Organizational Approach for the Design of a Comprehensive Compensation Package for Bank Employees in Afghanistan A Strategy for Acquiring and Retaining Talent

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ORGANIZATIONAL APPROACH FOR THE DESIGN OF A COMPREHENSIVE COMPENSATION PACKAGE FOR BANK EMPLOYEES IN AFGHANISTAN

A Strategy for Acquiring and Retaining Talent

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Abstract

Purpose: To investigate the phenomena that could be attributed to the absence of a comprehensive compensation package in Afghan banks. This study aims to devise strategies for the design of a pay package that will improve employee retention and reduce the turnover rate in this industry.
Findings: The study suggests that an effective pay package could lead to employee loyalty, but this requires the development of a sound, strategic approach that would include the pay-mix design, market positioning and choice of pay policy. The major findings of this study show that there are no major disagreements between employees and administrators over most of the components of the pay packages offered. However, considering how the data reflects on the small changes desired, this study recommends that banks offer a base salary that is relatively larger than the other components of the pay package. It also recommends that banks participate in employees' pension funds, pay gratuity and offer performance-based pay that is based on a well-defined performance-appraisal system.

Methodology: Primary and secondary data were collected from 11 Kabul-based financial institutions, where a total number of 92 employees participated in this study. A one-way ANOVA regression and descriptive statistics were utilized to analyse the data.

Practical implications: This study has strong policy implications for a modern, sound and equitable approach to human resource management in the Afghanistan financial sector that could lead to fostering and retaining talent.

Originality: The topic is first in its kind to be researched in the Afghanistan context.

Keywords: compensation, pay, employee turnover, organizational performance, Incentives

Afghanistan's banking sector has been experiencing high employee turnover and low retention for decades. The literature points to the lack of a comprehensive compensation system as the reason behind this phenomenon. This study aims to propose a set of policy recommendations on the type of pay package that could reduce turnover and improve retention among employees in Kabul-based banks.

A high rate of employee turnover brings numerous disadvantages to the banking industry, including the high cost of replacing experienced employees. To address this issue, we propose a strategy that could help bank executives understand the local market benchmarks, so they could offer the right benefits that would attract and retain talent. Our proposal provides solutions that could help bank executives incorporate employee satisfaction within a strategic and comprehensive compensation package. This study attempts to explain and or describe the effects such a package could have on employee retention, a factor that has policy implications for banks' human resources (HR) management.

1. Theoretical background of study

The literature review on how compensation packages influence employee retention sheds substantial light on the methods and aspects of this correlation. Balkin and Gomez-Mejia (1990) and Carroll (1988) agree that a comprehensive compensation package includes components such as a base salary, benefits, allowances, performance pay, perquisites and incentives. Balkin and Gomez-Mejia (1990) further confirm that there is a positive correlation between a compensation package and employee retention, provided that the compensation package is developed through a sound and strategic approach.

Further, Galbraith and Schendel (1983) note that there are many types of strategies and these are designed at a business or corporate level (Beard & Dess, 1981). In terms of strategies for compensation, Balkin and Gomez-Mejia (1990) state that putting together a compensation package must take into consideration such elements as the pay-mix design, market positioning and choice of pay policy. Balkin and Gomez-Mejia's (1990) theory of a compensation strategy further asserts that a pay-package design (compensation-package mix) should first consist of a base salary and, second, benefits that include medical insurance, allowances, gratuity pay and, finally, incentives such as performance pay. The market positioning means the pay relative to the compensation offered for similar jobs in similar industries and the pay-policy choice include components such as risk sharing, internal consistency in the pay relationship, pay secrecy, and performance pay, i.e., variable pay, the decentralization of the pay system, egalitarian pay, participation in such pay as provident pay or a pension fund and long-term pay such as gratuity or severance pay. A sound strategy for a compensation package can lead to an effective pay system. Henderson and Risher (1987) and Schular and MacMillan (1984) further note that although there are challenges inherent in linking a compensation system to a firm's organizational strategies, it is important to do so for employee retention. This argument was further endorsed in a 1986 study conducted by Hay Management. In this study, the principle assumption is that if the organizational reward system is properly designed it can be a key contributor to the organization achieving its strategic objectives. In order to ensure this, organizations need to carefully analyze the role a compensation system can play in its strategic plan.

The ideas found in the literature review imply that unless and until pay strategies reinforce the overall organizational approach, the returns on compensation in terms of output or profits as well as reductions in employee turnover will be less desirable and even negative.

Conceptual Framework

It is common sense to assume that employees will remain loyal to an organization when they are satisfied with its strategic reward system. However, to put forward a conceptual understanding of this relationship, it is necessary to clarify what we mean by organizational strategy and pay-system effectiveness. It is also important to underline how an effective pay system, if developed with a strategic approach, will lead to employee loyalty. Figure 1.1 illustrates this relationship, where it shows a schematic diagram that presents the findings of the literature discussed in section 1.1.

In the model/concept, *pay effectiveness* refers to the contribution of the pay system in achieving the overall organizational goals through a system that is based on fairness. The employees' agreement with the organizational strategy in devising the pay system consolidates their loyalty and commitment toward the achievement of the organizational goals. Simultaneously, a strategic approach to developing a compensation package refers to the existing strategy typologies. The proposed concept further implies that pay effectiveness will lead to reductions in employee turnover, provided a sound compensation strategy is adopted.

