



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**ASSESSMENT OF THE COMPENSATION MANAGEMENT
PRACTICES: THE CASE OF ETHIO TELECOM**

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List of Abbreviations

Abbreviation	Terminology
HRM.....	Human Resources Management
CBD.....	Compensation and Benefit Division Resources
IBTE.....	Imperial Board of Telecommunications of Ethiopia
ETS.....	Ethiopian Telecommunication Services
ETC.....	Ethiopian Telecommunication Services
ETS.....	Ethiopian Telecommunications Corporation
MCIT.....	Ministry of Communications & Information Technology

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Abstract

During the last decade, the human resource management (HRM) field has shifted from focusing on cultural compensation practices to modern compensation management system to encourage the competitiveness of the organization in this challenging world. This study aims to explore the current compensation management practices within Ethio Telecom. It is an exploration of all the issues concerning compensation practices in terms of how the compensation practices are conducted and exploring employees' attitudes towards the existing practices. In this regard, current compensation system of telecom are assessed from varied compensation management dimensions such as the alignment, transparency, equity, fairness, competitiveness, flexibility, and some other aspects of the existing compensation practices which are valued based on employees' opinion. The research adopted a qualitative approach. This approach allowed in-depth examination of practices. The study targeted a population of managerial and non-managerial staff. The head office was purposively sampled because strategies and policies are made at headquarter and then cascaded to the zonal and regional branches. To ensure representation of total population sample employees were selected using random sampling methods. Data was collected using questionnaires and interviews. Statistical data analysis involved first collecting and coding the questionnaire and interview checklist responses. The result of the research work revealed that many aspects of the compensation management practices of the telecom are exercised poorly. Due to this, so many of the respondents testify that, the existing practices of the telecom fail to satisfy the needs of the employees. This makes them less motivated and dissatisfied in the telecom to work for long services time. Finally recommendations were drawn based on the findings of the study.

Keywords: *Compensation; Employee Benefit*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations are established with the aim of effectively utilizing various available human and non-human resources to achieve certain objective. Among these, human resource, which is commonly seen as the most valuable asset an organization could use to earn competitive advantage and achieve its objective. According to Armstrong (2006), human resource management is defined as a strategic and coherent approach to the management of an organization's most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives. The overall purpose of human resource management is to ensure that the organization is able to achieve success through people. As Ulrich and Lake (1990), Human Resources Management systems can be the source of organizational capabilities that allow firms to learn and capitalize on new opportunities.

According to WorldatWork (2004), employee compensation and rewards play a critical role in the ability for large and complex global organizations to attract, motivate and retain the talent they need to be successful. When planned strategically and done well, rewards can be used to differentiate a company from its competitors, drive cultural and operational consistency or emphasize key cultural and operational differences within a company and/or from country-to-country.

Many organizations found in different parts of the world use varied types of compensations to enhance the motivation of the skilled employees they acquire. One of the means that organizations can use to enhance employee motivation and performance is to provide performance-related compensation. Under such type of compensation scheme there is a strong relationship between employees' performance and the amount of remuneration they receive. Profit-related payment, employee share- ownership plans, profit-sharing schemes, and group performance-related schemes are compensation schemes categorized under performance related pay. In addition to this promotion, recognition, and benefits are also part of compensation scheme (Huselid, 1995).

The need for organizations to develop a performance enhancing compensation system capable of facilitating the best management and development of their employees, and increasing their competitiveness, has made the links between HRM and organizational performance an important agenda item in the field of HRM. Across the core areas of HR practices, the association between rewards and performance is one of the most studied subjects in the management literature. It is commonly believed that if rewards are used effectively, they can motivate individuals to perform and thus can have a positive effect on organizational performance (Thorpe and Homan, 2000).

Organizations are supposed to develop and reinforce a compensation practice so as to attain their organizational overall performance. At present, so many organizations in private and public sector adopt varied types of compensation practices (Zakaria et al, 2011). In order to enhance the overall organizational performance motivating the existing employees have a great impact. In general, employees' performance can be uplifted by having a well-developed performance appraisal, reward and bonus system. This will enable the employer to divert employees' attitude and effort towards the desired direction.

As one giant organization in the country, Ethio Telecom, which formerly known to be Ethiopia Telecommunication Corporation has made a restructuring program with a major objective of being a world class telecom operator. Telecom sector plays a great or leading role in building countries national economy since telecom serves as the major source of income in Ethiopia and is the strength of Ethiopian economy. However, the success of the industry rests so much on its human resources capability, which is the most valuable asset of any organization. The challenging tasks of every manager at all level are how to build an appropriate compensation system to incorporate both organizational goals and individual needs, thus, have a motivated workforce and improve productivity.

1.2 Statement of the Problem

Human resource management (HRM) has never been as significant as it is today. Companies want to attract, retain and motivate brains to meet objectives. Humans are regarded as one of every company's assets so they need to be efficiently and effectively managed. One of the tools companies use to attract, retain and motivate its people is compensation management. An organization's compensation practice is an essential tool to enhance the overall organizational performance and motivates individual employees towards the organizational goals. The organization with effective compensation and benefits drives its personnel costs and manages the performance of employees. In addition, the ability of an organization to achieve its stated objectives to a large extent depends on the effective implementation of compensational management practices. It helps to encourages good management-employee relationship, increase commitment, minimize tension, resolves conflict and mechanism for good relationship. As Brian (2005) noted, failure to ensure equity or fairness will result compensatory damage on the organizational performance. It has vital role on over all development of the organization if we manage it properly, so we need to give a proper attention from its formulation and implementation.

The telecom industry exists in an intensely dynamic environment. In such environment, capability to retain efficient and experienced workforce in an organization is very crucial for the overall performance of the organization. The highly motivated employees serve as the best advantage for companies because their performance leads an organization to well accomplishment of its goals. Hence, the compensation strategy is the extremely important piece of the overall HR Strategy to keep the company competitive and successful. However, the current competitive conditions in the business world make it difficult to acquire, motivate and retain the top talents.

Ethio Telecom is a telecommunication service providing organization having a mission of connecting every Ethiopian through information communication technology with providing telecommunication services and products that enhance the development of our nation and build reputable brand known for its customers' consideration. It aims to be a world class telecom operator; to achieve this Ethio Telecom adopted guiding and procedural manuals on how to handle the compensation management practices throughout the telecom. However,

the existence of the compensation system by itself does not guarantee the effectiveness of their compensation practices rather it highly demotivates employees if it is practiced poorly.

According to a document assessment of annual telecommunication report, newsletters, and achievement letters there was high employee commitment, belongingness and loyalty for the companies in the previous time (Ethiopian Telecommunication Corporation, 1999/10). However, this culture is eroded from time to time due to absence of well-established compensation and benefit policy, ineffective performance management, lack of accountability, bad strategic linkage between the compensation system and performance, poor communication and promotion system. On the other hand, there are a number of grievances presented by the employees while conducting the preliminary assessment made by the researcher. For instance, some of the staffs are said telecom have been poor benefit package practices, pay increment are offered arbitrarily without considering the job and employee performance, the criteria used for promotion is not clear and well communicated to employees. In general, in relation to the compensation practices, many employees complain that the compensation program of the company is not satisfying their needs rather it is being a reason for employees de-motivation and dissatisfaction.

Therefore, this study aims to assess the existing compensation management practice of Ethio Telecom and the perception of employees toward the practices. In doing this, the existing compensation management practices are assessed from varied dimension such as alignment with individual, team and organizational performance, compliance to the law of the country, competitiveness in the labor market, contextual fitness with business and HR strategies, equity, and fairness aspects, transparency to employees, and flexibility to change occur in the external or internal environment.

1.3 Research Questions

The research questions are designed with the specific purpose of investigating the existing compensation management practices in Ethio Telecom. In this regard, the following questions are considered in order to address the purpose of the study.

1. What are the existing compensation practice adopted by the telecom in relation to pay, promotion, and benefit administration?

2. To what extent is the existing compensation practices aligned with the organization's HR and business strategies?
3. What are the perceptions of employees toward the pay and benefit practices of the Ethio Telecom?
4. What is the perception of employees about the transparency and fairness of compensation among employees?
5. How well are the compensation practices communicated to employees and the equity of distribution among employees?
6. Are the existing compensation practices flexible with major changes occurring within and outside of the company?

1.4 Objective of the Study

The general objective of this study is to assess the existing compensation management practices adopted by Ethio Telecom mainly those related to pay, promotion and benefit provision. Specifically, the objectives of the study include the following:

- Assess the alignment of the compensation management practices with that of the HR and business strategy of the Telecom.
- Assess employee's perception toward the existing pay and benefit practices of the Telecom.
- Determine the transparency and fair distribution of compensation with in the Telecom employees.
- Find out how well the existing compensation practices are communicate to employees.
- Assess the flexibility of existing compensation practices when major changes happen within and outside of the company.
- Make necessary suggestion and recommendation based on the findings of the research work.

1.5 Significance of the Study

This study is expected to be important in supporting the compensation practices to the Ethio Telecom, especially to the HR Division, Compensation and Benefit Administration Department. It is hoped that the findings of this study provide compensation section officials of the company with a clear understanding and awareness of the problems in compensation practices of the telecom and also help to understand employees' perception toward existing compensation practice of the telecom. This can also give a clue for future amendment of the existing practices. Hence, relevant and appropriate policies, procedures and framework can be developed and implemented for an effective compensation system within the company.

Besides, the study will also be helpful to researchers since it may serve as a stepping-stone for them when they want to address issues related to compensation.

1.6 Delimitation of the Study

This study examines the existing compensation management practices of Ethio Telecom and also assesses employee's perception toward the practices. The assessment mainly focused on compensation practices of pay, promotion and benefit administration. Ethio Telecom is a nationwide telecom service provider, hence it is difficult to assess the attitude of the whole employees due to time and budget constraints. So the study is confined on employees working in the Head Quarter-Head Office. The Head Office employees are selected mainly based on their strategic importance to the telecom day to day operation, having large number of population as compared as zonal and regional offices, and also constitutes all division staff working in zone and regional offices in terms behavior of work.

1.7 Operational Definition of Terms

Compensation: The term compensation is used to indicate the employee's gross earnings in the form of financial and non-financial rewards. Compensation means the reward that is received by an employee for the work performed in an organization. The term 'compensation' is often used as an alternative to 'reward' or 'remuneration', especially in the USA, although it is becoming more common in the UK (Armstrong, 2002).

Financial compensation: Financial compensation includes salary, bonus, and all the benefits and incentives (Mathis and Jackson, 2010).

Non-financial compensation: Non-financial compensation includes awards, praise, recognition and appreciation, which can motivate the employees towards highest productivity (Mathis and Jackson, 2010).

Benefit: A Program an employer uses to supplement the cash compensation employees receive. These health, savings and retirement programs provide security for employees and their families (Armstrong, 2002).

Motivation: A force or influence that causes someone to do something or accomplish his/her duty (Kressler, 2003).

1.8 Organization of the Study

This study is divided into five chapters. The first chapter introduces the topic and the background of study, statement of the problem, the research questions, objective and significances of the study, and delimitation and limitation of the study. Chapter two discussed and reviewed the available literature on the compensation that supports the research findings. Chapter three deals with research design and methodology used to conduct the study. Chapter four was present and analyzed the results of the interview, questionnaire and secondary documents emphasizing on compensation and benefit practices of the company. Finally, the last chapter reveals the findings, conclusion, limitation and recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 General Overview

Compensation Management is a key function in HRM systems in modern enterprises, playing an important role in attracting, retaining and motivating employees. In the global world of today, for any organization to have competitive edge, there must be in place a formidable compensation strategy to attract, motivate people to join the firm. This should also reduce the turnover intent from the employees. The need for organizations to develop a program that will facilitate a performance-enhancing system leading to the best management and development of employees and thus increase their competitive advantage has made the links between human resource management and organizational performance a prominent issue in the field of human resource management across the core functional areas of human resource practices. These practices range from staffing, performance appraisals, training and development, manpower planning, workers management participation and compensation management. Notably, the relationship between compensation management and employee performance has been visible in the management literature. It is generally believed that if there is proper management of compensation, individuals can be motivated to perform and thus have a resultant positive effect on the organizational performance (Tsai, et.al. 2005).

As defined the word compensation, compensation is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non-monetary benefits to employees. Compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness (Patnaik et.al. 2012).

Employee compensation plays such a key role because it is at the heart of the employment relationship, being of critical importance to both employees and employers. Employees typically depend on wages, salaries, and so forth to provide a large share of their income and on benefits to provide income and health security. For employers, compensation decisions influence their cost of doing business as well. In addition, compensation management

practices organizations are influence the employers ability to compete for employees in the labor market (attract and retain), as well as their attitudes, and behaviors while with the employer

Even though, employee compensation practices differ across employment units (e.g, organizations, business units, and facilities) on several dimensions (Gerhart & Milkovich, 1990, 1992; Gerhart, et.al. 1992). The focus of the employee compensation literature has been on defining these dimensions, understanding why organizations differ on them (determinants), and assessing whether such differences have consequences for employee attitudes and behaviors, and for organizational effectiveness.

In the following sections, varied reviewed literatures related to compensation management are presented.

2.2 The Meaning and Concept of Compensation

One of the most integral and utmost part of the management of any organization is the Compensation Management. It is a systematic and periodic approach through which employees are being rewarded for their efforts which they inset at their workplaces.

Various definitions have been given on compensation. Literally, compensation is a form of reward given as a result of a job that has been done or effort put in to achieve a set goal and as such this serves as a motivational factor that encourages an individual to put more energy or commitment into his or her job (Armache, 2012).

Hills et. al. (1994) on the hand defines compensation as “the total sum of wage or salary, employee benefits, non-recurring financial rewards and non-pecuniary rewards”. Moreover Milkovich et. al. (2011) defines compensation as “all forms of financial returns on tangible services and benefits employees receive as part of an employment relationship”.

Martocchio (2004 pp.89) also argues that compensation represents both the intrinsic and extrinsic rewards employees receive for performing their jobs. Intrinsic compensation reflects employees psychological mind sets that result from performing their jobs whilst extrinsic compensation includes both monetary and non-monetary rewards.

Armstrong (2002) stated that compensation management is an integral part of human resources management approach to productivity improvement in the organization. It deals with the design, implementation and maintenance of compensation system toward the improvement of organizational, team and individual performance. In addition, Armstrong (2005) further defined reward management is concerned with the formulation and implementation of strategies and Policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization. It deals with the design, implementation and maintenance of reward practices that are geared towards the improvement of organizational, team, and individual performance.

Compensation is defined by Mondy (2010, pp.143) as the total of all rewards provided to employees in return for their services. The overall purposes of which are to attract, retain, and motivate employees. As compensation is comprised of both fixed and variable components as well as employee benefits and services, an optimum combination of these elements is ideal to maximize influence on employee performance and ultimately, organizational competitiveness. Compensation includes direct cash payments, indirect payments in the form of employee benefits & an incentive to motivate employees to strive for higher levels of productivity is a critical component of employment relationship.

Literally, according to the above definitions reward management is a motivational tools use in appreciating employees on the efforts contributed to the organization. Which means reward could be interchanged as compensation or remuneration or explicit price of labor. Reward management is more concerned with people (employee) and the value they create in the organization (Schneider, 1987). For organizations to achieve a highly committed business environment and its overall business goal, a reward strategy must be developed to ensure that the contribution people make to achieving organizational or team goals are valued, recognized and rewarded (Armstrong, 2010).

