

**AN ASSESSMENT OF EMPLOYEES COMPENSATION  
PACKAGE SCHEME AT ETHIOPIA PHARMACEUTICALS  
MANUFACTURING SHARE COMPANY**

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**A THESIS SUBMITTED TO ST.MARYS UNIVERSITY SCHOOL  
OF GRADUATES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTERS OF  
BUSINESS ADMINISTRATION**

**JUNE 2017G.C**

**ADDIS ABABA, ETHIOPIA**

**ST MARYS UNIVERSITY SCHOOL OF GRADUATE STUDIES FACULTY  
OF BUSINESS**

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## Table of Contents

CONTENTS	PAGE
Acknowledgments .....	V
List of tables .....	Vi
List of figures .....	Vii
Abstract .....	Viii
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background of the study .....	1
1.2. Statement of the problem .....	4
1.3. Basic research questions .....	5
1.4. Objective of the study .....	5
1.4.1. General objective .....	5
1.4.2. Specific objective .....	5
1.5. Definition of terms .....	6
1.6. Significance of the study .....	7
1.7. Scope and limitation of the study .....	7
1.8. Organization of the research report .....	7
<b>CHAPTER 2: LITERATURE REVIEW</b> .....	<b>8</b>
2.1. Definition of Compensation .....	8
2.2. Changing philosophies regarding pay systems .....	8
2.3. Reward Systems .....	9
2.4. Strategic integration of compensation plan and business plan .....	10
2.5. Developments in pay structures .....	11
2.6. Compensation package. ....	12
2.7. Methods of determining compensation .....	14
2.8. Method of payment .....	18

2.9. Performance related pay .....	22
2.10. Cafeteria (flexible) benefits .....	27
2.11. Voluntary benefits .....	28
2.12. Importance of comparability .....	29
2.13. Reward and motivation theories .....	31
2.14. Legal principles affecting performance management .....	33
2.15. Empirical review .....	34
<b>CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY .....</b>	<b>35</b>
3.1. Research design .....	35
3.2. Population, sampling technique and Sample .....	35
3.3. Source and tools of data collection .....	37
3.4. Procedures of data collection .....	37
3.5. Method of data analysis .....	37
3.6. Ethical Consideration .....	38
3.7. Validity and reliability analysis .....	38
<b>CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION .....</b>	<b>39</b>
4.1. Introduction .....	39
4.2. Demographic background of the respondents .....	39
4.3. Employees perception with compensation package scheme .....	44
<b>CHAPTER FIVE SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>58</b>
5.1. Summary of findings .....	58
5.2. Conclusions .....	60
5.3. Recommendations .....	62
<b>APPENDIX</b>	

## **ACKNOWLEDGMENTS**

I am highly indebted to my advisor Zemenu Aynadis (Ass. Professor), who has extraordinarily generous in going through this paper as well as for his constructive criticism and comment, without which this study could have never been completed.

I would like to thank the employees of Ethiopian pharmaceuticals manufacturing Share Company for their cooperation in felling out the questionnaires.

I am eternally grateful to Tamrate, Hailegebriel and Ermias who have assisted me in various ways during the study for their material and moral support.

Finally, I should dedicate this paper to my mother Amsale Chernet, my father Tadele Hadeгу, younger sister Mahlet Tadele and Lovely Abenezer.

## **List of Tables**

Table 1	Employees perception on equity payment .....	44
Table 2	Employees perception on performance related pay .....	45
Table 3	Compensation package scheme and degree of discrimination .....	46
Table 4	Communication of compensation management.....	47
Table 5	Employees knowledge of company's compensation package scheme .....	48
Table 6	Promised compensation package scheme .....	49
Table 7	Compensation management and participation of employees in decision making .....	50
Table 8	Employees satisfaction level with the company's compensation package scheme .....	52
Table 9	Employees level of satisfaction with the annual salary increment .....	53
Table 10	Compensation management and market inflation .....	54
Table 11	Extent of labor union involvement in decision made on compensation aspect .....	55
Table 12	Choice of employees on compensation package scheme .....	56

## LIST OF FIGURES

Figure 1 Sex composition of respondents .....	39
Figure 2 Age composition of respondents .....	40
Figure 3 Marital Statuses composition of respondents .....	41
Figure 4 Educational backgrounds composition of respondents .....	42
Figure 5 Years of experience composition of respondents.....	43

## ABSTRACT

*Attractive compensation package scheme enables an organization to attract, recruit and retain competent employees, to increase employee's morale and productivity and ensure transparency. Since employees are a resource it is important for managers to ensure that they are able to get a return on their investment. Compensation package policies are one of the most important resource tools available to human resource managers to enable them to encourage desirable behavior and discourage undesired ones. These points help the company to achieve its own strategic objectives. The general objective of the study is to assess the compensation package scheme of Ethiopian Pharmaceuticals manufacturing Share Company. The study is limited only to Ethiopian pharmaceuticals manufacturing share company main factory. The data was collected through questionnaire and semi-structured interview. For the questionnaire the researcher used simple random sampling technique to select sample population. Based on the findings of the study, the researcher has found out that the employee response shows that the company's compensation package scheme is not attractive. And also employees have different preferences of compensation packages. Finally the company is advised to incorporate compensation plan in to its corporate strategy and should focus on employee's choice of compensation package.*

**Key Words:** *Employees compensation, Performance Related Pay*



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## ANNEX 1

### St. Mary's University

#### Questionnaire

Dear respondents

I am currently undertaking a study titled “An assessment of employees’ compensation package scheme at Ethiopian pharmaceuticals manufacturing Share Company”, for the partial fulfillment of the requirements for the degree of masters of business administration. You are therefore, kindly requested to answer the questions included in this questionnaire, for the successful accomplishment of my study. Your answers will be kept confidential, and as a result, you don’t need to write your name.

Thank you for your cooperation.

TEMESGEN TADELE HADEGU

MBA candidate

#### I. Background of the respondents

1. Sex: Male ----- Female-----
2. Age: 25-29 ----- 40-44 ----- 55-59 -----  
30-34 ----- 45-49 ----- 60-64 -----  
35-39 ----- 50-54 -----
3. Marital status: Married ----- Unmarried -----
4. Educational background  
Below 10 or 12 ----- 10+3 certificate -----  
10 or 12 complete ----- Diploma -----  
10+1 certificate ----- BA/BSC degree -----  
10+2 certificate ----- above BA/BSC degree-----

5. Years of service within the company
- 1-5 years ----- 21- 25 Years -----  
 6-10 years----- 26-30 years -----  
 11-15 years -----31-35 years-----  
 16-20 years----- above 40 years -----

**II. Employee's perception with compensation package scheme.**

1. To what extent do you agree you are equally treated without any differences among individual who have similar work experience and educational qualification in your company?  
 a. strongly agree-----b. agree----- c. neutral----- d. disagree----- e. strongly disagree----
  
2. To what extent do you agree that you are compensated based on your performance appraisal result?  
 a. strongly agree-----b agree----- c. neutral----- d. disagree----- e. strongly disagree---
  
3. To what extent do you agree that the company's compensation package scheme is free from discrimination based on demographic factors such as race, gender, religion ....  
 a. strongly agree-----b agree----- c. neutral----- d. disagree----- e. strongly disagree---
  
4. To what extent do you agree that you are kept informed about how the current compensation package systems function?  
 a. strongly agree-----b agree----- c. neutral----- d. disagree-----e. Strongly disagree-----
  
5. To what extent do you agree that you are well aware about the total benefit packages provided?  
 a. strongly agree-----b agree----- c. neutral----- d. disagree----- e. strongly disagree----

6. To what extent do you agree that you are always compensated what is promised to be compensated?

a. strongly agree-----b agree----- c. neutral----- d. disagree-----e. strongly disagree—

7. Put a (✓) mark including your level of agreement regarding your company compensation package.

Ser. NO	Activities	Strongly agree	agree	Neutral	Dis agree	Strongly dis agree
1	I have a say in how my total pay is determined					
2	The compensation practice is equivalent with my responsibility					
3	Is compensation structure is similar with other company s in recruitment market?					
4	Is the company adjust compensation package with the cost of living adjustment					
5	Is the company's compensation package practice considering levels of my performance?					

8. To what extent are you satisfied with the existing compensation package scheme of the company?

a. strongly agree-----b agree----- c. neutral----- d. disagree----- e. strongly disagree----

9. To what extent do you agree that you are satisfied with the level of annual salary increment of your company?
- a. strongly agree-----b agree----- c. neutral----- d. disagree----- e. strongly disagree----
10. To what extent do you agree that Ethiopian pharmaceutical manufacturing share company compensation package is consistent (time wise) for a long period of time without considering market inflation?
- a. strongly agree-----b agree----- c. neutral----- d. disagree----- e. strongly disagree----
11. To what extent do you agree that the labor union involved in decision made on compensation package scheme?
- a. strongly agree-----b agree----- c. neutral----- d. disagree----- e. strongly disagree----
12. Which of the following compensation packages do you prefer most? Express your priority by assigning 1, 2, 3...9 to each alternatives.

<b>Ser. NO</b>	<b>Compensation package</b>	<b>Priorities 1, 2, 3...</b>
1	Tuition fee	
2	Insurance	
3	Hardship allowance	
4	Bonus	
5	Transportation fee	
6	Training opportunity	
7	Loan	
8	Salary increment	
9	Sick, maternity, weeding, exam and other related leaves	

## ANNEX 2

### ST. MARY'S UNIVERSITY

#### Semi-structured Interview checklist

This interview checklist is intended to gather relevant information regarding the compensation package scheme of Ethiopian pharmaceutical manufacturing share company.

1. What types of mechanism are planned by the organization to attract new, motivate and retain competent employees?
2. How accessible is the human resource department in answering benefit questions?
3. What are the factors affecting an employee's compensation package scheme?
4. How well does the compensation plan demonstrate a relationship between pay and job performance?
5. Does the company have human resource strategies which focus on compensation package scheme?
6. How internally equitable and job worth based is the current compensation package scheme?
7. Are you timely communicate and create awareness how the compensation package scheme function in the company?

**ANNEX 3**

**ST. MARY'S UNIVERSITY**

**Ethiopian Pharmaceuticals Manufacturing Share company's compensation packages**

NO.	Tuition fee overage including stationary materials up to grade 8 students which are not exceeding 100birr.
1	
2	Loan
3	Transportation
4	Insurance coverage
5	Holiday, sick leave, maternity leave weeding leave and exam leave.
6	Hard ship allowance
7	Bonus
8	Credit service
9	Salary increment
10	Training opportunities



## DECLARATION

I the undersigned, declare that this thesis is my original work, prepared under the guidance of Zemenu Aynadis (Ass. Professor). 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

ST.MARYS University

---

Signature

June 2017G.C

## ENDORSEMENT

This thesis has been submitted to St. Mary's university, school of graduate studies for examination with my approval as a university advisor.

