



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

**ASSESSMENT OF THE COMPENSATION SYSTEM OF SELECTED FOUR AND
FIVE STAR HOTELS IN ADDIS ABABA, ETHIOPIA**

**BY
EMEYU MULUGETA**

**JANUARY, 2017
ADDIS ABABA, ETHIOPIA**

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF BUSINESS IN
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DECLARATION

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

Emeyu Mulugeta Retta

Student Name

Date and Signature

DEDICATION

This thesis is dedicated to my younger sister Tihut Mulugeta and my mother Anchinesh Solomon.

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Table of Contents

ACKNOWLEDGMENTS	v
List of Tables	viii
List of figures.....	viii
Abstract.....	1
CHAPTER ONE.....	2
INTRODUCTION	2
1.1. Background of the Study.....	2
1.2. Statement of the Problem	3
1.3. Research Questions	5
1.4. Research Objectives	5
1.4.1 General Objective.....	5
1.4.2 Specific Objectives.....	6
1.5. Scope of the Study	6
1.6. Limitation of the Study	6
1.7. Significance of the Study	7
1.8. Organization of the Study	7
CHAPTER TWO	8
REVIEW OF RELATED LITERATURE	8
2.1. Conceptual and Background of Compensation.....	8
2.2. Objective of Compensation.....	11
2.3. Factors Affecting Compensation System.....	12
2.3.1 The labour Market and Economic Condition.....	12
2.3.2 Government and Legislation	12
2.3.3 Trade Union and Collective Bargaining	13
2.3.4 Managerial Attitude and Organizational Ability to Pay	13
2.4. Compensation System in Hotel Industry.....	13
2.5. History of Hotel Industry in Ethiopia.....	16
CHAPTER THREE	18

METHODOLOGY OF THE STUDY	18
3.1 Research Approach and Design	18
3.2 Data Sources and Data Collection Methods.....	18
3.3 Population and Sampling	18
3.4 Data Cleaning.....	21
3.5 Data Analysis	22
CHAPTER FOUR.....	23
RESULTS AND DISCUSSION	23
4.1 Demographic Data	23
4.1.1 Hotel Employees by Age	23
4.1.2 Hotel Employees by Sex	23
4.1.3 Hotel Employees by Educational Background	24
4.2 Result and Discussion	25
4.2.1 Result.....	25
4.2.1.1 Types of Compensation in Hotels	25
4.2.1.2 Types of Financial Compensation Used by Hotels in Addis Ababa.....	25
4.2.1.3 Types of Non-financial Compensation Used by Hotels in Addis Ababa.....	26
4.3 Discussion	28
4.3.1 Comparison of Financial and Non-financial Compensation.....	28
4.3.2 Comparison of Basic Salary and Service Charge	31
4.3.3 Factors That Determine Choice of a Hotel	33
4.3.4 The Legal Status of Compensation Used in Hotels under Ethiopian Law....	34
4.3.5 Impact of Compensation on Employees	37
CHAPTER FIVE	39
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	39
5.1 Summary of Major Findings	39
5.2 Conclusions	40
5.3 Recommendations	41
References.....	42
APPENDIX.....	45

List of Tables

Table 2.1: Changing nature of pay and rewards -----	10
Table 2.2: Financial and non-Financial pay in hotel industry -----	14
Table 3.1: List of four and five hotels in Addis Ababa-----	19
Table 3.2: List of selected four and five star hotels in Addis Ababa -----	20
Table 4.1: Ranking of financial compensation based on respondents' preference -----	27
Table 4.2: Ranking of non-financial compensation based on respondents' preference ---	27
Table 4.3: Ranking of compensation based on respondents' preference-----	27
Table 4.4: Educational level of respondents -----	30
Table 4.5: Comparison of basic salary ad service charge -----	32
Table 4.6: Comparison of respondents' preference on basic salary and service charge ---	32
Table 4.7: Ranking of factors that determine employees' recommendation of a hotel-----	33

