

Compensation and motivation of employees in east africa commerce essay



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At this moment in time it is acknowledged that one of the faster growing sectors in Africa and the entire world is the banking sector. In Africa for example a study in Ghana has shown that the number of bank employees showed an increase of 62.68% (or 4,157) from 6,632 at end 2001 to 10,789 as at end 2007. While year 2002 exhibited the lowest growth (3.66%) in the number of persons employed by the industry, 2006 showed the highest growth (13.56%) in employment (Amediku, 2008).

In the eastern Africa this phenomenon has no exception. The trend is highly the same in the banking sector whether operating in a highly deregulated environment or otherwise.

Overview of the Kenyan banking sector

The banking sector in Kenya is one that operates in a relatively deregulated environment. The entry of the foreign banks has never been a great issue in this country as the banking systems had operated with only foreign owned banks just after the period the country obtained its independence. To date the foreign owned banks still exist though they are not as dominant as they were in those days. This is to say that though their dominance has been diminished they still form a substantial part of the system in Kenya (Amediku, 2008)

In the 1980s and the mid 1990s, a series of reforms in the Kenyan financial system was introduced which have played a role in the banking industry of Kenya.

In the 1990s there was a monetary policy reform which entailed the liberalizing interest rates and removing the then existing direct controls on lending with open market operations.

There were many effects that were placed to improve the efficiency of the intermediation, but these efforts were undermined due to the presence of a unnecessarily huge, as well as weak government owned banks. These banks made up the majority part of the banking systems nonperforming loans (NPLs). The National Bank of Kenya (NBK) which was the 6th largest bank in the country has been inoperable for a very long period of time. The second largest bank in Kenya i. e. the Kenya Commercial Bank (KCB), has performed better than the NBK but it still suffered a lot as a result of bad loan portfolio. The study conducted by Brownbridge and Harvey (1998) provides us with some empirical evidence that the vigorous competition among the Kenyan banks had been a result of the liberalization in the 1990s.

Though the study by Brownbridge and Harvey provided evidences, it has not clearly shown whether the liberalization has improved the efficiency of credit allocation in the presence of widespread distortions elsewhere in the economy.

A government elected in December 2002 prepared an economic recovery strategy containing important structural measures for strengthening the financial sector, including through maintaining free competition among banks.

Overview of the Uganda banking sector

In the years of 1970s and 1980s, Uganda had experienced a civil disturbance that had drastically led to a large decline in the financial system of the country. It led to the decline in the financial intermediation, and the financial services became concentrated in very few commercial banks in the capital of the country. Aleem and Kasekende (2001) have found that in that time the management of financial institutions was nonprofessional which led to the collapse of business discipline. The aspects of disintermediation; parallel markets in foreign exchanges, trade and the credit developed; as well as the decline in the use of the credit instruments were highly contributed by the financial repression in the form of interest rate controls and directed credit in the country at that time. The country had only 6% of its GDP being from the broad money in the year 1991. In the early 1990s, the government started a comprehensive financial system liberalization program. The main objective of the program, as in Tanzania, was to enhance the efficiency of the financial sector and promote economic growth. The government decided to reduce its role in the financial sector and allow the market to play a more substantial role in resource allocation. Brownbridge and Harvey (1998) and Aleem and Kasekende (2001) provide detailed descriptions of the financial system reform in Uganda and its early results.

In 1992, the country implemented its first financial reform which included the liberalization of the interest rates, the phasing out of subsidies as well as the removal of directed credit, allowing entry (and exit) of banks (including foreign banks). These measures were complemented by the introduction of

new legal and regulatory framework, efforts to strengthen banking supervision, and an upgrade of market infrastructure. The government gradually sold most of its shares in financial institutions. The number of banks increased from 9 in 1991 to 20 in 1996, when a two-year moratorium on banking licenses was imposed. While the reforms did improve the performance and depth of the financial system in Uganda, it is still small even by regional standards. Weak infrastructure, problematic legal and institutional environment, and weak credit culture continue to hamper financial sector development. The authorities have recently tried to address important financial sector issues. The banking system has been strengthened by preventive actions by the Bank of Uganda (BOU) in closing four banks in 1998-1999.

