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RESEARCH ARTICLE

Factors Influencing Remuneration policy of the HR Managers in the Kenyan Banking Sector

[1,*]Robert Ng'ang'a, [2]Iravo Mike Amuhaya, and [3]KephaOmbui

[1]Kenya School of Government, Embu
[2]Jomo Kenyatta University of Agriculture and Technology
[3]Kenya Agricultural Research Institute

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ABSTRACT

The study purpose of the study was to investigate factors influencing remuneration policy of the HR managers in the Kenyan banking sector. The specific objectives of the study were; to investigate how talent management, financial results,technological development,market surveys and company advisers influencedremuneration policy ofthe HR managers in the Kenyan banking sector. The target population of the study was the HR Managers in the 47 registered banking institutions in Kenya. The study adopted a census and questionnaires were used to collect data from the respondents. The data collected was analyzed using Excel package and the results presented using tables and charts. The findings of the study revealed that despite improvement in remuneration packages, salaries earned scored low an indication that HR managers think that they can be paid more. Further there are other HR related issues such as careerdevelopment and work related issues such as job design that plays an important part in employee productivity and retention. Employees are more satisfied and deliver more if their career progression is guaranteed and that the company they work for has a reputation for quality service/products.Following these findings the study recommends apart from concentrating on remuneration policy, banks should invest in work processes that guarantee quality of services/ products and aspects of HRM such as career progression among others that affect employees' performance.

INTRODUCTION

According to Armstrong (2006), compensation management is concerned with the formulation and implementation of strategies and policies, the purposes of which are to reward people fairly, equitably and consistently in accordance with their value to the organization and thus help the organization to achieve its strategic goals. Incentives come in the form of monetary rewards or other types of incentive-based remuneration such as stock option, share ownership, rewards, and bonuses. Employees' performance is substantially better under incentive plans which are substantiated by supportive innovative work practices (Ichniowski, Shaw & Prennushi, 1997). Incentives management deals with systems (reward processes, practices and procedures) that aim to meet the needs of both the organization and its stakeholders. Gomez-Mejia *et.al* (2003) presents that the philosophy of reward management recognizes that if HRM is about investing in human capital from which a reasonable return is required, then it is proper to reward people differently, according to their contribution (i.e. the return on investment they generate). Additionally, the philosophy of reward management also recognizes that it must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve.
Incentives management strategies and the processes that are required to implement them have to flow from the business strategies. Therefore, rewarding will be affected by the business and the HR strategies of the organization, the significance attached to reward matters by top management, and the internal and external environment of the organization. Armstrong (2001) linked incentives to the achievement of previously set targets which are designed to motivate people to bemore productive to achieve high level of firm performance. Ian, Jim and Will (2004) concurred that incentives should be incorporated to organization strategies as seen as a technique which organization can apply in order to achieve higher productivity in accordance with goals. Armstrong (2006) further explains that the external environment includes the levels of pay in the labor market and submits that a reward system should consist of policies that provide guidelines on approaches to managing rewards; practices that provide financial and non-financial rewards, and processes concerned with evaluating the relative size of jobs (job evaluation) and assessing individual performance (performance management). A reward system should also consist of procedures operated in order to maintain the system so as to ensure that it operates efficiently and flexibly, and provides value for money. The incentive strategy should set out what the organization intends to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals.
Hanley (2005) suggests that, an employee's ability to see the connection between his or her work and the organization's strategic objective is a driver of positive behavior. This clarity is achieved by formulating and using personal objectives derived from strategy. Furthermore, uncertainty about the assessment criteria used for review and reward purposes also diminishes because employees know beforehand which criteria will be used. The identification of functional objectives and competencies helps improve the quality of the development of function descriptions and competency profiles. This will eventually result in better qualified and skilled personnel in

***Corresponding author:** robertnjeri@yahoo.com.au

the right positions. Finally, Hanley (2005) is of the opinion that the implementation of personal objectives, personal targets and clear assessment criteria linked with a flexible reward structure, can lead to a positive cultural change. The commitment of employees to achieve the objectives of the organization increases. Standards of what is good and what is wrong also become clear and consistent with each other. Studies on performance-based compensation have identified it as the single strongest predictor of firm performance Schultz (2004). In addition, several different theoretical perspectives have been used to show the effectiveness of performance-based incentive systems including transaction cost theory, control theory and agency theory (Armstrong, 2006). Empirical studies on the relationship between performance-related incentives and company performance have generally found a positive relationship. Past researchers (e.g. Prasnikar, Ferligoj, Cirman, &Valentincic, 1999) have found that there is a strong relationship between management incentive and risk-taking which would subsequently lead to better firm performance. Based on expectancy theory (Vroom, 1964), it can be expected that, if the company provides rewards desired by the employee in question, this employee is more likely to perform in a way that will bring him/her the reward.

