COMPENSATION PRACTICES FOR MANAGEMENT STAFF IN INSURANCE COMPANIES IN KENYA

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DECLARATION

This project is my original work and has not been presented for a degree in any other university.

Signed: -- Date: 25.10.06 ------------------------------------

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This project has been submitted for examination with my approval as the university supervisor.

Signed: -- Date: 26.10.06 ------------------------------------

George Omondi

DEDICATION

To my Dear Wife, Esther Mwikali: -Whose love for education and wholehearted support encouraged me to pursue higher education. To my kids, Jannet and Grace

To My Dad, Mr. Ntarugo: -Who underwent pains to ensure I got the best in education. To my late Mum, Ntawiyahura - R.I.P

To My sisters: Nsengiyumva and Others, My brothers M. Alphonse and Others, including in laws: Without whose support I would not have made it

My dear friend, Peterson O. Magutu

May God bless them

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ABSTRACT

The major purposes of this study were to establish the compensation practices for management staff among the insurance companies in Kenya, and secondly to determine the factors that influence the compensation practices for management staff in insurance companies in Kenya.

The research was a census survey. Primary data was collected using a semi-structured questionnaire, which was answered by the human resources managers of 26 insurance companies out of 44. Data was analyzed using descriptive statistics i.e. percentages and distribution tables under the procedures in version 10 of the statistical package of social sciences (SPSS) to obtain values for further analysis to establishing the magnitude and the nature of relationship among the various variables.

One, reward was found to be a tool for motivating and increasing performance of management employees in the insurance companies, where the current compensation scheme offered to management is both fixed and variable and the future compensation scheme was a variable salary, which depends on one's performance or output. Secondly, the insurance companies determine the compensation rates for their management team as opposed to the legislation. Thirdly, the metrics used when rewarding management team's performance is the fiscal targets as opposed to cost reduction and productivity gains. Fourthly, the major objective the current compensation scheme is to motivate high-potential management employees but the major constraint is cost control. The two major offers given to management to attract and retain good people were medical subsidies benefits and retirement benefits.

Lastly, the major factors that are used in the determination of management compensation levels, the supply situation in relation to critical skills and the pay levels were the major factors under consideration, the power of organized labour and the influence of the business cycle, the level of education, seniority, experience and qualifications. It is also recommended that all managers and employees should be champions of an HRM based policies and philosophy in the company; a pay scheme based on past performance and management should be offered pay as an inducement for future performance.

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CHAPTER ONE: INTRODUCTION

1.1 Background

Organizations and human resources (HR) professionals are continually in search of ways to motivate and reward employees in order to increase their motivation and performance. One primary HR tool that is used to affect motivation and performance is compensation (Lawler, 1971). Recently, more emphasis has been on the use of variable compensation schemes, instead of fixed forms of pay (Green, 2003; Marks, 2001) in order to increase employee productivity and thus firm performance. A distinct advantage is that variable pay costs "flex in sync" with revenues when the plan is well designed (Green, 2003).

Flexible pay schemes entail individual, group, and organizational level forms of remuneration such as bonuses, incentives, on-the-spot bonuses, profit sharing, and various other pay-for-performance schemes. They essentially are based on a principle that suggests an individual's pay should vary based upon performance (of the individual, group, or organization). Fixed compensation tools, on the other hand, are preset, such as the traditional straight salary method of pay. Burke and Terry (2004) demonstrated, via the use of various economic concepts, how variable pay enhances firm's financial performance. However, there is increasing discussion in the literature about the need for determining an optimal balance between fixed and variable pay costs (Green, 2003; Rendell and Simmons, 1999). The important questions to consider include: how to define the "optimal balance" between fixed and compensation costs and how to reach that balance.

As Prendergast (1999) noted, incentives are provided to workers through the compensation practices of their employers. The manner in which workers respond to these incentives plays a significant role in determining both their individual level of performance and the performance of the organization as a whole. One of the key decisions that managers must make about their compensation systems is whether to use "fixed or variable pay", that is, input- or output-based (performance-based) pay (Lazear, 1995). The salience of this managerial decision derives from the expectation that neither one of these pay types produces universally superior results (Pfeffer and Langton, 1993). Thus, in some contexts, input-based pay will elicit better results, whereas in others performance based pay will be the optimum choice.

The reward systems must be clearly communicated, well understood by those affected and accepted as relevant. As noted by Lawler (1987), pay can be an effective motivator only if it is important to people and it is seen to be tied to their performance in ways that are perceived to be credible and direct. Finally, Cissell (1978) emphasizes the point that all employees should be included in the reward opportunities. Research has supported the fact that it is increasingly important to motivate indirect/support people to improve their productivity. It is vital that management visibly recognizes that such people are essential and significantly contribute to the organization's profitability.

The exact amount of money given to a person for work performed depends upon several factor, i.e. the work done, the way in which work is performed and the minimum pay for most rank-and-file jobs is preset by law, by labour contract, by community tradition or attitude or by some combination of these (Toedt et al., 1962).

1.1.1 Compensation

Compensation refers to all forms of financial returns, tangibles services, and benefits employees receive as part of an employment relationship. The common compensation practices may be directly inform of cash, for example, wages, bonuses, incentives, merit, base pay and cost of living adjustment. And/or the indirectly received in terms of protection programs, pay for time not worked and employee services and perquisites (Machin, 1997).

Labor market determines the level and distribution of income, i.e. individuals with regular wage payment are likely to be in the middle and upper income groups, while those without employment are poor, (Machin, 1997, DiNardo and Lemieux 1997). The labor market in Kenya has undergone some considerable liberalization in the last few years. By mid 1994, the government had allowed trade unions to seek full compensation for price increases without hindrance through wage guidelines (Republic of Kenya, 1995).

The relaxation of the wage guidelines made it possible for employees and firms to negotiate and change the level of wages on the basis of productivity and performance rather than on the basis of cost of living indices as was hitherto (Ikiara and Ndung'u, 1997). This has made real wage in the public and private sector remain positive after 1994.Firms are also allowed to appeal against wages awarded to the workers by the industrial court if they feel such wage awards affect their survival. After the implementation of trade reforms in the first half of the 1990s, it became evident that local firms faced stiff competition from imports. This made them adjust their employment levels thus the amendment of the redundancy laws in 19994, which allows the firms to discharge more easily the redundant workers when necessary (Ikiara and Ndung'u, 1997).

The informal sector account for 70.4% of the total employees outside small-scale agriculture compared to 63.6% that was in 1997. Employment in the formal manufacturing and service sector has not bee very stable due to stiff competition, high cost of investment caused by poor infrastructure, weak demand, thus, a decline by 0.6% (Republic of Kenya 2001; 2004). The turnover is a characteristic of large corporations, owner of mobile capital and professional, technical and managerial personnel (Ghai 1997). The effects of market forces in the labour market and capital market, in most cases, rise in interest rate and lower wages especially for those of unskilled labour (Ghai 1997).

This commitment to the best business practices, quality of service and assured customer care have called upon an optimal way of motivating the employees through a well designed scheme of compensation based on fixed and variable score, which have a prime importance in business endeavors of this nature. For the last several decades, the growing integration of the world economy into a single, huge marketplace has increased the intensity of competition in the world market to cut costs and increase profits in a wide range of manufacturing and service industries (Hill, 1994). Only the most efficient and best-managed organizations can survive. Money, benefits, and many different forms of compensation have been used to attract, retain, and motivate employees and achieve organizational goals around the world (Barber and Bretz, 2000; Chiu *et al.*, 2001; Lazear, 1998; Milkovich and Newman, 1999; Rynes and Gerhart, 2000; Tang *et al.*, 1998, 2000a,b).