Overview of the Tanzanian banking sector

In the late 1980s, the government of Tanzania was forced to search for new policy direction due to the fact that there was a poor performance in the financial sectors that were owned by the state. There were more than 65% NPLs of the portfolio of the loan, the fiscal and the financial operations which were not separated, there was no appropriate regulatory framework. In the year 1990 there was a formation of a presidential commission which recommended that there should be : (i) increasing competition by encouraging entry of foreign banks; (ii) strengthening the existing financial institutions; (iii) developing management accountability; and (iv) recovering NPLs.

From these recommendations the government issued a policy statement for the reform of the financial sector encouraging the market based financial

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system, the efficient organization and the allocation of resources and also to support the long term economic growth. Tanzania obtained a large donor support which held the reform, in the With substantial donor support, the reform effort started in 1991 and has been ongoing since. Domestic financial intermediation has been substantially liberalized. A new regulatory framework has been introduced, organizational and financial restructuring of the two largest (formerly state-owned) banks, the National Bank of Commerce (NBC) and the Cooperative and Rural Development Bank, has been implemented, and the sector has been opened to the entry of financial services providers. 8 The new Banking and Financial Institutions Act approved in the second half of 1991 allowed licensing of new banks, including subsidiaries of foreign banks. The liberalization that took place in Tanzania in the year 1992 has made the banking sector a key element to the provision of employment in the country. The first major foreign bank (Standard Chartered) started operations in 1992, with other international banks following–Stanbic (1993), Citibank (1995), and Barclays (2000). Several other smaller foreign banks set up their subsidiaries during 1995-2002. These major reforms have created a new market-based financial system and limited direct fiscal costs, but so far have not yielded an improved access to financial services by economic agents. The loss of convenient access to banking services, because of the closure of some loss-making

bank branches and through an initial increase in minimum balance requirements by some banks under new ownership reduced access to banking services, as witnessed by recent household budget survey data,

which show a substantial decline of the number of household bank accounts and loans. The history of non-repayment explains banks' slow replacement of the stock of NPLs by new credit. Instead, as discussed in more detail below, banks have been accumulating extensive holdings of government paper and off-shore deposits in foreign exchange, limiting the amount of credit available to the private sector.

Having recognized the need to create an environment more conducive to lending and financial sector development overall, the authorities have recently introduced wide-ranging reforms in the areas of legal, judicial, and information infrastructure, including the Land Act 1999 and the Companies Act 2002. Judicial and court reform is one of the basic priorities to which increasing attention is being paid. However, comparatively little progress has been made, with training and facilities still remaining in need of special attention. Furthermore, land registries, company registries, and registries of mortgage interests are inefficient, and considerable improvements are needed before they will provide a useful information basis for credit decisions.

Banking has proven to be an important sector as it accounts for 12.1% of the GDP (TNBC, 2005). One of the major factors that contributed to this growth was human resource.

These days most banks do not have well established policies and practices relating to employees compensation. The problem is that most banks have not yet fully realize the importance of compensating their employees adequately. For this reason employees still tend to go on strike as evidenced

that took place on 11th August 2007 (Mkonya, 2007). The result of going on strike is that employees lose their jobs as the employer is inclined to terminate them, but the outcome in the long run is that the organization is forced to recruit new employees; this results into incurring cost on training and development. The Former Minister for Labour, Employment and Youth Development, John Chiligati said “ wages paid by private sector were not only disturbingly low but also a disincentive to workers.” The Minister also said: “ The Government would like to see employers and workers” (Mkonya, 2007 pg 1) From the Minister’s statement it can be deduced that the private sector is not compensating its employees adequately.

Although the government of Tanzania has revised various labour laws in the country and has introduced new Act like the ELRA of 2004, yet most organizations do not properly compensate their employees. Inadequate compensation has led to various issues like lack of motivation, job dissatisfaction and employee turnover.

In this essay topics such as motivation, job satisfaction and employee compensation that were described in the Essay 1, will analyzed in terms of the Banking sector in Tanzania.

Compensation and Motivation in the banking sector of Tanzania

Overview

As described in the first essay, motivation is a psychological process that exerts high level of effort to reach organizational goals conditioning by the efforts to some individuals (Prasad, 2001). The aspect of motivation has an

imperative role in the way in which the employees perform in the organization. As discussed in essay one motivation has a direct relationship with performance. If people do not feel inclined to engage themselves in work behaviour they will put in necessary effort to perform well.