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Advisor

St. Mary's university, Addis Ababa

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Signature

June 2017G.C

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1.BACKGROUND OF THE STUDY**

Employee's compensation refers to all forms of pay or rewards going to employees and arising from their employment, and it has two main components: direct financial payment (in the form of wages, salaries, incentives, commission and bonus) and indirect payment (in the form of financial benefits like employer paid insurance and vacation (Gary 2004).

For most of the twentieth century, the belief was that people go to work to collect a paycheck and money was the main, or even the sole, motivator. In twenty first century, however, we now recognize that pay is not everything. For most people, money is an important motivator because it supplies many things from fulfilling basic needs (i.e. food and shelter) to providing higher education for one's children and a means for retirement. People seek more than just a paycheck, however, when they go to work. People want to work in an environment of trust and respect, where they can have fun and develop relationship with others, and do meaningful and interesting work (Herman 2009).

Managers must realize that pay is just one element in a set of management practices that can either improve or reduce employee commitment and satisfaction team work, and performance. Economic compensation constitutes a segment of total reward system in an organization. Despite that money still plays a major, more persistent and more troublesome role in the overall satisfaction of the employees. Compensation or paying employees for work and developing structures of compensation packages thus becomes one of the major responsibilities of Human resource managers. A good pay packet not only helps in attracting the most talented employees but also retaining them for a long time in the organization. Since employees are a resource it is important for managers to ensure that they are able to get a return on their investment pay policies is one of the most important resource tools available to human resource managers to enable them to encourage desirable behaviors and discourage undesired ones.

Therefore, it is important that managers evaluate their reward system not just in terms of cost but also in terms of return on investment; in other words, how they attract, retain and motivate a high quality work force (Mirza 2004).

Paying above the market average has the benefits of being able to attract and retain top talent, which should lead to an effective and productive work force despite extra cost. To determine how beneficial paying higher wages could be when compared to the higher costs, researchers developed the efficiency wage theory which compares paid and productivity. They found that, where organizations need higher skilled employees or where employees are responsible for managing themselves, organizations may wish to pay an above - average wage as an incentive to maintain or improve performance .The theory suggests that employees who are paid more will want to retain their salary and will therefore work harder, although it should be remembered that pay is not the only motivator. The best practice school of thought proposes that certain human resource practices are related to organizational success, regardless of the organizations business context or strategy (Wendy 2007).

Research and surveys over the years have established the power of non-financial reward in motivating the work behavior. People who are familiar with Herzberg's motivation theory know that non-financial reward in the form of recognition is crucial for obtaining the higher level performance of employees. In contrast to the limited choice of financial rewards, the non-financial ones can offer a wide range of high impact incentives that includes: Feedback to an employee about his or her good performance, Congratulating in public, Conferring social recognition, Publishing about good performance of an employee in house circular, Felicitating in special gathering, Recording in personal folders, Sending employee with family on paid vacation, and Sending congratulatory communication to employees family members directly and the like. However, the real impact of such non-financial incentives depends upon its execution. These are: Recognition should be given as soon as possible after a desired behavior has occurred, Recognition should be delivered personally, Social rewards should be valued and made meaningful to the individuals who receive them and Recognition should be a direct reinforcement of desired behavior. (Srinivas 2004).

Compensation package plays an important role in the success of any organization. Some of the research findings are:

1. Among 4 Ms (Men, Money, Material and Machine) men are the most important. Employees working in any organization are the building blocks of that organization. To keep the happy, satisfied and to retain them in the organization, money given to them in the form of wages should essentially be adequate (Dencenzo and Robbins2006).
2. Modern organizations should integrate employee's commitment and the performance level of any organization. The performance evaluation and rewards are the two factors which are considered to be the cornerstone for the performance evaluation programs (Rizwan 2010).
3. Every employees serving in any organization expects that his organization will provide him healthy working environment, a fair wage to fulfill is needs and will treat him equally without any biases (Ali and Ahmed 2009).

Employee's commitment depends upon their satisfaction with their pay package, jobs and relationships with other employees (Warsi et.al 2009).As it is cited in a research work by (Rabia et.al 2011).

Another research suggested that when managers prepare their organizations compensation package schemes they should consider, to take complaints about pay seriously, Do not fall very far below market pay levels, Realize that most of the best employees want strong pay performance relationship, Evaluate current pay systems with respect to the strength of pay performance relationships and Examine whether executive pay is moving in the same direction, and at roughly proportionate rates, as employee increases(Sara et.al 2004).

## 1.2. STATEMENT OF THE PROBLEM

The compensation management is considered to be a complex process which requires accuracy and precision and if not carried out properly may lead to organizational concerns. There is a serious problem of management problem and strategic concerns regarding the compensation practice in the study company; according to the preliminary survey by the researcher, experienced workers turnover is one of the problems those Ethiopian pharmaceuticals manufacturing Share Company is facing because of the above mentioned problems. Many employees for example absent themselves from work because they felt that they are not paid enough, they look for new and better prospects because money paid for employees for work they have done may not be attractive enough to stay on, and they agitate because the compensation paid to them may not be adequate. Employees expect better compensation from their organizations. When company's unable to offer appropriate compensation, employees feels that they are not treated, and as a result company may lose the benefits they get from experienced employees (Aswathappa 2004).

Compensation plans need to be tied to an organizations strategic mission and should take their directions from the mission. They must support the general business strategy. Further, evidence now shows that inferior performance by a firm is associated with a lack of fit between its pay policy and its business strategy (Wayne 2004). Management ability to pay and attitude towards compensation package is one of the problems that the company is facing to the owe to be compensation management system because it is not well designed. This research identified the gap between the existing compensation management system and the owe to be that affects employees as well as the organization.

### **1.3. BASIC RESEARCH QUESTIONS**

This study tried to address the following basic research questions.

- What are employees attitude towards compensation package scheme?
- What is the magnitude of compensation package scheme problem of the company?
- What are employees' choices on compensation package scheme?

### **1.4. OBJECTIVE OF THE STUDY**

#### **1.4.1 General objective**

The general objective of the study is to assess the satisfaction level of Ethiopian manufacturing share company employees with the company's compensation package scheme.

#### **1.4.2 Specific objectives**

The following specific objectives are drawn from the general objective.

1. To investigate attitude of employees towards the compensation package of the company.
2. To assess the magnitude of compensation package problem of the company.
3. To find out employees choice on compensation package scheme.

## 1.5.DEFINITION OF TERMS

- **Commission:** It refers to birr value of sales whether a person is paid a regular salary or not.
- **Contract pay:** In this system payment is made for the total job irrespective of time. Payment is made when job is completed.
- **Going market rate:** It is another form of payment could be to pay in line with what others are paying.
- **Payment in kind:** The payment is made in terms of goods and commodities.
- **Perquisites:** An extra benefit given to retain competent executives.
- **Piece rate system:** It is simply means paying by units produced.
- **Real wage:** It represents wage and salary rates calculated by dividing with the cost of living index or consumer price index.
- **Remuneration:** The monetary aspect of rewarding an employee for performance.
- **Reward:** Compensation given to an employee in return for performance. It can be monetary, in the form of remuneration, or non-monetary.
- **Salary:** In popular terms, salary refers to monetary payment.
- **Take home pay:** It is the quantum of money available to all employee after statutory deductions (income tax, provident fund ) and authorized deduction (loan repayment, advance ) are made.
- **Wage:** In popular terms, wage refers to hourly payment.



## **1.6. SIGNIFICANCE OF THE STUDY**

It is believed that the result of this study will hopefully help to devise appropriate strategies that would enhance the management of the company's compensation package scheme system. In addition the study may initiate others who would like to carry out further study in the area and serve as a reference material.

## **1.7. SCOPE AND LIMITATION OF THE STUDY**

This study is limited only to Ethiopian pharmaceutical manufacturing share company main factory located at Bisrate Gebrel, because of shortage of time and other resources including monetary resources.

## **1.8. ORGANIZATION OF THE RESEARCH REPORT**

The study has five chapters. The first chapter presents the introductory part. It includes statement of the problem, basic research questions, objectives of the study, definition of terms, and significance of the study and scope of the study. The second chapter is focusing on related literature reviews. The third chapter deals with the source of data, the data collection instrument, the procedures of data collection, the method of data analysis, ethical consideration and validity and reliability analysis. The fourth chapter presents results and discussion of the study and finally the fifth chapter presents summary, conclusion and recommendation.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1. The concept of Compensation**

Employee's compensation refers to all forms of pay or rewards going to employees and arising from their employment, and it has two main components: direct financial payment (in the form of wages, salaries, incentives, commission and bonus) and indirect payment (in the form of financial benefits like employer paid insurance and vacation (Gary 2004).

#### **2.2. Changing philosophies regarding pay systems**

Today there is a continuing move away from policies of salary entitlement in which inflation or seniority, not performance were the driving forces behind pay increases. Pay for performance is the new mantra. Managers are asking what you have done for me lately current performance is what counts and every year performance standards are raised (Wayne 2004).

In this atmosphere, we are seeing three major changes in company philosophies concerning pay and benefits.

1. Increased willingness to reduce the size of the workforce and to restrict pay to control the costs of wage, salaries and benefits.
2. Less concern with pay position relative to that of competitors and more concern with what the company can afford.
3. Implementation of programs to encourage and reward performance, thereby making pay more variable. In fact, a recent study revealed that this is one of the most critical compensation issues facing large companies today (Wayne 2004).

### **2.3. Reward Systems**

Pay arrangements are central to cultural initiatives as they are the most tangible expression of the working relationship between employers and employees. Reward systems usually mean the financial rewards an organization gives its employees in return for their labor. These used to be called the remuneration package but employers and their personnel departments have become increasingly interested in using pay systems to influence the performance of individuals by rewarding particular aspects, and so they are now often called reward systems.

#### **Employees' views**

Employees are usually interested in at least the following aspects of their pay package.

1. Purchasing power: for example, if the retail price index has gone up by 10 % but pay has only gone up by 5 % and one will feel hard done by.
2. Felt fair: every employee has strong feelings about whether the level of pay is fair for the job.
3. Rights: these concern the relative distribution of wealth within the organization.
4. Relativities: Am I getting a fair deal in relation to others?
5. Compositions: how they pay is made up. Is there over time, a pension, a company car...etc.

#### **Employers' views**

The employer is likely to think about the following when devising a pay package.

1. Competition: this is where considerations come in to play of how much needs to be paid to attract, and keep suitable employees.
2. Control: employers use pay to deal with the fluctuations in work.
3. Productivity: incentive schemes are reinvented frequently to encourage productivity (Jane 2003).

