



**ST.MARY'S UNIVERSITY
SCHOOL OF GRADUATES**

**ASSESSMENT OF COMPENSATION MANAGEMENT PRACTICES AND
CHALLENGES: THE CASE OF NETWORKS OF NETWORKS HIV
POSITIVES IN ETHIOPIA (NEP+)**

**BY
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**MAY, 2018
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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF
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Acronyms /Abbreviations

HIV:	Human Immunodeficiency Virus
AIDS:	Acquired immunodeficiency syndrome
NEP+:	Network of Networks of HIV Positives in Ethiopia
HR :	Human Resource
FHAPCO:	HIV Prevention and Control Office
SPSS:	Statistical Package for the Social Sciences

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ABSTRACT

Compensation is the most critical factors in attracting and retaining high quality employees. The aim of this study is to examine the actual compensation practices and challenges of Network of Networks of HIV Positives in Ethiopia. To meet the objective, researcher adopted descriptive research design by using qualitative and quantitative data interpretation. From the total of 50 employees the sample areas of study 45 employees have been selected by using purposive sampling techniques. The primary data was collected through questionnaire with employees and interviews with the top managements. The data has been analyzed by using descriptive statistics, frequency and tables. From the research it is observed financial compensation is considered as the reward which is given to employees against work to support their family, and payment for the work which is done. Then, the researcher was investigating the practice of compensation on employees basic salary, ability to pay, job requirement, government regulation, cost of living index, and labour market. Major findings revealed that the practices of compensation in Network of Networks of HIV Positives in Ethiopia is unsatisfactory, unfair and not competent with the market. Majority of the employees are dissatisfied with compensation system and there is high turnover as it is confirmed from the employees' personnel records. The researcher recommended the organization must revised the existing compensation package aligned with the internal and external factors and also top management must keep themselves up to date with the compensation package of the competitors. Because that would help them to get about the external environment and leads to retain and attract a qualified workforce.

Key words: *compensation, Basic Salary, Ability to Pay, Cost of Living Index, Job Requirement, Demand and Supply of Labour.*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Employee compensation refers to all forms of pay or rewards going to employees and arising from their employment, and it has two main components. There are direct financial payments in the form of wages, salaries, incentives, commissions, and bonuses, and there are indirect payments in the form of financial benefits like employer-paid insurance and vacations Cascio (2004).

As stated by Griffin (2012), compensation is a financial remuneration given by an organization to its employee in exchange for their work. The compensation scheme has to be such that it will be attractive to attract and retain competent workforce. Today's competitive conditions make it more difficult for organizations to acquire and retain experienced and productive talent. Thus, finding, motivating, developing, and keeping employees has become a strategic function of the human resource departments of most organization.

Chingos (2002) argues that to attract and retain the right people, applying the right mix of pay, benefits and carrier are important. Some human resource executives believe that offering salary and benefits above the market rate can actually retain employees and reduce the turnover; however, this is not usually true Cascio (2004). Furthermore, Chingos (2002) mentioned that Technological Company which is high-technology firm relies on technology professionals, developed a pay package, including a widespread use of stock options, so as to attract the best talent in the market.

Compensation is an important and complex part of the organization-employee relationship. Then, compensation to an employee should be enough to provide and cover the basic necessities of an employee and help him/her maintain a reasonable standard of living. As Griffin (2012) noted, if employees don't earn enough to meet their basic economic needs, they

will look employment elsewhere. On the other hand, if employees believe that the contributions to the organization is under-valued (i.e., if they feel that they aren't paid according to their performance) they may leave the organization or if they choose to stay (due to lack of alternatives) they may show poor performance, low morale, or little commitment to the organization. Thus, organizations must develop a good and acceptable remuneration /compensation scheme.

As it is stated by Dessler (1988), most employees are paid based on the time they put in on the job in the form of daily wage. Some employees-managerial, professional, and usually secretariat and clerical are salaried. They compensated on the basis of a longer period of time (like a week, month, or year) rather than hourly or daily. Piecework is the other option to pay performance, it ties compensation directly to the amount of production the worker produces, and is popular as an incentive pay plan.

The first case of HIV in Ethiopia was identified in 1984. An estimated 1.2 million people were living with HIV in the country in 2010; while an estimated 800,000 children under 17 years of age have been orphaned due to AIDS since the onset of the epidemic (FHAPCO 2010). The determinant factors that drive the epidemic and sexual behaviours among different population groups has not been adequately explored but limited studies and anecdotal evidences cited some of the conditions that could be considered among the driving forces of the epidemic. These are: low level of comprehensive knowledge about HIV, low level of perceived risk and threat of HIV, increased population migration, high prevalence of unprotected sex through concurrent multiple partnerships, high prevalence of STI, alcohol and substance abuse, gender inequality and poverty. High vertical transmission from mother to child was also observed (Getnet Mitike and Melesse Tamiru 2007).

In 1998 the Government of Ethiopia issued the HIV and AIDS policy and subsequently established HIV/AIDS Prevention and Control Office (HAPCO) and the National AIDS Council to coordinate and provide direction to the implementation of the policy in the country. Furthermore, the government took several measures to prevent the spread of HIV infection

which among others included increasing the accessibility of AIDS treatment, care and support.

Ethiopia joined the UN General Assembly in issuing the Political Declaration on HIV/AIDS in 2006. The declaration necessitates commitment on the part of governments to move towards the goal of universal access to HIV prevention, treatment, care and support by 2010. (Source: The People Living with HIV Stigma Index, 2011, Published by NEP+, National Research)

As it has been stated on company printed materials (brusher, leaflets, and bulletins) NEP+ was established in October 2004 with the mission of lead and coordinate the contribution of PLHIVs in the national response to HIV through networking, partnerships, capacity building, resource mobilization and relaying the voices of PLHIV at all levels. In order to achieve its goals, there are regional networks which constitute regional PLHIV associations.

Though the ultimate goal of every service giving organization like NEP+ is to satisfy its employees and customers/clients, however, many of the service delivering organizations are failed in giving reasonable compensation to its employees. The focus of this research was to assess the compensation practices and challenges of NEP+.

1.2 Statement of the Problem

Compensation has become relevant topics in today's world and it is a subject that touches the moral and standards of a company and it is a political and economical questions of the whole general public. This is mainly because it indirectly affects employees' compensation Laietu and Mellado (2009). In addition compensation must strive employees to provide incentives and motivation to act in the best long-term interests of the company. The system must also be fair and proportional to the actual effort and success. Without proper compensations, employees may not be inclined and committed to act in the best interest of the company Topazio (2010) and Singh (2007).

In general, as it is noted by Dessler (2010), compensation is a system which aligns the interests of the employees with organizational objectives. Therefore, it is commonly theorized as an attractive approach to aligning employee and employer interests. Different empirical results on

this area argued that attractive and well designed compensation system could accelerate the achievement of the organizational goal and retain employees for long period as it had been argued by Ozkan (2007), Laietu and Mellado (2009)and Aduda (2011). Besides to this, Orn and Konkell (2009), Sigler (2011) and Kaplan (2012) added that compensation has significant role on the performance of employees. It implies that if there exists poor system of compensation employees are looking for other job opportunities.

Thus, compensation management is a factor that enables us to differentiate between our remuneration strategies and those of our competitors while allowing flexibility, control and cost effectiveness. Compensation management allows us to control bottom-line expenditures and offer competitive and motivating remuneration, be it fixed pay, variable pay, stock options, merit increases, or promotion in other word total compensation. It has a vital role on over all development of the organization if we manage it properly, so we need to give a proper attention from its formulation to implementation and what looks like its practice and challenge in Network of Networks of HIV Positives in Ethiopia (NEP+).

1.3 Research Questions

This research tried to give answer the following basic research questions.

- What are the practices of compensation management in NEP+?
- What are the main challenges of compensation management in NEP+?
- How employees perceive the compensation of NEP+?
- How often the compensation system is being reviewed?

1.4 Objectives of the Study

Objectives of this study are pointed as General and Specific Objectives.

General Objective

The general objective of this research paper is to examine the actual compensation management practices and challenges of NEP+.

Specific Objectives

- To identify the practices of compensation packages in NEP+;
- To identify challenges of compensation management in NEP+;
- To analyze the perception of employees about the exiting compensation system of NEP+.
- To recognize how often the compensation system is being reviewed.

1.5 Significance of the Study

The findings of this study will help the management of NEP+ to identify the reasons that affects the current compensation of employees and this enables to attain qualified employees. Moreover, this study will have the following significance:

- It serves as a springboard for interested researchers who want to do more research under this topic.
- It provides information for non-governmental organizations and private sector organizations on contribution of sound compensation system for organizational success.
- It helps for the non-governmental organizations to be aware of that compensation management system affects organization's success.