1.1.2 Insurance Companies in Kenya

There are many positives to being a manager. Managers generally are paid more than others in the company. They appear to have more power. And the power and pay differences tend to give the position more status or prestige. There are many management functions in business and, therefore, many manager titles. Regardless of title, the manager is responsible for planning, directing, monitoring and controlling the people and their work. Certainly the top manager in a company, the Chief Executive Officer (CEO) is paid more than anyone else in the company. Managers below the CEO are generally paid more than everyone in their group as well, but not always. A manager may have the power to hire or fire employees or to promote them. In larger companies, a manager may only recommend such action to the next level of management. The manager has the authority to change the work assignments of team members. The insurance firms in Kenya have the following categories in their management staff structure (http://www.akinsure.com/default2.asp? active_page_id=89).

Senior Manager is a title given in a large company with a perceived need for additional levels in its management structure. In a hierarchy, Senior Manager falls between Manager and General Manger. A Senior Accounting/Finance Manager supervises a major accounting function. The Senior Manager of Design Engineering may supervise engineers and support staff engaged in design of a company's flagship product or service. An Accounting Manager supervises the Accounting function. An Operations Manager is responsible for the operations of the company. A human resources manager manages the human aspects and assets in the organization. The marketing manager does the marketing chores.

Insurance companies are part of the financial services industry. The industry contributes about 3 % to the Gross Domestic Product (Economic Survey, 2004). The insurance industry in Kenya has forty-six (46) insurance companies. Twenty-two of them are licensed to do life insurance business. Two local reinsurers are operating in the market while regional and international reinsures have representation in the country.

There are two classes of insurance. These are property insurance and life insurance. Property insurance is protection against loss of property while life insurance is protection against life. Life insurance products currently being sold in Kenya are; family protection, partnership protection, house purchase, financial planning, retirement planning. Investment, education, credit protection, key man insurance, funeral expenses and tax planning. Insurance companies face stiff competition from other financial institutions such as banks and savings and credit societies. This institution offer similar products like those provided by insurance companies.

Globalization and liberalization have opened up the economy to fierce competition. Rapid population growth, low economic growth and unemployment have resulted in increased poverty, crime and reduced purchasing power of the population. New laws and regulations have been promulgated, existing ones amended while information technology has transformed the mode and speed of business processes and communications. On the social front, higher educational levels have resulted in a more sophisticated consumer. HIV/AIDS has emerged as a major public health issues (Economic Survey, 2001; 2004). This poses challenges to the insurance industry in Kenya. There is stiff competition in the industry there being many players offering the same products. There are many insurance companies in Kenya including international companies in Kenya like the American Insurance Group (A.I.G).

1.2 Statement of the Problem

The commitment and satisfaction of employees at work is determined by among others, the pay package offered by the employer. Pay helps employees to meet their needs (Maslow, 1970). Different firms adopt employee pay packages that are not only affordable, but which help meet their objectives. The pay package is key to staff performance. Managerial staff occupies an important place among staff in a firm, since they direct, supervise and guide other workers. They are the leaders in the firms and employers strive to prepare special pay packages for management staff. Their pay package is often different and almost always better than that of lower level staff. It is therefore expected the compensation package will be different for managerial staff in a firm and each industry has unique considerations that determine the pay package for staff.

Insurance industry is characterized by intense competition, increasing number of firms and differentiation strategies used by the firms. Management staff in this sector is key to success of the firms in the industry. As a result of this, it is expected that the firms have developed special pay packages for management level of staff (Economic Survey, 2004).

Many studies have been undertaken on the relationships between compensation components and attraction, retention, and motivation of US employees (Barber and Bretz, 2000; Gerhart and Milkovich, 1990; Roy *et al.,* 2001; Kahn and Sherer, 1990). Kilika (1999), looked at managers' compensation preferences and the existing compensation schemes: a case study of the co-operative bank of Kenya; Gitau (2002) considered compensation of professional employees. A survey of auditors in multinational audit firms based in Nairobi; Ogoye (2002), looked at corporate performance and management compensation as an empirical investigation of public companies in Kenya; Kodo (2003) did a survey of stock based compensation schemes for employees of public companies in Kenya; Kiarie (2004) also did a survey on performance based compensation schemes in companies listed at the NSE.

Zena (2004) too carried a survey of performance measures for executive compensation schemes in public listed companies in Kenya; Molonko (2004) considered board structure, board compensation & firm profitability evidence from the banking industry. Sakwa (2004) also did a survey of the process of determination of compensation package for nurses in private hospitals in

Nairobi; Muthigani (2005) as well did a survey of administration of employee compensation schemes among commercial banks in Kenya. Although a number of researches had been done on the area of compensation, no study of this kind had been done in the insurance industry in Kenya.

This study therefore sought to establish the compensation practices for management staff among the insurance companies in Kenya, and the factors that influenced the compensation of management staff in insurance companies in Kenya.

1.3: Objectives of the Study

The major purposes of this study were:

i) To establish the compensation practices for management staff among the insurance companies in Kenya.

ii) To determine the factors that influence the compensation practices for management staff in insurance companies in Kenya

1.4: Significance of the Study

It was anticipated that this study was to be useful to the following groups:

i). Academicians / Researchers

Findings from this research will assist academicians in broadening of the syllabus with respect to this study hence providing deeper understanding compensation components.

ii). Kenyan insurance companies

Findings from this research will assist the Kenyan insurance companies in their compensation practices and in policy formulation with respect to their labour management and in sound compensation schemes development.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In an ever more competitive business environment, both locally and globally, many companies today are attempting to identify innovative compensation strategies that are directly linked to improving organizational performance. But this is not a new concept. For many years, incentive compensation in one form or another has been a common feature of employment contracts in North America (Nalbantian, 1987). The use of incentive systems is not only a defence mechanism on the part of failing firms, but more often is also a positive action in recognition of the strategic role of compensation in furthering corporate goals. The bottom line is that many companies are beginning to experiment with compensation alternatives, as the flexibility to try new forms of management is an important need for the close of the 1990s (Thor, 1989). This issue is critical for organizational effectiveness. The basics of incentive pay and how it correlates with known organizational behaviour theories can be linked with the achievement of corporate goals through the use of reward system.

2.1.1 Compensation practices

There are many approaches to incentive compensation, such as cash bonuses, stock purchase, and profit sharing. There is need to examine the individual and group incentive concepts that reward performance based on predetermined organizational goals and metrics, several behavioral theories that can be associated with reward and compensation (motivation, achievement, equity, etc.), and convergent and divergent views and conclusions from the business community.

Human Resource Management being both an academic theory and a business practice, it is based on the notion that employees are firstly human, and secondly should not be treated as basic business resource. Thus, HRM is seen as an understanding of the human aspect of a company and its strategic importance, since it is moving from a simple "personnel" approach (or was supposed to) as it is preventive of potential problems, and secondly it is a major aspect of the company philosophy, in which all managers and employees are champions of an HRM based policies and philosophy. There are two theories of Human Resource/ Labour Management: *Academic theory* whose premise is that Humans are not machines, thus there is a need to have an interdisciplining examination of people in the workplace as seen in fields such as psychology, sociology and critical theories; "postmodernism, post-structuring". Secondly, *the critical theory* notes that HRM suffers the problem of the connotation of its own name, treating humans as a resource (Steyert and Janssens, 1999).

