

## The Influence of Labor Market Institutions in Designing Employees' Fringe Benefit Packages: A Case of Local and Multinational Banks in Tanzania

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### Abstract

*This paper presents a qualitative case study research of one local bank and two multinational banks regarding the ways they design and implement company fringe benefits in the newly liberalized economy of Tanzania. Specifically, this paper explains the influence of Tanzanian labor market institutions, both formal and informal, in designing the fringe benefit packages offered by the three banks. Labor market institutions were found to have minimal influence while social and economic influences are found as the main determinants of the benefits offered. Implications for practitioners and suggestions for further research are presented.*

**Keywords:** Compensation; fringe benefit packages; multinational companies; Tanzania

### 1 Introduction

Compensation is one of the most complex and significant areas of study within international human resource strategy and multinational companies (MNCs) (Gomez-Mejia & Werner, 2008; Haile, 2002). Compensation of employees in MNCs is assumed to have a highly relevant role in a company's competitiveness and creativity innovation. It also has an impact on employees' work behavior and on social and even political accountability within the local institutions (Gomez-Mejia & Welbourne, 1994). Compensation refers to "the systematic approach to providing monetary value and other benefits to employees in exchange for their work and services" (Gomez-Mejia and Werner, 2008:1). It informs the extent to which MNCs deploy specific human resource policies (HRM) and practices aimed at attracting, retaining and compensating employees in the workplace. One way to understand how compensation policies are practiced by MNCs in a subsidiary business operation is by investigating the nature of the host nations' institutions (i.e., national legal practices, both formal and informal systems) where foreign firms operate (Edwards, Colling, & Ferner, 2007).

Formal and informal institutions are important tools that structure compensation systems within organizations. National legal frameworks are formal institutions that have a significant impact on organizational responses to business operations and managing human resources (HR) (Tregaskis, 1998). Informal institutions consist of both norms and values that make up the bricks upon which companies and nations are built and they make important contributions in defining the day-to-day interactions (North, 1991). As far as compensation systems are concerned, the role of national institutions is to provide guidelines and directions on the way companies design and implement their pay packages (Chong & Calderon, 2008). The proponents of international HRM studies have argued that compensation practices, especially concerning fringe benefits, tend to be construed by the local norms and cultures of the local employees where the company is operating (Rosenzweig & Nohria, 1994). On the other hand, the pay systems of any company must conform to local laws and customs of its employees while also fitting into the global practices of the company (Haile, 2002). In this respect, MNCs' subsidiaries are subjected to a series of dichotomous choices (Bartlett & Ghoshal, 1987).

However, the way MNCs' subsidiaries accommodate these dilemmas depends on the influences exerted upon them from the external pressure coming from the host country influencing them to conform to the local institutions, and the parent companies' push for internal consistency to maintain their business capabilities and competitiveness. Previous studies have pointed out several factors that lead MNCs' subsidiaries to either opt for local isomorphism or internal consistency of HRM practices (c.f. Bae, Chen, & Lawler, 1998; Huang, 2000; Newman & Nollen, 1996; Rosenzweig & Nohria, 1994). They argued that the host country's regulatory framework can serve as a force which can push the MNCs' subsidiaries to become locally responsive. The degree of conformity to host country's regulatory framework however, depends on how "well-defined and strong" the local norms and labor market institutions are in the host countries (Huang, 2000; Ramamurti, 2004; Rosenzweig & Nohria, 1994).

Developing countries like Tanzania for example, are characterized by weak or permissive regulatory frameworks and a very limited capacity of the labor market institutions that would allow monitoring of the behaviors of MNCs' subsidiaries that are operating in these countries (Newenham-Kahindi, 2008). However, little is known about the influence of these institutions in determining and managing employees' fringe benefits in both local and MNCs' subsidiaries operating in Africa and Tanzania in particular. This aspect of HR management is of particular interest during the present period, when countries like Tanzania are undergoing distinct institutional and economic transformations.

The purpose of this paper is to begin address this academic research-practice gap by presenting a case study of one local bank, National Microfinance Bank (NMB) and two multinational banks operating in Tanzania, namely; Kenya Commercial Bank, Tanzania (KCB) and Barclays Bank, Tanzania (BBT) with their headquarters in Kenya and United Kingdom respectively. Specifically, the paper explains the influence of Tanzanian labor market institutions (formal and informal) in designing fringe benefit packages offered by these financial companies from the perspectives of both employers and employees. In this paper, fringe benefit is defined as the non salary or non wage compensations offered by employers to employees in addition to the mandated monthly wages and it includes both legally and non-legally mandated benefits.