1.6 Scope of the Study

The study focused the current compensation practices and challenges of financial compensation of NEP+. Furthermore, the study covered the variables such as basic salary, cost of living index, ability to pay, government regulations, equity compensation, Job requirement, and labour market. The time period that the study covers was from January 2011 to December 31, 2017 for the consecutive seven years. However, the research didn't compare NEP+'s compensation with other similar organizations' practice not put what to be compensate for every employee due to the very limited capacity with respect to time and finance.

1.7 Limitation of the Study

Although the researcher tried to design the research properly and manage the challenges in the process of the study, however, there were some external variables that affect the study. Some of those challenges the researcher were majority of the employees travel for field work

to different regions and difficult to access them and also lack of willingness from some respondents to fill the questionnaire return it timely. The major difficulty was getting of top management, because of tight schedule of meeting and field work. In addition lack of well organized document in NEP+.

1.8 Organization of the Study

The study consists of five chapters. The first chapter highlighted the background, statement of the problems, objectives, research questions, significance of the study, scope and limitation of the study. Review of the related literature is discussed in the second chapter. It presents the conceptual frameworks or briefs review of related studies that serve as the basis and proof to support the basic questions of the study. The third chapter addresses the research methodology. It explains the methods, approaches, procedure and instruments that were used to achieve the purpose of study. Then, the fourth chapter focuses on the presentation, analysis, and interpretation of the data. The fifth chapter deals with summary, conclusion and recommendation based on the findings. Lastly, reference follows chapter five.

CHAPTER TWO

RVIEW OF RELATED LITRATURE

This chapter is organized into four sections. The first section reviews theoretical studies on the compensation management practices and challenges and related issues, while the second section presents the empirical evidences. The third section provides the conceptual framework.

2.1 Theoretical Literature

2.1.1 General Overview and Definitions of Compensation

Organizations are established with the aim of effectively utilizing various available human and non-human resources to achieve certain objectives. Among these, human resources is commonly seen as the most valuable asset an organization could use to earn. In other words, employees are the backbone of an organization to attain its objectives whether it is small or big organization. Among other things employees are motivated to work when they are provided a fair financial and non-financial compensation for service rendered to the organization. As it is briefly described by Holt (1993), Hills et.al (1994), and Martocchio (2004) *Compensation is the reward employees receive in exchange for their performance. It is concerned with wages and salaries, pay raises, and similar non-monetary exchange for employee's performance.* Well designed compensation system enables organizations to attract qualified employees required and retain and motivate the existing work force towards goal achievement. The most obvious reward employees get from work is pay (Decenzo and Robbins, 1999) as it is cited by Ahmed Kelil Addis Ababa University (2010). Amche (2012) also argued that compensation is a form of reward given as a result of a job that has been done or effort put in to achieve a set goal and as such this serves as a motivational factor that encourages an individual to put more energy or commitment into his/her job.

Every organization has been established to accomplish certain objective through human resources. However, as it is noted by Werther and Davis (1990), if compensation is not tied to

work, employees are likely to look for better paying job. Moreover, he added that where employees are dissatisfied with the type of compensation, their contribution towards goal attainment tends to be lower. In severe cases, pay dissatisfaction may lower performance, causes strike, increase grievance, and leads to forms of physical or psychological withdrawal ranging from absenteeism and turnover to increased visit to dispensary and poor mental health. Therefore, from these we realized that the objectives of compensation is to create an equity to employers and employees. Furthermore, Werther and Davis (1996) have identified that effective compensation has the objectives of acquire qualified personnel, retain current employees, ensure pay equity, reward desired behavior, control cost, comply with legal considerations, and facilitate understanding.

From the philosophical point of view Bob (2011) stated that, compensation processes are based on Compensation Philosophies and strategies and contain arrangement in the shape of Policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation. This constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation management is not just about money.

Armstrong (2005) stated that compensation management is an integral part of human resources management approach to productivity improvement in the organization. It deals with the design, implementation and maintenance of compensation system that are geared to the improvement of organizational, team and individual performance.

Thus, all scholars agreed that without adequate compensation organizations couldn't attain their objectives. On the contrary employees become cancer of the organization if they didn't receive competent salary for the work they performed.

2.2. Types of Compensation

As it is explained by Mondey and Noe (1990), compensation is an important factor affecting how and why people choose to work at one organization over the others. Employers must be

reasonably competitive with several types of compensation in order to hire, keep, and reward performance of individuals in the organization. In general there are two types of compensation.

Financial compensation

Financial compensation includes direct compensations, which is paid to employees in the form of wages, salaries, bonuses, and commission in exchange for their performance and indirect compensation in the form of insurance plans (life, health, social assistance), retirement benefits, educational assistance, employee services, and paid absence for vacation, holydays, sick leave, etc Mondey and Noe (1990).

According to Armstrong (2010) and Mathis & Jackson (2005), financial management comprise all rewards that have a monetary value and add up to total remuneration base pay, pay contingent on performance, contribution on performance, competency or skill, sick leave of pay and health insurance.

Table 1: Components of Financial Compensation

COMPENSATION	
DIRECT: Base Pay Wage Salaries Variable Pay Bonuses Incentives Stock Options	INDIRECT: Variable Pay Medical Incentives Paid time off Retirement pension Workers Compensation

Source: Adopted from Thompson 2002, P.743

- **Basic pay:** The basic compensation that an employee receives usually as a wage or salary is called base pay. Many organizations use two base pay categories, hourly and salaried, which are identified according to the way distributed and the nature of the jobs. Hourly pay is the most common means of payment based on time. Employees who are paid hourly are said to receive wages, which are payments directly calculated on the amount of time worked. In contrast, people are paid salaries receive payments that are consistent from period to period

despite the number of hours worked. Being salaried typically has carried higher status for employees than being paid wages. Some organizations have switched to an all-salaried approach with their manufacturing and clerical employees in order to create a greater sense of loyalty and organizational commitment.

- **Variable pay:** Another type of direct pay is variable pay, which is compensation linked directly to performance accomplishments. The most types of variable pay for most employees are bonuses and incentives program payments. For executives, it is common to have longer-term rewards such as a part of organizational membership.
- **Benefits:** Many organizations provide numerous extrinsic rewards in an indirect manner. With indirect compensation, employees receive the tangible value of the rewards without receiving the actual cash. A benefit is an indirect reward, such as medical services, health insurance, vacation pay, or retirement pensions, given to an employee or group of employees as part of organizational membership.

Non-Financial Compensation

Non- Financial compensation includes any satisfaction which employees receive from the job, such as the need for recognition, responsibility, personal growth and the like or from environment in which they work including comfortable working condition, competent supervision, pleasant work companion and other related physical and social needs of Employees Mondy and Noe (1990) and Armstrong (2010).

2.3. Determinants of compensation systems

Dessler (2005) explained that the compensation system of an organization is determined by its ability to pay, employees productivity, labour laws and regulations, job requirement, reward systems and strategies, trade unions and organization structure. He further argued that compensation can be divided in to various parts. One way is to break it down into three parts namely, fixed -Pay, Flexible Pay and Benefits. The other way is to divide compensation in to two parts, Performance- based pay and Non-performance based pay. In the first classification, fixed pay is the compensation given to employees as their base salaries e.g. promotions, merit increase and cost of living increase. Flexible pay consists of two components in itself, variable pay and deferred income. Variable pay relates to commissions, bonuses, gain sharing, goal-

based pay etc: where, the amount of pay is variable or its distribution is not certain, which is given usually to salespeople. Deferred income is long-term organization pay schemes e.g. profit sharing, company savings plans employee stock ownerships.

According to Perreault & Mc McCarthy (2006) wage increases should be given by those organizations which can afford them. Companies that have good sales and, therefore, high profits tend to pay higher those which running at a loss or earning low profits because of higher cost of production or low sales. In the long run, the ability to pay is important. During the time of prosperity, pay high wages to carry on profitable operations and because of their increased ability to pay. But during the period of depression, wages are cut because the funds are not available. Marginal firms and nonprofit organization (like hospitals and educational institutions) pay relatively wages because of low or non profits.

However, fancy compensation programs are impressive, but the bottom line is that an organization must be able to afford its pay system. This is true in good and in bad financial times. It is critical that design decisions align with the organization's financial ability to pay. By partnering with an organization's chief financial officer, it will be easier to develop a plan that makes sense financially McCollum (2001).

2.4. Employee Productivity

Organizations that link pay to individual performance are more likely to attract individualistic types of employees, while organizations relying more heavily on team rewards are more likely to attract more team-oriented employees. It has been found that different pay systems attract different people depending on their personality traits and values Judge & Bretz (1992). The implication is that the design of compensation programs needs to be carefully coordinated with the business and human resource strategy.

The mechanism for recognizing employee contributions differs for new and existing employees. Contributions made by new employees are recognized by varying the level of starting pay they receive. New employees usually are paid at the minimum rate unless their

qualifications exceed the minimum qualifications of the job. Those exceeding minimum qualifications are paid more because they can make a greater contribution. Existing employees' contributions usually are recognized in the form of pay raises, typically granted on the basis of seniority and performance Henderson (2003).