List of figures

Figure 4.1: Distribution of age of employees -----	28
Figure 4.2: Pie chart; hotel employees by sex -----	29

Abstract

The number of international and brand hotels radically increased in Addis Ababa and there is a need to have an organized human resource management system. The main objective of this research is to assess the compensation system in selected four and five star hotels in Addis Ababa. To accomplish this objective questionnaire, interview and observation used mainly to collect data and analysed using statistical tools such as frequency, percentage and mode values. The major finding of the study indicates that hotels in Addis Ababa provide financial and non-financial compensation that are more or less similar. However, they do not have an organized compensation policy and guideline. Further, the study revealed that employees prefer financial compensation over non-financial one. In this respect, service charge appears to be the most preferred financial compensation type. Training and medical insurance comes in the second and third place, which are aspects of non-financial compensation. Based on the finding, the researcher recommended that hotels in Addis Ababa should have an organized compensation policy. In addition, the Ethiopian labour law should provide clear guideline about service charge and it should provide more specific provision that reflect the nature of hospitality industry.

Keywords: *Financial compensation, non-financial compensation, four and five start hotels, Addis Ababa, Ethiopia.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The concept of compensation has been the subject of different research area in different types of industries. This is due to; compensation is major focus of employers and employees from different perspective. Human Resource Management in an organization is interlinked with different functions, total reward (compensation, incentive and benefit) is the major one (Mathis and Jackson 2010). Compensation is the form of pay, incentives, and benefits rewards people for performing organizational work (Mathis and Jackson 2010). Compensation is a critical component of the employment relationship (F.Cascio 2006). Employees offer their service to the company and the company in return pay compensation. Compensations forms such as bonus, commission and profit sharing plans are incentives designed to encourage the employees to produce the results beyond the normal expectation. Benefit such as insurance, medical, recreational, retirement etc. represent a more indirect type of compensation (F.Cascio 2004). For the purpose of this research compensation comprises wage, salary, any financial and non-financial payment to employees.

Hospitality industry has broad definition of from welcoming of guests, visitors or strangers with liberality to goodwill when they live (Barrows et al., 2012). It is one part of the larger travel and tourism industry that in addition to hospitality consists of transportation services organizations and retail businesses (Hayes and Ninemeler 2009). Many people think of hotels and restaurants when they think of hospitality industry, but it comprises numerous types of organizations.

It is not limited to hotel and restaurants rather it includes any kinds of institutions that offer shelter, food, or both to people away from their home (Barrows et al., 2012). For the purpose of this research hospitality industry focuses on hotel that provides accommodation and food and beverage services to guests.

Organizations in the hospitality industry tend to be labour – intensive means that the operation of the hotel is more supported by people rather than technologies (Hayes and Ninemeler 2009). This is because in the day to day operation of a hotel, there are more people

involved from the simple greeting the guest to the higher level service of serving food and beverage to the guest. Hospitality and tourism organizations require employees; the greater their level of revenue and the more consumers they serve, the more staff members these operations require.

A comprehensive compensation system consists of extrinsic and intrinsic rewards that attract employees. Extrinsic rewards divided in to financial and non-financial; financial (salaries, hourly pay, cost-of-living adjustment, tips, commissions, bonus, merit pay, incentive pay, profit sharing, paid leave, mandatory benefits and voluntarily) and non-financial (preferred office space or work station, preferred personal computer or kitchen tools, preferred meal privileges, designated parking place, business cards, special dress codes, secretary, impressive titles, travel/meal documents) (Mary 2000). Intrinsic rewards includes participation in job design, participation in decision making, greater job freedom, more interesting work, opportunities for personal growth, more job security and empowerment.

Compensation program on hotel in Ethiopia follows the same system (extrinsic and intrinsic rewards). Monthly wage, annual bonus, allowances (transport, food or house), benefits (representation allowance, phone allowance), medical benefit, insurance, training and education benefit, service charge, tips is part of the compensation program.

