

**CEO'S COMPENSATION AS A FUNCTION OF FINANCIAL PERFORMANCE,
CUSTOMER SATISFACTION AND FIRM'S INTERNAL PROCESSES:
MODERATING EFFECT OF FIRM SIZE IN KENYA**

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ABSTRACT

Purpose of Study: This study addressed the influence of firm size on the relationship between financial performance, customer satisfaction and internal processes as predictor variables on CEOs compensation as a criterion variable. Previous researches reveal lack of consensus to explain sharp increases in CEOs' compensation. This study contributes to the ongoing debate by re-looking at the factors that influence CEO'S compensation levels. It re-examines organizational performance measures and their influence on CEO'S pay and introducing firm size as a factor that moderates this relationship.

Methodology: Agency theory forms the foundations of this study. A conceptual model for the study was drawn from the literature. The study's population comprised 65 firms listed at the NSE. Descriptive cross-sectional survey was adopted. Respondents were members of the boards of directors of the firms. Four directors, comprising about 50% of the board members randomly selected from each firm and constituted a pool of informants for the study. Primary data was collected on customer satisfaction and internal processes using a semi structured questionnaire. Secondary data was collected on firm's financial performance from the financial statement of the listed organizations and on CEO'S compensation for the 2017 to 2018 period. Descriptive

statistics, Pearson's Product moment correlation analysis, multiple and stepwise linear regression were used to analyze the data and test hypothesis.

Results: The findings showed that firm size had a significant moderating effect on the relationship between financial performance, customer satisfaction, internal processes as predictors and CEO's compensation as criterion variable.

Conclusion and policy recommendation: The findings of this study are of benefit to board members of organizations in identifying the performance measures that are important to consider when making decisions on CEO remuneration and to pay attention to firm size in making CEO remuneration decisions. The findings of this study underpin the importance of firm size and performance in CEO'S compensation decision at the level of policy and practice.

Keywords: *CEO Compensation, Organizational Performance, Firm Size*

INTRODUCTION

The interest in this study was triggered by the on-going debate in academic fora on the disproportionate rise in the CEOs' compensation in the last two decades, or so, compared to other cadres of employees. The interest in this study was further strengthened by the pertinent literature that appeared to suggest that the rate of increase and the level of CEO'S compensation appeared to be a function of firm size and its performance. These observation, however, lacked strong empirical support. This study focused on organizations listed at the Nairobi Securities Exchange (NSE) as its context. Companies registered at NSE are either public or private owned. These firms can be categorized into various industries and trades. The nature of the firms listed at the NSE is suitable for the study since it allows for comparisons of CEO'S compensation, organizational performance and firm size. Listed companies are expected to abide by NSE and Capital Markets Authority (CMA) regulations for them to continue selling at the browse. Nairobi Securities Exchange has implemented very strict and detailed listing requirements for organizations that include various disclosures, regulations for reporting, financial requirements, requirement for records to be kept, ethical requirements of conduct, self-regulations, surrender of annual budget, among other corporate governance necessities. The regulations for listing at NSE helps to ensure that only companies that meet these requirements make it to trade at the securities exchange. These requirements for the firms to be listed at the NSE provides a good ground to conduct the study and CEO's compensation due to easy access to relevant data on organizational performance aspects of firm characteristics and CEO'S compensation.

STATEMENT OF THE PROBLEM

There exist mixed and contradictory findings on the foundations of continuous rise in CEO'S compensation clearly indicating lack of consensus among scholars Gabaix, Landier and Sauvagnat, (2013), Bebchuck and Fried (2004) attribute the steady rise in CEO'S pay to the CEO'S being able to have control and power that allows them to extract rents from shareholders. CEO'S are able to do this since they can find ways to positively influence the board and control the appointment of reward consultants. This will in turn influence the development of pay plans that favour the interests of the CEO'S (Murphy & Sandino, 2008).

However, other scholars support the view that the rise in CEO rewards is a reflection of tighter corporate governance. Since CEO'S have a greater risk of losing their job due to factors outside their control (Hermalin, 2005). Besides talented and or competent CEO'S are rare to come across and most firms are forced to headhunt and lure them from other firms by offering them higher financial incentives (Frydman, 2005 and Jensen et al, 2004. Gabaix and Landier, (2008) observed over time that the changes in CEO's rewards among various firms is largely due to market forces and the size of the firms. They propose increase in firm size would lead to increase in CEO'S pay.