However, skill based pay also pose some risks in the area of employee paying higher compensation that are not offset by organizations productivity. Also, employee may become rusty unless there is opportunity to use all the skills acquired; and when employee hits the top of the pay structure, he may become frustrated and leave the firm just because there is no further opportunity to receive pay raise Noe et. al. (2006).

2.5. Laws and regulations

In the early 20th century, the America government took a significant role and began to introduce several changes in many aspects of workers pay and remuneration. This brought about Acts such as the fair Labour Standards Acts of 1938, which dictated equal pay for equal work McNamara, (2008).

Fisk (2001) stated that regardless of the effects of legislation on salaries in general, compensation continue to be influenced by several factors that are producing some important trends in compensating workers. One of such trends is aligning wages to the organizations goals. Others include tailoring compensation to the needs of employees; better salary, and pay equity.

2.6. Compensation Management System

As it is noted by Mathis & Jackson (2005), compensation systems in any organizations must be linked to organizational objectives and strategies. But compensation also requires balancing the interests and costs of the employer with the expectations of employees. A compensation program in an organization should have several objectives such as:

- Legal compliance with all appropriate laws and regulations;
- Cost effectiveness for the organization;
- Internal, external and individual equity for employees;

- Performance enhancement for the organization;
- Performance recognition and talent management for employees;
- Enhanced recruitment, involvement and retention of employees;

If we consider the interest of employer, compensation costs must be at a level that both ensures organizational competitiveness and provides sufficient rewards to employees for their knowledge, skills, abilities, and performance accomplishments. Balancing these facts the employer can attract, retain and reward the employees Mathis & Jackson (2005).

As it is noted by Griffin (2012), Compensation is an important and complex part of the organization employees relationship and it should be enough to provide and cover the basic necessities of an employee and help him maintain a reasonable standard of living. Furthermore, he argued that if employees don't earn enough to meet their basic economic needs, they will look for employment elsewhere. In most societies, however, a person's earnings also serve as an indicator of power and prestige and are tied to feelings of self-worth. In other words, compensation affects a person economically, sociologically, and psychologically Luis R.Gomez-Mejia and David B.Balkin and Robert L.Cardv (2012).

Fair and Equity Compensation

Most employees in organizations exert their efforts in believing that they will compensate with compatible money for their livelihood Griffin (2010) and Luis R.Gomez-Mejia et.al (2012) . Whether employees receive base pay or variable pay the extent to which they perceive their compensation to be fair and equity often affects their performance.

- **Equity:** the perceived fairness of what a person does and what receives is called equity. Individuals judge equity in compensation by comparing their inputs (effort and performance) against the effort and performance of others and against the outcomes.
- **Internal equity:** internal equity in compensation is employees receive compensation in relation to the knowledge, skills, and abilities they use in their jobs as well as their responsibilities and accomplishments Mathis & Jackson (2005). In other words, if an employer does not provide pay that employees view as equitable compared to other employees performing similar jobs in other organizations the employer is likely to experience

higher turnover. In addition to this the other drawback is greater difficulty in recruiting qualified and high-demand individuals.

As it is described by Dyer (1980), a good compensation strategy includes a balance between internal equity and external competitiveness. Compensation and benefits affect the productivity and happiness of employees, as well as the ability of the organization to effectively compensated and knowledgeable of their benefits.

Market Competitiveness Strategies and competency Based Pay

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

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

2.7. Dimensions of Compensation Management practice

As it is mentioned by Armstrong (2007), to achieve the aim of compensation management, the compensation management strategies, policies, processes and practices should rely on certain principles. The reward management policies and practices supposed to operate in accordance with the principles of distributive and natural justice, function fairly, equitably, consistently and transparently, are aligned to the business strategy, fit to the context and culture of the organization, are fit for purpose and help to develop a high performance culture. Armstrong (2007) further put a brief description of these principles as follows:

- a. Strategic Alignment/Fit:** To be effective, the compensation practices of an organization are supposed to be aligned with the business strategy of the organization. The strategies

alignment of compensation practices ensures that reward initiatives are planned by reference to the requirements of the business strategy and are designed to support the achievement of business goals.

- b. Competitiveness:** Competitiveness refers to pay comparisons with competitors. This is related to how much do we wish to pay in comparison to what other employers pay? It is also called external competitiveness. In addition to pay aspects, competitiveness also incorporates questions such as what mix of pay forms such as base, incentives, stock, benefits, etc do our competitors use in comparison to the pay mix we use.
- c. Fairness:** it is one of the fundamental objectives of pay system. Some scholars define it as ensuring fair treatment and recognize personal and family well-being. It can be categorized into distributive justice and procedural justice.

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

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

- ❖ The viewpoint of employees is given proper consideration;
- ❖ Personal bias towards employees is supposed;
- ❖ The criteria for decisions are applied consistently to all employees;
- ❖ Employees are provided with early feedback about the outcome of decisions;
- ❖ Employees are provided with adequate explanations of why decisions have been made.

- d. Compliance:** Compliance of pay objective refers the conformity of federal and state compensation laws and regulations. If laws are changed, the pay system of the organization needs to be changed in order to ensure its continued compliance with the existing

declaration. In case of multinational companies, company pay practices must comply with the existing laws of the country they built their subsidiary.

- e. **Transparency:** Transparency exists when people understand how reward processes function and how they are affected by them. The reason for pay decisions are explained at the time they are made. The need for a transparent system, according to Gibbons (1998) involves the preferences towards having a clear communication of how the reward are distributed and offered and also the concerns on the understanding of the methodologies, measured and targets used while introducing any rewards Ivana et al (2009)..
- f. **Equity:** Equity is achieved when people are rewarded appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible and that equal pay is provided for work of equal value Armstrong (2002).
- g. **Contextual and Cultural Fit:** this is mainly concerned with the fit between the characteristics of the organization, its business strategy and the type of employees the organization has with that of the organization's culture. This perspective advocates best fit is more important than best practice. Contemporary strategic human resource management scholars like Armstrong (2007) argued that best fit is more important than best practice.

2.8. Factors Affecting Compensation System

Compensation can strongly be affected by several internal and external factors. According to Durai, (2010) from the perspective of the employer, the factors that determine how much compensation is to be paid out to the employee are:

External Factors

Macroeconomic situation: The overall macroeconomic situation where in the state of the economy of the country in which the firm is situated plays a major role in determining the compensation to be paid. This is a direct result of the linkage between firm performance and the performance of the economy.

Demand and supply of labor: it is one of the important factors affecting wages. If the demand of labor is more they will be paid high wages otherwise vice versa. If the supply of

the employees is more they will be paid less and vice versa. As it is stated by Judge & Bretz (1992) the labour market conditions or supply and demand forces operate at the national, regional and local levels, and determine organizational wage structure and level. If the demand for certain skills is high and supply is low, the result is a rise in the price to be paid to these skills. The other alternative is to pay higher wages if the labour supply is scarce; and lower wages when it is excessive. Similarly, if there is a great demand for labour expertise, wages rise; but if the demand for manpower skill is minimal, the wages will be relatively low. The supply and demand compensation criterion is very closely related to the prevailing pay, comparable wage and ongoing wage concepts since; in essence, all of these remuneration standards are determined by immediate market forces and factor.

Cost of Living: Another important factor affecting the wage is the cost of living adjustments of wages. This tends to vary money wage depending upon the variations in the cost of living index following rise or fall in the general price level and consumer price index. It is an essential ingredient of long-term labour contract unless provision is made to reopen the wage clause periodically.

Labor union: labor union also helps in paying better wages to the workers. Higher wages have to be paid by the firm to its workers under the pressure of the trade unions.

Government Regulations: In order to protect the working class from wage exploitation by strong employers, the government enacts various laws and judicial decisions. Such laws and regulations affect compensation management. Because, they emphasize on minimum wage rate, overtime rate, working hours, equal pay for equal work, payment of bonus, etc. So, an organization has to design its pay system as per the government rules and regulations.

Inflation: Compensation is concerned with an overall return that an employee obtains from the organization for rendering contributions towards organization objectives. Therefore, the payment should be adequate to maintain the cost of living of the employees. Hence, the employer should manage compensation by viewing the cost of living of each individual and should adjust with the increase in the cost of living.

Internal Factors

Ability to pay: it depends upon the employer's ability to pay wages to the workers. This depends upon the profitability of the firm. If the firm is marginal and can't afford to pay higher than the competitors, then the employees will go to other firms; while if the company is successful then they can easily pay their employees as they wish.

Organizational Provisions: Organizational provision states that the level of compensation largely depends upon organizational operating policies and procedures. It is because the policies serve as a guideline for formulating and implementing compensation plans and programs. Moreover, organizational regulations, plans, objectives, etc. also affect the level of pay.

