Strathmore University

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TERM PAPER

TOPIC:

Incongruent Corporate remuneration: An Ethical and governance perspective in Kenya

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INTRODUCTION

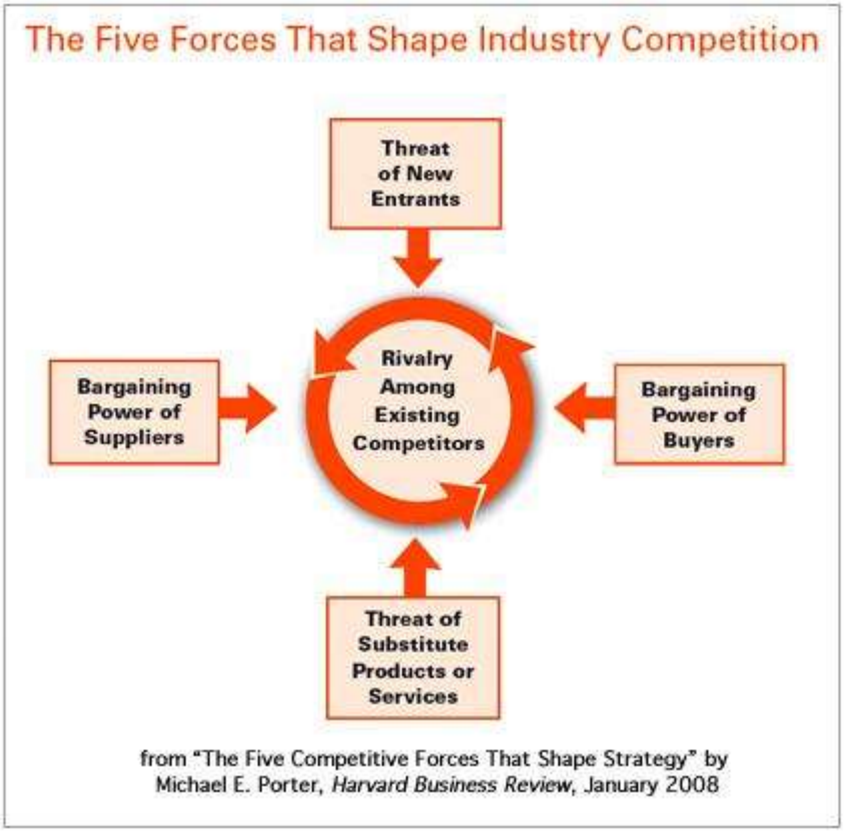
Continuing process of privatization of Kenyan corporations and this in the backdrop of a liberalized market has resulted in cut throat competition in order to expand markets and increase their profits and a fight for survival un-experienced before. Globalization has not helped the situation either, but worsened it. Most corporations, in order to stay afloat, have resulted in hiring expatriates and technocrats to steer the corporations towards their vision. In most cases, the remunerations of these expatriates are many times way above that of those they manage. This problem equally afflicts companies and all levels of private academic institutions in Kenya.

This paper discusses the ethical and governance issues that arise due to these yawning gaps between employees of the same organization, more so between low and high cadres of employees and in some cases within cadre.

The ups and down of an economy has a strong influence on public perceptions of business (Roper and Miller 1985). During prosperous times, the public's opinion of business tends to be favorable. During down times, opinions match the downturn of the economy.

But needless to say, at any one time businesses have to fight to serve the interests of its stakeholders and or to remain afloat. With the advent of globalization and capitalism, and a global economy that is generally liberal, the need for survival by businesses has become greater than ever before.

The private sector for higher education in Kenya has not been left behind either. With the registration of over 20 private universities as at 2010 by the commission of higher education (CHE) implies the competition not only among them but against the public funded universities cannot be gainsaid. The advent of e-learning by universities, both local and international has only served to worsen the situation by increasing competition from international universities. From Porters five forces of competition



Rivalism: Competition among rival firms can drive profits to zero. Hence firms will strive for a competitive advantage over their rivals..

Threat Of Substitutes : In Porter's model, substitute products refer to products in other industries. A threat of substitutes exists when a product's demand is affected by the price change of a substitute product.

Buyer Power**:** The power of buyers is the impact that customers have on a producing industry.

Supplier Power: A producing industry requires raw materials - labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits.

Threat of New Entrants and Entry Barriers: It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are ***barriers to entry***.

These forces help to define a capitalist market very well. This is in the sense where capitalism is defined as 'an economic system combining the private ownership of productive enterprises with competition between them in the pursuit of profit (Kaler, 1993).

The advantage of this formulation is that it picks out the three aspects which are generally accepted as defining features of the system. These are Private ownership, Competition and Profit motive.

Kaler further describes these terms as thus; Private to mean that ownership is not vested in the state; Competition as essentially for customers and Profit as a surplus of income from sales over costs incurred.

One way of beating competition is by hiring highly qualified CEO's and high cadre managers to inject their skills in the business hence giving it a competitive advantage. This however comes with a pinch on the wage bill, which in effect lowers the profits. To curtail this, most organizations then pay the lower cadre employees very low wages to compensate for this.

It's in this backdrop that the paper sets to discuss the ethical and related governance issues of gaping differences in salary payments between employees of PP University , a private university based in Nairobi Kenya.

PP UNIVERSITY

PP university is one of the latest entrants in the private universities' fold having been given a letter of interim authority three years ago by the Commission of Higher Education (CHE). This letter among other things allows the university to start or continue assembling resources, to advertise programmes and to admit students. Full accreditation signified by the award of a Charter may be given after several years if the commission is satisfied that the university is in a position to give high quality education.