RESEARCH OBJECTIVES

The key objectives of this study are:

1. To examine the influence of organizational performance on CEO'S compensation.
2. To determine whether firm size moderates relationship between organizational performance and CEO'S compensation.

LITERATURE REVIEW

Theoretical Foundations

This study was based on agency theory. An agency relationship is one in which one party, the agent, acts on behalf of the other, the principal. The Principal contracts the agent to take up their responsibilities and serve their interest. Many researchers have come to the conclusion that there is a way some conflict in interest in such Principal-agent relationships (Jensen & Meckling, 1976).

In business set up, the agency relationship is usually between the CEO who acts as an agent and shareholders as owners of the firms. Such relationships generate agency costs that go towards ensuring effective and healthy relationship. Costs are incurred in form of offering the CEO or agent, incentives or bonuses that they should motivate the CEO to act in the best interest of shareholders. Miller & Rock (1985) suggest that conflict of interest in the Principal-agent relations can be managed by offering ownership stocks to CEO'S. There has been a steady increase in CEO'S pay since 1960 that is in line with increase in firm size measured by market capitalization (Kaplan, 2012).

CEO'S Compensation and Organizational Performance

Bernardin (2007) defines compensation to include all the returns that employees of an organization get due to their association with the employer through effective performance of their jobs that come in form of finances or benefits. Executive compensation can be viewed as the financial returns which senior managers of organization receive. It constitutes of salaries, incentives and employee benefits that the executives receive (Elling, 2002). The compensation package of executives constitutes various elements of pay which makes one element drawback to be overcome by other elements strengths. Cash bonuses are used to reward executives for their short-term successes in the firm. This is intended to direct their actions towards achieving the organization's short-term goals. To this end, the cash bonuses are able to counter the negative connotations associated with restricted stocks awarded only for the achievement of long-term goals (Sigler, 2011). Bebchuk and Fried (2004) observe that previous literature indicate that compensation for executives has increased tremendously as opposed to the average worker's

earnings. Scholars vary in their opinion as to whether the increase in executive compensation is a natural one and a product of competition for scarce talent that can increase the value for stakeholders or if it is only a negative socio occurrence triggered by variations in socio and political environments that extends power to executives to agree on their compensation. Directors of board of organizations have the mandate to determine the levels of compensation that executives receive which is also viewed as an integral component of effective corporate governance.

Felton, (2004) the compensation of CEO's has drawn a lot of interest among scholars and taken centre stage in corporate governance. When CEO'S compensation is tied to stock prices, it may elicit negative actions from the CEO. It may motivate the CEO to increase their private wealth through illegally increasing the company's accounting earnings. If this happens the CEO can gain control of the organization and push their pay levels as they desire (Devers et al, 2007). As established by Sigler and Haley (1995), CEO'S compensation has a positive link with organizational performance and that there is equally a positive association between the percentage of company stock owned by the CEO and the organization's performance.

Organizational performance is not easy to measure more so when its dimensions keep taking different forms (Hubbard, 2009). One dominant approach which has been universally accepted to measure organizational performance is "the Balance Scorecard" (BSC) system by Kaplan and Norton (2000). BSC approach is in line with the propositions of the stakeholder approach. The BSC incorporates financial, dimensions of performance, customer satisfaction, and internal efficiency dimension and learning and development aspects. During the same period that BSC was being adopted, the media and other community organizations showed concern on the influence of organizational activities to the natural environment and the community in general. Due to these concerns the Triple Bottom Line (TBL) approach to organizational performance management gained preeminence as an alternative approach to managing performance. This perspective is also in line with the stakeholder approach although it expands the number of stakeholders affected by organizational activities. TBL includes local communities and government in measuring organizational performance. It incorporates the influence of organizational activities on the social and physical environment as performance dimensions of the organizations besides the commonly used economic dimensions. In the TBL approach the

environmental aspect of performance implies the quantity of resources that an organization utilizes to achieve its goals. They include land resources, amount of water used and the energy consumed among others and also outputs released as by-products from the organizational activities including emission of gases, solid wastes, chemical wastes and so forth. However, the measurement of performance using these dimensions may not be easy to accomplish in comparison to previously developed performance measurement dimensions since the environmental measures are difficult to generalize across organizations (Hubbard, 2009). This is owed to the reality of social and environmental performance measures tend to take unique dimensions for every organization and are not easy to quantify.

