IMPACT OF COMPENSATION STRUCTURE ON FINANCIAL PERFORMANCE OF FIRMS IN TELECOMMUNICATION INDUSTRY IN KENYA

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DECLARATION

I declare that this research proposal is my original work, and that it has not been previously published or submitted for a degree elsewhere. I further declare that this does not contain any material produced or published by others, except where credit is given, and the author is properly acknowledged.

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Signature ..... Date: 7th March 2022

As the university supervisor, I have given my approval to this management study proposal.

Ms. Tabitha Njuguna

Signature ..... Date : 7/3/2022

Strathmore University Business school

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ABSTRACT

In recent years, the question of manager compensation has become essential to the growth and achievement of an organization's goals and objectives. The research study aimed to determine whether there was a relationship between the compensation structure and the financial performance of firms operating in the telecommunication in Kenya. Specifically, the study aimed to determine whether there was a relationship between change ,nature and level of compensation and the financial statement with an emphasis on the return on asset. The study used a descriptive research survey as its method. For the research study, a sample of 260 managers representing 34.7% of a total population of 750 from which 109 managers responded to the questionnaires. The study's data was mostly be gathered through questionnaire. The variables were analyzed using descriptive statistics and analytical approaches utilizing the Statistical Program for Social Sciences (SPSS), Inferential statistics, notably correlation matrix and multiple regression analysis, were the most employed statistical instruments for the research analysis. For the study, the researcher will use a survey method. For presenting and summarizing data, the study used descriptive statistics. Tables and figures were used to present the findings, and relevant recommendations would be made; the following findings were discovered, the regression coefficient for change in compensation is .620, which means that for every unit increase in change in pay, financial performance rises by .620 units. Furthermore, t=3.715,p-value=0.00 was reported for compensation change, indicating that there is a link between compensation changes and asset-financial performance, The regression coefficient for level of compensation was .113, meaning that for every unit rise in level of pay, the return on asset-financial performance increased by .113 units, indicating a small relationship between the level of compensation and financial performance and the nature of compensation has a regression coefficient of .001, meaning that for every unit increase in compensation, financial performance increases by .001 units. The nature of compensation reported t==.009,pvalue =.993, indicating that the nature of compensation and financial performance-ROA are not correlated. the researcher concluded that change in compensation especially in the salary had a great impact on the financial performance-return on asset, the level of compensation has a small impact on the financial performance-return on asset of firms in the telecommunication industry and that the form of remuneration used by the targeted organizations has an impact on the return on assets since it plays a significant role in motivating managers and enhancing their productivity leading to an increase in the financial performance. Companies in the telecommunications industry should invest more in their compensation structures, such as stock options or raising the rate at which bonuses are distributed. To ensure fair and effective management decisions, individual manager performance assessment processes, as well as the firm, must be enhanced.

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CHAPTER ONE

INTRODUCTION

1.1 Background information

Organizations are striving to accomplish more with less and do it better as they confront increasing competitive challenges. As sales volume, earnings, innovation, and quality targets are elevated, employment growth is often carefully managed, and major job cuts are made in many circumstances. The manager's remuneration system plays a vital part in efforts to better manage human resources by allowing more to be accomplished with fewer managers. Compensation for managers is so important because it is at the heart of the employment relationship, and it affects both managers and employees. This study will establish the relationship between manager's compensation and firm's performance (Gerhart&Milkovich, 1992).

Many studies done on manager's compensation in other industries had a focused on the executive or top-level management compensation and how it affects the financial performance of the organization or the firm, disregarding the fact that there might be another relationship to high or low financial performance which could be the remuneration or compensation of other managers in the organization this involves top level, middle level, and operational managers (low level managers) (Ghosh, 2015).

1.1.1 Compensation Structure

The compensation structure, also known as the salary structure, is used to indicate pay grades, and can be utilized to design a pay package that is both equitable and competitive. According to organizational principles such as internal and external parity, the remuneration offered to an employee should reflect the worth of that job/position. It is not self-contained.

Compensation structure is designed to ensure that there is an appropriate balance of fixed and variable rewards, which include both short-term and long-term incentives, and is weighted towards performance-related elements that consider individual, functional, and corporate performance. Remuneration consists of the monetary and non-financial forms of compensation provided by an employer. In addition to the regular pay—in hourly wages or annual salary—it consists of commissions, bonuses (including those paid in stock), and overtime, holiday, vacation, and sick pay.

Many firms if not all are fighting to stay afloat in an increasingly difficult and volatile market climate, and to do so, they require pools of exceptional, talented, and productive human capital to work in their enterprises. As a result, businesses must provide sufficient advantages to their employees, such as a good pay, recognition, remuneration, and other forms of compensation. Employees will be extremely motivated in their tasks resulting in great performance and retention. Employees that are committed to their employer are seen as willing to create and maintain long-term relationships with them (Osterman, 2010).

A task's completion is measured against certain established standards of accuracy, completeness, cost, and speed (Moullin, 2007). In a contrast, performance is defined as the execution of an obligation in such a way that the performer is released from all contractual obligations. Business performance management is a collection of management and analytic processes that enable an organization's performance to be managed to meet one or more pre-determined objectives. It is commonly believed to entail the determination of goals, the consolidation of measuring data important to an organization's progress toward these goals, and managerial interventions based on this data (Mosimann, 2007) (Wade, 2001).

Performance can be based on the compensation plan which refers to compensation plans that compensate management based on proven performance Cash bonuses, stock options, stock appreciation rights, and performance shares are all examples of performance-based compensation plans, according to Gitman(1997) a cash bonus is money given to management in exchange for meeting particular performance targets. Management receives performance shares if stated performance goals are met. However, McMenamin divides performance-based compensation plans into two categories: executive share option schemes and performance incentive plans. The latter can be either equity shares or cash bonuses given to management because of their performance in meeting particular targets.

1.1.2 Financial Performance

Business success can be measured in a variety of ways (Letting, 2009). Stakeholders have an impact on how a company's success is monitored and reported. Firms use standard performance measurements, such as profitability, to assess their level of success. The measures used could be historical or comparative in nature (Waweru, 2008).The following are some of the tools the performance appraisal department may base the measurement of the overall financial performance: Profitability is the ability of a company or business to generate revenue over and above its expenses. It is usually measured using ratios like gross profit margin, net profit margin

EBITDA, etc. The income statement is a summary of the entire year's operations (Thakuri, 2021).

Financial ratios are one of the most frequent ways of examining accounting. Analysts can see how much money a company has made by looking at its profit and loss report. Ratios can also be used to compare a company's current state to its previous state. The most commonly used ratios are divided into four categories (Haber S. , 2005). Liquidity: this refers to a company's capacity to pay its short-term loans on time. It refers to the financial solvency of the company as a whole, Activity ratios: these determine how quickly different accounts are transformed into cash or sales, Debt ratios: these figure out how much debt you have in comparison to your total assets, Profitability: multiple profit metrics tie the company's earnings to sales, assets, owner's equity, and share value (Mosalakae, 2007).

The study investigated on the profitability ratio with an emphasis on the return on asset of the different companies, this gave a more accurate conclusion regarding the possible existence of a relationship between the compensation structure of the targeted managers and the financial performance of the targeted firms. Profitability ratios are a type of accounting ratio that can be used to determine a company's financial performance. They demonstrate how well a firm uses its assets to generate profit and value for its shareholders. Most businesses strive for a greater ratio or value since it indicates that the business is operating well (Quiry, 2017).The percentage of net earnings related to the company's total assets is known as return on assets (ROA). The ROA ratio expresses how much profit a corporation makes after taxes for every dollar of assets. Liquidity, activity, and indebtedness are the other components of financial distress models (Stowe, 2002).

Companies with a high and low probability of bankruptcy can be distinguished based on their financial performance. Financial indicators, such as ROA, can be judged scientifically using data from financial statements. For prediction, models are originally built using statistical methods such as discriminant analysis and logistic regression (Amská & Kleka2015). The return on assets (ROA) is a measure of a company's profitability in relation to its total assets. The return on assets (ROA) tells a manager, investor, or analyst how well a company's management is utilizing its assets to generate profits. Rková (2011), As a result, the direction and strength of action elements that affect ROA may always vary. Kotuli (2014) In simple terms, ROA indicates how much profit was earned from invested money. The return on investment (ROI) for public corporations can vary significantly and is heavily dependent on

the industry. This is why it's ideal to compare ROA to a firm's past ROA results or to the ROA of a similar company when using it as a comparison measure. The sum of the company's total liabilities and shareholder equity is its total assets. Both of these funding options are used to fund the company's activities. Because a company's assets are either financed through debt or equity, some analysts and investors ignore the cost of acquisition by factoring interest expense into the ROA formula.

1.1.3 Telecommunication Industry in Kenya

Kenya's telecommunications sector grew relatively strongly in the past years, supported mainly by growth in the digital economy, mobile telephony, and internet penetration. Access to the internet is mostly obtained through mobile phones, which have become increasingly available and affordable, and data subscriptions stood at 46.8 million, out of which nearly half were on broadband. PricewaterhouseCoopers.(2021) The Kenya Telecommunication Market is predicted to continue to grow until 2025. The industry's growth is primarily attributable to the country's growing urban population and the widespread adoption of mobile phones that support 3G, 4G, and 5G services. With increased usage of Internet of Things (IoT) in the industry that connects with wired and wireless internet, the telecom sector is predicted to grow strongly over the projection period(Malack et al., 2015). The Covid-19 pandemic has had little or no influence on Kenya's telecom industry; nonetheless, the telecom sector has decided to postpone its next spectrum auctions because to the pandemic.

