A SURVEY OF THE APPLICABILITY OF THE PRINCIPAL-AGENT THEORY IN DETERMINATION OF THE COMPENSATION PACKAGES USED BY COMMERCIAL BANKS IN KENYA

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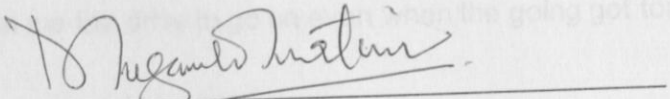
DECLARATION

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



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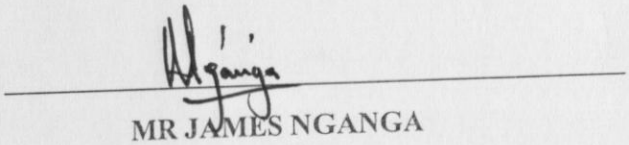
This project has been submitted for examination with my approval as a university supervisor.



MR JAMES NGANGA

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DEDICATION

This is dedicated to my lovely wife Lillian and our wonderful son Ryan.
They have given me the drive to go on even when the going got tough.

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This work is a synergistic product of many minds. I am grateful to my supervisor Mr. Ngángá and my moderator Mr. Karanja for their guidance, feedback and encouragement.

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ABSTRACT

The purpose of this research was to find out the compensation systems utilized by commercial banks in Kenya, establish the determinants of the compensation system and the extent to which the principal–agent theory can explain the variations in the payment systems.

The population of the study was all commercial banks operating in Kenya. A sample was drawn form this population. The sample consisted of 8 commercial banks, which control over 80% of the market share. These are Barclays Bank of Kenya, Kenya Commercial Bank, Standard Chartered Bank, National Bank of Kenya, Co-operative bank of Kenya, Stanbic-CFC bank, Commercial Bank of Africa and Citi-Bank

The structured questionnaire used in the study was coded with respect to questions for ease of electronic data processing prior to the commencement of the fieldwork.

The data collected was analyzed using descriptive statistics. This involved the use of percentages, mean scores and standard deviation. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the objectives of the study. Percentages revealed the proportions of different attributes being studied.

According to the results of the survey, salary increments were the most frequently applied compensation systems for employees of banks in Kenya. This applied to both junior staff and middle level management staff. However, the executive directors compensation was in the form of salaries, performance based systems and bonuses. Holiday bonuses and executive life insurance cover were not applicable compensation systems.

The findings of the study conclude that the principal agent framework does use bonus pay but only in part. It is undeniably true that the cost of measuring individuals output is important in explaining the use of bonus pay or any other compensation system. The existence of alternative determinants of compensation system such as merit pay, stock price value, and company cash flow does not negate in itself the validity of the principal-agent model.

CHAPTER ONE: INTRODUCTION

1.1 Background

The use of variable pay schemes has recently attracted attention in both academic and professional circles. This interest has been heightened by the increased use of such schemes across most sectors of the economy. Economic theory has long predicted the potential of a payment system to increase the productivity of workers. In situations where employers cannot accurately assess whether an employee is working sufficiently hard, theory suggests that performance related pay schemes are a way that sufficient worker effort may be elicited. The question facing both researchers and managers is the extent to which these variable pay schemes achieve their aim of increasing labour productivity.

Deci (1972) the financial/banking services sector is exceptional in its use of bonus pay. The sector is characterized by both high levels of remuneration and near universal coverage of bonus pay amongst employees. The proliferation of consultancy activity directed at remuneration in the Country is testament to the importance attached to payment systems in that sector. Financial services, and banking in particular, are characterized by both distinct product markets and occupational structures. These characteristics, combined with the ubiquitous nature of bonus pay, serve to make the financial services sector well suited to an empirical investigation of the determinants of pay.

1.1.1 Principal-Agent Theory

The concept of the principal-agent theory can be defined as 'a situation where the business owner or entrepreneur engages another person (employee) to undertake the decisions on his behalf at a fee' (Gupta, 1989). Principal-agent theory (Jensen & Meckling, 1976; Pratt & Zeckhauser. 1991) is a particularly promising theoretical framework to underpin the Net Profit Margin assumptions about the effect of autonomy, result control, and competition on the performance of public agencies. First, principal-agent theory focuses on the central question of how the principal can control the agent in a context of information-asymmetry and goal conflict. Situations of information-

asymmetry and goal conflict are particularly prevalent in the public sector (Boorsma & Halachmi, 1998).

Central in principal-agent theory is the relationship between, on the one hand, the principal, and, on the other hand, the agent that is supposed to execute some tasks on behalf of the principal. Because of specialization the agent has some discretion in executing these tasks. Moreover, there is ex ante and ex post information asymmetry between the principal and the agent concerning the production process, as the agent knows more about the used processes, the achieved results, and important circumstances. The interests of the agent do not necessarily coincide with those of the principal (i.e., goal conflict). The agent, as a utility maximizing actor, will try to use its discretion to pursue his or her own goals at the detriment of the principal. As such, the agent could behave in an opportunistic manner, resulting in "adverse selection" and "moral hazard" problems (Alchain & Demsetz, 1974; Arrow, 1991).

The principal may use the control devices to motivate the agent to perform well; 1) by reducing problems of information asymmetry and goal conflict between itself and the agent. 2)Monitoring systems to measure and evaluate the performance of the agent, 3)skills of the agent, 4)interfering environmental conditions; 5)bonding arrangements by which the agent can provide guarantees that he will act in accordance with the principal's interests or by which "contractual limitations on the manager's decision making power" are set 6)systems of financial incentives that link reward to the performance of the agent, resulting in risk-turnover from the principal to the agent (Jensen & Meckling, 1976);

In most of the capitalist world, wealth is created by businesses, which harness the savings of the investors and the energy of employees. Industrial concentrations have lead to the creation of large multinationals, some of which are more complex than many of the countries that host them. These companies have thousands of shareholders. It will be impractical if not possible for every shareholder in these companies to be involved in the daily management of their companies (Nzomo 1996).

It is necessary for the control of large businesses to be delegated to a small number of directors.These directors find themselves taking decisions that have enormous implications for the investors and employees of the organizations which they manage. This separation of ownership from control can create conflict in that the directors may choose their own welfare over that of the shareholders (Fama, 1983).

In order to protect themselves from directors, the shareholders must implement mechanisms to protect their interests. The costs of the safeguards instituted by the shareholders along with the effects of those abuses, which cannot be prevented, collectively described as agency costs, must be gauged against the performance of the firm (Copeland and Weston, 1988).

The shareholders own a Limited liability company, but in most cases, a board of directors appointed by the shareholders manages it. This is because there are too many shareholders who cannot all manage the company effectively. They may also lack the skills as well as the time.

