A Survey of Administration of Employee Compensation Schemes among Commercial Banks in Kenya

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A management research project submitted in partial fulfillment of the requirements for the degree of Masters in Business Administration, Faculty of Commerce, University of Nairobi.

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DECLARATION

This project is my original work and has never been presented for a degree in any other university.

Signed ....

Date 21/10/05 ....

Perpetual Wairimu Muthigani

This project has been submitted with my approval as the University supervisor

Signed ....

Date 21.10.05 ....

Mr. George Omondi,
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University of Nairobi.

DEDICATION

I will bless the Lord at all times;

Praise shall always be in my mouth

My soul will glory in the Lord

That the poor may hear and be glad.

Magnify the Lord with me;

Let us exalt his name together.

Psalm 34:1-4

ACKNOWLEDGEMENT

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Profound thanks to my parents whose sacrifice and dedication towards my education has been enormous, “I truly thank God for you”

To my sisters and brothers without whose encouragement and support I would not have made it through the MBA program; I am very grateful- may God bless you all.

TABLE OF CONTENTS

ABSTRACT

Banks are constantly faced with the challenge of acquiring and maintaining the most competent employees available in the labour market in order to achieve its goals and hence gain competitive advantage within the banking industry. To achieve this, the banks have to attract and sustain credible employees and this can only be attained by having an adequate compensation package.

The study reported here is a survey of administration of employee compensation schemes among commercial banks in Kenya. The study explored the ways in which banks administer their compensation schemes. It also sought to find out the factors which influences the bank in choosing the type of scheme.

Questionnaires were issued to representatives of the human resources manager in the 43 banks. The data collected was coded and tabulated to indicate the means of the responses concerning the weights given to the factors which influence the choice of administration scheme.

An analysis of the data indicated that the dominant factors include: cost of scheme, number of employees, size of the bank and technology. The study also revealed that one way of getting the staff to stay longer and work harder is by making them 'part owners'. This can be achieved by involving them in 'compensation' decision making and by having articulated profit sharing techniques.

CHAPTER ONE

INTRODUCTION

1.1 Background

The core business of the bank is to lend money to clients and to receive money from clients for savings, transactions and payments. It is not the core business of the bank to manage the compensation system. Compensation processing, requires complete accuracy in reporting and also in its final product; the compensation package. With tax credits, student loans, maternity and paternity leave, sick pay and child maintenance, more and more social policy is being implemented through the compensation (Goro, 2003).

Deregulation of service, growing competition, fluctuation in demand and the application of new technologies are presenting a considerable challenge to service companies. Banks, building societies, insurance companies, airlines, and telecommunication companies as well as professional service firms, need a new approach to address this challenge. The non-profit sector, government and newly privatized utilities are also becoming increasingly aware of the need to improve their performance (Motter, 1999).

Organizations now find themselves in a situation where they have to ask themselves where they are heading to in terms of business processes and management. Most of the companies are shedding off non-core processes and merging other departments in an effort to improve performance. Compensation administration is one of the functions that are being studied critically by the banks (Medlock, 2001).

Walton, (1989) argues that in a competitive environment, human resources are the only resources that provide long-term competitive advantage. He believes that for many companies, the source of sustained competitive advantage lies not in the access to finance, but within the organization; in people and processes capable of delivering the customers' delight. To offer a real competitive advantage, however, these people must be the right ones and must be retained. Ensuring their economic goal is taken care of is one way of retaining and motivating them; this can be attained by offering them a fair compensation package which is brought about by assimilating adequate compensation schemes.

Compensation Schemes are established with the following objectives in mind; attracting and retaining qualified personnel, having equal pay for equal work and promoting a relationship between pay and commitment to organizational goals

Compensation schemes must be molded to fit the current and prospective banking environment including constraints imposed by the public, unions and employees. These policies provide guidelines for selecting specific compensation programs.

Administration of compensation schemes refers to the way the organization intends to compensate its employees, what it compensates for and how it goes about selecting the mode of compensation (Finnigan,1983). Churchill (1982) emphasizes the pivotal importance use of financial rewards to motivate employees. Accordingly, he considers the role of compensation control, which he defines as the proportion of incentive pay in the total compensation of employees. The entire compensation package includes wages, salaries, benefits and incentives (Wendell 1998). Wages refer to an hourly rate of pay mainly administered to manual workers. Salaries are fixed periodical payments to an employee; they could be weekly, monthly or annually.

Employee benefits are elements of remuneration given in addition to the various forms of cash pay. They can be tangible or intangible. Tangible benefits include elements which are not strictly remuneration such as annual holidays. Intangible benefits are related to the need for personal recognition and the desire to go on learning and developing. They are vital, for employees prefer to work for an employer who is caring as well as challenging and successful.

Benefits can be divided into the following five categories (Wendell, 1998).The first category is of pension schemes, these are deferred pay financed by contributions which build up

rights to a guaranteed income for employees or their dependants on retirement or death. The second is of personal security, these are benefits which enhance the individual's personal security with regard to illness, health, accident or redundancy.
The third category is of personal needs, these are entitlements which recognize the interface between work and domestic needs, such a as child care, leave, recreation facilities, retirement counseling and health. The fourth category is of financial assistance, these include house loans, house purchase assistance, relocation assistance and fees to professional bodies. The fifth category is composed of other benefits which are meant to improve the standard of living of the employees such as subsidized meals, clothing allowances, refund of telephone costs and credit cards facilities. Employee benefits have become increasingly costly to employers.

Incentives refer to financial or non-financial rewards to employees who make substantial contributions to organizational effectiveness. Some tie reward to the output of individual employees: other rewards the productivity of the group while others are based on the overall profitability of the organization. Incentives are meant to encourage employees to achieve specific organizational goals, such as increasing profits, lowering costs, raising productivity and improving product quality.

Piece rate plan is compensation based on the number of units produced. The worker is guaranteed a base rate and is paid extra for production above the rate. This is mainly used in banks. Under production bonus incentive, workers who surpass minimum production are given a bonus payment based on costs savings associated with higher savings. Properly planned, installed and administered incentive plans can increase efficiency and productivity, decrease costs, and hence increase the pay of employees (Churchill, 1992).So as to attain competitive advantage, banks have introduced a royalty incentive which is awarded to those who have invented a successful product like the mobile banking.

1.2 Commercial Banks

Commercial banks are corporations which in addition to the general powers incident to corporations, are authorized to accept drafts and issue letters of credit; discount and negotiate promissory notes, drafts, bills of exchange, and other evidences of debts; receive deposits; buy and sell foreign exchange; and lend money against securities (Buenaventura, 2004).

According to the Central Bank of Kenya (CBK)Economic report (Sept .2004), commercial banking took root at the turn of the 20th Century. Currently, there are 43 registered banks in Kenya. The banking sector in Kenya was afflicted by a lot of turbulence in the early 1990's. Rapid inflationary increase in the money supply accompanied the widespread fragility and fraud in the sector. Under pressure from the World Bank and IMF to correct the anomaly, Central Bank of Kenya put 16 financial banks under liquidation in the periods of 1993-1994, while recapitalizing others.

Banks aim at keeping their fixed costs low and at the same time keep and increase their employees' productivity. They hence adopt the policy of 'pay for performance' which makes every employee's compensation variable and dependent on his productivity and the success of the bank (Ulrich, 1998)

Administration of compensation schemes

Compensation scheme is not only complex but sensitive as well. The way it's administered will determine the extent at which the human resources unit will help in achieving competitive advantage. The following are the means by which organizations may administer their compensation schemes (Finnigan, 1983).

In-house- the organization opts to administer its compensation schemes internally. It has therefore to hire professionals who will administer the schemes in the appropriate way. Since all the issues are dealt with internally, the risk of having monotonous policies is quite high for the degree of exposure is quite low.