A company's ability to understand the 'drivers' of remuneration policy is therefore a critical component in determining its present and future success in good remuneration governance. A review of the literature and pilot study yielded 10 major factors that influence remuneration policy.

1. Retention/ attraction of key staff (Talent Management)
2. Financial results/Productivity
3. Market surveys/ Benchmarking
4. Internal advisers/ Consultants
5. Cost of living
6. Legislation
7. Economic restructuring/ different work patterns
8. Competition/ Turbulence in business environment
9. Advanced technological developments
10. Trade union

The strength of each was determined and the top 5 drivers in order of strength are: Retention/ attraction of key staff (Talent Management), financial results, technological developments, Market Surveys/ benchmarking, Company advisers/consultants.

Statement of the Problem

The link between remuneration and company performance has been researched and a positive correlation has been found (Armstrong and Murlis, 1998). Well-designed remuneration systems play a strategic role by promoting organisational success in highly competitive markets in which technological change constantly influences how employees perform their jobs (Martocchio, 1998). Indeed, some go so far as to argue that there are strong links between remuneration system design and organisational performance. Organisations have different remuneration policies with different content. This is what gives them their competitive advantage. However, of crucial importance is how performance-based incentives system is aligned with other parts of the HRM bundle to ensure that employees who contribute to organizational success are rewarded accordingly. Thus, rewards should not be distributed based on a narrow definition of the output of each individual, but also based on appraisals of how well the individual contributes to the performance of the team, the unit, or the company as a whole depending on the company's structure, hence the need to formulate an appropriate remuneration policy.

Research Objectives

Given the background and problem statement above, the specific research objectives were:

i. To find out how talent management influences remuneration policyof the HR managers in the Kenyan banking sector.
ii. To determine how financial results influenceremunerationof the HR managers in the Kenyan banking sector.
iii. To establish how technological development influences remuneration policy of the HR managers in the Kenyan banking sector.
iv. To find out how market surveys influences remuneration policy of the HR managers in the Kenyan banking sector.
v. To establish how company advisers remuneration policy of the HR managers in the Kenyan banking sector.

Research Questions

The research questions the study were;

i. What are the effects of talent management on theremuneration policy of the HR managers in the Kenyan banking sector?
ii. How do financial results influence remuneration policyof the HR managers in the Kenyan banking sector?
iii. What are the effects of technological development on remuneration policy of the HR managers in the Kenyan banking sector?
iv. To what extend does market surveys influence remunerationof the HR managers in the Kenyan banking sector?
v. How do company advisers influence remuneration policy of the HR managers in the Kenyan banking sector?

Theoretical Framework

In an ideal situation, people consciously chose a particular course of action, based upon perceptions, attitudes, and beliefs as a consequence of their desires to enhance pleasure and avoid pain. Therefore, an individual's energy or efforts will be determined by the level of expectations that a specific outcome may be obtained and the degree to which that outcome is valued by someone.This scenario is well explained by the Expectancy Theory of Motivation suggested by Victor H. Vroom, an international expert on management and decision making. It is classified as a process theory of motivation because it emphasizes individual perceptions of the environment and subsequent interactions arising as a consequence of personal expectations. It provides an explanation of why individuals choose one behavioral option over others. The theory states that individuals have different sets of goals and can be motivated if they believe that; there is a positive correlation between efforts and performance, favorable performance will result in a desirable reward, and the reward will satisfy an important need. The theory is based the hypothesis that if; a worker sees high productivity as a path leading to the attainment of one or more of his personal goals, he will tend to be a high producer. Conversely, if he sees low productivity as a path to the achievement of his goals he will tend to be a low producer (Lawler *et.al* 2009). Therefore, the theory proposes that work motivation is dependent upon the perceived association between performance and outcomes and individuals modify their behavior based on their calculation of anticipated outcomes (Chen and Fang, 2008). According to Redmond, (2009) people will be motivated because they believe that their decision will lead to their desired outcome. This has a practical and positive benefit of improving motivation because it can, and has, helped managers create motivational programs in the workplace.