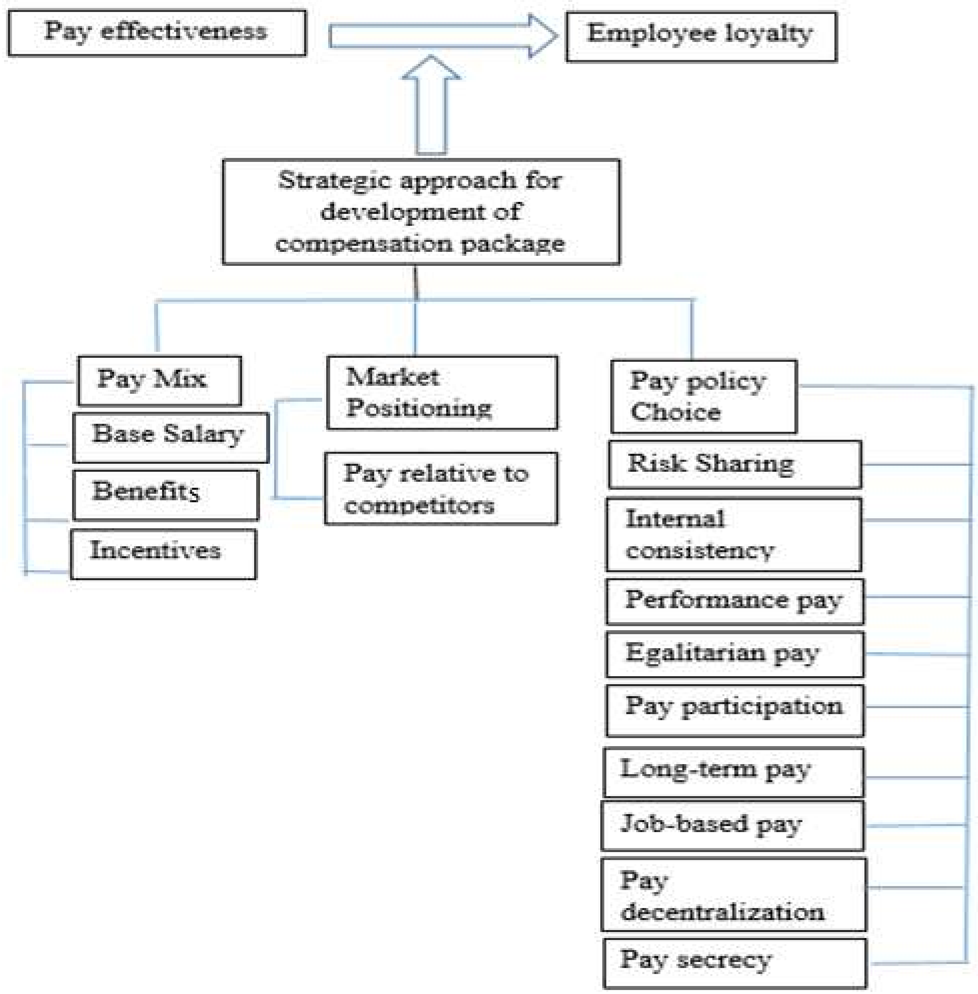


Figure1.1: Relationship between an effective pay system and retention strategy and employee loyalty

In the light of the above concept, the author has developed the following research question: Is there a significant gap between a financial institution's (FI) senior and junior employees and its HR managers in terms of their views on a strategic compensation system?

To answer the above question, the following hypothesis have been developed.

H1. The design of the pay mix significantly influences the effectiveness of the pay system.

H2. The right market positioning significantly influences the effectiveness of the pay system.

H3. The choice of pay policy significantly influences the effectiveness of the pay system.

The following section describes the methods applied in this study.

2. Method

In response to the high rate of employee turnover in Afghanistan's banking sector, this study offers a research-based set of recommendations that aim to help the country's bank executives overcome this challenge. The objective of this research is to investigate whether a strategic approach to the design of a compensation package for bank employees could significantly contribute not only to reducing employee turnover but also to fostering and retaining talent in Afghanistan's banking sector.

Variable identification

The author conducted a thorough review of the academic literature on compensation systems so as to identify and operationalize the variables for this study. The author then conducted informal interviews with a number of HR managers of Kabul-based financial institutions, especially commercial banks. These interviews helped the author operationalize an overall understanding of the existing practices and approaches to designing employee compensation packages already on the market.

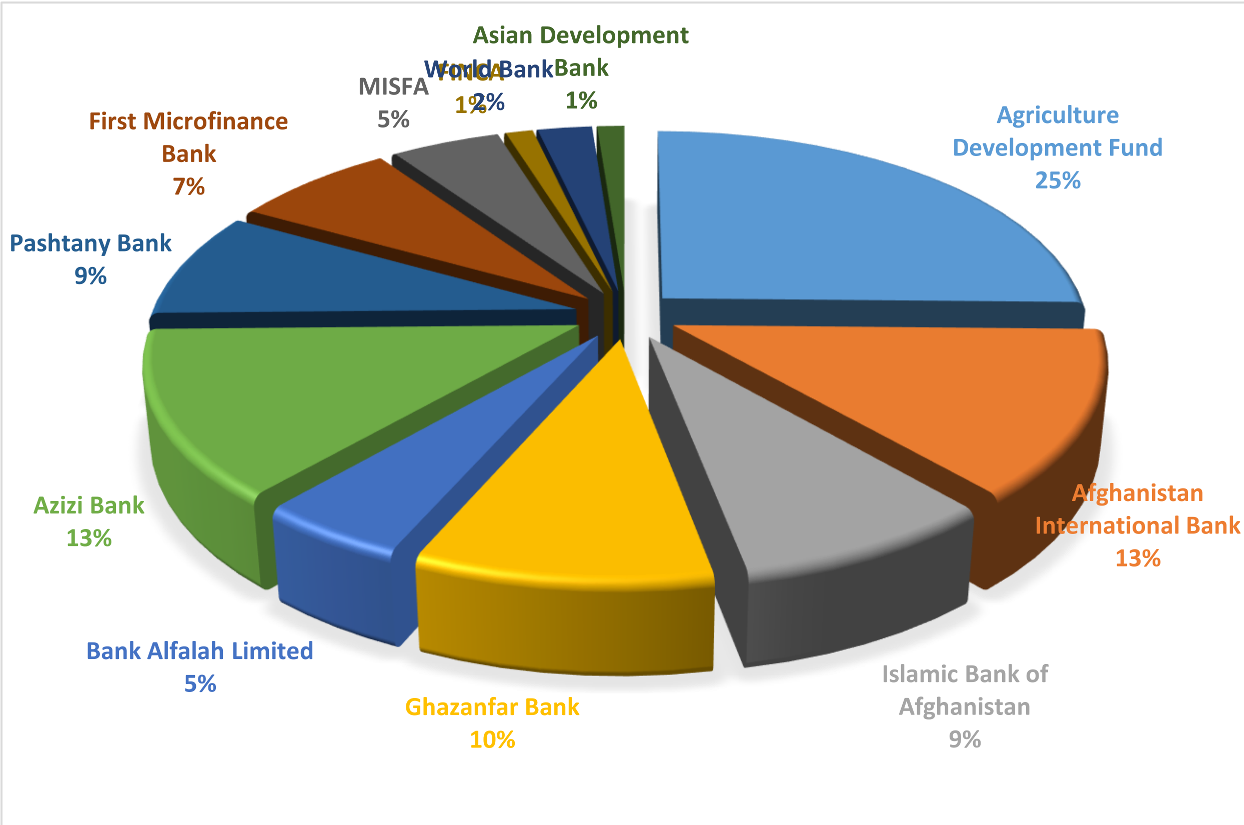
Construction of data collection instrument

After a thematic analysis of the literature and the interviews conducted in Kabul, the analysis pointed to a common understanding and agreement between the theoretical constructs discussed in the literature and the empirical findings from the on-site interviews. From this understanding, the author developed a data-collection instrument. This instrument includes categories that measure the variables included in study. Further categories are comprised of statements for which the respondents were asked whether they were in agreement or disagreement. Further, informal group discussions with HR managers revealed that information on the models' proxy variables was partially present in the form of policies, manuals and procedures. This also underlines the fact that although some information on compensation packages was available it was largely kept confidential and, therefore, the administration's general awareness on this issue was limited and it did not consider a strategic compensation package as a necessary component to employee retention. In order to obtain this information for further analysis and to be mindful of the time constraints, the author developed a questionnaire as a data-collection tool. This questionnaire would ensure that the necessary data was collected within , which was deemed sufficient time to permit an analysis for the study. The data-collection instrument was adopted from Balkin and Gomez-Mejia's (1990) theory of compensation strategy and was adapted to a contextualized setting. In this instrument, strategies are defined as (1) *the pay mix,* which includes components such as *salary*, *allowance*, *benefits* and *incentives; and* (2) *market positioning* and *pay-policy choice,* which include items such as *risk sharing*, *internal consistency in pay relations, pay secrecy, performance pay, egalitarian pay, job-based pay* and *long-term pay.*