Conflicts of interests usually occur between the managers and the shareholders in the following ways; to buy the shares not owned by them and thereby make the company a private one, the Limited Liability Company would almost appear to have been specifically designed to enable corrupt managers to profit at the expense of the shareholders and other investors. The Limited Liability Company was created with the intention of attracting wide spread shareholding. Control is then delegated to the board of directors who usually have total discretion over business's strategy, investment and financial decisions; they may also be tempted to award themselves excessive remuneration in the form of substantial salaries or fringe benefits.

Another feature of limited liability is the lack of responsibility by the shareholders or directors for the amounts that are owed to the directors. If a company's future was threatened, it could be quite sensible for the directors to invest its remaining assets in a

high-risk gamble or venture. If the venture is successful, then, the director's job will be saved and the shareholder wealth would have been squandered.

They may also undertake investments that improve their image at the expense of profitability; they may also not work hard to maximize the shareholders wealth if they perceive that they will not share in the benefits of their labor. They may also maximize leisure at the expense of working. Management bill out could not also be threatened. This occurs when the managers of the firm intend to own the company by buying out the shares.

1.1.2 Mechanisms for Reducing the Agency Problem

The above issues culminate in what is referred to as the agency problem, which is brought about by the divergence of interests between the agent and the principal. The shareholders must be able to costlessly monitor management's decisions if they are to be sure that management really does take every decision in a way that maximizes their wealth. In most agency relationships, the owner will incur nontrivial monitoring costs in order to keep the agent in line. Consequently, the owner faces a trade-off between monitoring costs and forms of compensation that will cause the agent to always act in the owner's interests. So on one extreme, if the agent's compensation were all in the form of shares in the firm, then monitoring costs would be zero. Unfortunately, then this form of scheme is practically impossible because the agent will always be able to receive some compensation in the form of non-pecuniary benefits such as larger office space, expensive lunches, an executive jet, executive club membership amongst others.

At the extreme opposite, the owner would have to incur inordinate monitoring costs in order to guarantee that the agent lies an optimal solution (Pandey, 1989). These solutions include; 1) Expenditure to monitor managerial actions. This is by having the financial statements audited. This could curb management excesses. 2) Exploring ways of making their interests congruent for example how each will benefit from the success of the firm, 3) Threats of firing by the shareholders, 4)Adequate incentives to the managers, 5)Bonding assurances by managers that abuses will not be practiced, 6)Strong organizational systems, which are also changed over time and can limit the ability of

managers to engage in undesirable practices and finally 7)Use of regulatory bodies which for example, extend the financial reporting disclosure requirements.

According to Lambert and Lacker (1985) some of the solutions include the market for corporate control – takeovers, mergers etc. Management team's fight to control companies, thus, managers will strive to excel so as not to be taken over, designing appropriate compensation schemes for management fro example executive stock option plans, having a competitive market for executive labor. This brings about the alignment of the two groups of executives i.e. those who act in the interests of the shareholders and those who do not as well as corporate governance by board of directors.

1.1.3 Banking Industry in Kenya

Banking survey (2007) showed that without external monitoring and intervention mechanism, the principal- agent problem cannot be solved properly. So the Kenya banking supervisory authority stresses more emphases on external monitoring and control of the commercial banks. At the same time, they should prepare for the guidelines of shareholders' and creditors' rights and obligations in corporate governance of the commercial banks so that the external governance structure becomes transparent and functions properly.

There is a complex matrix of factors that influence the amount of bonus an individual receives and the process by which it is arrived at. A senior Human Resources Consultant with Manpower Services Kenya Ltd. Sarafina (2005) who had experience of designing pay systems in the financial services sector suggested two main fundamental variables: the degree of individual power and the economic value.

The degree of individual power refers essentially to the bargaining power of the individual with respect to the firm. This power derives from the fundamental problem of economic scarcity. There is a strategy of allocating the bonus pool to protect the crown jewels and prevent them from leaving the organization. Banks often pay above the market clearing level of finance industry in order to retain the services of the individual and the

associated revenue stream. Many institutions find it difficult in reconciling the wage demands of high achievers with the desire to retain some kind of internal consistency in remuneration levels.

This phenomenon is consistent with Williamson's analysis of hold-up in the employment relationship (Williamson 1985). Where the individual has firm specific human capital then both parties will have an interest in the employment relationship continuing, and the employee may be able to appropriate higher wages from the employer in return for not leaving the job. In the case of financial services this mechanism may be skewed even further in favour of employees. If the human capital of the employee is not fully firm specific but highly desirable by competitor firms, then the hold-up problem is heightened. This is likely to be the case in the country due to the shortage of specialized labour in the sector. Due to the lack of firm specific human capital the employee can quit with little cost to himself whereas the firm has a strong incentive to retain the services of the employee. This provides a strong theoretical basis for the high bonus levels that are observed in the country.

Economic value theory has long predicted the potential of a payment system to increase the productivity of workers. In situations where employers cannot accurately assess whether an employee is working sufficiently hard, theory suggests that performance related pay schemes are a way that sufficient worker effort may be elicited.

1.2 Statement of the Problem

There are many common and important features of organizational incentive systems that economists have not studied extensively. These include pay systems that are largely independent of performance, the overwhelming use of promotion-based incentive systems, egalitarian pay systems apparently motivated by horizontal equity considerations, the asymmetric effects of rewards and punishments, tenure and up-or-out promotion systems, survey-based and seniority-based pay systems, profit sharing, holiday bonuses, the generally rare observation of bonding and up-front entry fees for jobs,

"efficiency wages," and the general reluctance of employers to fire, penalize, or give poor performance evaluations to employees.

Economic models of compensation generally assume that higher performance requires greater effort or that it is in some other way associated with disutility on the part of workers. In order to provide incentives, these models predict the existence of reward systems that structure compensation so that a worker's expected utility increases with observed productivity. These rewards can take many different forms, including praise from superiors and co-workers, implicit promises of future promotion opportunities, feelings of self-esteem that come from superior achievement and recognition, and current and future cash rewards related to performance.

The strong public interest in compensation has presumably largely been caused by the great increase in CEO salaries in the late 1990s. Their remunerations, being tied to company stock-price performance through stock options, have benefited from the bull market of the 1990s (Murphy, 1999). Executive compensation has also attracted a large amount of academic research, in particular by agency theorists who have focused on the relationship between managerial performance and incentives (Prendergast, 1999).

There is definitely no perfect system of compensation. However, agency costs must be reduced by the two known ways; monitoring the managers' efforts and actions and by giving the right incentives to maximize value. Monitoring can prevent the more obvious agency costs, such as blatant perks or empire building. It can confirm that the manager is putting sufficient tine on the job. But monitoring costs time, effort and money. Of course some monitoring is almost always worthwhile, but a limit is soon reached at which an extra shilling spent on monitoring would not return an extra shilling of value from reduced agency costs.