In general, compensation management is an integral part of an human resource management approach to managing people, and as such it supports the achievement of the business strategy and is concerned with developing a positive employment relationship and psychological contract, to address longer term issues relating to how people should be valued for what they do and what they achieve. It embraces both financial and non-financial

rewards, and thus all these need to be taken into account and integrated in order to maximize the effectiveness of the organization.

2.3 Compensation Management Philosophy

Compensation management is based on a well-articulated philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. These include beliefs in the need to achieve fairness, equity, consistency and transparency in operating the reward system. The philosophy recognizes that if HRM is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution (ie, the return on investment they generate)(Armstrong, 2006).

As Bob (2011) noted, compensation management processes are based on compensation philosophies and strategies and contain arrangement in the shape of policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation. This constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation management is not just about money. It is also concerned with that non-financial compensation which provides intrinsic or extrinsic motivation. Process of compensation management is to establish and maintain an equitable wage and salary structure and an equitable cost structure. It involves job evaluation, wage & salary survey, profit sharing and control of pay costs.

The philosophy of compensation management recognizes that it must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy (Bohlander, G. & Snell, S, 2004).

According to Mathis & Jackson (2010), two basic compensation philosophies lie on opposite ends of a continuum and most compensation systems fall somewhere in between these two extremes.

Entitlement Philosophy The entitlement philosophy assumes that individuals who have worked another year are entitled to pay increases, with little regard for performance differences. Many traditional organizations that give automatic increases to their employees every year are practicing the entitlement philosophy. These automatic increases are often referred to as cost-of living raises, even if they are not tied specifically to economic indicators.

Performance Philosophy A pay-for-performance philosophy requires that compensation changes reflect performance differences. Organizations operating under this philosophy do not guarantee additional or increased compensation simply for completing another year of organizational service. Instead, they structure pay and incentives to reflect performance differences among employees. Employees who perform satisfactorily maintain or advance their compensation levels more than marginal performers. The bonuses and incentives are based on individual, group, and/or organizational performance. Few organizations totally follow all performance-oriented compensation practices, but the overall trend is toward greater use of pay-for-performance systems, with more and more companies turning to performance criteria to shape rewards for all employees. Such plans may help to reduce employee turnover and increase employee commitment, motivation, and retention. However, performance-based plans need to be evaluated periodically to determine whether performance is being fairly measured and linked to rewards (Mathis & Jackson, 2010).

The philosophy will be affected by the business and HR strategies of the organization, the significance attached to reward matters by top management, and the internal and external environment of the organization (Armstrong, 2006).

In addition, Mathis & Jackson (2010) advocates regularly communicate to employees and managers about the compensation philosophy helps to reinforce the organizational commitment to it. A recent study found that communication of profit-sharing information increased knowledge, which influenced commitment and satisfaction. Communication also can enhance understanding and perceptions of pay policies, encouraging greater generalized pay satisfaction and career development. Finally, establishing a dialogue with employees about total rewards enables them to be more involved with the development of pay systems

that enhance talent and return on investment. A company's compensation philosophy can be used to develop individual talent in an organization.

2.4 The Objective of Compensation Management

Compensation is one of many human resource tools that organizations use to manage their employees. For an organization to receive its money's worth and motivate and retain skilled employees, it needs to ensure that its compensation system is not an island by itself. Not only is it important for an organization to link compensation to its overall goals and strategies, it is important that its compensation system aligns with its HR strategy. Smart, successful organizations do regular planning and evaluating of their compensation and performance appraisal systems. Because compensation is visible and important to employees, it is critical to consistently communicate a clear message regarding how pay decisions are made. The main objective is to 'drive desired behaviors in your workforce' (WorldatWork, 2000).

As WorldatWork noted, the goals of compensation packages for employees are: First, the compensation package should be positive enough to attract the best people for the job. An organization that does not pay as well as others within the same industry will likely not be able to attract the best candidates, resulting in a poorer overall company performance. Second, once the best employees and talent come to work for your organization, you want the compensation to be competitive enough to motivate people to stay with your organization. Although we know that compensation packages are not the only thing that motivates people, compensation is a key component.

Third, compensation can be used to improve morale, motivation, and satisfaction among employees. If employees are not satisfied, this can result not only in higher turnover but also in poor quality of work for those employees who do stay. A proper compensation plan can also increase loyalty in the organization. Pay systems can also be used to reward individual or team performance and encourage employees to work at their own peak performance. With an appropriate pay system, companies find that customer service is better because employees are happier. In addition, having fairly compensated, motivated employees not only adds to the bottom line of the organization but also facilitates organizational growth

and expansion. So far, our focus on HRM has been a strategic focus, and the same should be true for development of compensation packages.

Armstrong (2006) on the other hand, outlines the following are aims of compensation management:

- Reward people according to what the organization values and wants to pay for;
- Reward people for the value they create;
- Reward the right things to convey the right message about what is important in terms of behaviors and outcomes;
- Develop a performance culture;
- Motivate people and obtain their commitment and engagement;
- Help to attract and retain the high quality people the organization needs;
- Create total reward processes that recognize the importance of both financial and non-financial rewards;
- develop a positive employment relationship and psychological contract;
- align reward practices with both business goals and employee values; as brown (2001), emphasizes, the alignment of your reward practices with employee values and needs is every bit as important as alignment with business goals, and critical to the realization of the latter.
- operate fairly – people feel that they are treated justly in accordance with what is due to them because of their value to the organization: the ‘felt-fair’ principle of Jaques (1961);
- apply equitably – people are rewarded appropriately in relation to others within the organization, relativities between jobs are measured as objectively as possible and equal pay is provided for work of equal value;
- Function consistently – decisions on pay do not vary arbitrarily and without due cause between different people or at different times;
- operate transparently – people understand how reward processes operate and how they are affected by them.

In most organizations, the main aim of compensation is to motivate the behavior of the employee in a particular way. Hence, an organization not only desires to motivate employees to stay within the organization, but reinforces employee’s performance through adequate and encouraging compensation.

2.5 Nature of Compensation

Compensation is an important factor affecting how and why people choose to work at one organization over others. Employers must be reasonably competitive with several types of compensation in order to hire, keep, and reward performance of individuals in the organization. Compensation can be both financial and non-financial.

2.5.1 Financial Compensation

Financial compensation comprise all reward that have a monetary value and add up to total remuneration base pay, pay contingent on performance, contribution on performance, competency or skill, sick leave of pay and health insurance (Armstrong 2010).

According to Mathis & Jackson (2005), financial compensation is tangible, having the form monetary rewards. Tangible components of a compensation program are of two general types (Figure 1). With the direct type of compensation, monetary rewards are provided by the employer. Base pay and variable pay are the most common forms of direct compensation. Indirect compensation commonly consists of employee benefits.

COMPENSATION	
DIRECT	INDIRECT
Base Pay	Variable Pay
<input type="checkbox"/> Wages	<input type="checkbox"/> Medical insurance
<input type="checkbox"/> Salaries	<input type="checkbox"/> Paid time off
Variable Pay	<input type="checkbox"/> Retirement pensions
<input type="checkbox"/> Bonuses	<input type="checkbox"/> Workers' compensation
<input type="checkbox"/> Incentives	
<input type="checkbox"/> Stock options	

Figure 2.1 Components of a Compensation Program (Adopted from Thompson 2002, P.743)

Base Pay: The basic compensation that an employee receives, usually as a wage or salary, is called base pay. Many organizations use two base pay categories, hourly and salaried, which are identified according to the way pay is distributed and the nature of the jobs. Hourly pay

is the most common means of payment based on time; employees who are paid hourly are said to receive wages, which are payments directly calculated on the amount of time worked. In contrast, people who are paid salaries receive payments that are consistent from period to period despite the number of hours worked. Being salaried typically has carried higher status for employees than being paid wages. Some organizations have switched to an all-salaried approach with their manufacturing and clerical employees in order to create a greater sense of loyalty and organizational commitment.

Variable Pay: Another type of direct pay is variable pay, which is compensation linked directly to performance accomplishments. The most common types of variable pay for most employees are bonuses and incentive program payments. For executives, it is common to have longer-term rewards such as stock options.

Benefits: Many organizations provide numerous extrinsic rewards in an indirect manner. With indirect compensation, employees receive the tangible value of the rewards without receiving the actual cash. A benefit is an indirect reward, such as medical services, health insurance, vacation pay, or retirement pensions, given to an employee or group of employees as a part of organizational membership.

2.5.2 Non-Financial Compensation

These types of rewards do not involve any direct payments and often arise from the work itself. They can be focused on the needs most people have. Recognition, responsibility, work autonomy, influence and personal growth are some of the rewards incorporated under the non-financial types of rewards. Non-financial rewards often include praise for completing a project or meeting some performance objectives. Other psychological and social effects of compensation reflect the intrinsic type of rewards (Armstrong, 2010).

- a. **Recognition-** Recognition of work is the essence of securing good work. It is one of the most powerful motivators. Efficient people would naturally like to get recognition for their skill and excellence in their work. Such recognition can do many things that what a cash reward can do. Armstrong and Murlis (2005), underlined on the point that, recognition is supposed to be given judiciously. That is, it must be related to real achievements of employees. The recognition given will have a great impact if it is

followed by provision of achievement bonuses awards. Organization can also give other forms of recognitions such as long service awards, status symbols of one kind or another, sabbaticals and work related trips abroad.

- b. Achievement-** The other type of non-financial reward is achievement. It is defined as the need for competitive success measured against a personal standard of excellence. This is one of the three major needs of employees at managerial position: achievement, power, and affiliation. Employees' achievement motivation can be raised by organizations through processes such as job design, performance management, and skill or competency-related pay schemes.
- c. Promotion-** It involves a competitive selection process, and results in the employee's movement in to a different role in a higher pay band. If it is done fairly it enhance employee motivation and competitiveness.
- d. Personal growth-** Individual employees irrespective of their current level want to upgrade themselves. This is the philosophy of continuous development. The availability of learning opportunities, the selection of individuals for high-prestige training courses and programs and the emphasis placed by the organization on the acquisition of new skills as well as the enhancement of existing ones, can all act as powerful motivators of employees to higher performance.

2.6 Compensation Management System

Compensation is an important factor affecting how and why people choose to work at one organization over others. Employers must be reasonably competitive with several types of compensation in order to hire, keep, and reward performance of individuals in the organization.

Compensation systems in organizations must be linked to organizational objectives and strategies. But compensation also requires balancing the interests and costs of the employer with the expectations of employees. A compensation program in an organization should have several objectives these are:

- Legal compliance with all appropriate laws and regulations,
- Cost effectiveness for the organization,

- Internal, external, and individual equity for employees and
- Performance enhancement for the organization.
- Performance recognition and talent management for employees
- Enhanced recruitment, involvement, and retention of employees

For employers, compensation costs must be at a level that both ensures organizational competitiveness and provides sufficient rewards to employees for their knowledge, skills, abilities, and performance accomplishments. Balancing these facets so that the employer can attract, retain, and reward the performance of employees requires considering several types of compensation (Mathis & Jackson, 2005).

2.6.1 Compensation System Design Issues

Depending on the compensation philosophies, strategies, and approaches identified for an organization, a number of decisions are made that affect the design of the compensation system. Some important ones are discussed next.

2.6.1.1 Compensation should be Fairness and Equity

Most people in organizations work to gain money for their efforts. Whether employees receive base pay or variable pay, the extent to which they perceive their compensation to be fair often affects their performance, how they view their jobs, and their employers. It can be seen the compensation equity to three:

Equity: The perceived fairness of what a person does (inputs) and what the person receives (outcomes) is called equity. Individuals judge equity in compensation by comparing their input (effort and performance) against the effort and performance of others and against the outcomes.

External Equity: If an employer does not provide pay that employees view as equitable compared to other employees performing similar jobs in other organizations, that employer is likely to experience higher turnover. Another drawback is greater difficulty in recruiting qualified and high-demand individuals.

Internal Equity in Compensation: Internal equity means that employees receive compensation in relation to the knowledge, skills, and abilities they use in their jobs, as well as their responsibilities and accomplishments (Mathis & Jackson, 2005).

A good compensation strategy includes a balance between internal equity and external competitiveness. Compensation and benefits affect the productivity and happiness of employees, as well as the ability of your organization to effectively realize its objectives. It is to your advantage to ensure that your employees are creatively compensated and knowledgeable of their benefits (Dyer, 1980).

2.6.1.2 Market Competitiveness Strategies

The market competitiveness of compensation has a significant impact on how equitably employees view compensation. Providing competitive compensation to employees, whether globally, domestically, or locally, is a concern for all employers. Some organizations establish specific policies about where they wish to be positioned in the labor market.

2.6.1.3 Competency-Based Pay

The design of most compensation programs rewards employees for carrying out their tasks, duties, and responsibilities. The job requirements determine which employees have higher base rates. Employees receive more for doing jobs that require a greater variety of tasks, more knowledge and skills, greater physical effort, or more demanding working conditions. However, the design of compensation programs emphasizes competencies rather than the tasks performed. A competency-based system needs to acknowledge or certify employees as they acquire certain competencies, and then to verify the maintenance of those competencies.

2.6.2 Elements of a Compensation System

A compensation system consists of a number of interrelated processes and activities which combine to ensure that reward management is carried out effectively to the benefit of the organization and the people who work there. According to Armstrong (2007), the elements of a reward system and the interrelationships between them are shown in Figure 2 a brief description of each element as follows.

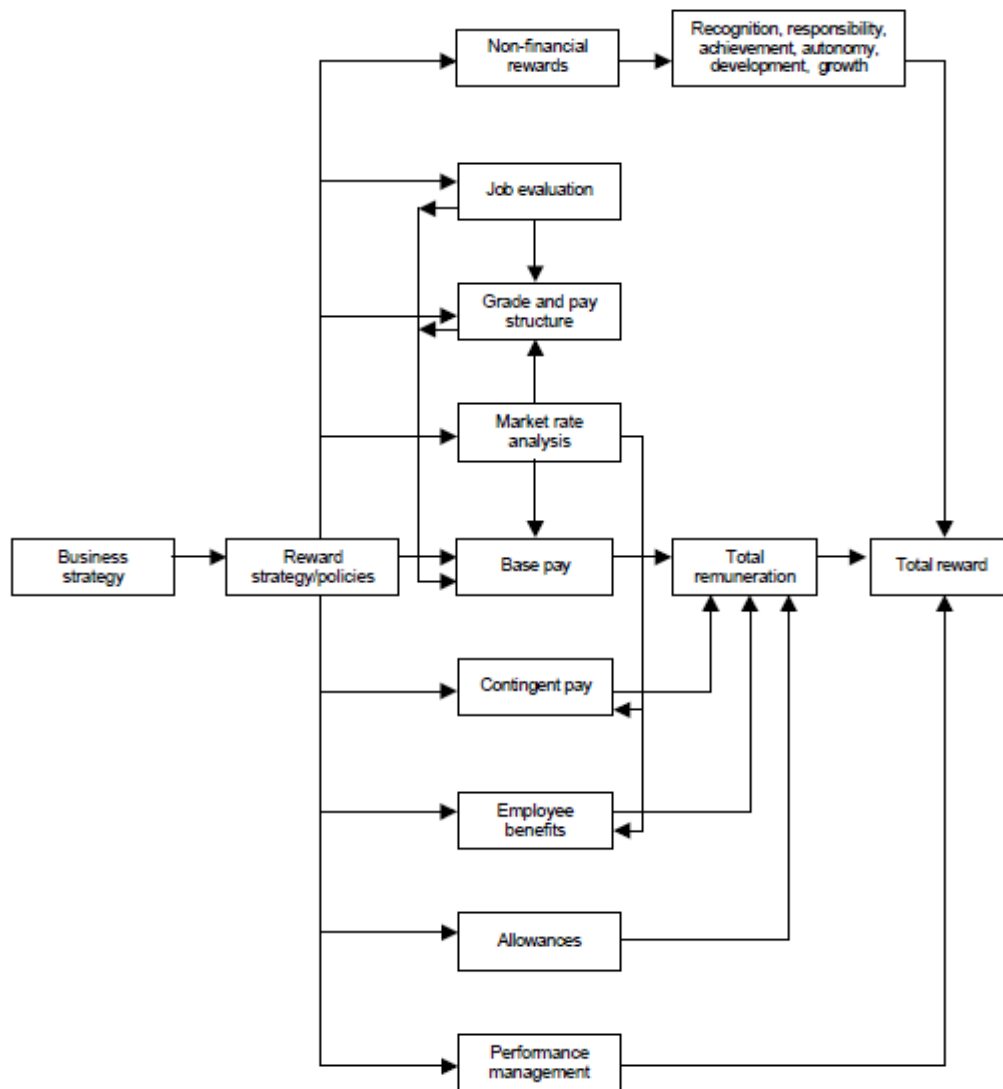


Figure 2.2 The reward management system: elements and interrelationships (Adopted from Armstrong, 2002, PP.9)

A. Business Strategy

The starting point of the compensation system is the business strategy of the organization. This identifies the business drivers and sets out the business goals. The drivers are unique to any organization but will often include items such as high performance, profitability, productivity, innovation, customer service, quality, price/cost leadership and the need to satisfy stakeholders.

