

Abstract

The aim of the study was to determine the effect of executive compensation structure on the financial distress of Nairobi Securities Exchange-listed non-financial firms. The study was anchored on the agency theory. A census of all 45 nonfinancial listed firms at the NSE was carried out using the cross-sectional research design. Secondary data extracted from published financial statements and other annual reports of the respective individual firms for a period of ten years from 2014 to 2023 was employed. In the study the Zscore for emerging economies was used to determine financial distress. Executive compensation structure was measured using the proportion of earnings before interest and tax that was distributed to board of directors. Both descriptive and inferential statistics were used in data analysis. Descriptive statistics included mean score and standard deviation. Inferential analysis was conducted via univariate logistic regression analysis and Pearson's correlation analysis. The study determined that a significant negative correlation exist between executive compensation structure and financial distress ($r = -0.811$; $p=0.000$). The study also determined that there exists a strong negative relationship between executive compensation structure and financial distress ($\beta = -0.729$; $p=0.000$). 34.1% to 45.5% variations in financial distress of non-financial listed firms explained by executive compensation structure. Consequently, this study established that for every one-unit improvement in executive compensation, the odds of financial distress decreases by 51.7%. The study therefore concluded that executive compensation structure as a significant negative effect on financial distress implying that an increase in executive compensation may lead the firm into financial distress. The study thus recommends that organisations should design an optimum executive compensation structure which aligns the interests of the management with those of the owners of firms thereby minimizing not only agency conflicts but also agency costs which firms may incur.