Jensen and Murphy (1990) concluded, "It is not how much you pay, but how". If the firm's fortunes are largely outside manager's control, it makes sense to offer the managers low powered incentives like fixed salaries. In the ideal incentive scheme,

management should bear all the consequences of their own actions but should not be exposed to the fluctuations in firm value over which they have no control. Thus due to peculiarity of different agency problems, compensation schemes should be designed to address each as circumstance dictate (Brealy, 2003)

The principal agent framework does use bonus pay but only in part. It is undeniably true that the cost of measuring individuals output is important in explaining the use of bonus pay or any other compensation system. The existence of alternative determinants of compensation system such as merit pay, stock price value, and company cash flow does not negate in itself the validity of the principal gent model. Despite the strong interest in the economics of compensation, there is relatively little empirical work on the subject. The majority of the work that exists is concentrated on the effectiveness of chief executive pay. Thus the study aims to determine the compensation package for employees in commercial banks in Kenya.

1.3 Objective of the study

The main objectives are;

1 To establish the compensation systems the compensation systems utilised by commercial banks in Kenya

2 To establish the determinants of the compensation system used by commercial banks and the extent to which the principal–agent theory, can explain the variations in the payment systems.

1.4 Importance of the study

The results of the study will address the question on whether variations in the payment systems can be explained in principal-agent theory.

The scholars and academicians

The study is important as a catalyst to explore the area further. This is particularly so because the study is suitable for further research. It would also facilitate the conduct of other studies that requires the results of their study on their information. Students and

academicians who wish to carry out further research on compensation system in Kenya in the various industries will greatly benefit from this study.

The Management

This study will assist the management of Banks in ensuring they identify successful compensation system that will attract the best and qualified employee. The contract choice facing the manager is one of providing income assurance, or risk sharing, on the one hand, and provision of incentives on the other.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Principal-Agent Theory

There exists conflict of interest in this situation because the agent (in this case employee) will want to maximize his personal gains from the decisions he undertakes at the expense of the principal (in this case the business owner or entrepreneur). In managing this conflict of interest, the principal has systems to check the actions of the agent, motivated the agent by way of pay, perks, performance-based bonus schemes etc. This has however come with additional cost to the principal.

A central tenet of principal-agent theory is that a combination of financial rewards and (imperfect) monitoring can be used by principals as incentives to their agents. In particular, the purpose of such instruments is to have the agent (at the expense of some information rent) internalize the principal's preferences when performing his/her tasks. A literature has been developed to test the extent to which such incentive contracts perform the roles they are designed for.

Recent work has highlighted an additional source of inefficiency in principal agent relationships: the favoritism that principals can show towards chosen agents. In theory, this can influence numerous economic settings. Thus, Prendergast and Topel (1996) show how favoritism can bias the evaluation of agents' performance in organizations and, in turn, their behaviour.

2.2 Executive compensation

There often are difficulties when it comes to evaluation of managerial performance. Jarrel, 1980), this arises because;

1. Separation between ownership and management prevents shareholders from directly observing much of management activity.

2. Since Shareholders never posses management's familiarity with the operations of the firm, they may not be able to evaluate the consequences of those actions they can observe. As a result, they must always rely on reported results as the basis of evaluating management's performance.

The consequences of management's current decision may extend over many years, and it is often difficult to foresee today their effects on the value of the firm in future periods. Thus, compensation contracts can never be fully successful in resolving agency problems.

2.2.1 Executive Compensation Plans

The objective of owners of a firm is to maximize the value of their residual claim on the firm, the market value of their equity. Managers may be assumed to maximize their personal wealth. Unfortunately, these objectives can be conflicting, and this makes the construction of optimal executive plans a difficult task. According to Copeland and Weston (1992) there are at least six objectives of compensation plan design; 1) The plan should be easy to monitor because it is based on objective criteria, 2) easily observed by all concerned parties, and incapable of being manipulated, 3) The plan should prevent excessive perquisites to management and should minimize shirking, The plan should have a long horizon to match the perspective of shareholders, 4) The plan should attempt to match manager's risk to that of shareholders but should recognize the shareholders can diversify away from idiosyncratic risk of the firm more easily than the managers who have their human capital tied to the firm's future, 5) Management compensation should be tied to changes in shareholders' wealth. For example, it is conceivable that the firm can under perform relative to its competition but still experience an increase in share price simply because the market went up and 6) the tax efficiency of plans should be compared. If two plans are alike in most regards, but one is better designed to minimize tax liabilities of the firm and its management, then its tax efficiency may become the decisive factor.

The popular press has often criticized management as overpaid. Owners worry that management do not bear the full cost of shirking, or of excessive perquisites, and may choose to be more conservative in risk taking than owners would desire. Executive compensation schemes are deliberate attempts to modify managerial behavior to more closely confirm to shareholder objectives.

Empirical research into the relationship between the level of executive compensation and changes in shareholders wealth is just beginning. Murphy (1985) reports that a 10% change in equity value of the firm is associated with only about a 2% increase in total executive compensation. Although the correlation is weak, it is statistically significant and positive. Coughlan and Schmidt (1985) also find a significant positive relationship between executive compensation and changes in shareholder wealth. These studies imply that executive compensation plans in the United States are not complete nonsense, but one can hardly infer that they are optimally designed.

2.2.2 Structure and Components of a Compensation Package

Due to limitation of compensation packages in resolving agency problem, they must be designed to deal with the conflicts. Lambert and Lacker (1985) show how this can be done as per individual conflict:

Executive expenditures and risky investments

One objective of a good compensation scheme is to motivate managers to make expenditure decisions that benefit shareholders. However, if an executive's compensation were independent of his performance i.e. fixed salary, he would have no incentive to increase shareholder wealth because he does not share in any of the resulting gains. He would be much more likely than other executives to avail himself of perquisites of all varieties, at the expense of his shareholders. This is the incentive problem and can be reduced by making part of an executive's compensation depend upon the financial performance of the firm. By allowing managers to share in the company's gains, a compensation plan provides them with some incentives to develop strategies that will

increase shareholder wealth. Also, since the executive now bears some of the costs of "perk" consumption, he will be less likely to evaluate corporate expenditures according to the personal satisfaction-and perhaps, in the case of some major investment decisions, the sense of power or prestige-they offer him.

Stock prices are often affected by factor beyond management's influence. Greatly increase executives' individual exposure to risk imposing large personal risks on management can actually reduce shareholder wealth-in two ways. First, it will make the compensation scheme less attractive and in return for bearing additional risk, executives collectively require an increase in the general level of their compensation. Second, increasing an executive's exposure to risk may cause him to become more risk averse-become more conservative in his investment strategy.