As WorldatWork (2000) noted, compensation strategies should be based on the organization's business strategy. At the same time, every business has a unique organizational culture that is affected by the external influences in the world, as well as by senior leadership, geography, employee demographics and even the business strategy itself. Business strategy and organizational culture drive the design and execution of the human resources strategy that, in turn, shapes the development and administration of total compensation strategy.

B. Compensation Strategy and Policy

The compensation strategy flows from an analysis of the business drivers. The question is: 'How can these be supported by reward in order to achieve the goals of the business?' The compensation strategy will define longer-term intentions in such areas as pay structures, contingent pay, employee benefits, steps to increase engagement and commitment and adopting a total reward approach.

Designing a compensation system for an organization requires knowledge of the strategic issues facing the organization and the culture of the organization. Organizations today are facing more pressures and greater demands for flexibility from their managers and employees. Compensation strategies used in organizations have shifted. Organizations that are more static have fixed salaries, limited participation in bonuses, and other features clearly focused internally. However, dynamic, rapidly changing organizations have more varied compensation systems that reward current performance and growth (Mathis & Jackson, 2010).

A reward strategy should enhance commitment and engagement and provide more opportunities for the contributions of people to be valued and recognized. Total reward strategies are vertically integrated with business strategies, but they are also horizontally integrated with other HR strategies to achieve internal consistency (Armstrong, 2002).

According to Milkovich et. al (2009) compensation strategy should be assessed from the aspect of its objective, alignment with the business strategy, competitiveness both internally and externally, its contribution, and transparency and openness.

To be effective, the compensation system needs to be based on sound compensation management principles. Armstrong (2007) mentioned some basic points that enable organizations to develop effective compensation management program. Some of these are to:

- ✚ Align reward strategies with the business strategy.
- ✚ Align reward policies with the culture of the organization and use them to underpin that culture and, as required, help to change it.
- ✚ Value employees according to their competence, skill and contribution.
- ✚ Bear in mind reward management is the management of diversity and not the control of uniformity.
- ✚ Ensure that reward processes are transparent and that employees are treated as stake holders.
- ✚ Provide line managers with their authority and skills needed to use rewards to help achieve their goals, but ensure that they are given the training, guidance and continuing support required to develop and use these skills well.
- ✚ The organization reward policies and practices need to express what the organization values and is prepared to pay for- they are driven by the need to reward the right things to convey the right message about what is important.
- ✚ Concentrate overall on developing reward management as a strategic, innovative and
- ✚ Integrative process designed to meet the evolving needs of organizations and the people they employ.

In addition, an organizations employee compensation policy and practice is important in implementing a strategy. A company that adopts a compensation policy that is consistent and reinforces its strategies is more likely to implement those strategies than a firm that adopts compensation policies that are inconsistent with its strategies (Barney and Hesterly, 2008).

C. Total Reward

Total reward is the combination of financial and non-financial rewards available to employees. As defined by Manus and Graham (2003), total reward includes all types of rewards – indirect as well as direct, and intrinsic as well as extrinsic. Each aspect of reward,

namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and coherent whole. Total reward combines the impact of the two major categories of reward: 1) transactional rewards– tangible rewards arising from transactions between the employer and employees concerning pay and benefits, and 2) relational rewards – intangible rewards concerned with learning and development and the work experience. As under Figure no indicates the component of total reward

Transactional rewards	Base pay	Total remuneration	Total reward
	Contingent pay		
	Employee benefits		
Relational rewards	Learning and development	Non-financial intrinsic rewards	
	The work experience		

Figure 2.3 the Components of Total Reward (Adopted from Mathis & Jackson 2005, P.361)

2.7 Dimensions of Compensation Management Practices

Armstrong (2007) mentioned that to achieve the aims of compensation management, the compensation management strategies, policies, processes, and practices should rely on certain principles. The reward management policies and practices supposed to operate in accordance with the principles of distributive and natural justice, function fairly, equitably, consistently and transparently, are aligned to the business strategy, fit the context and culture of the organization, are fit for purpose and help to develop a high performance culture. A brief description on these principles presented in the next section.

a) Strategic Alignment/Fit

To be effective, the compensation practices of an organization are supposed to be aligned with the business strategy of the organization. The strategic alignment of compensation practices ensures that reward initiatives are planned by reference to the requirements of the

business strategy and are designed to support the achievement of business goals (Armstrong, 2002).

b) Competitiveness

Competitiveness refers to pay comparisons with competitors. This is related to how much do we wish to pay in comparison to what other employers pay? It is also called external competitiveness. In addition to pay aspects, competitiveness also incorporates questions such as what mix of pay forms such as base, incentives, stock, benefits, etc do our competitors use in comparison to the pay mix we use (Armstrong, 2002).

c) Fairness

It is one of the fundamental objectives of pay system. Some scholars define it as ensuring fair treatment and recognize personal and family well-being (Armstrong, 2002). It can be categorized in to Distributive Justice and Procedural Justice.

1. Distributive Justice

Distributive justice refers to how rewards are provided to people. Employees will feel that they have been treated justly if they believe that the rewards have been distributed in accordance with the value of their contribution, that they receive what was promised to them and that they get what they need. Procedural fairness is viewed both in terms of the policies and procedures and the actions of supervisors and managers who implement the policies and procedures (Mathis & Jackson, 2005).

2. Procedural Justice

Procedural justice refers to the ways in which managerial decisions are made and reward policies are put into practice. The five factors that affect perceptions of procedural justice as identified by Tichy et al (1982), includes the following

- The viewpoint of employees is given proper consideration.
- Personal bias towards employees is suppressed.
- The criteria for decisions are applied consistently to all employees.
- Employees are provided with early feedback about the outcome of decisions.

Employees are provided with adequate explanations of why decisions have been made.

d) Compliance

Compliance of pay objective refers the conformity of federal and state compensation laws and regulations. If laws are changed, the pay system of the organization needs to be changed in order to ensure its continued compliance with the existing declaration. In case of multinational companies, company pay practices must comply with the existing laws of the country they built their subsidiary (Armstrong, 2002).

e) Transparency

Transparency exists when people understand how reward processes function and how they are affected by them. The reasons for pay decisions are explained at the time they are made. The need for a transparent system, according to Gibbons (1998) involves the preferences towards having a clear communication of how the reward are distributed and offered and also the concerns on the understanding of the methodologies, measures and targets used while introducing any rewards. The employees need to understand the connection between the company's business objectives, how they contribute, and how they are rewarded. Perceived uncertainty decreases the effectiveness of incentive compensation. Employees also have a voice in the development of reward policies and practices.

Ivana et al (2009) found that reward practice a full and open transparency regarding awards, the communication of the availability of the rewards, the criteria to be satisfied, and the identification of the award recipients.

f) Equity

Equity is achieved when people are rewarded appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible and that equal pay is provided for work of equal value (Armstrong, 2002).

g) Contextual and Cultural Fit

This is mainly concerned with the fit between the characteristics of the organization, its business strategy and the type of employees the organization has with that of the organization's culture. This perspective advocate best fit is more important than best practice. Contemporary strategic human resource management scholars like Armstrong

(2007) argued that best fit is more important than best practice. According to this scholar, context determines the strategy rather than best practices taken from somewhere else.

h) Flexibility

Currently organizations are realizing the need to be sensitive to tailor-make the benefits to suit the needs of individual employees rather than offer a common, standard package. Typically in a flexible reward package, the total pay package is decided or negotiated and the employee is given option to distribute it under different items like pay, house rent, club membership, etc. The major purpose of flexibility is to minimize the adverse effect of taxation and provide a higher value for a diversified group of employees (Armstrong, 2005).

2.8 Factors Affecting Compensation System

As Armstrong (2002) noted, the most significant decisions that have to be made by those concerned with compensation management are about levels of pay. In making these decisions it is necessary to be aware of the various factors that influence pay levels. The following are economic theories and concepts provide guidance on the factors that affect pay levels:

- 1) **The Labor Theory of Value:** The labor theory of value in effect provides the rationale for job content evaluation and the design of internally equitable grade structures. But it is necessary to take into account market rates through ‘market pricing’ based on market rate analysis to ensure that pay is competitive as well as equitable.
- 2) **The Labor Market:** Organizations must be aware of the labor markets in which they are operating so that they can make appropriate decisions on pay levels in the light of market intelligence and policies on where they want to be in relation to the market.
- 3) **Classical Economic Theory:** The significance of classical economic theory is that it focuses attention on external pressures and the perceived need for ‘competitive pay’, that is, pay that matches or exceeds market rates. Classical theory is used as a justification for ‘market’ pricing rather than job evaluation, concentrating on external competitiveness at the expense of internal equity.
- 4) **External competitiveness versus internal equity:** Organizations must understand the other factors besides market pressures that may affect pay levels, such as perceived needs for equity and for rewarding individual contribution and competence, long service

and loyalty. This means appreciating that there will be tension between pay determination policies based on external comparisons (market pricing) and those focusing on internal relativities (job evaluation).

- 5) **Efficiency Wages Theory:** Efficiency wages theory proposes that firms will pay more than the market rate because they believe that high levels of pay will contribute to increases in productivity by motivating superior performance, attracting better candidates, reducing labor turnover and persuading workers that they are being treated fairly.
- 6) **The Effort Bargain:** The notion of an effort bargain highlights the fact that pay levels are subject to collective and individual negotiation. It also draws attention to the need for equity, fairness and consistency in reward systems.

2.10 Compensation Management and Employee Motivation Theories

The effectiveness of skilled employees is likely to be limited if they are not motivated to perform. One of the means that organizations can use to enhance employee motivation and performance is to provide performance-related compensation. A reward and compensation system is based on the expectancy theory, which suggests that employees are more likely to be motivated to perform when they perceive that there is a strong link between their performance and the reward they receive. In other words, the compensation system (e.g. profit sharing) contributes to performance by linking the interests of employees to those of the team and the organization, thereby enhancing effort and performance (Huselid, 1995).

According to Armstrong (2005), one of the most important concerns of reward management is how rewards can be used to motivate people to perform better. Therefore, it is important to understand what motivates people and how. Theories concerned with motivation explains why people at work behave in the way they do and provides guidance on how to develop effective reward systems (Armstrong, 2005).

According to Armstrong (2005), a motive is the reason for doing something and motivation theory deals with factors that induce people to behave in certain ways. Motivation is art of helping people to focus their thoughts and energy on performing his/her work as effective as possible.

In order to influence the employees motivation to perform it is crucial to understand what drives motivation and how. Scholars divide motivation theories in to two: Content theories of motivation and Process theories of motivation. The content theories of motivation emphasize the reasons for motivated behavior or what causes it. These theories specify the correlates of motivated behavior that is feelings or attitudes associated with motivated behavior, and help to represent physiological or psychological deficiencies that an individual feels some compulsion to eliminate. On the other hand, the process theory of motivation hold Victor Vroom's Expectancy Theory, Equity Theory , Gary Latham and Edwin Locke's goal setting theory, and B. F. Skinner's Reinforcement Theory.

Therefore, in the section below, a few of the most well-known and relevant theories of motivation will be presented.

2.10.1 Content Theories of Motivation

Content theories of motivation incorporate Maslow's Hierarchy of Needs theory, Alderfer's ERG theory, Frederick Herzberg's Hygiene theory, and McClelland's learned needs theory.

2.10.1.1 Maslow's Hierarchy of Needs

It is Maslow's belief that we can divide human needs into five categories and place these in a hierarchical order. As shown by Figure 2.4, the basic idea is that the lower level needs must be fulfilled before the higher needs are activated. Therefore it is of no use to speak to someone about a "meaningful job" if the persons most basis, biological needs are not fulfilled through what he or she earns by working (Kaufmann, 2005).

Level 1 Physiological need: These are the biological drives. These are the fundamental for the individual's survival and ability to adapt. Examples of these are air, nutrition, water, roof above once head etc. In work life, this is the minimum wage required to meet these needs.

Level 2 Security needs: For example surroundings that protect the individual from physical and psychological damage. Except for basic safety measures in the physical work environment, it is foremost the certainty about keeping the job which can be fundamental for satisfying this need.

Level 3 – Love needs: It is about the need for social connections in the form of good friends and colleagues, a partner and a social environment that supply support and acceptance. Organizations can do much in order to facilitate the fulfillment of such needs by, for example, create good conditions for cooperation.

Level 4 Esteem needs: The wish to perform, gain prestige, having success in life and receive others respects are needs on this level. According to Kaufman, showing people elementary appreciation for the work they have performed is an easy, encouraging psychology, and in practice one can achieve much with modest means in such contexts. Ways of doing this includes small gatherings to show a coworker who have performed well appreciation, diplomas, articles or notices in internal bulletins etc. Of special importance is to show visible gratitude for undertakings that have been performed outside the formal undertakings.

Level 5 – The need for self-actualization: This is according to Kressler (2003), to understand the world, acquiring wisdom, achieving independence developing creativity and individuality etc. By giving coworkers possibility to this in their work, strong motivational forces can be unleashed. In general, people perform their very best under such conditions which will gain both the individual and the organization.

As in the outlay of a pyramid, the higher levels are only attainable ones the lower ones have been fulfilled. The needs that have not been fulfilled have a motivating effect and all these steps except for the highest one (Kressler, 2003).