Organizational Positions: The position of the organization is determined by its productivity, for example, if the productivity of the worker is high, it assesses itself as a higher position. As a result, the compensation system is determined at a higher level. In contrast, lower productivity tends to result low wages/salary rates.

In addition, the position of the company in the business cycle often determines how much the company is willing to offer to the employee. At a start-up company would pay more because of the need to get the best possible talent into the company. Further, many startups give their employees Employee Stock Option Plans wherein the employees can redeem their stocks after the lock-in period.

Productivity of Workers: Another factor of compensation management is the productivity of workers. This is the new concept of linking pay with employee performance. Highly productive workers are got high compensation as compared to less productive workers.

Job Analysis and Evaluation Report: Job analysis is a method through which necessary information about the contents and the contexts of the job is made available to determine the value of each job. The job evaluation is a process of determining the value/worth of a job so that a payment system can be specified. Job analysis and job evaluation determine the relative worth a job which ultimately assist for compensation management. Hence, it is regarded as an important factor of compensation management.

Top Management Philosophy: Wage rates to be paid to the employees are also affected by the top management's philosophy, values and attitudes. As wage and salary payments constitute a major portion of costs and /or apportionment of profits to the employees, top management may like to keep it to the minimum. On the other hand, top management may like to pay higher pay to attract top talent.

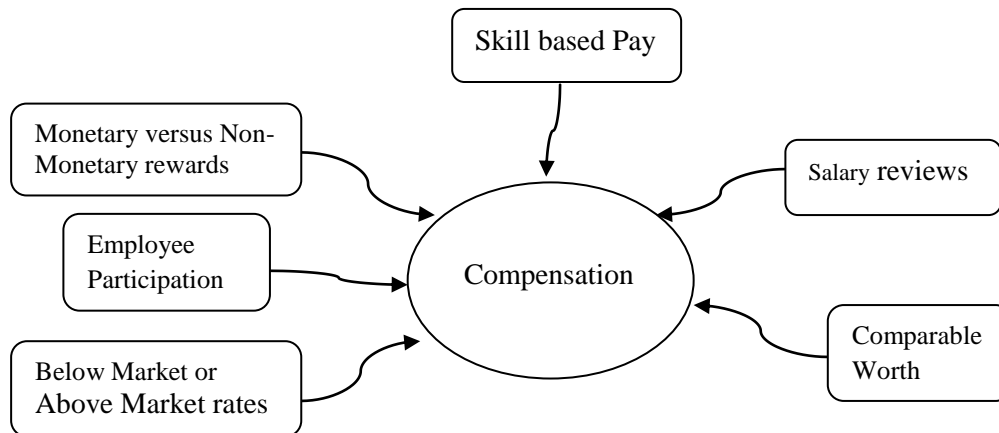
Urgency of the firm: Urgency in filling up the position plays an important role in determining how much the employer is willing to pay the employee. In many cases, if the time to get employee on board is less, staffing managers along with the line manager in charge of hiring the employee might decide to pay more, as they want the employee to come on board as quickly as possible.

2.9. Challenges of Compensation

People who administer wage and salary face challenges which often necessitate adjustments to a remuneration plan. The more important of the challenges are skill-based pay, salary reviews, comparable worth, employee participation, below market or above market rates, and marketing versus non-marketing rewards.

The following figure shows the challenges of compensation.

Fig. 2: Challenges of Compensation



Source: K.Aswhathappa, HRM (text and cases), New Delhi, Tata McGraw Hill, 7th edition, 2014

Skilled based pay: in the traditional job-based pay, employees are paid on the bases of job they do. In the skill-based system, workers are paid on the basis of number of jobs they are capable of doing, or on the depth of their knowledge. The purpose of this system is to motivate employees to acquire additional skills so that they become more useful to the organization.

Salary reviews: pay, once determined, should not remain constant. It must be reviewed and changed often, but how often becomes a relevant questions. Pay reviews may be made on predetermined dates, anniversary dates or there could be flexible reviews. In the fixed-date reviews, wages and salaries of all employees are reviewed and raised on a specified date each year. in the anniversary-date review, salaries may be reviewed at twelve-month intervals from the date of the employees anniversary date of hire. Using variable timing ensures flexibility.

Comparable worth: One of the popular principles in employee remuneration is equal pay for equal work. In fact, this principle has been the inspiration behind the enactment of the Equal Remuneration Act. Under the Act, male and female nurses are to be paid the same if their merit and seniority match, but a female nurse and a male electrician could be paid different rates.

Below Market versus Above Market Remuneration:

Remuneration involving decision relating to below market or above market pay structure has two implications. First, a firm's ability to attract talent from other depends on employee's pay relative to alternative employment opportunities. Second, the choice has an important cost component. Decision to above going rate obviously adds to the cost. However in general, above market pay policies are more prevalent among larger companies in less competitive industries, such as utilities and among companies that have been performing well and have the ability to pay more.

Employee Participation: When employees are involved in designing a remuneration plan, they exhibit little resistance in accepting it. Such a plan is much more likely to be a successful motivator than the one imposed by the management.

2.10. Empirical Literature

In spite of the above theoretical recognition compensation management practices and challenges, there are different studies which describes about compensation management practices and challenges. In this section, an attempt is made to assess the empirical studies conducted by different authors.

Eman Fuad in his assessment of compensation and Benefit package practice in Ethiopian Road Authority (July 2010), he found that there is no employees discussion in preparing compensation plan in organization not only this even the employees don't know from where they can get information regarding the compensation plan of the organization. Employees are unsatisfied with the current monetary incentives bonus and so on. In general his finding shows that satisfaction level of employees with the existing remuneration system of the organization is limited in case of salary. This means employees may not stay in the organization for long period of time and this may not lead to increase turnover and absenteeism of the organization. He also recommend that the company attention should be given for improvement in area of existing remunerating system to increase the level of satisfaction of employees; the organization could be able to allocate appropriate remuneration system for satisfaction of employees and also he recommend the organization should administer the salary scale fairly based on the responsibility they have qualified and relevant year of experience to retain and motivate employees for higher performance.

Another thesis conducted by Bililign Lemma (2012) assessment on employees benefit package and turnover intention in the case of Dashen Bank his finding demonstrated that the benefit package of the company is not enough to cover the basic need of its employee and their families. Moreover his study also established that the benefit package of the company is lower than similar and different company to cover the needs of its employees. Finally, he concluded that for all Dashen Bank and other similar industry in general to use a flexible benefit package on their policy and program and reduce employees' turnover intension.

Binyam (2015) St. Mary University, assessment of compensation Management practices the case of Ethio telecom. His findings revealed that many aspects of the compensation management practices of the telecom are exercised poorly. Due to this reason he found that the existing practice of the telecom fails to satisfy the needs of the employees and it makes the employees less motivated and dissatisfied in the telecom to work for long period service time. Eventually, he recommended that telecom should focus on provision of appropriate compensation for its employees, review its pay systems, redesign the compensation strategy, establish and introduce communication channel and to make need assessment of the compensation policies.

Gashaw (2014) St. Mary University School of Graduate, compensation management practice of ORYX International PLc., the researcher noted the importance of compensation management and he emphasized that compensation enables us to differentiate between our remuneration strategies and those of our competitors while still allowing flexibility, control and cost effectiveness. It provides a tool set for strategic remuneration planning that reflects our organization culture and payment strategies.

In his findings and conclusion, the ground work for the compensation will be developed when the organization has a systematically developed compensation system and considers it to be a steering instrument in order to efficiency, effectiveness and to reach company goals. In an organization environment where there is no carefully developed compensation system, it may be difficult to establish the ground work of compensation system. Thus, he argues that all companies widely use organizational reward, but team reward, and individual rewards are rarely used in all companies when performance is achieved result.

Simachew Amare (2014) Mekelle University College of Business and Economics Department of Management, Human Resource Development Practices and Challenges in Public Sector: Evidence from Selected Regional Public Sector Bureaus in Tigray Regional State, Ethiopia. The researcher found out that as the results proved the sector bureaus were not in a good track in practicing training and development, career development, organizational development and performance appraisal. The finding also indicated that the sector bureaus were not in a position to doing personal analysis and confronted with the variety of challenges in the

practice of HRD. Generally, based on the findings the sector bureaus did not have good HRD system. To minimize problems in the practice of HRD first and foremost, in the sector bureaus, HR should get due attention since it is an engine for other resources. In Meeting HR need, the HRD practices should also focus on career development and post training evaluation should be exercised in order to increase the effectiveness of the program. Moreover, to overcome the challenges of HRD practice there is a need for skilled human and financial resources, to differentiate high and low performers by using performance criteria and providing the necessary technical and interpersonal support to make HRD process more sustainable.

As it is stated by Dr. Ponduri SB and Dr. Aravind Soudikar International Journal of Trend in Research and Development, Vol. 3(2), ISSN: 2394-9333: www.ijtrd.com), which is a case study of commercial banks in Dessie Town, employees perception towards current compensation and benefits are unfair, not distributed between supervisor and clerical employees. Employees are not participating in compensation and benefits decision and also the compensation system not communicated to employees.