According to Lambert and Lacker, compensation package can be designed to give executives in incentives to increase profits and control expenditures, or "perks", while at the same time encouraging them to pursue risky, though profitable investment strategies. This can be achieved by:

Supplement stock price movements with other measures of firm performance, thereby providing compensation committees and shareholders with additional information that make it easier to separate the effects of executives' actions from other factors that influence the firm's profits. In this way, an executive can be shielded from the "exogenous" or uncontrollable factors that affect the firm's profits, and his or her individual contribution can be more easily identified and evaluated.

To weigh corporate performance against the performance of other comparable companies. In such relative performance schemes, executive compensation is set according to how well the company performs relative to a comparison or a peer group. The assumption in this is that the construction of a peer group allows general market or macroeconomic influences and industry specific influences to be removed from the performance measure, thereby providing a better measure of an executives' distinct

contribution to the firm's profitability. However, there could be the problem of finding an appropriate peer group especially for companies with many differences products.

Structure managers' compensation in such a manner as to offset their risk aversion. For example, a manager's risk aversion can be partially offset if his compensation contract is designed to make the adverse consequences associated with "downside" less severe, or to make the favorable consequences of the "upside" more attractive. Properly designed stock options, or accounting-based option contracts, may be the answer to neutralizing a manager's risk aversion. Option may be effective in encouraging management to invest in riskier projects because, while they carry no additional downside risk, their value generally increases as the volatility as the company's stock price rises, and they allow managers to share in the upside potential of the firm. However, due to the risk of exposing managers to market risk, the degree to which the executive's compensation should be tied to stock price would depend on the relative importance of the incentive problems in the firm.

Decision-making horizon

This can partially be resolved by changing either the "scorecard" or the payoff structure of compensation. The compensation "scorecard" can be changed from a measure with a "short-term" focus (one year) to a measure, which has a "long-term" focus (for example, the market price of the common stock). The assumption of this approach is that the executive believes that the "long-term" performance measure will eventually, if not immediately; reward him by reflecting the "long-term" consequences of his investment decisions Kaplan (1992).

Another way to lengthen the executive's decision-making horizon is to defer the payoff earned by the executive to some future point in time. For instance, deferring they yearly bonus and requiring that the deferred compensation be paid in common stock. Since the executive's compensation is explicitly tied to the performance of the corporation in subsequent years, this type of bonus deferral will tend to lengthen his decision-making horizon.

'Performance plans' are another way in which payoffs are provided to executives if the growth in specified accounting numbers over a three-five-year performance period exceeds some target. Under this, the compensation earned is deferred until the end of this period. Nothing is earned if the executive leaves or is terminated during the term of the compensation plan.

2.2.3 Do Compensation Contracts Really Matter

According to the agency framework, executives compensated with different contracts will exhibit differences in their decision-making. Empirical research provides some insights on these issues:

Executive expenditure decisions

A recent study by Healey (1985) has attempted to determine how executives actually respond to the incentives inherent in net-income-based contracts. Healy's study poses the question 'Do executives adjust their expenditure decisions in order to increase the payoff from their yearly bonus contract?

The study confirmed that, managers who expect net income to fall below the bonus threshold appear to decrease revenues and increase expenses. The opposite pattern of behavior is observed when executives expect net income to fall between a bonus threshold and ceiling.

Another study by Lacker (1983) examines changes in the level of "perks" associated with the adoption of bonus contracts by major commercial banks. In this study, perks are defined as occupancy, furniture and salary expenditure, as well as the number of employees.

The study indicated that, banks without bonus contracts had a significantly higher ratio of "perks" to operating revenue than did similar banks with bonus contracts. There is evidence that the ratio of non-pecuniary expenditures to revenue decreases following the

adoption of bonus plan. Thus, bonus contracts influence the expenditure decisions of bank managers.

A study by Yakov Amihud and Baruch Lev (1985) examined executive motives in conglomerate mergers. Finance theory maintains that mergers undertaken solely for corporate diversification do not benefit stockholders because they can costlessly duplicate such diversification by holding different securities. Executives, however, benefit from corporate diversification because they hold partially "undiversifiable" portfolios consisting of their compensation claims on the firm that their human capital. Hence executives, since they are relatively more risk averse than stockholders, undertake conglomerate mergers to decrease the variability of the value of the firm. Thus, they can effectively diversify-and increase the value of their own "undiversifiable portfolios."

In similar study, Lambert and Lacker (1984) attempted to determine whether the adoption of stock option contract motivates managers to increase the variability of equity returns.

Two possibilities were considered:
The standard option-pricing models suggest that the value of an option increase as the variability of stock price increase. Hence, adoption of stock options will counteract executives' risk aversion and motivate them to increase firm variability. Standard option-pricing model is not applicable to executive compensation.

The results indicate that firms whose options are expected to finish "out of the money" tend to exhibit increasing stock price variability following the adoption of stock option plans. In contrast, companies whose options are expected to finish "in the money" tend to exhibit decreases in stock price variability.

Decision-Making Horizon

Lacker (1983) examined whether the adoption of "long-term" compensation contacts was associated with increases in "long-term" investment. Performance plans that defer

compensation when certain long-term measures are met were used. The result indicated that firms adopting performance plans had substantial increases in capital investment after the contractual change relative to firms without performance plans.

2.3 Management compensation

Compensation is concerned with rewarding employees in respect of their employment relationship. This could either the pecuniary or non-pecuniary. These benefits include basic salary, bonuses, contributory pension, gratuities or provident funds, car loans, mileage allowance, education for children, entertainment allowance, low cost mortgages, free tickets overseas, housing allowance or owner occupied, medical and utilities Copeland (1988). The main types are:

2.3.1 Basic Salary

This is a fixed and regular amount that is paid to all employees of a company and is subject to change only at the discretion of the employer. In some cases, it could be adjusted to be at per with the industry rates or even to reflect the economic effects e.g. inflation. However, salary moves in tandem with seniority rather than performance and as such not a motivational force since it is not correlated to earnings of the firm. Also, management whose compensation is based on straight salary cannot benefit from undertaking risky positive net present value projects unless their salaries are adjusted expost to reflect good decisions.

2.3.2 Bonus Plans

Companies set targets and once these are achieved, a predetermined factor is used to calculate an extra payment. For instance, it could be sales or earnings per share. An absolute figure could be used or a fixed amount as per the polices of the company.

However, various writers have dismissed bonuses; Kohn (1988) dismisses bonuses as making management's focus very narrow and often risk averse. For instance, a project

with potential gains may be turned down due to negative impact on bonus payment in the early years.

According to Deci (1972), bonuses lower motivation by reducing the intrinsic rewards management receives from their jobs. This is referred to as the ratcheting effect whereby managers get discouraged and turnover increases. However, lowering the performance standards can curb this. Bonus plans are also inferior from the tax point of view, as they are taxable just like any other income.