As the country adapted to life with Covid-19, business hours broadband consumption surged in March 2020. Weekday watching, movie rentals, and purchases have all increased in the telecom sector. During the week, as more people are in lockdown and staying at home, live viewing has grown by 15% and free video-on-demand streaming has increased by 25%. Sports viewing has reduced as expected as a result of events being postponed or delayed. However, a rise in News and Kids viewers has complimented this effect. In Kenya, the telecommunications industry is fast expanding. It has supplied the market with a variety of products, and enterprises in this field can maximize their financial performance with a strong remuneration structure. The telecommunication industry in Kenya, just like the rest of the world, is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry. Markets that were formerly distinct, discrete, and vertical have coalesced across their old boundaries with a massive investment of capital - much of it originating from private sector participants (Odemo, 2013).

The telecommunication industry in Kenya is among the most profitable industry in the county and has few players mainly due to its barriers to entry as requires a lot of both tangible and intangible resources, the research focuses on this industry because of the outcomes or findings of the research can help the Congolese telecommunication industry to develop and change its way of conducting its operations. The aim of the study is to establish whether there is a relationship between the way companies in the telecommunication industry have structured the compensation structure of managers as managers play a major role in the accomplishment of day-to-day operation of the different corporations in the industry, they perform the managerial functions so as to maximize shareholder's wealth as well as the wealth of the organization. Research attempted to establish link or relationship between managers' compensation structure and the performance of the firms in the telecommunication industry. Safaricom PLC was the largest mobile telecom provider in Kenya from 2018 to 2020, with a market share of 63.6 percent in 2013. In the same time period, Airtel Networks Limited accounted for about 27.2 percent of all mobile subscriptions, making it the country's second largest provider. This clearly demonstrates rising competition in the telecom business, necessitating, now more than ever, for all major companies in the Telecommunication industry to gradually revise and improve their strategy in order to successfully compete in this industry (monitor, 2020)

1.2 Problem Statement

Scholars in numerous fields of business and strategic management have paid close attention to the topic of financial performance; There are various factors affecting the overall financial return of a firm in each industry, they can be external factors such as the economical, legal, political factors (PESTEL) the environment conditions in the industry and internal factors such as management effectiveness in the decision making process, operational mangers in accomplishment of the day to day business activities, the remuneration structure which is one motivator of managers.

Previous studies done on the effects of the executive's compensation such as the study done by Mehran (1995) which focused on the examination of the executive compensation structure of 153 randomly-selected manufacturing firms in 1979–1980 provides evidence supporting advocates of incentive compensation and suggests that the form rather than the level of compensation is what motivates managers to increase firm value. Firm performance is positively related to the percentage of equity held by managers and to the percentage of their compensation that is equity-based. Moreover, equity-based compensation is used more

extensively in firms with more outside directors. Firms in which a higher percentage of the shares are held by insiders or outside block holders use less equity-based compensation, another study on the topic is research done by Ghosh (2015) on Director's remuneration and correlation on firm's performance: A study from the Indian corporate focused on exploring the impact of directors' remuneration on the firm's intrinsic and extrinsic value. The paper provides a brief review of the literature on directors' remuneration and identifies the current knowledge on the relationship between profit sharing or directors' remuneration and the firm's performance. The remuneration can be direct remuneration typically refers to any sort of compensation that comes as a straightforward financial gain for employees, including salary, allowances for travel and other activities, and bonuses or indirect remuneration, which provides a benefit for someone but may be less straightforward. These can include the potential for overtime pay, benefits for retirement, and more flexible schedules for employees.

According to Wiesen (2015) remuneration forms play a role of motivators for some managers leading to either an increase in the overall financial performance or a decrease in it. The financial performance of a firm has been the main or primary concern of business practitioners in all types of business as it has a huge influence on the organization health and survival in its respective industry, the overall financial performance of a firm reflects the management effectiveness or ineffectiveness as well as efficiency or inefficiency in the use of the entire organization resources (Naser, 2004).

Kenya's telecommunications sector grew relatively strongly in the past years. The industry's growth is primarily attributable to the country's growing urban population. With increased usage of Internet of Things (IoT) in the industry, the telecom sector is predicted to grow over the projection period. Employees at Airtel no longer have the same sense of commitment to the organization that they previously did. As a result, employees are focusing more on job hunting than on performance. The study considered compensation structure or reward system as a way to retain valuable managers. Previous studies done on the effects of the executive's compensation structure by Mehran (1995) focused on the examination of the executive compensation structure of 153 randomly-selected manufacturing firms in 1979–1980, while Chris (1996) used a case study to investigate the relationship between competency-based pay of executive and performance have shown that there is a direct relationship the entity and the executive; similarly, this research will attempt to establish a link between middle level and operational level managers compensation structure including the nature of compensation, the

changes in compensation and the levels of compensation, and the performance of the firms in the telecommunication industry.

The aim of the study was to establish whether there was a relationship between the way companies in the telecommunication industry have structured the compensation structure of managers as managers play a major role in the accomplishment of day-to-day operation of the different corporations in the industry, they perform the managerial functions so as to maximize shareholder's wealth as well as the wealth of the organization. Managers are among the most important components in an organization as they can directly affect the way employees perform and behave at work.

1.3 Research objectives

1.3.1 General Objective

To determine the impact of managers compensation structure (salary) of an organization has on firm' s overall financial performance in the telecommunication sector in Kenya.

1.3.2 Specific Objectives

1. To determine the relationship between the change in the compensation structure of managers and the return on assets of telecommunication companies in Kenya
2. To determine the relationship between the levels of compensation of managers the return on assets of firms in the telecommunication industry.
3. To determine the relationship between nature of compensation and the return on assets of telecommunication companies.

1.4 Research questions

The following are the research questions developed for the study:

1. What effect changes in compensation have on a firm's the return on assets ?
2. What does the level of compensation have on a firm's the return on assets ?
3. How does the nature of the compensation structure influence the firm's the return on assets ?

1.5 Scope of the study

The study's scope was limited to analyzing the impact of managers' compensation or remuneration structures on the firm's overall financial performance in the Kenyan telecommunications industry or sector. The analysis considered profitability as the measuring

method, with an emphasis on the return on assets from various sources of employees. These would form the dependent variables of the study. The subjects of the study were managers from the telecommunication industry.

1.6 Significance of the Study

The following groups would benefit from the study's findings and recommendations:

Academic Scholars

The study contributed to the development of literature; they were able to refer to it in future studies. The study also became part of the literature, which they might use as a reference point in the future when undertaking research on the subject.

The industry

The findings of the study helped companies in the selected industry, telecommunications, or other industries, decide whether to invest in human capital through a better remuneration structure at the lowest levels of management to create excellent financial results or invest in another department of the company.

Managers in the industry

The study focused on operational managers in the communication industry and how their remuneration structure impacts the financial performance, as opposed to previous studies that primarily focused on executive compensation and how it affects the company's financial performance. Based on the study's findings, we were able to determine the importance of introducing other forms of remuneration as motivators for operational managers to achieve greater financial return.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The following chapter presents the various theories and studies done on the selected research topic as well as the empirical review of the study. The chapter will further present the conceptual framework as well as the operationalization of the research's independent variables.

2.2 Theoretical review

This research was guided by two theories, Expectancy Theory which was proposed by Victor Vroom of Yale School of Management in 1964. According to the theory, the degree of a desire to act in a certain way is determined by the intensity of an expectation that the performance would be followed by a specific outcome and the appeal of the outcome to the individual. Equity Theory initially proposed the 1960s, by J. Stacy Adams, a workplace and behavioral psychologist claiming that employees desire to maintain equity between the inputs they bring to a job and the outputs they obtain from it, as compared to the perceived inputs and outcomes of others (Adams, 1963).

2.2.1 Expectancy Theory

According to Mendonca (2002) employees are more likely to be motivated to perform when they believe there is a significant link between their performance and the incentive they receive, according to the expectation theory. Expectancy theory, according to Robbins (2003) relates to the power and attractiveness of an individual's expectation of a performance outcome. According to this idea, the attractiveness of the predicted reward for a particular input determines one's motivational effectiveness and if that reward responds to the individual's personal goals. According to Expectancy Theory, one's level of motivation is determined by the attractiveness of the incentives sought and the likelihood of receiving those rewards. If employees believe they will receive valuable benefits from the organization, they will put in more effort. The expectancy theory of motivation describes how motivation and performance are linked Bohlander (2004). The theory proposes that performance at individual level depends on high motivation, possession of the necessary skills and abilities and an appropriate role and understanding of that role (Savaneviciene, 2010). It is a short step to specify the human resource management practices that encourage high skills and abilities, such as careful

selection and substantial training investment; strong motivation, such as employee involvement and performance-based pay; and an appropriate role structure and role perception, such as work design and extensive communication and feedback.