Subject population and sampling procedure

The questionnaire was designed to extract information from the subject population, which included executive-level employees at the Kabul-based financial institutions included in the study. The sample included HR managers of nine financial institutions, 83 employees including executives and junior employees of the same financial institutions and three other miscellaneous professionals; the questions addressed their professional capability. Among the respondents who participated in this survey, four had agreed to participate due to their personal connection to the author. The financial institutions were selected also based on the author's personal connection as well as the convenience of access. While collecting data from these institutions, the author applied the snow-ball technique to identify the next potential respondent. According to Adi Bhat (2019), snow-balling is a non-probabilistic sampling technique that is done on the basis of using respondents' referrals to reach other respondents.

Figure 1.1 Percentage of each financial institution's employees that participated in the survey (June 20, 2019)



Source: Author's data compilation

The following table shows the breakdown of the above sample in terms of employee type:

Employees Type by group	Number of respondents
Financial institutions senior employees	62
HR managers	9
Junior employees	21
Total number of respondent	**92**

Table 2.1. Sample break down in terms of employee type (2019)

Source: Author's data compilation

The table below shows a breakdown of the above table in terms of respondents by financial institution:

Financial institutions	Senior employees
Agriculture Development Fund	21
Afghanistan International Bank	11
Azizi Bank	11
Ghazanfar Bank	8
Pashtany Bank	7
Islamic Bank of Afghanistan	7
First Microfinance Bank	6
Bank Alfalah Limited	4

Microfinance Investment Support Facility for Afghanistan	4
World Bank office in Afghanistan	1
FINCA-Afghanistan	1
Asian Development Bank HR Managers	9
Total	**92**

Table 2.2. Sample breakdown in terms of respondents by financial institution (2019)

Source: Author's data compilation

Operationalization of the variables

For the purpose of operationalizing the variables, the assumption that pay effectiveness can lead to employee loyalty allows for the strategic approach to the design of a compensation system to be an independent variable, while the pay effectiveness, itself, is the dependent variable. The effectiveness of the pay system (i.e., the dependent variable) was operationalized by including statements that measured the pay effectiveness according to the pay system's practices, its widespread acceptability among employees, its contributions toward motivating and attracting employees, the value of adding shareholders' investment and the overall organizational achievement. The statements were used to measure the extent to which bank employees agreed or disagreed with the importance of each variable, on a scale of 1 to 5, where 1 indicates strong agreement and 5 indicates strong disagreement. Similarly, the strategic approach to the design of the compensation package (i.e., the independent variable) was operationalized by including categories such *as the pay-package design, market positioning and pay-policy choices.* Items that measure the pay-package design are: *salary, allowances, benefits and incentives*. Items such as *risk-sharing, internal consistency in pay equity across the organization, pay secrecy, performance pay, pay decentralization, egalitarian pay, pay participation and job-based pay*. It is important to mention that two statements i.e., one on the officer's salary range and the other on the manager's salary range are operationalized through a slightly different scale. Please refer to the table below for additional details.

Scale	Range of officers' Salary in AFS (000s)
1	20-40 (USD 250-500[1])
2	40-60 (USD 500-750)
3	Neutral/No answer
4	60-80 (USD 750-1000)
5	80-100 (USD 1000-1250)
6	Above 100 (USD1250)

Scale	Range of Managers' Salary in AFS (000s)
1	Less than100 (USD 1250)
2	100-150 (USD 1250-2100)
3	Neutral/No answer
4	150-200 (USD 2100-2600)
5	200-250 (USD 2100-3100)
6	Above 250 (USD 3100)

Table 2.3. Financial institutions' salary range measurements for officers and executives (2019)

Source: Author's data compilation

In the above table, for instance, the *scale 1* means that the officer's salary range is from AFS 20,000-40,000, and so forth, according to the information provided by the respondents.

Procedure applied to the data analysis

The author used a *one-way ANOVA test to* address the research question on whether there is a significant gap between employees and HR managers' views on a strategic compensation system. This test compares the means of two or more independent groups in order to determine whether there is statistical evidence that the associated population means are significantly different. In our case, the two independent groups are senior employees of Kabul-based financial institutions (including the ADF) and their HR managers. To obtain accurate results, the author ensured that the following ANOVA test assumptions were met:

First , there should be a continuous dependent variable i.e., the interval or the ratio level; for instance, an interval is a scale in which the intervals between the data are equally split, whereas a ratio is a type of data in which a mathematical operation (i.e., subtraction, addition , multiplication and division) is meaningful. Second, there needs to be a categorical independent variable, i.e., two or more groups that divide the statements included in the data-collection tool according to the variables or concepts. Third, there needs to be cases that have values on both the dependent and

[1] All USD equivalent is calculated based on Da Afghanistan Bank (central bank of Afghanistan) buying rate as of June 20, 2019

independent variables. Fourth, there needs to be independent samples/groups; i.e., an independence of observations; for instance, those of junior employees, senior employees and HR managers, as in this study.

The findings show that there is no relationship between the subjects in each sample. This means that the subjects in the first group cannot also be in another group. They also show that no subject in either group can influence any of the subjects in the other groups (the data was collected in separate sessions with each group; i.e., HR managers and senior employees). Further, no group can influence another group (also because the data was collected in separate sessions with each group). Fifth, the data should be a random sample from the population. Here, the author made sure to identify all of the executives/senior employees so the entire target population of each financial institution was included in the study. This gave the author confidence that the assumption was met. Also, the data showed a normal distribution (approximately) of the dependent variable for each group; i.e., for each level of the factor. The Normality Test showed that the significance or P value of almost all the dependent variables in this list were above 0.05 and also that the factors indicated data normality, according to Kolmogrov-Smrinova and Shapiro-Wilk test. Further, the author used *pay effectiveness as a factor,* and *salary, allowance, benefits, incentives, market positioning, risk sharing, internal consistency in relation to pay, pay secrecy, pay for performance, pay decentralization, egalitarian pay, job-based pay and long-term pay* as the list of dependent variables.

Next, the author applied regression analysis to test each of the three hypotheses. t statistics and the p value from one of regression output tables, i.e., the coefficients were used.

The assumption of data normality for the regression was already satisfied based on the results of the Kolmogrov-Smrinova and Shapiro-Wilk tests.

