and qualifications and their effect on the directors' remuneration in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

Examine whether there's a relationship between firm performance and the directors' remuneration in the Kenyan Commercial Banks

1.3.2 Specific Objectives

1. Assess the forms of directors' remuneration in the Kenyan Commercial Banks.
2. Examine compliance with the Act (2015) using key performance indicators and their relationship with the directors' remuneration.
3. Evaluate the non-financial characteristics to be considered in determining the directors' remuneration in the Kenyan Commercial Banks.

1.4 Research Questions

The research questions are derived from the research objectives;

1. What are the forms of directors' remuneration in the Kenyan Commercial Banks?
2. What is the relationship between key performance indicators and the directors' remuneration in the Kenyan Commercial Banks?
3. What are the non-financial characteristics to be considered in determining the directors' remuneration in the Kenyan Commercial Banks?

1.5 Scope of the Research

The goal of the study was to examine how the compensation of Kenyan commercial banks' directors' remuneration related to bank performance. The focus on the Kenyan Commercial Banks was occasioned by the need to protect depositors and safeguard their investments. The Prudential Guidelines (CBK, 2013) also emphasized the requirement to have sufficient capital and liquidity to withstand periods of stress. The period under study gave a more realistic and representative information and is post the enactment of the Companies Act (2015) which required all companies to publish their annual reports. Questionnaires were distributed to all 38 commercial banks in order to collect primary data, during the month of April 2023.

1.6 Significance of the Study

The companies Act was enacted in Kenya in 2015 and it required all companies to report their performance and also declare all the allowances paid to the directors. The Act sought to

increase transparency by encouraging companies to report information on governance and especially executive remuneration, and to prevent unjustified exaggerations. In the event that the directors' remuneration is found not to be commensurate with the bank's performance (high remuneration and low firm performance) then there would be an urgent need to conduct investigations because the directors could be working hard to defraud the depositors and shareholders.

Prior studies have mainly focused on the listed companies, manufacturing and insurance companies. This study on the banking sector, therefore, came in handy so as to safeguard our banks and depositors and reduce the agency problem. Consequently, the study aimed at building a model to be used by the banks to base the directors' remuneration and hence without this study, banks may run into a risk of over/ underpaying their directors. Making payments over and above the banks' capacity or financial performance leads to agency problems and likely to cause the bank's insolvency. An appropriate model or affirmation of the existing model not only improves shareholder confidence but also gives a guarantee that directors will be compensated based on the bank's performance.

This study, on the other hand, chose to take a multi-directional approach where firm performance was a determinant of executive remuneration and vice versa. This approach was necessitated by the fact that the level of directors' remuneration can both be motivating or demotivating factors and also to address the problems and uncertainties pertaining performance-based compensation.

The study is considered important to various players who include the bank management and depositors, regulatory bodies and researchers;

1.6.1 Depositors

The bank's depositors will get assurance that their deposits are not being misappropriated and that the directors are working in their best interests. Directors' emoluments should be commensurate with the company performance to reduce the risk of directors benefitting at the expense of the shareholders.

1.6.2 Regulatory bodies

The findings will be used as a guide for policy directives on executive remuneration by the regulators and professional bodies. The study offers a solid basis for evaluating the relationship between firm success and executive pay as well as a way to enforce ethical business conduct. Central Bank of Kenya (CBK) as a regulator of all Kenyan Banks will find the information

useful as it ensures that all customer deposits are safeguarded. In other words, CBK will act as a 'watchdog' on behalf of the depositors.

1.6.3 Researchers and Academicians

The study adds to the growing body of knowledge about executive compensation in Kenya by presenting new perspectives on this important topic of debate and research.

1.6.4 Bank Management and Industry Practitioners

The study will assist the bank's management to evaluate their procedures. They will also be able to have a strong basis of directors' remuneration so that they are not under or over remunerated and mitigate the agency problem.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

According to Knopf (2006) literature review attempts to describe the current state of knowledge regarding a topic and, in research proposals, frames the projected knowledge contribution of the proposed research. Contribution to knowledge is anticipated. In this sense, "knowledge" does not always equate to "truth." Instead, knowledge refers to beliefs, especially those that some people have some level of confidence in as a result of study or experience.

Denney and Tewksbury (2013) gave an overview that a literature review is an extensive survey of earlier studies on a given subject. The overview outlines both what is known and what is unknown about a subject, highlighting the need for more research and laying the groundwork for the actual study, to which the literature review is annexed. Finally, Jankowitz (1995) postulates that the worth of your work depends on how it affects other people since knowledge does not exist in a vacuum. Only insofar as they are similar to or distinct from the work and findings of others will your work and discoveries be considered noteworthy.

The chapter is divided into three parts as follows. The first part focuses on the main theories and principles that underlie executive remuneration. The second part examines numerous studies on executive remuneration and firm performance and the third part, talks about the theoretical and conceptual framework.

2.2 Theoretical Review

Theories are regarded as crucial anchor points for research and this makes it possible for the study to formulate its problem on a theoretical foundation. Thus, the study was founded on agency and tournament theories. The theories served as the theoretical foundation for the study of how firm performance affected the remuneration of directors. This also allowed for the definition of the hypothesis and the prediction of the relationship between the independent and dependent variables in the study. The theories are discussed hereunder in terms of the assumptions, proposition, and criticisms that they have generated over time.

This study adopted a multi-theory dimension in order to address the different perspectives of looking at the directors' remuneration. The two theories addressed how the bank directors were compensated vis a vis the bank performance.

2.2.1 Agency Theory

A company's owners assign the CEO the responsibility of making strategic decisions on their behalf. According to agency theory, there is an agency problem since a CEO's interests and

those of the company's shareholders frequently diverge, making it possible for the CEO to act inadvertently to hurt the company (Jensen & Meckling, 1976).

The conceptual underpinning of agency theory can be attributed to Coase (1937), but only since the 1980s, the directors and boards have been able to use its concepts in practice. Consequently, directors represent shareholders while making decisions (Eisenhardt, 1989); (Jensen & Meckling, 1976); (Ross, 1973). Monitoring, bonding, and residual loss are the three major costs categories associated with the division of ownership and management inside the organization (Jensen & Meckling, 1976). The principal's monitoring costs are those incurred to stop the agent from taking any activities that could cause him harm (Jensen & Meckling, 1976). In fact, the principal will employ monitoring tools in an effort to curtail the effects of any opportunistic behavior on the part of the agent and incentive systems to lessen the conflict of interest. Bonding costs are those incurred to prevent the agent from acting against the interests of the principal (Jensen & Meckling, 1976). The residual loss that results from the agent's sub-optimization of the welfare maximization objective is the final category of cost (Jensen & Meckling, 1976). Agency costs are calculated as the total of monitoring costs, bonding costs, and residual loss.

The relevance of agency theory in explaining the relationship of the shareholders and the company executives is supported empirically by studies conducted such as Smith (1776) and Berle (1932) which laid the foundation for the agency theory. Jensen and Mackling (1976) also provided a thorough analysis of it. According to Smith, directors should be chosen to oversee the firm on behalf of its numerous owners (shareholders) because joint stock corporations are designed to have many owners. While the directors are the agents, the shareholders are referred to as the principals. This has given rise to a principal agent relationship, while Jensen and Mackling contend that a principal agent relationship also develops in a corporation when shareholders borrow, in which case the shareholders function as agents of the lenders. However, the focus of the major agency connection is condensed in this study to just the relationship between shareholders and executives.

On the contrary, some of the limitations of the theory have been discussed. According to Smith (1776), even though executives are the shareholders' agents, they are more likely to act in their own interests than to advance the interests of the shareholders. Smith refers to this as the "agency problem." Additionally, according to Berle (1932), the separation of ownership and control as well as the informational imbalance between shareholders and executives are the

primary causes of the agency problem. Bohren (1998) added his voice and he contended that people are opportunistic, which means they are always trying to further their own interests. Finally, people are seen as selfish and not altruistic, and as a result, they can never be relied upon to act in others' best interests at all times. Therefore, the agency theory viewed the relationship between managers and shareholders as a contract because people will always seek to optimize their utility functions (Veprauskaite & Adams, 2013). This suggests that managers' behavior needs to be carefully scrutinized to make sure they always behave in the best interests of shareholders. As a result, there is no assurance that agents will always act in the principals' best interests.

The theory is relevant to the study since it states that agency problems can affect any organization, regardless of its sector or mode of operation, and Kenyan commercial banks are no exception. The agency problem if not well managed is theorized to reduce the firm's financial performance through fraudulent actions of the directors or those charged with the governance. In order to guarantee transparency and mitigate any bias, Companies Act (2015) envisages that the executive compensation should be pegged on the firm's financial performance whose indicators will be profitability, liquidity, capital adequacy and risk manegement according to this study.

Although various other theoretical positions have been proposed to elucidate remuneration, as outlined hereunder, the agency theory continues to dominate this study to a significant extent. Its primary focus is on associations that are comparable to the types of interactions that exist between an agent and a principal who hires them to work for them. However, it is expected that between the agent and the principal their needs will differ (Eisenhardt, 1989).

The theory aims to offer resolutions to potential disputes in agency relationships. The first potential conflict is one in which the needs of the principal and the agent do not coincide, and another issue is the difficulty the principal is likely to encounter in trying to keep track of what the hired person is doing. As a result, the principal is unable to determine if the agent acted appropriately.

According to Jensen and Mackling (1976), executive compensation could help with the agency problem in part by balancing the needs of managers and the shareholders. The goal of organizations is to influence CEOs to behave in the best interests of owners by giving them the opportunity to partially own their companies through equity-linked compensation.

2.2.2 Tournament theory

Edward Lazear and Sherwin Rosen introduced the tournament theory in 1981 (Shen et al., 2010), and it is tied to a unique CEO and executive compensation structure that places more emphasis on a reward system than on providing an employee with an absolute performance compensation (Chen, Ezzamel & Cai, 2011).

The reward system suggests that the individual who outperformed his or her evaluated peer group and went on to become the CEO or another top executive is given a prize (Shen et al., 2010). This is true particularly of executives. Indeed, the award is viewed as compensation for that job, which typically comes with absurdly high salary packages (Anabtawi, 2005). Senior executives receive substantial wages because they are rewarded according to their position within the company. This explanation explains how rewards can be given to employees.

This hypothesis explains why senior executives will be devoted to their duties given that their reward structure is pegged on the organizational performance. When it is challenging to watch and assess individual performance, the concept of the tournament theory, as well as its application, may be appropriate. Accordingly, Shen et al. (2010) claim that it is effective to pay individuals on the basis of organizational rankings, with larger pay on higher levels, just as the reward scheme of a sports competition.

The organization and its employees may benefit from the tournament compensation system because executives may be strongly motivated to fight for the top positions as a result of the significant pay differences between the top and the next lower levels.

A test of a tournament model will examine the difference in compensation between the top executive and those in the next hierarchical level. This will give an overview of the absurdity in the pay consideration (Anabtawi, 2005).

2.3 Empirical Literature

Directors' remuneration, often known as executive pay, is what is given to them for performing managerial duties within the company (Carola & Saks, 2010). The surge in CEO pay over the previous two decades, according to Carola and Saks, has drawn considerable interest from stakeholders.

As to whether firm performance has a favorable impact on CEO remuneration, numerous studies undertaken over the past few decades have provided contradictory data. Despite the well-known recommendation that CEO compensation should be linked to firm performance

(Jensen & Murphy, 1990), empirical research has shown that this is not always the case. For instance, Jensen & Murphy (1990), who studied a sample of US corporations from 1974 to 1986, observed in one of their first publications that there was a positive association between financial performance and CEO salary.

Acero and Alcalde (2020) used four different measures of the dependent variable in the empirical study: the total directors' compensation (which includes CEO pay), CEO compensation, CEOs' basic (fixed) portion of compensation, and bonus and short-term incentive compensation. For CEOs, total compensation also included the value of awarded shares and options.