Ramlall (2004) explains that an individual considers an outcome to be favorably valence when the outcome is desired, or when the reward corresponds to one's personal goals. (Robbins, 2003)explains why employees are unmotivated; they may believe that their exceptional work is not recognized in the organization for a variety of reason If an organization's performance appraisal system is designed to examine non-performance related criteria like tenure, an employee may believe that no matter how hard they work, they will not be rewarded. Employees may also believe that their employer dislikes them, and as a result, they are not given fair assessments. Employees may believe they lack the necessary skills to achieve high levels of performance that will be rewarded. The most pessimistic viewpoint is that outstanding performance will never be recognized in the workplace.

The theory was relevant to the ongoing study as it believes there is a significant link between performance and the incentive or compensation that one receives. The outcome can either be positive or negative

2.2.2 Equity Theory

According to Adam (1963) of this, equity theory suggests that employee perceptions of what they contribute to the organization, what they get in return, and how their return contribution ratio compares to others inside and outside the organization, determine how far they perceive their employment relationship to be Perceptions of inequity are expected to cause employees to take actions to restore equity. Unfortunately, some such actions may not be helpful to the organization. Two recent empirical studies provide good examples of the types of counterproductive behaviors that can occur as a result of perceived inequity. The first one by Greenberger (1990) examined how an organization communicated pay cuts to its employees and the effects on theft rates and perceived equity. Two organization units received 15% across the board pay cuts. A third unit received no pay cut and served as a control group. The reasons for the pay cuts were communicated in different ways to the two pay cut groups. In the adequate explanation pay cut group, management provided a significant degree of information to explain its reasons for the pay cut, and also expressed significant remorse. In contrast, the inadequate explanation group received much less information and no indication of remorse. The control group received no pay cut. The control group and the two pay cut groups began with the same

theft rates and equity perceptions. After the pay cut, the theft rate was 54% higher in the adequate explanation group than in the control group. In the inadequate explanation condition, the theft rate was 141% than in the control group. In this case, communication had a large, independent effect on employees' attitudes and behaviors.

The second one by Cowherd (1992) examined whether the size of the pay differential between lower-level employees and top management had any impact on product quality. He suggested that individuals often compare their pay to that of people higher in the organization structure. If lower-level employees feel inequitably treated, they may seek to reduce their effort to achieve equity. They hypothesized that extra role, or citizenship behaviors, such as freely offering to help others, following the spirit rather than letter of rules, and correcting errors that would ordinarily escape notice, would be less likely when pay differentials between hourly and top managerial employees were large. Their results supported this hypothesis, suggesting that organizations need to take care that they not forget the potential adverse motivational consequences of executive pay for the motivation of other employees.

The theory was relevant to the study as it looks at how employees(managers) perceive equity and inequity in the compensation they receive. It will help the ongoing study establish a link between how managers perceive the level or nature of compensation as equity or inequity and the financial performance

2.3 Empirical review

2.3.1 Changes in Compensation and profitability

Changes in compensation refers to the movement of the pay or remuneration of different managers and stakeholders in the organization and the way the changes affect the financial performance of the organization, the change can be in the salaries, in the dividend, shares or even in the debentures. This change will either affect the performance positively or negatively, taking an example an increase in the dividend paid will impact shareholders by increasing their returns leading them to invest more in the organization for more return or the invers could a decrease in the dividend payout which will lead to less expenses on the firm and less payment to shareholders.

Previous studies have focused more on how the change in the executive compensation affect the financial position or performance which is the case of Jensen and Murphy. Jensen (1990) examines the sensitivity of the United States 'executive compensation to firm performance.

Using 1,049 firms and 1,688 CEOs for the years 1974 to 19869, they estimate the pay-performance relation provided by performance-based bonuses and salary revisions, stock options and performance-based dismissal decisions. Jensen and Murphy find that a $1,000 increase in shareholder wealth leads to an average increase in the CEO's total compensation of around $3.25. Jensen and Murphy argue that while this result is statistically significant, economically the sensitivity is too low to offer adequate management incentives and interpret this finding as evidence of inefficient compensation arrangements, potentially driven by politically motivated restrictions on very high levels of pay.

Jensen and Murphy also find that most of the pay performance sensitivity comes from CEOs holding their firm's stock, but that such holdings are relatively small, and are declining. Finally, they find 9 All monetary variables are inflation adjusted and reported in constant 1986 dollars. Jensen and Murphy also report that the pay-performance sensitivities in the 1930s were around IO times larger than those in the 1970s and 1980s 85 a weaker relation between pay and performance in the larger firms compared to the smaller firms in their sample sensitivity of $1.85 per $1,000 for the top half of the sample compared to $8.05 per $1,000 for the bottom half of the sample.

Ongore (2011) conducted a quantitative study on share ownership in Kenya and found that stockholders have the power and motive to monitor the firm's administration's performance. Close managerial oversight can reduce agency costs and improve business performance. However, management's concentrated stock ownership can cause issues such as neglecting minority investors' rights and influencing management's inventiveness and innovation. According to the study, executive employees should be allowed to own a certain number of shares so that they can feel that they are a part of the company they work for, and that changes in share ownership will affect financial success.

Between 2005 and 2010, Shaw (2011) looked at financial service companies. Absolute financial performance metrics, financial performance ratios, and market performance measures were the three main types of corporate performance measures in his study. Economic profit, accounting profit, and shareholder returns in the form of return on equity (ROE) and headline profits per share were all used to break down the company's performance (HEPS). He added two key firm characteristics, the debt to assets ratio and total assets or book value, as markers of company performance. According to his findings, there is a moderate to substantial link between CEO pay and firm performance. However, the study's findings revealed that the link

has deteriorated since 2008. (The start of the financial crisis). The study's findings also revealed a structural shift in the mix of payment components, with "most notably an observed shift in CEO salary from variable pay to fixed pay".

In the South African retail and consumer goods sector, Nel (2012) investigated the relationship between firm financial performance and CEO guaranteed cost to company His research included a six-year span and considered the financial crisis (2006-2011). He examined the association between CEO salary and firm financial performance using the DuPont Model. The DuPont Model incorporates managerial performance and strategic decisions into the evaluation of an organization's financial success. The DuPont analysis divides return on equity (ROE) into three components: profitability (measured by profit margin), operational efficiency (measured by asset turnover), and financial leverage (measured by multiplier) (Ward & Price, 2006). His research found that the performance of financial companies in the South African retail and consumer goods industry had little or no impact on the Guaranteed cost to company of CEOs. After the 2008 Global Financial Crisis, according to Nel (2012) , CEOs' management influence may have resulted to an increase in their guaranteed CTC that was out of line with their respective organizations' financial performance.

2.3.2 Level of compensation and profitability

Hermalin (2001) use the level of total CEO compensation rather than the change in total CEO remuneration to assess the pay-performance relationship of CEO compensation. Find that performance metrics, return on assets and percentage change in stock price are positive and significant for thrift firms.

According to some cross-sectional studies, a 10% increase in market success is related with executive pay increases of 2.2 percent to 4.8 percent (Hall, 2002). (Baruch, 2004), on the other hand, finds no significance in the pay-performance link across 350 FTSE businesses during the period 2002–2003, and instead suggests that managerial authority has an impact on executive pay. Across time and business sectors, the results of these cross-sectional research have consistently suggested a pay-size elasticity range of 0.2 to 0.4. (Baker, 1988). The size of a company is also proven to be a significant factor in determining wage levels (Murphy, 2012). However, because pay contracts are frequently related to long-term incentives, limiting cross-sectional models to current business performance leads in a systemic bias (Frydman, 2010).

Research done by Ajaz Aslam (2019) done on the impact of director remuneration on firm performance: An empirical analysis of executive director remuneration in Pakistan, *aimed to*

investigate the interrelationship between pay and performance of CEOs/board of directors in an emerging market, Pakistan. The Study uses GMM approach to account for the problem of potential endogeneity and unobserved heterogeneity that arises due to the potential reverse causality (pay and performance) for a sample of non-financial firms listed in the KSE over the period of 2009–2016. This study provides evidence that the pay-performance framework supports the agency theory whereby CEOs/board of directors are compensated for their prior level of market-based performance. In addition, it weakly supports the notion of the steward/tournament theory. Thus, CEOs/board director's remuneration is highly persistent and takes time to adjust to long-run equilibrium.

2.3.3 Nature of compensation and profitability

A study done by Mehran (1995) focused on the examination of the executive compensation structure of 153 randomly-selected manufacturing firms in 1979–1980 provides evidence supporting advocates of incentive compensation and suggests that the form rather than the level of compensation is what motivates managers to increase firm value. Firm performance is positively related to the percentage of equity held by managers and to the percentage of their compensation that is equity-based. Moreover, equity-based compensation is used more extensively in firms with more outside directors. Finally, firms in which a higher percentage of the shares are held by insiders or outside block holders use less equity-based compensation.

According to a study by Fahlenbrach (2011) banks with higher executive compensation and a larger portion of payment in cash for CEOs performed better during the financial crisis in the United States. Furthermore, banks with higher CEO compensation and a larger portion paid as a monetary reward had less poor performance during the crisis. Non-CEO top directors' motivation is unrelated to bank performance during the financial crisis. When the economic disaster was forecast or during the financial crisis, bank CEOs did not minimize their stock ownership. There is also no evidence that they backed up their value presentation. As per the findings, executive staffs should be given better and better bonuses, which would inspire them to perform better for the firm that provides them with such nice bonuses, resulting in an increase in the worth of the company they manage.