Besides undertaking the data analysis to test the hypotheses, the author utilized descriptive statistics to analyze the item-wise and dimension-wise gaps between the financial institutions' HR managers and their senior employees. The same approach was used to compare the difference in opinions on the compensation package strategy between the financial institution's junior and other senior employees included in the sample.

3. Data analysis and findings

A gap analysis was used to test whether each of the three hypotheses could be supported; that is, whether the design of the pay mix significantly influences the effectiveness of the pay system;

whether, the right market positioning significantly influences the pay system' effectiveness; and if the choice of pay policy significantly influences the pay system's effectiveness.

Senior employees' views on the various aspects of a compensation package strategy were compared to determine whether they supported each hypothesis. .

Analysis of the gaps between groups' views

The findings from the gap analysis between financial institutions' senior and junior employees and HR managers are summarized on the table below.

Strategy /dimensions	**HR managers , sr. & jr. employees**	**F-Stat**	**Significance at 5%**
Pay design strategy			
Salary	Within the group	1.924	.060
Allowance	Within the group	5.658	.000
Benefits	Within the group	3.231	.002
Incentives	Within the group	3.016	.004
Strategy of market positioning	Within the group	3.088	.003
Strategy of pay-policy choice			
Risk Sharing	Within the group	3.487	.001
Internal consistency in pay relation	Within the group	1.065	.397
Pay secrecy	Within the group	3.432	.001
Pay for performance	Within the group	2.016	.048
Pay decentralization	Within the group	1.760	.089
Egalitarian pay	Within the group	1.731	.095
Pay participation	Within the group	1.262	.270
Job-based pay	Within the group	4.136	.000
Long-term pay	Within the group	1.924	.060

Table 1: ANOVA Table
Source: SPSS Output table

The above table shows whether there is a statistically significant difference in the mean value between the two groups (i.e., financial institutions' HR managers and their senior and junior employees). As for the strategy of the pay-mix design, on one hand, we can see that the significance value for the salary component is 0.06 (i.e. $p = 0.06$), which is above 0.05 and, therefore, shows that there is a statistically insignificant difference between the mean value of both groups' views on the salary portion of a compensation package. On the other hand, the significance values of ($p = .000$), (p=.002), (p =.004) and (p=.003) show significant differences between the two groups' views on the categories of *pay allowance*, *benefits* and *incentive dimensions*, respectively. These findings imply that either there is a lack of knowledge on the importance of these components or they are absent from salary packages across the banking industry (i.e, across the market).

Both groups disagreed (significant difference in views) on the market-positioning dimension in a compensation package and this is indicated in the significance value of (p =.003). However, both groups agreed (insignificant difference in views) on the need for internal consistency in relation to pay in terms of *pay decentralization*, *egalitarian pay, pay participation* and *long-term pay* as there was a consensus in views on all of these items and these are reflected in the significance values of ($p = .397$), ($p = .089$), ($p = .095$), ($p = .270$) and (p =.060), respectively. However, both groups disagreed (significant difference in views) on *risk sharing, pay secrecy, performance pay* and *job-based pay*; the significance values were ($p = .001$),(p =.001),(p =.048) and (p =.000), respectively.

In most of the observations the F-statistics were below 5. To address this, the author applied item-wise descriptive statistics in which each item was analyzed according to the comparative views of each group; i.e., financial institutions' junior and senior employees and HR managers (as was discussed in section 2.5.; also, see the appendix for more detail).

Regression analysis

Regression analysis was used to test the hypotheses. The findings of this analysis are summarized on tables 3.3, 3.4 and 3.5. for instance Table 3.3 shows an R value of 0.559, which signifies that the overall model has goodness of fit and that almost 30% of the dependent variable, *pay effectiveness*, can be explained by the design of the pay mix, the choice of pay policy and the market positioning.

R	R-Square	Adjusted R-Square	Std Error of Estimates
.559	.312	.289	.334

Table 3.3. Model Summary

Note: Dependent variable: Pay effectiveness

Predicators: (constant), pay-mix design, pay-policy choice, and market positioning

Source: SPSS Output

The findings of the ANOVA regression suggest contradicting results in the sense of the significance of the overall model– the F-stat = 13.30, which is above 5 and the significance value is less than 0.05.

	Sum of square	DF	Mean square	F-stat	Significance
Regression	4.46	3	1.47	13.30	.000
Residual	9.82	88	.112		
Total	14.28	91			

Table 3.4. Regression ANOVA
Dependent Variable: pay effectiveness

Predicator: (constant), pay-mix design, pay-policy choice, and market positioning

Source: SPSS Output

The results of the regression output shown on Table 3.5 also disagree with the results on Table 3.4 in the sense that, in the overall model, the market positioning has an insignificant influence on the pay effectiveness (*t*=.05 and *Sig* = 0.636), whereas, the pay-mix design has a significant effect on the pay effectiveness (t=3.8, *Sig* =0.000); therefore, hypothesis 1 can be substantiated. Similarly, the pay-policy choice has a significant effect on the pay effectiveness (*t* = 3.18, *Sig* = 0.002); therefore, hypothesis 2 can also be substantiated. However, (*t*=.05 and *Sig*=.636) signify that the market positioning has an insignificant effect on the pay effectiveness; thus, hypothesis 3 is rejected. The concern over why one variable, i.e., market positioning, has an insignificant effect on the pay effectiveness is again addressed by examining the groups' views, item-wise, based on the descriptive statistics.

	Beta	Std Error	t	Significance

(Constant)	2.22	.35	6.3	.000
Pay-Mix Design	.51	.10	3.8	.000
Pay-Policy Choice	.02	.13	3.18	.002
Market Positioning	.03	.06	.05	.636

Table 3.4. Coefficients

Dependent variable: pay effectiveness

Predicator: (constant), pay-mix design, pay-policy choice, market positioning

Source: SPSS Output, based on author's data.

Descriptive analysis of data

The item-wise descriptive analysis of the data was categorized according to the various items that are included in compensation packages and is discussed below. According to Figure 3.1, there was an insignificant gap between HR managers and senior employees' views on the salary range for officers (*Employees* =82%, *HR Managers* =76%). On average, this value was equal to 4.08 and 3.78 respectively, which means that officer's salaries across the industry range from AFS 60,000 to 80,000, (USD750 to USD 1000) for senior employees' and AFS 60,000 for HR managers. These findings suggest that this value ranges between AFS 40,000 (USD 500) and 60,000 (USD 750). Further, manager's salaries range above AFS 250,000 (USD 3125) across the industry.