2.3.1 Liquidity and bank directors' remuneration

Prudential guidelines issued by the Central Bank of Kenya in 2013 under Section 33(4) of the Banking Act, defines liquidity as the institution's capacity to finance asset growth and meet its obligations without incurring unacceptable losses.

Liquidity management entails maintaining a cash position that is sufficient to cover short-term cash needs and that maximizes the deployment of excess funds to maximize financial returns. According to Alemayehu, Ndung'u and Zerfu (2012) bank liquidity describes a bank's capacity to meet both short-term and long-term financial obligations. In order to prevent insolvency and maximize investment returns, liquidity management requires ensuring that banks have the capacity to meet short-term obligations (King, M. R., 2013).

Maintaining a firm's overall performance requires proper liquidity management (Subedi & Neupane , 2013). Due to its impact on an organization's profitability, liquidity is crucial for a firm's sustainability both now and in the future.

On the other hand, Moh'd Al-Tamimi and Obeidat (2013) spent eight years researching liquidity management in Jordanian commercial banks. The study found that capital liquidity levels and the amount of liquidity in commercial banks were both positively correlated with the executive compensation. This was attributed to the commercial banks' capacity to make investments and clients' confidence stemming from their knowledge of the bank's stability.

According to Otekunrin and Falaye (2019) there is a correlation between liquidity management and the success of deposit money banks in Nigeria. However, Konadu (2009) came to the conclusion that the Ghanaian banking industry's operational firms had lower levels of financial performance due to liquidity. In Canada, Bordeleau and Graham (2010) discovered that

establishing the ideal levels of liquidity beyond which liquidity reduced bank financial performance.

Majakusi (2016) investigated the effects of liquidity management on the returns of commercial banks. Utilizing current ratio, the study assessed liquidity. The research revealed that the banks' financial performance fluctuated frequently, while liquidity and capital sufficiency were mostly unchanged. Similar conclusions were reached by Ogol (2011), who measured liquidity methods intended to lower risk at MFIs using current ratio and found that these procedures had a detrimental influence on the financial performance of the financial institutions. According to the study, microfinance institutions should keep their cash balances at optimal levels without compromising their profitability.

According to the prudential guidelines issued in 2013, the management of an institution should implement mechanisms that will alert them to potential funding issues in addition to adhering to the minimum statutory requirements under section 19 of the Banking Act. This will allow them to look into ways to raise additional funds of the appropriate kind and amount. Furthermore, an institution must retain the minimum amount of liquid assets (liquidity ratio) that the Central Bank may from time to time designate in accordance with section 19 of the Banking Act. A current statutory minimum of twenty percent (20%) of all of an institution's deposit liabilities, maturing obligations, and short-term liabilities must be maintained in liquid assets.

Hypothesis:

In this study, the Kenyan banking industry's directors' compensation and performance were compared. The pay-performance link is a fundamental agency theory, as presented by Jensen and Murphy (1990). In the framework of this study, we hypothesized that companies needed to implement effective pay plans that would incentivize directors to raise shareholder wealth and have the effect of boosting directors' monitoring efforts. As bank performance is measured by evaluating a company’s ability to repay its short-term debt with cash or cash equivalents, we anticipated that director compensation would be favorably correlated with that performance. Hence, we tested the following hypothesis:

H_1: There’s a positive relationship between liquidity and the directors’ remuneration

2.3.2 Profitability and bank directors' remuneration

The CEO is frequently praised for the company's success and criticized for the downfall of the company (Wang, Zhang & Ullah, 2021). Petra and Dorata (2008) state that hiring, energizing, rewarding, and retaining CEOs who add value for shareholders is a primary objective of many organizations when it comes to CEO compensation. Therefore, the CEO compensation package includes components that both meet the CEO's expectations and the shareholders' expectations.

Ahamed (2022), Diamond and Verrecchia (1982) all emphasized the need of paying CEOs according to the effectiveness of the company. They discovered that by linking executive compensation to profitability, shareholders might gain value. Return on Equity (ROE) and Return on Assets (ROA) are the performance measures of choice in the majority of studies examining company performance and compensation correlations (Basu, Hwang, Mitsudome & Weintrop , 2007). In order to operationalize business performance, we employed the accounting-based measure of profitability known as "return on equity" (ROE., or income after expenses minus taxes divided by total equity).

Ahamed (2022) examined the link between directors' remuneration and bank performance in Bangladesh. The findings strongly revealed a significant and favorable relationship between the CEO salary package and bank performance as measured by profitability. A larger salary package encourages CEOs to work harder and solves the agency issue. This was contrary to the findings of Lawrence (2020) on a study of the Nigerian banking sector which established that in spite of the huge remuneration being offered to the directors, performance did not significantly improve.

The relationship between performance and compensation was examined by Dial and Murphy (1995) using bonuses, stock options, and other perks. The performance of the company was positively impacted by executives' total salary, according to the author's analysis of executive compensation data from 72 manufacturing companies between 1964 and 1981. However, Jensen and Murphy (1990) examined the compensation information for industrial companies during the years of 1974 and 1986. According to the study, pay and performance have a weak but positive relationship. The authors discovered that bonuses are not performance-sensitive even though they make up a portion of CEO compensation.

Deysel and Kruger (2015) examined the relationship between CEO pay and company success in the South African banking sector and established an association between CEO pay and the performance of the banking sector's market that was statistically significant and favorable.

However, in a study of the insurance companies in Kenya, Tarus (2014) found a non-significant relationship between executive compensation and financial performance, indicating a capping of executive compensation to maximize shareholders returns and that executive compensation at Kenyan insurance companies should not be primarily based on key performance ratios.

Hypothesis:

The performance and salary of directors in the Kenyan banking sector were compared in this study. According to Jensen and Murphy (1990), a key agency theory is the pay-performance relationship. In the context of this study, we hypothesized that businesses needed to put in place effective remuneration schemes that would encourage directors to increase shareholder wealth and have the side benefit of enhancing directors' monitoring efforts and hence believed that director compensation would be positively connected with bank performance, which is determined by assessing a company's ROE and ROA. Therefore, we tested the following hypothesis:

H_2: There's a positive relationship between profitability and the directors' remuneration

2.3.3 Capital adequacy and bank directors' remuneration

Al-Sabbagh (2004) describes capital adequacy as a measure of a bank's risk exposure. Credit risk, market risk, interest rate risk, and exchange rate risk are just a few of the categories of bank risk that are taken into account while calculating the capital adequacy ratio (CAR). Due to their perception of capital as a safeguard or cushion for absorbing losses, regulatory authorities viewed capital adequacy ratio as a crucial measure of "safety and stability" for banks and depository institutions (Alajmi & Alqasem, 2015).

According to Setiawan (2020) capital adequacy refers to the availability of capital held by banks to fund assets that contain or generate risks. A bank with a higher CAR value is in a better financial position since it has enough capital to cover any future operating losses. Because people won't worry about saving money in the bank, high CAR values can boost public trust. It implies that risky assets are financed with the bank's own money. On the other hand, if excessive credit is not matched by enough capital, it could result in risky loans. It follows that the bank with a higher CAR faces less credit risk.

Adequate and sufficient capital is one of the fundamental needs for banks and financial institutions, and every bank and financial organization must maintain a balance between capital and the potential risk in its assets in order to ensure its stability and sustainability (Bateni,

Vakilifard & Asghari, 2014). The Basel Capital Accord is a global norm for determining capital adequacy ratios. The Accord suggests minimum capital adequacy requirements for banks. By lowering the likelihood of bank insolvency, using minimum capital adequacy ratios helps the financial system be more stable and efficient.

Pradhan, Shyam and Khadka (2017) conducted a study on Nepalese Commercial Banks and the results showed that total deposits to total asset and banks operating efficiency were the major determinant of financial performance. The purpose of the study was to test the importance and significance of capital adequacy of commercial and development banks in Nepal. The findings agree with those of Abdullahi et al. (2020) who did a study on deposit taking banks in Nigeria. It is imperative that core capital and availability of sufficient capital is a dire requirement owing to the contemporary credit risks.

The regulatory authorities have worked to strengthen banks in the wake of the financial crisis. To do this, governments all over the industrialized world are putting pressure on their citizens to strengthen their balance sheets by raising capital, and if they are unable to do so, to reduce the quantity of risk assets (loans) on their books (Abba, Zachariah & Inyang, 2013).

Basel III, a global regulatory framework that includes, among other things, raising the minimum capital requirements from 4% to at least 7% of a bank's risk-weighted assets, was released in 2010 by the central bankers of the world, collectively represented by the Bank of International Settlements (Hanke, 2017).

According to Mutumira (2019) insurance companies in Kenya have a positive ROA and thus able to generate at least 20% profit. In other words, a statistically significant positive correlation exists between cash flow and asset quality of the Kenyan insurance companies. An earlier study, Ngui and Jagongo (2017) on Deposit taking Saccos in Kenya had given the same findings that capital adequacy influenced the firm’s financial performance. The two studies conducted in Kenya, therefore gives an overview and clarifies the need for adequate capital in all spheres of the economy.

According to Section 18 of the Banking Act, the Central Bank of Kenya is authorized to specify the minimum ratios that institutions must maintain between their core capital and total capital and their risk-weighted assets and off-balance sheet items, as well as to choose the method for categorizing and valuing assets.

Hypothesis:

Directors' remuneration and results were compared in this study for the Kenyan banking sector. According to Jensen and Murphy (1990), the pay-performance link is a core agency theory. In the context of this study, we hypothesized that businesses must put in place effective remuneration plans that will encourage directors to increase shareholder wealth and have the effect of enhancing directors' monitoring efforts. We considered that director compensation would be positively connected with bank performance since bank performance is determined by a company's capital adequacy ratio (CAR). In order to achieve this goal, the following hypothesis was tested:

H_3: There's a positive relationship between capital adequacy and the directors' remuneration

2.3.4 Credit risk and bank directors' remuneration

Credit risk management procedures are often created to lessen the negative effects of financial decisions made by commercial organizations (Wanjohi, 2013). This is the procedure of identifying, reducing, and managing repercussions of unpredictable events in a corporation. Any commercial bank must have a risk management framework; in most nations, banks are also required to have one in order to lessen the impact of unfavorable operational and financial decisions.

Without effective credit risk management, a company may experience operational and credit issues that have a detrimental impact on its financial performance (Mutuku, 2016). This was corroborated by Kargi (2021) who looked into the impact of treasury control and budgeting control on the manufacturing profitability of Nigerian enterprises and found that both had a small but positive relationship with profitability. Kuria (2016) found that effective risk management monitoring was required in a study on the efficiency of operational risk control and management at a cooperative bank, but was unable to fully separate the relationship between operational risk management and the financial success of a particular commercial bank.

According to Poole College of Management (2020), boards need to be aware that some business risks could create possibilities for managers who are motivated by short-term rewards to make money for themselves at the expense of the company. The board, therefore, needs to make sure that for the performance-based compensation to yield the intended results, risk management should be at the center-stage of the whole process. Well mitigated risks do not generally occur and hence lead to improved firm performance. When executive compensation

is heavily reliant on performance indicators like stock price or earnings per share, it can encourage executives to put their own interests ahead of the company's, which could put the firm at risk of taking on more risk than it can bear. These indicators can be modified, for instance, by management choices concerning the recognition of revenue and expenses or by stock repurchases at the conclusion of the period.

According to Gray and Cannella Jr (1997), given that it gives executives incentives to pursue tactics that are in line with shareholders' preferences, placing part of the risk associated with business results on the executive is beneficial to shareholders. On the other side, CEOs who are exposed to too much risk are likely to make decisions that are overly risk-averse (Lewellen, Loderer & Martin, 1987); (Coffee Jr, 1988). Thus, compensation agreements should strike a balance between the benefits of incentives and the drawbacks of executives taking on excessive risk.

Pay based on performance is always a source of risk for the executive, and that risk rises as the CEO's efforts and activities grow more disconnected from firm-level performance. According to Lambert and Larcker (1985), compensation risk refers to the degree to which the executive is subjected to non-diversifiable, personal risk as a result of the remuneration system.