Before the upgrade, it was operating as a tertiary/middle level institution offering certificates, diplomas and by extension degrees through twinning arrangements with other universities that accredited it.

No sooner had the dust of celebrations of the award of a letter of interim authority settled than the reality of the behemoth task ahead struck.

The structure of the institution had to change to adopt that provided for by CHE. It had to be led by a Council, managed by a senate, the CEO to be a Vice –Chancellor assisted by deputy vice chancellors. The new status requires the university to hire competent personnel to lead the four faculties it has. By CHE regulations, a dean of a faculty must at least be a doctorate holder, and the faculty at least second degree holders. To hit the road running, PP University poached its top leaders from public universities. This was at a great cost but the assumption was that with their leadership, the student enrollment would swell and hence the profits. Hiring fresh faculty members would have been prohibitively expensive for the infant University due to the cost of hiring them and the cost of laying off the existing teaching fraternity. It thus settled on retaining all its current employees with a promise of salary adjustments to reflect the new status of the institution and sponsored personal development to build capacity. This was embraced by the employees.

However, several years down the line, all the promises made in the dawn of the new status were had not been fulfilled. Worse still, employees had noted that all newly hired staff in middle and senior management positions were highly remunerated despite the fact that most of the old employees had self-sponsored themselves to upgrade their qualifications in order to be aligned with the new university status.

A situation where the senior most management get remuneration close to seven figures while the highest paid ‘senior’ lecturer does not come anywhere close to six figures.

Concerns about the same have been raised with the management especially by teaching members of the faculties but nothing has been done to address them. There has been growing disquiet and dissent within the lower ranks. This has affected their output and productivity is generally low. Moreover, moonlighting and mass resignations for greener pastures have become the order of the day.

Governance & Ethical Issues Arising

The case of PP University brings out issues both in governance and ethics.

From the case, it’s obvious that **trust** between the employees and senior management has been eroded

The most obvious destroyers of trust are failures in any of the six trust-building factors. Lack of fairness, respect, honesty, openness, promise-keeping, or competence can destroy trust links between the management and employees.

When employees do not trust the company to show respect and be fair, several negatives occur. There is a reduction in the sense of belonging and employees feel they must protect their interest.

Loyalty to the company is reduced since fear reduces the willingness of employees to take risks; group effectiveness is reduced and the possibility for meaningful employee empowerment is essentially eliminated.

Farnham (1989) believed that essentially the company-employee trust gap is large and suggested that several negative effects result from the trust gap, including employee cynicism about whether management understands or cares about employees or their opinions. He also concluded that there is really very little common ground between the average worker and top management, a situation that tends to produce a disconnect and cynicism between the two. The result is that top management is isolated and does not hear what it needs to hear "about markets, competitors, problems, and opportunities" (Farnham

1989). Moreover, "If management seems arrogant and does not treat employees fairly, employees start placing themselves ahead of the company, and some may go to extremes 'to balance the books'—even sabotage"

Farnham also provided examples in which applying the tenets of trust, fairness, and a basic respect for the individual has worked to the advantage of companies. His examples included the acknowledgments of Preston Trucking and Southwest Airlines that practicing fairness and respect led to company loyalty, which produced employee behavior above and beyond the norm. Thus, without trust, costs typically go up and efficiency often goes down; but with trust, costs are likely to go down and efficiency usually goes up.

Analysis of the Problems identified

Moral philosophers have debated and explicated many concepts of justice, usually defined in terms of fairness. These concepts can be looked at as of kinds; Distributive justice and Procedural justice. Distributive justice is consequential, or outcome-related, while procedural justice is focused on fair process. This discussion is limited to the ideas of procedural justice because of its particular relevance to building trust, The most relevant form of procedural justice in business is 'imperfect procedural justice" (Rawls 1971).

Imperfect procedural justice occurs when every reasonable attempt is made to design procedures that will produce a fair outcome, but the goal is impossible to achieve. A justice system is an attempt to produce fair outcomes, but quiet often published cases in which the system fails are easy to find. Management practices and the company's policies, procedures, and rules cannot always be expected to produce fair outcomes. The occasional unfair outcome is received more willingly by employees when they are involved in the process. When employees are not involved, they feel that "the system" has made them a victim, and in those cases, trust becomes a victim as well.

The emotional reaction to perceived unfairness can be powerful. A substantial amount of research suggests that most people use fairness and justice to judge whether an action is ethical (Robin, Reidenbach and Babin .1997). In a person-oriented, knowledge-based business, both fair process and fair outcome are important, but of the two, fair process may be somewhat more important to trust-building when employees are involved. Further, the perception, as well as the reality, of fairness must be addressed by leaders at all levels of an organization in order to maintain trust. Trust is particularly fragile in periods of change, so attention to the perception and reality of fair process must be given special attention during these periods.

The five ethical trust-building factors would certainly be considered components of goodwill toward stakeholders. Indeed, these five factors are ethical requirements and are a necessary part of the trust-building process. However, a question remains as to whether the application of these five factors to stakeholder relations is sufficient for a company to be considered ethical. Certainly, a company behaving according to those five factors with all of the groups it interacts with would be considered more ethical than one that does not behave according to the factors.

Conclusion

In conclusion, as much as most businesses in a highly globalized environment follow the capitalistic model and do everything they can to be survive, they must also attempt to satisfy the goals of an ethical society.