A major challenge that scholars encounter in trying to understand what really drives CEO remuneration are various components that constitute the total remuneration of CEO'S compensation package. Besides the terms used by researchers, industry and countries are not consistent and tend to cause confusion. The CEO'S are also offered a bonus which is at risk of non-payment since it is dependent of organizational performance. The highest bonuses are usually paid out when CEO'S performance exceeds the maximum performance expectations yet bonuses are not offered when the CEO'S performance goes below the minimum performance expectations.

CEO'S are eligible to receive grants of share options within the regulations stipulated for the award of "long term incentive plans". An improvement in worth of share options triggers rise in the company's "share price" and as such there is a possibility of them declining in value just like it is with bonuses. Most CEOs are legible to receive benefits including membership to clubs, driver, housing allowances, security, education, holidays, and medical covers among others. Most organizations also provide the CEO'S with a retirement plan. Going by declarations presented within the reports provided yearly by firms listed at the NSE, CEO'S compensation largely consists of basic salaries, housing allowances, bonuses and long term incentives (Aduda, 2011). Sigler (2011) notes the first element of CEO compensation as basic salary which constitutes about 10% of their compensation.

Secondly, CEO remuneration includes incentive plans consisting of cash bonuses which are awarded in lump sum when the operational year ends in order to motivate CEO'S performance. Bonuses act as incentives which are paid to the CEO'S upon attaining previously set goals.

Bonuses are linked to accounting measures and are highly associated to the CEO'S specific areas of responsibility. They are aimed at motivating the CEO to pay more attention on the company's key objectives of increasing shareholder value and in turn their own wealth. Bonuses may be provided in association to the achievement of short-term, intermediate term, or even long term goals of an organization.

A third CEO remuneration constituent is as executive "stock options" which also act as an incentive to the CEO'S. The qualified stock options provide a tax benefit but they equally have complicated tax consequences. Non-qualified stock options exhibit draw backs for the CEO'S since taxable income is usually reported during the period when the non-qualified options are put into effect without considering whether the stocks have been sold or not. From the literature, the following hypothesis was developed and tested. Firm size moderates the relationship among financial performance, internal process, customer satisfaction and CEO'S compensation.

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reality of social and environmental performance measures tend to take unique dimensions for every organization and are not easy to quantify (Hubbard, 2009).

Organizational Performance, Firm Size and CEO'S Compensation

Organizational performance has a positive but insignificant effect on director's compensations. The pay for CEO's in larger firms tend to be higher than those of their counterparts in smaller organizations since larger firms tend to hire CEO'S with higher competencies to manage the complexities that come with growth (Ozkan, 2007).

Gabaix, Landier and Sauvaghath, (2013) established a linear association between CEO's talent and firm size. They argue that large firms hire more talented CEO'S due to the complexities of their operations and that talented CEO'S are rewarded with increases in their pay. CEO'S compensation have likely to vary when associated with performance and they prefer if it is linked to a more stable factor like firm size (Nulla & Phil (2013). CEO'S who work for larger firms tend to be paid more than their counterparts in smaller firms since large firms are associated with organizational operational complexities and human capital management complexities. Past studies utilized total assets, total sales or total number of employees as measures of firm size. There is a strong and positive link between CEO's cash payments and firm size (Gomez-Mejia & Barkema, 1998). A study by Finkelstein and Hambrick (1996) confirms the same by revealing a strong association among executive pay and size of a firm. Gomez-Mejia, Katz, et al, (2000) established that a correlation among CEO'S pay compensation and firm size revealing that 40 per cent change in CEO'S compensation is attributed to firm size. Sigler (2011) argues that the most significant determinant of CEO'S pay is the size of a firm. Larger firms offer their CEO'S higher compensation because of the magnitude of resources they are in-charge of. In most theoretical and empirical studies where firm size is used, it is described in form of number of human resources in the firm, sum of assets, total sales or market capitalization (Trigueiros, 2000).