## **2. Theoretical Background**

Institutions are defined as the rules, norms and assumptions that shape economic activity and structure the choices of organizational actors (Edwards et al., 2007). Scott explains institutions by referring to "regulative, normative and cultural-cognitive elements that together with associated activities and resources provide stability and meaning to the social behavior" (Scott, 2008). From the theoretical lens of institutional theory, organizations are conditioned by the institutional environment in which they exist, i.e., organizations are affected by common understandings of what is appropriate and fundamentally meaningful behavior (Tolbert & Zucker, 1983). Institutional theory adopts an open system perspective, where organizations are influenced by their environments; and it lends importance to both the legal and socio-cultural factors that are faced by organizations.

Institutional theory focuses on the pressures exerted by the internal and external institutions on the organization's strategic behavior (Kostova and Roth, 2002). External institutions may consist of regulatory and political factors, interest groups, public opinions and norms (Oliver, 1991) in the country of operations. The host country (external) institutions that influence organizations' strategic activities have been classified into normative, cultural-cognitive, and regulative dimensions (Kostova & Roth, 2002). The regulative aspects of institutional environment are clearly formulated, written and can be easily observed and followed by the organizations while designing employees benefit packages, especially in the presence of the strong regulatory environments (Bloom, Milkovich, & Mitra, 2003).

The normative and cultural-cognitive elements of the institutional theory on the other hand, suggest that people of different countries share values, cognitions, and behaviors that distinguish them from other cultures (Laurent, 1986). These differences are also apparent in countries' divergent work values and managerial attitudes, which have significant implications on how companies motivate and reward their employees (Tregaskis, 1998; Laurent, 1986). In this respect compensation packages of MNCs' subsidiaries need to successfully conform to the local norms and values of the host country for the company to be globally competitive (Gomez-Mejia & Welbourne, 1994; Schuler & Rogovsky, 1998). This is consistent with the view that company's conforms to formal rules and unwritten norms especially when designing employees' benefit packages for both efficiency and legitimacy (Kostova & Roth, 2002). The internal institutions on the other hand, comprise of a set of regulations, cognitive structures, and norms (including MNC's global strategy) that make certain practices and structures more acceptable than others in the operation of all MNCs' subsidiaries in the dispersed host countries (Kostova, Roth, & Dacin, 2008).

The MNC's global strategy has the direct impact on compensation policies of its dispersed subsidiaries (Bloom, et al, 2003). It has been suggested that MNCs might adopt one of the three main approaches towards employees' compensation as one of its strategic activities in international markets: ethnocentric, polycentric, and geocentric (Heenan & Perlmutter, 1979; Perlmutter, 1969). The implication is that benefit packages of the MNCs with an ethnocentric mind-set tend to be similar in all its subsidiaries wherever they operate. Accordingly, MNCs with a polycentric mind-set designs their benefit packages with high considerations of host country's institutions, local values and preferences as they believe that people are different in each country, standards for performance, and incentive rewards need to be different. On the other hand, MNCs with geocentric mind-set tend to design their compensation packages with greater considerations of global (universal) best practices. The assertion is that, company's global strategy has important implications in the way MNCs are managing their operations in the international markets.

### 3 Methods

#### 3.1 The context of the study

In this section, the country 'Tanzania' where the study was conducted is presented; and then present the three case studied banks in Table 1. The setting for the study was the service industry in Tanzania with a particular focus in the banking sector. The information contained in Table 1 is from both the archival and interview data obtained during the data collection process.

##### 3.1.1 The country: Tanzania

Tanzania is a developing country located in East Africa, with total land size of 945,087 square kilometers. Its economy is heavily dependent on agriculture, which accounts for half of the gross domestic product (GDP), provides 85 per cent of the country's exports and employs 90 per cent of the workforce. Like most developing nations, Tanzania has a high unemployment rate of about 11.7% (National Bureau of Statistics, 2009). The country struggles for attracting more foreign direct investment (FDI) and MNCs in order to promote businesses, economic growth, employment, and innovation and to provide new opportunities for its citizens. The Tanzania Investment Centre (TIC) was created in 1997 as an institutional body for identifying possible investment opportunities and aiding the potential investor in navigating any procedural barriers that might exist. The labor market system was deregulated, which allowed public and private (i.e., MNCs and local) sectors to set up wage standards that were attractive and fair to local employees (Mans, 1994). To facilitate this opportunity, new laws were enacted, namely, the *Employment and Labor Relations Act* and the *Labor Institutions Act* in 2004, both of which put new emphasis on competition and productivity as the major determinants in regulating the labor market.