Rhetoric is an important consideration within the understanding the critical theory of HRM (Legge, 2005). Postmodernism and post-structuring assist in the understanding and contemplation of the reality of language and understanding. Empowerment, according to Wilkinson, (1998) is based on attitudinal shaping as pseudo- empowerment. There is a change in philosophy in the workplace from personnel management to HRM which is a new label, which among other human resource practices are hidden within rhetoric.

When an employee's job performance exceeds the prescribed acceptable performance level for the organization, the related reward is called merit pay. It can be paid in the form of a bonus or as an addition to base pay. Employees generally prefer the latter; as such an increment becomes part of the base pay and continues to be received for the duration of employment, regardless of future performance levels with often-residual life-long benefits. Alternatively, the bonus is a single, one-off, lump-sum payment, which can be in the form of cash or other creative monetary scheme, such as stock options. Unlike a base pay raise, a bonus is not automatically received in subsequent years unless justified by levels of performance in those years. In short, merit pay can be viewed as a reward for past performance, and incentive compensation as an inducement for future performance (Appelbaum, 1991).

Organizations' reward systems involve monetary compensation and non-monetary rewards. Further, under monetary compensation, there are direct compensation and indirect compensation (benefits). In this study, we focus on monetary compensation in organizations. First, pay level is related to two objectives in compensation: controlling labour costs; and attracting, retaining, and motivating employees. Other things being equal, the higher the pay level, the higher the labor costs. Organizations with a high pay level may attract and retain a qualified work-force (Williams and Dreher, 1992), and reduce training or recruiting costs (Holzer, 1990). Further, higher labor rates may lead to lower labor costs due to employees' higher quality and/or quantity of performance (Pfeffer, 1998). The organization size, location, and the type of industry may influence the pay levels (Tang *et al.*, 2000a,c). Second, employee benefit costs have jumped from 25 percent of payroll in 1959 to just over 41 percent in 1993 (US Chamber of Commerce, 1994). Organizations also need to strike the balance between wages and benefits in order to satisfy employees' needs and stay competitive.

Money is the instrument of commerce and the measure of value. "Money isn't everything, but it is the best metric" (Lazear, 1998). It has been suggested by researchers that money is a motivator (e.g. Lawler, 1973). Others argue that money is not a motivator (i.e. a hygiene factor) (e.g. Cameron and Pierce, 1994; Herzberg, 1987a, b; Kohn, 1993, 1998; Pearce, 1987; Pfeffer, 1998). Money does improve performance quantity and does not erode intrinsic motivation (Gupta and Shaw, 1998). However, the jury is still out regarding the impact of financial incentives on performance quality. The meaning of money is "in the eye of the beholder" and can be perceived as their "frame of reference" in which they examine their everyday lives (Tang *et al*., 2000a, p. 217). On the one hand, it is possible to simply pay higher wages and lower benefits to satisfy employees' needs. On the other hand, some benefits are quite important to employees. The same benefit does not suit every worker. Workers do differ in their valuation of various benefits. Thus, a cafeteria plan, for example, which gives a worker more flexibility in benefit choices, can provide the most value to the worker for a given amount of expenditure. Researchers and managers of human resources and compensation need to identify the most important compensation components and satisfy employees' needs.

Incentive plans are cash payments made to employees when they exceed predetermined job or organizational goals, and serve as inducements to produce specific results desired by the organization. These metrics can be fiscal targets (sales and bookings), production output, or productivity gains (cost reduction, quality), etc. As many businesses of today embrace the concepts of total quality management and customer focus, goals are being linked directly to customer satisfaction in addition to business milestones. Tying incentives to individual or group performance must be analyzed in the context of the applicable industry and what makes sense for the business. Along with performance measurement, timing is a feature of the reward system that is critical to both its acceptance and success. Incentive payouts must now be directly linked with either short-term or long-term measures.

2.1.2 Components of Management Compensation

Compensation serves different objectives, the main ones being to attract, retain and motivate high-potential employees. Meanwhile, the fulfillment of those goals is subject to constraints such as the maintenance of equity, cost control and legal requirements (e.g. wage and salary legislation). Efficiency wage theory asserts that above-market pay can increase efficiency and reduce unit labor costs (i.e. attract high-quality applicants, reduce turnover, "shirking", and supervision and increase effort) (Campbell, 1993; Cappelli and Chauvin, 1991). High pay influences employees' decisions in employment acceptance and intention to leave (Armstrong and Murlis, 1994; Judge, 1993; Lawler, 1986; Lawler and Jenkins, 1992; Mobley, 1982). The most important reason for voluntary turnover is higher wages and career opportunity (Campion, 1991). College students are more likely to pursue jobs that offer high pay levels and jobs with individual-based, fixed, job-based pay and flexible benefits (Cable and Judge, 1994). Fixed salary, Variable salary, Vacation benefits, Medical benefits, Retirement benefits, Pension &holiday benefits, Bonuses, Incentives, Profit sharing, On-the-spot bonuses, Pay-for-performance

Employers use benefits to attract and retain good people; employees rely on benefits (medical subsidies, vacations, and retirement) to secure their financial wellbeing. By linking benefits (pension and holidays) to seniority, workers will be reluctant to change jobs (Gerhart and Milkovich, 1992). Generous rewards tend to retain people because high reward levels lead to high satisfaction, commitment, and loyalty:

2.2 Factors Influencing Management Compensation

There are many factors that contribute to the determination of employee compensation levels, including the following:

Labour/product market conditions. In other words, the demographics of the employee force and the significance of their skills, the supply and demand situation in relation to critical skills, and the pay levels and practices of competitors. *Legal factors.* This includes equal pay, taxation of singles as compared to married people, pay as earn, laws relating to retirement age, pension schemes and retrenchment. According to Boma et al., (2000), one good example of this is the practice in USA, where supplementary executive retirement plans have been introduced as a way to restore benefit lost due to the limits in retirement laws. Executives can swap heavily taxed retirement benefits for tax favoured employer-funded life insurance contracts on the life of the executives or the executive and his/her spouse.

Global Competition. The increasing globalization of business, for example, has promoted corporations to shift in organizational structure, jobs and deployment of resources. all this has directly affected pay and job pricing. Global competition coupled with economic pleasures, has also sparked interest in curbing fixed payroll costs and ensuring that the investment in compensation produces increased employee productivity and organization performance. *Economic and sociopolitical environment.* This includes the influence of the business cycle and the power of organized labour.

Industry characteristics such as cyclical nature, high turnover, innovators, entrepreneurial, and traditional. Industry-standard wages vary considerably. Highly competitive industries, such as soft goods manufacturing, pay only the wage required in response to changing conditions in their labour market. Less competitive industries, such as hard-goods manufacturing, typically pay somewhat more than the minimum required by the labour market.

Enterprise characteristics. The list includes culture (management style), organizational structure, objectives, policies and strategies, technology, size, profitability (ability to pay), competitive labour strategy (lead or lag), salary compression (inequitable pay differentials when pay rates for new hires are too close to those of experienced employees and when subordinate pay rates are too close to those of supervisors). *Employee characteristics* including education, seniority, qualifications, experience, etc.

Employee behaviour characteristics such as performance, absenteeism, and turnover. *Job characteristics* that take into account the mental requirements (problem solving), physical requirements, skill requirements, responsibility/accountability, working conditions, level of public contact, and the effort required to carry out the work. Factors such as responsibility and decision making would appear in evaluation systems for managerial jobs; physical demands and skill might appear in systems for factory jobs; and accuracy and amount of supervision received might appear as factors in clerical and technical evaluation systems.