The low pay performance sensitivities were validated in a study by Izan (1998). In terms of productivity indicators, most empirical investigations have shown a direct link between financial performance and monetary reward. The goal of executive remuneration is to attract and retain talented employees. It also encourages employees to act in accordance with the needs

of all partners, reducing the likelihood of potentially irreconcilable situations inside the organization. According to the findings, there is a favorable association between monetary remuneration and overall business financial performance.

A study done by Chris (1996) used a case study to investigate the relationship between competency-based pay and performance, finding that when competencies are integrated into human resource practices such as recruitment and selection, training, compensation, and performance management, the three divisions of Holiday in Worldwide in America, Europe/the Middle East/Africa, and Asia achieve significant growth in terms of product distribution and profitability. Furthermore, good hotel occupancy levels and lower-than-average labor turnover rates have been recorded.

Using a first difference method in an agency theory framework, Ashley (2004) investigates the impact of earnings persistence on the style and type of executive remuneration. Accounting earnings are given more weight in executive compensation contracts for firms with strong earnings persistence than for firms with low earnings persistence, according to the study. The authors build on previous research on the stewardship role of management and the pay-performance relationship by considering that some firms have strong earnings over a long period of time (high earnings persistence), while others have weak or negative earnings over time (low earnings persistence) (low earnings persistence). As a result, depending just on accounting earnings becomes problematic when accounting data is noisy, because earnings or perceptions of earnings can be controlled. Because equity-based remuneration is primarily influenced by stock returns, the dependent variable in this study is cash compensation. As a result, the compensation performance sensitivity determined in this study cannot be applied to total compensation.

2.4 Summary of literature and research gaps

The overall goal of this research was to examine if there was an efficient relationship between middle-level operational compensation and firm financial performance. While advancing the agency theory and expectancy theory models, the review called for more research into the relationship between manager compensation and firm financial performance, decomposing the nature of compensation, changes in compensation, and levels of compensation, and used various performance metrics to measure the firm's or organization's financial performance., studies included in the review are more focused on the relationship between the executive compensation or top level managers compensation than the rest of the management levels.

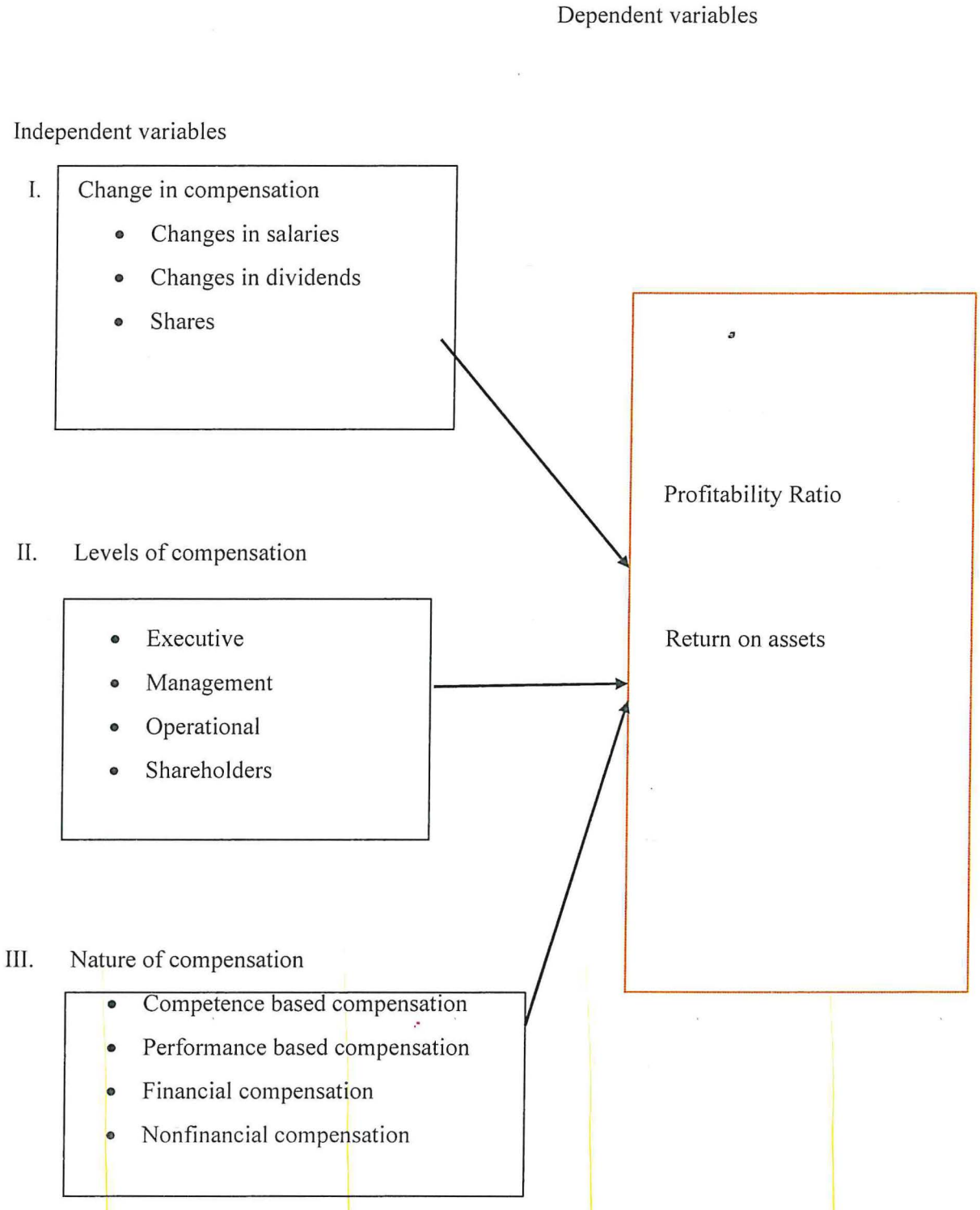
According to a study by Fahlenbrach (2011) , banks with higher executive compensation and a larger portion of payment in cash for CEOs performed better during the financial crisis in the United States. Furthermore, banks with higher CEO compensation and a larger portion paid as a monetary reward had less poor performance during the crisis. Non-CEO top directors' motivation is unrelated to bank performance during the financial crisis. When the economic disaster was forecast or during the financial crisis, bank CEOs did not minimize their stock ownership. There is also no evidence that they backed up their value presentation. As per the findings, executive staffs should be given better and better bonuses, which would inspire them to perform better for the firm that provides them with such nice bonuses, resulting in an increase in the worth of the company they manage. The study will attempt to establish a relationship between the nature of the compensation and the financial performance as proven in the above study.

Jensen and Murphy (1990) examine sensitivity of executive compensation to firm performance. Find that a $1,000 increase in shareholder wealth leads to an average increase in total compensation of around $3.25. Jensen and Murphy argue that economically the sensitivity is too low to offer adequate management incentives. Similarly, the study attempted to examine the sensitivity of the financial performance of telecommunication companies when there is a change in the way managers are compensated it could be from a nonfinancial compensation to a financial one or from shares to monetary or financial compensation.

Research done by Ejaz Aslam (2019) done on How director remuneration impacts firm performance. This study provides evidence that the pay-performance framework supports the agency theory. In addition, it weakly supports the notion of the steward/tournament theory.

The above studies shows that director compensation has an impact on the company's financial performance, implying that different levels of the organization can affect the firm's financial performance if they are given the appropriate compensation. The ongoing study will attempt to establish a relationship between financial performance and compensation levels.

2.5 Conceptual framework



2.5.1 Operationalization of Study variables

Variables	Indicator	Data collection method	Data analysis	Measurement
Change in compensation	1.Changes in salaries 2.Changes in dividends 3.Changes in shares 4.Changes in debentures	Questionnaires Documents analysis	Descriptive analysis	5-point Likert scale
Levels of compensation	1.Executive 2.Management 3.Operational 4.Shareholders	Questionnaires Documents analysis	Descriptive analysis	5-point Likert scale
Nature of compensation	**1.**Compentence based compensation 2.Performance based compensation 3.Financial compensation 4.nonfinancial compensation	Questionnaires Documents analysis	Descriptive analysis	5-point Likert scale
		Questionnaires Documents analysis	Descriptive analysis	5-point Likert scale
Profitability ratio	Return on assets	Documents analysis	Descriptive analysis	Financial statements analysis

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodologies that were employed to perform the study are described in this chapter. It gives justifications for the research design, target population, sample size, and sampling processes, as well as sampling methodology, data collection tools and procedures, and data processing techniques. There is also a discussion of ethical issues.

3.2 Research design

According to Maxwell, a research design is a methodical approach that a researcher uses to perform a scientific study, and the results obtained are legitimate and accurate (Maxwell, 2005). This study used a descriptive design. This type of design describes the current state of a phenomenon or a variable without the need for a hypothesis to begin: It is only developed after the data has been gathered, it will allow the researcher to collect data via questionnaires. Managers' compensation on the financial performance of companies in the telecommunications industry, which is the key concern in this study, is a concern that the researcher does not have the ability to change at will since they are governed by organizations outside of their control. As a result, they can only be characterized in their current state. The questionnaire method was excellent for this study because of this absence, or inability to modify, and the desire to describe "events as they are."