1.2. Statement of the Problem

Before making the actual study, the conducted preliminary survey through personal observation and experiencing the problem while working in the industry, the hotels have faced problem on compensation management. This was seen while working in the restaurant and hotel as a line staff and also as management position and experiencing compensation system.

Designing salary scale and other reward system, distribution of service charge faces different challenges to hotel managers as well as human resource managers. Compensation package is the major reason to work in an organization and also choosing one hotel from the other. For this reason, a hotel to attract talented person from the market, to retain the professional and trained employee, the compensation package has the major role. However this compensation

system if it is not supported by legal framework, guideline or policy, then it will face challenges and it will be the main reason to create dissatisfaction of employees and high turnover. Employer has an obligation to pay salary and employee has obligation to perform its duty as per the contract signed. This statement is also supported by legal framework of labour law of Ethiopia. Besides the basic salary, the employer as per the nature of the firm and the business may have additional benefits applicable. Based on the experience and personal observation, hotels due to the nature of business and work, they provide other benefits other than basic salary, like, food allowance, transport allowance (to those employees who work night shift and few of them they add on the basic salary). In addition to the basic salary and benefits provided from the employers, employees receives other modes of payment from guests rather than employers. These types of payments are service charge and tips.

Service charge is the amount of money collected from the guest paid to the employees through the employer. The employers collect this calculated money as additional payment from the guest for the service they have given and on monthly; they pay to employees adding on their basic salary. The other type of payment is tip which employees do not get it from the employer directly however it is directly from the pocket of the customer. These two types of rewards are not paid from the pocket of the employer, however still they do really affect the compensation system of employer. Employers while designing the salary scale, they put in to consideration the tips and service charge for this reason the basic salary in hotel industry is low. However either tips or service charge are not supported by legal framework except that, they are provided as not part of salary as per the labour law of Ethiopia (Article 53 Sub article 2(f) Labour Proclamation No. 377/2003). In the case of absence (sick or any other reasons), any leave; employers do not pay service charge and in this case, employees will be affected by the decision made by the employers. This and other related issues affect employees and are major problems that are observed. Lack of legal framework governing the hotel industry, or the existing law does not support fully the hotel industry, style of management are major decision area.

There are many researched made on the related hotel industry internationally as well as in Ethiopia. Few of them studies on compensation and others made on hotel industry as a whole. In 2011, In South Africa, Frans Maloa made research on “Determinants of Employee Compensation in an Organization: an exploratory Study”. And the study puts different factors

that determines compensation system in an organization According. The other study made on 2010 in Shanghai by Yang Xio “The importance of Staff training in the hotel industry”. In this study what is covered is the importance of staff training in the hotel industry from different perspective of employees, managements and organization.

The other researches made in our country are few and they focus on other research areas. In 2013, research was made by Alelign Aschalew on “A critical research on the major challenges of the hospitality industry in Addis Ababa”. The research focused on investigation and critically analysing the major challenges that have threatens the hospitality industry in Addis Ababa. The second is very recent research made in 2015 by Abrham G/Egziabher on “service quality and customer satisfaction in hotel industry: the case of three start hotel in Addis Ababa, Ethiopia”. The researcher point out what customers expect towards in service quality and satisfaction. The third research is also very recent in 2015 by Henok Mitiku “The role of private sectors in the development of tourism industry: the case study of privately owned hotels in Addis Ababa”. The objective of this research is evaluating the contribution of privately owned hotels to the country’s economic development.

The above research papers studied on different field of hotel industry as well as compensation however these researches did not cover the area of compensation system in hotel industry.

1.3 Research Questions

- ☞ What is the compensation system of four and five star hotel in Addis Ababa?
- ☞ What are the most preferred of types of compensation by employees?
- ☞ What is the legal status of compensation system of hotel industry under the Ethiopian law?
- ☞ What is the impact of compensation on employees?

1.4 Research Objectives

1.4.1 General Objective

The general objective of this study is to assess the types of compensation system in the hotel industry.