Relevance of the Theory

Expectancy can be described as the belief that higher or increased effort will yield better performance. Knowing what factors motivate employees can have positive implications for businesses. Some of these include reduced employee turnover, improved morale and higher productivity. The expectancy theory suggests, however, that people are motivated by different things. Some people are motivated by external rewards, such as a paycheck, paid vacation, or a great benefits package, while others may have more intrinsic motivators, such as recognition, or a sense of belonging, specialized training for an employee who feels they are lacking the ability and confidence to complete a function in a satisfactory manner, or acquiring a piece of equipment that would improve the efficiency of the employees production. These isolated variables will bring about improved desired outcomes, such as improved morale and higher productivity. By isolating selected variables, a reward system can be more effectively designed, and can make it possible to determine whether or not the rewards implemented are effecting positive change. The comprehensive reward system should include several different types of rewards so individuals at all levels of the organization with differing motivational drives can strive towards something they perceive as valuable while the organization is continuing to meet its goals and progress. Utilizing the expectancy theory will also allow managers to set motivating objectives for employees (e.g., a high achiever might not be motivated to work hard if the work he/she is performing is mundane. Job enrichment and enlargement might motivate him/her to achieve a higher level of performance). The company will be better off, as more and more employees are motivated to achieve a higher level of performance.

METHODOLOGY

The study adopted explanatory research design. The design was appropriate because it includes descriptive elements and goes beyond to identify and explore the causes lying behind the effects and the nature of the relationships between the independent and dependent variables. Therefore, explanatory research attempts to investigate the causes of particular phenomena, not simply to describe them. The target population was the HR managers in the 47 commercial banks registered in Kenya. The study employed a census and therefore the respondents of the study were all the 47 HR managers. The study collected primary data by use of self-administered questionnaire. According to Use of questionnaire is recommended especially in this study because the point of interest will be the respondent’s behaviours, views, opinions, perceptions and or feelings (Sekaran 2003; Kothari, 2004). The questionnaires were dropped to the respondents by the research assistant and picked after an agreed time. The data collected was analyzed using Excel package and the results presented using tables and charts. The researcher pre-tested the research instrument using 2 respondents. The purpose of the pilot study was to validate the constructs in the questionnaire and to supplement the literature review. Cronbach’s coefficient alpha was used to check the internal consistency and evaluate the reliability of the measures. An alpha of 0.687, (rounded to 0.7) was obtained and therefore acceptable (Cronbach, 1951). As a result, the questionnaire was amended and the literature review enriched (Cooper and Schindler, 1998).

FINDINGS AND DISCUSSIONS

Response Rate

Out of the 47 questionnaires distributed to the respondents 44 questionnaires were returned. This translated to 94% response rate and has sufficiently surpassed the minimum threshold response rate of 75% suggested by Bailey (2003). Out of these respondents, 52% were males while 48% were females suggesting an appropriate gender representation. All the age ranges captured for in study were represented with the age range of “46-55 years” having the highest representation at 39%, while age range “of up to 35 years” having the lowest at 14%. The respondents’ educational background also varied from a “certificate” to “masters degree”. Holders of bachelors degree were the majority with 67%.The study also established the existence of remuneration policy in all the organizations under studied.

The importance of Remuneration Policy to an Organization

The information gathered indicated that; in setting remuneration levels for the HR managers, the Remuneration Committee takes account of the remuneration policy and practice applicable to all groups of employees. Therefore Remuneration policy was designed to ensure that:

i. The organization offered competitive remuneration in the job market so that it attracts, motivate and retain talent.
ii. Employees were fairly and responsibly rewarded in return for high levels of performance.
iii. The key business strategies were supported and created a strong, performance-orientated environment.
iv. All employees received base salaries comparable with companies of a similar size and international scope and had the opportunity to earn enhanced total remuneration for meeting the performance targets set by the organization.
v. A significant proportion of the remuneration of employees was aligned with corporate performance, generating a strong alignment of interest with shareholders. As a result, employees’ potential remuneration packages are performance-related.
vi. A significant part of the remuneration package was linked to the achievement of stretching corporate performance targets.

Rate of Remuneration

Respondentsrated level of their remuneration as shown in Table 1

Table 1. Rate of Remuneration

Factors	Frequency	Percentage
Very high	-	-
High	03	07
Moderate	23	52
Low	14	32
Very low	04	09
Total	44	100

Most (52%)of the employees felt thatthe level of remuneration was “moderate”. While a substantial 41% felt that the level of remuneration was either “low” or “very low”. This was an indication that employees thought that they can be paid more.

Factors Responsible for Driving Remuneration Policy Decisions

The respondents were asked to indicate a major factor that is responsible for driving remuneration policy decisions. The results are shown in Table 2.