3.3 Population and sampling

3.3.1 Population

A population is a collection of items (people or objects) that have a common trait determined by the researcher's sampling criteria. Target Population-The population to which the researcher would like to generalize results based on analysis of a sample. The sample is selected from a target population. Target population is the study universe.

This study focused on (managers) working in the telecommunication industry, this includes managers from ,Safaricom, Airtel and Telkom, the choice of the companies is based on the facts that the stated above companies are among the largest in terms of profit making , the availability of information required to carry out the research.

Safaricom employs 5,500 people directly, Telkom employs 1,400 people, and Airtel employs 1005 people in Kenya.

3.3.2 Sampling technique

This study was conducted using the purposive sampling which is a sampling technique in which elements are chosen based on the study's goal or purpose and criteria. The main objective of a purposive sample was to produce a sample that can be logically assumed to be representative of the population. A purposive sample, also referred to as a judgmental or expert sample, is a type of nonprobability sample. This is frequently accomplished by using expert knowledge about the population to select a sample of elements that represents a cross-section of the population in a nonrandom manner. This sampling technique was chosen since it is reasonably simple to use. The respondents were also readily approachable, which makes the study easier to conduct (Etikan, 2017). The study focused on respondents working as managers (middle level and operational level) in companies in the telecommunication industry. The sample for this study was taken from managers working in the following three companies operating in the telecommunication industry, Safaricom, Airtel and Telkom.

With a total of= 9,563+188+593= 10,344 employees including 750 managers who will be selected to get the sample size. Yamane's formula will be used to determine the sample size.

$$N = \frac{n}{1+N(e)^2}$$

$$n = \frac{750}{1+750(0.05)^2} \qquad n = 260$$

The study targets 260 respondents as follows

Population Category	Population	Percent (%)
Safaricom managers	87	34
Airtel managers	87	33
Telkom managers	86	33
Total	**260**	**100**

3.4 Data Collection Methods

The data collecting instruments was structured self-complete questionnaires and unstructured questionnaire that were delivered to the sample group and collected after a few days. The questionnaires were focused on questions seeking answers relating to the independent variables i.e., nature of compensation, level of compensation and change in compensation. Questionnaires were selected in this study because they are more efficient at gathering vital data from the study population. It also has a number of other advantages, such as standardized responses and ease of data processing (Abel, 2003).

For secondary data the use document analysis was applied to gathered information on the dependent variables which was the financial performance. The data was collected from different financial statements of the targeted companies in the telecommunication industry i.e., Safaricom, Airtel and Telkom. According to Babbie (2010), document analysis is "the study of recorded human communications, such as books, websites, paintings and laws". Document analysis is a method of data collection which involves analysis of content from written documents in order to make certain deductions based on the study parameters It was based on the analysis and collection of existing organizational records, documents, and data. This data is frequently gathered for internal management purposes. The method is mostly utilized in qualitative research as a qualitative analysis method, although it can also be used to analyze quantitative data (Babbie, 2010).

The primary source will be used to collect data. The primary data from the selected respondents will be collected using structured and unstructured questionnaires. The specified questions will be administered using an online survey or questionaries printed on paper. The secondary data will be collected through research and consultation of past documents on the research topic.

3.5 Data Analysis

Data analysis is defined as the process of reviewing data obtained in a survey or experiment and deducing and inferring underlying structures, extracting variables, discovering anomalies, and putting any underlying assumptions to the test (Melissa, 2009). For the three main objectives, the study used inferential analysis with SPSS software. After the data from the questionnaires was collected and checked for errors, it was imported into SPSS for analysis. Because of its flexibility and ease of use, the software was used. The relationship between the independent variables and the dependent variable will be demonstrated using regression analysis. The data analyzed using descriptive statistics such as the mean, standard deviation,

and percentages. Tables and charts were used to convey the data for easy comprehension. The coefficients of the linear model that represents the dependent variable can be recorded and estimated using regression analysis.

The following multiple regression model will be used in the study

$y=\beta_o+\beta_1X_1+\beta_2X_2+\beta_3X_3+_e$

Where:

y= Firm's return on assets

β_o = Intercept of coefficient

$\beta_1\beta_2\beta_3$= Changes In compensation, Levels of compensation, Nature of compensation

$_e$ = Error term

X_1 = Changes In compensation

X_2 = Levels of compensation

X_3 = Nature of compensation

3.6 Research quality

Prior to the main study, piloting is used to undertake preliminary research. The research instruments were subjected to a pretest to determine the study's validity and reliability. It was also guaranteed that the equipment produces correct results. (Kothari, 2004) Reliability refers to a condition where a measurement process yields consistent scores (given an unchanged measured phenomenon) over repeat measurements. This study used Test Re-test Reliability, which is a measure of stability, Administer the same test/measure at two different times to the same group of participants. The same test (questionnaires) was administered twice to the same set of persons. A week before the second test, a pilot test was done. The pre-testing respondents was given a pilot test to help tweak and refined the instrument before the second test is given. (Kothari, 2004)

3.6.3 Validity

Validity refers to the extend and extent we are measuring what we hope to measure (and what we think we are measuring), a valid study provides scientifically sound responses to research questions. Internal, external, and construct validity are three areas where a study's validity can be jeopardized. A pilot test was conducted to assess the measurement instruments' face and content validity. Face and content validity refers to the researcher's subjective belief that the concept being measured has been covered. (Kothari, 2004)

3.7 Ethical issues in research

This section highlights the ethical problems that the researcher will address when conducting the study and gathering data. Respondents were asked to participate in the study voluntarily and without pressure; the researcher sought their permission. The researcher secured the privacy of participants by providing them antiquated identifier codes that will protect their identity and responses. The conclusions of the study will be generalized; thus, no information was linked to a specific person.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

The goal of the study was to find a link between the remuneration structure of operational and middle-level managers and the financial performance of the company, with a focus on the profitability ratio (return on assets). The analysis, findings, and discussion with reference to the objective are presented in this chapter.

4.2 Sample representation

There were 260 respondents sampled for this study and a response rate of 41.92% was obtained as 109 valid responses were obtained.

4.2.1 Gender respondents

This question aimed at establishing the gender distribution of the respondents. Majority of the respondents were male who were 54.62% of the population while female respondents constituted 45.38% of the population. Figure 4.1 below illustrates the distribution.

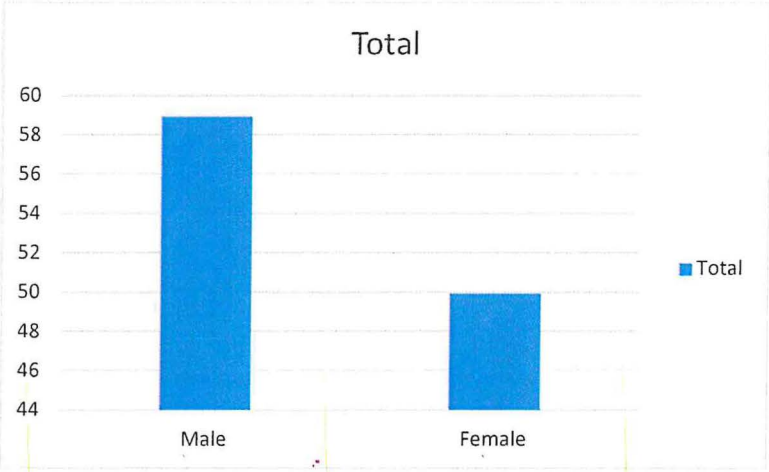


Figure 4.1 Gender of respondents

4.2.2 Company representation

This question aimed at establishing the workplace of the various respondents. Majority of the respondents work for Safaricom. 40.74% of the respondents were from Safaricom with airtel and Telkom had 29.63% each. These findings have been represented in Figure 4.2.

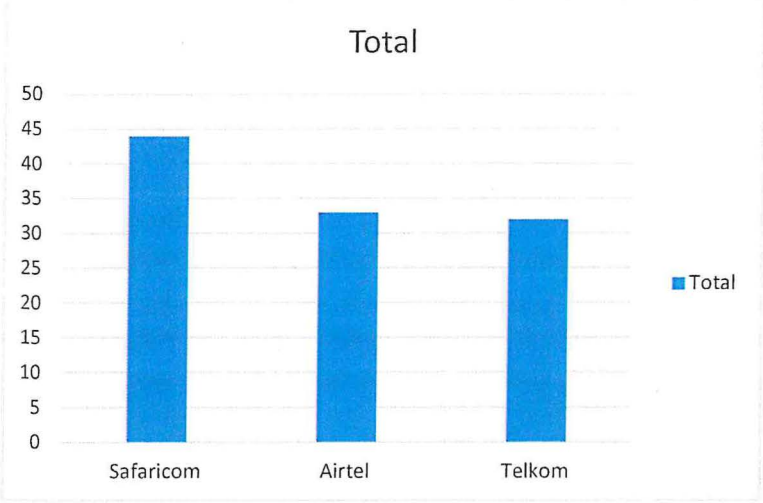


Figure 4.3 Company of respondents

4.2.3 Age groups of respondents

This question aimed at obtaining the age distribution of the respondents. Managers under 30 years were the majority at 40.74%, managers between 31 to 40 years constituted 36.11% of the respondents while managers between 41 to 50 years constituted 23.15% and there were no respondents of over 50 years representing 0%. These findings are presented in Figure 4.3.