## **2.4. Strategic integration of compensation plan and business plan**

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly equitably and consistently in accordance with their value to the organization. It deals with the design, implementation and maintenance of reward processes and practices that are geared to the improvement of organizational, team and individual performance. The strategic aim of reward management is to develop and implement the reward policies, processes and practices required to support the achievement of the organizations business goals. The specific aims are to:

1. Create total reward processes that are based on beliefs about what the organization values and want to achieve.
2. Reward people for the value they create.
3. Align reward practices with both business goals and employees values.
4. Reward the right things to convey the right message about what is important in terms of expected behaviors and outcomes.
5. Support the development of a performance culture.

To achieve these aims, reward management 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.

There are nine principles that support a successful pay strategy. These are:

1. Align compensation with the organizations culture, values and strategic business goals.
2. Link compensation to the other changes.
3. Time the compensation program to best support other change initiatives.
4. Integrate pay with other people processes.
5. Democratize the pay process.
6. Demystify compensation.

7. Measure result.
8. Refine again. Refine some more.
9. Be selective. Do not take to heart everything you hear or read about pay (Prem2005).

Compensation plans need to be tied to an organizations strategic mission and should take their direction from the mission. They must support the general business strategy. Further, evidences now shows that inferior performance by a firm is associated with a lack of fit between its pay policy and its business strategy. When compensation is viewed from a strategic perspective, therefore, firms do the following.

1. They recognize compensation as a pivotal control and incentive mechanism that can be used flexibly by management to attain business strategy.
2. They make the pay system an integral part of strategy formulation.
3. They integrate pay considerations into strategic decision. Making processes, such as those that involving planning and control.
4. They view the firm's performance as the ultimate criterion of the success of strategic pay decisions and operational compensation programs (Wayne 2004).

## **2.5 Developments in pay structures**

Pay structures are developing as employers seek a balance between the highly flexible approaches which typically lack transparency and the more defined structures, which may be difficult to operate in an active salary market climate.

There are four main types of pay structure.

- 1. A spot salary structure-** in which there is a single rate of pay for the job and no range of pay through which individuals can progress their pay. Such a system has the advantage of transparency but relies critically on those setting the rates to make the appropriate choice in the context of a moving pay market.

2. **A narrow-banded or graded salary structure-** in which there is a restricted level of pay progression – typically on the bases of assessment of individual performance, or pay progression may be service – related. Such systems are easy to understand but with long – serving staff run the risk of a high proportion of people being stuck at the top of the structure and feeling they have no way of progressing their pay.
3. **Broad – banded structures-** in which the range of pay in a band is significantly wider than in a conventional graded structure.
4. **Job family systems-** in which there are separate pay structures for different occupational groups (Christine et.al2008).

## **2.6. Compensation package.**

Compensation package consists of two kinds of payment, during employment and after employment.

### **A. During employment package**

It basically consists of four components, the basic salary, cash allowances, bonus and non- financial perquisites.

#### **1. Basic salary**

It is the major component of during employment compensation package. Basic salary is worked out on the basis of job evaluation and is adjusted either because of reclassification or changes in the cost of living index. Basic salary is a range with top and base clearly defined. It is also called scale. The scale reflects the time period with in which a person reaches the top of the scale if he or she starts at the base.

An increment is simply a constant addition in the basic salary (a reward for work done according to exception). Increment value is fixed but employees can get additional or accelerated increments in a year.

## **2. Allowances**

Some of the well-known allowances are house rent, travel, dearness allowance, daily allowance in case of outstation travel shift allowance. The concept of allowance is based on the cost of living index are to compensate for the extra efforts, needed to perform once normal duties. Allowance can be added to the basic depending up on the contingencies of the job. Some organizations pay high risk allowance for the extra ordinary hazards in the job as in petroleum industry or forest fire fighting. The exact quantum of most allowance is usually linked to the basic salary as they represent a percentage of the basic.

## **3. Bonus**

This payment is a gesture of goodwill over and above the regular wages. Sometimes different acts adopted by organizations may not define bonus. In the absence of a definition, there are two interpretations of bonus-profit sharing and deferred wages. Bonus as profit sharing is a welcome measure as it focuses in strategies to improve productivity for the benefit of both employers and employees. Here operational efficiency becomes the focal point. However, employers take the stand that if it is profit sharing, they should not pay any bonus, when no profit is made.

## **4. Perquisites**

Are those benefits that do not usually come in the form of cash but are provided to maintain certain needs and status of the employees and the image of the organization. These may include such perks as stock options, club membership, car or housing loans, reimbursement of the cost of children education, paid holiday, generous medical benefits, furnishing and refurnishing of residence and many cash perks.

### **B. Compensation after employment**

Once the employee has left the organization voluntarily or on superannuation, he or she can continue to draw certain kinds of benefits from it. These may not be in the form of pension, gratuity, limited medical facilities and purchases from cooperatives society. Some of these are formal elements of the compensation package which are agreed up on at the time of employment (Mirza2004).

## **2.7. Methods of determining compensation**

Compensation system is the back bone of human resource management. It wields the real power to attract, retain and motivate employees to give outstanding performance. It is important to both employees and employers. For employees, compensation is an important issue since pay is perceived an indication of their personal and market value. It is important for employers since they have to strike balance between earnings of stockholders of the organization. Therefore, compensation management is a challenge job that shall be dealt in a systematic manner. There are 7 principle factors that determine the compensation system. These are:

1. Labor market conditions: this include:

If the demand for certain skill is high, while the supply is low (a tight market), there tends to be an increase in the price paid for these skill. Conversely, if the supply of labor is plentiful, relative to the demand for it, wages tends to decrease (Wayne 2004).

2. Economic and socio-political environment

This includes the influence of the business cycle and the power of organized labor.

3. Employees characteristics

This includes education, seniority, qualification, and experience.

4. Industry characteristics

Industry standard wages vary considerably.

5. Enterprise style

This includes, culture, organizational structure, and objectives

6. Job characteristics

These include factors such as mental requirements, physical requirements and skill requirements.

7. Employee behavior characteristics

This includes performance, absenteeism and turn over (Sriniva2004).

By large, there are two widely practiced methods for determining the compensation these are salary surveys and job evaluation.



## **A. Salary surveys**

Perhaps a quick and less expensive way to determine compensation could be to conduct a survey of what is being paid in similar industries for similar positions. This could be done at two levels. Organizational and professional consultant levels.

### **Organizational level**

The HRM department itself can undertake a study to find out comparable compensation package in similar industries. This could be done informally by checking with HRM managers of similar industries or by checking compensation packages advertised in newspapers and other print and electronic media including websites for similar jobs in similar industries. Information can also be collected from professional associations. HRM department can also undertake a research study by formally doing a salary survey.

### **Consultant level**

They are outsiders and are not perceived to have stakes in organizational decision making. Consultants may use a variety of techniques to give recommendation and suggestions for developing compensation packages.

## **B. Job evaluation**

Job evaluation is a technique to establish the relationship between contribution of an employee and compensation for this contribution. Although in reality it is very difficult to get a precise value of the contribution of an employee because of large number of factors involved in the performance of a job. There are 6 circumstances under which job evaluation has a good chance to succeed.

1. When it does not disturb the existing promotion paths or the traditional wage pattern.
2. When relations with unions are good.
3. When the organization is paying relatively high wages and job evaluation exercise does not require too many adjustments in the existing structures.

4. When the organization is relatively independent of comparison because of geographical isolation or job requirements.
5. When a large number of people likely to be affected by job evaluation exercise are involved in the process itself.
6. When the organization is in a position to add a little extra beyond the levels worked out on the basis of job evaluation exercise.

Job evaluation examines the effect of skills, capabilities, responsibilities and work environment on the performance of the job. It is a strong base for developing job descriptions and specifications, necessary for recruitment and subsequent appraisal of performance. It also provides bases for placing job with similar values in grades and job classification. There are four major of job evaluation. These are:

**a. Ranking method**

Here the total or whole job is ranked against other jobs on the basis of difficulty level. No measurable points or score values are assigned. It is simply arranging the job in a hierarchy. Since the job as a whole is taken in consideration no attempts are made to break each job in to its composite segments. First the ranking is done by functional areas, and then they are combined for developing an organizational level system. This method is useful in small organizations with relatively flat structures.

However, one of the major drawbacks of any ranking is the relative position and distance of one job compared to others. When jobs are ranked on an overall difficulty level, it tells which job is more difficult than others. It does not indicate the degree of difficulty which often creates a basis for disagreeing on the pricing of jobs.

## **b. Job classification**

Mostly used by government agencies and departments. Job classification consists of first identifying classes, categories or grades. After this their level of difficulty is identified by defining its specifications and then individual job are classified in these categories or grades. The individual job may come from various functional areas with common responsibilities and work. Like the ranking method, in this system job as a whole is taken in to consideration with little or no attention to its component parts. This system is most appropriate for small organizations with relatively flat structures.

## **c. Point system**

This method of job evaluation consists of first developing key compensable factors on which each job must be evaluated. The collection of these key factors is called manual or yard sticks. Each of these key compensable factors have a scale value which defines the degree of presence of that factor .each job is rated on these key factors and a value is assigned. At the end of this exercise the values at each factor are added to get a total score which is then converted in to a compensation level (salary / wage). This method consisted of three key factors.

1. Know-how (sum total of the technical experience, and practical skills for acceptable job performance). It consisted of
  - 1.1 academic background
  - 1.2 relevant work experience
  - 1.3 human relations skill
2. Problem solving (amount of original, self-starting thinking for analyzing, evaluating and making decisions). It had three sub-components.
  - 2.1 approach to problem solving
  - 2.2 nature of control or guidance from superiors
  - 2.3 Coordinative functions.
3. Accountability (measured effect of the job on end results). It consists of ;
  - 3.1 decision making
  - 3.2 Contribution to organizational objectives.

Care must be taken to ensure that the manual is as all inclusive as possible. So as to avoid possibilities of leaving out important factors or their sub-components. However, same cluster of factors cannot be used for all classes of jobs in the organization.

#### **d. Factor- comparison system**

This method requires the consultation of experts and specialists for comparison and appraisal of jobs. Unlike point system a few compensable factors are chosen based on job analysis. These factors are those that are found to some degree in all the jobs. The weight ages of these factors are pooled judgments of a group of experts on key jobs and not as arbitrary as in point system.

The current rate of pay is used as a basis for developing weight ages for each of the elements of compensable factors for all key jobs. When all key jobs are thus analyzed, weight ages for the elements are developed by taking an overage on the key jobs. Thus the money values of one factor in one job are compared to the money value of the same factors in other job. Methods of job evaluations are based on judgments of those evaluating jobs. This may lead to some degree of hesitation in accepting job evaluation exercise (Mirza2004).