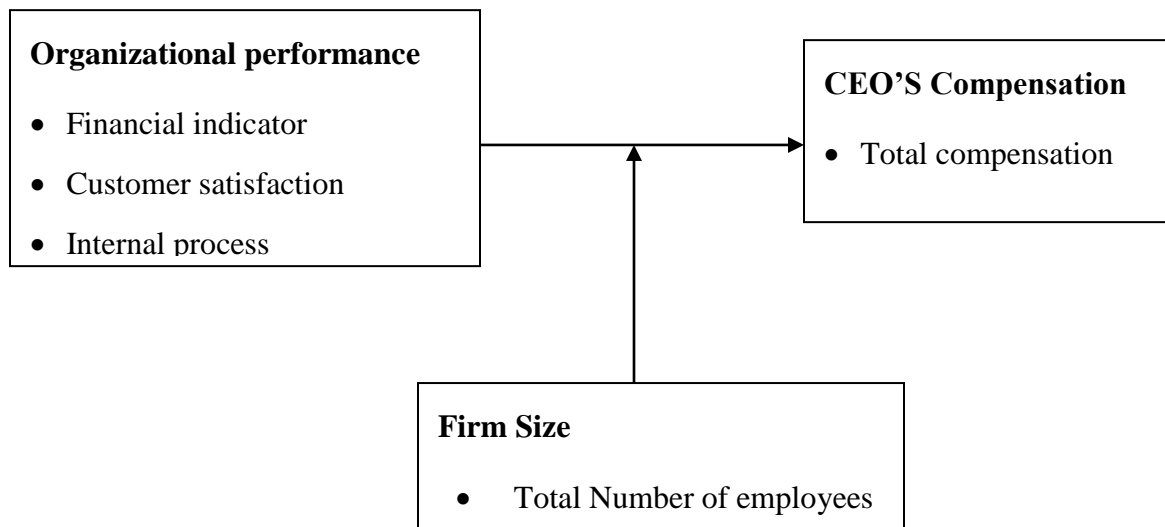
Baptista (2010) proposes that size could be weighted using "sales or market capitalization". He further observes that sales are the most commonly used measure for firm size. Kimberly (1976) notes that the definition of firm size seems rather easy, a number of differing operationalization of firm size do exist. He proposes that firm size can be described by its physical capacity, the amount of workers available in the organization, the input and output of an organization or the

resources available to the firm. He asserts that the number of employees has been proved to be the best indicator of organizational size. Beer (1964) defines the size of an organizational to mean the amount of workers that exist in a firm. The size of a firm stands out as a factor that significantly and positively influences the compensation of CEO'S (Finkelstein and Hambrick, 1989). Best CEO'S are those who manage the largest firms, since this will help them maximize their influence and financial viability (Gabaix & Landier, 2008). They forge the position that the compensation of CEO'S will raise with increase in firm size.

CONCEPTUAL FRAMEWORK

From the foregoing literature review, the following conceptual framework was extracted.

Fig. 1: Conceptual Framework



The conceptual framework indicates that organizational performance measured by financial indicators, customer satisfaction and internal processes influences CEO'S compensation which was measured in terms of total cash payments and that this relationship may be moderated by firm size measured in terms of total number of employees.

RESEARCH METHODOLOGY

This study used a descriptive survey design. The approach helped to reveal if any associations exist between the different variables, so as to establish if the variables are independent (or unrelated) and if there is no association, then to establish the strength or magnitude of the relationship. This design enabled the researcher to establish any relationships between and among organizational performance (financial performance, customer satisfaction and internal processes), firm size and CEO'S compensation of firms listed in NSE. Data to measure organizational performance was collected for the period 2017/2018 and 2018/2019.

The applicable population of the study encompassed all listed organizations at NSE. According to the NSE Handbook 2018, the total number of companies listed at the browse was 65. This study was therefore a "census survey" of all listed companies. Data on financial performance was obtained from financial reports filed with capital markets authority (CMA). Data on firm size was also collected from the same source. Both primary and secondary data were collected and used to test the predictions of this study.