In the awake of free market economy in the 2000s, the service industry and the banking sector in particular has become the most competitive industry in managing labor market conditions in Tanzania. The sector has both local and foreign owned companies that bring out and implement the different HRM practices nurtured and employed by various organizations originated from different countries. Accordingly, this sector in the last decade has created more jobs with good packages both wages and fringe benefits in Tanzanian economy than any other sectors (Newenham-Kahindi, 2009). Thus, the chosen three multiple cases studied banks present a unique area to explore on how these financial companies respond to the various factors with particular focus on labor market institutions while designing employees' fringe benefit packages.

#### 3.3. Research design and data collection

Given the dearth of theory in the field of employee benefits with its antecedents, greater use of qualitative research methods would seem to be a highly appropriate research strategy to employ in dealing with fringe benefit studies (Harris & Fink, 1994). Additionally, qualitative research method is a useful tool in answering questions pertaining to the nature of the phenomenon with the main focus on describing and giving meaning to them from the participants point of view (Nkwi, Nyamongo, & Ryan, 2001). Thus, qualitative research method is considered a suitable research strategy in dealing with the nature of this research paper, in an attempt to focus on describing how financial institutions that operate in Tanzania respond to the cultural and institutional pressures while designing and implementing the fringe benefit packages. To capture and compare similarities and/or variations between the cases studied banks with respect to the implementation of fringe benefit packages; the multiple cases seemed to be the appropriate research approach as it provides a useful basis for comparison and create possibilities for learning about the phenomenon during the research process (Ghauri, 2004; Yin, 1994). Purposeful sampling technique was used in determining and selecting the three case studied companies. This process followed the suggestions of Eisenhardt (1989) who suggests that randomization is neither essential, nor even preferable, when exploring a particular phenomenon of interest.

The primary case selection criterion was the competitiveness of the industry with respect to the offered fringe benefit packages (Newenham-Kahindi, 2008). However, important considerations in the selection process were not only on similarities but also differences to allow some variations on the findings. Thus, the additional selection criterion was the type of companies; that is, the first company investigated was the local company, the second company was the regional focused company and the third company was an international (global) company. This design helped to uncover both similarities and differences in the factors the three companies were considering while designing the fringe benefit packages. Data for this study were obtained with a two stage process. First, an exploratory research was undertaken with probing questions such as 'what' and 'how' of fringe benefits from the Human resource (HR) managers of the selected companies. This was the face to face interviews. This first phase intended to understand what fringe benefits were offered to employees and the factors the three companies were considering while designing the fringe benefit packages. This technique allowed me to generate a platform for complementary interviews with the employees that would help to have a natural flow of information.

The second stage of interviews involved 18 randomly selected employees from the three companies of which 6 employees were from each company. This stage had key questions that were prepared from the information obtained from the initial phase of interview and the review of companies' policies and websites. The two stage interview strategy provided the opportunity to employ actual and consistency questions across all the three cases studied companies. Data were collected through semi-structured interviews, observations and secondary information. The use of the multiple methods of data collection is of particular important in the multiple cases study method, as we need to check and validate the information from various sources and examine it from different angles (Ghauri & Gronhaug, 2002). Semi-structured interviews were used to collect data from HR managers at country head offices as key informants as well as local employees (i.e. branch managers, accountants, cashiers, bank tellers, and receptionists) working in each of these banks. The research was carried out from January 2010 to March 2010. For a period of time after the fieldwork, contact was maintained with the interviewees in order to obtain further information and clarification as appropriate until August 2010.