Bonuses are risky in that one only benefit if a certain minimum threshold is exceeded and there is no maximum.

2.3.3 Executive Stock Options

An executive stock option plan is a form of long-term compensation contract that depends on market measures of corporate performance. It usually gives managers the right to purchase a specified number of shares, for a specified period of time (called the maturity date of the plan), for a specified price (called the exercise price). Copeland and Weston (1992) recognize two types of plans; incentives stock options (ISOs) and stock appreciation rights (SARs). None of the two has any tax consequences for either the firm or the executive at the time the option are issued.

There are two reasons for using executive's stock options: the augment for salaries with a call option so that managers' total compensation pattern is more like that of shareholders and they are a more tax efficient form of compensation than straight salaries. Miller and Scholes (1982) demonstrate that when compared with salaries SARs are tax neural from the firm's point of view and tax dominant from the manager's point of view.

Unlike straight salaries, options and stock are immediately more valuable when risky positive net present value projects are initiated. Under stock however, management cannot easily diversify the greater firm specific risk imposed by stock options plans and

may require a higher expected level of compensation. From the shareholder's point of view, the cost of higher expected compensation may offset the benefit of reducing the under investment problem.

The stock options are also not protected against divided payments. This produces reluctance in management to propose dividend increase when they may be otherwise warranted. This may be viewed as an additional cost by the shareholders. Studies of the announcement effect of the inception of management stock options plans indicate that shareholders react favorably. They belief that the plans are a net benefit.

Larker (1983) finds a significantly positive return on the day following receipt of the shareholder proxy statement. Brickley, Bhagat and Lease (1985), find a significant 2.4% cumulative return between the board of directors meeting and the security exchange commission stamp date of the proxy statement. Lemgruber (1986) used monthly data for a sample of 119 firms with no other information on their proxy statements except for the election of board members. For the interval between the board meetings and the release of the proxy statement, he found a significant 2.7% abnormal return.

There are three hypothesis that predict his observed positive market reaction to the inception of a stock plan:
Incentive hypothesis-that the market reacts favourably to the inception of executives' stock option compensation plan is consistent with the benefits of the plan exceeding its costs from the shareholder's point of view. Its prediction about management behavior is that a greater investment and higher leverages as well as lower divided payout after the plan begin.

Signaling hypothesis-if managers have superior information concerning the future prospects of he firm, they would want to initiate an executive stock option plan when they think the firm will be doing well. The market would respond favourably to their action. This predicts greater earnings.

Tax hypothesis-The after-tax payoffs of a salary plus stock option plan dominate those for a salary and bonus plan. Consequently, the value of the firm will rise following the inception of a stock option plan because total costs fall. This predicts higher earnings also.

The empirical evidence however seems to lend little support to the idea that there are strong incentives effects associated with the start of stock option plans. Lemgruber (1986) found no significant changes in the rate of investment, in financial leverage, or in the variance of the firm's stock price. Lambert and Lacker (1984) found that variance decreased. Lemgruber found significant decreases in dividend pay out following the beginning of stock option plans. Tehranian and Waegelein (1985) find that abnormal returns after the adoption of short-term compensation plans are associated with positive unexpected earnings. In sum, these results seem to suggest that stock option plans are adopted more for tax or signaling reasons than to reduce agency costs between owners and managers.

2.4 Compensation and firm performance

The relationship between form performance and pay has become one of the most widely studied questions in the executive contracts that link pay to variations in firm performance as a means of aligning the incentives of managers and with the interests of the shareholders. This theoretical literature has spawned numerous empirical tests of the presence, form and strength of the relationship between executive compensation and firm financial performance. The desirability of "incentive" based on firm performance has become so widely accepted that it was written into recent reforms in the corporate income tax code intended to reduce or limit overall CEO pay.

As a theoretical matter, the precise form of the optimal compensation contract is complicated (Rosen, 1992). In general, it will depend on such factors as the preferences of managers toward risk, the sensitivity of managerial effort to compensation, and the information on true managerial performance provided by the measures of firm

performance that are observable by board of directors. Empirical analyses of the pay-for –performance relationship in contrast tend to employ quite simple specifications of how firm performance influences compensation. This specifications vary across a number of dimensions, including the choice if stock and market or accounting performance measures, the degree to which performance sensitivities are assumed to be constants across all CEOs and firms or are allowed to vary with some set of observable factors, the assumed functional form of the compensation – performance relationship, and the use of absolute returns or returns relative to some reference group of similar firms. There has been little effort to standardize specifications across empirical studies, or even to compare results across alternative specifications choices.

According to Rosenstein (1990), more complex measures of firm performance affect the estimated pay for performance relationship. These measures could be both market return and accounting return, which measures financial performance. The pay-for-performance relationship is a dynamic structure. A variety of different functional forms have been use din the literature, embodying quite different implicit assumptions about the persistence of firm performance effects on executive pay. At one extreme are specifications that assume no memory in the compensation process. Current compensation is influenced by current performance only; past financial performance has no impact. At the other extreme are specifications that assume complete persistence: current compensation is determined by current financial performance and all previous performance realizations, with all realizations weighed equally (Boschen and Smith).

2.4.1 Empirical Models of the Pay-For-Performance Relationship

An extensive empirical literature investigates the sensitivity of top executive pay to variations in firm performance. Rosen (1992) provides an overview of many of these analyses; Sloan (1993) provides additional references to the accounting literature on this topic. Joskow and Rose have identified four dimensions along which empirical analyses tend to vary. These are:

The choice of performance measure (accounting-base, stock market-based, or both); - while the appropriate choice of performance is not obvious a priori, it seems reasonable to expect both accounting and market measures of firm financial performance to influence compensation. Boards must financial performance realizations. Both accounting and market returns are determined in part by factors beyond the control of influence of the firm's managers. Given the imperfect correlation between these financial performance measures, the theoretical literature suggests that contracting on both may enhance the firm's managers. Given the imperfect correlation between these financial performance measures, the theoretical literature suggests that contracting on both may enhance the firm's ability to filter the signal of true managerial input. Institutional factors support this conclusion, as firms appear in practice to use both measures. Compensation contracts most frequently link bonuses to accounting earnings, while stock-based forms of compensation, particularly option grants, tie realized compensation to stock market returns Sloan, 1993).

Whether performance sensitivities are restricted to be the same or allowed to vary across firms; the functional for of the compensation-return specification; and the use of absolute returns or returns relative to other firms in the same industry or overall market.

2.4.2 Performance-Based Compensation Criticized

Some proposals suggest specific changes to financial criteria used to judge performance. For example, one proposal sought to require hat certain financial measures rise from one year to the next in order to justify paying a bonus to the CEO. The proponent argued, "Management should be fairly compensated and awarded bonus compensation only when it produces results which equal or exceed the prior year's performance." Similarly, another set of proposals requested that companies, in setting performance-based executive compensation, exclude contributions to income resulting from pension fund surpluses, on the ground that legal restrictions render such income unavailable to the company and that the amount of such surplus bears no relationship to management's skill in managing the company's business.