Partially outsource- the organization decides to have some of their compensation schemes administered internally whereas others are outsourced. Proper evaluation is required so as to ensure the firm outsources only the schemes which do not add value to the firm if internally done.

Wholly outsource- all the compensation schemes are outsourced from potential service providers. The service providers are specialized in various areas like- insurance and pensions. The firm will hence be required to seek the service provider which will meet majority of its needs. This may be quite expensive but it enables the firms' management to focus on their core functions which may lead to profitability.

Factors that influence the mode of administration of employee compensation schemes

According to Finnigan (1983), certain factors influence the mode of administration of employee compensation schemes, such include:-

The number of employees in a firm greatly influence the mode of compensation for the higher the number the higher the chance that the firm will opt for outsourcing. This is because a more elaborate scheme will be required so as to cater for all the employees. The cost of the scheme is also a vital factor, the firm is expected to gauge whether it is profitable to outsource or to internally carry out the entire compensation scheme. This will be determined by the net profit. Confidentiality is a crucial factor for it is deemed un-ethical to expose the pay of the senior staff to the juniors, this can only be avoided by allocating this duty to an outsider who is obligated by law not to release such data.

The demand for service providers is higher than its availability, this causes delay and time wasting leading to some firms pulling out and preferring to administer compensation internally. Technological factor is of great influence .There has been great technological impact which has continued to reshape business. This has enabled some firms to be able to perform some tasks which previously could only be handled by a service provider. The history of the firm influences the choice of scheme for a firm may opt to practice a particular scheme not because they can justify their choice but because they firm has been practicing it for a long time. Hence some firms administer certain compensation schemes because it is the tradition of the firm to administer it.

The size of the organization determines the compensation plan that will be used. A big firm demands a more elaborate compensation scheme whereas a small firm will have a smaller scheme that is not as complex for the employees are few and can be handled easily with little effort. Government tax regulations, more so in employment taxes, can be of enormous influence. Firms will need to stay on top of changes and monitor the same in its compensation administration structure so as to avoid being caught in a non compliance situation by the government. The higher the degree of outsourcing, the higher the taxes.

Competition is of great influence for firms move with and copy their competitors, if the competitors go for a particular scheme, they feel compelled to go for it as well. Company policies are expected to be adhered to irrespective of the human resource manager's view. If the firm had set a policy of wholly outsourcing then the same has to be applied. Lack of focus on employees' welfare is a factor which is evident in many companies for some firms are so busy performing other duties of the firm which they deem as more important than the compensation aspect. They hence fail to adopt administration schemes that suit the caliber of their employees.

1.3 Statement of the problem

Commercial banks have defined which business they are in. Once the business is defined, they direct their resources to their core competence and being market oriented, they have focused on this competence. In addition, cost reduction policies have been applied through process innovation that lower operation costs (Boncek, 2004).

Commercial banks have a number of options to choose from in administering employees' compensation schemes. They may wholly administer the scheme in-house, partially outsource or wholly outsource it. Compensation is a painstakingly detailed process with no margin for error. It is a function that constantly is under deadline, and employees do not empathize with organizations that don't pay them accurately and on time.

Businesses have many options for processing payroll. They range from in-house processing, using internal or vendor-supplied software, to outsourcing some or all functions from an independent compensation provider (Medlock, 2001).

The more variables involved in the compensation, the more it makes sense to use compensation outsourcing. Compensation service companies can calculate payroll, adhere to the latest tax obligations, print and deliver cheques, and provide management reports. Despite the potential savings, cost is not the primary reason why most firms make the compensation outsourcing leap. They want to get rid of the hassle of internal processing. Often, it's only after they begin using a payroll service that they realize they're saving money (Medlock, 2001).

Several studies have been done on compensation in different sectors.

Kilika (1999) carried out a study on managers' compensation preferences and the existing schemes in Cooperative Bank of Kenya, this study highlighted the issues that the bank focuses on while compensating it's staff. Serem (2003) did a survey of the outsourcing of human resources services by banks. The study discussed the services outsourced by banks. Ndungu (2003) carried out a research with the aim of establishing the determinants of commercial banks profitability, the focus was on factors that reduces the operating costs leading to profitability. Tsimbinos (1995), of University of South Australia, researched on compensation schemes in Australia banks.

However, no study has been done to show how commercial banks in Kenya administer their compensation schemes. It is this gap that necessitated

This study attempts to answer the following questions which have not been answered by the above mentioned studies:-

- How do the commercial banks manage the administration of employee compensation schemes given that it is not a core business of the bank?

- What factors influence administration of the compensation schemes by commercial banks in Kenya?

1.4 Objectives of Study

The objectives of this study are:-

1. To determine how commercial banks administer employee compensation schemes.
2. To determine factors that influences the choice of administration of employee compensation schemes among commercial banks in Kenya.

1.5 Importance of the Study.

The study is expected to benefit the following groups:-

Employers - will be able to assess their compensation schemes vis a vis other organizations' schemes and be able to adopt the most appropriate ones.

Academics - it is expected that the study will stimulate interest in the subject and add to the literature currently available on the subject of compensation schemes in Kenya.

Computer experts - it is expected that computer experts will be motivated in seeking and developing computer packages as well as generate HRM systems that will facilitate and enhance the management of compensation schemes.

Service Providers - it is expected that firms that are outsourced by the banks will enlarge their scope of service for they will detect the potential areas that they have not fully covered.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Compensation is concerned with rewarding employees in respect of their employment relationship. This could either be pecuniary or non pecuniary. These benefits include basic salary, bonuses, contributory pensions, gratuities or provident funds, car loans, mileage allowance, education for children, entertainment allowance, low cost mortgages, free tickets, overseas, housing allowance or owner occupied, medical allowance and utilities (Copeland, 1988). Employee compensation refers to all forms of pay or rewards going to employees and arising from their employment. It has two components: direct financial payment (e.g. wages, salaries, incentives, commissions and bonuses) and indirect payments (e.g. employer – paid vacations).

The compensation function is complex and difficult to manage, requiring a multitude of skills and knowledge in the areas of compensation administration, human resources, finance, technology and management. Although organizations derive no competitive advantage from payroll activities, the function is still critical to business operations (Executive Alliance Online, 2003).

Pay accounts are one of the greatest investments an organization makes. Although a fair wage is the cornerstone of the contractual and implied agreements between employees and employers, the underlying assumption is that money can directly influence behavior. Many employees and managers believe that simply increasing what people are paid will make them more motivated, productive and/or loyal.

According to Parker (2001), employee commitment remains a critical issue in many organizations. Compensation acts as a primary factor in attracting and retaining workers who are necessary to corporate success. It is a fundamental human resources and business lever.

The challenge for HR managers in many organizations is to change executives' tendency of viewing compensation as an expense, but instead regard it as an important human resource investment. An investment in people requires specific measures and focused processes so as to align people with business strategy. Successful organizations will not only recognize, distinguish and compensate true performance but will also celebrate both individual and group accomplishments. Accurate comparisons obtained by market compensation surveys are critical to ensure that wages are aligned with industrial standards.

2.2 Administration of Compensation Schemes in Commercial Banks

According to Executive Alliance (2003), a poorly managed compensation creates disruptions that significantly reduce employee morale and productivity.

In today's highly competitive business environment, no organization can afford to have its employees distracted from their work. It is therefore imperative that compensation departments consistently produce paychecks that are timely and accurate, without consuming excessive resources in the process.

Establishing a well-run compensation function is not a simple task. Some of the key challenges faced by compensation management are:

1. Deciding which compensation functions if any to outsource.
2. Ensuring that compensation services are cost-effective and seamless to the organization by eliminating waste and errors.
3. Maintaining compliance with changing government regulations.
4. Balancing the dual roles of transaction processor and customer service provider.
5. Attracting, retaining and developing highly competent compensation professionals.