Data was analyzed using descriptive statistics. Mean scores and standard deviations were computed for the items of each variable. Pearson's Product Moment Correlation (r) analysis was used to ascertain the strength and direction of relationships among study variables. Coefficient of determination (R^2) was used to measure the amount of variation in CEO'S compensation attributable to the predictor variables comprising CEO'S performance/firm performance, customer satisfaction and internal processes. The moderating effect of firm size on the relationship among financial performance, internal processes and customer satisfaction as predictor variables and CEO'S compensation as criterion variable was tested using stepwise regression analysis proposed by Baron and Kenny (1986).

Step 1: CEO'S compensation was regressed on financial performance, internal processes and customer satisfaction.

Step 2: CEO'S compensation was regressed on financial performance, internal processes, customer satisfaction and firm size.

Step 3: CEO'S compensation was regressed on financial performance, internal processes, customer satisfaction and interaction between financial performance, internal processes, customer satisfaction and firm size.

RESULTS AND DISCUSSION

All the 65 firms were administered with questionnaires. However, responses were only obtained from only 42 firms. A response rate of 65 percent response rate was obtained. This was considered representative and satisfactory to draw "conclusions for the study". Although the intention was to randomly collect data from four directors in each firm, in reality, this was not possible. However, due to the sensitive nature of this study, and based on the promise of confidentiality, the names of the companies from which data was collected are not disclosed.

The study gathered information on the number of employees in the listed firms at the NSE as indicator of firm size. The results indicated that 9.5% of the firms had less than 100 employees, 33.3% had between 101 to 500 employees, 19% had between 501 to 1000 employees, 16.7% had between 1001 to 2000 employees while 21.4% of the firms had over 2000 employees. These figures are presented in Table 1.

Table 1: Distribution of firms by size

Number of Employees	Frequency	Percent
below 100	4	9.5
101-500	14	33.3
501-1000	8	19.0
1001-2000	7	16.7
2000 and above	9	21.4
Total	42	100.0

Descriptive Statistics for CEO’S compensation

The study sought information on the percentage change in CEOs compensation between 2017/2018 and 2018/2019. Findings presented in Table 2 reveal that the CEOs compensation for 26.2% of the firms changed by less than 1% from 2017/2018 and 2018/2019, it increased between 1-5% in 23.8% of the firms and the highest increase was between 6-10% in 11.9% of the firms. The largest increase was over 10% for 38.1% of the firms.

Table 2: Distribution of the firms by percentage increase in CEO’S Compensation

	Frequency	Percent
Below 1%	11	26.2
1-5%	10	23.8
6-10 %	5	11.9
>10%	16	38.1
Total	42	100%

Financial Performance

Financial performance of the firms was measured using percentage change in return on assets which were calculated by dividing profit/loss before tax by total assets. This data was captured from the firm’s financial report for the period of 2017-2018. The findings are shown in Table 3.

Table 3: Aggregate increase in financial performance of all the firms

	N	Mean	Std. Deviation
FI	42	12.8273	19.12953

The results indicated a mean of 12.82% increase in financial performance.

Management of Customer relations and growth

Board members were asked to indicate the extent to which their board considered management of customer relations and growth as measures of organizational performance. Five items were used to measure management of customers. The findings are shown in Table 4.

Table 4: Means and Standard Deviations for measures of Management of Customer Relations and Growth

Management of customer relations and growth	N	Mean	Standard deviation
Number of new customers or clients	42	2.1750	1.03497
Retention of customers or clients	42	2.0500	0.84580
Sales volume	42	2.0500	0.87560
Market share	42	2.0500	0.81492
International expansion and globalization of market base	42	2.7750	0.80024
Average Score	42	2.2200	0.87431

The results in table 4 show that the average mean score for management of customer relations and growth was 2.22 implying that the board considered customer relations to a large extent in measuring firm performance. Retention of customers or clients, sales volume and market share were considered by most to a large extent (Mean = 2.05, SD 0.8458, SD = 0.8756, and SD 0.81492 respectively). Number of new customers or clients as a measure of performance was considered to a moderate extent by all the firms considered together (Mean 2.175, SD 1.03497).