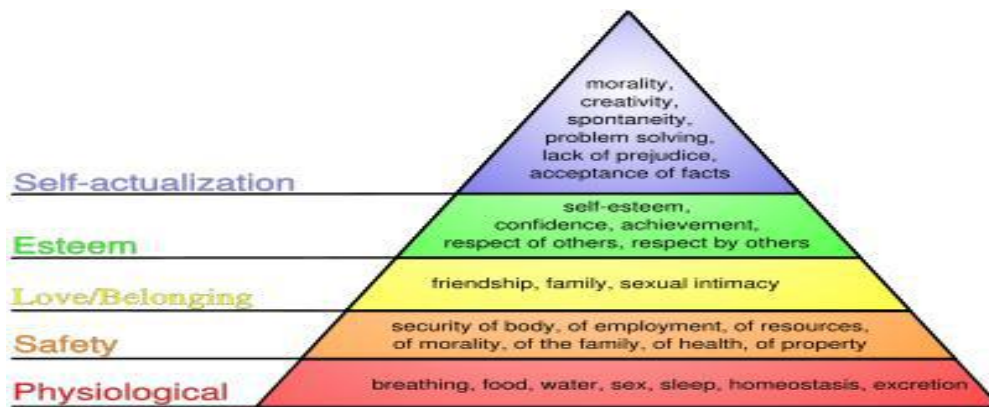


Figure 2.4 Pyramid Maslow's Hierarchy of Needs (Adopted from Kressler, 2003, P.167)

2.10.1.2 Herzbergs' Two Factor Model

Frederick W. Herzberg interviewed hundreds of workers and asked them to:

- describe a situation which would have led to work satisfaction
- describe a situation which would have led to work dissatisfaction

After analyzing the results, Herzberg draw the conclusion that the factors that in most cases were given as the reason for satisfaction, were different from those that were regarded as the cause for dissatisfaction (Kaufmann, 2005).

A common perception is that dissatisfaction is the opposite of satisfaction. Herzbergs findings showed that these two concepts referred to two independent dimensions. With that, he found reason to differ between motivators which promote job satisfaction, and hygiene factors which have effect through the absence of negative work conditions. Herzberg draw the following general conclusions from the pattern he observed in relation to the two basic dimensions; satisfaction and dissatisfaction:

- Hygiene factors can create dissatisfaction when they are absent but they do not lead to satisfaction when they are present.
- Motivators create satisfaction if they are present but they do not lead to dissatisfaction if they are absent (Kaufmann, 2005).

Hygiene factors: Among the most important hygiene factors we find physical and social working conditions, pay, status and work security. When these conditions are good the dissatisfaction disappears. Kaufmann points out that these factors are found in the lower part of Maslows pyramid (Stuart, 2011).

Motivators: These include conditions that are connected to needs higher in Maslows pyramid such as performance, appreciation, growth and development possibilities. When these factors are absent it leads to a neutral state but if favorable they have an active and promoting effect on job satisfaction and productivity (Stuart, 2011).

The hygiene factors are extrinsic to the job and the motivators intrinsic. Herzberg noted that any satisfaction resulting from an increase in pay is likely to last considerably shorter than satisfaction resulting from work itself. According to Armstrong (2005), one of the key conclusions that can be drawn from Herzberg's research is that pay is not a motivator except in the short term. It is therefore a hygiene factor which, if absent, might lead to demotivation

Kressler (2003) explains that there is a great difference between not being dissatisfied and being satisfied and that the intrinsic and extrinsic factors run on two different tracks where the extrinsic leads from dissatisfaction to not being dissatisfied and intrinsic from not satisfied to satisfaction.

Armstrong (2005) mentions that Herzberg's research and conclusions have been criticized and mention two reasons in specific:

- It is asserted that the original research is flawed and does not support the contention that pay is not a motivator.
- The relation between satisfaction and performance was not measured (Armstrong, 2005).

2.10.2 Process Theory of Motivation

The process theory of motivation incorporates Victor Vroom's Expectancy Theory, Equity Theory, Gary Latham and Edwin Locke's goal setting theory, and B. F. Skinner's Reinforcement Theory. Among these theories, the expectancy and equity theories of motivation will be presented as follows.

2.10.2.1 Expectancy theory

This theory is a so-called cognitive theory. It emphasizes that actions most often are a result of rational and conscious choices and that this is the most fundamental in human behavior. Expectancy theory points out that people are motivated to work when they expect to attain what it is that they aim to attain through their work. The expectation in this context is a conception regarding the effects of work on reward wishes and how much this rewards

means to you. Reward in this context is used in a very broad sense; it could be external rewards such as pay or things of material value as well as internal such as work satisfaction.

What is special about cognitive motivational theory is that the action is considered to be controlled by notions and rational calculations concerning personal goal fulfillment (Kaufmann, 2005). Motivation is likely only when a clearly perceived and usable relationship exists between performance and outcome, and the outcome as seen a means of satisfying needs (Armstrong, 2005,)

This concept was first formulated by Vroom in his VIE theory which stands for valency, instrumentality and expectancy. Valency means value and is an important personal goal. It indicates how desirable the result of an action or activity is (Kressler, 2003).

Instrumentality means assistance or collaboration and is a milestone on the way to reaching the personal goal (Kressler, 2003). It is the belief that if we do something it will lead to another (Armstrong, 2005)

Expectancy means expectation, prospect, hope and expresses how high the probability is that the milestone can be reached given the chosen action/activity. Motivation is likely if all these three values are positive (Kressler, 2003). According to Armstrong, motivation is likely when there is a clear and usable relation between and when the outcome is seen as a means of satisfying needs. This would explain why some extrinsic financial motivation works only if the link between action and reward is understood and the reward is worth the effort. It might also be seen as an explanation as to why intrinsic motivation from the act of working can be more powerful. These are controlled to a larger extent by the individuals who can use past experience as a reference and judge to what degree advantageous results are likely to be obtained as an effect of their behavior (Armstrong, 2005).

The theory suggests that the magnitude of the effort depends on the value of a reward and the perceived probability that receiving a reward depends on effort. As shown figure 5, there are two more factors that affect performance:

- Abilities which refers to the individuals' characteristics, e.g. intelligence, manual skills & knowhow.

- Role expectations which refer to what the individuals' want to do or think that they are required to do. They are good, from the organizations perspective, if the individual perception corresponds to the organizations (Armstrong 2005).

According to Kressler (2003), it is Vroom's belief that people make their choice of action depending on the possibility of success.

2.10.2.2 Equity Theory

Equity theory was developed by J Stacy Adams which in a systematic way illustrates equity as a motivational factor. It argues that people that feel that they are being treated equitably are better motivated and vice versa that people that they are treated inequitably are less motivated (Armstrong, 2005). Equity is treated as a principal with predictable and strongly motivating and demotivating effects on people's willingness to perform and general motivation in work life (Kaufmann, 2005). Whether or not they feel that they are treated equitable is relative and in theory there are four so called reference comparisons:

- Self-internal – Compare the current work situation with experiences from a previous situation in the same organization.
- Self-external – Compare the current work situation with experiences from another work place.
- Other internal – Compare oneself with another individual or profession in the same organization.
- Other external – Compare oneself with another individual or profession outside the workplace (Kaufmann, 2005).

Three conditions are important for these comparisons: level of salary, level of education/ training and period of service. People with a high salary and long education normally have broader information about his/her own workplace and often look chose references outside his/her own workplace. People with a lower pay grade and shorter education more often find objects of reference within the organization and are more sensitive for perceived differences on the internal level. Same goes for people with short period of service. Even though this theory finds support in research there are important exceptions, for example individual

differences in how sensitive people are for equity. Much of this research has been connected to salaries but the theory also concern rewards other than monetary.

Equity is a comparative process which is concerned with feelings and perceptions. It is not the same as equality, treating everybody the same is not equitable if someone or everyone deserves to be treated differently (Armstrong, 2005).

2.11 Empirical Literature

There are different papers which are written on compensation management. The researcher has tried to see some of them one of the most related study of compensation management practices written by Gashaw Bayou.

Gashaw (2014) St. Mary's University School of School, with his thesis, the researcher noted the importance of compensation management, and said that compensation enables us to differentiate between our remuneration strategies and those of our competitors while still allowing flexibility, control and cost effectiveness. It provides a tool set for strategic remuneration planning that reflects our organization culture and payment strategies, and it empower line manager within a framework of flexible budget control.

In his finding and conclusion Gashaw (2014) further the groundwork for the compensation will be developed when the organization has a systematically developed compensation system and considers it to be a steering instrument in order to efficiency, effectiveness and to reach company goals. In an environment where there is no carefully developed compensation system, it may be difficult to establish the groundwork of compensation system. He argues that all companies widely use organizational reward. Team reward, and individual rewards are rarely used in all companies when performance is achieved result.

Other researcher that is written in Nigeria about compensation management as tool for improving organizational performance in the public sectors by Anambra State University (2015) said that compensation processes are based on compensation philosophies and strategies and contain arrangement in the shape of policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation. This

constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation management is not just about money. It is also concerned with that non-financial compensation which provides intrinsic or extrinsic motivation.

Harrison and Liska (2008), in their study suggest that reward is the center piece of the employment contract-after all it is the main reason why people work. This includes all types of rewards, both intrinsic and extrinsic, that are received as a result of employment by the organization. In another study, Brown (2003) sees compensation as a return in exchange between their employees and themselves as an entitlement for being an employee of the organization, or as a reward for a job well done. Employees' pay does not depend solely on the jobs they hold. Instead organizations vary the amount paid according to differences in performance of the individual, group, or whole organization as well as differences in employee qualities such as seniority, educational levels and skills.

As Alemayehu (2014), Addis Ababa University, with her comparative study of reward and employee motivation in two selected private hospital, the researcher investigate the relationship between reward and motivation of the health care professional and qualitative testing the effect of variables such as payment, benefit, promotion, perception, work content and working condition on motivation of employees working in public hospital. And the researcher concluded that, it is observed that there is direct and positive relationship between reward and employee motivation. This indicates the change in reward necessary changes the level of employee work motivation. This shows that management can make use of different tactics, strategies, and policies to motivate employee in work setting.

Anyebe (2003) argues that compensation philosophies and objectives must reflect the overall culture, philosophies and strategic plans of the organization. He suggests that there are two basic compensation philosophies, which should be seen as opposite ends of a continuum. At one end of the continuum is the entitlement philosophy, at the other end, the performance-oriented philosophy. Employees and managers who subscribe to the entitlement philosophy believe that individuals who have worked another year are entitled to a rise in base pay and that all incentives and benefit programs should continue unchanged regardless of changing industry or economic conditions. On the other hand, in case of

performance-oriented approach, no one is guaranteed compensation just for adding another year to organizational service instead pay and incentives are based on performance differences among employees. Employees and those who do not perform satisfactorily receive little or no increase in compensation. It is therefore critical that organizations align their compensation practice with performance to enhance the achievement of organizational goals and enhance competitive advantage.

Other researcher that is written in Thailand focus on compensation and benefits and reward system relationship with employee retention by International journal of trade, economics and finance (2014) is noted, compensation refers to all forms of financial returns and tangible benefits that employee receives as part of the employment relationship benefits are indirect financial and non-financial payments employees receive for continuing their employment with an organization. Reward system is anything that is extrinsically or intrinsically reinforced, maintain and improve the employees' behavior in an organization. Compensation is one of the main features used by organizations to attract and retain their most valuable and worthy assets. It is known to have a positive relationship with employee retention. Benefits are also positively related to retention. Reward system can affect the performance of the employee and their desire to stay with the organization. Reward system also plays a vital role in employee engagement, which depends on staff feeling that they are fairly rewarded for their skills, knowledge and contribution. Therefore, the researcher concluded, both compensation & benefits management and reward system have a direct and indirect effect on employee retention, even if other factors does not have a complete role in determining employee retention for direct effect.

As we have seen above the researchers are given most emphasis on the assumption of compensation management practices, the effect employee motivation and organizational performance and retention.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

The pervious chapter presents relevant literature and theories related with the topic under study. In this chapter, the researcher presents the methodology implemented to conduct the research. Thus the purpose of this chapter is to address the methods that are used in the study. For the purpose of presentation, the chapter has been divided into seven sections these are research design, population and sampling techniques, sources of data and data collection tools, data collection procedures, data analysis method, ethical consideration and validity and reliability of data collection tools.

3.1 Research Design

This research work is a descriptive type of research. It has attempted to describe the compensation management system and employees perception on the exiting compensation practices in Ethio Telecom. In addition, descriptive studies used to describe characteristics of a phenomenon being studied and can yield rich data that lead to important recommendations.

3.2 Population and Sampling Techniques

The population of the study was the employees and management of Ethio Telecom currently working at Head Office. The sample was chosen from professionals who worked at the organization for minimum of one year.

3.2.1 Research Population

Ethio Telecom is a big organization which has more than 10,000 employees. In addition to these, there are so many functional division and departments administered by different chief division officers. Out of total population, 4796 of them are located in Head Office and Zonal Office. The rest are in the regional office. For the sake of this research, employees of Ethio Telecom Head Office staff are considered as total population of the study. The Head Office is chosen based on the strategic importance to the Telecom as well as time constraint faced by the researcher to cover the whole population of the company. As many research scholars

advocate, incorporating the whole population in a research study is difficult for analysis as well as consumes lots of resources without adding significance to the output of the research work. Therefore, getting a true representative sample out of the population is very important. As per the information gathered from the concerned HR division, the total number of employees working under Head Office is 1184 excluding contract employees. This 1184 was considered as sample frame and the researcher selected a representative sample out of it.

3.2.2 Sampling Technique

To get a representative sample for the population under study the following sample technique were used. This sample size determination table is developed by Krejcie & Morganin in 1970. Hence, this table is widely acceptable in social science researches, it is also adopting for this research work.

Table 3.1: Table for determining sample size for a given population size, level of confidence, and margin of error (degree of accuracy)

Population Size	Required Sample Size [†]							
	Confidence = 95.0% 3.84136				Confidence = 99.0% 6.6349			
	Degree of Accuracy/Margin of Error				Degree of Accuracy/Margin of Error			
	0.05	0.035	0.025	0.01	0.05	0.035	0.025	0.01
10	10	10	10	10	10	10	10	10
30	28	29	29	30	29	29	30	30
50	44	47	48	50	47	48	49	50
100	80	89	94	99	87	93	96	99
200	132	160	177	196	154	174	186	198
400	196	265	318	384	250	309	348	391
500	217	306	377	475	285	365	421	485
600	234	340	432	565	315	416	490	579
700	248	370	481	653	341	462	554	672
800	260	396	526	739	363	503	615	763
900	269	419	568	823	382	541	672	854
1,000	278	440	606	906	399	575	727	943
1,200	291	474	674	1067	427	636	827	1119
1,500	306	515	759	1297	460	712	959	1376
2,000	322	563	869	1655	498	808	1141	1785
2,500	333	597	952	1984	524	879	1288	2173

In this research the recommended sample size for a sample frame of 1184, at confidence level of 95%, and a margin of error (degree of accuracy) of 5% is acceptable and since the sample of the study lay between the ranges of 278 – 291, so that a sample size of 285 was selected.

$$\text{Sample Size} = ((278+291)/2)$$

Therefore, the researcher distributed 285 questionnaires' to collect data required for doing this study and probabilistic sampling technique were used to select those who filled the questioners. The advantage of using a probabilistic sampling technique (random sample) is the absence of both systematic and sampling bias.

3.3 Sources of Data and Data Collection Tools Used

Both primary and secondary data were used in the data collection part of the research. Primary data was gathered from the employees of the Telecom currently working in Head Office. Data gathered with the help of questionnaire developed by the researcher. In addition to this, primary data was gathered using interview question from selected manager and employees currently working in HR compensation department.