For a bank to carry out its compensation effectively with minimum costs, satisfy employees and maintain market-leader profits status, it has to design a good compensation scheme. Copeland (1988) highlighted the following four main objectives that an administrator should have in mind when designing a compensation scheme.

1. The scheme should be easy to monitor and be based on objective criteria, easily observed by all concerned parties; and incapable of being manipulated.
2. The scheme should prevent excessive perquisites of management and should minimize shirking.
3. The scheme should attempt to match employee's work to that of owners but should recognize that owners can diversify away from idiosyncratic risk of the firm more easily than employees who have their human capital tied to the firm.
4. The tax efficiency of schemes should be compared. If two schemes are alike in most regards but one is better designed to minimize tax liabilities of the firm and its employees, then its tax efficiency may become the decisive factor.

Most large banks have cut operational costs sharply, many to the point where further cuts threaten to jeopardize the quality of essential services. But another major cost-cutting opportunity is hiding in plain sight-compensation (Motter, 1999).

Banks employees are classified into two groups: the management and the unionisable staff. Major policy firms like Price Waterhouse-Coppers have stipulated guidelines on how management staff are to be compensated. Banks are expected to adhere to these rules in regard to the way they compensate their employees.

The Collective bargaining agreement is the governing tool of how unionisable staffs are to be compensated. Banks have a graded salary structure which consists of salary grades, each of which has a defined minimum and maximum. The actual salaries earned by a particular individual in a specified range depends on their performance and/or length of service.

The number of pay grades assigned to a pay plan varies from bank to bank. It varies from 10 to 20 percent for the unionisable and 20 to 50 percent for the management staff (Bassi, 1997). Merit increases represent the most commonly used form of salary increament in banks for junior staff while the length of service is the determining factor for the senior staff.

Banks are required to pay time and one half the regular rate of pay for hours worked beyond forty in one week to the non exempt employees. The rate of pay is determined by the number of hours worked and the quantity/quality of the duty performed.

Currently, banks are advocating for skill based pay for it leads to productivity improvements and it lowers operating costs. Rules are needed to control the wage and salary expenditure in the bank. One mechanism mainly used is the 'compa ratio' (short of comparative ratio) which is also a cost control tool.

$$\text{Comparative ratio} = \frac{\text{Average of all salaries in the grade}}{\text{Mid-point of the salary range}} \times 100$$

A comparative ratio of 100 means that the average within a grade is equal to its mid-point, a high value indicates the presence of a large number of long serving employees.

Managers are usually inclined to obtain more money for people who have reached the top of a range- particularly long serving employees for whom no genuine promotion is available. Such practices introduce inequities in administration of compensation, hence the need of controls.

In banks, pension is calculated as a fraction of the salary at retirement, mainly one-sixtieth of every year's service-n/60ths where n is the number of years worked. In regard to the sick-leave benefits there is an established length of time salaries or wages will be continued, when benefits will start and the relationship between benefits and length of service, the maximum sick leave that will be granted in any one year, and whether a physician's statement will be required as a proof of illness.

Health care costs are of particular concerns to banks. Some of the cost –containment techniques used by the banks include:-careful administration of medical claims, offering health care coverage through a health maintenance organization and workplace screening programs to identify serious problems early.

Tools used by the banks in managing benefits programs includes; benefits survey and focus groups. So as to control costs, banks embark on establishing deductibles and ceilings on benefits and even providing rewards for not using the benefits.

Employees pay a portion of their group insurance premiums, so as to increase their take-home pay and reduce the payroll taxes at the same time. To achieve this, insurance companies help the banks to establish either a premium only plan or flexible spending account.

A premium only plan offers a benefit to both the bank and its employees. It provides the opportunity to obtain favorable tax treatment. Employees' premium contributions are automatically deducted from their salaries before taxes are taken out. Taxable income is reduced by the amount contributed, so employees pay less in taxes, and have more take-home pay. With employees' pretax income lowered, employers pay less in social security payroll taxes.

A flexible spending account (FSA) offers a budgeting tool that helps pay for out-of-pocket medical, dental, and dependent care expenses not covered by employer benefit plans. Like a premium only plan, an FSA helps pay for itself by increasing employee take-home pay while decreasing employer payroll taxes.(Storey, 1992).

Employees decide how much of their salary should be set aside before taxes so as to pay for un-reimbursed expenses, like co-payments, deductibles, and even some over-the-counter medication. The amount is automatically deducted from their paycheck every pay period and is credited to their FSA account.

According to Motter (1999), to identify the costs, it is necessary to address the payroll process from end to end at the level of payroll sub processes: time reporting, employee data management, employee inquiry, pay calculation, payment distribution, deductions and remittances, payroll tax reporting, and payroll accounting. The primary factor contributing to differences in performance is the way organizations process compensation. These differences clearly result from employees working smarter, not harder.

Companies are recognizing that they want to reduce and control costs while improving service levels and other performance objectives. That is why many companies now see that strategically outsourcing compensation can save operational expense, eliminate investment in infrastructure and thus help them increase the return on their company's financial resources while contributing to improvements in quality (Medlock, 2001).

Medlock, (2001) continues to say that with the exception of the companies that outsource all functions, strategic decisions on outsourcing pervade. Some companies outsource just one function, the most prominent being tax filing. Companies need to evaluate the intricacy of their payroll system so as to determine what functions to out-source. If the employees work varying amounts of hours each week or need many different breakdowns of payroll costs, using a service provider may be the best decision. If a company pays employees in multiple states, it may make sense to hire a payroll service to take on the responsibility of keeping up with differences in state tax regulations).

Outsourcing has become one of the most-talked-about subject in business. Almost any senior human resources manager struggles to decide whether to outsource, what to outsource, and who the outsource provider should be. Several items are potential indicators of shifts in outsourcing, including external expenditures as a percentage of payroll, the percentage of contract staff used in areas of specialization, and the percentage of key compensation administration functions that are outsourced. The use of contract staff has been gaining steadily during the past few years (Beer, 2000).

It is widely important that a bank should not wholly outsource since they are fully involved in the job evaluation role of their employees. In most circumstances employees with greater responsibilities should be compensated more highly than those with fewer responsibilities (Martochio, 1959). It is the bank that can rank an employee most effectively since it has all relevant information including close contact at the work place. That means outsourcing would not be so much affective especially with the computer Aided Job Evaluation (CAJE) technique used by the highly computerized banks. When the banks do the compensation scheme themselves they will g roup jobs into pay grades, and then assign pay rates. However if they are large banks having hundreds or even thousands of jobs, the compensation committee will group similar jobs into grades for pay purpose. Instead of having to deal with hundreds of pay rates, it might have to focus on only 10-12 pay rates(Belcher, 1973).

A company has managers, professional employees, and technicians to compensate. For managers and professionals, their compensation presents unique problems since they have very different compensable factors which aren't easily compared and measured. Their economic impact only relates indirectly to his/her real efforts. The bank can therefore outsource wholly for technicians but outsource partly for the managers and professionals for better evaluation of efforts (Famularo, 1985).
In practice, banks rarely use traditional job evaluation methods for professionals since its difficult to quantify factors that make a difference in professional work (Sibson 1984).

Compensation trends in Kenya.

Skill Based pay (SBP).

The company pays for the employee's range, depth and type of skills and knowledge rather than the job title he/she holds (Ledford, 1995). This type of pay is directly related to one's competence. One expert defines competence as "demonstrable characteristics of a person including knowledge, skills, and behaviours that enable performance" (Ledford, 1995)

Broad banding.