Other proposal criticizes the current criteria, but do not dictate particular changes. A proposal submitted in the 2001 proxy season by several shareholders asked companies to explain specifically the reasons they chose their particular criteria, the level of performance expected for each criterion, and the relative weight of each criterion in the pay-setting process. Proponents of these proposals contended that current performance criteria were insufficiently challenging and were not tied to a strategic plan to advance the companies' long-term success. Companies responded that their compensation packages already are structured around appropriate objective financial criteria, that the company complies with SEC disclosure requirements regarding performance criteria, and that disclosure of specific target levels would harm the company's competitiveness.

The largest group of proposals asks companies to consider a wide range of non-financial criteria in evaluating executives and setting their pay. Some simply requested that the company consider adding social performance to the current criteria. Others asked that pay be linked to a specific non-financial metric, most often one or more employee-related measures such as employee satisfaction, training or turnover. One proposal urged that senior executives be evaluated in part based on the company's compliance with its own code of conduct.

For the most part, proponents argue generally that linking executive compensation to corporate responsibility metrics is appropriate in order to motivate executives to improve performance in this area, which proponents claim is particularly important at companies where high-profile problems have impaired profitability or damaged corporate reputations.

2.5 Optimal Payment System, Fixed Salary and Piece-Rate System

The principal-agent problem can be applied to understanding the choice facing firms regarding the optimal payment system. Many of the principal-agent models, including the sharecropping example outlined above, assume that principals have information regarding the agents' output. The problem arises from this output being partly determined by environmental factors. The principal is left with the task of obtaining some measure of the agents' effort in an attempt to insure them against fluctuations in income (Brown 1990). An adaptation of this model has been proposed, whereby a firm does not know the level of worker output unless some form of output monitoring is undertaken (Lazear 1986).

In his paper Lazear examines; ' the choice between a fixed salary for some period of time, that is, paying on the basis of input and paying a piece compensation that is specifically geared to output' (Lazear 1986). Fruit picking is illustrative of the extreme case of a pure piece-rate system where an amount of payment per unit of fruit harvested is specified in advance. Lazear argues, however, that many other occupations exhibit characteristics that can be effectively treated in the same way. The distinction drawn is that between a system where there is synchronization between output and compensation on the one hand, and salaries on the other, which implies that a workers pay is independent of output (Lazear 1986).

Much of the existing literature on principal-agent theory seeks to evaluate the effectiveness of incentive pay as a motivating device. The purpose of this paper is not to add to that body of work, but rather to explain the choice of payment system facing firms in the financial services sector. One study that seeks to do something similar is Brown (1990). He proposes a choice of three pay schemes; piece-rates, merit pay and standard time rates all associated with different monitoring costs. A list of factors those are significant in determining a firm's choice of payment system emerges, which include establishment size, occupational concentration within a firm, the diversification of duties

within a particular occupation, and the degree of teamwork required in the production process (Brown 1990).

The fundamental prediction underlying the above analysis is that the use of variable pay schemes is inversely related to the costs of monitoring worker effort. This leads to the prediction that bonus pay will be more prevalent in occupations where performance is readily measurable. This paper will assess the extent to which this is true in the context of this country's financial services sector.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The study employed a descriptive survey design. Mugenda and Mugenda (1999) define descriptive research as a process of collecting data in order to answer questions regarding the current status of the subjects in the study. Descriptive research determines and reports the way things are. Mugenda and Mugenda also define a survey as an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. Thus the descriptive survey is appropriate as it seeks to ascertain the determinants of the use of financial incentives and the suitability of the different measures as per the outcome of the research.

3.2 Population

The target population of the study was all commercial banks in Kenya according to a list provided by the Central Bank of Kenya. Nachmias and Nachmias (1996), states that a population is the total collection of elements about which we wish to make some references. The population of the study comprised of all the forty-two commercial banks licensed by the Central Bank of Kenya as at 31st December 2007 as shown in Appendix ii.

3.3 Sample Size

The sample consisted of 8 commercial banks, which control over 80% of the market share. These are Barclays Bank of Kenya, Kenya Commercial Bank, Standard Chartered Bank, National Bank of Kenya, Co-operative bank of Kenya, Stanbic-CFC bank, Commercial Bank of Africa and Citi-Bank.

3.4 Data Collection

In order to comprehensively study the strategies used by various organizations and make valid conclusions, primary data was collected. This is an important approach as several sources of information were used for verification and comprehensiveness. The

questionnaire (Appendix 1) was used. The respondents were human resource managers or those in charge of the human resource management function.

3.5 Data Analysis

Data analysis method used was qualitative. The structured questionnaire was coded with respect to questions for ease of electronic data processing prior to the commencement of the fieldwork. The data collected was analyzed using Statistical Package for Social Sciences (SPSS). This involved the use of frequency tables, percentages, means scores and standard deviation.

Section A was analysed using frequency and percentage tables. Section B was analysed using means and standard deviation ranking order. Results of the analysis were presented in tables, bar and pie charts and short descriptions. The results were then discussed and inferences drawn from the sample and generalized to the population.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

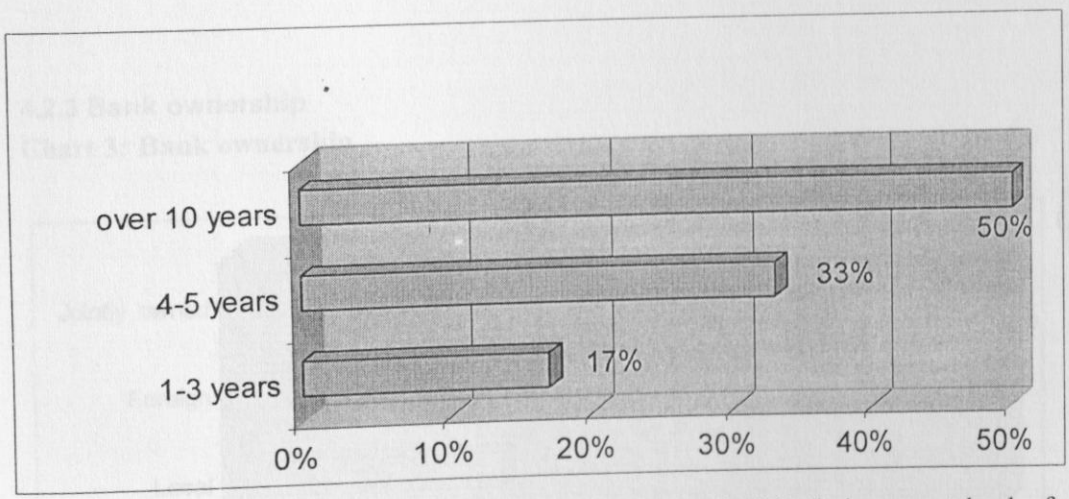
4.1 Introduction

This chapter presents the findings of the study based on the data collected from the field. The overall objective of the study was to study the compensation systems utilized by commercial banks in Kenya.