#### **4 Data analysis and findings**

The data were analyzed using inductive techniques in which the transcribed responses were coded according to the theory, interview number, and type of questions which facilitated the depiction of common themes and insights (Eisenhardt, 1989, Ghauri, 2004; Yin, 1994) pertaining employees' fringe benefits. The coding was guided specifically by the institutional theory, but also new categories were emerged based on the data. For instance 'market' was one of the new categories that emerged as one of the factors the three companies were using in addition to the institutional factors while designing the employee's benefit packages. I followed the narrative approach (Ghauri, 2004) while writing the within case analysis. An in depth story was constructed from the raw data through the guidance of the theory, at the same time leaving rooms in the story for new and interesting insights to emerge. In the cross-case analysis, the visual mapping process was followed in order to identify some commonalities and differences between cases as dictated by the institutional theory. Specific similarities and differences between events, as revealed in companies' compensation policies and those identified from interviews, were grouped together to create categories and subcategories.

#### **4.1 Navigating through the Tanzanian institutional fringe benefit system**

##### **4.1.1 Influence of Tanzania labor market institutions**

With respect to the influence of Tanzanian institutions in designing the employees' fringe benefit packages, the findings revealed that in this era of competing for FDI and other investors Tanzania has generally left the management of fringe benefits in the hands of employers. This approach was seen as the best way to attract foreign MNCs to the country and promote employment and prosperities to its citizens. The following statement on the TIC's website, "*Employers may provide fringe benefits to their employees e.g. Rent allowance, transport allowance etc.,*" shows that in the Tanzanian labor market, provision of most fringe benefits is to be decided by employers. Table 2 supports this fact by showing the fringe benefits offered by the three banks in addition to those stipulated by Tanzanian labor market institution.

Table 2 indicates that the subject companies responded to the local institutions by offering all fringe benefits as stipulated by the host country formal institutions. However, the value (cost) of some of the fringe benefits were lower compared to the one stipulated by local institutions.

*"For a long time we tended to receive minimal amount of annual leave allowance compared to one stipulated by both Employment and Labor Relations Act and the Labor Institutions Act of 2004. But I think it is because of the planned strike by TUCTA, we received directives informing us that from this year we will be receiving one month salary as the annual leave allowance"*

(NMB, employee)

This excerpt is connected to the event which happened during the data collection period. While collecting data, there was a strike announced by the Trade Union Congress of Tanzania (TUCTA) to take place in May, 2010. According to TUCTA, among the objectives of the strike were to demand improvement of terminal and fringe benefits (Kimati, 2010). The planned strike and the receive of the directive by NMB employees indicating the change of the annual leave allowance were attributed by most NMB employees to the laxity of Tanzanian labor market institutions in enforcing various laws since the 'one month salary' was already stipulated by the Law for many years but not offered to employees. Reciprocating to the openness of Tanzanian formal institutions the case studied companies also offered additional benefits as a way of attracting competent employees. The local employees of the three banks had similar perceptions of the influence of Tanzanian labor market institutions in enforcing the designing and implementation of fringe benefit packages.

*I don't see any role of the Tanzanian laws and Acts in designing the fringe benefits in most of the companies operating in Tanzania. If there could be any influence of these institutions, then there could be a uniformity regarding the benefits that local employees receive. When I compare the fringe benefits I receive with those of my husband, then one can say, why does he work with such company? There's a huge difference in the benefits we receive in Tanzania, and the explanation for this is simple: There are no guidelines and enforcements on this issue.* (BBT, employee)

*...there is minimal influence of Tanzanian labor laws on how to compensate employees, particularly on fringe benefits...* (KCB, employee)

*...I can see a lot of variation in terms of benefit packages from one company to the other. In this sense, if there could be some influences the apparent seen variations of fringe benefit packages from one company to the other could not be there.* (NMB, employee)

These excerpts show that there are little influences of Tanzanian formal institutions on how to design employees' fringe benefit packages which further results into inconsistent benefit packages from one company to the other. These findings necessitated me to search for other factors that were considered by the case studied banks while designing their fb packages. These factors from the words of HR managers are presented in the next section.

#### 4.1.2 Market

The findings from the interviews with the HR managers of the three banks revealed that market was one of the major factors the case studied banks considered when designing employees' benefit packages.