Secondary sources of data was collected from varied reports of the Ethio Telecom, Add Hoc, the internal portal, internet, references books and varied organizational document such as Compensation & Benefit Management Policy, Procedure Manual and Process.

3.4 Procedures of Data Collection

Relevant data were collected through the following procedures. Questionnaire is developed and distributed to the sample selected employees of Ethio Telecom. Data were collected though questionnaire and interview. To meet the objective of this study, data was collected from structured questionnaire and analyzed using statistics such as tabulation, frequency, percentage and mean. The result of the employee responses were used to present analysis and finding; besides, interview was conducted with the management teams and used to clarify some issue relevant to the study.

3.5 Method of Data Analysis

This research employed quantitative methods of data analysis. The data gathered through primary sources (especially data gathered through questionnaire) was summarized using descriptive statistics such as tables, frequency distributions, and percentages to give a condensed picture of the data. Whereas, the data gathered through interview and data gathered through secondary sources of data were analyzed and used to elaborate major facts related to the existing compensation management practices of Ethio Telecom.

3.6 Ethical Consideration

In conducting research, it is necessary to look at the ethical implications of what we are proposing to do. Most ethical issues fall in to one of four categories: protection from harm, informed consent, right to privacy, and honesty with professional colleagues (Leedy & Ormrod, 2005).

Therefore taking the nature of this study under consideration, participants have been told the nature of the study to be conducted and given the choice of either participating or not participating because any participation should be strictly voluntary. More specifically, for ethical clearance the study confirmed and containing the following information:

- A brief description of the nature of the study
- A description of what participation will involve, in terms of activities and duration
- The guarantee that all response remains confidential and anonymous
- Wrote notice on the questionnaires to leave respondents writing their name on questionnaire for purpose of employees confidentiality

3.7 Validity and Reliability

In dealing with validity issue, the researcher established a logical link to justify each question in relation to the objective of the study. Questionnaires were reviewed as pilot test before full scale launching to gather the information were some of the activities in dealing with reliability and validity issues and the research was conducted utmost ethical manner in keeping the confidentiality of the respondents.

In dealing with reliability test, Cronbach's alpha coefficient was made on the 47 items. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale (George and Mallery, 2003). Based on the Cronbach's alpha result of the study it is found that 0.968, 0.756, 0.956, 0.656, 0.846, 0.964, 0.689, 0.7318, and 0.857 for the variables, strategic alignment, compliance, competitiveness, transparency, equity, fairness, consistency, contextual, flexibility as well as overall exiting compensation management practices of Ethio Telecom . And this shows that the items under study do have acceptable and above internal consistency. Total Cronbach's Alpha result of 33 items is 0.973.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter analyzes, interprets and presents the data which were gathered for the completion of this study. During the study, questionnaires and interview were conducted to collect the necessary data. The data collected from employees using the questionnaire distributed is presented with the help of tables and figures. Next to this the data analysis and interpretation is made under each table and figure. In order to conduct this research, totally two hundred eight five (100%) questionnaires were distributed to selected non-management staffs and semi-structured interview to management bodies. The researcher has made extensive follow-up procedures to produce largest possible rate of return. Based on the computation of response rate out of 285 (100%) questionnaires sent to the respondent 88.7% returned and only 11.3 % respondents were unable to return back the questionnaires. As already mentioned in the aforementioned statement the total rate of return is 88.7% and this is used to make analysis on the study.

In addition to capitalize and strengthen the data which are gathered through questionnaires from staffs the researcher has conducted interview with management body and also utilized to elaborate major facts related to compensation management practices of Ethio Telecom.

4.1 Organization Context of Ethio Telecom

The introduction of telecommunications services in Ethiopia dates back to 1894, seventeen years after the invention of telephone technology in the world. Because of different reason its name changed many times. Some of them are Imperial Board of Telecommunications of Ethiopia (IBTE), Ethiopian Telecommunication Services (ETS), Ethiopian Telecommunications Authority (ETA), and Ethiopian Telecommunications Corporation (ETC). Then on regulation No 197/2010 ethio-telecom established at November 29, 2010 as Public Enterprise (Ethio-telecom Establishment council of Ministers Regulation, 2010). Currently provide telecom service in the entire country on voice, internet & data, channels, with comprehensive plans in place to meet the requirements set out by the Ministry of Communications & Information Technology (MCIT) and peoples of Ethiopia. The vision of the company is to be a world-class provider of telecom services and its missions are Connect

Ethiopia through state-of-the-art telecom services, Provide high quality, innovative and affordable telecom products and services that enhance the development of our nation, Build reputable brand known for its customers' consideration, Build its managerial capability and manpower' talent that enables ethio telecom to operate at international level and Support community and environmental development. Thus, ethio telecom is born from this ambition in order to bring about a paradigm shift in the development of the telecom sector to support the steady growth of our country. Following introduction of the new company, the current Human Resources Division is structured around five main functions. One of the departments called Compensation and Benefits department, CBD is in charge of designing a compensation and benefits policy for all employees. It is also responsible for implementing this policy as well as regularly improving it in order to guarantee equity and competitiveness.

4.2 Demographic Characteristics of Respondents

The first part of the questionnaire developed to gather all the necessary information consists of the demographic information of the respondents. This tried to gather information concerning personal and professional demographic characteristics of respondents. Accordingly, the following variables about the respondents were summarized and described in the subsequent figure below. These variables includes: sex, marital status, age, educational qualification, and year of experience the employees have in the organization. The demographic information of the participant employees is presented under Table 4.1 and using Figure 4.1, 4.2 and 4.3.

Table 4.1 Biographical Information			
Item	Measurement	Frequency	Percent
Sex	Male	159	62.80%
	Female	94	38.20%
Total		253	100%
Item	Measurement	Frequency	Percent
Marital Status	Single	164	64.80%
	Married	89	35.20%
Total		253	100%

As shown in the above Table 4.1, employees' gender composition shows 159 of the respondents are male and 94 of them are female. This shows 62.8% of them are males where as 38.2 % of the respondents are females. The number of female respondents is lower in head office which is incorporated in the study, the number of female employees is lower and even in some section there are no female employees due to the nature of job activities. In addition from above gender information it is possible for us to suppose that, the study included both male and female respondents as a source of data. With regard to respondent marital status, as shown in the above table, 164 of the employees which constitute about 64.8% of the respondents are single and the rest 89 or around 35.2 % are married.

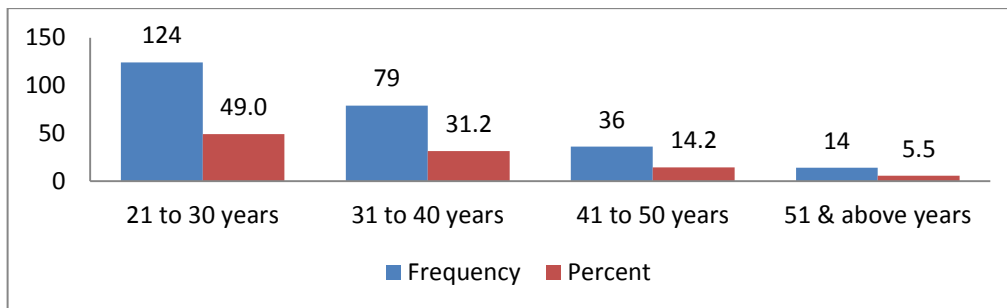


Figure 4.1 Age category of respondents.

The above Figure 4.2 shows the age composition of employees who are incorporated in the research work. As shown in the graph, 124 employees that hold 49 % of the respondents fall under the age between 21 to 30 years where as those who fall in the age category of 31 to 40 years constitute almost 31.2% of the respondents. However, the numbers of respondent between the age 41 to 50 years and those who are 51 and above are 14.2% and 5.5 % respectively. This implies that majority of the respondents are less than fourth years i.e., they are youngsters.

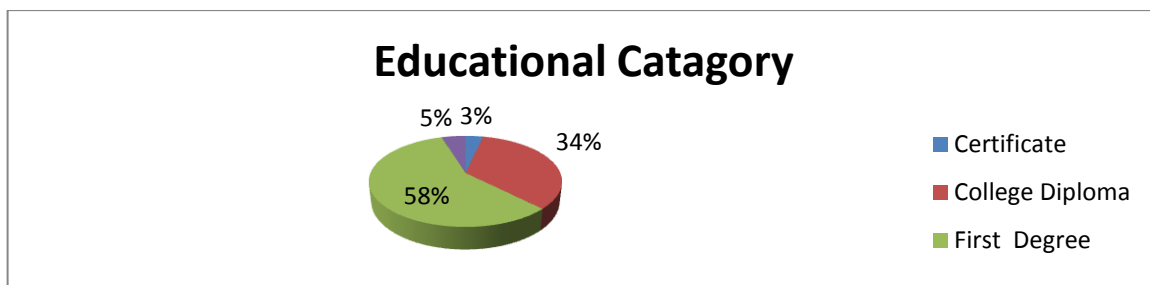


Figure 4.2 Education categories of respondents.

As figure 4.2 above depict, 146 or 58 % of current employee respondents are first degree holders, and about 12 or 5% of the respondents have Master’s Degree. Having this much (63%) higher qualified manpower is an opportunity for the organization for competitive advantage over the other. However, there are also a significant number of employees at diploma level that constitutes 86 or 34% and the rest 9 or 3% are certificate holders from the total respondent. Generally, this implies the respondents have sufficient level of knowledge to respond questions regarding the existing compensation management practices.

The below Figure 4.3 indicates the respondents’ years of service in their current organization. Respondents experience in a given organization highly determines to what extent the respondent understood his / her organization compensation management practices.

As one can observe in the above figure, the largest portions 98 (38.7%) of respondents have 1 to 3 years services in the current organization. Also, the second largest respondent 85(33.6%) have 4 to 6 years’ service. In addition, 38(15%) and 14(5.5%) of the respondents have served 7 to 9 and more than 10 years respectively. Since the employees have served the organization long period of time, this benefits the organization to get competitive advantages through its organizational culture. The remaining, only 18(7.1%) of the respondents have less than one year work experience. In general the sample population for this study has adequate experience to their current employer and this helps the researcher to get sufficient data.

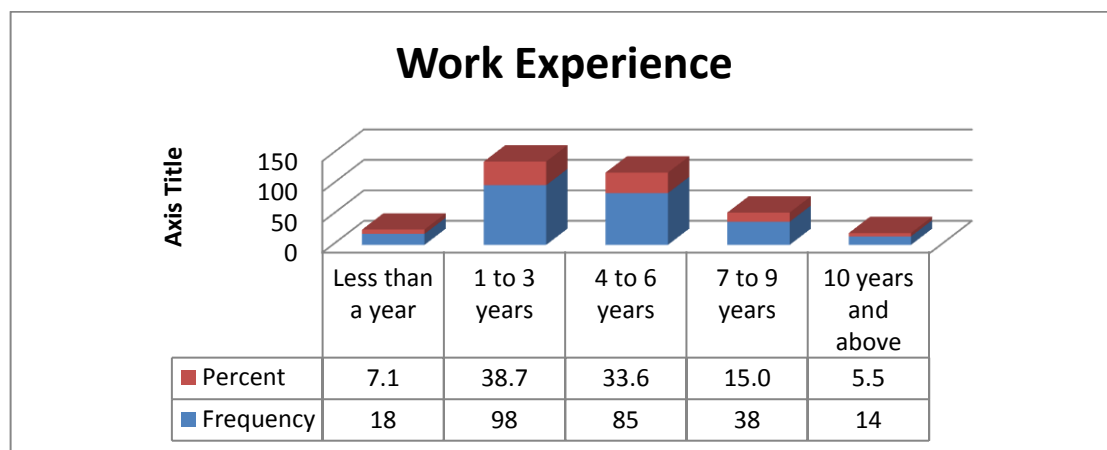


Figure 4.3 Work Experiences of respondents

Several of these demographic and background characteristics are used in the report to draw comparisons among respondents. According to Bein (2009), Description of the participant demographic characteristics allows readers and researchers to determine to whom the research finding generalize and allows for comparison to be made across replication of studies. It also provides information needed for research syntheses and secondary data analysis.

4.3 Employees Opinion towards the Existing Compensation Management Practices of Ethio Telecom

In this section, employees' ratings of existing compensation management practices of Ethio Telecom are presented.

4.3.1 Employees Ratings of the Overall Compensation Management Practices

The table in the next page shows employees attitude towards some of the major compensation practices currently provided by Ethio Telecom. This incorporates basic pay, benefit, allowance, bonus, and promotion practices. As shown in the Table 4.2, employees were asked to rate varied types of compensation practices provided by the telecom using a five Likert scale. In this regard employees were asked to indicate their opinion by choosing one of the five alternatives given: very good, good, average, poor, and very poor.

Based on this, the first question presented to employees was to express their opinion with regard to basic pay practices of telecom, 10.7% and 26.5% employees said the pay practice is very good and good and some other 18.2% respondents said poor, the most respondent (103) 40.71% are said average. However, the overall response distribution of the employees do not show what the employees overall attitude towards the practice. This shows that employees rate basic pay practice as more than average or a bit good practice.

With regard to the benefit packages provided, 99 & 71 employees (around 39.1% & 28.1%) of the total respondents respectively) feel that the existing benefit provisions practice are poor & very poor, whereas 20 or 7.9 % of the respondents testify that the practice is good. This show the employees' response is sloping towards the scale poor. Therefore, the overall response shows that the benefit package practice of the telecom is poor.

Table 4.2 Employees ratings of overall Compensation Management Practices							
Measure							
Item	Scale	Very Good	Good	Average	Poor	Very Poor	Total
Basic Pay	Frequency	27	67	103	46	10	253
	Percent	10.7	26.5	40.7	18.2	4	100
Benefit	Frequency	0	20	63	99	71	253
	Percent	0	7.9	24.9	39.1	28.1	100
Allowance	Frequency	4	13	38	87	111	253
	Percent	1.6	5.1	15	34.4	43.9	100
Bonus	Frequency	11	26	77	87	52	253
	Percent	4.3	10.3	30.4	34.4	20.6	100
Promotion	Frequency	0	29	41	126	57	253
	Percent	0	11.5	16.2	49.8	22.5	100

The other compensation practice employees were requested to rate was allowance. As shown in the above Table 4.2, 43.9% & 34.4% (111 & 87 employees) rate that, the existing allowance practice is very poor and poor and very little (1.6 % & 5.1%) of the respondents say the allowance package provided is very good and good to them. In general, many of the employees rate the allowance provision practice of telecom is poor. In relation to bonus, 52 employees (20.6%) said that there is a very poor bonus practice whereas 87 employees (34.4% percent of the respondents) rate bonus practice as poor. This shows employees' rate bonus practice of the telecom around the poor. According to the information gathered from HR, there is no objective based performance management system that helps to telecom to practices performance based bonus system in the previous time. This is one of the major reasons that make employees to rate the bonus system is poor.

The last practice presented for respondents to rate was the promotion practice of the telecom. As shown on the Table 4.2 above, significant number of the respondents rate the practice as very poor or poor (57 employees and 126 employees or 22.5% and 49.8% of the

total respondents respectively). Therefore, overall rating of the promotion practice indicates how poor the promotion practice currently exist in the telecom.

The next questions posed in this section were to employees assessment of their perception towards the overall pay practices of the telecom.