The data collected was analyzed using descriptive statistics. This involved the use of percentages, mean scores and standard deviation. Frequency tables were used for arraying data obtained to facilitate working out percentages in order to address the sole objective of the study. Percentages revealed the proportions of different attributes being studied.

4.2.1 Number of years in employment

Chart 1: Number of years in employment

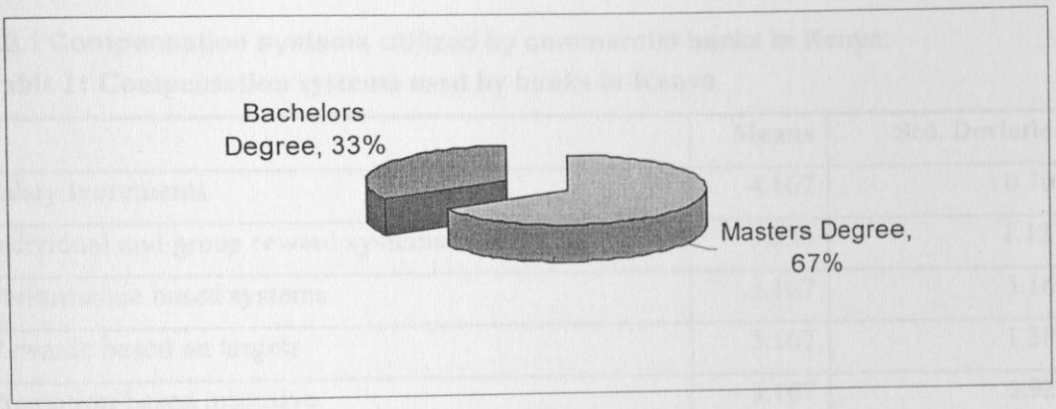


50% of the respondents covered in the survey had worked in their current banks for a period of over 10 years. Those who had worked for 4-5 years constituted 33% of all the

respondents while 17% was formed by respondents who had been employed at their current place of work for a period of 1-3 years.

4.2.2 Education level

Chart 2: level of education

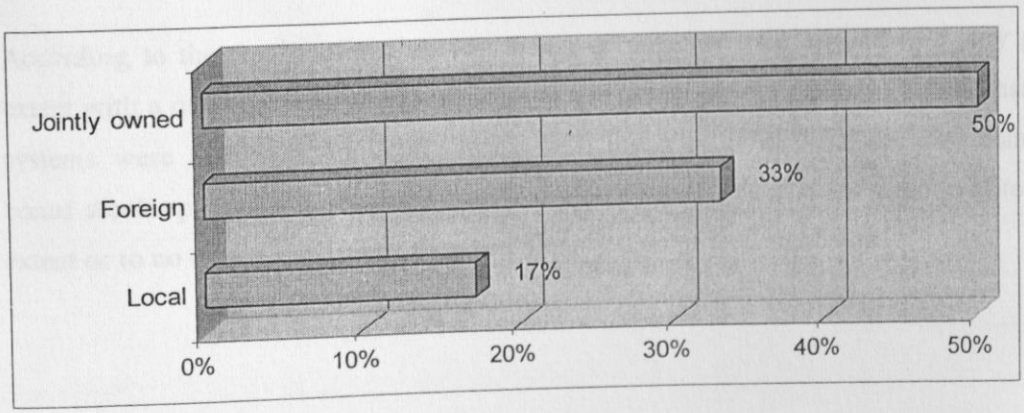


According to the results of the survey, 67% of the respondents had Masters Degree level of education while 33% had Bachelors degree level of education.

All the companies surveyed had an annual turnover of above KES 1 Billion.

4.2.3 Bank ownership

Chart 3: Bank ownership



50% of the banks covered in the survey were jointly owned i.e. local + foreign. Foreign banks constituted 33% and locally owned banks formed 17% of those that were included in the survey.

4.3 Compensation systems utilized by commercial banks in Kenya.

4.3.1 Compensation systems utilized by commercial banks in Kenya.

Table 1: Compensation systems used by banks in Kenya

	Means	Std. Deviation
Salary Increments	4.167	0.707
Individual and group reward systems	3.333	1.137
Performance based systems	3.167	3.166
Rewards based on targets	3.167	1.382
Promotion based incentive	3.167	0.923
Individual and departmental reward systems	2.833	1.248
Uniform salary schedule	2.667	1.137
Tenure and up-or-out promotion systems	2.6	1.549
Outcome based systems	2.167	0.923
Holiday bonuses	2	1.455
Non reward systems	1.5	0.785
Executive life insurance	0.928	1.098

According to the results of the survey, salary increments were applied to a very great extent with a mean score of 4.167. Individual and group reward systems as compensation systems were applied at moderate levels with mean score of 3.33. Holiday bonuses, bonus stock options, non reward systems and outcome based systems were used to less extent or to no extent at all since they had mean scores of 2.00 and below.

4.3.2 Compensation systems used for middle level managers

Table 2: Compensation systems for middle level management staff

	Mean	Std. Deviation
Salary	4.333	0.970
Salary+ bonus	3.5	1.294
Salary+ allowances	3.333	1.283
Promotion based incentive	2.833	1.098
Holiday bonuses	2.166	1.098

For the middle level management staff, salary was the most significant compensation schemes used with mean score of 4.167 followed by salary+ bonus with a mean score of 3.5. Holiday bonuses and promotion based incentive were used to little extents with mean scores of 2.16 and 2.83 respectively.

4.3.3 Compensation systems used for executive directors

Table 3: Compensation systems for executive directors

	Means	Std. Deviation
Salary	4.667	0.485
Performance based systems	4.333	0.766
Salary+ bonus	4.167	1.098
Holiday bonuses	3.6	1.404
Executive life insurance	2.8	1.521

Executive directors were mostly compensated with salaries, performance based systems and bonuses since they all had mean scores of above 4.00. The least significant compensation schemes for executive directors were executive life insurance and bonus stock options. Holiday bonuses were moderately applied with a mean score of 3.6.