Hypothesis:

The pay and performance of directors in the Kenyan banking sector were compared in this study. According to Jensen and Murphy (1990), the pay-performance connection is a cornerstone of agency theory. In the context of this study, we hypothesized that businesses must establish effective pay plans that will motivate directors to increase shareholder wealth and have the effect of enhancing directors' monitoring efforts. We predicted that director compensation would be favorably connected with bank performance and this was determined by comparing a bank's non-performing loans with the total loans granted as a form of performance. Thus, we tested the following hypothesis:

H_4: There's a positive relationship between credit risk and the directors' remuneration

2.3.5 Non-financial characteristics and bank directors' remuneration

Kang (2010) conducted a study on the influence of non-financial characteristics of the executive directors on their compensation. Four characteristics of the directors—age, educational qualifications, tenure in the organization and total experience were considered and

the findings revealed no significant relationship of non-financial characteristics on the compensation of directors.

According to Doucouliagos, Haman and Askary (2007), age is a stand-in for experience, hence it is to be expected that age will play a significant role in determining compensation. Although this association is likely to be non-linear, directors gain more experience as they get older. The increased experience could benefit both the performance of the company and better monitoring. If shareholders prefer to base compensation decisions purely on performance and ignore age, there may be no relationship between age and corporate performance. Stathopoulos, Espenlaub and Walker (2004) highlighted that older directors may be less successful, which means that the average non-executive remuneration may be negatively correlated with age.

McKnight et al. (2000) looked at the effect of CEOs' ages on executive compensation in the UK from 1992 to 1996 and discovered a substantial correlation between CEOs' ages and remuneration. These findings coincide with those of Kang (2010) whose study in India revealed that companies do not consider age of the executive directors while determining their compensation.

Additionally, according to Fedaseyeu, Linck and Wagner (2018), a clear objective of modern financial legislation has been to guarantee that board members are capable of carrying out their tasks. Given the empirical evidence that individual directors' credentials and experience matter for company performance, this regulatory emphasis on director expertise may be warranted.

Kang (2010) posits that executive director remuneration has not been found to be significantly correlated with the variable "educational qualifications." Additionally, earlier studies by Ramaswamy et al. (2000), Nguyen and Soobaroyen (2022) discovered that educational background was a negligible predictor of executive pay. However, Hijazi and Bhatti (2007) discovered a strong correlation between education level and executive remuneration in Pakistan.

Hypothesis:

H_5: There's a positive relationship between non-financial characteristics and the directors' remuneration

2.3.6 Bank size and bank directors' remuneration

The study also sought to account for other variables that affected the dependent and independent variables. The bank size was the control variable. Executive compensation has

been found to be significantly impacted by firm size (Bryson, Forth & Stokes, 2014). It is anticipated that as businesses grow, they would need more skilled and highly compensated executives. This has been supported by numerous academics who indicate that larger companies pay their CEOs more (Baker & Hall , 2004); (Basu, Hwang, Mitsudome & Weintrop , 2007); (Gomez-Mejia et al., 2003). Consequently, Murphy (1990), Bliss and Rosen (2001), all found firm size to be an important control variable influencing managers' compensation levels. Due to the higher level of complexity of the tasks and decisions that need to be made, as well as the potential for higher value being placed on these decisions and, therefore, greater reward being received from making them, managers of larger companies are expected to be paid more than managers of smaller companies.

A control variable impacts how we perceive the connections between independent and dependent factors (Baron & Kenny, 1986). Control variables, sometimes referred to as "nuisance" variance, are frequently employed to capture characteristics that are generally regarded as irrelevant to the desired effect (Breaugh & Arnold, 2007). Any variable has the potential to serve as a control variable depending on the researcher's objectives and the specifics of the research design, while some control variables are more frequently used in management research.

According to empirical research, the size of the bank affects both executive compensation and firm performance. The Central Bank of Kenya acknowledges this and provides financial performance data for commercial banks broken down by bank type. Banks are divided into three tiers by the Central Bank of Kenya: Large banks comprise Tier One, followed by medium-sized banks in Tier Two, and small commercial banks in Tier Three (CBK, 2017).

Lee and Park (2009) found that bank size had a significant impact on profitability, albeit the connection was nonlinear, indicating that larger companies had a smaller increase in profitability. This is consistent with Lipunga's (2014) study on the factors affecting listed commercial banks' profitability in developing nations, with a focus on Malawi from 2009 to 2012. Lipunga used both internal and external (market)-based profitability measurements and discovered that bank size has a statistically significant impact on ROA, but capital adequacy has an insignificant impact. Despite the study's confirmation that bank size does affect commercial banks' profitability, it was conducted from a global viewpoint and cannot be fairly compared locally.

Ampuero Mellado and Laietu (2009) makes use of domestic and international data from 12 banks over the years 2006 to 2008. According to the study's findings, profitability and CEO compensation have no relationship. Gregg et al. (2012) used a sample of big UK enterprises to investigate the relationship between CEO remuneration and firm performance. The findings showed that the level of CEO salary is primarily influenced by firm size.

Similarly, Samhan and Al-Khatib (2015) analyzed the factors influencing Jordanian Islamic banks' financial performance and found that equity ratio, inflation, bank size, and ROA all had a strong positive association. In contrast, Awojobi (2011) empirically evaluated the critical factors influencing bank risk management effectiveness in Nigeria and demonstrated that bank capital adequacy is positively associated with liquidity, bank size, and market risk. Statistical insignificance of the bank size was established by the results.

A study by Gatimu (2019) into the variables affecting bank profitability in Kenya discovered a significant positive relationship between bank profitability and bank size, a factor unique to banks. This is also consistent with Pervan and Josipa (2012) who looked at how a firm's size affected its ability to succeed in the marketplace. Firm size had a considerable beneficial impact on firm profitability, according to the analysis, which covered the years 2002 to 2010. Additionally, the findings demonstrated that assets turnover and debt ratio both statistically significantly affect firms' performance, whereas current ratio did not establish itself as a key explanatory factor of firms' profitability. The present study aimed to rectify the fact that the study's conclusions did not directly address commercial banks.

2.4 Summary of Literature Review and Research Gaps

The Companies Act (2015) requires that the executive remuneration should be based on the company's performance, the examined literature has demonstrated that firm performance is crucial in deciding the executive compensation. The analyzed theories; agency and tournament demonstrated the necessity to include firm performance in commercial banks as well as the predicted results. The empirical studies done have produced conflicting and contradictory results. For example, Olaniyi (2019) found a statistically significant positive relationship between the directors' compensation and the firm performance in a study of Nigerian listed firms but on the contrary Tarus (2014) in a study of Kenyan Insurance Companies found a non-significant negative relationship between the two variables.

The difference in the findings can be attributed to the different methodologies employed, variables examined, jurisdictions and time frames. Additionally, conflicting results are seen in

the majority of studies undertaken in both developed and developing nations. In spite of the prior findings, there is a possibility that the amount of the remuneration could be affected by other factors such as, experience, age and qualifications and not just firm performance. This study therefore ranked the likely determinants of remuneration in the order of their strengths. Covid-19 affected livelihoods leading to a surge in the number of loan defaulters. Consequently, banks' performance was affected due to regulations that were brought about by Covid-19 including remote working, down-sizing of companies and the need to digitize transactions to avoid over-crowding.

Table 2.1: Summary of Literature and Research Gaps

Author	Title	Findings	Research Gaps
Moh'd Al-Tamimi and Obeidat (2013)	Determinants of capital adequacy in commercial banks of Jordan an empirical study.	Capital liquidity levels and the amount of liquidity in commercial banks were both positively correlated with the executive compensation.	Study only sampled banks in Jordan listed in the Amman Stock Exchange. The small sample size may limit the study's generalization.
Konadu (2009)	Liquidity and profitability.	Ghanaian banking industry's operational firms had lower levels of financial performance due to liquidity problems.	The study only considered banks listed on the Ghanaian stock exchange.
Majakusi (2016)	Effect of Liquidity management on the financial performance of commercial banks in Kenya	Study revealed that the banks' financial performance fluctuated frequently, while liquidity and capital sufficiency were mostly unchanged.	Study only used 28 Commercial banks out of 43 that were operational at the time. Also the study period was pre-enactment of the companies act (2015)
Ahamed (2022)	CEO Compensation and Performance of Banks.	Findings strongly revealed a significant and favorable relationship between the CEO salary package and bank performance as	The study only employed one indicator of firm performance, profitability. There was need to evaluate a myriad of possible

		measured by profitability	indicators of performance.
Lawrence (2020)	The impact of director's remuneration on firms' performance evidence: a study of Nigerian banking sector.	Findings from the study revealed that there is no significant relationship between directors' remuneration (proxy as directors' salary and bonus share) and firm's performance.	The study only employed Tobin Q as the only measure of bank performance. Consequently, a small sample size of 13 commercial banks was used.
Deysel and Kruger (2015)	The relationship between CEO pay and firm performance in the South African banking sector.	The study findings revealed a statistically significant and favorable relationship.	The study only used profitability measures - EBITDA and ROE as the measures of performance.
Pradhan, Shyam and Khadka (2017)	The effect of debt financing on profitability of Nepalese commercial banks	The findings showed that total deposits to total asset and banks operating efficiency were the major determinant of financial performance	There was need to do a panel data approach for the study.

2.5 Conceptual Framework

The framework outlines the relationship between the study's evaluated independent variables and analyzed dependent variables. It considers how firm performance affects the determination of CEO'S compensation. According to the conceptual framework for the study, which is displayed in Figure 2.1, the dependent variable was the executive compensation, and the moderating variable was the bank size as represented by the tiers. The predictor variables for

the study were financial performance represented by the key performance indicators and the non-financial characteristics.