*Since there are few benefits that are stipulated in Tanzanian labor relations laws, market serves as the major determinant of what we give to our employees as fringes. Since competitions for talent employees are high in the banking sector, we have to conduct yearly research on what our competitors offer. If your company lags behind the benefit offerings of its competitors, then the best brains will leave the company.* (KCB, HR manager)

*Market is one of the major factors we consider as there are more openness in Tanzanian Laws on how to design employees' fb packages.* (BBT, HR manager)

*NMB takes into considerations of what our competitors offer as the fringe benefits. However, the bank puts much focus on the ability to offer such fringes to its employees...* (NMB, HR manager)

These excerpts show that, the 3 companies were taking advantages of the permissiveness of Tanzanian labor market institutions in differentiating themselves in the market by designing benefit packages that were unique compared to what their competitors offered towards attracting and retaining good brains. For instance, the foreign owned banks offered funeral and housing allowance as one way of creating legitimacy and acceptance in the local Tanzanian community at the same time managed to create a niche area in the competitive environment of the banking sector in Tanzania.

#### 4.1.3 Parent company's practices

In addition to the market forces and host country institutions, the responses of the HR managers of the two foreign banks depicted the influence of MNCs' global strategy in designing employees' fb packages. The HR managers pointed out that, when designing the compensation packages of their employees they had to take into considerations the directives from parent companies on what to offer to their local employees.

*The directives from the parent company serve as the basis of what to offer. However we have some autonomy in deciding which fringe benefits we have to offer...* (BBT, HR manager)

*It is the policy of KCB group to offer similar basic fringe benefit packages to all its subsidiaries, so what is offered in Nairobi; we have to offer it in Dar es Salaam. However, we have additional advantages of offering other benefits that are dictated by local norms and those that are stipulated by the host country institutions.* (KCB, HR manager)

These findings show that the two foreign owned banks were driven by both local institutions and parent companies practices while designing the employee benefit packages towards creating efficiency and legitimacy in Tanzanian labor market. However, there were some differences between the two foreign banks on the firmness of replicating the parent company's practices. For instance for the KCB, it was the policy of the parent company to offer all fringe benefits that were offered at the parent company in all its subsidiaries. Whilst in Barclays bank the focus was to offer all the benefits that were dictated by the local institutions and those that are universally accepted in the host country. These variations may be explained by the differences in the level of outreach, meaning that KCB operations are currently based in the Eastern Africa region, where one might find little differences in terms of institutions and cultures. Thus, being regional based company, KCB have the advantage and opportunity of offering same fringe benefits to its employees compared to Barclays Bank which is a global company operating in various countries of the World with much variations in their local norms and customs.

#### 4.2 Comparing Fringe Benefits

The factors which were taken into considerations by the three banks while designing their compensation packages as presented in the previous section signify both similarities and differences in the fringe benefit packages offered. Accordingly, the interviews data revealed some variations and similarities in the fringe benefit packages offered by the three banks as shown in Table 3. The variations of the fringe benefit packages between case studied companies had raised concerns among local employees of the three banks. As can be noted in Table 3, most of the fringe benefits offered by the two foreign owned banks were not offered by NMB and all interviewees from NMB raised concern on this issue.

*...the number of benefits offered here are very few and of little value compared to what other employees of similar educational backgrounds and professional experiences receive in other foreign banks.*

(NMB, employee)

*We receive fewer benefits compared to other banks especially foreign owned banks which results into disincentive among us.* (NMB, employee)

These excerpts show that the local bank offered fewer benefits compared to the foreign owned banks. Accordingly, these findings indicate that companies offer fringe benefits as a way to attract and retain good brains and these talents tend to work on those companies which provide attractive benefit packages especially in the free market economy where employees are free to change employers at a low cost. Apart from the differences in the fringe benefit packages between the case studied banks, the findings also revealed differences in the fringe benefit packages offered to employees working in the similar bank. These variations within the single company also raised some concerns among employees.

*Employees are not happy enough with those policies that discriminate between expatriates and local employees on some basic benefit packages. Of course we know we can not receive similar benefits but for the basic benefits like housing allowance it is the expectations of most employees to see that we are treated equally.*

(KCB, employee)

Apart from the distresses shown by the local employees as a result of the differences in the fringe benefit packages within and between companies; there were some similarities on the concerns of the manageability and practicality of the three deployed benefits among employees of the three banks. These benefits were medical insurance, funeral allowance and housing allowance, as presented here below.

##### 4.2.1 Housing allowance

Findings from the interviews showed that housing allowance was one of the benefits that drew attention of most employees from the three banks. The local employees of KCB and NMB showed a distinct preference towards receiving housing allowance as dictated by the local environments. As shown in Table 3, all employees of BBT received the housing allowance that was 15% of their respective basic salaries; however, for KCB, only expatriates received the housing allowance and there was no such a benefit in NMB.