### **2.8. Method of payment**

To determine individual pay, two issues need to be addressed. First management must answer these question “how one employee should be paid relative to another when they both hold the same job in the organization? And second is not, on what basis should we make the distinction seniority or merit or some other basis? The following are some of the points which are related to payment method.

#### **a. Flat rates**

Correspond to some midpoint on a market survey for a given job. Using a flat rate does not mean that seniority and experience do not differ. Sales organizations, for example, pay a flat rate for a job and added a bonus or incentive to recognize individual differences.

### **b. Payment for time worked**

The majority of employees are paid for time worked in the form of wages or salaries. Pay is usually adjusted through four types of increases.

1. A general, across the board increase for all employees.
2. Merit increases paid to some employees based on some indicators of job performance.
3. A cost of living adjustments based on the consumer price index.
4. Seniority

### **c. Variable pay: incentive compensation**

Variable pay can be defined as any compensation plan that emphasizes a shared focus on organizational success, broadens opportunities for incentives to nontraditional group and operates outside the base pay increase system. In order to implement successful variable pay systems, companies must be sure their plans are based on clear goals, unambiguous measurements, and visible linkage to employees' efforts. Key design factors include:

1. Support by management: executives and line managers must demonstrate commitment.
2. Acceptance by employees: employees must accept the plan as equitable.
3. Supportive organizational culture: the organizations culture must be based on team work, trust and involvement at all levels when setting performance goals.
4. Timing: the plan must be launched when there is minimal risk of economic down turns that would affect the size of the awards.

#### **d. Merit incentives**

The most widely used plan for managing individual performance is merit based pay. It can be defined as “individual pay increase based on the rated performance of individual employees in a previous time period. Advocates of merit pay call it the most valid type of pay increase. They argue that it is directly tied to performance because awards are linked to the performance appraisal system. However, this premise has two flawed assumptions:

1. That competence and incompetence are distributed in roughly the same percentage in a work group.
2. That every supervisor is a competent evaluator.

Merit plans can work in circumstances where the job is well designed and the performance criteria are both well delineated and assessable.

#### **e. Individual incentives**

Perhaps the oldest form of compensation is the individual incentive plan, in which the employee is paid for unit produced. Today individual incentive plan takes several forms. These are:

- a. **Straight piecework:** is an individual incentive plan where pay determination fluctuates based on units of production per time period( usually pieces per hour) .This incentive system is easy for employees to understand, but setting the work standard is extremely difficult.
- b. **Production bonus system:** pay an employee an hourly rate plus a bonus when the employee exceeds the standard.
- c. **Commissions:** paid to sales employees are another type of individual incentives. A commission is compensation based on a percentage of sales in units or dollars.

Individual incentives are possible only in situations where performance can be specified in terms of outputs (sales dollars generated, number of items completed). In addition employees must work independently of each other, so that individual incentives can be applied equitably.

It appears that an individual incentive plan is likely to be more affective under certain circumstances. These circumstances are:

- The task is linked
- The task is not boring
- The supervisor reinforces and supports the system
- The plan is acceptable to employees and managers and probably includes them in the plans designed.

**f. Team incentives**

This might be done when it is difficult to measure individual output, when cooperation is needed to complete a task or project, and when management feels this is a more appropriate measure on which to base incentives. It also reduces administrative costs. There are a number of logical reasons why a team incentive plan is chosen. In some situations, jobs and work out put are so interrelated that it is impossible to specifically pinpoint individual performances. In such a situation, a team incentive could be used. The Japanese have used team incentives to help foster group cohesiveness and reduce jealousy.

**g. Organization wide incentives**

Are usually based on one of two performance concepts: a sharing of profit generated by the efforts of all employees altogether and a sharing of money saved as a result of employees efforts to reduce costs. There are three approaches to incentive plans which are used at the organization wide levels. These are:

**1. Suggestion systems;**

Is a formal method of obtaining employees advice about improvements in original effectiveness, it includes some kind of reward based on the successful application of the idea. The key to successful suggestion system is employees' involvement. Suggestion systems can improve employee relations, foster high quality products, reduce costs, and increase revenue. Essential elements for a successful suggestion system include;

- ✓ Management commitment
- ✓ Clear goal
- ✓ Immediate response to each suggestion

## **2. Gain sharing plan**

These systems share the benefit of improved productivity, reduced costs, or improved quality in the form of cash bonuses.

## **3. Profit sharing plan**

Distribute a fixed percentage of total organizational profit to employees in the form of cash bonuses or deferred bonus amounts. Profit sharing plan do often two distinct advantages. They do not need elaborate cost. Accounting system to calculate rewards, and they are easily implemented by companies of any size (John 2004).

### **2.9. Performance related pay**

Performance related pay can be defined as” a system in which an individual’s increase in salary is solely or mainly dependent on his or her appraisal or merit rating”. There are some difficulties in the relationship between performance and pay. This includes:

- Employees will possibly concentrate on achieving the stipulated objective (for which they will be assessed and hence rewarded on) and overlook or ignore other, perhaps less tangible, aspects of their job.
- By rewarding some individuals and do not others and through the individualisms of work effort, the esprit de corps and cohesion of the work group, section, department or company may be undermined (Ian and Len 1994).



## **Reasons for introducing contingent pay plans**

There are some reasons for introducing contingent pay plans. Contingent pay plans force organizations to define effective performance clearly and to determine what factors are likely to lead to effective performance. High achieving performers are attracted to organizations that reward high level performance, and high level performers are sorting effect, top performers are likely to be attracted to and remain within organizations that have implemented contingent plans.

An organizations ability to retain its top performers is obviously crucial if an organization wants to win the talent war and have a people- based competitive advantage. Contingent plans can project a good tool to recruit and retain top performers as a result of the sorting effect, which in return can lead to greater productivity. Finally contingent plans can project a good corporate image because the organization has implemented a system of rewards that is fair and based on clearly communicated expectations and standards.

Contingent pay plans can help improve the motivation of employees when each of the following conditions is present.

1. Employees see a clear link between their efforts and the resulting performance.
2. Employees see a clear link between their performance level and the rewards received.
3. Employees value the rewards available (Herman 2009).

## **Possible problems associated with contingent pay plans**

Why is it that contingent pay plans may not succeed? Consider the following reasons:

### **1. A poor performance management system is in place**

What happens when a contingent pay plan is paired with a poorly designed, poorly implemented performance management system, one that includes biased ratings and the measurement of unrelated performance dimensions? This situation may lead some employees to challenge the contingent pay plan legally.

### **2. There is the folly of rewarding a while hopping for B?**

What happens when the system rewards results and behaviors that are not those that will help the organization succeed?

### **3. Rewards are not considered significant**

What happens when a contingent pay plans includes pay increases and other rewards that are so small that they don't differentiate between outstanding and poor performers?

### **4. Managers are not accountable**

What happens when managers are not accountable regarding how they handle the performance evaluation of their employees? When managers are not held accountable, rewards may become the driver for the performance evaluation instead of the performance evaluation being the driver for the rewards.

### **5. There exists extrinsic motivation at the expense of intrinsic motivation**

What happens when there is so much, almost exclusive emphasis on reward? Employees may start to lose interest in their jobs, which in return can decrease motivation. In some cases, the extrinsic value of doing one's job(i.e rewards) can surprised the intrinsic value(i.e doing the work because it is interesting and challenging).Sole emphasis on rewards can lead to ignoring the fact that employee motivation can be achieved not only by providing rewards but also by creating a more challenging, more interesting work environment in which employees have control over what they do not and how they do it.

**6. Rewards for executives are disproportionately large compared to rewards for everyone else:** Such a large difference, particularly when the performance of the organization is not still or, can lead to serious morale problems (Herman2009).

Unfortunately, many of the plans don't work. Here are some reasons why?

- The incentive value of the reward offered is too low.
- The link between performance and reward is weak.
- Supervisors often resist performance appraisal.

Barriers can be overcome, if it follows two cardinal rules

- Pay employees for productivity, and only for productivity.
- Promote employees for productivity and only for productivity.

Guidelines for effective merit-pay systems

- Establish high standards of performance.
- Develop accurate performance appraisal systems.
- Train supervisors in the mechanics of performance appraisal and in the art of giving feedback to subordinates.
- Tie rewards closely to performance.
- Use a wide range of increases (Wayne 2004).

#### **Performance related pay-fourteen essentials.**

Michael Armstrong prescribed fourteen essentials that can make performance related pay as an effective compensation strategy in his book titled management techniques published in 2001. These are:

- It is appropriate to the type of work carried out and the people employed on it and the culture of the organization.
- The reward is clearly and closely linked to the effort of the individual or team.

- The reward follows as closely as possible, the accomplishment which generated it.
- Employees are in a position to influence their performance by changing their behavior.
- They are clear about the targets and standards of performance.
- They can track their performance against these target and standards.
- Fair and consistent means are available for measuring performance.
- The reward is clear and closely linked and appropriate to the efforts of the individual or team.
- Employees expect the effective performance will certainly lead to worthwhile rewards.
- The performance related pay scheme operates by means of a defined and easily understood formula.
- Provisions are in built in the scheme for amending the formula in specified circumstances.
- Constraints are built in to the scheme which ensures that employees cannot receive inflated rewards which are not related to their own performance.
- The scheme is properly designed, installed and maintained.
- Employees covered by the scheme are involved in its development and operation (Srinivas2004).

## 2.10 Cafeteria (flexible) benefits

A cafeteria (flexible) benefit plan, allows employees to choose between two or more types of benefits. Flexible benefits and reimbursement accounts can increase employees satisfaction and save employers from spending money on coverage that employees Don't want. These plans provide for benefit trade-offs and cost sharing. However, sufficient coverage must be provided in key areas like health care, life insurance... e.t.c. flexible plans that can easily self-adjust to changing circumstances can costs should also be designed(John2004).

To manage a benefits program effectively, certain steps are necessary. Four of these are discussed next.

**Step-1** set objectives and strategy for benefits. There are three strategies for benefits.

- Pacesetter strategy-be first with the newest benefits employees desire.
- Comparable benefits strategy- matches the benefits programs similar organizations offer.
- Minimum benefits strategy- offer the mandatory benefits and those that are most desired and least costly.

**Step -2** involve participation and unions

It is wise to permit and encourage employee's participation in decision making on benefits and services.

**Step-3** communicate benefits

How can benefits and services affect the satisfaction and performance of employees if they do not know about or understand the benefits? Yet most studies of employees and executives indicate they are unaware of the benefits or significantly undervalue their cost and usefulness.

#### **Step-4** monitor costs closely

It is vital that managers make sure the programs are administered correctly (John 2004).