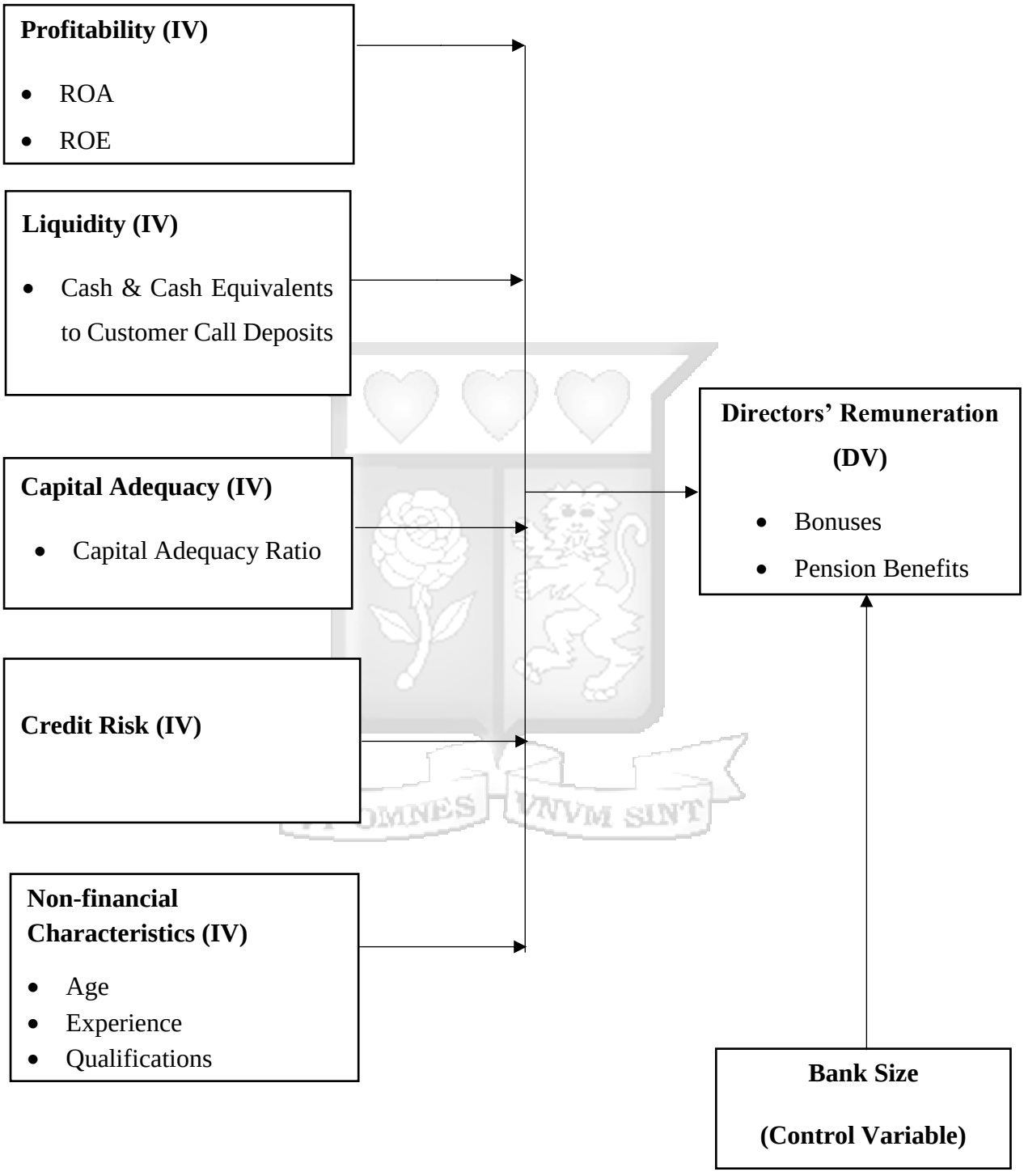

Figure 2.1: Conceptual Framework

Source: Researcher, 2023

As shown in figure 2.1 above, the bank's profitability on the executive compensation were obtained through the use of Return on Assets (ROA) which is a measurement of how effectively a business generates money from the assets it possesses. A ROA of over 5% is typically regarded as good, and one of over 20% as great. However, ROA ought to always be contrasted between businesses in the same industry, in our case – the bank. Return on Equity (ROE) was also used as an indicator of firm performance and it is the ratio created by dividing a company's net income by its equity held by shareholders. The backbone of every organization is to generate or maximize shareholders' wealth using the already available assets and this explains why the two ratios were chosen as they both have elements of shareholders equity and total assets.

Liquidity as an indicator of firm performance was measured by the cash and cash equivalents to customer call deposits. Cash and cash equivalents to customer call deposits gives a comparison of the liquid cash that the bank possesses compared to the customer deposits which are typically liabilities to the bank. This ratio was used as it best explains the firm's liquidity after taking care of their short-term liabilities.

Capital adequacy was another indicator of firm performance. It was obtained using the capital adequacy ratio which is determined by dividing the capital of a bank by the value of its risk-weighted assets. Owing to the past financial disasters faced by the banks, governments have set up regulations that that require banks or financial institutions in Kenya to have a minimum capital of Kes. 1 Billion (CBK, 2013).

In conclusion, risk management was also used as an indicator of firm performance. Banks are mainly faced with credit risk and this is mainly attributed to non-performing loans. In order to hedge against any default risks, banks usually assign varying degrees of risk to various asset classes in order to calculate the minimum amount of capital that a bank must maintain.

Table 2.2: Operationalization of the Key Performance Indicators - Secondary Data

Variable	KPI	Measurement	Scale of Measurement	Type of Analysis
Independent	Profitability	ROA and ROE (Al Nimer, Warrad & Al Omari, 2015). This was used to evaluate how profitable banks are in relation to total assets and equity.	Ratios	Descriptive Statistics and Panel Data
Independent	Liquidity	Cumulative weight of cash and cash equivalents to total client call deposits and the ratio of current assets and current liabilities (Vodova, 2011). This was used to evaluate banks' ability to repay its short-term debt with cash/ cash equivalents.	Ratios	Descriptive Statistics and Panel Data
Independent	Capital Adequacy	Dividing the capital of a bank by the value of its risk-weighted credit exposures. This is in line with the CBK Prudential Guidelines CBK/PG/05 (2013). A high CAR indicates that the bank is in a better position to deal with unexpected losses.	Ratios	Descriptive Statistics and Panel Data
Independent	Credit Risk	The ratio of non-performing loans to the total amount of loans granted was used to	Ratios	Descriptive Statistics and Panel Data

		measure credit risk. A minimal ratio shows that the customers are able to service their loans on time. According to CBK (2022) the ratio stood at 13.7%		
Dependent	Directors' remuneration	This was reflected in the sum of their pay components (Lawrence, 2020)	Ratios	Descriptive Statistics and Panel Data

Table 2.3: Operationalization of the Non-Financial Characteristics - Primary Data

Variable	**Indicator**	**Measurement**	**Scale of Measurement**	**Type of Analysis**
Independent	Age	This was justified by the number of years of the directors.	Ordinal Scale	Descriptive Statistics
Independent	Experience	This was denoted by the number of years of experience of the directors	Ordinal Scale	Descriptive Statistics
Independent	Qualifications	This was represented by either academic or professional qualifications of the directors.	Ordinal Scale	Descriptive Statistics

The operationalization of variables was presented in two tables, to cover both primary and secondary data.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used to address the study objectives. The chapter discusses chronologically the research design, population of the study, sampling methods, data collection instruments and the data analysis techniques which were used. The chapter also discusses the ethical considerations and study quality measures.

3.2 Research Philosophy

The positivism and post-positivism paradigms are the two basic frameworks that direct research in the social sciences. The philosophy of positivism holds that all knowledge must be supported by evidence derived from experiments, observations, and logical or mathematical justifications. According to this school of thought, universal scientific truths can only be established via empirical testing of the observed consequences (Saunders, Lewis & Thornhill, 2003). This paradigm is mainly used in the quantitative research and is objective in nature given that it is based on logical justifications. On the other hand, post-positivism is a subjective philosophical study that seeks to comprehend human views and lived experiences. It thus, takes the form of qualitative research.

Both positivism and post-positivism paradigms were used in this study. These paradigms were chosen given the nature of the research. The research relied on the data obtained from the annual reports and also views of the bank's representatives as obtained through the questionnaires. Quantitative and qualitative research philosophies and related analytical methods were thus required for the study (Kothari, 2004).

3.3 Research Design

The study was both quantitative and qualitative (Neuman & Rossman, 2006). A quantitative study of the financial data was done in order to establish the relationship between executive compensation and the firm performance. The study was also qualitative and questionnaires were used to obtain the view of the respondents on the non-financial characteristics that influence the directors' remuneration. Use of both quantitative and qualitative methods was justified in order to strengthen the validity of the results and spot any discrepancies (Neuman & Rossman, 2006). The companies Act, 2015 made it mandatory for companies to publish their financial statements in Kenya. The Act also requires disclosure of the directors' emoluments in the report.

Time series and panel data were used in the study. The financial performance of banks was examined from the year 2015 through to 2021 in order to determine the relationship between CEO remuneration and firm performance. The fundamental argument for this time frame was that it aligns with the enactment of the Companies Act (2015).

3.4 Population and Sampling

The specific people or things about whom information is sought are included in the group that a study is targeting (Kothari, 2004). The main population was the 38 commercial banks operating in Kenya (CBK, 2022) and the researcher collected data from the finance heads of the individual banks or their immediate deputies; this was mainly because they are the ones charged with administering the payrolls and this was done to guarantee reliability and credibility of the findings.

The study employed a census strategy in order to collect data from the entire population of 38 commercial banks in Kenya (CBK, 2022). Census strategy is the one in which every item in a population is fully accounted. According to Chih-Pei and Chang (2017), the census sampling strategy should be employed in cases where the study population is manageable because of its modest size. This will allow for equitable representation of the study parts. This is the same argument that Blumberg, Cooper and Schindler (2014) made when they suggested that a census approach should be utilized to guarantee that the results are accurate and reliable.

3.6 Data Collection Procedures

Data on Return on Assets, Return on Equity, Capital Adequacy, Liquidity and Credit risk was obtained from the CBK website, publications section under the bank supervision and banking sector reports in order to evaluate key performance indicators enumerated under objective two. Compliance with the Companies Act (2015) was measured through aligning what the act stipulates and the actual results obtained. Primary data was collected using questionnaires and it sought to unpack objectives one and three. Section A of the questionnaire contained general information while section B sought to find out the main forms of directors' remuneration. Lastly, Section C addressed the non-financial characteristics that affects the directors' remuneration. This was necessary in order to capture qualitative components of the study that might not be shown by the data collected and, as a result, to validate the findings of the quantitative analysis.

In order to increase the response rate, the questions were designed to address the specific objectives (Gill, Johnson & Jackson, 2002). Frankel, Kothari and Weber (2006) advised using

questionnaires when senior management is the target audience because they might not have much time for interviews. Semi-structured questionnaires with both open-ended and closed-ended questions were used to collect the primary data. The preference of questionnaires was as a result of their affordability and ability to gather a variety of data in the smallest amount of time.

Questionnaires made it possible to record the responses' opinions. The questionnaires were self-administered using google forms, giving respondents plenty of time to complete and fill in their responses. Google forms were considered instead of the physical delivery of the questionnaires because of their convenience and affordability. The respondents were able to fill the document at the comfort of their homes, offices or even while on their way home from work. The researcher followed-up by phone calls after a week to two weeks.

On the other hand, secondary data from the bank's annual reports were used to gather longitudinal data in order to enable quantitative assessment and subsequently deliver more reliable and accurate results. This related to information about how bank performance affected executive compensation. The data collection sheet was used to gather secondary data, which contained measurements of firm performance (ROA, ROE, Capital adequacy, Liquidity and Credit risk) for the years 2015 through 2021. The information was gathered from the CBK website, publications section under the bank supervision and banking sector reports.

According to Frankfort-Nachmias and Nachmias (1996), secondary sources of data are thought to have a number of flaws, including the fact that they are only estimates, have restricted access, and the dependability of the gathering methods. Additionally, they clarify that secondary data may be utilized if it is the only method available for achieving a certain study purpose. Due to the fact that annual reports were the sole reliable method for operationalizing the study variables, the use of annual reports as a mode of secondary data in the current study was more justifiable. It is significant to highlight that information from the reports was organized such that it could easily address the study's goals. Finally, data from the annual reports was gathered concurrently with the distribution of the questionnaires.

3.7 Data Analysis and Presentation

According to Saunders and Thornhill (2009) data analysis refers to the systematic application of statistical tools to process data into meaningful information.

Key performance ratios and directors' emoluments were collected from the bank's annual reports published on their websites for the years 2015 to 2021. In order to analyze the

relationship between executive compensation and firm performance, multiple regression was the primary tool. Regression is the best tool for examining the relationships between variables, which is why it is most often used (Sarstedt & Mooi, 2019). According to Johnson and Kuby (2011), regression is able to provide information on the strength of the relationship between two or more variables in addition to the relationship itself (whether it is positive or negative) unlike covariance analysis which only gives a general sense of direction whether it is positive or negative (Johnson & Kuby, 2011). Furthermore, covariance cannot be used where there are many variables, as is depicted in this study.

The following is the multiple regression model that was used in the analysis (Niemi & Jennings, 1991);

Rem (KShs.000) = α + βROA + βROE + βLIQ + βCAR + βCR + ε

REM is the directors' remuneration, ROA, ROE, LIQ, CAR and CR denote Return on Assets, Return on Equity, Liquidity, Capital Adequacy Ratio and Credit Risk respectively. Alpha (α) is the fixed component of the executive remuneration while beta (β) is the component that depicts the relationship between the executive remuneration and the performance measures and ε is the error term. The study's main focus was on the beta (β).

An analysis of variance (ANOVA) was utilized to derive the nature, strength, and significance of the association between executive compensation and business performance from the multiple regression equation. The sign preceding in the equation denotes the type of the relationship (i.e., whether it is positive or negative). For instance, a + denotes a positive association, whereas a - denotes a negative one. Numerous metrics, such as the coefficient of determination (R^2) and the P Value, reveal the significance of the relationship.