Table 4.3-Employees perception towards the overall pay practices							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Do you think Ethio Telecom has pay scale which consider market value of each profession?	Frequency	13	35	18	83	104	253
	Percent	5.1	13.8	7.1	32.8	41.1	100
The existing pay grades consider differences of skills acquired and level of responsibility required from employees?	Frequency	8	31	24	73	117	253
	Percent	3.2	12.3	9.5	28.9	46.2	100
Have you ever got compensation based on your performance appraisal result?	Frequency	0	44	9	103	97	253
	Percent	0	17.4	3.6	40.7	38.3	100

As shown in the above Table 4.3, the first question assesses employees' perception whether they believe the existing pay practice considers market value of each profession. According to their response, 41.1% & 32.8% of the respondents are strongly disagree and disagree with the idea, whereas 13.8% & 5.1% of the respondents are agree and strongly agree with existing pay scale consider the market value of professional employees. The remaining 18(7.1%) of the respondents are undecided with the statement forwarded. In general, it's possible to understand that most numbers of employees disagree with the idea of pay scale of Ethio Telecom consider market value of each profession.

The other question participants' response with regard to whether they believe the existing pay grades of telecom consider differences of skills and level of responsibility required from

employees. As shown in the above Table 4.3, significant number of employees, 117 and 73 employees or 46.2% & 28.9% of the respondents are strongly disagree and disagree with question, however 12.3% and 3.2% are agree and strongly agree with the statement forwarded. Whereas the remaining 24(9.5%) of the respondents are neutral to the statement. Based on the above finding it's possible to conclude that existing pay grade didn't consider the skill required and level of responsibility individual employees are supposed to have. Such a practice can be one of the reasons that make employees of the telecom being less responsible as the study conducted by the telecom shows one of the major weaknesses currently have towards employees is lack of accountability.

One of the issues the researcher wants to investigate was issues related to performance appraisal hence it is one of the means used to compensate employees based on their performance. The above Table 4.3, shows employees response of whether they got a compensation based on the results of their performance appraisal result, 97(38.8%) of respondents are strongly disagree, 103 employees or 40.7% of the respondents are disagree, and testify that they never got a compensation based on their performance appraisal result whereas the rest 44(17.4%) are agreed and said they got some type of compensation such as bonus based on their performance appraisal result. Based on the interview made with compensation and benefit administration department, there is a performance appraisal practice conducted by the Ethio Telecom which is made biannually for managerial and annually for non-managerial levels of employees. Scholars suggest that the results of the performance appraisal results helps to utilized to determine variable pay, bonus system, to provide training opportunities, promotion and etc, however currently there is no variable pay practice in Ethio Telecom only the outcome of the performance appraisal is used to one-time bonus payment per year for employees.

4.3.2 Alignment of Compensation Management Practices with HR and Business Strategy of the Telecom

Armstrong (2005) stated that compensation management is an integral part of human resource management approach to productivity improvement in the organization. It deals with the design, implementation and maintenance of compensation system that are general to the improvement of organizational, team and individuals' performance. Based on the idea,

the above questions were designed and raised to employees to assess their opinion towards the practices.

The below Table 4.5 shows, employees perception towards the alignment of the existing compensation management practices with that of the business strategies of the telecom. Like that of the previous section, in this section employees were requested their opinion with regard to the statements presented under the issue of alignment. As shown in the below table, five questions were presented to employees related to alignment between the existing compensation management practices with that of HR and business strategies of the telecom. Telecom HR strategy stated that employees are supposed to be compensated based on their individual and organizational performance. Based on this strategy, employees were requested to express their opinion whether they are compensated based on their individual performance or not. Results of the assessment shows that 124 employees that constitute 49% of the total respondents replied that they are strongly disagree with this idea. In addition to this, another 99 employees express their disagreement. The numbers of employees said agree are 14(5.5%), whereas the remaining 16(6.3%) of the respondents are neutral to the statement. This implies the overall employee's response shows there is poor practice of compensation based on their individual performance.

With regard to the question posed whether employees' team performance is acknowledged and rewarded by the telecom, large number of employees showed their disagreement with the idea. Out of the total respondents 121(47.8%) said that they strongly disagree and 92(36.4%) of them said they are disagree with the idea. However, about 24(9.5%) and 4(1.6%) of the respondents agree and strongly agree to the statement respectively. This show the existing telecom compensation management practices does not advocate and compensate group performance. Employees also asked about whether the telecom provides contingent pay whenever the company showed a considerable level of performance. In this regard, many of the employees replied their disagreement with this idea. Out of the whole respondents 98(38.7%) of the respondents said that they are disagree and 24.1% said they strongly disagree with the statement. In general, the overall respondents disagree with the provision of contingent pay based on organizational performance.

Table 4.4 Employees opinion towards the alignment between compensation practices and employees performance, promotion and longevity of services							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Employees are compensated based on his/her individual performance?	Frequency	0	14	16	99	124	253
	Percent	0	5.5	6.3	39.1	49	100
Team performance is acknowledged and compensated by the telecom?	Frequency	4	24	12	92	121	253
	Percent	1.6	9.5	4.7	36.4	47.8	100
The company provides contingent pay when the telecoms attain considerable level of performance?	Frequency	21	46	27	98	61	253
	Percent	8.3	18.2	10.7	38.7	24.1	100
Promotion is given based on employees' level of competency?	Frequency	19	39	51	67	77	253
	Percent	7.5	15.4	20.2	26.5	30.4	100
The compensation practices of the company shows the telecom intention to promote employees longevity of service?	Frequency	42	69	55	56	31	253
	Percent	16.6	27.3	21.7	22.1	12.3	100

Based on the interview which held with respective section about contingent payment, they said that the telecom provides annual increment of salary each year but not based the company profit performance whereas it's decided by higher government official or board of director. This implies that compensation system is not aligned with the business strategy and this is one of major problem which creates gab.

According to the third and fourth question raised on the above Table 4.4, shows employees perception towards promotion and longevity of service. With regard to the promotion practice, employees were requested whether promotion made based on level of competency employees has or show and the number of employees respond strongly disagree or disagree are 77(30.4%) & 67 (26.5%) of the total respondents respectively. In contrast, the number of employees that choose agree or strongly agree are 39(15.4%) or 19(7.5%) of the total respondents. This implies that employees are disagreeing that the promotion is given based on their employee competency. In relation to alignment, at last, employees were requested whether the telecom compensation practice promote longevity of employees' service. Accordingly, 69(27.3%) of the respondents agree to the statement. In addition, some respondent 42(16.6%) strongly agree to the statement. However, 55(21.7%) of the respondents are undecided to say or neutral to the aforementioned statement. Whereas, 56(22.1%) and 31(12.3%) of the respondents disagree and strongly agree to the statement. This shows employees opinion is between agree and neutral. Thus, from this discussion we are concluded that the employees are not much convinced that the existing compensation practices promote longevity of service to work for the Ethio Telecom.

As Lawler (1990, pp.15) noted, the process of designing effective compensation system for any organization should be started aligning with business HR and strategic of that organization. Once the compensation system aligns with the business strategic of the firm, compensation acts as a powerful means through which companies may attract the right peoples, retain those talents and provoke expected behavior outcomes in the form of motivation, commitment and trust, all of which, in turn, may be conducive to generate positive organizational outcomes.

4.3.3 Compliance of Compensation Management Practices with the Laws of the Nation.

According to Kleiman (2000), employment law and compliance concerns the legal framework within which organizations must operate in their treatment of employees. Laws and regulations exist covering a wide range of human resource practices, including recruiting, hiring, performance appraisal, compensation, health and safety, and labor relations. Some questions were raised to employees to assess their opinion towards the practices. Table 4.6, which is found in the next page, shows employees' opinion towards

compliance of the existing compensation practices with that of the wage declaration of the country. In addition to this, employees were also asked about if there is biasness of the existing compensation practices of Ethio Telecom based on employees demography such as gender, age, race, etc.

Table 4.5 Employees opinion towards the compliance between compensation practices of Telecom with that of the laws of the nation.							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
The pay scales of the telecom consider wage declaration of the nation?	Frequency	92	133	28	0	0	253
	Percent	36.4	52.6	11.1	0	0	100
Compensation practices of the telecom are free from discrimination based on demographic factors such as race, gender, age, etc?	Frequency	84	83	75	11	0	253
	Percent	33.2	32.8	29.6	4.3	0	100

The above Table 4.6 indicates the participants' response regarding employees' opinion towards the compliance of the pay practice of telecom with that of the country's pay declaration. Accordingly, 92(36.4%) of participants suggested that as they strongly agree and 133(52.6%) of respondents agree to the statement that there is compliance. Whereas the remaining 75(32.8%) of participants are neutral to say something with the statement. The overall response of employees showed that they are agreed with the idea. From this we can concluded that there is clear compliance pay of telecom on the law of the nation. The next question asked to respondents regarding pay was to measure compliance of the existing compensation practices is its ability to avoid biasness based on gender, age or race. Accordingly, about 84(33.2%) and 83(32.8%) are said strongly agree and agree with the idea and said it is free from biasness. However, the numbers of employees who said neutral and disagree are 75(29.6%) and 11(4.3%) respectively. Based on the respondents response

distribution, many of the employees testify their agreement that the existing compensation practice is free from biasness based on biographical factors such as gender, age or race of employees. The findings revealed that most of the employees have agreement on free from biasness of pay system from such kinds of factors.

4.3.4 Competitiveness of Compensation Management Practices of Telecom in the Labor Market

An organization's compensation practices can have far-reaching effects on its competitive advantage. The competitive advantage is a necessary component for the modern organization. The competitive advantage in compensation area specially generates a huge portion of the overall competitive advantage in organization. Organization is going to recruit and retain well-qualified and professional human capital, it's vital that company pay a salary that matches or exceeds that offered by other businesses that operate in industry (Armstrong, 2003). Based on the idea above, some question developed and rose to respondents. Table 4.7 indicates the participants' response regarding the competitiveness of the existing compensation management practices of Ethio Telecom with that of the other company within the country.

Table 4.6 Employees perception towards the competitiveness of the existing compensation practices with that of the other company within the country							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
The telecom has competent pay scale compared with other company within the country?	Frequency	36	41	53	72	51	253
	Percent	14.2	16.2	20.9	28.5	20.2	100
The telecom has a competitive benefit package that enables to retain its skilled work force?	Frequency	11	28	37	102	75	253
	Percent	4.3	11.1	14.6	40.3	29.6	100

While the question posed to respondents whether telecom has competent pay scale compared to other company with in the country. According to the assessment made, 51(20.2%) of participants suggested that as they strongly disagreeing with the above statement, and 72(28.5%) of employees were also responded their disagreement with the statement. Whereas, 36(14.2%) and 41(16.2%) employees strongly agreed and agreed respectively and state that the telecom has a competitive pay scale. About 53(20.9%) of the participants were unable to decide to the statement and they have reservation to answer the question raised by the researcher. In general, the overall response distribution of the employees does not show what the employees perception towards the existence of competent pay scale by Ethio Telecom.

The other question asked employees to testify whether the Ethio Telecom has a competitive benefit package compared with other company within country. The result of the assessment shows that 75 employees (29.6%) express their strong disagreement and another 102 employees (40.3%) express their disagreement. Also, 28(11.1%) of the respondents agree that telecom has competitive benefit package that enable to retain skill workforce. About (14.3%) of the respondents were unable to decide to the statement. The findings revealed that most of the employees have disagreement of the existence of competent benefit package in the telecom.

4.3.5 Transparency Issue of Compensation Management Practices in Telecom

In an era of easily accessible information, many employers are moving toward a more transparent communication strategy. As Helen (2005) noted, transparency can help to ensure that employees at all levels receive timely and accurate information, rather than a constant undercurrent of rumors. Compensation communication is important it affects company performance, employee satisfaction with pay, employee retention and employee motivation. Based on this idea, the below questions were raised to employees to assess their opinion towards the transparency of telecom compensation practices. Table 4.8 reveals employees' perception towards the transparency of the compensation management practices of Ethio Telecom.

Table 4.7 Employees perception towards the Transparency Aspect of compensation management practices within Ethio Telecom							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Employees are kept informed about how the current compensation systems function?	Frequency	16	37	28	85	87	253
	Percent	6.3	14.6	11.1	33.6	34.4	100
The existing pay practice is simple to understand that enables employees understand how their pay is calculated?	Frequency	18	23	27	88	97	253
	Percent	7.1	9.1	10.7	34.8	38.3	100
Employees clearly know the criteria of get promoted?	Frequency	9	19	33	94	98	253
	Percent	3.6	7.5	13	37.2	38.7	100
Employees well aware about the total benefit packages provided?	Frequency	30	37	23	70	93	253
	Percent	11.9	14.6	9.1	27.7	36.8	100

When the respondent requested to answer the question whether they are informed by the concerned department about how the existing compensation management functions. The number of employees who say strongly agree 16(6.3%) and 37(14.6%) said agree with the statement. In contrary, the number of employees who said strongly disagrees and disagree 87 and 85, this constitutes 34.4% and 33.6% of the total respondents respectively. This implies that that employee well not informed about how the existing compensation system functions. However, as per the interview with compensation and benefit administration section, they told there is an attempt currently made by the Ethio Telecom internal communication section through the company internal portal to inform employees about the existing compensation system and benefit package but employees not actively follows the

information, even some employees didn't check company portal and communication Ad Hoc kit released.

The other important question was asked with respect to employees whether the existing pay system is simple to understand by employees and can make them to know how their pay is calculated. It can be observed from the above table, 97 (38.3%) of the respondents strongly disagree to the statement. Similarly, 88(34.8%) of the participants disagree and believe that the pay system is not simple to understand and they are unfamiliar about how their pay is calculated. Whereas as, 27(9.1%) of the respondents were not sure to answer the statement. On the other hand, about 23(9.1%) and 18(7.1%) of the respondents agree and strongly agree to the statement respectively. This shows the majority of respondents are disagree with the idea. These results reveal that to high extent the employees of the telecom are unaware how the pay system function and pay calculated.

For the question asked with regard to whether employees are clearly aware about the criteria of how they get promoted. As per the response gathered from respondents, many of the employees said that they are not well aware about the criteria promotion. The number of respondents that respond strongly disagree and disagree are 98(38.7%) and 94(37.2%) respectively. Whereas as, 33(13%) of the respondents were neutral to answer the statement. On the other hand, about 19(7.5%) and 9(3.6 %) of the respondents agree and strongly agree to the statement respectively. However, the distribution of employees' response indicates that there is employees' disagreement with statement. Even if most employees disagree with the statement, the Ethio Telecom HR Internal Placement Department heads said that they are trying to create awareness about criteria used for promotion, even the criteria and procedures of promotion/transfer posted in Ethio Telecom intranet portal for easily access to employees.

The last question employees were requested in relation to the transparency of the compensation system is whether employees are aware about the total benefit package provided by the telecom. In this regard, a significant number of employees expressed their disagreement. About, 30 (11.9%) of the respondents agree to the statement, 37(14.6%) of the respondents strongly agree that they know well about total company benefit packages. On the other hand, 70(27.7%) and 93(36.8%) of the respondents disagree and strongly agree

to the statement. In general, the result shows employees are not well aware about the total benefit packages provided.