Cafeteria benefit schemes operate by setting a price for each level of the selected benefits with in a menu and each employee is allocated a budget to spend on benefits, expressed as credits point or cash amounts. Payment system do not operates with in a vacuum. Remuneration strategies both affect, and affected by, all aspects of the employment relationship. Thus the designs of payment systems should not only be integrated with other human resource management policies but should also reflect and perpetuate the overall strategies and cultural objective of the company. Moreover, organizations must be aware that the differences in individual's motives will affect how they, either as individuals or on a collective basis, will respond to certain payment systems (Ian and Len1994).

#### **2.11 Voluntary benefits**

In addition to the benefits required by law, many employers also provide other kinds of benefits voluntarily. Some of them are:

- **Paid holidays-** probably the most frequently offered of these times of with pay are paid holidays currently ten or more paid holidays are provided to full-time employees.
- **Paid vacation-** the theory behind vacations is that they provide an opportunity for employees to rest and refresh themselves; when they return, it is hoped that they will be more effective.
- **Personal time off-** many employers give employees paid time off for funerals, medical appointments, sickness in the family and marriage (John 2004).

## 2.12 Importance of comparability

Most people probably agree that jobs of greater value to an organization should carry higher rates of pay than jobs of lesser value. The challenge, of course, is to determine which jobs are worth more and which less, and how much more or less. Compensation specialists and scholars alike believe that employees do not react strongly and negatively unless organizations are able to establish and maintain equitable pay structure (Henman et.al 1999).

In analyzing the notion fair wages Hyman and Brough(1975) make the distinction between two types of criteria which management or workers used to calculate equity in remuneration.

1. **Internal criteria**- are described as pay of an individual or group by reference to the contribution made or capacities required in respect of such factors as effort, qualification and aptitude. Thus equity in this respect relies on the employee-employer relationship where a wage- effort bargain is implicitly agreed upon.
2. **External criteria**- relatives are described as the assessment of pay by comparison with the income of other individuals or group.

Employee's perception of how fairly they are being treated by their company is of prime importance. The dictum a fair days work for a fair days pay is often utilized to denote a sense of equity felt by employees.

The equity theory of motivation (Adams, 1963) is based on the comparison between two variables.

1. **Inputs**- are what an individual supplies to the employment relationship. Example of input effort, experience, skill, training and seniority.
2. **Outcomes**-illustrate which factors an individual receives in return. Examples of outcomes include pay, recognition, fringe benefits, status symbols and promotion.

Employees will formulate a ratio between their inputs and outcomes and compare it with the perceived ratios of inputs and outcomes of other people in the same or similar situation. If these two ratios are not equal then the individual will take actions to attempt to restore a sense of equity. Adams suggests that individuals can: change inputs and try to change their outcomes (Ian and Len1994).

Researchers have proposed several bases for determining equitable payment for work. They have three points in common.

1. Each assumes that employees perceive a fair return for what they contribute to their jobs.
2. All includes the concept of social comparison, whereby employees determine what their equitable return should be after comparing their inputs (e.g skills, education, effort)and outcomes(e.g pay promotion, job status)with those of their peers or coworkers.
3. The theories assume that employees who perceive themselves to be in an inequitable situation will seek to reduce that inequity. They may do so by mentally distorting their inputs or outcomes, by directly altering their inputs or outcomes, or by leaving the organization.

There are solutions for the problems of pay comparability. These are:

- Reexamining how many entries- level people are needed.
- Reassessing recruitment itself.
- Focusing on the job evaluation process, emphasizing performance instead of salary grade assignment.
- Basing all salaries on longevity.
- Giving first line supervisors and other managers the authority to recommend equity adjustments for incumbents who have been unfairly victimized by pay compression.
- Limiting the hiring of new employees seeking excessive salaries (John 2004).



## **2.13.Reward and motivation theories**

In order to understand which components of compensation package are more effective, we need to understand the conceptual frame work of theories of employee's compensation.

### **A. Equity theory**

The equity theory of motivation demonstrates what can happen when employees perceive their treatment to be inequitable. Equity theory puts forward the idea that motivation can be affected by perceived fairness or discrepancy between the contribution and reward of employees. There are two basic dimensions to the equity process.

#### **1. Ratio of personal outcomes to inputs**

People often think in terms of the ratio of their personal (outcomes to work inputs). In other words, their perceptions of fair treatment depend on how they answer the question "what is the pay-off to me in terms of money, status, benefits ... e.t.c. relative to my inputs of effort exerted, skills, job...e.t.c.

#### **2. External comparisons**

Employees are also likely to compare their own outcomes and inputs ratio to those they perceive for other people doing comparable work. These comparisons are often made on three levels.

- Comparisons to specific individuals- if two people are performing at the same level, then they could both expect to receive the same pay and recognition.
- Comparisons to another reference group- workers in one department may compare themselves to worker in another department s
- Comparison to general occupational group-people may compare themselves to other people in similar positions in other organizations, or with those of a similar education level.

## **B. Expectancy theory**

The expectancy theory of motivation focuses on a person's beliefs about the relationships among effort, performance and rewards for doing a job. Vroom suggests that people will be motivated to achieve a desired goal as long as they expect that their actions will achieve that goal.

Expectancy theory was originally expressed as a probability relationship among three variables labeled expectancy, instrumentality and valence.

**Expectancy:** is the probability from 0 to 1 that an individual believes his or her work effort directly affects the performance outcome of a task.

**Instrumentality:** is the probability from 0 to 1 that an individual anticipates that an attained level of task performance will have personal consequence.

**Valence:** is the value from positive to negative that a person assigns to the personal consequence that follow work performance.

## **C. Herzberg's dual factor theory**

According to Herzberg there are two different factors affecting motivation and work. Job satisfaction and job dissatisfaction derive from different sources, and simply removing the sources of dissatisfaction will not cause a person to be motivated to produce better results. Herzberg blended these two premises in to a dual-factor explanation of motivation.

1. **Hygiene factors as dissatisfiers**-they don't produce job satisfaction. Inadequate, they simply produce neutral feelings with the realization that basic maintenance needs are taken care of.
2. **Motivator factors as satisfiers**- they originate from the nature of the job itself and can create job satisfaction. There are different motivating factors; some of them are job challenge, responsibility, and recognition....etc. (Wendy2007).

## **D. Agency theory**

The agency theory focuses on the divergent interest and goals of the organizations stakeholders and the way the employee remuneration can be used to align these interests and goals. Employers and employees are the two stakeholders of a business unit, the former assuming the role of principals and the latter the role of agents. The remuneration payable to employees is the agency cost. It is natural that employees expect high agency cost while the employers seek to minimize it.

The agency theory says that the principal must choose a contracting scheme that helps align the interest of the agents with the principal's own interests. These contracts can be classified as either behavior pointed (Ex. Merit pay) or outcome oriented (Ex, stock option schemes, profit sharing and commissions) (Aswatapa2004).

### **2.14. Legal principles affecting performance management**

#### **1. Negligence**

Many organizations outline a performance management system in their employee manual, employment contract, or other materials. When the system is described in such documents and not implemented as described, legal problems can arise.

#### **2. Defamation**

Defamation is the disclosure of untrue, unfavorable performance information that damages an employee's reputation.

#### **3. Misrepresentation**

Is about disclosing untrue favorable performance and this information cause risk or harm to others?

#### **4. Adverse impact**

Also called unintentional discrimination occurs when the performance management system has an unintentional impact on a protected class.

## **5. Illegal discrimination**

Also called disparate treatment, means that ratters assign scores differentially to various employees based on factors that are not performance related such as race, nationality, color...etc (Herman 2009).

### **2.15. Empirical review**

- Pays and benefits are the most important factor that influences the job satisfaction of an employee. The other factors influencing a person's job satisfaction include a fair system of promotions within the company, high quality working conditions, good leadership and positive relationships among colleagues (Hayat et.al 2010).
- Intrinsic rewards given to employees including opportunity for growth, opportunity for achievement, advancements, and challenging tasks and duties in any note for profit organization help to increase the motivation level of employees, and such motivated employees are the sign of prosperity for any organization (Kluvers and Tippet2009).
- The most important rewards that help to motivate blue collar and frontline employees are fringe benefits including bonus, retirement benefits, gratuity, housing loans, paid holidays, educational and medical e.t.c. so rewards are a source of job contentment and a source of motivation for all levels of employees (Arnold's et.al.2007).
- Money is not the only motivator and it is not the primary motivator for everyone. However, there is overwhelming evidence that money is an important motivator for most people (Sara et.al.2004).

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

The research design and methodology help the researcher to achieve the general and specific objective.

#### **3.1. Research design**

There are three types of studies according to their purpose: exploratory, descriptive and explanatory. The first one is used in order to clarify some concepts, find explanations, assess phenomena or seek for new insight. The main goal for such research is to develop a theory. Such kind of research is known as a very flexible one. The second type of research, the descriptive one, seeks to describe people, events or situations, the research must have a clear picture of phenomena before conducting the research. The last type, explanatory research, provides the cause and effect relationship between variables.

The main goal of this research is to assess employee's compensation package scheme at Ethiopian Pharmaceuticals manufacturing Share Company. The research that seeks to clarify the relevant theory and understand the problem classified under descriptive research, so this research used descriptive research design method. It is mainly based on the data collected from employees through questionnaire, pertinent managers through interview, company's archive and related literature reviews.

#### **3.2. Population, sampling techniques and Sample size**

##### **A. Target population**

For this study, the target population is permanent managerial and non- managerial professional staffs of the company who are working in the head office. According to the human resource data, there are 530 employees.

## B. Sampling technique and Sample size

In order to find a proper sampling technique, one out of two approaches should be chosen; probability and non-probability sampling approach. Often qualitative researches are associated with usage of non-probability sampling, even probability sampling is used sometimes as well. The researcher of this paper used simple random sampling technique to select sample size. Out of 530 employees 34.34% percent i.e. 182 employees have been selected using simple random sampling technique. Simple random sampling gives all employees equal chance to be selected. The sample population is 94% confidence level and 6% margin of error. The following formula is used to calculate sample Size.

$$n = \frac{N}{1 + N(e)^2}$$

where: n = Sample Size

N= Total population

e= acceptance range

### Sample size

Population	Acceptance range(e)	Sample size	Approximation
530	1%	503.32	503
	2%	437.29	437
	3%	358.84	359
	4%	286.796	287
	5%	227.956	228
	6%	182.255	182
	7%	147.345	147
	8%	120.673	121
	9%	100.132	100
	10%	84.127	85

Source; Formula to calculate sample Size (2017)

### **3.3. Source and tools of data collection**

The research of this paper used the two major sources of information. Primary data were collected from the original (employees) source using self-developed questionnaire and semi-structured interview. Semi- Structured interview help the researcher to ask the human resource department pertinent information regarding the research. Secondary data were collected from documentary sources, which include books, articles, magazines and other relevant sources.

### **3.4.Procedures of data collection**

The researcher of this paper specified the content of the questionnaire so as to find relevant information from employees. List of employees was prepared and sample respondents were taken from the list using lottery method. The questionnaire was pretested to eliminate some ambiguities.