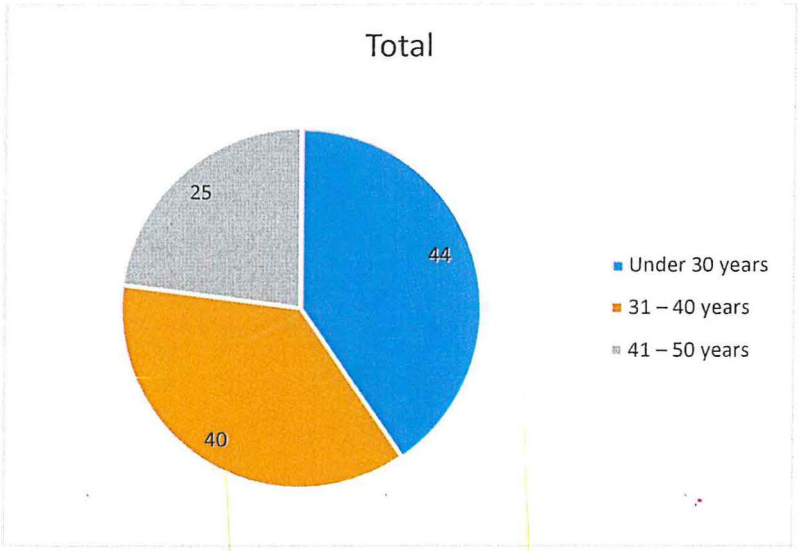


Figure 4.3 Age of respondents

4.2.4 Position held in the company

This question aimed at determining the management position held by the respondents. 53.7% of the respondents were operational level managers while 46.3% of the respondents were middle level managers. These findings are illustrated in Figure 4.4.

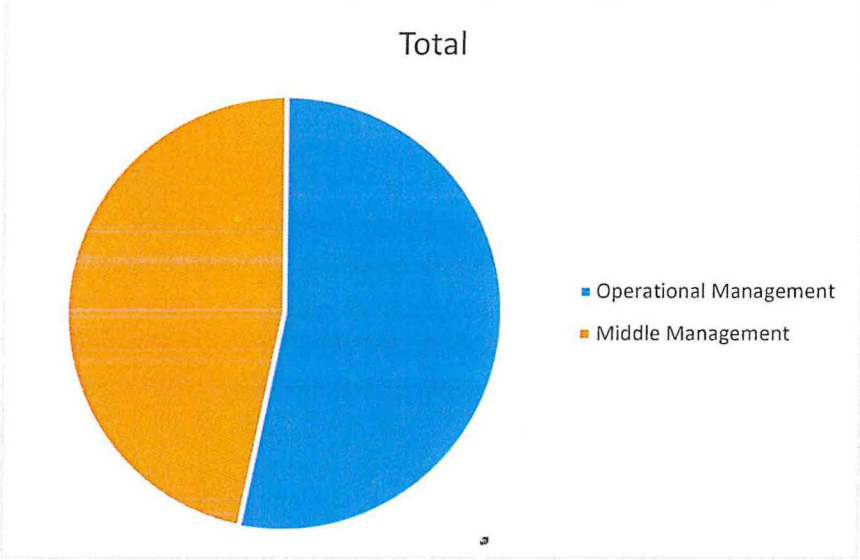


Figure 4.4 Position held in the company

4.3 Descriptive analysis

This section uses the mean and standard deviation to summarize individual replies. The mean is a measure of how dispersed the data is in regard to the mean; a Sd value around 0 suggests that the data is close to the mean, while a Sd value near 1 or above shows that the data is dispersed.

4.3.1 Nature of compensation

The various ways in which the targeted organizations now pay their management, such as salary, stock options, dividends, and bonus plans, make up the nature of compensation. This component of the survey aimed to find out whether respondents believe there is a link between the type of compensation used by their companies and the target company's return on assets (financial performance).Respondents were provided a series of questions and were asked to rate their level of agreement using the Likert 5-point system in order to achieve this. Ranked as follows 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree

And 1-Very low extent, 2-Low extent, 3-Moderate extent, 4-Great extent, and 5-Very great extent.

Table 4.1 nature of compensation

Number of respondents(N)= 109

Nature of compensation	mini mum	maxi mum	mean	Std. Déviatio n
It increases managers productivity and management engagement.	1.00	5.00	4.0275	.89710
The remuneration structure is equitable and consistent	1.00	5.00	3.8716	.83998
It helps the company's management to hire more qualified personnel.	1.00	5.00	3.7523	.93448
Salaries	1.00	5.00	4.4771	.98692
Dividends	1.00	5.00	2.3486	1.27929
Share options	1.00	5.00	2.4495	1.16656
Bonus scheme	1.00	5.00	3.5413	.79968

Table 4.1 shows that a majority of respondents believe that a positive compensation structure increases managers' productivity and engagement in the company in which they work (M=4.0275, Sd=.89710), and that a positive compensation structure also helps the company hire more qualified personnel (M=3.7523, Sd=.93448). The preceding data reveal that the targeted companies prefer salary compensation above other compensation choices such as dividends and stock options (M=4.4771,Sd=.98692). Furthermore, a large majority of respondents said that bonus schemes are frequently used in their firms (M=3.5413, Sd=.79968).

	N	Minimu m	Maximu m	Mean	Std. Deviation
NC	109	1.43	4.57	3.4954	.50342
Valid N (listwise)	109				

The overall mean and standard deviation of compensation change (M=3.4954, Sd=.50342) show that the nature of compensation, with salary and bonus schemes dominating, and financial success are associated. The majority of respondents agree that remuneration structure and financial success have a favorable relationship, as seen in the table above. A change in the pay structure, whether favorable or negative, will have the same impact on financial performance.

4.3.2 Change in compensation

This section consists of establishing a relationship or link between the change in the compensation structure and the financial performance with the focus on the return on assets of the companies. To do this, respondents were asked to answer a series of questions and assess their level of agreement using the Likert 5-point scale, ranking as follows 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree

Table 4.2 change in compensation

Number of respondents(N)= 109

Change in compensation	Minimum	Maximum	Mean	Std. Deviation
In salaries	1.00	5.00	4.4679	.88787
In Dividends	1.00	5.00	2.3670	1.27410
In shares	1.00	5.00	2.5688	1.25733
Changing from paying salaries and wages to giving out share option to managers increase their productivity	1.00	5.00	3.7615	.81535
Negative change in compensation affect the return on assets thus the financial performance negatively	1.00	5.00	3.9083	.83379
Increasing salaries and wages increase managers commitment and productivity	100	5.00	4.3394	.68340

Table 4.2 shows that a change in salary has an impact on the company's return on asset because it has a direct effect on the managers productivity (M=4.4679,Sd=.88787). However, a change in dividend and share options will have a smaller impact than a change in salary because the two forms of compensation are not used as much in the targeted companies (M=2.3670,Sd=1.27410) and (M=2.5688,Sd=1.25733). In addition to the aforementioned findings, the majority of respondents stated that switching from paying wages to giving out stock had an impact on manager productivity, which has an impact on the company's return on asset (M=3.7615,Sd=.81535), Similarly, the majority of respondents believed that a change in the remuneration structure will have an impact on the firm's return on assets (financial performance) (M=3.9083,Sd=.83379) and (M=4.3394,Sd=.68340).

According to the above table, there is a significant correlation between changes in compensation structures and company return on assets, as these changes affect management productivity.

Table 4.3 overall change I compensation

	N	Minimum	Maximum	Mean	Std. Deviation
CC	109	2.43	4.71	3.6081	.49655
Valid N (listwise)	109				

Compensation change has an overall mean and standard deviation (M=3.6081, Sd=.49655), demonstrating that compensation change and financial performance are linked. According to the table above, the majority of respondents believe that compensation structure and financial performance have a positive relationship.

4.3.3 Level of compensation

This section attempts to establish between the way different management levels are compensated and the return on assets (the financial performance). Respondents were asked to answer a series of questions and rate their level of agreement on a 5-point Likert scale, which was ranked as follows. Use 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree are the five levels of disagreement.

Table 4.4 levels of compensation

Number of respondents(N)= 109

Levels of compensation	Minimum	Maximum	Mean	Std. Deviation
The fact that different level in the organization(executive, management, operational) are compensated differently affect the return on asset thus the financial performance of the company	1.00	5.00	2.8991	1.20143
The difference in the compensation of different managerial level affects the return on assets thus the financial performance positively	1.00	5.00	2.6881	1.28162
The difference in the compensation of different managerial level affects the return on assets thus the financial performance negatively	1.00	5.00	2.2294	1.04202
The compensation used by your organization is fair to all levels of management in the company	1.00	5.00	3.8532	.93120

The company's compensation system is effective, in the sense that it aids in the fulfillment of business goals and objectives leading to greater return on assets	1.00	5.00	3.8716	.89340

Only a minority of respondents (M=2.8991,Sd=1.20143), (M=2.6881,Sd=1.28162), and (M=2.2294,Sd=1.04202) believe that differences in compensation of different management levels affect the financial performance-ROA of the companies (M=2.8991,Sd=1.20143), (M=2.6881,Sd=1.28162), and (M=2.2294,Sd=1.04202). Furthermore, the above table reveals that the majority of respondents believe that the efficacy and fairness of the remuneration structure used by the targeted organizations helps managers to meet the company's objectives and goals (M=3.8532,Sd=.93120) and (M=3.8716,Sd=.89340).

