

As the main decision makers in large public corporations, top executives comprise an important albeit small part of the labour force. Thus, the compensation of these individuals is of special interest because it influences their decision making process. Since the 1980s, the academic research on executive compensation package has grown significantly (Murphy 1999). Executive compensation packages have been viewed as important in mitigating the conflict of interest between managers and shareholders in corporations. It has been widely recognized that flat compensation packages could potentially play an important role in motivating top managers. Therefore it is important to understand how corporations set the executive compensation packages and whether there is a link between compensation and performance. This study sought to assess the influence of executive compensation packages on the financial performance of public quoted companies in Nairobi. The study also sought to find out whether executive compensation packages are aligned to shareholders interests. The objectives of the study were; one to determine the executive compensation packages offered by the public quoted companies, two is to establish the influence of executive compensation packages on executive performance and three to rank the levels of influence of the executive compensation packages on financial performance of public quoted companies in Nairobi. The target population was 55 companies listed at the Nairobi stock exchange as at 23rd September 2011. The study sampled 30 companies using systematic random sampling. Primary data was collected from respondents using questionnaires and the data was analysed using descriptive statistics and statistical package for social scientists. The study revealed that there is a direct relationship between executive compensation and organisational financial performance, giant compensation packages cannot be justified as necessary to retain executives but they contribute to ones performance. The study highlighted that, percentage changes in profits, profit levels, earnings per share and the firm's long-term investment opportunities each influence compensation and therefore requiring critical considerations. Majority of respondents highly rated the effects of executive compensation on their performance, The package that was found to be more influential is the long-term incentive.