A research conducted by Ahmed Kelil (2010), AAU in partial fulfillment of MBA, Employees Perception Towards Compensation and Benefit the case of some selected Government Higher Education Institutions in Addis Ababa: the researcher found that many employees believe that the current compensation and benefit is not adequate and let them to cope with ongoing cost of life. The respondents claimed that the compensation and benefit package should be reviewed and designed taking into account factors in the external environment including the market condition, nature of the jobs, other organizations, government regulations and the internal environments for the values of the job grades through job analysis. The current compensation and benefit packages are not periodically updated and evaluated for effectiveness. Furthermore, the existing benefits are not well communicated to employees.

Both salary and benefits available in the institutions were rated unfavorably or most unfavorably. Paid leaves and social securities are the best favored instrument of the benefit packages list in the item where as the least favored benefits were child and elderly care and legal advice.

2.11. Conceptual Framework

The conceptual framework for compensation management practices and challenges based on the theoretical perspective and empirical results, every compensation practice will be faced a problem due to external and internal factors of the organization.

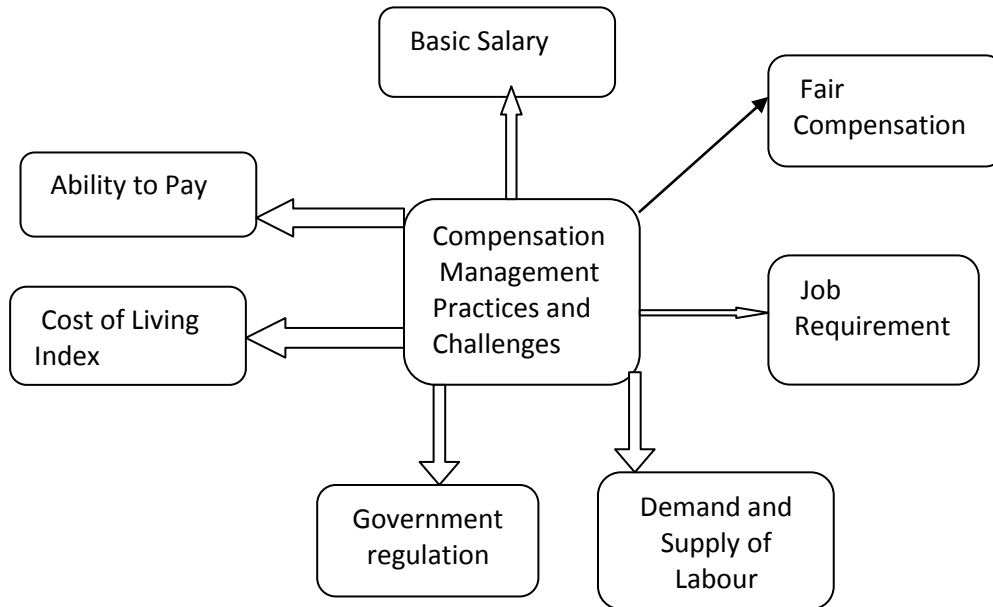


Figure 1: Determinants of compensation

Source: Related Review of Literature

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This part focuses on the research design and methodology of the study which is concerned with the research design, sampling method and sample size, sources of data, validity, data analysis and ethical consideration.

3.1. Research Design

This research design is classified as descriptive research attempts to describe systematically a situation, problems, phenomenon, service or program, or provides information about, say, the living condition of a community, or describes attitudes towards an issue Ranjit Kumar (2005).

Accordingly, the research employed mixed research method. The reason why the researcher employed a mixed research method is to generate a comprehensive information. For instance, the qualitative data related to employees satisfaction with the current compensation, the perception of employees with the internal and external competitiveness, to assess the effect of demand and supply on compensation. Besides, the qualitative part is used to generate data how compensation affects a person economically, socially, and psychologically, because a person's earnings serve as an indicator of power and prestige. As it is stated by Burns and Grove (2003), qualitative approach as “a systematic subjective approach used to describe life experiences, uniqueness of individual and situations to give them meaning”.

On the other hand quantitative approach is used to generate data on the idea of the majority which might be difficult to generate using qualitative approach. Then, this might help to generalize the findings.

3.2. Target Population, Sampling and Sampling Technique

3.2.1 Target Population

According to Lius (2005) target population (selective group of population) that confirms to a set of specifications, encompasses the total populations of the subject and the interest of the researcher that help to generalize the obtained results. Then, the population of the study was 50 employees of NEP+ who are currently working and served above one year. NEP+ has no branch offices, it has only one office in Addis Ababa but it works with partnership in all regions.

3.2.2 Sample and Sampling Techniques

Purposive sampling was used to identify participants for the study. The researcher purposively excluded employees who served the institution below one year, because the period of the study covers from January 2011 to December 2017. This is done with the assumption that their experience might be limited in relation to compensation practices.

Therefore, the study population was 50 employees; however 5 employees who served less than one year were excluded from the study. Thus, the sample size was 45 employees to collect the quantitative data. Similarly, out of six top managements only three (Finance and Administration Manager, Program Manager and Monitoring and Evaluation Manager) were selected who served above one year to conduct key informants interview.

Table 3.1: Number of Employees Population.

S/N	Name of Department	population	Sample size	Remark
1	Admin and Finance	21	20	1 employee served under 1 months
2	Program	12	10	2 employees served under 1 months
3	Monitoring and Evaluation	10	8	2 employees served under 1 months
4	Public Relation & Communication	2	2	
5	Resource Mobilization	1	1	
6	Internal Audit Service	4	4	
Total		50	45	

Source: NEP+ personnel record, 2018

3.3. Source of Data

To perform this research, the researcher used both primary and secondary data. The primary data was generated through structured questionnaires that was distributed to employees. Data gathered through questionnaires analyzed quantitatively. Also semi-structured in-depth interviews was carried out to get data from three top management members and the collected data has been analyzed qualitatively.

Secondary sources of data are the human resource policy document, bulletin, brochure and other relevant printed documents. These documents were reviewed to generate data concerning its background and policies of compensation.

3.4.Data Collection Tools

Closed-ended questionnaires and semi-structured interview data gathering methods were applied for this research. Closed ended questions are being rated with Likert Scale method. Likert Scale is “a psychometric response scale primarily used in questionnaires to obtain participant’s preferences or degree of agreements with a statement or set of statements.

Respondents are asked to indicate their level of agreement with a given statement by way of an ordinal scale, “ A-5 point scale ranging from “strongly disagree” on one end to “strongly agree” the other end is used for this research.

Closed ended 45 structured questionnaire papers were distributed to the selected employees and in-depth interviews were conducted with the selected three top managements. In addition, the employees’ personnel files were observed and cross-checked against the numbers of questionnaires filled by the respondents.

3.4.1.Data Collection Procedures

Before starting to collect the data the researcher had informed the objective of the study to the respondents and asks their willingness to fill the questionnaires. The checklist consists of questions that help to respond the research questions.

3.5.Methods of Data Analysis

Data gathered from employees through questionnaire were checked, refined, organized, tabulated and put in frequency and percentage in using SPSS software.

In the same way in the analysis strategy, qualitative data are segmented, categorized, summarized, and reconstructed in a way that captures important concepts.

Subsequently the qualitative data obtained through in-depth interviews has been discussed/treated in combination with the data secured through questionnaire and also with the information obtained from different sources. This approach helped the researcher to present major findings and saw whether the findings are properly addressed the research questions. Furthermore, cross-checking of qualitative data with quantitative data helps to minimize biasness.

On the other hand, this approach is believed to be easier for readers to locate the data generated by the two approaches. Cross-checking of qualitative data with quantitative data is done, just to minimize biasness.

3.6.Pilot Testing

Test of validity and reliability are discussed as follows.

Reliability and Validity

Reliability refers to consistency of the measuring instruments. So pretest was very necessary to examine the reliability. The pretest run with the group of respondents used to find problems in the design of a questionnaire (Zikmund, 2010).

In order to test the questionnaire used for this study, it was first handed out to 15 respondents to evaluate the consistency of compensation management practice to all the items delineated in a measuring instrument. Cronbach's alpha, was calculated for 15 respondents using SPSS software and the result is depicted on the following table and the data collection tool is reliable. Due to the result of the pilot test sample, Cronbach Alpha values for 15 items were greater than 70%, which proved that the high reliability of the questionnaire.

Table 3.2: Pilot Sample Reliability Test Result

	Description	No. of tested resp.	Tested resp. in %
Cases	Valid	15	100.0
	Excluded	0	0.0
	Total	15	100.0
Cronbach's alpha		0.778	

Source: Survey Questionnaires, 2018

Validity is the extent to which the construct measures what it says it is measuring. It would not be a valid test, if it didn't measure what you thought it didn't even though it was a high reliable test. Then, test being conducted should produce data that it intends to measure, i.e., the results must satisfy and be in accordance with the objectives of the test.

