

# **COMPENSATION POLICIES OF A FOREIGN BANK IN PAKISTAN**

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This paper evaluates the compensation policy package of a major foreign bank in Pakistan on the basis of the findings of “ Best Practices” research in the human resource management area.

All major organizations, like the bank under study, spend a considerable time while formulating these policies. It is useful to compare these with the Best Compensation Practices recommended by leading HR professionals.

## **BEST COMPENSATION PRACTICES**

The primary goal of Best Practices Research is to determine under what conditions can a set of “Best International HRM Practices,” be identified for application across different national settings.

*\* Support and guidance of HRD Director and HR Consultant of the bank under study, is gratefully acknowledged..*

The idea of conducting a multiple-year, multinational, multi-researcher project to examine HRM practices across nations was initially conceived in 1990 by an eight-member core team of North American researchers, led by the project’s champion, Mary Ann Von Glinow. The team included researchers with a collective mix of training in a

variety of quantitative and qualitative research skills, combined with a broad range of international experience (living, working, researching) and personal characteristics conducive to designing and implementing a long-term, large-scale, culturally diverse research project. Using a multi-investigator, multi-nation, survey-based research approach, the Best Practices Project team subsequently initiated data collection efforts in 20 nations across six continents.

The results of a single study ( Glinow 2002, Geringer 2002)), even one as large in scale and scope as the Best Practice Project, cannot be considered conclusive. As an exploratory endeavor, which examined a topic with relatively high levels of uncertainty and with complex interrelationships, the results of this multi-country study provided an initial step towards understanding cultural and other contextual differences in the effective management of international HRM practices. Overall, the research revealed that :-

- Pay incentives should not comprise too much of an employee's compensation package.
- Compensation systems should be based more on individual level job performance, and not team or organizational performance.
- There should be a reduced emphasis on seniority
- Benefits should continue to play an important role in all company compensation packages.

## **THE CASE STUDY (Preliminary Results)**

The compensation policies of a major foreign investment bank were studied under three major components a) pay scales/salaries, b) allowances/benefits c) incentives/recognition. The policies were also compared with the compensation policies of another international bank operating in Pakistan. This led to the following initial findings: -

- The pay raise system does not specify that it is determined mainly by the individual's job performance.
- It appears that an employee's earnings do not depend on the performance of a group.
- The percentage of basic pay to total pay is compatible with the market average for this ratio.
- The permanent employees have a secure pay package. This indicates that the organization focuses on long-term goals.
- Benefits play an important part of the total pay package
- House Rent Allowance is higher than the average market rate.
- Conveyance allowance is compatible with the market rate.
- Utility allowance is higher than the market average.
- Medical allowance is less than the market rate.
- Traveling allowances and benefits are very generous as compared to the market rate level.

- The senior employees enjoy disproportionably high benefits.
- Car benefits are higher than the market
- The bank offers similar car replacement benefits as compared to the market.
- A bank manager is entitled to have a 1300 cc car only in case if his bank maintains a minimum limit of deposit for three consecutive months
- The bank offers very generous fringe benefits. (Club benefits are, however, an exception)
- Terminal benefits are similar to the market.
- The terms and conditions of loans are relatively strict as compared to the other financial institutions.
- The overall benefits available to the employees are better as compared to the market average.
- The bank offers very few pay incentives for individual achievements.
- The policies do not mention pay incentives such as bonus or profit sharing.

## **CASE STUDY: Questionnaire Results**

*This study of bank documents was followed up by the issuance of a questionnaire (see appendix) to 30 employees of the bank. The questionnaire survey revealed the following findings: -*

- **60%** say that pay incentives are very few and 40% say these are moderate; 40% want to keep them moderate and 60 % want them to increase.
- **40 %** say that the benefits are low and 60 % say they are generous; 40% want to keep benefit unchanged and 60% want them to increase.
- **80%** agree that an employee's earnings are not dependent on group performance and 20% suggest otherwise; 20% suggest that an employees' earnings should not be dependent on group performance, 80% say they should.
- **40%** think that pay policies emphasize short term results, 40% think these are medium term and 20% think these are long term; 20% say pay policies should emphasize short term results, 20% suggest these should be medium term and 60% are in favour of long term orientation of pay policies.
- **40%** say seniority does not enter into pay decisions, 60% say it does; 20% suggest seniority should not come into pay decisions, 80 % say it should.
- **40%** think that pay incentives do not make up a significant portion of an employee's total earnings, 60% think these do; 20% want them to decrease and 80% want them to increase.
- **60%** are not happy with the benefit package, 20% think it is moderate; 20% want it to decrease, 20% want it to be moderate and 60% want it to improve.

■ 60% think that the pay system does not focus the employees' attention on long term goals, 40 % think it does; 60% suggest it should not focus on long term goals and 40% think it should.

■ 40% think that pay raises are not determined by an employees' job performance, 60% think they do; 20% suggest that pay raises should not be determined by an employees' job performance, 80% suggest they should.

■ 20% think that pay practices in the bank did not help the bank to have high performing employees, 80% think these did.

■ 40% are not satisfied with their jobs due to unsatisfactory pay practices, 60% are satisfied.

■ 20% think that pay practices have not made a positive contribution towards overall effectiveness, 80% say these did.

The comparison between the initial findings and the questionnaire findings led to the following conclusion.