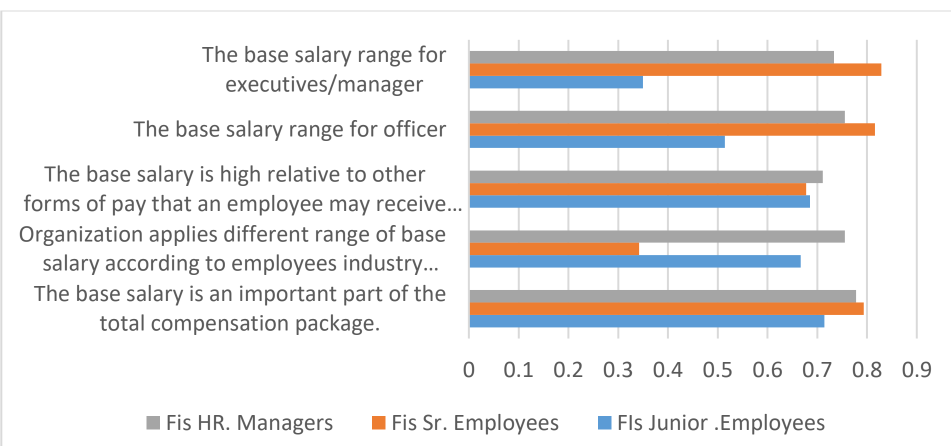


Figure 3.1. Salary dimensions in compensation packages employees of Afghan banks

Source: Compiled using author's data

Almost all groups agreed that the base salary should be high relative to other components of a compensation package. This agreement holds true and therefore the base salary is an important part of a compensation package (figure 3.1). However, there was a significant gap between the opinions of FIs' senior employees and HR managers as employers across the industry applied different base salaries based on the particular employee's industry experience and qualifications.

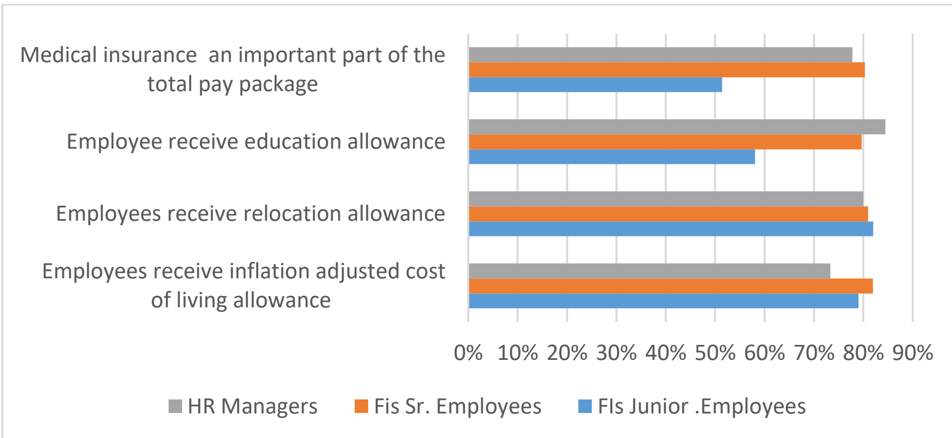


Figure 3.2. Salary component in compensation packages for employees of Afghan banks

Source: Compiled using author's data Compilation

Figure 3.2 highlights the differences in the views of each group in terms of the cost-of-living allowance. For instance, all groups agreed on an adjusted cost-of-living allowance for relocation expenses and inflation; however, junior employees did not agree with two other groups on an education allowance and medical insurance.

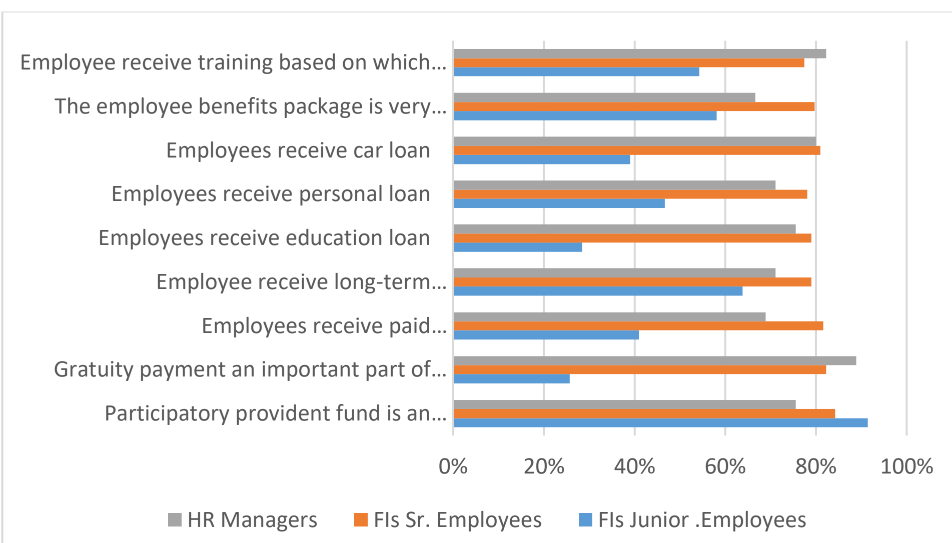


Figure 3.3.Benefits dimension in compensation packages for employees of Afghan banks

Source: Compiled from author's data Compilation

Apart from agreeing on a participatory provident/pension fund, junior employees' views significantly differed from those of two other groups (i.e., senior employees and HR managers) on the remaining items in the benefits dimension, whereas senior employees and HR managers agreed on the same items (see Figure 3.3).

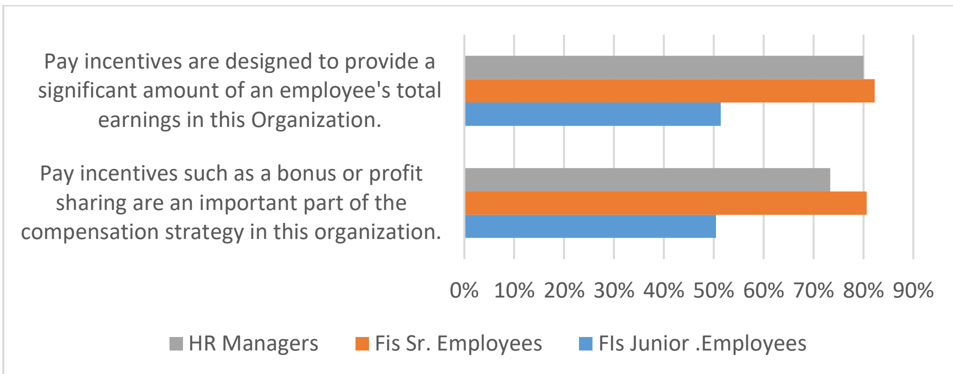


Figure 3.4.Incentive dimension in compensation packages for employees of Afghan banks

Source: Compiled from author's own data

Similar to Figure 3.3, the findings shown in Figure 3.4 suggest strong agreement between senior employees and HR managers in their views on incentives such as bonuses and profit sharing and a significant difference between junior and senior employees on the same items within the incentive dimension. The findings on senior and junior employees' views on the market-positioning strategy suggest that decisions on benefits and salaries should consider those offered by market competitors (Figu