3.7.Ethical Considerations

Ethics is the crucial and very important issue in conducting the research. According to Creswell (2009), research is collecting data from people, about people. Therefore, the researcher had briefed to the respondents about the study objectives and they were also fully aware of every data obtained from them have been kept confidential and are used only for this research purpose. Anonymity of research subjects has been diligently maintained in the course of the research process. Unnecessary change and adjustments have not been practiced by the researcher. Therefore, all sources were duly acknowledged.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSION

This chapter presents analysis of the findings and the discussion. The data collected through self-administered questionnaires and in-depth interview guides are analyzed and interpreted.

4.1 Response Rate

The study targeted 45 respondents were involved to give information for the quantitative data. All the distributed questionnaires were actually returned and this made a 100% response rate as illustrated in the table. 3 key informants were involved to generate the qualitative information.

Table 4.1: Response Rate

Description	Frequency	Percent
Respondents	45	100
Non-respondents	0	
Total	45	100

Source: Own Survey, 2018

The researcher has conducted key informant interviews with three top management members (Administration and Finance Manager, Program Manager and Monitoring & Evaluation Manager).

Hence, gathered data were organized and analyzed in a manner that enables to answer the basic research questions raised at the beginning of the study. Responses provided by the respondents are analyzed in the following sections. The researcher tries to brooch out existing compensation practices weakness and strength. Further, the study tried to investigate how the compensation practices is faire in regard to gender, age, educational qualification, marital status, work experience and the salary range employees earned. Then, the rating scale of employees perception on the practice of compensation is presented here in after. Moreover demographic

variables as well as descriptive statistics were described, analyzed and synthesized in tables and percentages with the help of statistics packages software for social sciences (SPSS) version 20.

4.2 Demographic Information of Respondents

In order to capture the general information of the respondents, issues such as gender, marital status, age, educational level, length of service and range of salary of the respondents were measured.

Table 4.2: Demographic Characteristics of the Respondents

Category of Respondents	Description	Frequency	Percent
Gender	Male	35	77.8
	Female	10	22.2
Marital Status	Single	16	36.6
	Married	27	60
	Divorced	2	4.4
Age Range	18-30	1	2.2
	31-40	31	68.9
	41-50	10	22.2
	51-60	3	6.7
Educational Level	Up to grade 12th	5	11.1
	Diploma	3	6.7
	First Degree	22	48.9
	Second Degree	15	33.3
Service Years	Less than 5 Years	30	66.7
	5-10 years	11	24.4
	11-15 years	4	8.9
Salary Range	Below ETB 7,000	7	15.6
	7,001-10,000	2	4.4
	10,001-13,000	5	11.1
	13,001-16,000	21	46.7
	16,001-19,000	1	2.2
	19,001-22,000	6	13.3

Source: Own Survey, 2018

The findings showed that the majority (77.8%) of the respondents were male and this shows that the organization has less number of female employees in the organization. Regarding the marital status, the finding depicted that the greater number (60%) of the respondents were married whereas 36.6% were single and 4.4% were divorced. Similarly, considering the age category of the respondents the majority (68.9%) of the respondents were between 31-40 years old, 22.2% were between 41-50 years, 6.7% between 51-60 years, while 2.2% were between the age of 18-30 years.

In view of respondents educational level, the majority (48.9%) of the respondents were first degree holder whereas 33.3% were second degree level, the next 11.1% and 6.7% were up to grade 12th and diploma respectively. On the subject of respondents work experience, the greater number (66.7%) of the respondents reported having less than 5 years of experience in their current position. This inferred that there is a nonstop turnover of employees in the organization. This finding is also supported by the data generated from the personnel records. Because, it is reported that from January 2011 to December 2017 about 45 employees were resigned from the organization. Very few respondents (8.9%) had between 11-15 years of experience whereas 24.4% had reported between 5-10 years of experience. On the same logic, the highest number of employees (46.7%) fall in a salary range of ETB 13,600-16,00 per month, and a few employees 2.2% had earned with the range of 16,000-19,000. As per the law of the government the minimum wage scale is Birr 1,439. Then, the finding shows that the NEP+ pays above the minimum wage set by the government.

4.3 Variables Used to Analyze the Questionnaires

Analysis of the study highlight the theoretical background stated in chapter two and finding of the following major variables. Then, the quantitative responses obtained through questionnaires were measured on five point Likert scale rating (i.e. Strongly Agree=5, Agree=4, Neutral=3, Disagree=2, and Strongly Disagree=1).

4.3.1 Salary

Table 4.3: Respondents Response Salary

Item descriptions	Rating Score				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Number (%)	Number (%)	Number (%)	Number (%)	Number (%)
I'm satisfied with my current salary for the work I do.	1(2.2%)	13(28.9%)	8(17.8%)	18(40%)	5(11.1%)
My salary is similar those paid by similar companies.	1(2.2%)	5(11.1%)	11(24.4%)	14(31.1%)	14(31.1%)
NEP+'s annual salary adjustment is fair and reasonable.	1(2.2%)	4(8.9%)	6(13.3%)	11(24.4%)	23(51.1%)
I received other payments apart from the salary.	1(2.2%)	4(8.9%)	6(13.3%)	9(20%)	25(55.6%)
NEP+ pays my salary on time.	38(84.4%)	6(13.3%)	-	-	1(2.2%)

Source: Survey Questionnaires, 2018

The finding of the quantitative approach has revealed that the majority (40%) of the respondents were dissatisfied with the current salary they received. This has been also supported by the data generated from in-depth interview participants. For example members of the top management involved in the in-depth interview stated that most of the employees were resigned due to the low level of the salary. This implied that the qualified and experienced employees are looking for other job opportunities. Moreover, as it is explained by Amche (2012), compensation is a form of reward given as a result of a job that has been done or efforts put in to achieve a set goal and as such this serves as a motivational factor that encourages an individual to put more energy or commitment into his/her job. On the other hand, if the compensation is found low and less attractive, individuals might have low commitment, absents and become destructive of the organization.

Similarly, Werther and Davis (1996) have identified that effective compensation has the objectives of acquiring qualified personnel, retain employees, ensure pay equity, reward desired behavior, control cost, comply with legal considerations, and facilitate understanding. If this is aligned with the well designed compensation structure the organization could achieve its goals and objectives.

As we could observe from table 4.3 above 31.3% of the respondents strongly disagree and also 31.3% disagree with the similarity of salary scale with other sister organizations. This showed that the payment scale of NEP+ is less than other similar organizations. Due to this reason, the organization seem unable to attract as well as retain its employees, rather it would be failed to accomplish its objectives and this will contribute more for staff turnover. This has been supported by the information generated from the key informants. For example, data generated from the informants revealed that employees are staying for some time until they obtain basic organizational skills. In addition, as it is stated on the demographic survey of respondents, the service year of the majority employees are less than five years. This inferred that NEP+'s salary scale is less than other competitive organization and this contributed a high degree of staff turnover.

4.3.2 Cost of Living

Table 4.4: Respondents Response Towards Cost of Living Index.

Item descriptions	Rating Score				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Number (%)	Number (%)	Number (%)	Number (%)	Number (%)
My current monthly payment covers my basic living expense	2(4.4%)	12(26.7%)	8(17.8%)	18(40%)	5(11.1%)
NEP+ has poor salary adjustment policy against cost of living	17(37.8%)	7(15.6%)	7(15.6%)	10(22.2%)	4(8.9%)
There is a strategy policy which proactively deals with living standards index.	-	1(2.2%)	6(13.3%)	9(20%)	29(64.4%)

Source: Survey Questionnaires, 2018

As it is illustrated from table 4.4 the majority (40%) of the respondents depicted that the current payment couldn't cover their basic living expense. Information gathered from the participants of the qualitative approach also supported the above facts. For example, all the key informants replied that the current payment of the staff is less likely to cover the basic expenses of employees. They further

added that the situation is greatly contributing for the current staff turnover, lower motivation to perform duties, and spending time in searching a new job. This implied that the compensation system were not compatible with the labor market, and could also create unhappiness as well as frustration.

The finding described in the current study has been supported by the empirical research findings documented by Eman Fuad (2010). The writer argued that, employees are unsatisfied with the existing financial compensation packages. On the same logic Bililign Lemma (2012) demonstrated that if the compensation packages of the company is not adequate to cover the basic needs of its employees and their families, or if the compensation package of the company is lower than other similar companies, it might be hardly possible to reduce staff turnover. This could be considered as an indication for the company to be forced to assess the internal and external environment and revise the existing compensation packages accordingly. Therefore, the current study is in line with the existing body of knowledge.