Union. Historically, wage rate has been the main issue in collective bargaining but now, other issues include time off with pay, income security-for those with periodic lay-offs, cost of living adjustment and various benefits (Kanin-lovers et al., 1992).Firms should create an atmosphere that lets an individual know that he/she is important to the firm. Employees should share in the increased profitability of an individual unit through better terms and adequate bonus (Kibera, 1996).

Discrimination. Although unacceptable, there is still concern about the economic status of different groups in society. The most obvious example is the lower economic status of females compared with that of males. This seems to be a consequence of the fact that males and females are not equally represented in various occupations, and the male-dominated occupations are compensated at higher rates than are female-dominated occupations. These determinants need to be considered in light of the contingencies required for compensation decisions (McNerney, 1995).

Compensation policies. These policies will influence the wages and benefits it pay since these policies provide the basic compensation guidelines in important areas for example, the basics for salary increases, promotion and demotion policies, overtime pay policies, offs and holiday. Building flexibility into the compensation policy requires relinquishing some traditional views about pay design. The challenge is to develop a systems that supports the business needs, is cost effective, is fair within the context of one or more appropriate external standards and can be easily adapted as personal needs dictate and job responsibilities change (Kanin-lovers and Rowland, 1992).

For employees, compensation is an important issue since pay is perceived to be an indication of their personal and market value to the organization. Considering that there is a tendency to standardize wage rates among competitors, and that there is a desire to control labour costs, it becomes important to find a way to motivate personal development and high performance, while managing the intricate compensation matrix and enigma.

2.3 Designing an effective compensation programme

A properly designed and managed incentive compensation system can be a vehicle for management communication, although communication of the plan, its policies and what is expected of the employee is as critical as the underlying message it is trying to reinforce. The stimulus for desired behavioural change reflected by performance can also be achieved through a properly designed incentive compensation plan, supported by core management processes. Finally, employees for the effective accomplishment of tasks and results must understand the basis of rewards. This is a direct relationship between communications, culture, performance and ultimately, rewards.

The communication of an organization's strategies and direction can be efficiently executed through incentive compensation (Nalbantian, 1987). While base pay and benefits are the "must-have" conditions of basic employment, the additional pay-for-performance element identifies the behaviours and results that management wants, thus communicating the actions needed from employees at all levels.

But communication of the plan policy itself is key, and can have an impact on organizational effectiveness and corporate culture (Kanin and Boyle, 1994) An open system of communication, which can include sharing the organization's overall incentive philosophy, tends to encourage people to ask questions, share data, and ultimately be involved in decisions. Conversely, a secret compensation system that prohibits employees to talk about their rewards and provides minimal information on how rewards are allocated tends to put people in more dependent positions and concentrate power at the top.

Thus, the challenge is to choose a position of communication, perhaps a blend of the two that supports both the culture and the behaviours needed for organizational effectiveness. As well, proper communication has been shown to increase employee satisfaction and appreciation of incentive compensation benefits (Murlis, 1994). By facilitating a better or increased understanding of the up-side potential, risk/return-based systems may lead to a better appreciation of compensation under flexible incentive compensation arrangements.

Positioning an incentive compensation programme as a core management process and a communication vehicle can be a method of integrating multiple strategic initiatives within a dynamic organization (Gibson, 1995). A company's compensation philosophy can be developed from the business vision and mission that must support the business strategy. Thus, with the proper infrastructure in place, incentive compensation programmes can be extremely valuable in supporting the way management wants to drive the company.

Compensation systems can also help define organizational culture (Nalbantian, 1987). A company's approach to developing, administering and managing compensation systems can influence the degree to which employees view a company as having a human resource-oriented, entrepreneurial, innovative, competence-based, fair or participative culture. These systems can also differentiate one company's culture from that of other organizations.

Organizations that are serious about performance, and which often see performance management as the core business process for achieving their strategy, are putting much effort into taking different views of performance from all of the "stakeholders" involved to ensure success (Gibson, 1995). Upward appraisal, customer and peer reviews are a growing part of the pay-for-performance picture in the current Total Quality Management environment.

Previously, employees could look to their companies for incremental wage increases with no correlation to the company's well being. Today, more than half of all large to mid-size companies have variable pay schemes that tie a portion of pay to the competitive performance of the organization or business unit as a whole (Cissell, 1987).

Companies are attempting to identify innovative compensation strategies that are directly linked to organization performance. Linking business strategy with people management, or "people strategy", is an approach based on several corollaries: developing a philosophy that focuses on how people can help an organization; defining requirements to support business-specific strategies; building organizational capabilities required to implement business strategies; and aligning policies and programme practices to maximize their value based on the investment in people. To support and expand further on this issue it is necessary to enumerate certain conditions which must be present for rewards to elicit desired performance (Lawler, 1987): Important rewards can be given and tied to performance. Information can be made public about how rewards are given. Superiors are willing to explain and support the reward system in discussions with their subordinates. Rewards can vary widely, depending on the individual's current performance. Performance can be objectively and inclusively measured. Meaningful performance appraisal sessions can take place. High levels of trust exist or can be developed between superiors and subordinates.

As an added note to the last point, objectives set jointly by employees and managers will help to develop the often-elusive trust. Moreover, it will demonstrate to the employees involved that their contribution is considered important, and should make it easier for them to understand and accept what is expected on their part. However, it is important to note that this requires both sides to acquire new skills. As Cissell (1978) mentions, employees must learn to communicate with one another, problem solve, and take action to improve productivity; and managers must be prepared to listen to and seek ideas from subordinates and effectively coach and reinforce behaviours that will lead to gains. This is a dyadic agreement that needs to be based on trust for both parties to experience "win/win".

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

This was a census survey on compensation of management staff in insurance companies in Kenya. A census survey was chosen as an appropriate design since all the insurance companies were studied. A census survey was necessary for this kind of research so as to determine the who, what, when, where and how of the compensation practices (Cooper et al., 1994).

3.2 Population

The population in the study was composed of all the forty-six (46) insurance companies operating in Kenya as seen in appendix 3. (Insurance Companies Directory, 2006).

3.3 Data collection

This being a census survey kind of study, a semi- structured questionnaire containing closed and open-ended questions was used. The respondents were the Human Resources managers in the insurance companies. The first part A, of the questionnaire asked the respondents to give organizational details such as job title, educational qualifications, name of the company and department. The second part- B, sought to get information on the company's present compensation practices relating to management compensation practices and the components of compensation to answer the two objectives.

3.4 Data analysis

Descriptive statistics was used. Proportions and frequencies were used to analyze categorical data. Percentages, Ratios, Rates and Distribution tables were done to obtain values for further analysis to establishing the magnitude and the nature of relationship among the various variables.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter will cover data analysis and findings of the research. The data is summarized and presented in the form of proportions, tables and graphs. It documents the compensation practices for management staff in the insurance companies in Kenya. Data was collected from the forty-six (46) insurance companies operating in Kenya as seen in appendix 3, (Insurance Companies Directory, 2006). Of the 46 sampled, 26 responded, a reasonably high response rate of 57 percent.

4.2 General overview of the insurance companies' characteristics

This section presents a general overview of all the insurance companies in the population of interest.

4.2.1 Location of company

The respondents were asked to indicate the location of the company. From the research data, all the companies that were visited are located in urban areas, implying the compensation is supposed to be tuned the urban cost of living.