1.4.2 Specific Objectives

- ☞ To identify the practices of compensation system of four and five star hotels in Addis Ababa.
- ☞ To identify the most preferred compensation by employees.
- ☞ To identify the legal status of compensation system of hotel industry under Ethiopian labour law.
- ☞ To identify the impact of compensation on employees.

1.5 Scope of the Study

The scope of the study is in Addis Ababa. The reason is Ethiopia is too large for the researcher to conduct research. Besides the number of hotels, the types of hotels built in Addis Ababa are many when it is compared to other regions in Ethiopia which helps the researcher to collect more data. In addition, the study select privately owned four and five star hotels in Addis Ababa due to the reason that there might get potential respondents as well as there are many hotels in Addis Ababa and it is not easy for the researcher to address all hotels. Therefore the research is particularly focuses on investigating the over all types of compensation in the selected privately owned four and five start hotels in Addis Ababa.

1.6 Limitation of the Study

The study is limited to; time limitation, financial limitation and shortage of written documents are primary limitations. The hospitality industry is new coming industry to our country which is not developed and it has not been conducted enough research on the field, the industry by itself is not well developed from different perspective therefore it could be one of the major limitation in collection of documents.

Confidentiality is one on secondary limitations of the study for the reason that compensation system of a company is one of the most confidential information of human resource function. The other main limitation of the study is collection of questioners. The first target of the questioner is employees who are involved in the providing of service to the customers' and the working hour of the hotel is 24hour and it will creates its own problem on the questioner process. The questioner will be conducted between February and march and during this time it is high season for hotels in our city and the employees will be very busy to fill the

questioner. In addition to this, the schedule of working is by shift which is within the 24 hour and it might be challenging to get all employees at the same time. These and other related issues could be limitation of the study.

1.7 Significance of the Study

The first and the main contribution of this study it to identify related problem of (practical and legal gap) compensation system in the hotel industry. The second contribution of the study is for hotel managers; they may use it as reference point when they draft manual or policy of compensation system in the hotel. The third importance of the study is to give information to the concerned organ of the government that the labour law of the country has legal gap regarding the management of hotel employees, how it has difficulties while applying the law to them and then it gives suggestion and recommendations to them why it is important to have special law governing the hotel.

1.8 Organization of the Study

This study is organized with five chapters. As a result, the first chapter starts with the introduction part of the study. The second chapter discusses the literature part of the study which refers different documents and gives brief idea about the study. The third chapter described research methodology while the fourth chapter deals with data presentation and analysis as per the data collected. Finally, the fifth chapter specifically gives conclusions based on the data analysis and provides possible recommendations by the researcher based on investigation.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter outlines the general concept of compensation and compensation in hotel industry. For long time, the practice of compensation system is major focus area in a company, the same with the hotel industry. Compensation in hotel industry is the major challenging issues for employers. This chapter presents the reason why we should study and consider compensation system in hotel industry as well as its challenges to the employers. Different researchers tried to study compensation system in different industries, and these studies are reviewed and presented in this chapter.

2.1 Conceptual and Background of Compensation

Compensation has been given definitions by many authors and most of them have agreed on its composition of direct financial and indirect payment system. In this study, employee compensation refers to all forms of pay or reward going to employees and arising from their employment relationship, and it has two main components: direct financial payment (in the form of wages, salaries, incentives, commissions, and bonus), and indirect payment (in the form of financial benefits such as employer-paid insurance and vacation) (Dessler 2001). According to this explanation, direct financial payment includes all forms of reward which the employee receives in cash. Depending on the company's compensation strategy, employees receive weekly or monthly salary which is agreed on the employment contract while incentives, commissions, bonus or allowance depends on performance of the employee, the working condition, position of the employee, or the profit the company earns at the end of the year or at any specific period of time or based on achievement of specific duty by the employer or employee. Indirect payment, as specified in the definition, refers to payment which is not directly related in cash payment and basically described as the benefit that the employee gets based on the company compensation strategy and may be limited to the position or status they have in the company. Insurance coverage, medical coverage, meal coverage or vacations are part of them.