After pretest, the questionnaire was administered to the selected sample population to collect relevant information. The questionnaire was translated in to Amharic language to easily understand employee's response. Then the data will be collected, tabulated and analyzed.

Semi-Structured interview was developed and administered to the pertinent managers. The data which was obtained through interview was analyzed and checked against the responses given by the respondent employees.

### **3.5.Method of data analysis**

The researcher of this study summarized the responses of the sample population by grouping similar responses together in order to avoid repetition of ideas. Since the data collected was a qualitative nature, descriptive statistical method such as percentage was used to give a condensed picture of the data.

### **3.6. Ethical Consideration**

Respondents are assured that the information they provided is confidential and used for academic purpose only. Moreover a statement conforming the prohibition of including any identity details or personal reference in the questionnaire. This was to avoid any biased responses or unauthentic data provided by respondents and to make participants confident. The data gathered in process of the study will kept confidential and would not be used for any personal interest and the whole process of the study. The study was controlled to be within acceptable professional ethics.

### **3.7. Validity and reliability analysis**

Validity is concerned with whether the findings are really about what they appear to be. Validity is defined as the extent to which data collection method or methods accurately measure what they are intended to measure. No single source has a complete advantage over others. The difference sources are highly complementary and a good case study use as many sources as possible. The following prudent and different steps are taken to ensure the validity of the study.

1. Data was collected using close ended questions.
2. Data was collected from reliable and credible individuals and business customers who are currently and actively working with the company.
3. Interview question were made based on literature review and frame of reference to valid the result.
4. Questioners was pretested
5. Data was collected over one week limiting the chances that major events change the results.



## CHAPTER FOUR

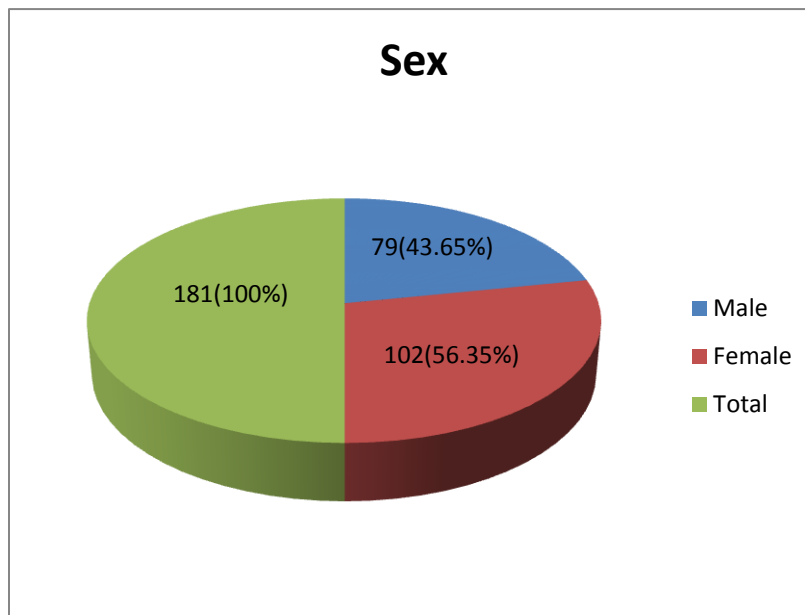
### DATA ANALYSIS AND INTERPRETATION

#### 4.1. Introduction

This chapter deals with the presentation of data, analysis and interpretation. The analysis and interpretation of this study is based on the data collected from the employees of Ethiopian pharmaceutical manufacturing share company. The data was collected through survey questionnaire. Out of the 187 questionnaires distributed to Ethiopian pharmaceutical manufacturing share company employees 181 were properly completed and returned. This represents rate of approximately 97%.

#### 4.2. Demographic background of the respondents

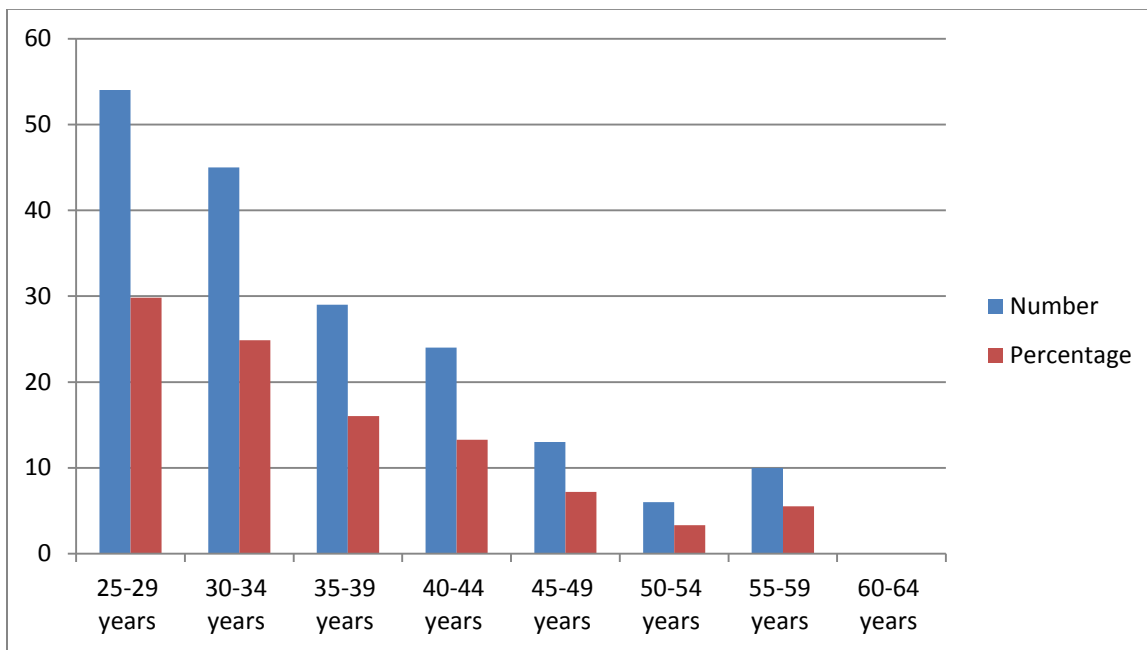
Figure 1 Sex composition of respondents



Source: Survey Data (2017)

The chart gives information on the composition of the respondents in terms of sex. The reason that the researcher included this part is an example, to make sure that respondents are in appropriate mix in terms of sex. As we can see from table 1, 79(43.65%) of them are male and 102(56.35%) of them are females, the implication is that the study has tried to accommodate both sexes.

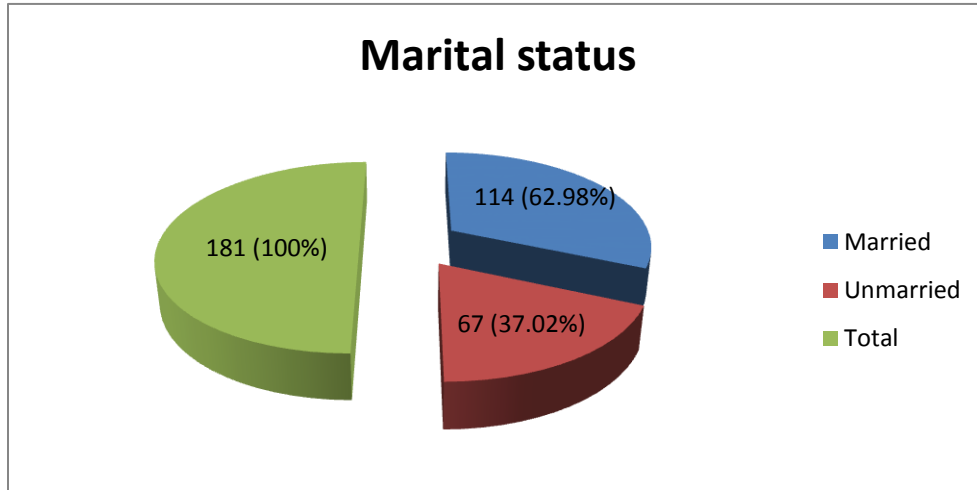
Figure 2 Age composition of respondents



**Source: Survey data (2017)**

In terms of age almost 152(83.98%) of the respondents are between the age of 25-44. This shows that most of respondents are at the age of maturity that is productive age. The rest which comprises 29(16.03%) of the total respondents belong to the age group 45-64. This indicates that quite considerable numbers of employees are approaching to their retirement age. This may also have an implication on reduction of productivity.

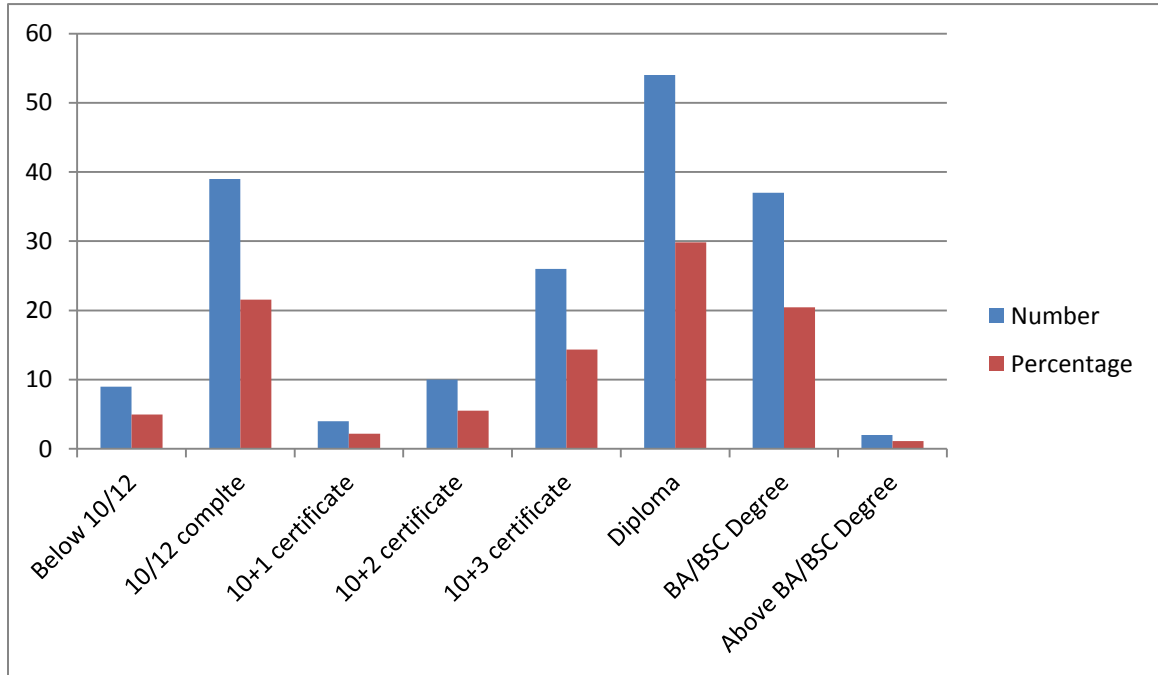
Figure 3 Marital Status compositions of respondents



**Source: Survey data (2017)**

In terms of marital status about 114(62.98%) of the respondents are married and the rest 67(37.02%) of the respondents are unmarried. This may show that most of the respondents are settled and their productivity may increase.