4.2.2 Ownership of insurance companies

The ownership of a company, either local or foreign influences the compensation package offered to its employees. The foreign owned companies apply international standards while the most locally owned companies apply the protectionist principle of compensation offered by the state or federal government. From the research data, it was found that all the insurance companies in Kenya are foreign owned, with a small percentage of local ownership.

4.2.3 Insurance business transacted by the company

An insurance company can transact either general, life or composite insurance business. The composite insurance companies are expected to have a lot of business, thereby require a higher number of employees, who should also expected to be paid well. The respondents were asked to indicate the type of business they transact in and from the research data, 87% of the respondents indicated that they transact composite insurance business, 9% transact general insurance as 4% transact life insurance. Therefore many of the insurance companies visited require/have a bigger number of employees, a groomed management team, who are at the same time supposed to be paid well.

4.3 Compensation practices for management staff

4.3.1 The use of reward to increase motivation and performance

Reward is one of the ways used in order to increase motivation and performance in a company. From the research data, indeed reward is one of the primary HR tools that can be used to affect motivation and performance (Lawler, 1971). All the respondents indicated that reward is a tool for motivating and increasing performance of management employees.

4.3.2 How management staff is compensated

The respondents were asked to indicate the compensation scheme currently in operation for management team. From the research data, it was found that the current compensation scheme offered to management is both fixed and variable. This concurs with Lazear's (1995) proposition that one of the key decisions that managers must make about their compensation systems is whether to use "fixed or variable pay", that is, input- or output-based (performance-based) pay. The best business practices, quality of service and assured customer care have called upon an optimal way of motivating the employees through a well designed scheme of compensation based on fixed and variable score, which have a prime importance in business endeavors of this nature.

4.3.3 The scheme of compensation to be used as a reward to management staff's performance

The respondents were asked to indicate the compensation scheme they are planning to put in use in the near future for management team. From the research data, it was found that the future compensation scheme was a variable salary, which depends on one's performance or output. Indeed flexible pay is the most fashionable way of payment in the wake of performance contracting. As noted by Lawler (1987), pay can be an effective motivator only if it is important to people and it is seen to be tied to their performance in ways that are perceived to be credible and direct. The firms have to therefore facilitate a better or increased understanding of the up-side potential, risk/return-based systems, which leads to a better appreciation of compensation under flexible incentive compensation arrangements.

4.3.4 How management compensation rates are determined

The respondents were asked to indicate how the compensation rates are determined in their firms. Usually it is either the firm decides, consult, the government decides or between two or more key players in the sector. From the research data, it was found that it is the insurance company that determines the compensation rates for its management team as opposed to the several ways with a score of 92%. This is really true since different firms adopt employee pay packages that are not only affordable, but which help meet their objectives. The commitment and satisfaction of employees at work is determined by among others, the pay package offered by the employer. Pay helps employees to meet their needs (Maslow, 1970).

4.3.5 Compensation policies to cover management

The pay package is key to staff performance. Managerial staff occupies an important place among staff in a firm, since they direct, supervise and guide other workers. They are the leaders in the firms and employers strive to prepare special pay packages for management staff. Their pay package is often different and almost always better than that of lower level staff. The respondents were asked to indicate the compensation policies that they have for their management team, and from the research data, it was found that management is covered both as an individual and as a group with a score of 35%. Their families and spouses are not well covered/considered in the compensation policies governing management remuneration.

4.3.6 The variable pay schemes for management team

Workers do differ in their valuation of various benefits. The same benefit does not suit every worker. The respondents were asked to identify the most important variable pay components that satisfy management team most. From the research data, 57 % and 23 % of the respondents indicated that they use bonuses and incentives respectively to deliver their variable package to their management team.

4.3.7 How pay varies under performance based compensation

Global competition coupled with economic pleasures, has sparked interest in curbing fixed payroll costs and ensuring that the investment in compensation produces increased employee productivity and organization performance. The respondents were asked to indicate how pay varies under performance-based compensation. From the research data, 54 % and 46 % of the respondents indicated that variable pay for management team varies based upon performance of an individual and depending on that of an organization respectively. This is in line with Appelbaum's (1991) observation that merit/variable pay should be seen as a reward for past performance from an individual and organizational perspective as opposed to groups. Further, incentive compensation is an inducement for future performance and if the variable is tuned to individual or organizational performance, there will be higher labor rates that may lead to lower labor costs due to employees' higher quality and/or quantity of performance (Pfeffer, 1998).

4.3.8 Compensation schemes with the greatest positive impact on the company's financial performance

The respondents were asked to give management compensation schemes with the greatest positive impact on the company's financial performance. The management team has the greatest influence on the firm's financial performance, and if their compensation schemes are not well designed, it might lead to poor financial performance of the company. From the research data, 89% of the respondents indicated that fixed pay for management team has the highest impact on the firm's financial performance. This is against Burke and Terry (2004) demonstration that variable pay enhances firm's financial performance as opposed to fixed pay.

4.3.9 The specific gains associated with variable compensation schemes for management team

The respondents were asked to give the specific gains associated with variable compensation schemes for management team. It has already been found that the future compensation scheme was a variable salary, which depends on one's performance or output (from above). Recently, more emphasis has been on the use of variable compensation schemes, instead of fixed forms of pay (Green, 2003; Marks, 2001) in order to increase employee productivity and thus firm performance. Indeed from the research data, 100% of the respondents indicated that variable pay increases motivation and management performance.

4.3.10 Measures used when rewarding performance

Incentive plans are cash payments made to employees when they exceed predetermined job or organizational goals, and serve as inducements to produce specific results desired by the organization. These metrics can be fiscal targets (sales and bookings), production output, or productivity gains (cost reduction, quality), etc. From the research data, 39% of the respondents indicated that the metrics/measures used when rewarding management team's performance is the fiscal targets as opposed to cost reduction and productivity gains which received 23% and 31% respectively. This is in line with the stand that payouts must now be directly linked with either short-term or long-term measures lives (Tang *et al.*, 2000a).

4.3.11 How business milestones are achieved

The respondents were asked to indicate how milestones are achieved in the company, since in most cases it is "the steering organ" i.e. the management team which is associated with the outcomes in milestones. As many businesses of today embrace the concepts of total quality management and customer focus, goals are being linked directly to customer satisfaction in addition to business milestones (Pfeffer, 1998). Indeed from the research data, linking company goals directly to customer satisfaction; using the concepts customer focus and the concepts of total quality management are all ways in which milestones are achieved in the firms.

4.3.12 Agreement with some of management and compensation practices

The respondents were asked to indicate their agreement with some general statements with respect to management team and their compensation practices. From the research data, all the respondents indicated that: the management should be treated as basic business resource HRM is seen as an understanding of the human aspect of a company and its strategic importance; secondly depending upon how variable is used, variable pay can create both gains and losses to the firm and lastly, the job performance exceeds the prescribed acceptable performance level for the company. Also on average, the respondents indicated that as the variable proportion of total compensation increases, many managers may demand higher levels of pay because of the extra risks they are taking; secondly, managers are rewarded when their performance exceeds the prescribed acceptable performance level for the company; and lastly, variable pay plans tend not to be as attractive to those individuals who are older, risk averse, or who lack confidence in their ability to perform the job. This is in line with some of the many studies that have been undertaken on the relationships between compensation components and attraction, retention, and motivation of US employees (Barber and Bretz, 2000; Gerhart and Milkovich, 1990; Roy *et al.*, 2001; Kahn and Sherer, 1990).