Table 4.5 overall levels of compensation

	N	Minimum	Maximum	Mean	Std. Deviation
LC	109	1.40	4.60	3.1083	.62630
Valid N (listwise)	109				

With a mean and standard deviation (M=,3.1083Sd=.62630), only a minority of respondents believe that the way different managerial levels are treated has a direct impact on financial success, while the majority believe that their individual organizations properly compensate all managerial levels.

4.3.4 Financial performance -return on assets

This section indicates whether there is a possible link or relationship between the compensation structure used by the respective targeted companies on managers and the financial performance from the managers point of view. Respondents were asked to answer a series of questions and rate their level of agreement on a 5-point Likert scale, which was ranked as follows. Use 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree are the five levels of disagreement.

Table 4.6 financial performance

Number of respondents(N)= 109

Financial performance-ROA	Minimum	Maximum	Mean	Std. Deviation
Compensation structure is important when it comes to managers productivity and the achievement of a greater return on asset (financial performance of the firm)	1.00	5.00	4.0183	.81629
There is a link between the way managers are compensated and the return on asset (the financial performance) of the company	2.00	5.00	3.8991	.74467
Positive financial performance and greater return on asset are achieved when managers are well compensated	2.00	5.00	4.0826	.79499

Table 4.6 shows that the majority of respondents believe that the compensation structure plays a major role in the achievement of a greater return on assets (M=4.0183,Sd=.81629),also the above table shows that a greater number of respondents indicated that There is a link between the way managers are compensated and the return on asset (the financial performance) of the company (M=3.8991,Sd=.74467).In addition to these findings, the majority of the respondents strongly agree to the fact that Positive financial performance and greater return on asset are achieved when managers are well compensated and thus establishing a direct relationship between the compensation structure and the financial performance.

Table 4.7 overall financial performance

	N	Minimum	Maximum	Mean	Std. Deviation
FP	109	2.00	5.00	4.0000	.63343
Valid N (listwise)	109				

The dependent variable financial performance had an overall mean and standard deviation (M=4.0000,Sd=.63343), indicating that there is a link between pay structure and financial

performance. According to the table above, the majority of respondents believe there is a good association between compensation structure and financial performance.

4.5 Diagnostic tests

4.5.1 Multicollinearity

4.7 multicollinearity

Model		Standardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.407	.394		3.574	.001		
	Nature of compensation	.001	.149	.001	.009	.993	.463	2.159
	Change in compensation	.620	.167	.486	3.715	.000	.378	2.642
	Levels of compensation	.113	.108	.112	1.050	.296	.569	1.757

a Dependent Variable: FP

b independent variables :NC,LC,CC

The variance inflation factor (VIF) was used to check for correlation coefficients after running a multi collinearity test to determine the presence of significant intercorrelations among the independent variables. A variance inflation factor of one indicates that the variables are unrelated. A value more than 4 denotes the presence of a multicollinearity problem that should be investigated further; a value less than 4 denotes the absence of multicollinearity. According to the preceding table, the independent variables' VIFs are nature in compensation 2.159, change in compensation 2.642, and level of compensation 1.757, suggesting that multicollinearity does not exist.

4.6 Inferential statistics

Inferential statistics uses a sample of data to describe and infer information about a population. To evaluate the relationship between the independent variable's nature of compensation, change in compensation and levels of compensation and the dependent variable the return on

asset-financial performance , this part used inferential statistical approaches such as Pearson's correlation and multiple regression models.

4.6.1 Pearson's correlation

A Pearson correlation was used to determine the relationship between the dependent variable and independent variables.

Table 4.8 Pearson's correlation

		Nature of compensation	Change in compensation	Levels of compensation	Financial performance-ROA
Nature of compensation	Pearson Correlation	1	.727	.540	.415
	Sig. (2-tailed)		.000	.000	.000
Change in compensation	Pearson Correlation	.727	1	.649	.559
	Sig. (2-tailed)	.000		.000	.000
					1
Levels of compensation	Pearson Correlation	.540	.649	1	.428
	Sig. (2-tailed)	.000	.000		.000
Financial performance-ROA	Pearson Correlation	.415	.559	.428	1
	Sig. (2-tailed)	.000	.000	.000	

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

N= 109 respondents

The degree to which two variables move in the same direction is determined by correlation. Correlation values range from 0 to 1, with 1 indicating a perfect relationship between the two variables and 0 indicating no association. Findings in table 4.5 shows that there is a positive correlation between and financial performance-ROA and the nature of compensation(r=.415,p=.000). and the change in compensation(r=0.727,p=.000) and level of compensation(r=.540,p=.000) . Because all of the variables are significant, as shown in the

above table, any change in the nature of compensation, change in remuneration, or level of compensation will have an impact or effect on the return on assets of the targeted companies.

4.6.2 Multiple regression model

Table 4.9 Multiple regression

Multiple linear regression, often known as multiple regression, is a statistical technique that predicts the result of a response variable by combining numerous explanatory variables.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.566(a)	.320	.301	.52970	.320	16.481	3	105	.000

Multiple linear regression attempts to represent the linear relationship between explanatory (independent) and response (dependent) variables. In a multiple regression model, a coefficient R close to 0 implies that there is no relationship, whereas a value of 1 indicates that there is one. Table 4.6 shows a weak positive relationship (R=.320) between the nature of compensation, compensation change, and compensation level and financial performance of telecommunications companies. The 32 percent represents the degree to which the variables compensation, compensation change, and compensation level and financial performance of telecommunications companies. The 32 percent represents the degree to which the variables (nature of compensation, change in compensation, and level of compensation) influence financial performance-return on asset, while the 68 percent can be attributed to the various other factors considered for achieving great financial performance

Table 4.10 Coefficients

Table 4.11 below shows that the nature of compensation has a regression coefficient of .001, meaning that for every unit increase in compensation, financial performance increases by 0.001 units. The nature of compensation reported t=.009,pvalue =.993, indicating that the nature of compensation and financial performance-ROA are not related. The regression coefficient for

change in compensation is .620, which means that for every unit increase in change in pay, financial performance rises by .620 units. Furthermore, t=3.715,p-value=0 was reported for compensation change, indicating that there is a link between compensation changes and asset-financial performance. The regression coefficient for level of compensation was .113, meaning that for every unit rise in level of pay, the return on asset-financial performance increased by .113 units. It also reported a t value of 1.050 and a p-value of .296, implying that the level of remuneration and the return on asset do not have a statistical relationship with the return on asset. As a result, each change in financial performance-return on assets does not have direct relationship with the nature of pay, level of compensation but with the change in compensation.

4.11 coefficient

Model		Standardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.407	.394		3.574	.001		
	Nature of compensation	.001	.149	.001	.009	.993	.463	2.159
	Change in compensation	.620	.167	.486	3.715	.000	.378	2.642
	Levels of compensation	.113	.108	.112	1.050	.296	.569	1.757

Based on the data in the table 4.10 , the following regression equation was generated:

$y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+e$

$\mathbf{y}=1.407+0.001X_1+0.620X_2+0113X_3+e$

4.7Chapter Summary

This chapter summarizes the conclusions from the data obtained in order to meet the study's main goal, which was to investigate the impact of middle and operational manager compensation structures on firms operating in Kenyan telecommunication industry.

The demographic aspect of the research is covered in the first section, which includes gender, age, management position, and the company in which they operate or work; the second section contains data analysis using questionnaires, as well as data interpretation using descriptive statistics, regression analysis, the mean, the standard deviation, and the Karl Pearson's correlation model; the third section contains data analysis using questionnaires, as well as data interpretation using descriptive statistics, regression analysis, the mean, the standard deviation, and the Karl Pearson's correlation model; and the fourth section contains.

All of this was done to see if there was a relationship between the nature, change, and level of remuneration and financial performance, with a focus on return on assets.

The results, discussions, and recommendations were presented in the following chapter.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study's findings, as well as the conclusions and recommendations reached, as well as the contribution to the knowledge base. It also makes recommendations for future research.

5.2 Discussion of findings

The relationship between the nature of compensation and the return on assets of telecommunication businesses was investigated in this study. According to the findings, 63 percent of respondents agreed that the nature or type of compensation a company uses increases manager productivity, and 71 percent of managers said that salaries are used to a greater extent than other forms of compensation to boost productivity, followed by bonus schemes, supporting the idea that there is a relationship between financial performance and the nature of compensation. A study done by Mehran (1995) focused on the examination of the executive compensation structure of 153 randomly-selected manufacturing firms in 1979–1980 provides evidence supporting advocates of incentive compensation and suggests that the form rather than the level of compensation is what motivates managers to increase firm value, Izan's (1998)study confirmed the low pay performance sensitivity. Most empirical studies have found a direct correlation between financial performance and monetary incentive in terms of productivity measures. Executive compensation is designed to recruit and retain talented employees. It also encourages employees to operate in accordance with the demands of all partners, lowering the chances of potentially irreconcilable circumstances inside the company. According to the data, monetary pay and total corporate financial success have a positive relationship.