Banks may decide to consolidate salary grades into just a few wide levels or 'bands' each of which contains a relatively wide range of jobs. Broad banding injects greater flexibility into employees' compensation (Hofrichter, 1996). Bands contain several skill levels. Workers must increase their skills and knowledge so as to shift to a higher band (Dufetel, 1991). With broad banding, a company may wholly outsource administration but for a skill based pay, the best way is to partially outsource.

In a recent survey, only 40% of the participants reported that they attempted to assess the effectiveness of their compensation schemes. Based on this survey, "there is little evidence that pay is seen as a management tool or that measuring and monitoring program effectiveness is an important priority". Payroll may be the single largest item in budget but that has not promoted many companies (including banks) to determine if they are getting enough bang for their buck (Risher, 1999). Another survey found out that only 34% of the organizations had an articulated compensation scheme and only 27% of the employees within these organizations understood the compensation scheme. Only 20% of the employees said the compensation scheme encouraged the desired behaviours (Dolmat, 1999).

In Dot.com companies competitive salaries for any positions increase too rapidly for any corporate compensation structure so as to keep up with changes. Furthermore, you don't just hire people to fill specific positions but you ensure you hire the best. Dot.com compensation schemes are said be very flexible for they link 'hiring pay' to 'competitive practice'. Research conducted by Price Waterhouse-Coopers (PWC) Ltd indicates that dot.com employees have specific expectations from their employers regarding compensation. These are in three categories namely; culture, rewards, and opportunity. There has to be work-life balance, competitive compensation and benefits, recognition for unique contributions, flexibility in career pathing and skill development opportunities. Due to the volatility of the compensation environment in dot.com companies, cash incentive programs have been developed in place of traditional compensation elements of choice (Weinberg, 2001).

Key points to consider when implementing compensation schemes.

The relationship between employee's effort and quantity/quality of output should be clear. There should be reasonable standards which should be viewed as the main contract with the employees. Necessary tools should be provided so as to achieve the same (Gutherie, 1992).

Once the plan is working, caution should be taken before decreasing the size of the incentive. The compensation schemes should be implemented in such a way that it will be easy for employees to understand employers and be able to calculate their rewards for various levels of effort.

The work form should be regular, delays are to be minimized and the quantity should be deemed of less importance than the quality (Belcher, 1973). There is to be a strong link between the incentive and the strategy. The efforts and rewards are to be directly related. and the incentive plan should reward employees in direct proportion to increased productivity or quality.

Good measurement systems should be used. In the case of merit pay, the process used to appraise performance must be clear and fair (Kohn, 1998). There should be great emphasize on long term and short term goals. The corporate culture should be considered. and the compensation expert should make the incentive plan consistent with the culture they so want to create (McKenzie, 1998).

2.3 Factors that influence the administration of compensation schemes

The factors influencing the administration of compensation schemes are either externally or internally determined. The internal ones include the size of the firm, the management and the type of employees. The external ones include the government policies and competitors (Finnigan, 2004).

The internal factors can easily be regulated from within but the external ones are hard to be regulated by the firm. The cost factor is the dominating one for it is the aim of any organization to minimize their operational costs and increase their profitability.

Competition plays a key role in determining the way firms administer their compensation schemes. Attaining and sustaining competitive advantage is deemed as a sign of success, each firm therefore decides to outshine the other by adopting schemes which will enhance its performance. This is done by attracting and sustaining credible employees.

According to Finnigan (1983), the number of employees is vital when considering the type of compensation schemes to administer. The larger the size the more complex the scheme is expected to be and the more time it will consume in its implementation. In such a situation, it would appear appropriate to hire a service provider.

Other factors that a compensation committee needs to consider are: -

Legal considerations

Various laws expounding on minimum wages, overtime rates, and benefits ought to be considered. Other considerations include discrimination based on race, religion, color, sex and national origin. The Labour Standards Act of 1938 and Equal pay Act of 1963 are all legislations regarding compensation. (Dessler, 2003). Employee Retirement Income security Act (ERISA) of 1974 provides for the creation of government-run employer-financed corporations to protect employees against failure of their employer's pension plan.

For such, the bank partly does compensation wholly on its own but it is supervised by the government. ERISA sets vesting rights and regulates the portability rights (the transfer of an employees vested rights from one organization to another).

Union influences on compensation decisions.

Unions and labour relations influence pay scheme design. Employees have a right to organize and bargain collectively regarding the efficiency of a compensation scheme

(Henderson, 1988). Such unions include the Kenya National union of teachers (KNUT) among many others.

Corporate policies and competitive strategy.

The compensation scheme should further the firm's strategic aims, hence the management should produce an aligned reward strategy. In other words, it should ask, "how can I construct a total portfolio of reward programs that link to short and long-term business success, drive shareholder value, encourage the required behaviours, and deliver true value to our employees?" (Dolmat, 1999). In compensating expatriate employees, Hodgetts 1993) says that the home based pay scheme should be the determinant. However, (Kaman, 1999) pinpointed that the host-based compensation scheme should be applied. In such a case, the compensation is done by a combination of the employer who provides the basic salary and financial benefits while the host country's facilities in provision of other benefit like transport and medical benefits.

Equity and its impact on compensation.

Everyone tends to think they are compensated less than they deserve. The compensation has to compare favorably with other organization or an employer will find it hard to retain good employees. Therefore, in deciding on outsourcing (wholly or partially) or doing the compensation themselves, the employers should ask themselves "what factors are considered when my compensation is determined?" (Kaman,1991). When employees become aware of inequities in compensations, discouragement arises and even violent conflicts may result.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This is a cross sectional survey.

3.2 Population

The population of interest for the study comprises of all the forty three(43) commercial banks licensed to carry out banking business in Kenya. (Central Bank of Kenya Economic Report, Sept. 2004)

The complete list of the banks is shown in Appendix III.

Banks under statutory management will not be considered because of their legal status and uncertainty of their continuity.

3.3 Data Collection

The data collection instrument will be a semi-structured questionnaire (see Appendix II), which will be administered by the researcher. The respondents will be the heads of units responsible for administration of compensation schemes in the bank. The drop and pick later method will be used.

3.4 Data Analysis

For objective (1), the data collected will be analyzed using percentages, tables and charts to represent the response rate and information on variables considered in the study.

For objective (2), the data collected will be analyzed using mean scores to determine the weighing of factors and importance of each factor.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 SAMPLE DEMOGRAPHIC

The data analysis was guided by the objectives of the study which were:

- To determine how commercial banks administer employee compensation schemes.
- To determine the factors that influence the choice of administration of employee compensation schemes among commercial banks in Kenya.

The data was collected from all the 43 banks listed in Appendix III. The response rate was very good with 100% of the target responding to the questionnaire. The data from the completed questionnaire is summarized and presented in the form of tables, percentages and graphs.

The tables, pie charts and graphs below present the demographic characteristics of the respondent, which include ownership, proportion of ownership, geographical scope of operations, number of branches in Kenya and the number of employees.