The respondents also indicated the following: that all managers and employees are not champions of an HRM based policies and philosophy in the company; there is no a pay scheme based on past performance; the management is not offered pay as an inducement for future performance; bonus is not automatically received in subsequent years with justification by levels of performance in the previous years; managers are as willing to accept variable pay tools when they are implemented at the group level (versus individual level); the bonus is not a single, one-off, lump-sum payment, in the form of cash or creative monetary scheme e.g. as stock options; managers in low(er) income brackets are willing to subject their pay to a variable component. This concurs with Kilika's (1999), conclusions on managers' compensation preferences and the existing compensation schemes: a case study of the co-operative bank of Kenya and Gitau's (2002) in his study on compensation of professional employees.

4.3.13 Some of the objectives of the current management compensation schemes

Its only the most efficient and best-managed organizations can survive (Barber and Bretz, 2000; Chiu *et al*., 2001). The respondents were asked to indicate some of the objectives of the current management compensation schemes. From the research data, 73% of the respondents indicated that the major objective their current compensation scheme is to motivate high-potential management employees, 23% indicated it is to retain high-potential management employees, 4 % indicated it is to attract high-potential management employees, as none indicated it is enhance high satisfaction, commitment, and loyalty. This is in partial agreement with the statement that money, benefits, and many different forms of compensation have been used to attract, retain, and motivate employees and achieve organizational goals around the world (Lazear, 1998; Milkovich and Newman, 1999; Rynes and Gerhart, 2000; Tang *et al*., 1998, 2000a,b).

4.3.14 Some of the constraints that have hindered the fulfillment management compensation goals

As from research data, compensation serves different objectives, the main ones being to attract, retain and motivate high-potential employees. Meanwhile, the fulfillment of those goals is subject to constraints such as the maintenance of equity, cost control and legal requirements (e.g. wage and salary legislation). The respondents were asked to indicate some of the constraints that have hindered the fulfillment management compensation goals. From the research data, 92% indicated that the major constraint is cost control, 4% indicated the maintenance of equity and legal requirements as constraints. This is in line with the efficiency wage theory assertion that above-market pay can increase efficiency and reduce unit labor costs i.e. attract high-quality applicants, reduce turnover, "shirking", and supervision and increase effort (Campbell, 1993; Cappelli and Chauvin, 1991).

4.3.15 Offers to attract and retain good people

Employers use benefits to attract and retain good people; employees rely on benefits (medical subsidies, vacations, and retirement) to secure their financial well-being. By linking benefits (pension and holidays) to seniority, workers will be reluctant to change jobs (Gerhart and Milkovich, 1992). Generous rewards tend to retain people because high reward levels lead to high satisfaction, commitment, and loyalty. The respondents were asked to indicate the offers given to management to attract and retain good people, 46% of the respondents gave medical subsidies benefits as a major offer, 31% gave retirement benefits, 19% gave vacations benefits and 4% gave pension and holiday benefits as offers given to management to attract and retain good people. This is indeed in line with the conviction that high pay influences employee's decision in employment acceptance and intention to leave (Armstrong and Murlis, 1994; Judge, 1993; Lawler, 1986; Lawler and Jenkins, 1992; Mobley, 1982).

4.3.16 Factors considered in the determination of management's compensation levels

There are many factors that contribute to the determination of employee compensation levels. The respondents were asked to give the factors considered in the determination of the management's compensation levels under some key areas. From the research data, the responses were as follows:

Under labour/product market conditions, 96% of the respondents gave the supply situation in relation to critical skills, 65% gave the pay levels and practices of competitors as 62% gave the demand situation in relation to critical skills. Under economic and sociopolitical environment, 96% of the respondents gave the power of organized labour and 92% gave the influence of the business cycle as factors that contribute to the determination of employee compensation levels. Under employee characteristics, all the respondents (100%) gave education, seniority, experience and qualifications as factors that contribute to the determination of employee compensation levels.

Under legal factors, 96% of the respondents gave laws relating to retirement age, 69% of the respondents gave pay as earn, 65% of the respondents gave equal pay legal requirement, 46% of the respondents gave pension schemes and retrenchment as 35% of the respondents gave taxation of singles as compared to married people. Under global competition, 62% of the respondents gave the increasing globalization of business as factors that contribute to the determination of employee compensation levels. Under union, 77% of the respondents gave cost of living adjustment and various benefits, 73% gave collective bargaining, 73% gave time off with pay and 73% gave income security-for those with periodic lay-offs as factors that contribute to the determination of employee compensation levels. Under compensation policies, 77% of the respondents gave basic compensation guidelines, 77% gave salary increase policies, 73% gave promotion and demotion policies and 46% gave overtime pay policies as factors that contribute to the determination of employee compensation levels. Under enterprise characteristics, 100% of the respondents gave policies and strategies, 100% gave profitability (ability to pay), 96% gave Objectives, 69% gave size, 69% gave competitive labour strategy (lead or lag), 65% gave technology, 65% gave culture (management style), 62% gave salary compression (inequitable pay differentials) and 62% gave organizational structure as factors that contribute to the determination of employee compensation levels.

Under employee behaviour characteristics, 100% of the respondents gave performance, 92% gave turnover and 69% gave absenteeism, as factors that contribute to the determination of employee compensation levels. Under job characteristics, 100% of the respondents gave skill requirements, 100% gave responsibility/accountability, 96% gave working conditions, 96% gave physical requirements, 69% gave the mental requirements (problem solving), 65% gave level of public contact as 65% gave effort required to carry out the work, as factors that contribute to the determination of employee compensation levels. Under discrimination, 96% of the respondents gave the economic status of females compared with that of males and 92% gave the economic status of different groups in society, as factors that contribute to the determination of employee compensation levels. The most important reason for voluntary turnover is higher wages and career opportunity (Campion, 1991).

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The major purposes of this study were to establish the compensation practices for the management staff among the insurance companies in Kenya, and secondly to determine the factors that influence the compensation practices for the management staff in insurance companies in Kenya.

On the location of the company, all the companies that were visited are located in urban areas, implying the compensation is supposed to be tuned the urban cost of living. Most insurance companies in Kenya are foreign owned, with a small percentage of local ownership. Reward is a tool for motivating and increasing performance of management employees in the insurance companies. The current compensation scheme offered to management is both fixed and variable and the future compensation scheme was a variable salary, which depends on one's performance or output. The insurance companies that determines the compensation rates for their management team as opposed to the legislation. The management is covered both as an individual and as a group; the insurance companies to deliver their variable package to their management team also use bonuses and incentives. Variable pay for management team varies based upon performance of an individual and depending on that of an organization.

It was also found that fixed pay for management team has the highest impact on the firm's financial performance as variable pay increases motivation and management performance. The metrics used when rewarding management team's performance is the fiscal targets as opposed to cost reduction and productivity gains as linking company goals directly to customer satisfaction; using the concepts customer focus and the concepts of total quality management were ways in which milestones are achieved in the firms. The major objective the current compensation scheme is to motivate high-potential management employees but the major constraint is cost control. The two major offers given to management to attract and retain good people were medical subsidies benefits and retirement benefits.