*Housing allowance is an important component in everyday life in Tanzania, and this is one of the incentives that made me apply for a position at this bank. Fifteen per cent of someone's salary is large enough to assist in many aspects of our daily life.*

(BBT, employee)

*As you can see NMB does not offer housing allowance which according to me is the most significant benefit in Tanzanian environment especially for those who live in Dar es Salaam. Rent is very high in Dar es Salaam, thus if they could provide us with this allowance, I'm sure most of employee would appreciate it.*

(NMB, employee)

*Housing allowance is one of the significant benefits taking into considerations of the Tanzanian environment. Housing rents are so high especially for those working in major cities in Tanzania; in this respect I would think that if the company is to remain competitive in the market needs to consider difficult situations facing her employees.*

(KCB, employee)

These excerpts show that employee benefits tend to be construed by values and preferences that are featured by local environments and it also has an impact on employees' work behavior and on social accountability within the local institutions. In these regards, by taking advantage of the permissiveness of Tanzanian labor market institutions; BBT has managed to build and enhance positive image among its local employees by offering housing allowance which is one of the benefit that was valued more and viewed as socially desirable by her employees.

#### 4.2.2 Medical Insurance

Medical insurance was found to be one of the benefits that raised the frustrations level among employees. When exercising their medical insurance benefits, employees of the three banks had to go to the specific hospitals with which their companies had a contract. To further complicate the practicality of such benefit policies, there were also some logistical concerns for most employees. These concerns stemmed largely from the fact that the specific hospitals they were to attend in order to receive treatments were not conveniently located.

*These specific hospitals pose some challenges and hindrances to us ... When I get sick; I fail to receive treatment because, in most parts of Tanzania, these hospitals are not available.*

(BBT, employee)

The number of beneficiaries of employee's medical insurance was also emerged as one of the attributes of this benefit that raised some grievances from most employees.

*The number of beneficiaries in the medical insurance is limited to only 6 members of the family, which includes employee' spouse and 4 children who are under 18 years of age. I'm sure you are aware that, as Tanzanians we have a lot of relatives who depend on us. It would be more beneficial if the eligible beneficiaries could include at least the employee' parents.*

(KCB, employee)

Differences in terms of practices between these banks emerged within the practice of managing medical insurance for beneficiaries, and regarding what that insurance actually covered. For example, "BBT and NMB insurances offered coverage for treatment of all diseases; however it would not cover treatment that took place in a foreign country. KCB on the other hand, provided medical insurance that allowed treatment in any hospital in the world, although the preference was given to hospitals in Africa in general and Nairobi in particular".

#### 4.2.3 Funeral allowance

Another benefit that seemed to be of value to most employees was funeral allowance as dictated by employees' local norms. Funeral allowances in the Tanzanian context include a coffin and transport of the deceased person and his/her nuclear family to the place of burial and it is one of the significant benefits in the Tanzanian culture.

*In actual fact I wonder why NMB does not provide this important benefit in our society. You can not settle and dedicate all your life to this type of employer. It's really non-sense to even just imagine that your employer is not responsible for the funeral expenses, because I'm sure they know that this is the most important benefit in Tanzanian culture.*

(NMB, employee)

On the other hand the findings revealed that the fringe benefit packages of MNCs' subsidiary banks reflected employees' local norms and values.

*...take for example the funeral allowance offered by this company; this is a typical consideration of our local norms and values. As you are aware that in most tribes in Tanzania it is very important for someone to be buried at her/his place of birth. Wow I am so proud to be the employee of this company*

(KCB, employee).

*Funeral allowance is an important benefit in our society, it gives a lot of status to the family, just imagine receiving the body of either your daughter or son in the village for burial services and you don't have to think of the expenses! Yeah it has a lot of values to us!*

(BBT, employee)

These excerpts show that funeral allowance is one of the value that are dictated by the local norms and values of Tanzanian society. However, NMB as the local bank did not offer this important benefit to its employees where as a result created distresses and disincentives among local employees. These findings revealed that employees' preferences of the three benefits as dictated by cultural realities, exemplified the need for strategic choices when companies are designing and implementing fringe benefit packages in the host country of Tanzania.