4.1.1 OWNERSHIP

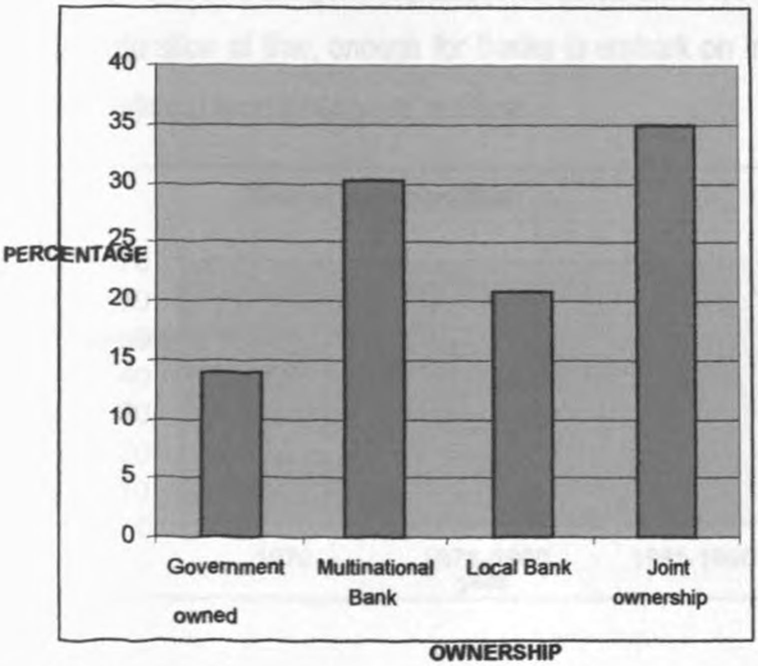

Figure 1

From the sample of 43 respondent banks, six (13.95%) are owned by the government, thirteen (30.23%) are multinational banks, nine (20.93%) are owned by the locals, while 15 (34.88%) are jointly owned. Twenty four (55.8%) of the banks are largely foreign owned while nineteen (44.2%) are largely locally owned. Local ownership implies that a bank is owned by either the government, local individuals or both.

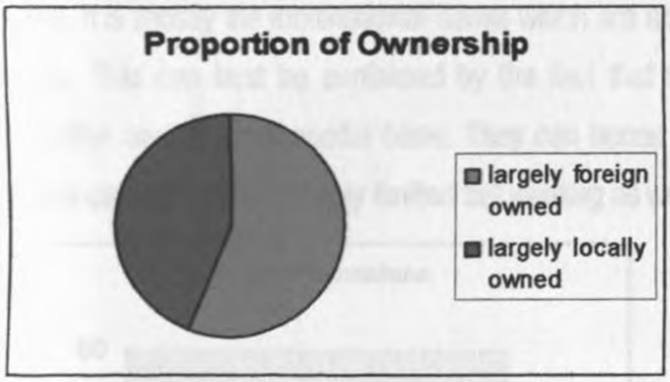

Figure 2

4.1.2 YEAR OF INCORPORATION

In this part of the research, it was established that twenty six (50.5%) of the banks were established between 1971-1980, sixteen 37.2%) began before 1970, while only 2.3% began during 1989-1990, meaning that the majority of the banks in which the research study was done are generally above 25 years old since their incorporation. This is quite a long duration of time, enough for banks to embark on in-house administration schemes if their interest is on employees' welfare.

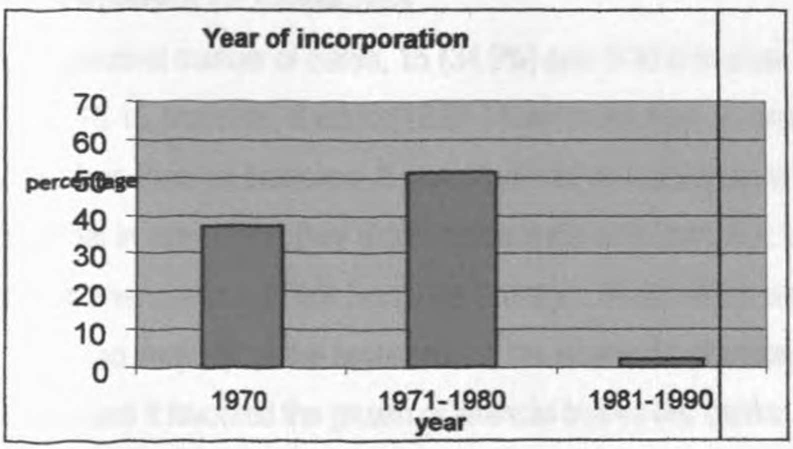

Figure 3

4.1.3 GEOGRAPHICAL SCOPE OF OPERATION

This scope was divided into national, regional and international. The banks that operate at both the national and international geographical areas tied at 11 each (i.e. 25.6%) while those that are regional topped the list with 21 banks (48.8%). It was observed that most of the government owned and locally owned banks either operate in the regional or national levels. It is mostly the multinational banks which are active in the regional and international levels. This can best be explained by the fact that multinationals have a wide base of operation and a stable capital base. They can hence easily expand unlike the local ones whose capital base is not only limited but wanting as well.

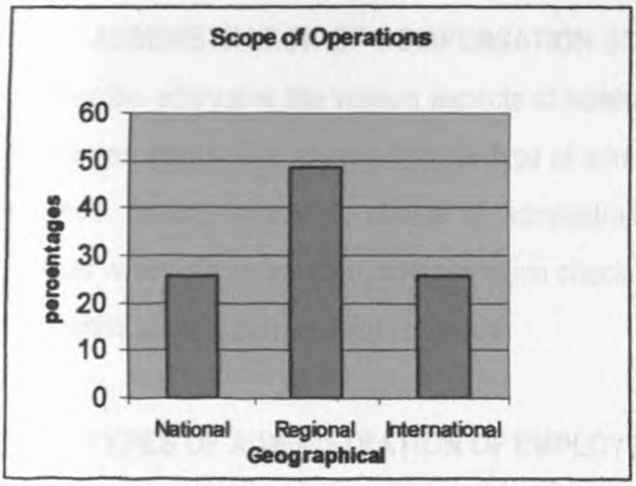

Figure 4

4.1.4 NUMBER OF BRANCHES

The greatest number of banks, 15 (34.9%) own 6-10 branches in Kenya; 14 banks (32.6%) have 10-15 branches, 8 banks(18.6%) have more than 15 branches, while 6 banks (13.9) have less than six branches .It was observed that since most banks were multinational or regional in operations, they didn't concentrate their branches locally hence the occurrence of this phenomenon of few branches in Kenya. Banks which were started in between 1970-1980 had majority of the branches for the economic situation in Kenya by the was quite stable and it favoured the growth of financial bodies like banks

4.1.5 NUMBER OF EMPLOYEES

It was observed that 39.5% (17) of the banks have 100-400 workers; and banks which have between 500-1000 workers and over 1000 workers each consisted 30.25% of the banks. The study discovered that the reason why majority of the banks have fewer workers is because of the cost of maintaining the employees. Banks always aim at minimizing their operation costs; they would rather overwork a single employee than employ an extra one.

4.2 ADMINISTRATION OF COMPENSATION SCHEMES

This section addresses the various aspects of administration of compensation schemes in our Kenyan banks. The aspects include type of administration of employee compensation schemes, factors influencing choice of administration method, name of compensation services which are outsourced, compensation check list and factors influencing the choice of administration of compensation scheme.

4.2.1 TYPES OF ADMINISTRATION OF EMPLOYEES COMPENSATION SCHEMES.

Thirty-nine banks (90.7%) partially outsource compensation services for their employees, as per our observation this was done in conjunction with hospitals, insurance companies, retirement authorities and social funds among others. Arising from the small number of employees i.e. 100-400, and the high cost of compensation outsourcing, only 4 (9.3%) banks do in house administration of their employee compensation schemes. In order to keep a hold on what is happening with the compensation schemes, it was noted that no bank wholly outsource its compensation services. The government does play a role in this case for it requires certain services like pension to be controlled by a specialized entity for accountability sake. This compels certain banks to outsource such services even if they have the capacity of administering it internally. The number of employees determines the type of scheme selected. 4(9.3%) banks which practice in-house administration have the least number of employees.