There are many factors that contribute to the determination of employee compensation levels: under labour/product market conditions, the supply situation in relation to critical skills and the pay levels were the major factors under consideration. The economic and sociopolitical environment factors were the power of organized labour and the influence of the business cycle; the employee characteristics under consideration were found to be education, seniority, experience and qualifications; the legal factors were found to be laws relating to retirement age, pay as earn and equal pay legal requirement. The global competition factor was the increasing globalization of business. The union factors were found to be the cost of living adjustment and various benefits, collective bargaining, time off with pay and income security-for those with periodic lay-offs as factors that contribute to the determination of employee compensation levels. The compensation policy factors were found to be compensation guidelines, salary increase policies, and promotion and demotion policies. The enterprise characteristics factors included policies and strategies, profitability (ability to pay), Objectives, size, competitive labour strategy (lead or lag), technology, culture (management style), salary compression (inequitable pay differentials) and organizational structure as factors that contribute to the determination of employee compensation levels.

The employee behaviour characteristics factors were performance, turnover and absenteeism. The job characteristics determinants were found to be skill requirements, responsibility/accountability, working conditions, physical requirements, the mental requirements (problem solving), level of public contact, effort required to carry out the work. The discrimination variables were, the economic status of females compared with that of males and the economic status of different groups in society, as factors that contribute to the determination of employee compensation levels. The most important reason for voluntary turnover is higher wages and career opportunity (Campion, 1991).

5.2 Conclusions

Based on the results from data analysis and findings of the research from chapter four, one can safely conclude the following:

First, reward is a tool for motivating and increasing performance of management employees in the insurance companies, whereby the current compensation scheme offered to management is both fixed and variable and the future compensation scheme was a variable salary, which depends on one's performance or output. The variable pay for management team varies based upon performance of an individual and depending on that of an organization. The fixed pay for management team has the highest impact on the firm's financial performance as variable pay increases motivation and management performance. Secondly, the insurance companies determine the compensation rates for their management team as opposed to the legislation. The management is also covered both as an individual and as a group; the insurance companies to deliver their variable package to their management team also use bonuses and incentives. Thirdly, the measures used when rewarding management team's performance is the fiscal targets as opposed to cost reduction and productivity gains as linking company goals directly to customer satisfaction; using the concepts customer focus and the concepts of total quality management were ways in which milestones are achieved in the firms. Fourthly, the major objective the current compensation scheme is to motivate high-potential management employees but the major constraint is cost control. The two major offers given to management to attract and retain good people were medical subsidies benefits and retirement benefits.

Lastly, the major factors that are used in the determination of management's compensation levels are the supply situation in relation to critical skills and the pay levels were the major factors under consideration, the power of organized labour and the influence of the business cycle, the level of education, seniority, experience and qualifications, the laws relating to retirement age, the increasing globalization of business, the cost of living adjustment and various benefits, collective bargaining, time off with pay and income security-for those with periodic lay-offs, compensation guidelines, salary increase policies, and promotion and demotion policies the enterprise policies and strategies, profitability (ability to pay), turnover and absenteeism, skill requirements, responsibility/accountability, the economic status of females compared with that of males and the economic status of different groups in society.

5.3 Recommendations

The following recommendations are also worth making to the insurance companies:

The management should be treated as basic business resource HRM to provide an understanding of the human aspect of a company and its strategic importance.

Depending upon how variable pay is used, variable pay can create both gains and losses to the insurance companies and the job performance exceeds the prescribed acceptable performance level for the company. There for as the insurance companies implement variable pay schemes for their management team it should be done with caution and policy guidelines. Since variable pay plans tend not to be as attractive to those individuals who are older, risk averse, or who lack confidence in their ability to perform the job.

All managers and employees should be champions of an HRM based policies and philosophy in the company; there should be a pay scheme based on past performance and management should be offered pay as an inducement for future performance.

Bonus should be automatically received in subsequent years with justification by levels of performance in the previous years; the bonus should be a single, one-off, lump-sum payment, in the form of cash or creative monetary scheme e.g. as stock options.

5.4 Limitations of the Study

There was time and financial constraint in carrying out the research. HR managers who were targets for the questionnaire were very busy most of the time and kept turning down the appointments.

Most of the informants were reluctant to participate in the research and had to be really convinced that it was only an academic exercise. Some could not fully fill the questionnaire claiming it the work of idlers theirs could be an interview. For example none of the respondents was ready to give the range of the compensation levels that are offered to management staff (Question 17, part B of the questionnaire, appendix 2)

5.5 Suggestion for Further Research

This study documents the compensation practices for management staff among the insurance companies in Kenya and the factors that influence the compensation practices for management staff. Compensation as a motivation and satisfaction tool is applicable in all industries. The researcher recommends a study to be conducted to determine the extent other companies outside the insurance sector use compensation a motivation and satisfaction tool for management staff. Such studies will help in highlighting challenges facing Kenyan organizations in the implementation of sound compensation schemes for their management staff.

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APPENDICES:

Appendix 1: Letter of introduction

Dear Sir/Madam, ---

Re: Compensation practices for management staff in the Kenyan insurance companies

I am an MBA Candidate in the Department of Business administration, School of Business, and University of Nairobi. I am in my research year of my postgraduate studies focusing on "Compensation Practices for Management Staff in the Kenyan Insurance Companies".

The purpose of my research is to identify compensation practices for management staff in the Kenyan insurance companies. Some of the specific objectives of the survey component of the research include:

a) To establish the compensation practices for management staff among the insurance companies in Kenya.
b) To determine the factors that influence the compensation of management staff in insurance companies in Kenya

If you are interested in the results from this study you are welcome to request a copy of the final report by supplying your name and email address. Any queries regarding the questionnaire or the overall study can be directed to the undersigned.

Please be assured that this information is sought for research purposes only and your responses will be strictly confidential. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Please assist me in gathering enough information to present a representative finding on the current status of compensation by completing the attached questionnaire. Your participation is entirely voluntary and the questionnaire is completely anonymous. Thank you very much for helping with this important study.

Sincerely, **Ndizeye Leopold, Mobile: +254-720-981290 Email: Leondizeye@yahoo.com**

Appendix 2: Questionnaire

PART A: ORGANIZATIONAL DETAILS

Questionnaire Number ………………………………… Date ………………………

Please provide the following information regarding your company.

1. Name of company ……………………Date of establishment …………

2. Location of company: Urban [ ] Rural [ ]

3. Ownership of insurance companies (2006):

Foreign Ownership [ ] Local Ownership [ ]

4. Insurance business transacted by the company:

a) Life Insurance [ ] c) General Insurance [ ]

b) Composite [ ]

PART B: COMPENSATION PRACTICES FOR MANAGEMENT STAFF

Please provide the following information regarding your organization's compensation for its management team.

1. Is reward one of the ways used in order to increase your motivation and performance in the company?

Yes [ ] No [ ]

2. How is the management staff compensated?

a) A fixed salary [ ] c) Both fixed and variable [ ]

b) A variable salary [ ] d) Others…………………………

3. Which scheme of compensation will you prefer to be used as a reward to management staff's performance?

a) Fixed salary [ ] c) Variable salary [ ]

b) Both fixed and variable [ ] d) Others……………………

4. How are compensation rates for the management determined in your company?

a) The firm decides [ ]

b) Insurance firm consult other insurance [ ]

c) Government decides [ ]

d) Fixed cooperatively between government and insurance companies[ ]

5. Do you have compensation policies to cover the (management) following?

a) Individual separately [ ] d) Individual and spouse [ ]

b) Groups [ ] e) Others (specify)……………….

c) Individual, spouse, and nuclear family [ ]

6. What are the variable pay schemes for the management team in the company?

a) Bonuses [ ] d) Incentives [ ]

b) Profit sharing [ ] e) On-the-spot bonuses[ ]

c) Pay-for-performance [ ] f) Others………………………..