Additionally, data collected from the questionnaires was coded and classified and thereafter counted for the purpose of ranking the main forms of directors' remuneration and the non-financial characteristics that determine the remuneration. Finally, descriptive analysis in the form of percentages and frequencies was utilized to assess the findings and how the respondents felt about age, experience and qualifications of a director as determinants of their remuneration.

3.8 Diagnostic Tests

Normality and multicollinearity were used as diagnostic procedures to guarantee the caliber of the research. The major presumptions of linear regressions must be satisfied before the analysis

is conducted. The regression model underwent a multi-collinearity test in order to prevent drawing the incorrect conclusions about the relationship between the dependent variable and independent variables.

3.9 Research Quality

Research measurement frameworks' reliability is their capacity to produce results that are consistent across respondents (Kothari, 2004). In order to conduct high-quality research, the entire study design must follow the scientific method. It is the methodical process of assuring that the study's findings are correct, reliable, and that any conclusions formed are real and appropriate in a precise way (Kothari, 2004). Both secondary and primary data were used in the study, and an unbiased interpretation of the findings was presented.

3.10 Ethical Issues in Research

The study's ethical standards were protected by the full disclosure of information sources and approval by the University's Institutional Scientific and Ethical Review Committee to collect data from the commercial banks. A NACOSTI permit from the government was also obtained. All collected information was kept completely private and used only for academic purposes. Additionally, no group or person suffered prejudice as a result of this study, participation was entirely voluntary, free from compulsion or inducement, and confidentiality was maintained throughout.

CHAPTER FOUR

RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings of this study as set out in the research objectives and research methodology. The study sought to examine whether there's a relationship between firm performance and the directors' remuneration in the Kenyan Commercial Banks. The first section of this chapter covers response rate and demographic profiles of the respondents while the second section provides analysis on the variables and objectives of this study.

4.2 Response rate

The researcher collected both primary and secondary data from 38 commercial banks in Kenya. Secondary data was obtained from the CBK website and the individual annual bank reports while the primary data was collected using self-administered questionnaires. All the questionnaires sent out to the representatives of the commercial banks were returned representing 100% response rate. The optimal response rate can be attributed to the modest sample size, given that the study was targeting one respondent per bank. Consequently, the researcher dispensed the questionnaires to the finance heads, but in their absence opted for their immediate deputies who were also senior members of the finance team and had all the required information that the study sought to obtain.

4.3 Demographic Characteristics

The study sought to establish the general information of the respondents. The respondents were asked to indicate the number of years in service to the bank.

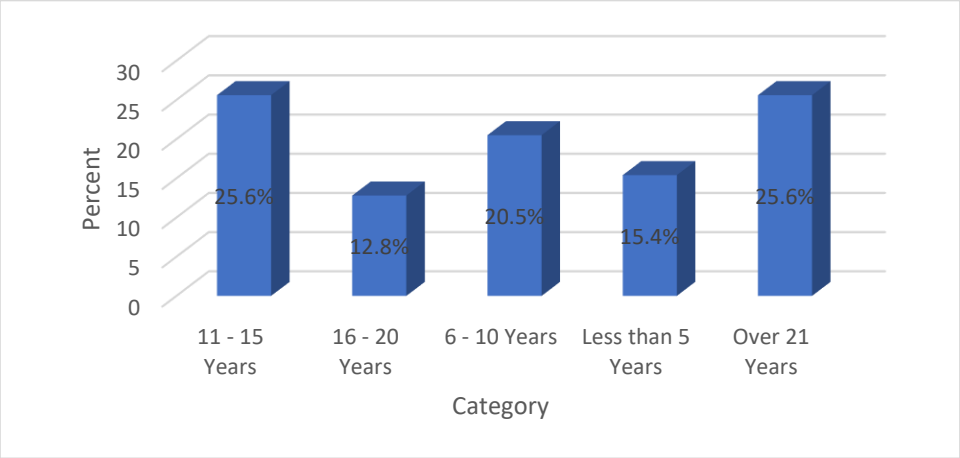

Figure 4.1: Number of years in service

Source: Research Data (2023)

The findings in Figure 4.1 show that 25.6% of the respondents had worked in the bank for 11-15 years, 25.6% for over 21 years, 20.5% for 6-10 years, 15.4% for less than 5 years, while 12.8% for 16-20 years. The results imply that most of the finance heads had worked in the banking sector long enough and therefore knowledgeable about firm performance and the directors' remuneration in the Kenyan Commercial Banks.

4.4 Forms of directors' remuneration in the Kenyan Commercial Banks

The first objective of the study was to assess the forms of directors' remuneration in the Kenyan Commercial Banks. Descriptive statistics on directors' remuneration are reported in Table 4.1.

Table 4.1: Descriptive statistics on directors' remuneration

	N	Mean	Std. Deviation	Minimum	Maximum
Remuneration	265	60982.93	70098.43	4388	477000

Source: Research Data (2023)

The findings in Table 4.1 indicates that the average annual remuneration of executive directors of commercial banks during the study period was Ksh. 60, 982.93 ('000). The minimum annual remuneration was Ksh. 4, 388 ('000), and maximum was Ksh 477,000 ('000). The high and low remuneration score shows the dispersion around the mean of Kes. 60,982,930. In other words, directors of banks on average earned approximately Kes.60 million per annum between 2015 and 2021. The study therefore also seeks to establish if there's a relationship between the high and low scores on the bank performance.

The respondents were further asked to state other packages payable to the executive directors besides basic salary. The results are as shown in Figure 4.2.

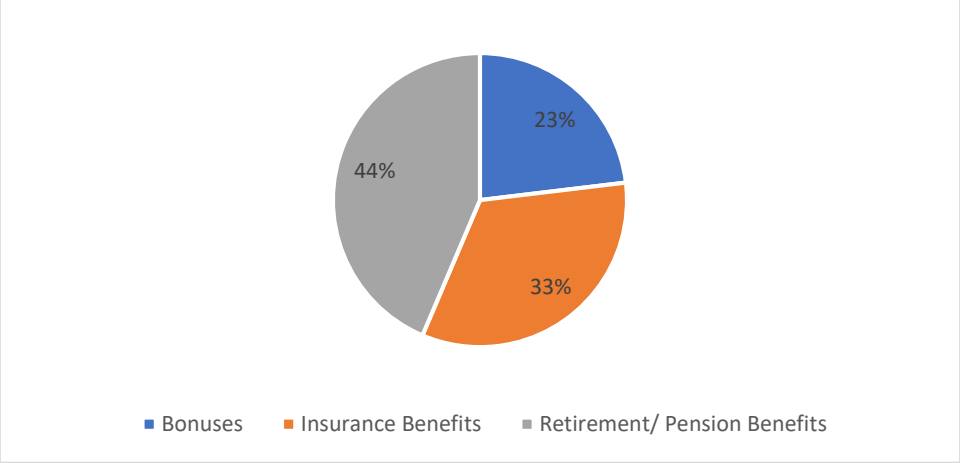

Figure 4.2: Packages payable to executive directors

Source: Research Data (2023)

The findings in Figure 4.2 indicate that 44% of the respondents reported retirement/ pension benefits as additional packages payable to the executives, 33% stated insurance benefits, and 23% indicated bonuses. The results imply that executive directors receive numerous packages besides the basic salary. This study sought to establish whether there was any connection between firm performance and the directors' remunerations.

Additionally, the respondents were asked to specify the categories of allowances payable to the non-executive directors. The responses are presented in Figure 4.3.

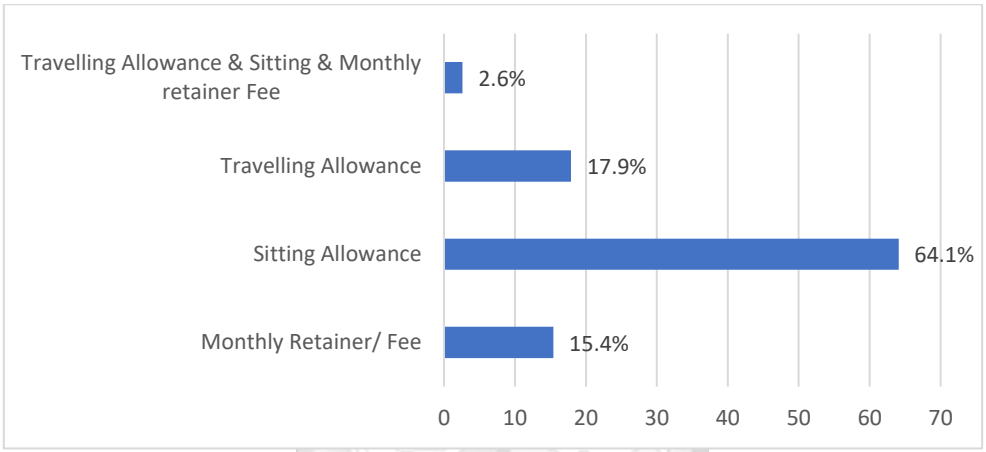

Figure 4.3: Allowances payable to non-executive directors

Source: Research Data (2023)

The findings in Figure 4.3 show that majority (64.1%) of the respondents reported that non-executive directors receive sitting allowance, 17.9% indicated travelling allowance, 15.4% stated monthly retainer/ fee, while 2.6% reported sitting & travelling allowances and a monthly retainer or fee. The results imply that majorly, non-executive directors receive sitting allowances.

4.5 Compliance with the Act (2015) using key performance indicators and their relationship with the directors' remuneration

The second objective of the study was to examine compliance with the Act (2015) using key performance indicators and their relationship with the directors' remuneration. Descriptive statistics on ROA, ROE, capital adequacy, liquidity and credit risk are presented in Table 4.2.

Table 4.2: Descriptive statistics

	N	Mean	Std. Deviation	Minimum	Maximum
ROA	266	1.1936	4.7134	-32.2	7
ROE	266	7.8139	36.98237	-376	82
Capital adequacy	266	21.588	11.96004	-60.6	94.5
Liquidity	266	53.4838	28.81619	7.6	184.8
Credit risk	266	16.7300	0.14226	0.01	0.76

Source: Research Data (2023)

The findings in Table 4.2 show that the average annual ROA of commercial banks during the study period was 1.19. The results imply that the average commercial banks' performance measured using return on assets for the period from 2015 to 2021 was 1.2%. Further, the average annual ROE of commercial banks during the study period was 7.81. The results imply that the average commercial banks' performance measured using return on equity for the period from 2015 to 2021 was 7.8%.

Consequently, the findings indicate that the average annual capital adequacy of commercial banks during the study period was 21.59. The results imply that the average commercial banks' performance measured using capital adequacy for the period from 2015 to 2021 was 21.59%. The average annual liquidity of commercial banks during the study period was 53.48. The results imply that the average commercial banks' performance measured using liquidity for the period from 2015 to 2021 was 53.48%.

The findings reveal that the average annual credit risk of commercial banks during the study period was 0.167. The results imply that the average commercial banks' performance measured using credit risk for the period from 2015 to 2021 was 16.7%.

4.6 Non-financial characteristics and directors' remuneration

The third objective of the study was to evaluate the non-financial characteristics to be considered in determining the directors' remuneration in the Kenyan Commercial Banks. Descriptive statistics on non-financial characteristics of the directors are presented in this section. The respondents were asked to rate their agreement with the following statements on age of a director. Likert Scale of 1 – 5 where; 1 denotes Strongly Disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is Strongly Agree was used. The mean value of 1.0-1.4 was interpreted as strongly disagree, 1.5-2.4 as disagree, 2.5-3.4 as neutral, 3.5-4.4 as agree and 4.5-5 as strongly agree. A standard deviation value greater than two meant most of the respondents had differing opinions while a value less than 2 was considered low and indicated that most of the respondents had similar opinions.