## **5 Discussions**

This study has presented the influence of Tanzanian labor market institutions in designing employees' fringe benefit packages in the selected case studied companies. I have also presented various similarities and differences that were implemented by the three banks in managing the fringe benefit packages for their local employees. Generally, findings revealed that these banks were minimally driven by the host nation's institutional and local culture to implement specific competitive fringe benefit packages aimed at attracting, retaining and developing local employees. Furthermore, the three banks were driven by both internal and external pressure to maintain consistency and HRM "best practices." From the local employees, I found that some compensation practices reflected the norms and values of local employees, while other practices created social divisions among employees. Specifically, the findings revealed little influence of the Tanzanian labor market institutions on how these companies designed employees' fringe benefit packages (Tsikata et al., 1999, Lindauer, et al, 1988); which further resulted into inconsistent benefit packages from one company to the other. The little influences of these institutions were the result of its openness on how companies are to behave in the market (Newenham-Kahindi, 2008).

These findings support the notion that when it comes to managing human resources, companies that operates in poorly defined institutions, are less likely to conform to local norms and institutions of the host country (Rosenzweig & Nohria, 1993). The situation that characterizes employees' benefit packages in the Tanzanian labor market brings us back to the institutional theory and to the impact that institutions have when it comes to employees' compensations especially with respect to fringe benefits (Gamble, 2003; Laurent, 1986; Scott, 2008; Tolbert & Zucker, 1983). Responding to the permissiveness of Tanzanian labor market institutions, the findings also showed that the fringe benefit packages offered by the two foreign banks were designed to accommodate both the need of the parent company and industry competitiveness (i.e., the market). These findings support the argument that MNCs' subsidiaries especially those operating in the less regulated economies and developing countries in particular, have the opportunity and tend to transplant their best practices of their country of origin as they seek to maintain managerial consistency (Huang, 2000; Jackson, 2002, Newenham-Kahindi, 2008). The findings also revealed apparent differences in the fringe benefit packages offered by the case studied companies.

These differences resulted into grievances among employees either working within or between companies. While all subject companies maintained internal consistency, these findings contradict what the three banks had initially claimed to offer, especially in terms of developing incentive and competitive fringe benefits (Jackson, 2002) that aimed to attract, retain and develop potential HR in the their workplaces. The findings also reported concerns from employees on the practicality of managing medical insurance benefit. These findings support the views that employee' compensation practices especially those pertaining to fringe benefits need to conform to local environments where the company is operating as pointed out by Bloom et al, (2003); Schuler and Rogovsky, (1998); and Scott, (2008). Foreign owned banks seemed to adopt the practices of specific hospitals which might be feasible and typical practice of companies operating in the developed economies. However, adopting these practices without modifications is not practical taking into considerations the Tanzanian socio-economic development where most hospitals are situated in big cities.

This suggests that, host country socio-economic features is an important factor to be added in the institutional theory so as to have wide coverage in explaining companies design and implementation of employees' fringe benefit packages if the aims of providing this costly part of employees' compensations are to be consistently attained. Furthermore, the findings revealed that foreign owned companies implemented some of the fringe benefits that were dictated by the local employees' cultural preferences; whilst the local bank did not offer some of the considered significant benefits as dictated by the Tanzanian culture and norms, for instance funeral allowances. By conventional wisdom being the local company, the bank was expected to offer those fringe benefits that were dictated by the local norms and culture. This finding contradicts to what is proposed by the institutional theory and necessitates us to search for further explanations. One of the explanations to this may be attributed to the low competitiveness of the banking sector prior to the liberalization of Tanzanian economy. Before market liberalization in the late 1990s, NMB was one of the only two banks that enjoyed monopoly in the banking sector in Tanzania.

These findings have two implications for managers. The first is based on the permissiveness of Tanzanian labor market institutions. This important feature of these institutions presents opportunities for the companies that are operating in the market that are characterized with international competitions where companies are in need of the optimal distinctiveness towards attracting talent employees. In this sense, companies need to take this as an opportunity while designing and implementing more competitive and attractive fringe benefit packages that will assure them to maintain a diversity of good brains in Tanzanian labor market. The second implication for manager is about considerations of the features that characterize the local environment where their companies are operating. As noted earlier fringe benefit packages tend to be constrained by the norms, values and preferences of the local employees. One of the features that make and explain these norms, values and preferences is the country's socio-economic development. Therefore, if companies are to win the long commitment of their local employees through offering attractive fringe benefit packages, they should not only take into considerations the pressures exerted to them from formal institutions of the parent company and host countries but also the socio-economic contexts that features the environment where their employees live.