Internal Processes

Board members were asked to rate the extent to which their firms considered internal processes in measuring organizational performance. Four items were used to measure internal process. The findings are presented in Table 5.

Table 5: Means and Standard Deviations for measures of Internal Process

Internal processes	N	Mean	Standard deviation
My company’s On-time Delivery of goods or services has been decreasing	42	1.6500	0.53349
The quality of my company’s products have been increasing	42	1.9500	1.03651
My company’s operating efficiencies have been increasing in the last five years	42	2.4250	0.98417
Average score	42	2.00	0.8514

The results in Table 5 indicate average mean score of 1.9438 on internal processes showing that firms considered it to a large extent in determining CEO’S compensation. Cost of control received the highest consideration (Mean 1.65, SD 0.53349), while development of quality products received the lowest score though still of large extent (Mean 2.425, SD 0.98417). Operating efficiencies was also considered to a large extent (Mean 1.75, SD 0.58835). On-time delivery of goods and services was also largely considered though the board members tended to differ in their opinion over this item (Mean 1.95, SD 1.03651). The results reveal that in determining CEO’s compensation, the control of costs of operation is highly considered by board members as a factor in measuring the internal process performance of organizations.

Table 6: Results of Correlation analysis for the Relationship among Internal Processes, Financial Performance and Customer Satisfaction

		Correlations				
		CEOs compensation	Financial Indicators	Internal Processes	Customer satisfaction	Firm Size
CEOs compensation	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	40				
Financial Indicators	Pearson Correlation	.690**	1			
	Sig. (2-tailed)	.000				
	N	40	40			
Internal Processes	Pearson Correlation	.345*	.259	1		
	Sig. (2-tailed)	.029	.107			
	N	40	40	40		
Customer Satisfaction	Pearson Correlation	.497**	.639**	.222	1	
	Sig. (2-tailed)	.001	.000	.168		
	N	40	40	40	40	
Firm Size	Pearson Correlation	.637**	.450**	.289	.267	1
	Sig. (2-tailed)	.000	.004	.070	.096	
	N	40	40	40	40	40

Table 6 represents a correlation matrix that was derived from inter-variable correlation analysis. The multicollinearity test results show that the correlation coefficients as 0.690 for CEO’S compensation, 0.259 for financial performance, 0.222 for internal processes, 0.289 for customer satisfaction and 0.096 for firm size. The correlation coefficients values are less than 1 therefore indicating that there was no multicollinearity among the study variables and as such meeting the requirements for running regression analysis.

Table 7: Regression Results for the moderating effect of Firm Size on Financial Performance, Internal Processes and Customer Satisfaction on CEO’S Compensation

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.714 ^a	.509	.469	4.04286		
2	.791 ^b	.626	.583	3.58116		
3	.798 ^c	.636	.583	3.58144		
4	.806 ^d	.650	.586	3.56797		
5	.848 ^e	.720	.658	3.24168		
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	610.964	3	203.655	12.460	.000 ^b
	Residual	588.411	36	16.345		
	Total	1199.375	39			
2	Regression	750.509	4	187.627	14.630	.000 ^c
	Residual	448.866	35	12.825		
	Total	1199.375	39			
3	Regression	763.267	5	152.653	11.901	.000 ^d
	Residual	436.108	34	12.827		
	Total	1199.375	39			
4	Regression	779.271	6	129.878	10.202	.000 ^e
	Residual	420.104	33	12.730		
	Total	1199.375	39			
5	Regression	863.103	7	123.300	11.733	.000 ^f
	Residual	336.272	32	10.509		
	Total	1199.375	39			
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.671	1.912		.874	.038
	Financial indicators	.228	.059	.595	3.871	.000
	Internal processes	.103	.072	.174	1.435	.016
	Customer satisfaction	.025	.049	.078	.513	.011
2	(Constant)	-.099	1.777		-.056	.956
	Financial indicators	.163	.056	.425	2.919	.006
	Internal processes	.059	.065	.100	.914	.037
	Customer satisfaction	.032	.043	.099	.733	.046
3	Firm size	.422	.128	.390	3.299	.002
	(Constant)	-1.838	2.489		-.738	.046
	Financial indicators	.152	.057	.398	2.684	.011
	Internal processes	.044	.067	.074	.659	.015
3	Customer satisfaction	.026	.043	.081	.593	.007