4.3.6 Equity Issue of Compensation Management Practices of Ethio Telecom

As Mathis and Jackson (2010) noted, most people in organizations work to gain money for their efforts. Whether employees receive pay, the extent to which they perceive their compensation to be fair often affects their performance. Individuals judge equity in compensation by comparing their input (effort and performance) against the effort and performance of others and against the outcomes (the rewards received). To investigate the practices, the below questions were developed to assess their perception towards the practices.

Table 4.9 presents total respondent attitude towards the equity of compensation distribution among employees of Ethio Telecom. The first question asked for the research participants was whether there is equal payment practice for employees who perform the same type of work. Accordingly, 89(33.2%) and 95(37.5%) of the majority of the respondents strongly disagree and disagree with the statement respectively. Whereas, 8(11.1%) of the respondent had neutral feeling about practices of equal distribution payment for those who work the same type of task. On the other hand, 30(11.9%) and 11(4.3%) of the respondents agree and strongly agree with the question asked. This shows that the majority of the respondents disagree on the practices of equal payment in the telecom.

The second question asked participants in this category is whether the existing promotion practice treats all candidates equally or not. That is whether employees get equal promotion opportunity if they have the qualification to compete for the position. In this regard, majority of 75(29.6%) and 117(46.2%) of employees showed their strong disagreement and disagreement and 13(5.1%) and 28(11.1%) of respondent strongly agreed and agreed on chance of getting equal promotion opportunities. This imply that most employees' disagreement on the existing promotion practices given equal chance for employees.

Table 4.8 Employees opinion towards the Equity aspects of compensation management practices of Ethio Telecom							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Employees who perform the same type of task/work get equal pay?	Frequency	11	30	28	95	89	253
	Percent	4.3	11.9	11.1	37.5	35.2	100
The telecom promotion practice treats all candidates equally?	Frequency	13	28	20	117	75	253
	Percent	5.1	11.1	7.9	46.2	29.6	100
Employees at similar position or who serve the telecom the same number of years provided with the same amount of benefit?	Frequency	83	91	31	22	26	253
	Percent	32.8	36	12.3	8.7	10.3	100

In addition to the above equity related questions, another question was forward to employees to assess whether employees at similar position or who serve the telecom the same number of years provided with the same amount of benefit or not. Majority of the employees express their agreement. Accordingly, 83(32.8%) of the respondents strongly agreed, 91(36%) of them agreed. Whereas 22(8.7%) and 26(10.3%) of them respond disagree and strongly disagree that employee those have similar position or service of year provided the same amount of benefit. However, employee’s opinions clearly show their total agreement. According to manager of compensation and benefit department, employees working same level get equal benefit, even many of the benefit packages such mobile, EVDO and fixed phone free airtime are provided equally for retired employees.

4.3.7 Fairness of Compensation Management Practices of Ethio Telecom

As Trevor (2008) noted, compensation has a close link with the individual performance. Employees basically become dissatisfied if they perceived a mismatched between the compensation offered by the employers and the efforts they deployed to perform any task. The Table 4.9 below also shows employees' perception results in relation to fairness of the compensation distribution practices provided by the telecom.

There were five questions raised for employees on the issue of fairness. The first question forwarded to employees was to express their opinion of whether employees believe they are remunerated as per their individual contribution to the performance of the company. For this question, 33(13%) employees showed their agreement even if no one showed his/her strong agreement about the fairness of the practice. This shows the majority of the participants around 99(39.1%) and 79(31.2%) of respondents said strongly disagree and disagree with the idea respectively. About 42(16.6%) of the respondents remained silent. The overall response shows that individual employee's pay is not determined fairly based on his/her contribution to the performance of the organization.

The second question employees were asked about whether the telecom compensate employees what is promised to be compensated. From the above table it's possible to infer that more than half 157(62.1%) of the respondents agree that employees compensate what is promised. Whereas 14(5.5%), 40(15.8%), and 43(17%) of participants said strongly disagree, disagree and neutral with the statement respectively. These significantly determined the overall response showed employees opinion is fail the scales agree. This shows the telecom deliver what it promises to be given to its employees. This result show Ethio Telecom managements keep their promise to make adjustments in their pay or provided benefit to retained skilled manpower.

Third question forward to employees to responses on the fairness of payment distribution from procedural justice aspect, one of the questions employees were asked to express their opinion if there is a fair distribution of pay among varied job level whenever there is a benefit adjustment made by the telecom. Majority of the respondents around 111(43.9%) of them strongly disagree and 57(22.5%) of them disagree and said there is no fair distribution

of pay among varied job categories. This shows employees have strong perception of unfair distribution of pay practice in the telecom.

Table 4.9 Employees opinion towards the fairness aspects of compensation management practices of Ethio Telecom							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Employees are paid as per their individual contribution to the performance of the organization?	Frequency	0	33	42	79	99	253
	Percent	0	13	16.6	31.2	39.1	100
Employees always compensate what is promised to be compensated?	Frequency	64	93	43	40	14	254
	Percent	25.3	36.8	17	15.8	5.5	100
Whenever pay adjustments are made, it is done fairly among varied job level of the company?	Frequency	2	51	32	57	111	253
	Percent	0.8	20.2	12.6	22.5	43.9	100
Employees with a given level of qualification have equal opportunity of get promoted?	Frequency	10	37	19	80	107	253
	Percent	4	14.6	7.5	31.6	42.3	100
Benefits are distributed among all employees objectively without Prejudices?	Frequency	30	56	59	61	47	253
	Percent	11.9	22.1	23.3	24.1	18.6	100

The other question asked to employees with regard to procedural justice aspect of compensation management practices is concerned with how fairly employees with equal qualification get the opportunity to get promoted. Accordingly, 10(4%) of the respondents agree that employees with a given level of qualification have equal opportunity of get

promoted. Similarly, 37(14.6%) of the respondents strongly agree that employee have equal opportunity of getting promotion. In contrast, 19(7.5%) of the participants were unable to decide question rose. On the other hand, 80(31.6%) and 107(42.3%) of the respondents disagree and strongly disagree with the statement. In general, employees testified that there is unequal opportunity of get promoted among employees.

At the end in the fairness category question raised to the employees was to express their opinion towards the fairness of benefit distribution among employees objectively without prejudice. Some respondent 56(22.1%) and 56(11.9%) of them said agreed and strongly agreed, among the total respondent which is 61(24.1%), 47(18.6%) and 59(23.3%) of employees said they disagree, strongly disagree and neutral respectively. In general, the response around to neutral which shows employees opinion is indifferent with distribution of benefits among employees.

4.3.8 Consistency Issues of Compensation Management Practices of Ethio Telecom

A consistent approach to compensation management means that decisions on pay do not vary arbitrarily without due cause between different people or at different times. In this section of the questionnaire, employees were asked about the consistency of compensation management practices in the telecom.

As shown in Table 4.11 below, employees were asked whether pay decisions vary arbitrarily between employees without tangible reason. In this regard, 117(46.2%) of the respondents favor that pay decisions strongly agreed on vary arbitrarily in the telecom, 96(37.93%) said disagree whereas the rest 21(8.3%) and 7(2.8%) of them express their agreement of arbitrarily made pay variation decision in the telecom. This finding reveled that more than 80% of the respondents agreed that pay decision vary between employees illogically.

The second question respondents were asked about whether the criteria used to compensate employees are consistently applicable to all employees at different times. In this regard, 113(44.7%) of respondents said strongly agree and similarly 105(41.5%) of them respondents express their disagreement on consistency issue. On the other hand, 25(9.9%) of them say no to question asked but some number of respondents 11(4.3%) also states that the

criteria used are consistent enough. However, the overall response shows most employees' attitude is tend to disagreement in this regard.

Table 4.10 Employees opinion towards the consistency aspects of compensation management practices of Ethio Telecom							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
In the telecom, pay decisions do not vary arbitrarily between employees?	Frequency	7	21	13	96	117	254
	Percent	2.8	8.3	5.1	37.9	46.2	100
The criteria used to compensate employees are consistently applicable to all employees?	Frequency	0	11	25	105	113	254
	Percent	0	4.3	9.9	41.5	44.7	100
Benefit administration practices shows consistency among varied job level of the telecom through time?	Frequency	28	32	18	91	84	253
	Percent	11.1	12.6	7.1	36	33.2	100

The other assessment question forward to respondents to give their authentication on the consistency of benefit administration among varied job category of the telecom, as per the opinion gathered, large number of the respondents expresses their disagreement of consistency of benefit administration among varied job category. The number of respondents that express their strong disagreement and disagreement are 84(33.2%) and 91(36%) respectively. In contrast, 18(7.1%) of the participants were unable to decide whether consistency of benefit administration of telecom varied among different job level or not. On the other hand, 32(12.6%) and 8(11.1%) of the respondents disagree and strongly disagree towards question forward. In general, the overall employees' responses imply that respondents testify that there is a deviation of benefit administration practices in telecom.

According to the interview made with HR compensation and benefit administration section, there is a deviation of benefit provided to varied job level in order to satisfy those who are taking more responsibility.

4.3.9 Contextual Fitness of Compensation Management Practices

According to Armstrong (2007), the design of compensation processes should be governed by the context (the characteristics of the organization, its business strategy and the type of employees) and the organization’s culture (its values and behavioral norms). Aligning HR and business strategic is an important endeavor for every organization. Based on this idea, the below questions were designed and raised to employees to assess their opinion towards.

Table 4.11 Employees perception on contextual fitness of compensation management practices of Ethio Telecom							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
The existing compensation practices best fit with the HR strategies of the telecom?	Frequency	14	27	34	97	82	254
	Percent	5.5	10.7	13.4	38.3	32.4	100
The pay practices are designed by considering the nature of the workforce the organization wants to have?	Frequency	17	45	29	91	71	253
	Percent	6.7	17.8	11.5	36	28.1	100
The benefit packages provided have a contextual fitness with the nature of the business operation?	Frequency	131	81	41	0	0	253
	Percent	51.8	32	16.2	0	0	100

The first question asked for employees in this regard was to express their opinion whether the existing compensation strategies are best fit with Ethio Telecom HR strategies or not. For this question many of the employees express their disagreement. As shown in the above

Table 4.12, the numbers of employees said disagree and strongly disagree are 82 and 97 which constitutes 32.4% and 38.3% of the total respondents. In contrast, 27(10.7%), 14(5.5%) and 34(13.4) of respondents said that agree, strongly agree and neutral for the question asked respectively. The results indicate that employees' attitude toward compensation and benefit practices are not best fit with HR strategy of the telecom.

The other question was presented to employees with regard to the pay practices are designed by considering the nature of the workforce. For this question, the majority of 71(28.1%) employees express their strong disagreement, 91(36%) of the respondents said they are disagree. Hence, 45(17.8%), 17(6.7%) and 29(11.5%) of respondents said that agree, strongly agree and neutral for the question asked respectively. This shows majority of the employees believe that the existing pay system is poorly designed and fail to consider the nature of the workforce the telecom want to acquire.

The last question forward in this section was employees to choose their opinion with regard the fit between the benefit packages provided to employees and the nature of the business operation. Majority of the employees express their agreement. As shown in Table 4.12, most of 131(51.8%) of the respondents said they are strongly agreeing with the statement and another 81(32%) of the respondents express their agreement. Whereas 41(16.2) of respondents undecided for the question forward. In general, the overall employees' opinion shows the presence of good link between the existing benefit packages contextual fitness with the nature of business operation.

4.3.10 Flexibility of Compensation Management Practices with change in the Environment

Flexibility of a compensation management system is one of the major aspects that are supposed to be considered whenever there are major changes occur within and outside of the organization.

As Table 4.13 next page shows, employees of telecom were requested the flexibility of the existing compensation management practices. One of the questions posed to employees were to check if there is a change in the pay system whenever major changes in the external labor market. As it is described in the table, the numbers of employees that say strongly

disagree and disagree are 94(37.2%) and 88(34.8%) respectively and 13(5.1%) of them responds agreement with the idea, whereas, no employee strongly agree with the question but 58(22.9%) of them undecided to say something for the question asked. In general, majority of the employees responded that there is no change in the pay system parallel to the changes in the external labor market.

The second question presented to employees was whether there are changes of compensation management practices at the time the telecom made a strategic change. For this question, many of employees respond that there is no change of the compensation strategy whenever there is a change of business strategy adopted by the telecom. This shows the employees total disagreement of the statement presented. During the interview, the compensation and benefit administration department also asked about if there is any compensation management policy change when new business strategy developed and they responded that there are changes but when we saw the employees' response clearly show there is gap on what actually do.

Table 4.12 Employees perception towards the flexibility of compensation management practices of Ethio Telecom							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Pay practices are subject to change depending on changes in the external market?	Frequency	0	13	58	88	94	253
	Percent	0	5.1	22.9	34.8	37.2	100
Compensation practices are revised whenever there is a change of strategy by the telecom?	Frequency	3	15	72	96	67	253
	Percent	1.2	5.9	28.5	37.9	26.5	100
Benefit packages can be changed depending on the change in employees demand?	Frequency	0	11	54	90	98	253
	Percent	0	4.3	21.3	35.6	38.7	100

At last, employees were requested if there is any practice of change of benefit packages per employee's desire. That is to request whether the existing benefit provided by Ethio Telecom has a fit with the demands of employees. As per their response, many of the employees said there is no flexibility of the benefit package based on employee's demand. Like that of the previous question under this section, many of the employees express their disagreement, 98(38.7%) of the respondents said strongly disagree with the statement and another 90(35.6%) of the respondents express their disagreement. In general, the overall employees' opinion shows the employees disagreement and there is the presence of gap in existing benefit packages and current demand of employees.

As Baron & Cook (2002) noted, there is a need for flexible compensation plans in the present day because a rapid change is taking place both in the work environment and in the workforce. Organization must deal with challenges, change is inevitable, and it is good for most businesses to make their organizations more dynamic, profitable, and efficient. One of the best solutions possible to manage change effectively is the flexible compensation plan. This plan would help the business in reducing turnover, tardiness, and absenteeism.

4.3.11 Employees Overall Attitude toward the Existing Compensation Management Practices

Compensation serves many functions and can helps to attract, motivate, and retain the competent employees of an organization. An effective compensation practice supposed to be transparent, have fair distribution of rewards, consistency, well communicated, ensure equity, and involve flexibility with changes (Werther and Davis, 1996).

Based on the above idea, the below question developed and raised to respondents for assessment of perceptions toward the overall practices. The following Table 4.13 shows employees attitude towards the overall compensation management practices of the telecom. The first question presented to employees was to evaluate whether the existing compensation practices satisfy their overall needs. As shown in the table next page, 127(50.2%) of the respondents express their strongly disagreement, 98(38.7%) of them disagree with the idea, among the total 28(11.1%) of the respondents were unable to decide to the statement. None of employees advocates its ability to satisfy their overall needs. In

general, the overall response show employees opinion is between disagree and strongly disagree which implies that employees totally unsatisfied with telecom compensation management system and practices.