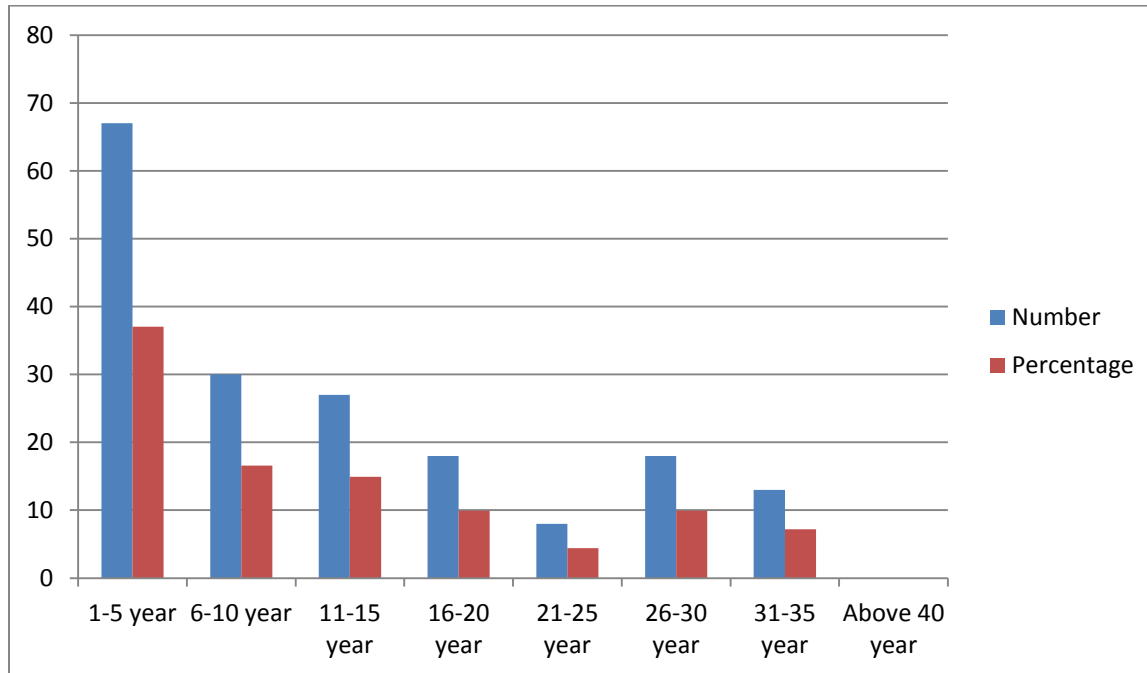
Figure 4 Educational background compositions of respondents



**Source: Survey data (2017)**

Regarding educational background, 48(26.52%) of the respondents are below grade 10/12, this shows that the company is established with quite considerable number of employees with less educated workers, this may hamper its productivity. While 4(2.21%), 10(5.52%) and 26(14.36%) of the respondents possess 10+1, 10+2 and 10+3 certificate respectively, and this shows that the company should set mechanisms to upgrade their educational status. On the other hand 54(29.83%), 37(20.44%) and 2(1.12%) of the respondents possess diploma, BA/BSC degree and above BA/BSC degree respectively, and this may contribute a lot to the company's efficiency.

Figure 5 Years of service composition of respondents



Source: Survey data (2017)

When we see the tenure of employees that is years of stay within the company 114 (62.98%) of the respondents stay in the company for more than 6 years and this shows that they are senior ones. This may indicate they are the right people to give reliable information.

Table 1 Employees perception on equity payment

No.	Item	Frequency response	
	To what extent do you agree you are equally treated without any difference?	Number	Percentage
A	Strongly agree	13	7.18
B	Agree	34	18.76
C	Neutral	26	14.36
D	Disagree	67	37.02
E	Strongly disagree	41	22.65
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

Employees perception of how fairly they are being traded by their company is of prime importance, the dictum a fair days work for a fair days pay. As can be seen from table 3, about 67(37.02%) and 41(22.65%) of the respondents respectively said that they are dis agree and strongly dis agree as they are being equally traded by their company. This often utilized to denote a sense of equity felt by employees.

Table 2 Employees perception on performance related pay

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you agree you are compensated based on your performance appraisal result?</b>		
A	Strongly agree	11	6.08
B	Agree	40	22.1
C	Neutral	6	3.31
D	Disagree	88	48.62
E	Strongly disagree	36	19.89
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

Performance related pay is a system in which an individual increases in compensation is solely or mainly dependent on his/her appraisal or merit rating. From the respondents response 88(48.62%) and 36(19.89%) of respondents respectively said they are not compensated based on their performance appraisal result.

Table 3 Compensation package scheme and degree of discrimination

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you agree that the company's compensation package scheme is free from discrimination?</b>		
A	Strongly agree	10	5.52
B	Agree	35	19.34
C	Neutral	32	17.68
D	Disagree	63	34.81
E	Strongly disagree	41	22.65
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

When employees feel that they are discriminated in their company in terms of compensation package implementation, it will hamper their productivity. As can be seen from the table above 104(57.46%) of the respondents respectively respond that their company's compensation package scheme is not free from discrimination based on demographic factors such as race, gender, religion... etc.



Table 4 Communication of compensation management

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you agree that you are kept informed about how the current compensation package systems function?</b>		
A	Strongly agree	4	2.21
B	Agree	31	17.13
C	Neutral	25	13.81
D	Disagree	69	38.12
E	Strongly disagree	52	28.73
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

Regarding the question on to what extent employees are informed about how the current compensation package systems function? 69(38.12%) and 52(28.73%) respectively disagree and strongly disagree that the company inform the compensation package system and its function to its employees. This will create a feeling that employees are not part of the company in compensation decision process. When employees are not aware about their compensation package, there will be a gap between employee- employer relationships.

Table 5 Employees Knowledge of company's compensation package scheme.

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you agree that you are well aware about the total benefit package provided?</b>		
A	Strongly agree	7	3.87
B	Agree	26	14.36
C	Neutral	22	12.15
D	Disagree	86	47.52
E	Strongly disagree	40	22.10
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

When we see awareness of employees in regard with the total benefit package which are provided by the company, 126(69.62%) of the employees respond that they are not well aware about the company's compensation package scheme. This shows that the management of the company especially the human resource department ignores the fact that compensation will play a vital role to increase employee's productivity.

Table 6 Promised compensation package scheme

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you agree you are always compensated what is promised to be compensated?</b>		
A	Strongly agree	18	9.94
B	Agree	50	27.62
C	Neutral	28	15.45
D	Disagree	58	32.07
E	Strongly disagree	27	14.92
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

Regarding the promised compensation package by the management and its implementation employees were asked as to what extent they agree as they are always compensated what they are promised .From the respondents response it is possible to observe that 85(46.99%) of them said that the company is not give the promised compensation to its employees. This may show that the company is not transparent in different activities inside the company; this may create inconvenience to the employees.

Table 7 Compensation management and participation of employees in decision making

<b>N o.</b>	<b>Items</b>	<b>No. &amp; %</b>	<b>Strongl y agree</b>	<b>agree</b>	<b>neutral</b>	<b>Dis agree</b>	<b>Strongl y dis agree</b>	<b>total</b>
1	I have a say In how my total pay is determined	No.	5	13	44	72	47	181
		%	2.76	7.18	24.31	39.78	25.97	100
2	The compensation practice is equivalent with my responsibility	No.	3	16	48	69	45	181
		%	1.66	8.84	26.52	38.12	24.86	100
3	Is compensation structure is similar with other companies in recruitment market	No.	2	11	51	63	54	181
		%	1.1	6.08	28.18	34.81	29.83	100
4	Is the company adjusting compensation package with the cost of living adjustment?	No.	4	10	37	73	57	181
		%	2.21	5.52	20.44	40.33	31.5	100
5	Is the company's compensation package practice considering levels of my performance?	No.	3	20	45	65	48	181
		%	1.66	11.05	24.86	35.91	26.52	100

**Source: Survey data (2017)**

Regarding employees participation in determination of compensation package 119(65.75%) of the respondents said that they don't have a say in compensation package scheme determination process. This may hamper their commitment toward their job.

As the theory assumes when employees perceive themselves to be in an inequitable situation they will seek to reduce the equitability feeling. They may do so by mentally distorting their inputs or out comes or by leaving the organization. From the respondents response, it is possible to observe that quite considerable number of employees 114(62.98%) said that they are not satisfied with the current compensation package scheme and their responsibility. This may increase turn over and will reduce the productivity of the company.

Compensation package of a given company schedule be fair in terms of competitive market rate outside the organization. From table 9 above we can observe that 117(64.64%) of the respondents said that the company's compensation package is not similar with the recruitment market. This will led employees to leave the company to find better job and it will cost the company.

Compensation package must be adjusted with cost of living adjustment made by the government. From the responses of the respondents it is possible to observe that 130(71.83%) said that the company is not adjusting compensation package with adjustment in cost of living. This will create problem to the employees to cover their monthly expenditure and they may search other prospects.

According to the equity theory compensation package must be fair enough internally as well as externally and it should take employees performance in to account. From the respondents response it is observed that 113(62.43%) of the respondents said that the company's compensation package did not take in to consideration employees level of performance. This may reduce performance of employees as well company's profitability.

Table 8 Employees satisfaction level with the company's compensation package scheme

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you satisfied by the compensation package of the company?</b>		
A	Strongly agree	5	2.76
B	Agree	22	12.15
C	Neutral	28	15.47
D	Disagree	79	43.65
E	Strongly disagree	47	25.97
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

Employee's satisfaction level has an impact on the company's profitability. So knowing the satisfaction level of employees with compensation helps the company to modify its compensation package scheme table 10 above thus deals with this issue. As can be seen from the table above 5(2.76%) of the respondents said that they are satisfied strongly with the current compensation package of the company and those who express their feeling as they are satisfied with the company's compensation package accounts 22(12.15%).

Those who are not satisfied at all and those who are not satisfied accounts 47(25.97%) and 79(43.65%) respectively. Almost majority of the respondents seem to be dissatisfied and they are likely to leave their work and this costs the company.

Table 9 Employees level of satisfaction with the annual salary increment.