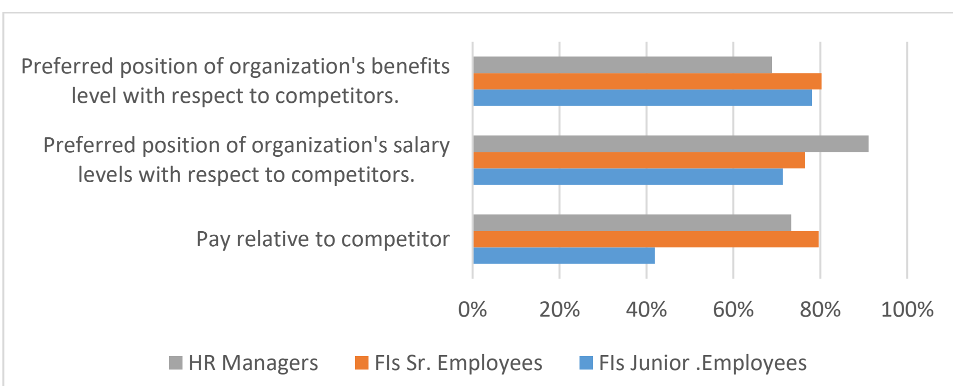


Figure 3.5. Market positioning strategy in compensation packages for employees of Afghan banks

Source: Compiled from author's data Compilation

For the pay policy, agreement on the choice strategy among senior employees at the ADF and other financial institutions converged over whether to accept the risk of assigning a portion of a salary for performance pay. The same pattern could be observed when it comes to allocating a portion of the compensation package as a variable cost. The group (i.e., senior and junior employees) still significantly disagreed on whether to assume this risk as some part of an employee’s salary. Agreement on performance pay among HR managers was slightly less than among the two other groups. However, they strongly agreed that part of a compensation package should be variable (Figure 3.6).

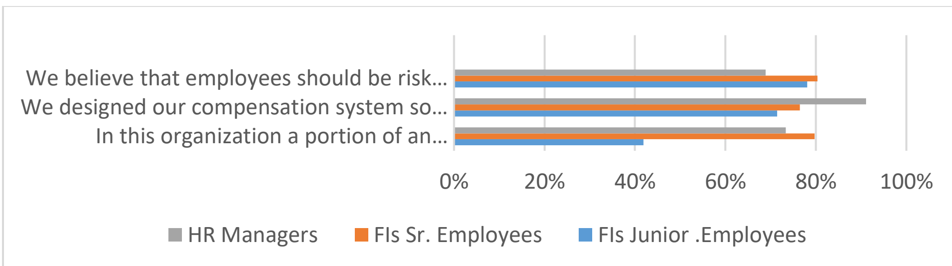


Figure 3.6.Risk Sharing dimension in compensation packages for employees of Afghan banks

Source: Compiled from author’s data

Overall, over 65% of the members of all of the groups agreed that the equitability of internal pay and the achievement of comparable pay across the different departments of an organization should take priority over external market factors (Figure 3.6).

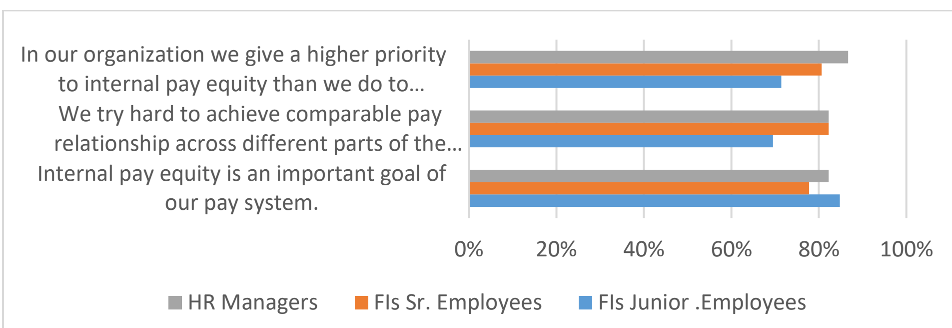


Figure 3.7 Dimension of Internal consistency in Relation to Pay in Afghan banks

Source: Compiled from author’s data

There was strong agreement (around 65%) on the components of performance pay across the three groups. This agreement was over the inclusion of such elements as merit pay, an appraisal system, clear and realistic goals defined in the performance-appraisal system, awarding executives for achieving overall organizational goals and a large spread between the salaries of low and high performers (Figure 3.7.)

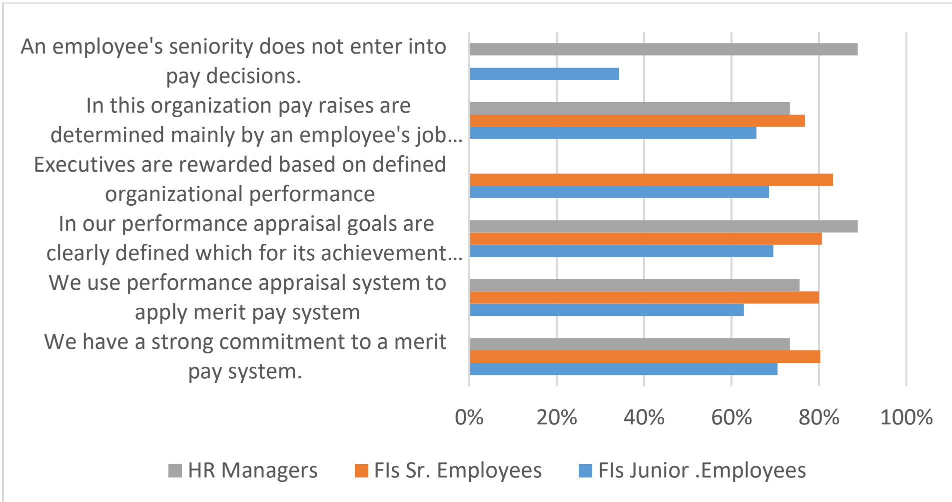


Figure 3.8.Components of performance pay in compensation packages for employees of Afghan banks

Source: Compiled from author’s data

Figure 3.8 shows that HR managers and senior employees strongly agreed that autocratic decisions related to compensation packages should be avoided and employees’ (at different levels, including managers, executives and junior employees) preferences should be taken seriously when decisions are being made on the different components of compensation packages. However, agreement here was lower among junior employees.