Compensation is an exchange relationship between the employee and the employer for which the employer pays every type of reward to an individual for performing certain tasks in an

organization and it is also the chief reason why most individuals seek employment (Redman and Wilkinson 2006). Among the different functions of human resource management in an organization, total reward (such as compensation, incentive and benefit) is one of them. It is the form of pay, incentives and benefits rewards people for performing organizational work (Mathis and Jackson 2010). It is a critical component of the employment relationship (F.Cascio 2006). Employees offer their services to the company and the company in return pay compensation.

Compensation forms such as bonus, commission and profit sharing plans are incentives designed to encourage the employees to produce the results beyond the normal expectation. Benefits such as insurance, medical, recreational, retirement etc. represent a more indirect type of compensation (Collings and Wood 2009). From employee's point of view, pay is a necessary of life in supporting, their family, covering expenses related to house, food, education, medical treatment as well as recreation. Therefore to cover all these expenses, employees bargain on how much they earn monthly or weekly.

Financial compensation is either direct or indirect (Redman and Wilkinson 2006). Direct financial compensation consists of the pay an employee receives in the form of wages, salary, and bonus of commission while indirect financial compensation or benefit consists of all financial rewards that are not included in direct financial compensation which includes vacation, various kinds of insurance, service like child care or elder care.

The concept of compensation has been changed through time and it has totally different implication to employees and employers. The reason to have organized compensation system is not any more challenged and thus it is not considered as expense to an organization rather it becomes the main reason to achieve organizational objective. Employees are started to be considered as important factors for the success of an organization. In the 1970s, when trade unions were at their zenith, pay itself was regarded as an outcome of the industrial relations process where a compromise was reached between the conflicting demands of the two antagonists (Stredwick 2005). Today, organizations with varying degree of success, attempt to harness the powerful forces of pay as motivator to encourage employees to work in a way

that leads to the achievement of organizational objective and also a vital element in the recruitment process.

Table 2.1: Changing nature of pay and rewards

Past	Present
Pay regarded as an expense	Reward system seen as investment to achieve competitiveness
Pay policies were based on government control or national agreement	Reward is determined by the organization to meet its global, national to local conditions
Fixed pay scales in a rigid evaluation structure	Reward utilised flexibility within a broad-banded salary structure
Pay seen as compensation for having to be at work	Reward is given for employees achieving the desired result
Pay to compensate for reluctant acceptance of change	Reward is given to encourage positive acceptance of cultural changes
Payment made for length of service	Reward is given for performance, skill and competence
Pay differentials compressed	Wide variations in reward from board room to home improvement centre
Incentives were based on narrow measures of production or sales	Performance-based system based on broad measures of unit or organization success
Paying for attendance	Reward employees for ideas, initiatives and innovations
Fixed benefits without choices	Flexibility benefits programmes to suit individual requirements
Equity sharing limited to directors	Share options for all employees

Source: (Stredwick 2005; p. 332)

It is believed that compensation is a critical concern area for employees to work in a company in the same for employers. However the main issues are what includes compensation package?

Compensation management plays a crucial and functional role because it is the heart beat of human resource management and it is also vital to both employees and employers (Collings and Wood 2009).). According to Saiyadain (2003), developing the structure of compensation packages thus become one of the major responsibilities of the Human Resource Managers. A good pay packet not only helps in attracting the most talented employees but also helps in retaining them for a long time in the organization.

2.2 Objective of Compensation

It is believed that, employees' main reason to work in an organization is to get paid and employers have their own compensation package to attract professional and talented employees from the market. For this reason, compensation should create a system that is fair for both employees and employers perspective so that both partners benefit from the system.