Table 4.13 Employees Opinion towards the general of compensation management practices of Ethio Telecom							
Measure							
Item	Scale	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Satisfy the overall needs of employees?	Frequency	0	0	28	98	127	253
	Percent	0	0	11.1	38.7	50.2	100
Enhance employees' motivation towards their work?	Frequency	19	26	20	69	119	253
	Percent	7.5	10.3	7.9	27.3	47	100
Make to attract and retain its employees?	Frequency	17	38	49	86	63	253
	Percent	6.7	15	19.4	34	24.9	100

The other question forward to employees was to give their opinion of whether the existing compensation system of the telecom has the potential to enhance employees' motivation towards effectively performing their task. As per their response, 119(47%) of the respondents express their strong disagreement and 69(27.3%) of the respondents disagree about the motivating potential of the existing compensation practices. Some of employees 26(10.3%) and 19(7.5%) of respondents agreed and strongly agree to question raised. However, the overall response shows the employees' disagreement and the existing pay practice isn't as much of creating work motivation of telecom employees. At last, employees were asked their opinion about the overall potential of the existing compensation practice to attract new employees and retain the existing ones. Accordingly, 17(6.7%) and 38(15%) of the respondents express their strong agreement and agreement. In contrast, 49(19.4%) of the respondents were unable to decide to the statement, but majority of 63(24.9%) and 86(34%) of the respondents strongly disagree and disagree on practice and said that current compensation system has lack the potential to attract new applicants and also has less potential to retain the existing work force.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This final chapter contains the summary of findings, conclusion, limitation and recommendations parts of the study.

5.1 Summary of Findings

The following were the summary of the major findings.

- According to employees' evaluations of the existing compensation practices like, benefit, allowance, bonus, and promotion are rated as poor. But, the practice of pay is rated neutral.
- In relation to the overall pay practice, majority of respondents (73.9% ,75.1% & 79%) agreed that telecom pay scale don't consider market value of each profession and the difference of skill acquired and level of responsibility employees has respectively. In addition to this, most of (73.9%) employees testify that they have never been compensated based on their performance appraisal results.
- The majority of employee (88%, 84.2% & 56.9%) disagrees with question raised toward the alignment of individual, team and organizational performance with that of the compensation practices respectively. And again while the majority of the worker (56.9%) disagree that promotion process based on employees' competency.
- In relation to compliance of compensation management practices, the researcher also identified that the majority of the respondents (89%) agreed on compliance of the practices. In addition, most of the respondents (66%) agreed that the existing compensation practice is free from biasness based on biographical factors such as age, race, and, gender.
- The study revealed with regard to competitiveness of compensation practices, even if the majority of respondents agreed on the situation a very significant number (48.7%) of employees disagreed that the competency of the existing pay scale. Majority of respondent responses sloped to neutral. In general, the overall respondents' perception doesn't show towards the existence of competent pay scale or not in the telecom. In

addition, benefit packages competitiveness were also assessed but the majority of (69.9%) of respondents are disagreed.

- In relation to the transparency aspects of the existing compensation practice in the telecom, majority of employees (68%) stated that they are not informed about how the compensation system functions and (73.1%) of them unaware about the existing benefit packages. Similarly, majority of respondents (75.9% & 64%) disagreed that the telecom employees easily understand the existing pay system and familiar to criteria used to get promotion respectively.
- The study further discovered equity aspects of compensation practices, (72.7%) of the respondent employees express their disagreement of equal pay for the same type of work and 75.8% of the respondent express their disagreement the promotion practice treats all candidates equally. However, provision of the same amount of benefit for employees at similar position or who serve the same number of years are rated as good.
- With regard to fairness of compensation practices, Majority of respondents (70.3%, 73.9% & 75.7%) disagreed that employees are compensated based on their individual contribution, yearly pay adjustments are fairly done among varied job category and employees are get equal opportunity for promotion respectively. However, the fairness of distribution of benefit among all employees is rated as neutral and the majority of employees (62.1%) testify they are compensated what is promised by the telecom.
- With regard to consistency of the pay practices, 84.1% of employees revealed that pay decisions vary illogically among varied employees without due cause, (69.2%) of respondents express their disagreement on consistency of benefit administration among varied job level. In addition, (86.2%) of respondents express their disagreements on criteria used to promote employees are consistently applicable to all employees.
- In contextual regard, about (70.7%) of the respondents express their disagreement on the existing compensation practices of telecom best fit with the HR strategies, (64.1%) of them respond that pay practice aren't designed by considering the nature of the workforce the organization wants to have. However, (83.8%) of them agreed with the existing benefit packages have a contextual fitness with the nature of the business operation.

- In relation to flexibility of compensation system, Majority of respondents (72%) disagreed that flexibility in the pay system, (64.4%) of them disagreed that the existence of flexibility in the compensation system with the change in business strategy of the organization and (74.3%) disagreed that the benefit package amended as per employees demand changed.
- Finally employees overall perception towards the existing compensation practices was assessed. As per the assessment, Majority of employees (88.9%) disagreed that the potential of the existing compensation practices to satisfy their overall needs, (74.3%) of them testify their disagreement of the ability to enhance their motivation. Lastly, employees were asked whether the compensation practice has potential of attracting and retaining employees but (58.9%) of them disagreed.

5.2 Conclusion

Based on the findings of the research work, the researcher outlines the following as conclusion of the research work.

- The telecom has varied types of compensation practices such as basic pay, allowance, bonus, benefit, and promotion practices. However, except basic pay administration the participants express other compensation poorly practiced in the telecom. In addition, rating of overall pay practices result revealed that the pay system don't satisfy employees of telecom. These create demotivation on their work and the primary reason the employees leave their jobs.
- There is poor strategic alignment between the compensation practices and the HR strategies of the telecom with regard to acknowledging individual, team, and, organizational performance employees and even with promotion practices. The wrong alignment of the compensation strategy, which does not fit with the needs of the organization and with the HR and Business Strategies, can destroy the organization within several years and the organization suffers from decreased performance and not utilizing the full potential of employees.
- The compliance of the exiting compensation practices with the laws of the nation and its free from biasness based on demographical factors is one of the important aspects of the

pay system and many employees testified its compliance. Telecom adhere the existing legislation in the areas of labor standards and human rights, it ensure that compensation practices are compliance.

- With regard to competitiveness of the existing compensation practices, telecom has competitive pay scale compared with other organization working in Ethiopia. However, participants' revealed that telecom has humble benefit package that enables to attract and retain skilled worker. The study revealed that most employees leaving the company due to dissatisfaction with the benefit given by the organization rather than pay practices.
- Transparency aspects such as being kept informed of how the compensation system function and knowledge about the overall benefit packages, but participants testified that they were not clearly communicated. This can cause employee demotivation hence they do not clearly know how the compensation system functions.
- Equity aspects related to equal pay of employees who is performing the same activity is claimed not applicable in the organization. In addition, as per the assessment of employees' opinion they have questions regarding equal opportunities for promotion. This can create hostility among employees and less output for the organizational performance.
- As per the assessment, there is inconsistency in the pay practice of the telecom. Majority of employees testified that an employee unpaid as per their individual contribution and unfairly benefit distribution among varied job category. The result of unfair employee compensation practices could be discouraging those are best, instead of motivating them to the highest level.
- Employees' also stated inflexibility of the telecom compensation practices in relation to changes occurs in the external environment or change in employees' demand. This is one of the major components that supposed to be considered by the organization.
- One of the findings revealed by this research work is issues related to contextual fitness. As per the assessment of employees' response there is a contextual fitness problem between the designs of the compensation strategy with that of HR strategies and designed of pay system in the telecom.
- As per the overall survey, the existing compensation practices get failed to satisfy the overall needs of the employees, to motivate employees towards their job, and retain the

existing qualified one. These created massive problems in retaining employees working specially in the area of telecommunication and information technology (Technical Domain) and major company sales activities.

5.3 Limitation of Study

As a limitation, the researcher was faced a great difficulty in data collection process, hence some employees were afraid to share their opinion towards the existing compensation practices, some of the respondent were not co-operative and lack of interest to fill the questionnaires and unable to obtain full cooperation of subject of the study because of busy schedules of the Ethio Telecom managers to made interview. In addition to this, the time allowed for the project was very short and getting journals and books relevant for the study was additional challenging situations for completion of the study.

5.4 Recommendations

Based on the points raised above, the following recommendations were forwarded;

- The researcher suggests to telecom further focusing in provision of appropriate compensation for its employees. This is because employees can be serving the telecom for long period of time. This is supposed to be ensured by providing appropriate compensation based employees individual, team and organizational performance.
- In order to solve problem related to pay, the organization is supposed to look its pay system deeply and provide a competent pay to employees as per the market rate or better. In addition to this, the internal pay structure should also be evaluated and restructured by considering skill differences and responsibility provided to individual employees. In this regard, conducting proper job design, job evaluation and job pricing can be used as an important instrument to value tasks performed by employees.
- One way to solve the problem of alignment is to redesign the compensation strategy of an organization and aligned with business strategy and HR strategy. The HR Strategy has to be always designed and developed with having the respect to the situation in the compensation area in the organization On the other hand, the compliance between the existing compensation practices with the laws of the nation is proper and supposed to be strengthened in the future.

- To alleviate the problem of transparency, the organization is supposed to introduce a communication channel that can be used to notify employees about how the existing compensation system function, how it affect employees, and reason behind each decision made in relation to pay and benefit timely.
- To solve equity problems, appropriate job evaluation and task distribution is supposed to be made to employees who are at different levels of the job hierarchy. Further to this, the benefit administration unit is expected to ensure the provision of all the benefits designed to be delivered to employees at varied job level. A good compensation practices includes a balance between internal equity and external competitiveness.
- Fairness problems related to pay distribution can be reduced by conducting a study before deciding the proportion of salary increment. Then all employees need to be informed the proportion of salary increment they will get and the reason behind the provision of a given proportion of increment.
- In relation to consistency problem in benefit administration, due attention is supposed to be given by the compensation section whether employees of a given section are provided all the benefits allowed to them by the organization.
- The problems related to contextual fit should not be ignored and all the compensation aspects, supposed to be relooked and the weakest link between the strategies and practices supposed to be identified and resolved.
- Having a flexible system and structure is one of the important characteristics of modern organizations. As businesses change their focus, their approach to compensation must change as well. Traditional compensation methods may hold a company back from adequately rewarding its best workers. Therefore, Ethio Telecom needs to adopt a flexible compensation practices that consider changes in the environment.
- The overall existing compensation management practices of telecom fail to get employees agreement in the aspects of its potential to satisfy the needs of employees, motivate and ability to attract and retain potential employees. To solve this, the researcher advises the management to make need assessment of the employees and readjusted compensation policies that can motivate employees for higher performance because compensation system affects the productivity and happiness of employees, as well as the ability of organization to effectively realize its objective.

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Appendix II

Ethio Telecom Compensation Management Practices Assessment Questionnaire St. Mary's University School of Graduate Studies Department of Business Administration

Dear Respondent:

This questionnaire is designed to collect information about Compensation Management System in Ethio Telecom. Specifically, it is aimed to assess the current practices of Compensation Management. The questionnaire has been designed in such a way, that minimum time is required for the completion. Your response will be treated as strictly confidential and will be used only for academic purpose i.e. in partial fulfillment of the requirement for MBA in Business Administration. Since successful completion of this study depends on your genuine response, I'm kindly requesting your cooperation to respond to all of the following questions.

Directions for filling the questionnaire

- ❖ Please put an "X" mark in the space provided.

I. SECTION ONE

A. Biographical Information

1. Gender a. Male b. Female
2. What is your marital Status?
Single Married Divorced Windowed
3. Age Category?
a. 21 to 30 years c. 41 to 50 years
b. 31 to 40 years d. 51 & above years of age
4. Your Educational qualification?
a. Certificate c. First Degree e. Other _____
b. College Diploma d. Master's Degree
5. Length of service at Ethio Telecom?
a. Less than a year c. 4 to 6 years e. 10 years and above
b. 1 to 3 years d. 7 to 9 years

II. SECTION TWO
Opinion of the Respondents on Current Compensation Management of Ethio Telecom

B. 1. How would you rate the Ethio Telecom on providing each of the following?

	Very poor	Poor	Average	Good	Very good
Pay					
Benefit					
Allowance					
Bonus					
Promotion					

Please put an “X” mark on your choice among the five options provided under.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. Do you think Ethio Telecom has pay scale which consider market value of each profession					
3. The existing pay grades consider differences of skills acquired and level of responsibility required from employees.					
4. Have you ever got compensated based on your performance appraisal result?					

Dimensions of Compensation Management Practices

C. Alignment	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
As the Ethio Telecom Human Resource strategy favor:					
1. Employees are compensated based on his/her individual performance.					
2. Team performance is acknowledged and compensated by the telecom.					
3. Promotion is given based on employees’ level of competency.					
4. The company provides contingent pay when the telecoms attain considerable level of performance.					
5. The compensation practices of the company shows the telecom intention to promote employees longevity of service.					
D. Compliance	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. The pay scales of the telecom consider wage declaration of the nation.					
2. Compensation practices of the company are free from discrimination based on demographic factors such as race, gender, age, etc.					

E. Competitiveness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. The telecom has competent pay scale compared with other company within the country.					
2. The telecom has a competitive benefit package that enables to retain its skilled work force.					
F. Transparency	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Employees are kept informed about how the current compensation and benefit system function					
2. There is a clear link between employees extra performance and the amount of pay added for the extra performance.					
3. The existing pay practice is simple to understand that enables employees understand how their pay is calculated.					
4. Employees clearly know the criteria of get promoted.					
5. Employees well aware about the total benefit packages provided.					
G. Equity	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Employees who perform the same type of task/work get equal pay.					
2. The telecom promotion practice treats all candidates equally.					
3. Employees at similar position or who serve the telecom the same number of years provided with the same amount of benefit.					
H. Fairness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Employees are paid as per their individual contribution to the performance of the organization.					
2. Employees always compensate what is promised to be compensated					
3. Whenever pay adjustments are made, it is done fairly among varied departments of the company.					
4. Employees with a given level of qualification have equal opportunity of get promoted.					
5. Benefits are distributed among all employees objectively without Prejudices.					
I. Consistency	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. In the telecom, pay decisions do not vary arbitrarily between employees who are at the same level.					
2. The criteria used to compensate employees are consistently applicable to all employees.					
3. Benefit administration practices shows consistency among varied departments of the telecom through time.					

J. Contextual fitness	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. The existing compensation practices best fit with the HR strategies of the telecom.					
2. The pay practices are designed by considering the nature of the workforce the organization wants to have.					
3. The benefit packages provided have a contextual fitness with the nature of the business operation.					
K. Flexibility	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Pay practices are subject to change depending on changes in the external market.					
2. Compensation and benefit practices are revised whenever there is a change of strategy by the telecom.					
3. Benefit packages can be changed depending on the change in employees demand.					
L. In General, the existing compensation management practices of the telecom has the potential to:	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Satisfy the overall needs of employees.					
2. Enhance employees motivation towards their work					
3. Make the telecom to retain its employees.					

Appendix II

Interview Questions

1. Does the company have HR strategies which focus on compensation and benefit system?
Is there a compensation and benefit procedure and policy in the organization? Do you believe that the existing compensation practices best fit with the HR strategies of the telecom?
2. Which department is responsible for the design and revises the existing compensation system?
3. What types of mechanisms are planned by the organization to attract new, motivate and retain the existing employees?
4. Do you have performance management system in organization? For what purpose the organization utilize results of employee performance appraisal? Is there performance related pay in the telecom based on individual, team, and organizational performance?
5. What are the factors affect an employee's pay or benefit system?
6. Do you have a variable pay practice in your organization?
7. Are you providing bonus to your employees? How frequently you provide bonus to your employees? Is there difference in bonus provisioning which based employee performance?
8. Are you timely communicate and create awareness how the compensation system function in the telecom?

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Goitom Abraham (Asst. Prof.). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name

Signature & Date

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as university advisor.

Advisor

Signature & Date