Table 4.3: Director's age

Statements	Mean	Std Dev
• Age is a factor considered in coming up with the directors' emoluments	3.31	1.24
• The age of a director is considered during the recruitment process	3.36	1.25
• Older directors are expected to have more level of experience as compared to slightly younger directors	3.08	1.29
• Company's performance improves with older directors at the helm	3.21	1.26

Source: Research Data (2023)

From the findings presented in Table 4.3, all the statements had small standard deviations (SD<2), an indication that the respondents' opinions did not differ significantly. The findings specifically showed that the respondents agreed (35.9%), and strongly agreed (15.4%) that age is a factor considered in coming up with the directors' emoluments. The respondents agreed (33.3%) and strongly agreed (17.9%) that age of a director is considered during the recruitment process. Further, the respondents agreed (30.8%) and strongly agreed (12.8%) that older directors are expected to have more level of experience as compared to slightly younger directors. Finally, the respondents agreed (30.8%) and strongly agreed (15.4%) that company's performance improves with older directors at the helm.

The mean on the other hand displays almost similar trend in that it oscillates between 3.08 and 3.36. Using our scale, this means that the respondents agree and disagree in equal measure that age plays a role in the determination of the directors' emoluments. In overall, the results imply that a higher percentage of the respondents acknowledged the importance of age as a determinant of director's emoluments.

The respondents were asked to rate their agreement with the following statements on experience of a director. The results are presented in Table 4.4.

Table 4.4: Statements on director's experience

Statements	Mean	Std Dev
• Experience is a factor considered in coming up with the directors' emoluments	3.87	0.77
• The experience of a director is considered during the recruitment process	3.77	0.99
• There's likelihood that the company performs better with experienced directors driving the ship.	4.10	0.82

Source: Research Data (2023)

Based on the findings in Table 4.4, all the statements had small standard deviations (SD<2), an indication that the respondents' opinions did not differ significantly. The findings specifically showed that majority of the respondents agreed (56.4%) and strongly agreed (17.9%) that experience is a factor considered in coming up with the directors' emoluments. The respondents also agreed (38.5%) and strongly agreed (25.6%) that the experience of a director is considered during the recruitment process. Further, the respondents agreed (41%) and strongly agreed (35.9%) that there's likelihood that the company performs better with experienced directors driving the ship.

The mean ranges from 3.77 and 4.1 and this implies that the respondents agree that experience is considered in coming up with the directors' remuneration. It is therefore justified to conclude that a higher percentage of the respondents acknowledged the importance of experience as a determinant of director's emoluments. Experience is also critical in determining companies' performance.

The respondents were asked to rate their agreement with the following statements on qualifications of a director. The results are presented in Table 4.5.

Table 4.5: Statements on director's qualifications

Statements	Mean	Std Dev
• Qualifications (both academic and professional) of a director are considered in coming up with the directors' emoluments	4.13	1.03
• The qualifications of a director are considered during the recruitment process	4.00	0.97

Source: Research Data (2023)

According to the findings in Table 4.5, all the statements had small standard deviations (SD<2), an indication that the respondents' opinions did not differ significantly. The findings specifically showed that the respondents agreed (35.9%) and strongly agreed (43.6%) that qualifications (both academic and professional) of a director are considered in coming up with the directors' emoluments. Further, the respondents agreed (48.7%) and strongly agreed (30.8%) that the qualifications of a director are considered during the recruitment process.

The mean on the other hand, oscillates between 4.0 and 4.13. In reference to our scale, this would imply that the respondents agree that qualifications of a directors play an important role in their remuneration; and therefore, in general majority of the respondents acknowledged the importance of qualification as a determinant of director's emoluments.

The respondents were asked to rate the extent of the influence of the non-financial characteristics on directors' remuneration using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent. The findings are presented in Table 4.6.

Table 4.6: Influence of non-financial characteristics on directors' remuneration

	Mean	Std Dev
• Age	3.00	1.21
• Experience	3.95	0.92
• Qualifications	3.87	1.15

Source: Research Data (2023)

The findings show that the respondents stated that to a moderate extent (41%) and large extent (23.1%), age influences directors' remuneration. Experience to a large extent (33.3%) and very large extent (33.3%) influences directors' remuneration. Further, qualifications to a large extent (38.5%) and very large extent (33.3%) influences directors' remuneration. The mean figures depicted confirm that experience, qualifications and age (in that order) play a role in the remuneration of the directors and thus a higher percentage of the respondents felt that non-financial characteristics (age, experience and qualification) influence directors' remuneration.

The respondents were asked to give their opinion on the effectiveness of the Companies Act (2015) as a basis of pegging directors' remuneration in your organization and whether their company had fully adopted the recommendations of the Act on remuneration of directors.

Majority of the respondents (n=28) noted that their companies had fully adopted the recommendations of the Act on remuneration of directors, while the rest (n=10) observed that their companies had not fully adopted the recommendations. The respondents on the affirmative reiterated that the Companies Act (2015) was very effective as a basis of pegging directors' remuneration.

The respondents were asked to state other factors that are likely to be considered by the bank in determining directors' remuneration. Based on the responses, the following factors were summarized: Past track record, financial performance, good will, leadership skills, remuneration across the industry, previous industry, and attitude. The findings implied that other than qualification, experience and age, banks' management ought to also consider the highlighted factors when determining directors' remuneration.

4.7 Assumptions of Linear Regression

Normality and multicollinearity were tested as diagnostic procedures to guarantee the caliber of the research. The major presumptions of linear regressions must be satisfied before the analysis is conducted.

4.7.1 Normality Test

To establish normality tests, Kolmogorov-Smirnov test was utilized. Data is assumed to be regularly distributed when the Asymp. Sig. (2-tailed) is greater than 0.05. The findings are presented in Table 4.7.

Table 4.7: Normality Test using Kolmogorov-Smirnov

	Statistic	df	Sig.
ROA	.257	266	.071
ROE	.283	266	.521
Capital adequacy	.176	266	.333
Liquidity	.126	266	.069
Credit risk	.178	266	.211
Remuneration	.210	266	.200

Source: Research Data (2023)

The findings in Table 4.7 shows significant (Sig) values greater than 0.05 for all the variables. This implies that the null hypothesis of normal distribution was accepted. Hence, the study data was normally distributed.

4.7.2 Multicollinearity Test

Multicollinearity among the independent variables was conducted using VIF test and results are shown in Table 4.8.

Table 4.8: Multicollinearity Test using Variance Inflation Factor

Variable	Tolerance	VIF
ROA	.498	2.008
ROE	.562	1.778
Capital adequacy	.856	1.169
Liquidity	.947	1.056
Credit risk	.846	1.182

Source: Research Data (2023)

The findings in Table 4.8 show VIF values less than 10. This denoted that there was no multicollinearity among the independent variables. Also supporting this are tolerance values greater than 0.1. The results imply that the correlation between the independent variables was within acceptable level.

4.8 Correlation Analysis

Correlation analysis was conducted to determine the relationship between independent variables and dependent variable. The findings are shown in Table 4.9.

Table 4.9: Correlation results

N=266		Remuneration	ROA	ROE	Capital adequacy	Liquidity	Credit risk
Remuneration	Pearson Correlation	1					
	Sig. (2-tailed)						
ROA	Pearson Correlation	0.11***	1				
	Sig. (2-tailed)	0.073					
ROE	Pearson Correlation	0.036	.642**	1			
	Sig. (2-tailed)	0.561	0.000				
Capital adequacy	Pearson Correlation	-.125*	.244**	0.006	1		
	Sig. (2-tailed)	0.042	0.000	0.925			
Liquidity	Pearson Correlation	-.170**	.187**	.122*	.160**	1	
	Sig. (2-tailed)	0.005	0.002	0.047	0.009		
Credit risk	Pearson Correlation	-0.063	-.347**	-.210**	-.253**	-0.033	1
	Sig. (2-tailed)	0.303	0.000	0.001	0.000	0.596	

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
*** Correlation is significant at the 0.1 level (2-tailed).

Source: Research Data (2023)

According to the findings in Table 4.9, there is a weak negative and significant relationship between capital adequacy and directors' remuneration in the Kenyan Commercial Banks ($r = -0.125$, $p=0.042<.05$). The results imply that a change in capital adequacy is associated with a significant change in directors' remuneration in the opposite direction.

Results show that there is a weak negative and significant relationship between liquidity and directors' remuneration in the Kenyan Commercial Banks ($r = -.170$, $p=0.005<.05$). The results imply that a change in liquidity is associated with a significant change in directors' remuneration in the opposite direction.

Results indicate that there is a weak positive and significant relationship between return on assets and directors' remuneration in the Kenyan Commercial Banks ($r = 0.11$, $p=0.073<0.1$). The results imply that a change in return on assets is associated with a significant change in directors' remuneration in same direction.

Finally, the study found no significant relationship between return on equity ($p=0.561>0.05$), credit risk ($p=0.303>0.05$), and directors' remuneration in the Kenyan Commercial Banks. The results imply that a change in return on equity, and credit risk is associated with a negligible change in directors' remuneration.

The results as presented are quite surprising in the sense that ordinarily firm performance is expected to have a strong influence on the directors' remuneration. In our case, only ROA shows a weak positive and significant relationship – otherwise, the return on equity and credit risk variables show no relationship. It is also surprising that capital adequacy and liquidity yield a negative relationship. The researcher will therefore advise the bank management to seriously also consider other factors, non-financial, in coming up with the remuneration.

Consequently, in the computation of ROA and ROE, the numerator is denoted by net income while total assets and shareholders' equity are both used as denominators. Shareholders' equity (total assets – total liabilities) simply refers to the net assets. It is therefore also surprising that the results for ROA and ROE are conflicting and yet they are both obtained from almost similar balance-sheet items.

4.9 Bank Size and Director's remuneration

To determine the relationship between bank size (small, medium, large) and director's remuneration, one-way ANOVA was conducted and the findings are shown in Table 4.10. Bank size plays a role in the manner in which directors are being compensated. This study

employed one-way ANOVA so as to rank the banks according to their mean differences. A large positive mean difference implied that banks in column I were far greater than those in column J and would thus imply that directors in banks falling under column I were paid a higher remuneration than those in J. This therefore shows that bank size plays a significant role in the way the directors are being compensated.

Table 4.10: One-Way ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.94E+10	2	9.70E+09	3.377	0.046
Within Groups	1.00E+11	35	2.87E+09		
Total	1.20E+11	37			
LSD					
(I) VAR00001	(J) VAR00001	Mean Difference (I-J)	Std. Error	Sig.	
Small	Medium	-26838.6	22262.84	0.236	
	Large	-54481.1678005*	21348.43	0.015	
Medium	Small	26838.62	22262.84	0.236	
	Large	-27642.6	26037.21	0.296	
Large	Small	54481.1678005*	21348.43	0.015	
	Medium	27642.55	26037.21	0.296	

* The mean difference is significant at the 0.05 level.

The findings in Table 4.10 shows that there are significant differences in directors' remuneration in relation to bank size. This was supported by p value (sig) of 0.046 less than 0.05 critical value. The results mean that there is a significant difference in regards to how directors from different bank categories are remunerated. This implies that bank size is a significant factor when it comes to directors' remuneration. Based on Post Hoc tests, directors from large banks had a higher remuneration, followed by those from medium banks and lastly directors from small banks.

4.10 Multiple Regression Analysis

Multiple regression analysis was conducted to determine the relationship between the independent variables and dependent variable. The model summary, ANOVA and regression coefficient results are presented.

4.10.1 Model Summary

The model summary results are presented in Table 4.11.

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.275a	0.076	0.058	0.40574

a Predictors: (Constant), Credit risk, Liquidity, ROE, Capital adequacy, ROA

The findings in Table 4.11 shows a Coefficient of Determination (R^2) of 0.076 denoting that the independent variable (ROA, ROE, capital adequacy, and credit risk) explain 7.6% of total variations in dependent variable (directors' remuneration). The results confirm the correlation outcome that revealed a weak relationship between the independent variables and dependent variable. The results indicate that firm performance does not largely depend on the key performance indicators. In other words, majority of the indicators are not really key in the determination of the firm performance. This study however also employed the use of non-financial indicators that sought to rank the indicators in the order of their importance, according to the respondents.