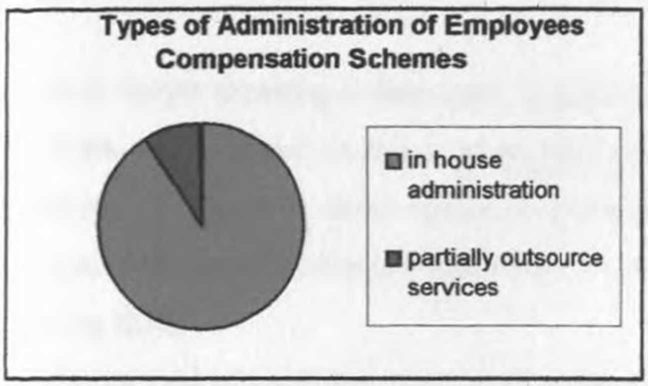

Figure 5

4.2.2 FACTORS INFLUENCING THE CHOICE OF THE MODE OF ADMINISTRATION OF COMPENSATION SCHEMES.

According to the respondents there are a total of thirteen factors influencing the choice of administration of compensation schemes. However, the factors don't have the same weight. Their weights are as follows

Factor		Weight	Percentage
	Cost of compensation	43	100%
	Number of employees	34	79.1%
	Technology	43	100%
	Size of the firm/bank	33	76.7%
	Availability of service providers	11	25.6%
	Government policy and regulations	10	23.3%
	Lack of know how	3	7.0%
	Bank policy	6	14.0%
	History of the firms	1	2.3%
	Competition	15	34.9%
	Tradition	1	2.3%
	Management's decision	4	9.3%
	Knowledge of service providers existence	2	4.7%
Mean weight/percentage		**15.8**	**35.9%**

Table 1

The mean weight according to descriptive statistics was 15.8 while the mean percentage was 35.9%. All the factors which are above the mean were deemed as the major factors determining the choice of administration of compensation schemes. The leading factors were cost of the compensation and technology which were considered by all banks, they attained a 100%.

The other two major factors were the size of the bank and the number of employees. Other minor factors were: availability of service providers, 11 banks (25.6%); government policy and regulations, 10 banks (23.3%); lack of know how, 3 banks (7.0%); banks policy, 6 banks (14%); tradition, 1 bank(2.3%); management's decision, 4 banks (9.3%); and knowledge of the service provider's existence, 2 banks (4.7%).

So as to be at par with the steep competition facing the industry, banks have to be dynamic. They have to let go of historical procedures that do not add value, that is well explained by the findings which show that the history of the firm and traditions have the least effect in influencing the choice of compensation scheme.

4.2.3 SERVICES OUTSOURCED BY BANKS

The compensation schemes that are highly outsourced were: pension with 83.7%, benefits with 65.1%, medical schemes with 76.7% and insurance with 83.7%. Most banks do not have special programmes to cater for insurance and pension and have therefore to turn to insurance companies and NSSF respectively to help them in compensation. Managing the pension and insurance schemes requires expertise for they are not only complex but sensitive as well, they can easily be abused. It is for this reason that the banks largely prefer to outsource the pension and insurance services for this leaves them with ample time to embark on their core business. It also safeguards them from the risks involved, for such risks are shifted from the bank to the service providers.

4.3 COMPENSATION PRACTICES

(N.B a scale is used of 1 to 5 where 1 implies very large extent and 5 implies no extent).

Table 4.3

Practices	1	2	3	4	5
Standardization and modification of pay practices that are high cost and low value	9	28	4	1	1
Reducing number of pay cycles	2	13	25	1	2
Simplifying compensation process by reducing the number of time reporting techniques	3	15	23	1	1
Consolidate the employees' data base and automate data maintenance.	2	17	23	1	0
Provision of 24hr access to employees data and expert systems for answers to enquires	3	19	17	3	1
Attain close to 100% participation direct pay deposits and elimination of paper pay by providing pay statement electronically	4	18	20	1	0
Leverage technology and use it aggressively to automate routine task	2	19	19	2	1
Manage compensation as a business with service level agreements and an effective system of "menu pricing" and charge back along with performance measures of cost productivity process quality & customer service	7	15	19	2	0

Table 2

According to the above summary, it is evident that all the compensation practices are practiced to an average extent by all the banks. However, it is noticeable that there are no composition practices which are practiced to a large extent and also not many banks ignore any of the compensation practices. The findings clearly portrayed compensation practices were not given the attention which they deserved. Banks have highly assimilated all the recent technological aspects in their core operations, mainly in ATM's and e-banking. It was expected that the same would be reflected in their compensation practices but the findings clearly show that the impact of technology is not applied to a large extent in the compensation segment.

4.4 PROFIT SHARING IN BANKS

		Strongly agree	Agree	Don't know	Disagree	Strongly disagree
a	Its popular because employees like bonuses.	42	1	0	0	0
b	It strengthens employee loyalty to the bank	35	8	0	0	0
c	It makes employees work more effectively	31	12	0	0	0
d	It is good for the company and the employee	24	17	0	2	0
	Mean	**33**	**9.5**	**N/A**	**0.5**	**N/A**

Table 3

Profit sharing is a method which is employed in compensating the employees. It can be noted that majority of the banks feel that profit sharing is not only popular to the employees but it's good for the company too. The mean score of strongly agreed was 33, agreed was 9.5, while that of disagree was 0.5. Banks regard profit sharing not only as a good incentive for their workforce, but a tool that helps to keep their employees happy (Table 3).

In the developing countries, there have been concerns that highly leveraged compensation packages have contributed to employees acting in their own interests at the expense of the share holders and other banks stakeholders, and sometime acting illegally. But the above findings show that profit sharing enables the employee achieve the intended goals without leaving the organization open to such risks.

4.5 BENEFITS INCLUDED IN THE COMPENSATION PACKAGE OF BANKS

1= 0-25%; 2= 25%- 50%; 3= 50.1% - 75% ; 4=75.1% - 100%

According to the following table, sick leave / personal days is a benefit which is used to the greatest extent with 33 banks using within 75.1% - 100% . Other benefits like vacation are slightly included in the compensation package for only 5 banks engage it in the high class of the 75.1% - 100%.

Sick leave / personal days are entitled to the entire work force hence the high rating.

Benefit	Extent			
	1	2	3	4
Sick leave / personal days	5	1	4	33
Vacation	4	8	2	5
Car allowance	2	10	20	11
Pension plans	1	12	15	15
Mean	**3**	**8**	**16**	**16**

Table 4

4.6 COMPENSATION CHECKLIST.

According to the data analysis, it was discovered that all the banks have their salary administration in writing. They all seek compliance with the law regardless of whether they are government owned, multinational or jointly owned. 80% of the banks stated that they are consistently rewarding their employees. 95 % of the banks quoted that attracting quality employees is one of their goals mentioned in their compensation plans. This can best be explained by the fact that banks always strive to get the best employees in the market. All the banks indicated that their main goal in the administration plans is to reduce the turnover rate for the higher the rate of turnover, the higher the degree of instability.

Medical leave and long term disability are deemed as crucial factors in the compensation plans with all the 43 banks stating that they are included in their salary administration plan. This is explained by the fact that medical leaves comprise about 65% of the compensation package which is quite a relatively high rate bearing in mind that they can easily be abused by the employees. Inclusion of experience in the analysis is rated higher than factors like knowledge and skills. Most of the plans for salary administration are in writing for most banks. It was found that 95 % of the banks prefer writing employment contracts with their employees. The remaining 5% reflected the employees who are paid wages. It was actually found that even banks which employ on commission basis have contracts signed with their commissioned employees.

The study clearly showed that there is no bank which communicates compensation plans to its employees despite the fact that such communication is of profound importance.

4.7 FACTORS IMPORTANT IN INFLUENCING THE CHOICE OF ADMINISTRATION OF COMPENSATION SCHEMES.

1= strongly influence,2= influence,3= fairly influence,4= slightly influence,5= no influence.