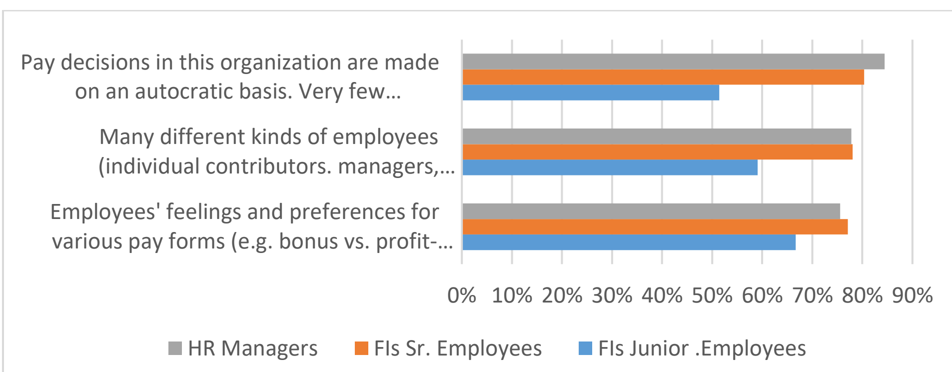


Figure 3.9. Pay participation dimension in compensation packages for employees of Afghan banks

Source: Compiled from author’s data

According to Figure 3.9., almost 80% of FI employees and HR managers agreed that job-based pay is an important factor of a pay system; further, they felt that more employees should be rewarded based on their job-related qualifications and considerable emphasis should be extended to the nature of the job when determining pay levels. However, this view among junior employees was low (40-60%).

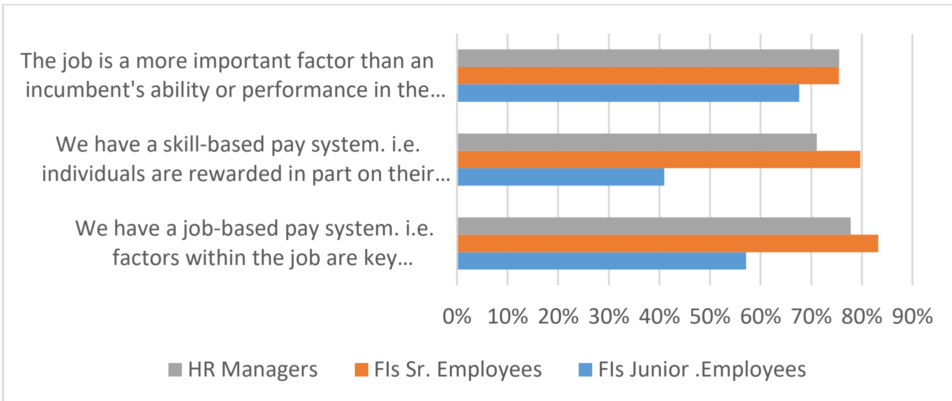


Figure 3.10. Job-based Pay Dimension in compensation packages for employees of Afghan banks

Source: Compiled from author's data

When evaluating the importance of long- over short- term results, it was found that HR managers assigned more weight to the importance of long-term results as compared to senior and junior employees. Similarly, agreement within the same group (i.e., HR managers) on granting awards for short-term accomplishments within a fixed time period was less than that among senior and junior FI employees. However, all groups almost agreed on a pay system that could draw employees' attention toward the organization's long-term goals (figure 3.10).

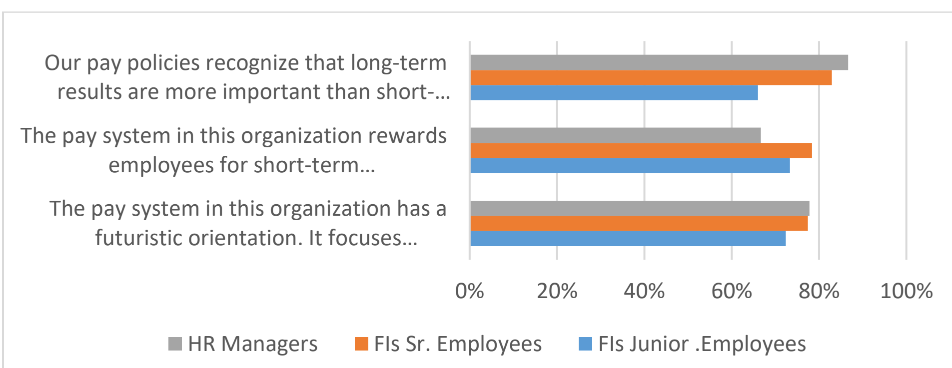


Figure 3.11.Long-term pay dimension in compensation packages for employees of Afghan banks

Source: Compiled from author's data

Figure 3.11 shows that almost all groups agreed that the pay policy and practices could significantly attract and motivate employees. HR managers and junior employees strongly agreed that their existing policy and practices are widely accepted among their employees; however, senior employees strongly disagreed with this observation. Junior employees were confident that a sound compensation package could significantly contribute toward maximizing stakeholders/shareholders interest in the organization; nonetheless, agreement among HR managers and employee was slightly lower on the same statement. Financial institutions employees and HR managers were more confident than junior employees on their management's satisfaction with the effectiveness of their pay policy in relation to the achievement of organizational goals.

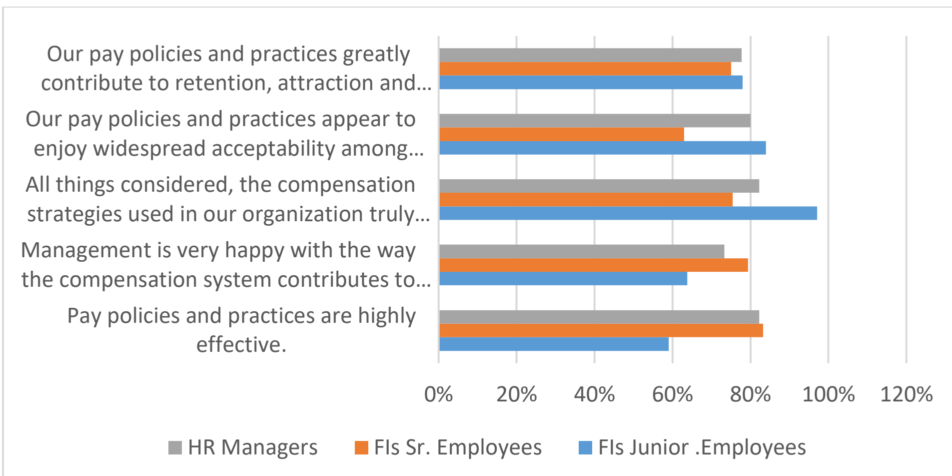


Figure 3.12.Pay effectiveness dimension in compensation packages for employees of Afghan banks

Source: Compiled from author's data

Secondary data analysis

Secondary data was included in the study to gain a better understanding of the existing compensation practices, both locally and at the international level. This data includes Afghanistan labour law, wherein employers in the public sector must be paid a minimum of AFS5,000(USD 63) +/-. There is no legislation that establishes a required minimum wage for the private sector and, in particular, for the banking industry. However, based on the author's informal survey, salaries at the officer/junior employee level have not been below AFS 20,000 (USD250
) +/- and Afghan labour law encourages the inclusion of incentives and benefits and, in particular, a food allowance. Furthermore, from 2015 to 2018, the announcement of 15 jobs for development

projects financed by different donor agencies and implemented by the Afghan government shows the scale of National Technical Assistance (NTA) for employment. Table 3.7 summarizes the percentage of Kabul-based bank staff funded under this program.