However individual performance also depends on other factors beside level of motivation. How motivation works with other factors in shown in the figure below.

Extrinsic

Motivation

Resource

Abilities

Reward

Performance

Intrinsic

Role of perception

Sense of competence

Source: (Robins, S 2004).

There have been many studies that have shown that there are many things that influence the level of motivation. In Tanzania, there are efforts that are being done by different organizations on trying to motivate the employees.

The aspect of compensation has been used as the main issue of motivating the employees.

Compensation and motivation

Taking Tanzania's banking sector, many multinational Banks such as Barclays bank, city bank and standard chartered bank are giving good pay to their employees; they also provide them with places to live and transportation facilities. These have made the banks highly performing and many people are interested in those banks than other banks. The Standard chartered bank which is a foreign bank was nominated the best employer due to its good compensation to its employees. In societies where food and shelter is not a problem, employees may be motivated by higher levels of needs such as social esteem and self actualization. Social needs may be satisfied by providing recreational facilities and arranging parties and day out picnics. For example CRDB bank invited all its employees with their families a day out at Kunduchi Wet and Wild to celebrate family day. Most of the companies organize Christmas and New Year parties for the employees and their family. Rewarding employees through promotions, providing status symbols such as a well furnished office, luxury car will enhance the employees self esteem.

An attempt to motivate workers through human relations, pleasant working conditions and improved benefits does not work. The only true way to motivate workers is to upgrade their jobs through promotions.

Self actualization needs may be satisfied by enriching the job and making it more challenging. Other methods include establishing a career path and encouraging employees to reach their full potential. In contrast to the above banks which have participated in the aspect of good compensation, employees in organizations that do not compensate well have had difficulties in their performances.

It is also recognized that in order to prevent the recurrence of dissatisfaction, hygiene factors must rise continually. For example, a person who gets a pay rise of 100, 000 Tsh a year and the following year a raise of 50, 000 Tsh will dissatisfy the person with the second raise because it will almost amount to a pay cut.

A research conducted by Ali Hussein Parhan at the EXIM Bank in Tanzania concluded that the employees become motivated to do their work when they believe that they are being adequately compensated.

The study further observed that the employees who felt not adequately compensated were likely to leave the banking sector and move to other sectors which may be more lucrative for them. The aspect of compensation in the Tanzanian Banking sector is very significant as it has a major contribution in the way in which the employees operate. The essence of this is that fact that studies that have been conducted in similar business

environments ` have indicated that if employees are not adequately
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compensated they do not become satisfied. These include those studies conducted by Assy (2009) and Kimbori (2009) which showed that majority of the employees are not satisfied with their job due to inadequate compensation. A study by Amediku (2008) also showed that the major cause of labour turnover was inadequate compensation. A study conducted by Tahir (2008) in Pakistan which involved the Pakistan Banking sector concluded that compensation management had a direct relationship with employee motivation and performance.

What are the factor affect employee motivation

There has been a lot of literature that has been concerned with indicating the factors that affect motivation. In different industries there are many other not easily related factors but there are factors which are common to employee motivation. These factors can be explained as follows:

Adequate compensation

The study conducted by Ali Hussein pardhan at the Exim bank in Tanzania concluded that the factor that was strongly an influencer on motivation was the fact a bout to what extent the employees believed that they were adequately compensated. The employees were given a set of questions till they were asked whether they believed that they were being adequately compensated or not. Those employees who believed they were had a high performance record in the organization and furthermore were the ones who said that they were always motivated in doing their job. An observation made was the fact that there were other employees who were paid more than 0others but did not believe they were being adequately compensated and hence also showed lower levels of motivation. This finding there fore <https://assignbuster.com/compensation-and-motivation-of-employees-in-east-africa-commerce-essay/>

entails that when one is considering adequate compensation it is relative term to the specific individual.