	Firm size	.372	.137	.344	2.711	.010
	Financial indicators interaction	.324	.325	.134	.997	.026
	(Constant)	-2.205	2.501		-.882	.034
	Financial indicators	.125	.062	.326	2.023	.051
	Internal processes	.032	.067	.054	.475	.038
4	Customer satisfaction	.036	.044	.114	.818	.019
	Firm size	.372	.137	.345	2.725	.010
	Financial indicators interaction	.241	.332	.100	.725	.003
	Internal processes interaction	.238	.213	.144	1.121	.020
	(Constant)	-4.303	2.391		-1.800	.041
	Financial indicators	.130	.056	.338	2.313	.027
	Internal processes	.015	.061	.025	.245	.008
	Customer satisfaction	.019	.041	.060	.468	.043
5	Firm size	.309	.126	.286	2.447	.020
	Financial indicators interaction	1.670	.589	.691	2.835	.008
	Internal processes interaction	.415	.203	.250	2.042	.049
	Customer satisfaction interaction	.247	1.858	-.650	-2.824	.008

a. Dependent Variable: CEOs compensation

As shown in table 7, the overall regression model was statistically significant ($R^2=0.720$, $F=11.733$, $P<0.05$), implying model was a good fit. In step one: CEO'S compensation was regressed on financial indicators, internal processes and customer satisfaction. The findings further indicate that a unit change in CEO's compensation is associated with 0.228 unit change in financial indicators, 0.103 unit change in internal processes and 0.025 unit change in customer satisfaction ($\beta=0.228$, $P<0.05$; 0.103 , $p<0.05$ and 0.025 , $P<0.05$ respectively).

In step two: CEO'S compensation was regressed on both the independent variables and firm size. The findings presented in the table reveal regression model was statistically significant ($R^2=0.720$, $F=11.733$, $P<0.05$), implying model was a good fit. In step one: CEO'S compensation was regressed on financial indicators, internal processes and customer satisfaction. The findings presented in table reveal a significant effect of financial indicators on CEO'S compensation ($R^2=0.509$, $F=12.46$, $P<0.05$), implying that 50.9% of change in CEO'S compensation is attributed to financial indicators, internal processes and customer satisfaction. The findings further indicate that a unit change in CEO's compensation is associated with 0.228 unit change in financial indicators, 0.103 unit change in internal processes and 0.025 unit change in customer satisfaction ($\beta=0.228$, $P<0.05$; 0.103 , $p<0.05$ and 0.025 , $P<0.05$ respectively).

In step three: interaction term depicting product of firm size and the independent variables was added to the regression equation. The purpose of adding the interaction term was to establish whether firm size has significant effect on the link between the independent variables and CEO'S compensation. Findings in table 7 indicate regression model was statistically significant ($R^2=0.720$, $F=11.733$, $P<0.05$), implying model was a good fit. In step one: CEO'S compensation was regressed on financial indicators, internal processes and customer satisfaction. The findings presented in table reveal a significant effect of financial indicators on CEO'S compensation ($R^2=0.509$, $F=12.46$, $P<0.05$), implying that 50.9% of change in CEO'S compensation is attributed to financial indicators, internal processes and customer satisfaction. The findings further indicate that a unit change in CEO's compensation is associated with 0.228 units change in financial indicators, 0.103 unit change in internal processes and 0.025 units change in customer satisfaction ($\beta=0.228$, $P<0.05$; 0.103, $p<0.05$ and 0.025, $P<0.05$ respectively).

CONCLUSIONS & RECOMMENDATIONS

Firms listed at the NSE should consider a compensation policy on CEO remuneration requiring that determination of CEO compensation should put into consideration the performance of organizations. Further the policy should specify the elements of organizational performance and the weights attributed to them in determining how much to pay the CEOs. This includes the measures of financial performance, customer satisfaction and internal processes. However, the association of the performance factors with CEOs compensation is strengthened by the size of firms suggesting that larger firms should offer higher levels of remuneration to CEOs. In conclusion, the study established that firm performance, internal processes and customer satisfaction have a positive relationship with CEO compensation and that this association is strengthened when firm size is considered.

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