Percentile	**Salary in AFS and Equivalent USD**	**Description**
100	7,000 (USD 87.5)	Minimum salary and Kabul-based banks
75	25,000 (USD 300)	75% of bank staff receive AFS 25000 (USD 300) or less
50	150,000 (USD 2100)	50% of bank staff receive AFS150,000 (USD 2100) or less
25	400,000 (USD 5000)	25%of bank staff receive 400,000 (USD 5000) or less
10	641,951 (USD 8000)	10%of bank staff receive AFS641,951 (USD 8000)or less
5	863,073 (USD 10800)	5%of bank staff receive AFS863,073 (10800)or less
1	1,765,846 (USD 22000)	Less than 1%of bank staff receiveAFS1,765,846 (USD 22000) or less

Table 3.6. Range of compensation in pay packages in Kabul-based banks (2019)

Source: Author data compilation

For the sake of further clarity, Table 3.8 provides a sample of an author-calculated position-wise average salary in the banking sector. The finding confirms that a CEO's salary exceeds AFS 1M, on average. The pay range for the remaining senior-level positions is from AFS 420,000 (USD 5250) to almost AFS 600,000 (USD 7500).

Category One Chief level		Category Two Deputy chief level		Category Three Manager level		Category Four Clerical/support level	
Position	Average salary	Position	Average salary	Position	Average salary	Position	Average salary
Executive	1,022,390 (USD 12779)	Executive	226,675 (USD2833)	Manager	134,754 (USD1684)	Ass. Officer	14,181(USD 177)
Operations	592,070 (USD7400)	Operations	75,968 (USD950)	Assistant manager	69,078 (USD 863)	Head teller	32,558 (USD 407)
Finance	592,990 (USD7400)	Finance	112,048 (USD1400)	Sr. officer	62,990 (USD 887)	Teller	18,308 (USD228)
Compliance	420,717 (USD5259)	Compliance	69,768 (USD872)	officer	36,073 (USD451)	Clerk	17,582 (USD220)

Risk	420,717 (USD5259)	Risk	69,768 (USD 872)		-	Support staff	10,000 (USD125)

Table 3.8. Position-wise average salary of employees of Afghan banks (2019)

Source: Author data compilation

These findings are based on a review of the NTA salary scale; they suggest that an employee at the director level earns a salary of from AFS 128,000 (USD 1600) to 320,000 (USD 4000). Furthermore, a review of twelve foreign banks[2] shows that compensation packages include the components recommended in this study's model. However, a certain percentage of the base salary is applied to benefits such as a provident/pension fund, and a gratuity. Similarly, the duration of service has also been used as a basis for calculating benefits such as loans to staff.

Results and Discussion

The results of this study's data analysis provide a new understanding of compensation that is both surprising and interesting: surprising in the sense that there is a significant disagreement on the compensation practices of financial institutions that are operating in the same market as other financial institutions (included in sample size). These findings include the absence of benefits such as funding for employees' education, personal , car, and home loans, and the presence of such benefits in other financial institutions. Further, the results suggest that junior employees are less willing to risk a portion of their salary in lieu of the receipt/non-receipt of an award for their contributions to the achievement of an overall organizational goal. This result can be based on the lack of a performance-appraisal system. It was also surprising to find less agreement between groups on the absence of a merit pay system and the lack of a performance-appraisal system for awarding executives and other employees. The presence of a lower spread between the compensation of high and low performers in the banking industry, the further centralization of the pay system and the lack of a pay participation system and job-based pay further adds to our surprise.

An interesting part of the study's findings was the agreement among all employee groups (i.e., financial institutions' junior and senior employees as well as HR managers) on the importance of almost all of the items in the various components and of their inclusion in the concept/framework of

[2] Axis Bank, City Union Bank, Catholic Bank, DCB Bank, Dhanlaxmi Bank, Digibank, Fedral Bank, HDFC Bank, Bank Alfalah Limited, Mizan Bank, ABN Amro and Habib Bank (mainly Indian and Pakistani financial institutions).

a compensation strategy. On average, the data shows that over 60% of all three groups showed agreement. Particularly interesting was the information the study found on the groups' agreement on the components of a compensation package, such as incentives, pay secrecy, market positioning, and internal consistency in relation to pay.

Conclusions and recommendations

Conclusion

The author's objective was to examine whether there was a significant gap between the views of financial institutions' junior, senior and HR managers' on the design of a strategic compensation package. On the basis of this comparison, it can be argued that the base salary is a very important part of the package. However, based on contradicting views of employee groups among the FIs included in the study, the author cannot come up with a conclusion as to whether the range of the base salary should be applied according to industry-related experience and qualifications or some other criteria. However, this study provides a new understanding in terms of the size of the base salary; here, employees felt it should be larger compared to the other components of a salary package. Similarly, there is new insight on the receipt of a cost-of-living allowance, a participatory provident/pension fund and gratuity payments (at retirement) in that including these incentives may lead to higher employee satisfaction. This new exploration also suggests that the extension of additional incentives, such as home, and car, personal and education loans, the maintenance of pay secrecy and the decentralization of pay administration were considered good practices to be adopted within a financial institution. Some components of a compensation package, such as those included in such strategies as the pay-mix design and pay-policy choice, may lead to the effectiveness of the payment system. Here, the most important components include the base salary, incentives, long-term pay, job-based pay and performance pay. On the bases of the discussion and the results, the author offers several recommendations for the Afghanistan banking sector to improve the existing state of employee turnover through a development of a strategic compensation package.

Recommendations

This study recommends a pay-mix design for a compensation package that aims to reduce employee turnover and improve retention. Putting such a system together should include the views and recommendations of the organization's employees. The base salary is a very important component of any salary package; a cautious, due-diligence approach should be followed to determine the salary size, taking into consideration the employee's industry-related experience, qualifications and training. The base salary should also be larger compared to the other components in the entire compensation package. This will minimize the wide salary spread that exists between executives and officers and lead to higher employee satisfaction.

The essential components of a fair compensation package would also include a decentralized pay system that includes performance appraisals, pay secrecy and irregular pay raises based on employee assessments. Performance pay should be based on employees' efficiency, their willingness to take risks and their contribution to achieving the organization's overall goals. Such a system would justify any salary spreads between employees.

Non-salary components are also important. For example, employees should receive a cost-of-living allowance that keeps pace with inflation. A 10% education allowance paid in installments should also be included, along with group medical insurance. These components may satisfy employees but can also be cost efficient for the organization. The author also recommends that the organization participates in an employee provident/pension fund as a percentage of the base salary, where the same percentage is deducted from each employee's salary. The extension of these and other benefits could result in employee satisfaction and also add to an organization's low-risk business portfolio in terms of improved employee retention.

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