KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION

BHM 826: EMPLOYEE REWARD AND COMPENSATION

DATE: Monday, 20th November 2017 **TIME:** 5.30 p.m. - 8.30 p.m.

INSTRUCTIONS:

Answer Question **one** and any other **Three**

Case Study

KENYA

Public wage spending is relatively high in Kenya, crowding out social and infrastructure spending. The large wage bill mainly reflects high wages rather than high employment, and is the result of the absence of a clear and legally binding wage and remuneration policy. Public wages significantly exceed those of the private sector. The rolling out of decentralization in 2013 has also been adding to the challenges ahead. The authorities are in the process of designing a comprehensive set of reforms to help contain the wage been and ensure its sustainability.

A. Institutional Background

Kenya's public sector lacks a transparent, unified, and harmonized framework for determining pay. Administrative reviews conducted by ad hoc taskforces, committees, and commissions to address these issues have proven ineffective. Government wage determination involves many institutions and processes. Collective bargaining agreements have created intermittent demands for sizeable wage increases for different sectors over the years.

This non-unified existing remuneration structure has worsened wage disparities and inequalities across government subsectors. Performance appraisal is not used as a basis of base pay determination, but it is applied to bonus sharing and other non-permanent benefits, which different government sectors opt to advance to employees in their institutions. This has led to some job categories (higher and middle job cadres) in thee civil service being entitled to more allowances than others, with individual incomes from allowances supplementing to a large extent the basic remuneration. This has contributed to inequalities in wages across job categories and across government subsectors.

Allowances are an important component of compensation. The proportion of allowances in gross salaries accounts for well over 50 percent across all job groups in the public sector. The bulk of these allowances (e.g., extraneous, acting, responsibility, special salary allowances) seem to accrue to public service employees that are at the highest end of the job scale.

B. Trends and Issues

The public wage bill in Kenya has been rising significantly in recent years, creating a risk to fiscal sustainability. General government wages stood at about 7.4 percent of GDP in FY 2013/14, an increase from 5.7 percent in FY 2009/10, mainly owing to the rollout of decentralization in FY 2013/14, by which subnational governments were able to increase their wage spending by 1.5 percent of GDP compared to 2011/12.[24] The general government wage bill is at about the LIDC average both as a share of GDP and relative to total public spending.

On average, public wages exceed their private comparators by about 20 percent. Wages are higher in the public sector, and the wage gap with the private sector has been widening in recent years. According to a 2013 study by the Salaries and Remuneration Commission and the Kenya Institute for Public Policy Research and Analysis, there exists a sizeable wage differential in Kenya in favor of public sector employees, even after accounting for differences in socioeconomic characteristics such as age, education, and experience, among other factors (KIPPRA, 2013).

Decentralization challenges are further complicating the wage bill issues in the near term. Spending by subnational governments increased substantially after the rollout of decentralization. Aside from transitional payroll complications between the subnational government and the central government, other decentralization related wage bill issues could potentially have negative implications on the general government wage bill in the medium term. First, subnational governments have embarked on an ambitious hiring process, with a cost estimated at about 0.8 percent of GDP in 2014/15. Second, former local authority staff and members of county assemblies have recently awarded themselves substantial wage increases. These challenges add to long-standing issues in rebalancing current and capital spending and containing the wage bill, and could - if left unaddressed - have negative implications on the general government wage bill and sustainability in the long-run.

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[24] For consistency and comparability across years, general government is defined as the sum of budgetary central government and subnational governments (counties). However Government Financial Statistics (GFS) statistics for general government finances were recently released for FY 2013/14 and suggest that the general government wage bill is potentially about 10 percent of GDP.

Question One

(a) Advise the government on the ways of mitigating the challenges highlighted in the case above. (10 marks)

(b) Identify the compensation issues presented above. (5 marks)

(c) As a consultant to the SRC and KIPPRA, point out the methods/procedure to follow to rationalise the salaries across all sectors. (10 marks)

(d) Explain the factors to consider when setting up salary structures for a country like Kenya. (5 marks)

Question Two

The new CEO of your organization, who just reported from a competitor has just asked you to discuss the organization's compensation system. As the compensation manager, you tell him about the organization's nearly 500 employees in about 70 different job titles who are located in three locations in Kenya. He asks you to describe the strategy used to guide compensation system decisions. You explain that ordinarily, pay models are guided by several strategic policies. Describe what goals a compensation system should have and how the four strategic pay policies apply to the organization. (10 marks)

Question Three

In creating a job-based point evaluation plan for an organization, identify and discuss the compensable factors that you incorporate in a job-based point evaluation plan. (10 marks)

Question Four

You have been invited to a compensation committee meeting to recommend an executive compensation strategy. Describe the components of an executive compensation plan and explain how these components support an organization strategy. (10 marks)

Question Five

As a compensation consultant, you have been asked to advice a client's management team on incentive plans. Provide a brief. (10 marks)