In the South Africa, Nel (2012) investigated Relationship between CEO remuneration and company financial performance in the South African retail and consumer goods sector The research found that CEO guaranteed CTC has shown no sensitivity towards company financial performance in terms of DuPont analysis over the six-year period, which included the global financial crises in 2008, similarly the results in concerning the change(sensitivity) in compensation has shown that 65.7 percent of respondents believe that changes in salaries have

a much greater impact on the companies' return on assets than other forms of remuneration such as dividends and stock options, which are not widely used in the target company

A study conducted by Jensen and Murphy (1990) on Performance Pay and Top Management Incentives. (Examine the sensitivity of the United States '_CEO compensation to firm performance. Using 1,049 firms and 1,688 CEOs for the years 1974 to 1986), found a weaker relationship between pay and performance in the larger firms compared to the smaller firms in their sample [sensitivity of $1.85 per $1,000 for the top half of the sample compared to $8.05 per $1,000 for the bottom half of the sample, similarly a minority of respondent respondents believe that the level of compensation has an impact on the return on asset, implying that there is a small sensitivity between the level of compensation and the financial performance.

5.3 Summary of Findings

The study's first objective was to determine the relationship between changes in managers' compensation structures and telecommunication companies' return on assets in Kenya. The results show that 65.7 percent of respondents believe that changes in salaries have a much greater impact on the companies' return on assets than other forms of remuneration such as dividends and stock options, which are not widely used in the target company. The study conducted different analysis from which the following was discovered, for the Karl Pearson's correlation, a strong positive correlation was found between the change in compensation and the return on asset((r=.727,p=.000), as it suggests that an increase of .727nits in change of compensation will have the similar effect on the return on asset of the companies. The regression coefficient for change in compensation is 0.620, which means that for every unit increase in change in pay, financial performance rises by 0.620 units. Furthermore, t=3.715,p-value=0 was reported for compensation change, indicating that there is a link between compensation changes and asset-financial performance.

The second objective of the study was to determine the relationship between the levels of compensation of managers the return on assets of firms in the telecommunication industry, a minority of respondent respondents believe that the level of compensation has an impact on the return on asset the following statistics were discovered during the data collection and analysis part of the research, for the Karl Pearson's correlation a positive correlation was found between the level of compensation and the return on asset-financial performance level of compensation(r=.540,p=.000) implying that for the minority of respondents any change in the

level compensation will lead the financial performance to move in the same direction. The regression coefficient for level of compensation was 0.113, meaning that for every unit rise in level of pay, the return on asset-financial performance increased by 0.113 units. It also reported a t value of 1.050 and a p-value of 0.296, implying that the level of remuneration and the return on asset have a statistical relationship with the return on asset.

The final objective was to determine the relationship between the nature of compensation and the return on assets of telecommunication companies. The findings revealed that 63 percent of respondents agreed that the nature or type of compensation a company uses increases the productivity of managers, and that 71 percent of managers indicated that salaries are used to a greater extent than other forms of compensation, followed using bonus schemes to boost ma productivity. The following statistics were discovered during the data collection and analysis part of the research, for the Karl Pearson's correlation shows that there is a positive correlation between and financial performance-ROA and the nature of compensation(r=.415,p=.000), the nature of compensation has a regression coefficient of 0.001, meaning that for every unit increase in compensation, financial performance increases by 0.001 units. The nature of compensation reported t==.009,pvalue =.993, indicating that the nature of compensation and financial performance-ROA are not correlated.

The financial performance-return on asset from the managers point of view, most managers have agreed with the fact that there is a relationship between the compensation structure and the return on asset, as pay is associated with the manager productivity which has a direct impact on the performance of the firm.

Findings found when conducting the regression analysis showed a weak positive relationship (R=.320) between the nature of compensation, compensation change, and compensation level and financial performance of telecommunications companies. The 32 percent represents the degree to which the variables (nature of compensation, change in compensation, and level of compensation) influence financial performance-return on asset, while the 68 percent can be attributed to the various other factors considered for achieving great financial performance.

5.3 Conclusions

About the first objective which was to determine the relationship between changes in managers' compensation structures and telecommunication companies' return on assets in Kenya, the researcher concluded that change in compensation especially in the salary had a great impact on the financial performance-return on asset of the companies in the telecommunication

industry. Nonetheless other factors must be considered when it comes to the financial performance, other than the compensation.

The researcher concluded that the level of compensation has a small impact on the financial performance-return on asset of firms in the telecommunication industry, as only a minority of the respondents agreed that there is a relationship between how different levels in an organization are compensated and the return on asset, in relation to the second objective, which was to determine the relationship between the levels of compensation of managers and the return on assets of firms in the telecommunication industry.

The research concluded that the form of remuneration used by the targeted organizations has an impact on the return on assets since it plays a significant role in motivating managers and enhancing their productivity. Salary is the most prevalent method of remuneration among the three organizations, followed by a bonus program that is occasionally offered to managers.

5.4 Recommendations

For better business performance outcomes, a company-specific assessment of appropriate remuneration solutions for adoption and implementation is required. To achieve a greater return on asset, companies in the telecommunication industry should invest more in the compensation structure giving out shares or increasing the rate of giving bonuses. Individual manager performance review mechanisms, as well as the firm, must be strengthened.

5.5 Suggestion for further study

More research could be done on the topic to determine how compensation structures affect telecommunication companies individually, in the sense that each company's results would be linked to its results individually, indicating which company's managers strongly believe in compensation structure as a major factor in achieving a higher return on asset-financial performance, rather than conducting research on the topic as a whole to identify the specific characteristics, the study also recommends that a study be conducted to discover other financial instruments that influence the achievement of greater financial performance in small businesses.

5.6 Limitation of the study

The research was limited to telecommunication businesses based in Nairobi, with other branches in other counties in the county being ignored. The study was unable to obtain

complete feedback on the impact of compensation on financial performance due to the managers' unavailability.

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Appendix

Appendix1 :Questionnaire

Please fill in the blanks with your responses and, where applicable, tick the box that corresponds to your response to the questions.

Section A : Demographic Profile

1. Gender:

Male ()

Female ()

2. Which staffing category do you belong to?

a) Senior Management ()

b) Middle Management ()

c) Operational Management ()

3. What age group do you belong to? (Check the box if it applies.)

a) Under 30 years ()

b) 31 – 40 years ()

c) 41 – 50 years ()

d) Over 50 years ()

4. Kindly indicate your managerial level

1. Middle Management

2. Operational management

Section B: Nature of compensation

5. To what extent do you agree with the following statements about the company's performance-based remuneration system? Use 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree

Nature of compensation	1	2	3	4	5
It increases managers productivity and management engagement.					
The remuneration structure is equitable and consistent					
It helps the company's management to hire more qualified personnel.					

6. To what extent does the company implement the performance-based pay scheme described below? Use 1-Very low scope, 2-Low scope, 3-Moderate scope, 4-Great scope, and 5-Very great scope.

Nature of compensation	1	2	3	4	5
Salaries					
Dividends					
Share option					
Bonus scheme					

Section C : Change in compensation

7. To what extent does change in compensation affect the performance of managers leading to a direct financial effect on the company's financial performance; 1-Very low extent, 2-Low extent, 3-Moderate extent, 4-Great extent, and 5-Very great extent.

Change in compensation	1	2	3	4	5
In salaries					
Dividends					
Shares					

8. To what extent do you agree with the following statements about the company changing its compensation structure? Use 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree

Change in compensation	1	2	3	4	5
Change in compensation affect the return on asset thus the financial performance of the firm					
Changing from paying salaries and wages to giving out share option to managers increase their productivity					
Negative change in compensation affect the return on assets thus the financial performance negatively					
Increasing salaries and wages increase managers commitment and productivity					

Section D : Level of compensation

9. To what extent do you agree with the following statement. Use 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree

Level of compensation	1	2	3	4	5
The fact that different level in the organization(executive, management, operational) are compensated differently affect the return on asset thus the financial performance of the company					
The difference in the compensation of different managerial level affects the return on assets thus the financial performance positively					
The difference in the compensation of different managerial level affects the return on assets thus the financial performance negatively					
The compensation used by your organization is fair to all levels of management in the company					

The company's compensation system is effective, in the sense that it aids in the fulfillment of business goals and objectives leading to greater return on assets					

Section E : Financial performance- Return on assets

10. To what extent do you agree with the following statement. Use 1-Strongly disagree, 2-Disagree, 3-Moderate extent, 4-Agree, and 5-Strongly agree

FP-ROA	1	2	3	4	5
Compensation structure is important when it comes to managers productivity and the achievement of a greater return on asset (financial performance of the firm)					
There is a link between the way managers are compensated and the return on asset (the financial performance) of the company					
Positive financial performance and greater return on asset are achieved when managers are well compensated					

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