4.10.2 Analysis of Variance

The analysis of variance results are presented in Table 4.12.

Table 4.12: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.5	5	0.7	4.252	.001
	Residual	42.803	260	0.165		
	Total	46.303	265			

a Dependent Variable: Remuneration
b Predictors: (Constant), Credit risk, Liquidity, ROE, Capital adequacy, ROA

The findings in Table 4.12 shows an F-statistic of 4.252 and a p-value of 0.001 <0.05. This implies that the research model is statistically significant in predicting the dependent variable. This is an indication that ROA, ROE, capital adequacy, and credit risk can be used to significantly predict directors' remuneration in the Kenyan Commercial Banks.

4.10.3 Regression Coefficients

The coefficients results indicate the effect of independent variables (ROA, ROE, capital adequacy, and credit risk) on dependent variable (directors' remuneration).

Table 4.13: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.857	0.078		62.333	0.000
	ROA	0.02	0.007	0.229	2.713	0.007
	ROE	-0.001	0.001	-0.1	-1.258	0.209
	Capital adequacy	-0.006	0.002	-0.166	-2.569	0.011
	Liquidity	-0.003	0.001	-0.176	-2.871	0.004
	Credit risk	-0.154	0.19	-0.053	-0.811	0.418

a Dependent Variable: Remuneration

Based on above results, regression equation was fitted as follows;

REM=4.857+0.02ROA-0.006CAR-0.003LIQ-0.001ROE-0.154CR+ ε

The coefficient results showed that ROA (β= 0.02; p = 0.007<.05) had a positive and significant effect on directors' remuneration in the Kenyan Commercial Banks. This means that an increase in ROA by one unit would lead to increase in directors' remuneration by 2%.

Results indicate that capital adequacy (β= -0.006; p = 0.011<.05) had a negative and significant effect on directors' remuneration in the Kenyan Commercial Banks. This means that an increase in capital adequacy by one unit would lead to decline in directors' remuneration by 0.6%.

Results indicate that liquidity (β= -0.003; p = 0.004<.05) had a negative and significant effect on directors' remuneration in the Kenyan Commercial Banks. This means that an increase in liquidity by one unit would lead to decline in directors' remuneration by 0.3%.

Further, the findings indicated that ROE (p=0.209>.05) and credit risk (p=0.418>.05) had no significant effect on directors' remuneration in the Kenyan Commercial Banks.

4.11 Conclusion

The analysis confirms that key performance indicators do not play a big role in the determination of the directors' remuneration in the Kenyan Commercial Banks. A separate causality test carried out (Appendix I) also show that remuneration has a very small and in other cases insignificant influence on the bank performance. Finally, bank size plays a role in the determination of the directors' remuneration.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the major findings, conclusions and recommendations. Suggestions for studies are also highlighted. The chapter is arranged under themes that reflect the research objectives.

5.2 Summary and Discussion of the Findings

The main objective of this study was to examine whether there's a relationship between firm performance and the directors' remuneration in the Kenyan Commercial Banks. To achieve this, the study focused on three objectives namely; to assess the forms of directors' remuneration in the Kenyan Commercial Banks; examine compliance with the Act (2015) using key performance indicators and their relationship with the directors' remuneration; and evaluate the non-financial characteristics to be considered in determining the directors' remuneration in the Kenyan Commercial Banks. The study was both quantitative and qualitative. The study employed the census strategy in order to collect data from the entire population of 38 commercial banks in Kenya and data was analyzed using descriptive statistics, and multiple regression analysis. The summarized findings were as follows:

The first objective of the study was to assess the forms of directors' remuneration in the Kenyan Commercial Banks. Based on the findings, the respondents noted that executives receive retirement/ pension benefits, insurance benefits as well as bonuses. The findings also revealed that non-executive directors receive sitting allowance, travelling allowance, and monthly retainer/ fee. The findings are consistent with the work of Kerin (2003) that enumerated that executive remuneration included allowances, exit and entry benefits and the fixed pay that it had a positive correlation with the firm performance.

The second objective of the study was to examine compliance with the Companies Act (2015) using key performance indicators and their relationship with the directors' remuneration. The study established that return on assets had a weak positive and significant effect on directors' remuneration. The findings are consistent with the work of Ahamed (2022) who found a significant and favorable relationship between the CEO salary package and bank performance as measured by profitability. Similarly, the findings concur with results by Deysel & Kruger (2015) that there exists a significant and favorable association between CEO pay and the performance of the banking sector.

The study found that capital adequacy had a negative and significant effect on directors' remuneration. Further, the findings indicated that liquidity had a negative and significant effect on directors' remuneration. The findings disagree with Moh'd Al-Tamimi and Obeidat (2013) study who found capital and liquidity levels in commercial banks were both positively correlated with the executive compensation.

The findings revealed that return on equity had no significant effect on directors' remuneration in the Kenyan Commercial Banks. The findings agree with a study by Lawrence (2020) who found that in spite of the huge remuneration being offered to the directors, performance did not significantly improve. Similarly, the findings relate to results by Tarus (2014) that a non-significant relationship between executive compensation and financial performance.

The findings indicated that credit risk had no significant effect on directors' remuneration in the Kenyan Commercial Banks. The results are inconsistent with assertions by Lewellen et al. (1987) that CEOs who are exposed to too much risk are likely to make decisions that are overly risk-averse. Thus, compensation agreements should strike a balance between the benefits of incentives and the drawbacks of executives taking on excessive risk.

The third objective of the study was to evaluate the non-financial characteristics to be considered in determining the directors' remuneration in the Kenyan Commercial Banks. According to the findings, a higher percentage of the respondents agreed to a moderate extent that age influences directors' remuneration. Further, the respondents agreed to a very large extent that experience influences directors' remuneration. In addition, the respondents agreed to a large extent that qualifications influence directors' remuneration. The findings support McKnight et al. (2000) argument that a substantial correlation between CEOs' ages and remuneration exists. Similarly, the findings agree with results by Hijazi and Bhatti (2007) of a strong correlation between education level and executive remuneration. However, the findings are inconsistent with Kang (2010) results that age, educational, qualifications, and tenure in the organization and total experience have no significant relationship with compensation of directors. Additionally, studies by Ramaswamy et al. (2000); Nguyen and Soobaroyen (2022) discovered that educational background was a negligible predictor of executive pay.

Finally, the findings revealed that there was a significant difference in regard to how directors from different bank categories are remunerated. Bank size is a significant factor when it comes to directors' remuneration. Directors from large banks had a higher remuneration, followed by those from medium banks and lastly directors from small banks. The findings are consistent

with Bryson, Forth & Stokes (2014) study findings that executive compensation is significantly impacted by firm size. Similarly, numerous studies have argued that larger companies pay their CEOs more compared to small companies (Baker & Hall , 2004); (Basu, Hwang, Mitsudome & Weintrop , 2007); (Gomez-Mejia et al., 2003).

5.3 Conclusion

5.3.1 Forms of directors' remuneration in the Kenyan Commercial Banks

The study concluded that directors of commercial banks in Kenya receive different forms of remunerations. In particular, the executive directors receive retirement/ pension benefits, insurance benefits as well as bonuses. On the other hand, non-executive directors receive sitting allowance, travelling allowance, and monthly retainer/ fee.

Even though it was not a subject of study, the data obtained for 2020 indicated a decline in the benefits and allowances payable to the executive and non-executive directors respectively. This decline was evident across all the banks. This could have been due to the effects of Covid-19 and banks were cutting down on the benefits and allowances due to the directors.

5.3.2 Compliance with the Act (2015) using key performance indicators and their relationship with the directors' remuneration

The study concluded that various key performance indicators influence directors' remuneration differently. Firstly, return on assets was found to have a positive and significant effect on directors' remuneration. This has the implication that increase in banks' profitability measured using return on assets will lead to increase in director's remuneration. Secondly, the study established that capital adequacy and liquidity had a negative and significant effect on directors' remuneration. This has the implication that increase in banks' capital adequacy and liquidity will lead to a decrease in director's remuneration. Finally, the study found that return on equity and credit risk had no significant effect on directors' remuneration in the Kenyan Commercial Banks.

In view of the information obtained, it is imperative that companies have majorly complied with the companies act (2015). Additionally, majority of the respondents agree that their companies have fully complied with the provisions of the Companies Act on remuneration. In the foregoing, it is however prudent for the companies to peg the remuneration on profitability, specifically return on assets as this showed a positive relationship.

5.3.3 Non- financial characteristics and directors' remuneration

The study concluded that non-financial characteristics are critical in determining directors' remuneration in the Kenyan Commercial Banks. In particular, experience was found to have an influence on directors' remuneration to a very large extent. Qualifications were found to have an influence on directors' remuneration to a large extent. Finally, age was found to have an influence on directors' remuneration to a moderate extent. The implication is that experience, qualifications and age in that order are vital in determining directors' remuneration in the Kenyan Commercial Banks. The researcher will hence advice the bank management to refocus the drivers of directors' remuneration to non-financial characteristics, also called, directors characteristics. In the event that financial factors are considered, return on assets should be used as it was found to have a positive and significant relationship with the directors' remuneration.

5.3.4 Bank Size and Directors' Remuneration

The study concluded that there was a significant difference in regard to how directors from different bank categories are remunerated. Bank size is a significant factor when it comes to directors' remuneration. Directors from large banks had a higher remuneration, followed by those from medium banks and lastly directors from small banks.

5.4 Recommendations

There is need for the banks' management to review policy on directors' remunerations. Based on the findings, there is very weak relationship between bank performance and directors' remunerations. Directors receive numerous forms of remunerations yet this does not translate to improved performance. The study recommends the adoption of appropriate policy framework by commercial banks, government and other regulatory bodies such as the CBK pertaining the adoption of appropriate basis of directors' remuneration by the commercial banks. The study also recommends that the government should put in place appropriate policies that favor the implementation of these policies among the commercial banks but also other financial institutions. The Central Bank of Kenya is also recommended to look into the remuneration packages of commercial banks and evaluate whether there is need to standardize the sector as there have been cases of banks collapsing, some of the reasons being directors benefitting at the expense of the shareholders.

The Central Bank of Kenya should review the Compliance Act (2015) to ensure that directors' remunerations are not exaggerated at the expense of shareholders. Consequently, as the bank

size increases from small to medium to large, the remuneration to the directors continued to vary. The study therefore recommends that management of commercial banks should assess the different forms of remuneration currently in place and whether they are in line with the size of their institutions with a target to increasing the financial performance.

Additionally, the study recommends that the management of the banks should institute appropriate internal mechanisms to ensure that there is constant review of the remuneration packages and should be in line with the bank performance. The study also recommends that the bank managers should prioritize these strategies in arriving at key bank decisions, ensure there is proper budget allocation to the practices, internal controls, timeliness of releasing funds securing adequate funding, effective plan on allocation of funds and effective approval of funds which will act to improve the efficiency of the practices.

Finally, the banks' management should strengthen the use of non-financial characteristics as determinants of directors' remuneration. In particular, the study should focus on experience, qualifications, past track record, leadership skills, attitude and age.

5.5 Areas for Further Research

The study was limited to commercial banks in Kenya; the study thus recommends a replication of the research study in other sectors such as telecommunication and government parastatals. The study focused on key performance indicators (ROA, ROE, capital adequacy, liquidity and credit risk) that only accounted for 7.6% of total variations in directors' remuneration. This implies that there are other factors that determine directors' remuneration in commercial banks. The study recommends that future studies should investigate other determinants (non-financial factors) of directors' remuneration like past track record, good will, leadership skills, remuneration across the industry, past industry/ sector, and attitude towards work. In this case, the researchers can use regression analysis instead of descriptive analysis.