	Extent					
	Factor	**1**	**2**	**3**	**4**	**5**
1	Number of employees	37(86%)	6(14%)	0	0	0
2	Cost of administration	39(90%)	4 (10%)	0	0	0
3	Availability of service provider	28(65%)	14(33%)	1(2%)	0	0
4	Technology	28(65%)	13(30%)	2(5%)	0	0
5	History of the firm	6(14%)	7(16%)	30(70%)	0	0
6	The size of the firm	30(70%)	9(20%)	4(10%)	0	0
7	Government regulations	7(16%)	26(61%)	10(23%)	0	0
8	Competition	6(14%)	7(16%)	30(70%)	0	0
9	Company policy	6(14%)	7(16%)	30(70%)	0	0
10	Lack of focus on employees welfare	4(10%)	6(14%)	33(76)%	0	0

Table 5

According to the table, all the mentioned factors influence the choice of administration scheme, this is because there no factors which were reported as slightly influencing or having no influence at all. Cost is the leading determining factor with 39(90%) banks quoting it as the leading factor. The number of employees was quoted second by 37(86%) banks. Lack of focus on employees welfare was quoted the least by 4 (10%) banks. In other studies, technology has emerged as the greatest factor influencing the choice of operations. However, it was rated third in influencing the choice of schemes. The variation in rating due to the fact that the cost of the scheme and the number of employees directly influence the compensation package whereas technology indirectly influences it for the higher the level of technology, the lower the rate of outsourcing.

CHAPTER 5
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

This chapter discusses and summarizes the finding of the study as they relate to the objectives of the study. It also includes the limitations of the study as well as suggestions for further research.

According to Finnigan (1983), administration of compensation schemes refers to the way the organization intends to compensate its employees, what it compensates for and how it goes about selecting the mode of compensation.

Banks mainly focus on the activities that generate income, namely profit mobilization, financial investments and credit management. They barely focus on compensation. However, to achieve their goals, they need to employ and sustain credible employees. This can only be achieved by having a viable compensation scheme.
The focus of this research has been on how banks administer their compensation schemes and factors influencing their choice of scheme.

In the first stage of the study, a cross tabulation was carried out so as to know the degree of ownership. It was discovered that six (13.9%) of the banks are owned by locals, thirteen (30.23%) are multinationals, nine(20.93%) by locals while fifteen (34.88%) are jointly owned. In such a scenario, no single category can claim total ownership. Further categorizing was done and it was revealed that twenty four (55.8%) were largely foreign owned whereas nineteen(44.2%) were locally owned. This could best be explained by the fact that majority of the banks were established between 1971 and1980. During this period, the Kenyan economy was not quite stable and the only banks which could be established then were the foreign ones.

The study reflected that majority of the banks, twenty nine (67.4%) own less than five branches in Kenya, this too explains why the majority have between 100-400 employees.

In the second stage, the study focused on the first objective which was to find how banks administer their compensation schemes. The study showed that thirty nine (90.7%) of the banks partially outsource compensation services whereas four (9.3%)practice in-house administration. The difference between the two categories is quite wide, it was noted that banks perceive outsourcing as a time saving notion, which leaves them with ample time for embarking on profit generating activities.

The compensation schemes that are highly outsourced were: pension with 83.7% of the banks outsourcing, benefits 65.16%, medical schemes with 76.17% and insurance schemes with 83.7%.

Salary processing for senior staff and education schemes each had 2.3% and hence aren't highly outsourced. They were only quoted by one bank. Most banks provide educations funds, under their own soft loans services or SACCOS and also use their human resource department for processing salaries for the senior staff.

The compensation plan is a very secretive issue in the banking sector. It was found that 95% of the banks do not communicate their compensation plans to their employees through the supervisors or through bulletins /boards/handbooks. This however is of great concern because communication is deemed to be a vital aspect in human resource management and employees ought to be informed of the compensation plans.

The second objective was to determine the factors that affect the choice of administration of compensation schemes. The study revealed that all the specified factors influence the choice of scheme. The banking sector always aim at minimizing its cost and this can easily be noted from the study for 39(90%) banks rated cost as the main factor. The second rated factor was the number of employees for the more they are the higher the total compensation package will be.

The following is a list of the factors starting with the most influencing one.

1	Cost of administration
2	Number of employees
3	The size of the firm
4	Availability of service provider
5	Technology
6	Government regulations
7	History of the firm
8	Competition
9	Company policy
10	Lack of focus on employees welfare

5.2 CONCLUSION

The following conclusions are drawn from the findings of the study:

It is evident that compensation schemes are not only complex but sensitive as well for they directly affect the performance of the bank. The findings have shown that banks partially outsource compensation scheme for this enables them to fully focus on main stream banking which is their core business. The findings further indicated that there are certain bodies which specializes in administering various compensation schemes like NSSF for pensions, NHIF for medical schemes.

The most important factor influencing the mode of compensation scheme is the cost factor. Banks aim at minimizing their operational costs so as to maximize their profit margin. Other prominent factors included the size of the bank, number of employees, availability of service providers and technology. The study has shown that there is a direct relationship between the size of the bank, number of employees and cost whereas there is an inverse relationship between the level of technology and the cost; in that the bigger the bank the higher the number of employees and hence the higher the cost of maintaining them, the higher the cost the higher the rate of outsourcing services. Consequently, the higher the level of technology in a bank the lower the degree of outsourcing.

No bank in Kenya communicates its compensation plans to its employees.

5.3 RECOMMENDATIONS

Compensation is a very important aspect of human resources. If well advocated, it can act as a tool for not only motivating employees but also improving their morale in order to achieve high productivity. The management should review their compensation schemes and have a greater focus on the same rather than just focusing on their core business. Since outsourcing is expensive, the management should come up with ways of substituting the outsourced services. This may easily be achieved if the various banks could come up with their own schemes for themselves-eg " a medical schemes run by various banks for banks."

Proper communication channels with respect to compensation should be established. This will not only enhance the flow of information, but it will also enable the employees to participate in decision making. When employees participate in decision making, they tend to be satisfied with the decisions made and would hence work towards achieving the goals of the organization.

The management should make practice 'factor rating' on the factors that influence the choice of administration of compensation schemes. An independent forum should be created to deeply analyze the same and pass their judgment to the management. Managers should take time to understand these factors and evaluate their impact on their bank. They must realize that they can not ignore such factors when making strategic decisions.

5.4 LIMITATIONS OF THE STUDY

The results of this study should be interpreted in the context of a number of limitations namely:

- This is a case study done on banks alone and therefore it may not be used for generalization purposes.
- The study may carry some of the weaknesses inherent in using questionnaires for data collection purposes. Answers to the questions may reflect an ideal situation rather than what is on the ground. The use of self-reported opinion is somewhat unreliable given biases of the respondent.
- The target respondents were heads of human resources units in the various banks. Some seemed unable to trust the intentions of the researcher and hence may not have sincerely responded to the questionnaire.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

In context of the above limitations, it is suggested that further research should be done on:-

- Administration of compensation schemes in other prominent organizations like, tobacco companies, insurance firm and hospitals.
- Communication- the vital but ignored factor in implementing compensation schemes
- Conflicts arising due to diversified interests in the compensation package.

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APPENDIX 1

LETTER TO RESPODENTS

University of Nairobi,

P.O Box 30197,

Nairobi.

Dear Sir/madam,

This questionnaire has been designed to gather information on administration of employees compensation schemes. This information is to be used to complete a research project, a requirement for a degree in masters of business administration at Nairobi University.

You have been carefully selected to take part in this survey. Kindly spare some time to fill the attached questionnaire to the best of your knowledge. This information is purely for academic purposes and all responses are strictly confidential. A copy of the research report will be available to you upon request.

Thank you.