On the other hand, respondents were also asked whether adjustment of benefits is part of the organizational policy. In this regard, 37.8% of the respondents replied that there is poor salary adjustment policy. This finding is also substantiated by the opinion forwarded from the in-depth interview participants. For illustration, key informants stated that salary adjustment could take place depending on the good will of the board of management. Due to this reason the compensation manual seems failed to cope with the current internal and external dynamism. However, this finding is disagree with Ahmed Kelil (2010), the writer argued that the compensation and benefit package should be reviewed and designed taking into account factors in the external environment including the market condition, nature of the jobs, other organizations, government regulations and the internal environments for the values of the job grades through job analysis. For that reason, the current study is in line with the current body of knowledge.

4.3.3 Government Regulation

Table 4.5: Respondents response towards Government regulation.

Item descriptions	Rating Score				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Number (%)	Number (%)	Number (%)	Number (%)	Number (%)
NEP+ fixes salaries as per the law prescribed by the government.	6(13.3%)	12(26.7%)	15(33.3%)	8(17.8%)	4(8.9%)
My pay is based on the time I spend 8 hours per day to NEP+.	18(40%)	23(51.1%)	1(2.2%)	3(6.7%)	0
I perceived that there is no discrimination for any promotion and transfer in NEP+.	3(6.7%)	10(22.2%)	11(24.4%)	13(28.9%)	8(17.8%)
There is good affirmative action (give priority) for female employees in NEP+.	3(6.7%)	17(37.8)	20(44.4%)	2(4.4%)	3(6.7%)
there is clear procedure to present any claim in NEP+.	2(4.4%)	12(26.7%)	16(35.6%)	12(26.7%)	3(6.7%)

Source: Survey Questionnaires, 2018

The majority (33.3%) of the participants have not given their opinion. This shows that the respondents might not be aware of the minimum wage rate which set out by the law of the government. However, the data generated from the key informants the minimum wage in NEP+ is Birr 5,600.00. The data obtained through quantitative approach indicate two crucial issues. Primarily, while the scale in NEP+ is much higher than the minimum wage scale set by the government, the staff of NEP+ is still complaining. This may indicate their complain is derived from their failure to know the government's minimum scale which is more than ten times lower than that of NEP+'s.

On the other hand, the data might show the payment scale is lower than the existing living standards. But as it is indicated in the demographic survey 15.6% of the respondents were paid below Birr 7,000. This implies that the starting salary of the organization is compliance with the law of the government. However, it doesn't mean the existing salary scale of NEP+ is adequate and equitable.

4.3.4 Ability to Pay

Table 4.6: Respondents response towards Ability to Pay

Item descriptions	Rating Score				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Number (%)	Number (%)	Number (%)	Number (%)	Number (%)
NEP+ has good financial position to pay my salary and other related payments.	2(4.4%)	12(26.7%)	22(48.9%)	7(15.6%)	2(4.4%)
NEP+ uses a job evaluation method to develop a pay system.	1(2.2%)	4(8.9%)	10(22.2%)	17(37.8%)	13(28.9%)
Top management may like to pay higher pay to attract top talent.	2(4.4%)	3(6.7%)	22(48.9%)	5(11.1%)	13(28.9%)
The labour market highly affects NEP+'s ability to pay.	12(26.7%)	12(26.7)	6(13.3%)	15(33.3%)	0
NEP+ reduces the size of employees when the donor reduces/phase out its project fund.	3(6.7%)	6(13.3%)	27(60%)	4(8.9%)	5(11.1%)

Source: Survey Questionnaire, 2018

The greater number (48.9%) of the respondents were found in different (neutral) to give their opinion on financial position of NEP+ to pay salary and other related payments. This finding is also supported by the data generated from the key informants. For illustration the informants reported that since the organization is highly dependent on foreign support, the ability to pay depend on the availability of funding. Then, it is difficult to put in plain words about this issue. Hence, the institution would lose its employees and eventually fail to achieve its mission and vision.

4.3.5 Equity of Compensation

Table 4.7: Respondents response towards Equity Compensation.

Item descriptions	Rating Score				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Number (%)	Number (%)	Number (%)	Number (%)	Number (%)
There is adequate and equitable pay system in NEP+.	2(4.4%)	16(35.6%)	6(13.3%)	10(22.2%)	11(24.4%)
My colleague in another department with the same qualification receives more compensation than I do.	4(8.9%)	8(17.8%)	8(17.8%)	15(33.3%)	10(22.2%)
The pay is fair compared with similar jobs in other organization.	0	5(11.1%)	12(26.7%)	11(24.4%)	17(37.8%)
Each employees treated equally without any discrimination who have similar work experience and education in NEP+	1(2.2%)	8(17.8%)	9(20%)	12(26.7%)	15(33.3%)

Source: Survey Questionnaire, 2018

Majority (35.6%) of the participants involved in the quantitative approach expressed that there is adequate and equitable payment in the NEP+ for employees who has similar qualification and experience. This finding is supported by the data generate from key informants. They explained that NEP+ has a personnel manual and the payment system is carried out based on the payment scale of the manual to maintain internal equity. Employees who have similar qualification and experience are paid in line with the organization salary scale.

On the other hand, when comparing the compensation scheme with other organizations having similar status, 37.8% of the participants explained that the payment structure isn't equitable. The data generated from the key informants has supported this findings. The majority agreed that the compensation scale of NEP+ is not comparable with the external environment.

In relation to this Ahmed Kelil (2010) also argued that many employees perceived the current compensation and benefit is not adequate and let them to cope with ongoing cost of life. Due to the incompatibility with the external environment, employees are looking for better jobs. Therefore, the organization must assess the payment scale of similar organizations and make adjustment accordingly to retain its employees.

4.3.6 Job Requirements

Table 4.8: Job Requirement Response

Item descriptions	Rating Score				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Number (%)	Number (%)	Number (%)	Number (%)	Number (%)
My job is graded in terms of skills, efforts, and responsibility needed to do the job.	7(15.6%)	26(57.8%)	7(15.6%)	4(8.9%)	1(2.2%)
Job evaluation is conducted in NEP+ to know difficulty of each jobs.	0	4(8.9%)	7(15.6%)	16(35.6%)	18(40%)
NEP+ has set a pay considering hardship, difficulty, stability, responsibility and other conditions.	1(2.2%)	3(6.7%)	5(11.1%)	13(28.9%)	23(51.1%)
The security of my job is guaranteed.	2(4.4%)	4(8.9%)	5(11.1%)	23(51.1%)	11(24.4%)

Source: Survey Questionnaires, 2018

As it is depicted from table 4.8 above, the majority (57.8%) of the participants stated that their job is graded in terms of skills, efforts and responsibility needed to do the job. On the contrary the greater number (40%) explained that periodic job evaluation is not carried out to identify the difficulty of each job. The key informants also supported this idea. For illustration, the key informants stated that each job is graded after job evaluation is carried out by the consultant during the manual development.

4.3.7 Demand and Supply of Labour

Table 4.9: Respondents response towards Demand and Supply of Labor.

Item descriptions	Rating Score				
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Number (%)	Number (%)	Number (%)	Number (%)	Number (%)
The payment scale of NEP+ is below the labour market.	8(17.8%)	22(48.9%)	5(11.1%)	6(13.3%)	4(8.9%)
NEP+ has poor salary rate to attract talent workers from the market.	22(48.9%)	11(24.4%)	4(8.9%)	7(15.6%)	1(2.2%)
The demand of labor for each position is done without standard in NEP+.	1(2.2%)	6(13.3%)	12(26.7%)	22(48.9%)	4(8.9%)

Source: Survey Questionnaire, 2018

The respondents response has shown from table 4.9, the highest number (48.9%) of the respondents asserted that the payment scale of the organization is below the labor market. This finding is supported by the data produced from the key informants. For instance the informants stated that there is continues turnover and also it is impossible to attract competent employees for some positions. In this regard ahmed Kelil (2010) carried out a study on compensation of employees and argued that the compensation and benefit package should be reviewed and designed by considering the external environment including the market condition, nature of the jobs, other organizations, government regulations and the internal environments for the values of the job grades through job analysis. The writer also added that management must balance market competitiveness, internal equity, organizational performance, external equity and other situational conditions. Thus, it is noted that the current compensations of NEP+ are not periodically updated and evaluated for effectiveness.

Table 4.10: Grand Mean of the variables

Description	Basic Salary	Cost of Living	Government Regulation	Ability to Pay	Equity to Pay	Job Requirement	Labor market
No. of Population	45	45	45	45	45	45	45
Mean	2.31	2.23	3.2844	2.84	2.43	2.42	2.11

Source: Own Survey, 2018

As it is shown in table 4.10, the grand mean score of the employees response on most of the variables/items used to examine the compensation system of MEP+ were below 3. This implied that the basic salary paid to employees by NEP+ is not satisfactory and unable to cover their living expenses. In addition, equal pay is not provided for the work of equal value, and also the compensation package seems below the labor market. In general, the existing compensation package of the organization is not adequate and fair.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with the summary of the key findings, conclusions drawn from the findings highlighted and recommendations made there-to. The conclusions and recommendations drawn are in quest of addressing the research objective which was to establish the practices and challenges of compensation systems in NEP+.