Table 2. Factors Responsible for Driving Remuneration Policy Decisions

Factors	Frequency	Percentage
Talent Management	12	27
Financial Results	14	32
Market Survey	11	25
Technological Developments	02	05
Company Advisers	05	11
Total	44	100

Majority (32%) of the respondents said that financial results influenced remuneration policy decisions. This was followed by talent management (27%), market survey (25%), company advisers (11%) and technological developments (5%) in that order.This was an indication that the organizations have to some degree embraced performance based remuneration since in most cases; “financial results” is one of the major indicators of firms’ performance. The ranking of “talent management” and “market survey” as second and third respectively suggested that some efforts were being made to manage talent among the organizations.

The Extent to which these Factors Influence Decision Making

The study wanted to establish extent to which these factors influence decision making. The findings are shown in Table 3.

Table 3. Extent to which these Factors Influence Decision Making

Factors	Great Extent	Medium Extent	Little Extent
Talent Management	84%	11%	05%
Financial Results	91%	09%	
Market Survey	79%	11%	10%
Technological Developments	11%	67%	22%
Company Advisers	72%	28%	

The research has shown that there is a strong correlation between the factors driving change and the extent between the factors driving change and the impact of change. The factors therefore influence decision making directly.

Components of the Remuneration Policy that have Changed

The respondents provided a good indication of the components of the remuneration policy that have changed and the extent to which they have changed. This is shown in Table 4. From the findings, issues that have direct bearing on employee performance have changed to great extent it is therefore clear that most organisations tie the onerous salary and wage bill to the fortunes of the organisation. Wealth sharing is a concept that has gained momentum over time, especially since organizedlabor has warmed to the concept.

Table 4. Components of the Remuneration Policy that have Changed

Factors	Great Extent	Medium Extent	Little Extent
Fringe benefits policy	86%	12%	2%
Total package policy	84%	10%	6%
Merit pay/performance related pay policy	90%	10%	
Job evaluation /broad banding policy	92%	8%	
Long term incentives policy	92%	6%	2%
Short term incentives policy	58%	28%	14%
Job evaluation /broad banding policy	88%	10%	2%
Competency based pay policy	79%	15%	6%
Wealth sharing	43%	30%	27%

Table 5. Other Component that Requires Improvement

Components	Great Extent	Medium Extent	Little Extent
Career Progression	88%	12%	
Training and Development	71%	21%	8%
Selection and Recruitment	56%	30%	14%
Performance Appraisal	78%	19%	3%
Employee-Supervisor Relations	92%	8%	
Job Design	58%	32%	10%
Product/ Service Quality	83%	17%	

Other Component that Requires Improvement

The respondents were asked to indicate whether there were other policies that required improvement to which they gave a unanimous approval. Out of this 92% said Employee-Supervisor Relationsrequired improvement to a great extent. While 88% of the respondents said career progression/ development policy required improvement to a great extent.The responses are indicated in Table 5.
Findings in table 5 indicate that "employee-supervisor relations" is of paramount importance. Under normal circumstances, when theemployee-supervisor relation is rough, the organizational productivity tends to be low and employee turnover rate increases. This might end up compromising the talent management gains made through successfulimplementation the remuneration policy. These findings also revealed that 88% of the respondents said career progression/ development policy required improvement to a "great extent". This means that employers cannot retain or attract employees without addressing career progression/ development issues. The study found that career progression/ development issues are of great concern especially among young HR managers. Of major concern were promotional opportunities which are seen to a major avenue to address career growth. The study also established that employees are concerned with the quality of services/ products provided by their organizations. Normally employees will be happy if they work for an organization with reputation for high quality goods/services. This improves job satisfaction.

Conclusions

From the findings of the study, it can be concluded that, employers have a ray of issues to handle to ensure effective and efficient management of their employees. Despite the noble role a remuneration policy is meant to play on its successful implementation, there other issues it cannot be able to address. These include employee-supervisor relations, quality service and product delivery, job design career progression, performance appraisal, training and development andselection and recruitment.Also number of employees perceived their level of remuneration as low. All these factors will negatively affect employees' job satisfaction, leading high labor turnover and hence dipping organizational performance.

Recommendations

Contrary to common believes that all that employees wants from employers is good salaries, this study established that there is a ray of issues that employees expect in their work environment. These issues in return affect their productivity, retention and the firm's ability to attract competent employees.For this reason, the study recommends that employers and employees should reach a consensus to ensure that there is a match between what employers perceive as a perfect working environment and what an employee needs to deliver. It is a fact that employers have been compelled by economic conditions to maximize on factors of production for profitability but this should not compromise what employees require to be productive. Employers should make deliberate efforts to identify what employees require and the values they attach to certain dimensions of their employment if they are to be productive as it is expected of them. This can be done by engaging in a 360 degrees study to establish both the work and HR related issues that affect firms' productivity, the degree to which they affect and how they can be managed to ensure enhanced organizational productivity.

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