4.3.4 Aims of the compensation schemes in banks

Table 4: Aims of the compensation schemes in banks

	Means	Std. Deviation
Maintain Internal equity	3.167	0.707
Position ourselves in the market place to attract top talent	2.333	0.943
Differentiate performers from non performers	2	1.177
Aim to attract and develop the best qualified staff	1.667	0.796
To be competitive based on market rates of other banks	1.667	0.471

Most banks aimed to maintain internal equity since this had a mean score of 3.167 while also positioning themselves in the market place to attract top talent. According to the results displayed above, being competitive based on market rates of other banks and aim to attract and develop the best qualified staff were less significant with mean scores of 1.667 each.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section of the research provides a discussion on the findings of the study, the conclusions of the study and the recommendations on compensation systems utilized by commercial banks in Kenya.

5.2 Summary

The respondents in this survey were all in middle level management positions of their companies. Most of the respondents covered in the survey had worked in their current banks for a period of over 10 years followed by those who had worked for 4-5 years while a few had been employed at their current place of work for a period of 1-3 years. According to the results of the survey majority of the respondents had Masters Degree level of education. Bachelors' degree holders were also sizeable.

All the companies surveyed had an annual turnover of above KES 1 Billion. Half of the banks covered in the survey were jointly owned i.e. local + foreign. Foreign banks constituted a third and locally owned banks formed the least percentage.

Salary increments, individual and group reward systems, performance based systems, rewards based on targets, promotion based incentive, individual and departmental reward systems, uniform salary schedule, tenure and up-or-out promotion systems, executive life insurance, holiday bonuses, outcome based systems and non reward systems are the various compensation schemes used by commercial banks in Kenya.

According to the results of the survey, salary increments were applied to a very great extent. Holiday bonuses, non reward systems and outcome based systems were used to little extent or not at all. The compensation systems under investigation were salary, salary & bonus, salary & allowances, promotion based incentives and holiday bonuses. Salary was the most significant compensation scheme used followed by salary & bonuses.

Salary, performance based systems, salary & bonus, holiday bonuses, executive life, insurance and bonus stock options are the common compensation systems used in commercial banks for executive directors but the results of the surveys showed that mostly they were compensated with salaries, performance based systems and bonuses. The least significant compensation scheme for executive directors was executive life insurance.

The various objectives of compensation systems are maintaining internal equity, positioning of companies in the market place to attract top talent, differentiating performers from non performers, to attract and develop the best qualified staff and to be competitive based on market rates of other banks.

Most banks aspired to maintain internal equity while also positioning themselves in the market place to attract top talent. According to the results of the survey, being competitive based on market rates of other banks was less significant.

5.3 Conclusion

The study was to establish the compensation systems utilised by commercial banks in Kenya, to establish the determinants of the compensation systems used, and the extent to which the principal–agent theory can explain the variations in the payment systems.

It is undeniably true that the cost of measuring individuals output is important in explaining the use of bonus pay or any other compensation system. The existence of

alternative determinants of compensation system such as merit pay, stock price value, and company cash flow does not negate in itself the validity of the principal agent model.

According to the results of the survey, salary increments were the most popularly applied compensation system for employees of banks in Kenya. This applied to both junior staff and middle level management staff. For executive directors compensation was in the form of salaries, performance based systems and bonuses. Holiday bonuses and executive life insurance cover were not applicable compensation systems.

Most banks aspired to maintain internal equity while also positioning themselves in the market place to attract top talent. Competitiveness based on market rates of other banks was less significant.

5.4 Recommendations

The compensation systems in the banking industry should be harmonized in order to eliminate the discrepancies observed currently. The aspiration to attract top talent and professionals in the market should be reflected in the compensation packages offered. Banks should experiment on holiday incentives for middle level management staff. Promotion based incentives for junior staff should be used as a compensation scheme.

5.5 Further studies

A suggested area of further study would be to investigate strategies used by commercial banks in Kenya to attract and maintain top notch professionals and talent in the market.

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APPENDIX 1: QUESTIONNAIRE

Questionnaire

Section A: General Information

1. What is your Job title.....(Optional)
2. Department.....(Optional)
3. How long have you been employed in this organization?
   - 1-3 years [ ] 4 -5 years [ ]
   - 6-10 years [ ] over 10 years [ ]
4. Level of Education
   - Masters Degree [ ]
   - Post Graduate Diploma [ ]
   - Bachelor Degree [ ]
5. What is the relative size of your company in terms of annual volume turn over?
   - Less than 200 million [ ]
   - 200-300 million [ ]
   - 300-500 million [ ]
   - 500-1Billion [ ]
   - Over 1 Billion [ ]
6. What is the ownership of the bank?
   - Locally owned [ ]
   - Foreign owned [ ]
   - Jointly owned [ ]

SECTION B: COMPENSATION SYSTEM UTILIZED BY COMMERCIAL BANKS IN KENYA

7. The following are some of the compensation system used which one does your bank utilize

1= No extent, 2=to a less extent, 3= To a moderate extent, 4=To a great extent, 5= To a very great extent

▪ Salary increments	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Bonus Stock option	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Uniform Salary Schedule	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Performance (Behavior)-Based Systems	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Outcome-Based Systems	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Individual and Group Reward Systems	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Rewards based on targets e.g. Cars, house	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Promotion-based incentive	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Holiday bonuses	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Executive life insurance	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Tenure and up-or-out promotion systems	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Individual and department Reward Systems	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Non reward Systems	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Any other, please specify._____	[ ]	[ ]	[ ]	[ ]	[ ]

8. To what extent does your company utilize the following compensation to its middle-level managers (supervisors, team leaders, assistant managers)

1= No extent, 2=to a less extent, 3= to a moderate extent, 4=To a great extent, 5= To a very great extent

	1	2	3	4	5
▪ Salary	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Salary + Bonus	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Holiday bonuses	[ ]	[ ]	[ ]	[ ]	[ ]

- Promotion-based incentive [ ] [ ] [ ] [ ] [ ]
- Salary and allowances [ ] [ ] [ ] [ ] [ ]
- Any other, please specify _____

9. How are the Executive directors compensated?

1= No extent, 2=to a less extent, 3= To a moderate extent, 4=To a great extent, 5= To a very great extent

	1	2	3	4	5
▪ Salary	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Salary + Bonus	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Holiday bonuses	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Bonus Stock option	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Executive life insurance	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Performance (Behavior)-Based Systems	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Bonus Stock option	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Salary and allowances	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Any other_____					

10. To what extent do you agree with the following statements on the aims of your compensation system in your bank?

1=strong agree, 2= agree, 3=neither agree nor disagree, 4= disagree, 5 strongly disagree

	1	2	3	4	5
▪ Aim to attract and develop the best qualified staff in the market	[ ]	[ ]	[ ]	[ ]	[ ]
▪ To be competitive based on market rates of other banks	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Differentiate performers from non performers	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Maintain internal equity	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Position ourselves in the market place to attract top talent	[ ]	[ ]	[ ]	[ ]	[ ]
▪ Any other, state_____	[ ]	[ ]	[ ]	[ ]	[ ]

THANK YOU FOR YOUR TIME