5.1 Summary of Findings

The main objective of the study was to investigate the practices of compensation and the challenges that encountered in exercising it. The study deployed descriptive research method and the target population of the study were employees of NEP+.

The study revealed that among the main factors of compensation the current salary of the employees were found dissatisfied and unfair. Most of the respondents agreed that the practice of compensation isn't equitable compared to other employees performing similar jobs in other organizations. This implies that the payment might not be adequate to maintain the cost of living of the employees. Due to this reason NEP+ has experienced high turnover before and also likely to experience the same.

From the research we noted that NEP+'s financial compensation practices which responded by the respondents and the key informants were most likely supported each other. Then, determinants of compensation such as basic salary setting, ability to pay, fair compensation and labour market were the major challenges of NEP+. It is unable to attract and retain qualified employee. Because inflation and other factors highly affected its compensation system within a short period of time. Ability to pay guided by the compensation policy and the fund availability. Thus the current political and economic situations highly affected availability of funds. In addition, internal and external equity influences the compensation system of the organization. However, NEP+ compensation system is compliance with minimum wage scale of the government.

In general, the perception of employee about the existing compensation of NEP+ is unfair, inadequate, and dissatisfactory and also the compensation policy isn't reviewed timely to the level of satisfaction of employees.

5.2 Conclusion

Based on the major findings, the following conclusions were drawn. Many employees believe that the current compensation is not fair and NEP+ needs to cope-up with ongoing cost of life. Compensation and benefit packages are not periodically updated and evaluated for effectiveness. The respondents claimed that the compensation package should be reviewed periodically. When employees are participating on compensation review process NEP+ needs to take factors like market condition, nature of the jobs, competitors, government regulations and also the internal factors like values of the job grades through job analysis. Some employees feel that NEP+ makes salary adjustment considering seniority than performance. This may affect the perception of employees towards compensation management system policy. Majority of the employees are officers. They explained that there is great imbalance of salary payment between officers with the same qualification in different departments internally and with similar organizations externally, this may affect the majority of employees' perception on the compensation practice system.

5.3 Recommendation

Based on the study findings the researcher recommended the following points:

- This study found that majority of the employees is dissatisfied with the current compensation system. Thus, NEP+ needs to revise the compensations package policy by assessing the environment, the nature of jobs and employees expectation. So that the dissatisfied employees be properly considered.
- This study discovered that the current compensation system is inadequate and unfair both internally and externally as per the opinions of the respondents. Then, to attain its objective and being competitive, NEP+ needs to make periodic needs and satisfaction level surveys using cost effective and informative mechanisms, so that employees would be able to express their genuine feelings thereby minimizing the employees looking for

other jobs. Furthermore, NEP+ needs to lay the platform for clear, transparent and merit based compensation and promotion procedures thereby disclosing and communicating all its employees ahead of time so that everyone will participate in financial compensation scheme.

- This study noted that labour market, ability to pay, cost of living, as well as inflation highly affects the compensation systems. Therefore, NEP+ should consider the impact of labour market, ability to pay, inflation, and cost of living index on revision of compensation system.
- This study found that there is unfair and inadequate payment structure. Therefore, there should be balanced salary payment structure between employees with the same qualification in different departments and also with similar external organizations.
- This study confirmed that employees perception towards the current compensation is not adequate. Then, to improve the perception of compensation systems in the institution, it should necessarily be adequate. In view of this, the researcher believed that it is important that compensations are seen as having value, this is because compensations that are perceived to be inadequate can create a lack of encouragement to employees as well as neutralize the effect of the compensation on employees' performance.

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Appendix I
St. Mary's University
School Of Graduate Studies
Masters of Business Administration
MBA Program

These questions are designed to collect information for a study entitled "Compensation Management Practices and Challenges in NEP+". Therefore, your genuine, honest, and prompt response is a valuable input for the quality of and successful completion of the study. Any information you presented will be kept absolutely confidential and used only for academic purpose. Lastly, not the least, I would like to thank you for your effort and devotion of precious time to fill the questionnaire.

Dagne Menberu
MBA Candidate

Part I. Demographic Information of Respondents.

Instruction: Please put the indicated sign parallel to your choice.

1. Gender

Male

Female

2. Marital Status

Single

Married

Divorce

Widowed

Separated

3. Age group in year:

18-30

31-40

41-50

51-60

≥61

4. Educational Background.

Up to 12th grade

Diploma

First Degree

Second degree

PHD

5. Year of service in NEP+.

< 5 year

5-10 years

11-15 years

≥ 16 years

6. in which range does your monthly salary fall in?

Below ETB 7,000

7,001-12,000

12,001-17,000

17,001-22,000

Above 22,00

Part II. Opinion Survey on Compensation Management.

Please indicate the extent of your agreement or disagreement with each statement by putting a mark "√" in the column of your choice that is numbered from 1-5 for all items in the questionnaire.

Please use the following rating scale for all items.

5 Strongly Agree	4 Agree	3 Neutral	2 Disagree	1 Strongly Disagree
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2.1 Basic Salary

No.	Statements	5	4	3	2	1
1	I'm satisfied with my current salary for the work I do.					
2	My salary is similar those paid by similar companies.					
3	NEP+'s annual salary adjustment is fair and reasonable.					
4	I received other payments apart from the salary.					
5	NEP+ pays my salary on time.					

2.2 Cost of Living Index

No.	Statements	5	4	3	2	1
1	My current monthly payment covers my basic living expense					
2	NEP+ has poor salary adjustment policy against cost of living					
3	There is a strategy policy which proactively deals with living standards index.					

2.3 Government Regulation

No.	Statements	5	4	3	2	1
1	NEP+ fixes salaries as per the law prescribed by the government.					
2	My pay is based on the time I spend 8 hours per day to NEP+.					
3	I perceived that there is no discrimination for any promotion and transfer in NEP+.					
4	There is good affirmative action (give priority) for female employees in NEP+.					
5	there is clear procedure to present any claim in NEP+.					

2.4 Ability to Pay

No	Statements	5	4	3	2	1
1	NEP+ has good financial position to pay my salary and other related payments.					
2	NEP+ uses a job evaluation method to develop a pay system.					
3	Top management may like to pay higher pay to attract top talent.					
4	The labour market highly affects NEP+'s ability to pay.					
5	NEP+ reduces the size of employees when the donor reduces/phase out its project fund.					

2.5 Equity Compensation

No	Statements	5	4	3	2	1
1	There is adequate and equitable pay system in NEP+.					
2	My colleague in another department with the same qualification receives more compensation than I do.					
3	The pay is fair compared with similar jobs in other organization.					
4	Each employees treated equally without any discrimination who have similar work experience and education in NEP+					

2.6 Job Requirements

No	Statements	5	4	3	2	1
1	My job is graded in terms of skills, efforts, and responsibility needed to do the job.					
2	Job evaluation is conducted in NEP+ to know difficulty of each jobs.					
3	NEP+ has set a pay considering hardship, difficulty, stability, responsibility and other conditions.					
4	The security of my job is guaranteed.					

2.7 Demand and Supply of Labour

No	Statements	5	4	3	2	1
1	The payment scale of NEP+ is below the labour market.					
2	NEP+ has poor salary rate to attract talent workers from the market.					
3	The demand of labor for each position is done without standard in NEP+.					

Appendix II
St. Mary's University
School Of Graduate Studies
Masters of Business Administration
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The following interview questions are designed to collect information about the perception of employees towards the compensation policy of NEP+. Therefore, your genuine, honest, and prompt response is a valuable input for the quality of and successful completion of the project. Lastly, not the least, I would like to thank you for your effort and devotion of precious time to fill this interview questionnaire.

List of interview questions:

1. Please explain the current compensation practice relative to with the following points;
 - Basic Salary
 - Pay versus Cost of Living Index
 - Compliance of salary with Government Regulation
 - Ability to Pay
 - Fair Compensation
 - Job Requirements
 - Demand and Supply of Labour
2. What is the reaction of employees on compensation management practices in NEP+?
3. How does the compensation package being compared and analysed with external market?
4. What are the internal and external factors that may affect the compensation system of NEP+?
5. Do you think the current compensations are faire, sufficient and competent to employees? If Not why?
6. How often NEP+ review its compensation policy manual, do employees participate during the revision and what are the factors to do so?
7. How many employees resigned from January 2011to December 31, 2017 and what is their reason?
8. What are the major problems/challenges that NEP+ is facing with respect to compensation?
9. What are the possible solutions that should be taken to retain talented and qualified employees for the achievement of organization's goals?

STATEMENT OF DECLARATION

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

Dagne Menberu Guangul

St.Mary's University, Addis Ababa

May, 2018

ENDORSEMENT

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

Shoa Jemal

Advisor

St. Mary's University, Addis Ababa

Signature and Date

May, 2018