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you agree that you are satisfied with the level of annual salary increment?</b>		
A	Strongly agree	3	1.66
B	Agree	14	7.73
C	Neutral	15	8.29
D	Disagree	94	51.93
E	Strongly disagree	55	30.39
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

When we see employees satisfaction under table 11 with the annual salary increment, 149(82.32%) of the respondents are dissatisfied with the annual salary increment. When most of the employees are not satisfied the company may face high rate of turnover and it will cost a lot.

Table 10 Compensation management and market inflation

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent do you agree that company's compensation package is consistent for a long period of time without considering market inflation?</b>		
A	Strongly agree	31	17.13
B	Agree	31	17.13
C	Neutral	31	17.13
D	Disagree	42	23.20
E	Strongly disagree	46	25.41
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: Survey data (2017)**

Employees face problems in their life to cover their monthly expenditure, 86(48.41%) of the respondents said that compensation package is consistent for a long period of time without considering market ups and downs. Equity (internal as well as external) is a mile stone in any compensation package system when employees perceive inequity it may reduce the productivity of employees and it affects the company's profitability.



Table 11 Extent of labor union involvement in decision made on compensation aspect

No.	Item	Frequency response	
		Number	Percentage
	<b>To what extent does the company involve the labor union in decision pertaining to compensation?</b>		
A	Strongly agree	9	4.97
B	Agree	39	21.55
C	Neutral	23	12.71
D	Disagree	74	40.88
E	Strongly disagree	36	19.89
<b>Total</b>		<b>181</b>	<b>100</b>

**Source: survey data (2017)**

From table , it is possible to observe that those who said labor union of the company involved in compensation aspect to a very great extent and to a great extent accounts 9(4.97%) and 39(21.55%) respectively. Quite large number of respondents 74(40.88%) and 36(19.89%) of the respondents said that labor union of the company is involved to compensation package aspect to some extent. Low level labor union involvement may show that the needs and wants of employees are satisfied to some extent, this has a direct impact towards efficient production.

Table 12 Choice of employee's compensation package scheme

No.	Compensation package	No. & %	Compensation package priorities									
			1	2	3	4	5	6	7	8	9	Total
1	Tuition fee	No.	27	23	15	28	8	14	7	33	26	181
		%	14.92	12.71	8.29	15.47	4.42	7.73	3.87	18.23	14.36	100
2	Insurance	No.	9	38	34	17	23	15	12	20	13	181
		%	4.97	20.50	18.78	9.39	12.71	8.29	6.63	11.05	7.18	100
3	Allowance	No.	5	12	28	24	27	29	39	7	10	181
		%	2.76	6.63	15.47	13.26	14.92	16.02	21.55	3.87	5.52	100
4	Bonus	No.	7	36	26	31	28	27	9	12	5	181
		%	3.87	19.89	14.36	17.13	15.47	14.92	4.97	6.63	2.76	100
5	Transport fee	No.	14	7	12	15	49	31	21	23	9	181
		%	7.73	3.87	6.63	8.29	27.07	17.13	11.60	12.71	4.97	100
6	Training opportunities	No.	5	9	18	29	15	30	33	23	19	181
		%	2.76	4.97	9.94	16.02	8.29	16.57	18.23	12.71	10.50	100
7	Loan	No.	9	10	22	26	9	8	32	26	39	181
		%	4.97	5.52	12.15	12.36	4.97	4.42	17.68	14.36	21.5	100
8	Salary increment	No.	76	28	23	2	9	13	15	11	4	181
		%	41.99	15.47	12.71	1.10	4.97	7.18	8.29	6.08	2.21	100
9	Leaves	No.	31	19	2	10	13	14	13	23	56	181
		%	17.13	10.50	1.10	5.52	7.18	7.73	7.18	12.71	30.94	100

Source: Survey data (2017)

Choice of employee's compensation package may differ from employee to employee or company to company. The respondents were asked to put their compensation package in priority order as indicated in table 20 above. For simplicity purpose the researcher of this paper summarizes their choice only up to third choice. The primary compensation choice of the employees is salary increment as revealed by 76(41.99%) of the respondents. The second choice is different kinds of leaves that is 31(17.13%) and the third choice is 27(14.92%) which is tuition fee. The result shows that the three top choices are already available in the company's compensation package (see, annex-2) even if those choices are available, the respondents are not satisfied.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter deals with summary of findings, conclusions and recommendations

#### **5.1 SUMMARY OF FINDINGS**

The researcher of this paper conducted this study with the general objective of assessing the satisfaction level of Ethiopian pharmaceutical manufacturing share company employee's compensation package scheme and its impact on productivity. Then questionnaires and interview checklist are designed to collect information aimed to meet the objectives. Then data were collected, analyzed and interpreted. Therefore, in the basis of the data collected and analyzed, the study has come up with the following findings.

- 5.1.1 As regards employment history, the study shows that majority of them are young, married, educated and highly experienced or senior.
- 5.1.2 As regards employee's perception on compensation package scheme, the study shows that majority of them are not equally treated, they are not compensated based on performance appraisal, they are discriminated in terms of sex, religion ...etc., regarding compensation
- 5.1.3 The finding shows that majority of employees are not kept informed regarding the company's compensation system, they are not well aware about the company's compensation package list and they are not compensated what the company is promised to compensate its employees.

- 5.1.4 Most of the employees said that they do not have a say in compensation package scheme decision,
- 5.1.5 The study indicate that majority of the employees are not compensated equally with their responsibility and within the recruitment market.
- 5.1.6 Majority of the employees said that the company is not adjusting compensation package with the adjustment of cost of living.
- 5.1.7 The study revealed that majority of the employees are not satisfied with the current compensation package scheme and with the annual salary increment.
- 5.1.8 The study revealed that the labor union of the company is week.
- 5.1.9 According to the study three top compensation package choices are annual salary increment, different kinds of leaves and tuition fee coverage.

## 5.2 CONCLUSIONS

On the basics of the findings started above, the following conclusions can be drawn.

- 5.2.1 The finding shows that majority of the employees are matured and educated and this is good for the efficiency of production.
- 5.2.2 According to the finding majority of employees feel that they are not equally treated, based on this fact it is possible to conclude that, when employees perceive themselves to be in an inequitable situation, they may distort their inputs or outcomes by directly altering their inputs or outcomes, or by leaving the company.
- 5.2.3 Openness and transparency are vital, with a positive message about equity. From the findings it is observed that employees are not kept informed regarding compensation package practice. From the finding it is possible to conclude that lack of transparency and openness will severely hamper employee's morale and productivity.
- 5.2.4 According to the finding most of employees said that they do not have say in compensation package decision. From this it is possible to conclude that if the compensation package is not visible to those who receive them and to others, it will force employees to look other prospects who pay them more than what the company is paying them currently.
- 5.2.5 According to the finding majority of the employees are not compensated equally internally as well as externally. From this, it is possible to conclude that lack of good compensation may create problem to the company not to get a better opportunity to select the best employees amongst those who applied from the labor market.

- 5.2.6 According to the theory government may intervene in the employment relationship in terms of attempting to correct cost of living. From the study it is seen that the company is not adjusting its compensation package accordingly. From this it is possible to conclude that if there is no adjustment employees tend to leave the company to find better payment.
- 5.2.7 According to the findings, the satisfaction level of employees with the compensation package of the company is not good. This means employees are on the way to find other alternatives and this is likely to increase the rate of turnover of the company and it costs the company severely. Because majority of employees are well experienced.
- 5.2.8 According to the study labor union involvement is not as it is needed by its employees. From this it is possible to conclude that the interest of employees may be taken into account and it affects the company because in an open competitive market, workers tend to gravitate toward higher-paying jobs.
- 5.2.9 The three choices of employee's compensation package that is annual salary increment, different kinds of leaves and tuition fee coverage are available to the company's compensation package list. But from the analyses it is observed that employees are not satisfied. In conclusion if the employees are not satisfied with the existing scheme, the company faces high level of turnover and reduction in productivity.

## 5.3 RECOMMENDATIONS

Based on the findings of the study and the conclusions drawn, the researcher of this paper formulates the following recommendations.

5.3.1 Compensation plans need to be tied to an organizations strategic mission and should take their direction from the mission. They must support the general business strategy. Further, evidences now shows that inferior performance by a firm is associated with a lack of fit between it is pay policy and it is business strategy. Then, the company is strongly advised to incorporate compensation plan in to it is corporate strategy which support the development of performance culture, to align reward practices with both business goals and employee values, to reward people for the value they create and create total reward process that are based on beliefs about what the company values and want to achieve.

5.3.2 Compensation package bridge the gap between organizational objectives and individual expectations. The company is advised to formulate its compensation package to create equity within the organization and with external labor market, to treat each member of the organization in terms of his or her individual needs and to fulfill the basic needs of its employees. More broadly the company should design its compensation package to attract, retain and motivate employees, to increase more empowerment, communicate and development within the company. By doing so the company may yield positive results.

5.3.3 No one likes to think they are paid less than they deserve. So equity, both internally and externally is crucial in determining pay. The company is advised to identify pay compression is to examine relationship between compensation package and incumbents years of experience with in the company. The following recommendations are critical to solve sense of in equitability. The company should reassess the recruitment policy, should focus on job evaluation process, emphasizing on performance and give first line supervisors and other managers the authority to recommend equity adjustments for incumbents who have been unfairly victimized by pay compression.



- 5.3.4. High achieving performers are attracted to companies that reward high level performance and high level performers are typically in favor of pay for performance. This tendency is known as the sorting effect, top performers are likely to be attracted and remain within organizations that have implemented contingent pay plan. An organizations ability to retain its top performers is obviously crucial if an organization want to win the talent war and have a people base competitive advantage. So the company is recommended to implement contingent pay plan system and in addition to create an environment of trust and respect, where employees can have fun and develop relationship with others and do meaningful and interesting work.
- 5.3.5. The company is strongly advised to create strong relationship with labor union. Organizations with strong labor union have say regarding different issues. Sometimes the organizations may force to pay better compensation just to keep the union out of issues which are only connected to monetary issues.
- 5.3.6. A flexible (cafeteria) benefit plan allows employees to choose between two or more types of benefits. Flexible benefits and reimbursement accounts can increase employee's satisfaction and save employers from spending money on coverage that employees do not want. These plans provide for benefit tradeoffs and cost sharing .The Company is recommended to focus on those choices which are chosen by employees like salary increment, tuition fee coverage and so on. In order to manage this program effectively, the company can first set objectives and strategies for benefits, involve participation of unions and communicate benefits to employees and monitor cost closely.
- 5.3.7. Today there is a continuing move away from policies of salary entitlement, in which inflation or seniority, not performance were the driving forces behind pay increase. Pay for performance is the new mantra. So the company is advised to implement performance related compensation package scheme.