Given that coefficient of determinations (R^2) is too low, even after the causality test where remuneration is considered an independent variable, future studies should now focus on non-financial factors as there is more that explains the remuneration than only the financial factors, as illustrated in this study.

5.6 Limitations to the Study

There were several limitations which the researcher was faced with during the study but had to be managed to deliver credible findings. On the questionnaire data collection, some of the respondents had tight schedules but this was mitigated through engaging other senior finance

officials with sufficient knowledge of the questions on the questionnaire. There was also a delay in getting the NACOSTI approval and this was mainly attributed to the many applications they were handling. Both instances slightly delayed the process of primary data collection.

Secondary data collection was also limited to the different reporting formats by the commercial banks. The format of disclosure of various banks was different on the items being sought by the study.

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Appendices

Appendix I: List of Commercial Banks in Kenya

S/No.	Bank Name	Category
1	Absa Bank Kenya Plc	Large
2	Access Bank Kenya Plc	Small
3	African Banking Corporation Ltd	Small
4	Bank of Africa Kenya Limited	Medium
5	Bank of Baroda (Kenya) Limited	Medium
6	Bank of India	Medium
7	Citibank N.A Kenya	Medium
8	Consolidated Bank of Kenya Limited	Small
9	Co-operative Bank of Kenya Limited	Large
10	Credit Bank PLC	Small
11	Development Bank of Kenya Limited	Small
12	Diamond Trust Bank Kenya Limited	Medium
13	DIB Bank Kenya Limited	Small
14	Ecobank Kenya Limited	Medium
15	Equity Bank Kenya Limited	Large
16	Family Bank Limited	Medium
17	First Community Bank Limited	Small
18	Guaranty Trust Bank (K) Ltd	Medium
19	Guardian Bank Limited	Small
20	Gulf African Bank Limited	Small
21	Habib Bank A.G Zurich	Small
22	I&M Bank Limited	Medium
23	KCB Bank Kenya Limited	Large
24	Kingdom Bank Limited	Small
25	Mayfair CIB Bank Limited	Small
26	Middle East Bank (K) Limited	Small
27	M-Oriental Bank Limited	Small
28	National Bank of Kenya Limited	Medium
29	NCBA Bank Kenya PLC	Large

30	Paramount Bank Limited	Small
31	Prime Bank Limited	Medium
32	SBM Bank Kenya Limited	Small
33	Sidian Bank Limited	Small
34	Spire Bank Ltd	Small
35	Stanbic Bank Kenya Limited	Small
36	Standard Chartered Bank Kenya Limited	Large
37	UBA Kenya Bank Limited	Small
38	Victoria Commercial Bank Limited	Small

Appendix II: Letter of Introduction

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Strathmore UNIVERSITY
BUSINESS SCHOOL

30th March 2023

To Whom It May Concern,

RE: FACILITATION OF RESEARCH – Hillary Lagat.

This is to introduce Hillary Lagat who is a Master of Commerce (MCOM) Student at Strathmore University Business School, admission number MCOM/147392. As part of our MCOM Programme, Hillary is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MCOM course. To this effect, Hillary would like to request appropriate data from your organization.

Hillary is undertaking a research paper on "**Assessing the relationship between firm performance and the directors' remuneration in the Kenyan Commercial Banks.**" The information obtained shall be treated confidentially and shall be used for academic purposes only.

Our MCOM Programme seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

Njoki Kiagiri
Manager – Graduate Programmes
Strathmore University Business School.

Strathmore Business School is a Proud member of:

Association of African Business Schools AABS EFMD AACSB

Appendix III: Questionnaire

Thank you for accepting to participate in this survey. The questionnaire will take approximately 10-15 minutes to complete and is designed to collect information on the relationship between firm performance and the directors' remuneration in the Kenyan Commercial Banks. The information obtained will only be used for academic purposes and shall remain confidential. No names or any identifying information will be used in the data analysis. Please tick or write in the spaces provided.

Section A: General Information

1. Please indicate your number of years in service to the bank
   a) Less that 5 Years [ ]
   b) 6 – 10 Years [ ]
   c) 11 – 15 Years [ ]
   d) 16 – 20 Years [ ]
   e) Over 20 Years [ ]

Section B: Forms of Directors Remuneration

2. In addition to the basic salary, what other packages are payable to the executive directors? Tick where applicable
   a) Retirement/ Pension Benefits [ ]
   b) Insurance [ ]
   c) Bonuses [ ]
   d) Other (Specify) [ ]
3. What categories of allowances are payable to the non-executive directors? Tick where applicable
   a) Sitting allowances [ ]
   b) Travel allowances [ ]
   c) Monthly Retainer/ Fee [ ]
   d) Other (Specify) [ ]

Section C: Non-Financial Characteristics of the Directors

This section seeks to analyze non-financial characteristics influencing the directors' remuneration in banks. Please rate the following using a Likert Scale of 1 – 5 where;

1 denotes Strongly Disagree, 2 is Disagree, 3 is Neutral, 4 is Agree and 5 is Strongly Agree.

4. To what extent do you agree with the following statements on the age of a director?

Statement	**1**	**2**	**3**	**4**	**5**
Age is a factor considered in coming up with the directors' emoluments					
The age of a director is considered during the recruitment process					
Older directors are expected to have more level of experience as compared to slightly younger directors.					
Company's performance improves with older directors at the helm					

5. To what extent do you agree with the following statements on the experience of a director?

Statement	**1**	**2**	**3**	**4**	**5**
Experience is a factor considered in coming up with the directors' emoluments					
The experience of a director is considered during the recruitment process					
There's likelihood that the company performs better with experienced directors driving the ship.					

6. To what extent do you agree with the following statements on the qualifications of a director?

Statement	**1**	**2**	**3**	**4**	**5**
Qualifications (both academic and professional) of a director are considered in coming up with the directors' emoluments					

The qualifications of a director is considered during the recruitment process					
There's likelihood that the company performs better with more qualified directors in the leadership of a banking institution					

7. Please rate the extent of the influence of the non-financial characteristics on directors' remuneration in your organization using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent

Non-Financial Characteristics	**1**	**2**	**3**	**4**	**5**
Age					
Experience					
Qualifications					

8. Please comment on the effectiveness of the Companies Act (2015) as a basis of pegging directors' remuneration in your organization?

……
……

9. What other factors are likely to be considered by the bank in determining directors' remuneration?

……
……..

10. Other Comments and Suggestions

……
……
……..

Thank you for your participation. Your response is much appreciated.

Appendix IV: Additional Results

Multiple Regression Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.110[a]	.012	.008	.41626
2	.191[b]	.037	.029	.41184
3	.260[c]	.068	.057	.40590

a. Predictors: (Constant), ROA

b. Predictors: (Constant), ROA, Capital adequacy

c. Predictors: (Constant), ROA, Capital adequacy, Liquidity

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.560	1	.560	3.232	.073[b]
	Residual	45.743	264	.173		
	Total	46.303	265			
2	Regression	1.696	2	.848	4.999	.007[c]
	Residual	44.607	263	.170		
	Total	46.303	265			
3	Regression	3.138	3	1.046	6.350	.000[d]
	Residual	43.165	262	.165		
	Total	46.303	265			

a. Dependent Variable: logremuneration

b. Predictors: (Constant), ROA

c. Predictors: (Constant), ROA, Capital adequacy

d. Predictors: (Constant), ROA, Capital adequacy, Liquidity

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.573	.026		173.691	.000
	ROA	.010	.005	.110	1.798	.073
2	(Constant)	4.691	.052		89.510	.000
	ROA	.013	.006	.149	2.393	.017
	Capital adequacy	-.006	.002	-.161	-2.588	.010
3	(Constant)	4.812	.066		73.083	.000
	ROA	.016	.006	.178	2.856	.005
	Capital adequacy	-.005	.002	-.140	-2.252	.025
	Liquidity	-.003	.001	-.181	-2.959	.003

a. Dependent Variable: logremuneration

Effect of Remuneration on Bank performance indicators

Remuneration and ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.110[a]	.012	.008	4.69368

a. Predictors: (Constant), logremuneration

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	71.200	1	71.200	3.232	.073[b]
	Residual	5816.079	264	22.031		
	Total	5887.279	265			

a. Dependent Variable: ROA

b. Predictors: (Constant), logremuneration

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.492	3.176		-1.414	.158
	logremuneration	1.240	.690	.110	1.798	.073

a. Dependent Variable: ROA

Remuneration and ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.036[a]	.001	-.002	37.02854

a. Predictors: (Constant), logremuneration

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	465.681	1	465.681	.340	.561[b]
	Residual	361973.697	264	1371.112		
	Total	362439.379	265			

a. Dependent Variable: ROE

b. Predictors: (Constant), logremuneration

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6.727	25.054		-.268	.789
	logremuneration	3.171	5.442	.036	.583	.561

a. Dependent Variable: ROE

Remuneration and Capital adequacy

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.125[a]	.016	.012	11.88858

a. Predictors: (Constant), logremuneration

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	592.947	1	592.947	4.195	.042[b]
	Residual	37313.334	264	141.338		
	Total	37906.282	265			

a. Dependent Variable: Capital adequacy

b. Predictors: (Constant), logremuneration

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	37.996	8.044		4.724	.000
	logremuneration	-3.579	1.747	-.125	-2.048	.042

a. Dependent Variable: Capital adequacy

Remuneration and Liquidity

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.170[a]	.029	.025	28.45014

a. Predictors: (Constant), logremuneration

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6364.362	1	6364.362	7.863	.005[b]
	Residual	213684.379	264	809.411		
	Total	220048.740	265			

a. Dependent Variable: Liquidity

b. Predictors: (Constant), logremuneration

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	107.239	19.249		5.571	.000
	logremuneration	-11.724	4.181	-.170	-2.804	.005

a. Dependent Variable: Liquidity

Remuneration and Credit Risk

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.063[a]	.004	.000	.14225

a. Predictors: (Constant), logremuneration

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.022	1	.022	1.065	.303[b]
	Residual	5.342	264	.020		
	Total	5.363	265			

a. Dependent Variable: Credit risk

b. Predictors: (Constant), logremuneration

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.266	.096		2.766	.006
	logremuneration	-.022	.021	-.063	-1.032	.303

a. Dependent Variable: Credit risk

Appendix V: SU-ISERC Permit

Strathmore UNIVERSITY

3rd April 2023

Mr Lagat Hillary,
hillary.lagat@strathmore.edu

Dear Mr Lagat,

RE: Assessing the Relationship between Firm Performance and the Directors' Remuneration in the Kenyan Commercial Banks

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC1677/23.** The approval period is from **3rd April 2023 to 2nd April 2024.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 48 hours of notification
iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 48 hours
v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days upon completion of the study to SU-ISERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

for: **Dr Ben Ngoye,**
Secretary; SU-ISERC

STRATHMORE UNIVERSITY INSTITUTIONAL SCIENTIFIC AND ETHICAL REVIEW COMMITTEE
(SU-ISERC)
03-Apr-2023
Email:ethicsreview@strathmore.edu
P.O BOX 59857-00200
NAIROBI-KENYA

Cc: Mr Ambrose Rachier,
Chairperson; SU-ISERC

Appendix VI: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **595199**

Date of Issue: **25/April/2023**

RESEARCH LICENSE

This is to Certify that Mr.. Hillary Lagat of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: Assessing the Relationship between Firm Performance and the Directors' Remuneration in the Kenyan Commercial Banks for the period ending : 25/April/2024.

License No: **NACOSTI/P/23/25282**

595199

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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See overleaf for conditions

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)

Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was the established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
    i. Endanger national security
    ii. Adversely affect the lives of Kenyans
    iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
    iv. Result in exploitation of intellectual property rights of communities in Kenya
    v. Adversely affect the environment
    vi. Adversely affect the rights of communities
    vii. Endanger public safety and national cohesion
    viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

National Commission for Science, Technology and Innovation(NACOSTI),
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Appendix VII: Similarity Index Summary

Document Information

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Submitted	2023-05-18 14:30:00
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Submitter email	hillary.lagat@strathmore.edu
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