Nature of work

There has been a revelation that the people who work in an organization that is dealing with something that the employee is interested in, the employee tends to have a high level of self motivation. In the case of the banking industry it has been observed that the people who are employed in the organization and that perform well are usually not those candidates who were recommended because of their academic credential rather the ones who took a step and applied to that specific job. It has been common to see that an employee who could have had a job in a more prestigious company working in a less prestigious organization by their own choosing and they tend to be the top performers. This relates to the fact that there are the so called motivator needs that are being fulfilled by the employees' presence in that organization.

committed support of top management if it is to be adequately financed, and implemented with equity and seriousness by everyone in the work organisation. Unfortunately, most top management teams give inadequate support to motivation programmes, which conditions the lower levels of management to treat them lightly.

Problems affecting motivation in organizations

Shortage or lack of understanding of motivation theory

Motivation is a difficult area to understand not only to managers, but also to the employees and their unions. For managers, who are the designers and

implementers of motivation programmes, it is difficult to discover motives in people and to prepare a programme which meets the heterogeneous motives of the work force.

On their side, employees and their unions do not understand motivation. Unfortunately, many employees interpret motivation programmes as cajoling programmes. Some even seek to turn the contents of the programme into rights, and do very little to contribute to the motivation situation, which we explained at the beginning of this chapter. Correctly perceived however, a motivation programme can only be financed from the fruits of a motivated work force. An unmotivated work force does not work hard and thus has no right to an attractive motivation package, because, wherefrom can the organisation derive the resources to finance the programme.

It is good for management to create a motivation situation in order to induce employees to like their work and thus contribute their best and most to organisational performance. A motivation programme is however strictly speaking not an employee right that can be enforced under the employment contract. Management has the liberty to vary the motivation programme to reflect the realities of its effects and the operating environment. An intelligent management recognises that a motivation package constitutes part of the employees' compensation package; and for this reason they refrain varying it until they have good reasons to touch it.

Another example of the difficult to understand motivation theories is derived from cognitive theories. Cognitive theories are theories based on employee needs e. g. the hierarchy of needs theory, the ERG theory, and the two factor

theory. They are called cognitive theories because they depend on the psychological thinking and feelings within the individual employee. The problem with cognitive theories is that they cannot be measured with any scientific precision. No one can be sure that employee needs actually exists. We can only infer that people have certain needs from their actions and what they say about their needs.

Shortage of top management support

As with all other human resources programmes, the motivation programme needs the committed support of top management if it is to be adequately financed, and implemented with equity and seriousness by everyone in the work organisation. Unfortunately, most top management teams give inadequate support to motivation programmes, which conditions the lower levels of management to treat them lightly.

Conflicts of interest between employees and management

Another main problem facing the management of motivation programmes is the conflict inherent in the employee-employer relationship. Motivation programmes aim at producing employee satisfaction, but they are managed and controlled by managers who themselves are interested in job satisfaction. Given the scarcity of the resources required to carry out the implementation of motivation programmes management is bound to resent the inception of some motivation programmes on the basis of cost whereas in reality they are considering their own motivation.

Management's place and role can be very deceptive both to the employees and the managers themselves. Because managers represent the

organisation, they and other employees often forget that managers are by definition employees as well, and that they have personal interests and objectives to achieve from the same organisation. Very often, when employees think of interests from the organisation, they think of themselves as the only part of the work force that “deserve” to be given the motivated treatment conducive to hard work. This erroneous thinking not only militates against the definition of effective management but a negation of the “backbone” role of operatives in Mintzberg’s model of classifying people in work organisations which we explained in chapter three and are using throughout this book.

Shortage of funds

Some organizations cannot design attractive motivation programmes due to genuine shortage of funds. Unfortunately shortage of funds produces a vicious circle. Due to shortage of funds, an organization cannot give its employees a meaningful motivation package, and due to poor motivation, the employees do not like their work, and do not work hard, which leads the organization to inability to make sufficient business and money.

Insufficient involvement of interested parties

In as much as motivation aims to produce job satisfaction and induce employees to like their jobs and willingly work hard, motivation programmes are by definition behaviour moulding programmes. The effectiveness of such programmes significantly hinges on the acceptability and supports which employees and their unions can give them. Involvement of the employees and their unions in the design stages promotes ownership of the

programmes and reduces the scepticism and distrust that employees accord motivational programmes in whose design they have not participated

Compensation schemes

As described in the first essay, compensation is a way of determining adequate and equitable remuneration to an employee for his/her contribution to the organization (Gupta, 2006). The different schemes that are exist and have been discussed in essay one included:

There are many schemes that have been employed for the compensation of individuals in the organizations; literature has divided the compensation system into three main categories namely: Time-wage system, Piece Wage System and Balance or Debt Method. Others have simply categorized these methods into; piece rates, wages, salaries, profit related pay, Profit share: as well as Bonus schemes which include, Sales bonus: Performance bonus: Christmas bonus: below is the explanation of the different methods that are used for the compensation of employees in the organization.