■ The bank offers very few pay incentives. The majority of the employees want more pay incentives

■ The benefit package is generous as compared to the market but most of the employees are still not happy with it. They want more benefits.

■ An employee's earnings do not depend on the performance of a group. However most of then employees say it should.

■ The policy emphasizes long-term goals but most of the employees stressed the need for focusing short-term goals.

■ Seniority plays a major part in pay decisions and most of the employees have no objection to this policy.

■ Although the pay raise system does not clearly recognize individual job performance; most employees think that it does. Most of them want more recognition for individual performance in terms of pay raise.

■ Most of the employees are generally happy with the pay practices.

## THEORY AND PRACTICE

The final findings were compared with the Best Practices Compensation policies. This led to the following observations: -

■ The bank offers very few pay incentives. Best Practices recommend little emphasis on pay and therefore the banks' policy is in line with Best Practices recommendations.

- Most employees however demand higher pay incentives.
- The bank does not have any policy for rewarding individual level job performance. This is contrary to Best Practices Compensation recommendations
- The Bank does not have any policy for rewarding team or group performance. This is in accordance with the Best Practices recommendations.
- Most employees suggest that the bank should pay certain rewards on the basis of individual level job performance as does Best Practice theory.
- Bank policy indicates an increased emphasis on seniority when it comes to pay decisions. This is contrary to Best Practices recommendations. Most employees also suggest that seniority should remain an important factor when it comes to pay decisions.
- Although the Bank has based its policies on long-term goals but it appears that it is unable to implement this. It seems that short-term goals have been given priority in practice.
- The Bank offers excellent benefits package in accordance with the Best Practices Compensation policies. However most employees want more benefits.

The following recommendations have been suggested in accordance with the Best Practices Compensation policies:-

- The bank must device policies to reward individuals for the individual level performances. This could be in the form of performance bonuses, rewards or profit sharing.
- The Bank must consider reducing the emphasis on seniority. Although it is not a matter of concern for most of the employees, but in the long run, this may adversely affect the performance of the Bank.
- The Bank must continue with it exists benefit package in accordance with best practices.
- The Bank must communicate the importance of its excellent benefit package to the employees of the Bank. This may help to increase the motivation level of the employees.
- The bank must continue its policy for not awarding any incentive for group performance.
- The bank must refocus its attention on long-term goals.

It is important to tailor compensation programs to company philosophies and objectives. Compensation expenditures should be seen as an investment, in future employee performance enhancement. Bonus plans and long-term incentive plans should provide incentives for achievement of company's goals. Programs should also be cost-effective. Fifty percent bonuses are no more effective than 5 percent bonuses if they are

not geared to the desired motivational factors. Participation in programs and administration of programs should be geared to the organization's management style and organizational culture.

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At the same time, it is important to tailor programs to the interests and needs of the employees themselves. As individual expectations change, so should the compensation programs of a company. Benefit surveys among employees and flexible benefit programs are ways of finding out what employees feel they want and need.

Finally, the non-financial aspects of compensation should be considered as part of the total program. Perquisites for executives, training opportunities, job design, status symbols such as titles and offices, and other factors can be controlled to enhance employee loyalty and motivation. As the standard of living of employees rises, these other factors become increasingly important.

## **Reference**

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## *APPENDIX*

### *Questionnaire Used In the Study*

How accurately do the following statements describe your company's pay practices? For each statement provide two responses.

**First**, use the left column to indicate the extent to which the statements below describe the way pay practices currently are conducted (IS NOW).

**Second**, use the right column to indicate to what extent the statement below describes the way pay practices ought to be conducted to promote organizational effectiveness (SHOULD BE).

Please use the following scale for the questions below:

1	2	3	4	5
Not at all	To a small extent	To a moderate extent	To a large extent	To a very great extent

		<u>IS NOW</u>					<u>SHOULD BE</u>				
1.	Pay incentives such as bonus or profit sharing are an important part of the compensation strategy in this organization.	1	2	3	4	5	1	2	3	4	5
2.	The benefits are an important part of the total pay package.	1	2	3	4	5	1	2	3	4	5
3.	In this organization a portion of an employee's earnings is contingent on group or organization performance goals being achieved.	1	2	3	4	5	1	2	3	4	5
4.	Our pay policies recognize that long-term results are more important than short-term results.	1	2	3	4	5	1	2	3	4	5
5.	An employee's seniority does enter into pay decisions.	1	2	3	4	5	1	2	3	4	5
6.	Pay incentives are designed to provide a significant amount of an employee's total earnings in this organization.	1	2	3	4	5	1	2	3	4	5
7.	The employee benefits package is very generous compared to what it could be.	1	2	3	4	5	1	2	3	4	5
8.	The pay system in this organization has a futuristic orientation. It focuses employee's attention on long-term (2 or more years) goals.	1	2	3	4	5	1	2	3	4	5
9.	In this organization pay raises are determined mainly by an employee's job performance. There is a large pay spread between low performers and high performers in a given job.	1	2	3	4	5	1	2	3	4	5

**Please indicate to what extent your company's pay practices are effective.**

1.	The pay practices help our company to have high performing employees.	1	2	3	4	5
2.	The pay practices help our company to have employees who are satisfied with their jobs.	1	2	3	4	5
3.	The pay practices make a positive contribution to the overall effectiveness of the organization.	1	2	3	4	5