Yours Faithfully,

Perpetual Wairimu

MBA student

APPENDIX II

QUESTIONNAIRE

A SURVEY OF COMPENSATION ADMINISTRATION PRACTICES BY COMMERCIAL BANKS IN KENYA

My name is Wairimu, an MBA (Human Resources) student at the University of Nairobi. I'm conducting a survey of administration of compensation schemes by commercial banks in Kenya. I would like to ask you some questions and I assure you that the information being sought is purely for academic purposes and any information revealed by you will be treated in strict confidence. Under no circumstance will your name or that of your organization be mentioned in the final report.

SECTION A

Q1 (a) How would you classify your organization in regard to ownership? **(Tick that which applies to you)**

1.Government owned ☐
2.Multinational bank ☐
3.Owned by locals ☐
4.Jointly owned ☐
5.Others (Specify)........................ ☐

(b) What is the proportion of ownership?

1.Largely foreign owned ☐
2.Largely locally owned ☐
3.Equally owned ☐

Q2 When was the Bank incorporated in Kenya?

1.Before 1970 ☐

2.Between 1971 and 1980 ☐

3.Between 1981 and 1990 ☐

4.Between 1991 and 2000 ☐

5.After 2000 ☐

Q3(a) Which of the following best describes the geographical scope of your operation?

1.National (Only in Kenya) ☐

2.Regional (in two or more countries in Africa) ☐

3.International (operating in more countries one of which must be outside Africa) ☐

(b) How many branches does your organization have in Kenya?

1. Less than 5 ☐
2. Between 6 and 10 ☐
3. Between 11 and 15 ☐
4. More than 15 ☐

(c) Currently, how many employees does the bank have? **(tick the appropriate number).**

1. Less than 100 ☐
2. Between 100 and 400 ☐
3. Between 500 and 1000 ☐
4. Over 1000 ☐

Q2 When was the Bank incorporated in Kenya?

1.Before 1970 ☐

2.Between 1971 and 1980 ☐

3.Between 1981 and 1990 ☐

4.Between 1991 and 2000 ☐

5.After 2000 ☐

Q3(a) Which of the following best describes the geographical scope of your operation?

1.National (Only in Kenya) ☐

2.Regional (in two or more countries in Africa) ☐

3.International (operating in more countries one of which must be outside Africa) ☐

(b) How many branches does your organization have in Kenya?

1. Less than 5 ☐
2. Between 6 and 10 ☐
3. Between 11 and 15 ☐
4. More than 15 ☐

(c) Currently, how many employees does the bank have? (**tick the appropriate number).**

1. Less than 100 ☐
2. Between 100 and 400 ☐
3. Between 500 and 1000 ☐
4. Over 1000 ☐

Q4.(a) Which of the following type of administration of employees' compensation schemes has your organization adopted ?

1. In-house administration ☐
2. Partially outsource services ☐
3. Wholly outsource services ☐
4. Others (please specify) ....

....

(b) Which factors, in order of importance, are likely to have influenced your organization's choice of type of administration of employees' compensation scheme stated above in question 4 (a)

1)____

2)____

3)____

4)____

5)____

6)____

7)____

8)____

9)____

10)_______________________________________

(c) Name services of administration schemes that you sometimes hire from external firms

1)____

2)____

3)____

4)____

5)____

6)____

7)____

8)____

9)____

10)____

SECTION B.

5) To what extent does your organization engage in the following compensation practices?

Use a scale of 1 to 5 where 1 implies very large extent and 5 implies No extent

Compensation Practices	1	2	3	4	5
Standardize basic compensation services and modify pay practices to eliminate transactions that are high-cost and low-value.					
Reduce the number of pay cycles.					
Simplify the compensation process by reducing the number of time reporting techniques.					
Consolidate the bank's employee databases and automate employee data maintenance and inquiry by using technologies, which enable employees to make specified changes in their records.					
Provide 24-hour access to employee data and expert systems that can provide scripted answers to inquiries.					
Attain close to 100% participation in direct pay deposit and eliminate paper by providing pay statements electronically.					
Leverage technology and use it aggressively to automate routine tasks.					
Manage compensation as a business with service level agreements and an effective system of "menu pricing" and chargebacks, along with performance measures of cost, productivity, process quality, and customer service.					

6) Most banks distribute profits to the employees annually, to what extent do you agree with the following? **Please tick the appropriate box.**

	1 Strongly agree	2 Agree	3 Don't know	4 Disagree	5 Strongly disagree
Its popular because employees like bonuses					
It s strengthens employee loyalty to the bank					
It makes employees work more effectively					
Its good for the company and the employees					

7) Indicate the extent to which the following benefits are included in the compensation package in your bank. **Please tick the appropriate box.**

	(1) 0-25%	(2) 25.1-50%	(3) 50.1-75%	(4) 75.1-100%	
a. Sick leave or personal days					
b. Vacation					
c. Car allowance					
d. pension plans					
e. relocation packages					
f. health clubs					
g. expense accounts					
h. Profit sharing					
i. Stock options					
j. Educational reimbursements					
k. company sponsored training					
l. financial planning services					
m. free parking					
n. Insurance					

(8) Kindly fill in the following administration of compensation checklist.

Please tick the appropriate box.

	(1) Yes	(2) No
Is your plan for salary administration in writing?		
Do you have stated goals for your plans, such as		
compliance with applicable law		
consistently rewarding performance		
attracting quality employees		
reducing turn over		
Does your plan include the following topics?		
annual wage and hour survey		
Explanation of salary schedules		
evaluation of job classifications		
premium, bonus, classification pay		
paid medical leave, long term disability		
Is there a written analysis for each job in your company?		
Does each analysis include:		
Knowledge		
Skills		
Experience		
Do you communicate compensation plans to your employees through:-		
Supervisors		
bulletin board/handbooks		

SECTION C

(9) Indicate the extent to which the following factors are important in influencing the choice of administration of compensation schemes. **Please tick the appropriate box.**

Factors	(1) Strongly influence	(2) Influence	(3) Fairly influence	(4) Slightly influence	(5) No influence
Number of employees					
Cost of administration					
Availability of service providers					
Technology					
History of the firm					
The size of the firm					
Government regulations					
Competition					
Company policy					
Lack of focus on employees welfare					

APPENDIX III

LIST OF BANKS IN KENYA

	LIST OF BANKS AND THEIR BRANCHES IN KENYA
	NAME OF BANK
	African Banking Corporation
	Akiba bank Limited
	Bank of Africa
	Bank of Baroda
	Bank of India
	Barclays Bank of Kenya
	Central Bank of Kenya
	CFC Bank Limited
	Charterhouse bank Limited
	Chase Bank (K) Limited
	Citibank N.A
	City Finance Bank
	Consolidated Bank Kenya Limited
	Co-operative bank of Kenya Limited
	Credit Bank Limited
	Development Bank of Kenya
	Diamond Trust Bank of Kenya
	Dubai Bank Kenya Limited
	Equatorial Commercial Bank Limited
	Fidelity Commercial Bank Limited
	Fina Bank limited
	First American Bank of Kenya Limited
	Giro Bank Limited

	Guardian bank Limited	
	Habib Bank A.G Zurich	
	Habib Bank Limited	
	Imperial Bank Corporation	
	Industrial Development Bank	
	Investment & Mortgage bank	
	Kenya Commercial Bank	
	K-Rep Bank Limited	
	Middle East bank of Kenya Limited	
	National bank of Kenya Limited	
	National Industrial Credit Bank	
	Oriental Commercial Bank	
	Paramount Universal Bank Limited	
	Prime Bank	
	Prime Bank Limited	
	Southern Credit banking Corporation	
	Stanbic Bank Kenya Limited	
	Standard Chartered Bank	
	Trans-National Bank Limited	
	Victoria commercial Bank Limited	

Kenya Bankers' Association, (2004)