7. If you are compensated based on performance, how does your pay vary?

a) It varies based upon performance of an individual [ ]

b) It varies based upon performance of a group [ ]

c) It varies based upon performance of an organization [ ]

8. Which compensation schemes will have/has the greatest positive impact on the company's financial performance?

a) Fixed pay scheme [ ] c) Both fixed and variable pay scheme [ ]

b) Variable pay scheme [ ] d) Others……………………………………..

9. What are some of the specific gains associated with variable compensation schemes for the management team in the company?

a) Variable pay increases motivation and employee performance [ ]

b) Variable pay reduces profit volatility [ ]

c) Variable pay enhances earnings stream for shareholders [ ]

d) Others……………………………………………………………

10. Which metrics are used when rewarding performance in the company?

a) Fiscal targets [ ] d) Sales and bookings [ ]

b) Quality [ ] e) Productivity gains [ ]

c) Cost reduction [ ] f) Production output [ ]

12. How do you achieve business milestones in the company?

a) Using the concepts of total quality management [ ]

b) Using the concepts customer focus [ ]

c) Linking company goals directly to customer satisfaction [ ]

13. Please indicate whether you agree with the following statements or not

Statement	Yes	No
Should the management be treated as basic business resource?		
Is HRM seen as an understanding of the human aspect of a company and its strategic importance?		
Are all managers and employees champions of an HRM based policies and philosophy in the company?		
Does your job performance exceed the prescribed acceptable performance level for the company?		
Are you rewarded when your performance which exceeds the prescribed acceptable performance level for the company?		
Is the bonus a single, one-off, lump-sum payment, in the form of cash or creative monetary scheme e.g. as stock options?		
Is bonus automatically received in subsequent years with justification by levels of performance in the previous years?		
Do you have a pay scheme based on past performance?		
Are you offered pay as an inducement for future performance?		
As the variable proportion of total compensation increases, many managers may demand higher levels of pay because of the extra risks they are taking		
Managers in low(er) income brackets are less willing to subject their pay to a variable component		
Managers are not as willing to accept variable pay tools when they are implemented at the group level (versus individual level)		
Variable pay plans tend not to be as attractive to those individuals who are older, risk averse, or who lack confidence in their ability to perform the job		
Depending upon how variable is used, variable pay can create both gains and losses to the firm		

14. What are some of the objectives of the company's current management compensation schemes?

a) To attract high-potential management employees [ ]

b) To retain high-potential management employees [ ]

c) To motivate high-potential management employees [ ]

d) To enhance high satisfaction, commitment, and loyalty [ ]

15. From above, what are some of the constraints that have hindered the fulfillment of the above goals in your company?

a) The maintenance of equity [ ] b) Cost control [ ]

c) Legal requirements (wage and salary legislation) [ ]

16. Are you offered the following to attract and retain good people?

a) Medical subsidies benefits [ ] c) Vacations benefits [ ]

b) Pension and holiday benefits [ ] d) Retirement benefits [ ]

17. Please give the range of the compensation levels that are offered to the management staff:

Compensation → / Management level ↓	Fixed salary	Variable salary	Vacation benefits	Medical benefits	Retirement benefits	Pension &holiday	Bonuses	Incentive	Profit sharing	On-the-spot bonuses	Pay-for-
Top Management											
Middle Level											
Supervisory											

18. Does the company in the determination of the management's compensation levels consider the following factors?

Determinants of the Management Compensation Levels	Yes	No
a) Labour/product market conditions		
The supply situation in relation to critical skills		
The demand situation in relation to critical skills		
The pay levels and practices of competitors		
b) Economic and sociopolitical environment		
The influence of the business cycle		
The power of organized labour		

[Does the company in the determination of the management's compensation levels consider the following factors?]

Determinants of Compensation Levels	**Yes**	**No**	**Determinants of Compensation Levels**	**Yes**	**No**
c) Employee characteristics			**h) Enterprise characteristics.**		
Education			Culture (management style)		
Seniority			Organizational structure		
Qualifications			Objectives		
Experience			Policies and strategies		
d) Legal factors			Technology		
Equal pay legal requirement			Size		
Taxation of singles as compared to married people			Competitive labour strategy (lead or lag)		
Pay as earn			Profitability (ability to pay)		
Laws relating to retirement age.			Salary compression (inequitable pay differentials)		
Pension schemes and retrenchment.			**i) Employee behaviour characteristics**		
e) Global Competition			Performance		
The increasing globalization of business			Absenteeism		
f) Union			Turnover		
Collective bargaining			**j) Job characteristics**		
Time off with pay			Physical requirements		
Income security-for those with periodic lay-offs			The mental requirements (problem solving)		
Cost of living adjustment and various benefits			Skill requirements		
g) Compensation policies			Responsibility/accountability		
Basic compensation guidelines			Working conditions		
Salary increase policies			Level of public contact		
Promotion and demotion policies			Effort required to carry out the work		
Overtime pay policies			**k) Discrimination.**		
			The economic status of different groups in society		
			The economic status of females compared with that of males		

Thank you for taking the time to complete this survey. The results of this survey will be available soon.

Appendix 3: Names of companies licensed to transact insurance business in Kenya

Name of Company	Name of Company
1. Africa Merchant Assurance Company	26. Kenya Reinsurance Corporation Ltd.
2. A.I.G Kenya Insurance Co. Ltd.	27. Kenyan Alliance Insurance Co. Ltd.
3. APA Insurance Ltd	28. Kenyan National Assurance Co (2001). Ltd.
4. 4Apollo Insurance Company Limited	29. Lion of Kenya Insurance Company Ltd.
5. Blue Shield Insurance Company Limited	30. Madison Insurance Company Kenya Limited
6. British American Insurance Co. (K) Limited	31. Mayfair Insurance Company Limited
7. Cannon Assurance (K) Limited	32. Mercantile Life & General Assurance Co. Ltd
8. CFC Life Assurance Co. Ltd.	33. Metropolitan Life Insurance Kenya Ltd.
9. Concord Insurance Company Limited	34.Occidental Insurance Company Limited
10. Co-operative Insurance Company Ltd	35. Old Mutual Insurance Company Limited
11. Corporate Insurance Company LTd	36. Pan Africa Life Assurance Limited
12. Directline Assurance Company Ltd	37. Phoenix of East Africa Insurance Co. Limited
13. East Africa Reinsurance Company Limited	38. Pioneer Assurance Company Limited
14. Fidelity Shield Insurance Company Limited	39. Royal Insurance Company of East Africa
15. First Assurance Company Limited	40. Standard Assurance Kenya Limited
16. Gateway Insurance Company Limited	41. Tausi Insurance Company Limited
17. Geminia Insurance Company Ltd.	42. The Monarch Insurance Company Limited
18. General Accident Insurance Company Ltd.	43. Trident Insurance Company Limited
19. Heritage A.I.I. Insurance Company Ltd.	44. Trinity Life Assurance Company Limited
20. Insurance Company of East Africa Ltd.	45. UAP Provincial Insurance Company Ltd.
21. Intra Africa Assurance Company Limited	46. Zep-Re (PTA) Reinsurance Company Limited
22. Invesco Assurance Company Limited	
23. Jubilee Insurance Company Limited	
24. Kenindia Assurance Company Limited	
25. Kenya Orient Insurance Company Ltd	

Source: Insurance Companies Directory, 2006