Theoretically, this paper adds value to the important area of employee fringe benefit packages by looking on the influences of Tanzanian labor market institutions (both formal and informal). The paper came out with the two additional factors that the case studied companies were considering while designing employees fringe benefit packages i.e., parent company's influences and industry competitiveness (market). However these factors serves as the starting point of searching for other factors that may help explain the design and implementation of the fringe benefit packages in various countries of operations. Differences in the socio-economic development of the host and parent country might be one of these factors. However, more research is needed to come up with a sound empirical conclusion on this factor and some other factors that may help understand the whole process of designing and implementing employee's fringe benefit packages.

## 6. Conclusion

To conclude, Tanzania has made several investment policies to accommodate foreign-owned MNCs and other forms of foreign direct investment (FDI). While Tanzania needs the input of such actors in order to create employment and prosperity for its own people, there exists a significant gap in the ability of the local institutions to actually influence these important actors in its labor market to establish win-win relationships with local employees. As the country continues to create a local business environment in conjunction with various MNCs' global business interests, there is a need to strike a balance between the core needs of these actors (i.e., creating consistency and business profitability) and those of the local employees (i.e., compensation that makes sense within the local context) in order to generate long-term sustainable development policies and practices.

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**Table 1** Company Profiles

<b>Name of the company</b>	<b>Ownership structure</b>	<b>Type of company</b>	<b>Year of entry into TZ market</b>	<b>Number of employees</b>	<b>Head office</b>
National Microfinance Bank (NMB)	Tanzanian Government (51%) & Rabobank* (49%)	Local company	1993	More than 2000	Tanzania
Barclays Bank (BBT)	Barclays Plc (100%)	Foreign & global company	2000	More than 750	United Kingdom
Kenya Commercial Bank (KCB)	Government of Kenya (26.2%) & people's of Kenya (73.8)	Foreign but regional focused company	1997	More than 200	Kenya

\*Rabobank is a large Dutch co-operative bank with a strong background in retail and agricultural banking. Rabobank Group provides management services, training and technical assistance to NMB and a number of Rabobank employees are part of the management team of the NMB.

**Table 2** Additional fringe benefits offered by the three banks

	<i>Fringe Benefits stipulated by the host country institutions</i>	<i>Additional fringe benefits offered by the three banks</i>
1	Nursing mothers are released earlier	Medical insurance
2	Leave allowance	Funeral allowance
3	Maternity leave	Housing allowance
4	Parental leave	Transport allowance
5	Annual leave	Air time
6	Paternity leave	News papers
7		Life insurance
8		Housing loans*
9		Education loans*
10		Car loans*
11		Secured loans*
12		Flexi time

Note: \* These are considered fringe benefits because they are provided at a lower interest rate compared to non-staff. For non-staff, a loan is given at 21% interest rate, while KCB and Barclays' staff receive these loans at 10% interest rate p.a. while NMB housing and secured loans are given at 0% interest rate. (From the HR managers of the three banks)

**Table 3** Similarities & differences of the fringe benefit packages between the three banks

	<b>Kenya Commercial Bank (KCB)</b>	<b>Barclays Bank (BB)</b>	<b>National Microfinance Bank (NMB)</b>
1	Medical insurance*	Medical insurance*	Medical insurance*
2	Air time for employees at some level of management	Air time for employees at some level of management	No such a benefit
3	Housing allowance for expatriates only	15% of each employee's basic salary as a housing allowance	No such a benefit
4	Car allowance for expatriates only	Fuel allowance for executives	No such a benefit
5	Funeral allowance	Funeral allowance	No such a benefit
6	Mortuary fees	Mortuary fees	No such a benefit
7	Newspapers	Newspapers	News papers
8	Life insurance for all employees, which is the respective employee's annual basic salary times two	Life insurance for all employees, which is the respective employee' annual basic salary times three	No such a benefit at NMB
9	No such a benefit	Car is hired for executives	No such a benefit
10	Housing loans	Housing loans	Housing loans
11	Car loans	Car loans	No such a benefit
12	Education loans	Education loans	No such a benefit
13	Secured loans	Secured loans	Secured loans

\* Medical insurance for all employees, spouse and 4 children under 18 years of age