The compensation systems that are used in Tanzania basically include;

The Tanzanian banking sector has been embarking on the use of the few of the mentioned compensation schemes. The Banks in Tanzania however have been more using the salaries as the means of compensation employees as well as fringe benefits. Salaries are payments that are made on an annual rate. The incomes of salaries are received in monthly period directly into the accounts of the employees in question. As mentioned earlier salaries are a good business way of ensuring that the employees work is awarded at the

time when he or she has fully completed the work in the specific period.

They therefore make a good business sense in the fact that they ensure they are paid monthly in arrears, this means that employees need to wait up to a month to obtain the income that they have worked for. This also means that there is improved cash flow for the business and improved bank balances.

Also it is simpler and safer to pay money by a bank transfer than in cash.

Salaried workers are not normally paid overtime but may receive other financial benefits. This non-payment of overtime does not mean that they do not work more than their contracted hours, they often do, but it does mean that employers may not be liable to pay for this extra work. Fringe Benefits

Other forms of financial motivation include company cars, pension schemes, sickness benefits, subsidized meals and travel, and staff discounts. These are often grouped together under the heading fringe benefits. Some of these fringe benefits can be regarded as essential in encouraging the right applicants for certain types of vacancies. For example a company car is a necessity in financial service firms for anyone involved in sales, and senior management in many companies would expect both an up market car and private health care. The banks use this as a means of motivation employees.

Furthermore the uses of the bonuses that are linked to the profits are seen as a favourite for most of the employees' in the Tanzanian banking sector.

There are occasions that the time wage based is used with the piece wage together I. e. Balance or Debt Method but not the time based system is never used by it self. Other methods that are used in the compensation of individuals in the Tanzania organizations include;

Profit related pay: which are those payments that links part of an employee's income to the profits of a company. Normally the people who obtain or are compensated using the profit related pay have salaries which are very small than expected and therefore it ensures that the profit is high to be able to obtain a higher overall income collection. This process also reduces the issue of tax being taken from the salary of the employee. Hence this method is good for not only the business but also the individual.

Bonus schemes as mentioned earlier; there are many aspects that fall into the category of bonus schemes. These schemes are suitable to the diversity of the employees who are engaged in different jobs that they are doing.

These schemes are as follows;

Sales bonus: This is normally paid if a sales target has been reached. For sales people this may make up a significant part of their salary.

Performance bonus: This can be paid to an individual or on a group or factory wide basis, and is often paid for reaching targets of output and quality. This method of payment is an important part of Human Resource Management.

Christmas bonus: Often called a 13 month's salary, paid for loyalty to the business. In some countries such as Germany virtually all companies will pay a Christmas bonus.

Profit share: Some businesses will pay a percentage of profits to employees. The amount that they receive will normally depend on salary and length of service, so rewarding those that had been with the company longest, more.

Conclusion

As concluded in essay one, compensation is crucial to the well being of an organization. The latter is that fact that the adequate compensation plays a role in ensuring that employees work for the benefit of the organization, financial remuneration is key in motivation and the satisfaction of workers all of which increases the work performances in an organization. The benefits of compensating employees adequately include the following, adequate employee compensation enables the employees to be motivated thereby increasing their productivity. In a good compensation package is also important to retain employees in the organization thus avoiding cost in training and developing new employees. Studies have indicated that appropriate employee compensation is related to employee motivation, job satisfactions as well as employee retention. The relationship between adequate employee compensation, employee motivation, employee job satisfaction and employee retention have a positive relationship has been scaled to be positive and therefore imperative to be for the banking industry to realize the role of adequate employee compensation as it would directly lead to employee motivation, employee job satisfaction and employee retention in the organization. The banking sector will prosper if it analyses the methods that it uses for compensation the employees in the Tanzanian context.