Redman and Wilkinson (2006) argued that compensation should be:

1. Adequate: minimal government, union and managerial level compensation should be met,
2. Equitable: each person should be paid fairly in line with his or her effort, abilities and training,
3. Balanced: pay, benefits and other reward should provide a reasonable total reward package,
4. Cost-effective: pay should not be excessive, considering what the organization can afford to pay,
5. Secure: pay should be enough to help an employee feel secure and aid him or her in satisfying basic needs,
6. Incentive-providing: pay should motivate effective and productive work,
7. Acceptable to the employer: the employee should understand the pay system and feel it is a reasonable system for the enterprise and him or herself.

On the other hand, Derek et al. (2008) argued that compensation should be judged according to their ability to meet certain core objectives from employer and employees perspective. From the employer's perspective, compensation should attract, retain, motivate employees, driving change to the development of new behaviour, attitude or skill gained by employees, develop and maintain the reputation of the company and affordable which mostly depends on

the financial performance of the company. From employees' perspective, it should consider the Purchasing power by the standard of living of the employee, fairness of payment for the job, recognition, and composition of the pay.

2.3 Factors Affecting Compensation System

Companies while designing compensation system, they put in-to consideration different issues and these situation is affected by common factors which might arise from internal factors of the company and external factors which they do not have control on it (Hoque 2002). The factors are discussed below.

2.3.1 The labour Market and Economic Condition

Number of educated people in specific field profession, economic depression, and limited skilled employees in the market, demographic or recent loss of major employers because of economic crises considered as change of labour market that affects compensation (Bratt and Gold 2000). The competitiveness of the market affects ability to pay by a company, the more competitive the situation, the less the organization is to pay higher wage because ability to pay is a consequence of the relative productivity of the organization, industry or sector and where the firm is very expensive, it can pay higher wages (Hoque 2002). This is to mean that the level of pay and compensation of the remuneration package will be influenced by labour supply. Companies will have to match or exceed the wages and salaries offered by their labour market competitors in order to attract the staff require and prevent existing employees moving to the other organization (Bratt and Gold 2000).

2.3.2 Government and Legislation

Government puts its own influence on pay system of organizations through different mechanisms. The government puts pressure on private sectors by enacting legislation or policies which forces employers to have minimum wage rat or increase amount of pay where there is inflation (Jerry 1999). Fair labour standard Act equal pay Act of 1963 of United States and the major Indian Legislations of payment of wages Act 1936, minimum wages Act of 1948, payment of bonus Act of 1965, equal remuneration are legislations which determines pay level and grade in those specific countries (F.Cascio 2004). Organizations pay system influenced by these legislations and government impositions. This is because government

employers have fixed and set payment system which takes in to consider different other factors and the government is close to those factors.

2.3.3 Trade Union and Collective Bargaining

It is believed that unions play key role in fighting basic right of employees. There is reasonable evidence that unions tends to increase pay level although this is more likely where an industry has been organized by strong union and if the organization says in an area where union are strong, its compensation policies will be affected (Jerry 1999). Collective bargaining is important for employees to negotiate on wages, salary and other benefits and also to resolve arguments and also to arguments arose on the compensation grievance.

2.3.4 Managerial Attitude and Organizational Ability to Pay

Pay system and compensation besides government and legislation, market condition and collective bargaining and union, can be affected by the company's internal system and structure. Organization paying capacity means that the budget of salary which that if the company is big and have big market share, it may pay high wages to its employees. Managements wishes to support employment morally, reducing high turnover, improving employee's standard of leaving, attracting and retaining talented employees determines pay system (Collings and Wood 2009).

Beliefs about the worth of the job, individual characteristics and the cost of living are considered factors affecting compensation (Stredwick 2005). Skill, knowledge, experience, age, gender or family status may be considered as factors affecting compensation determination.

2.4 Compensation System in Hotel Industry

Hotel industry is service industry where employers sell their product and services to their customers. In hotel business there is relationship between the guest and the host or employees (Mackenzie and Chan 2009). Employees and guests are both personally involved in the service transaction where the service experience is an essential element in the transaction (Barrows et al 2006). It is labour – intensive which is the operation of the hotel is more supported by people rather than technologies (Hayes and Ninemeler 2009). From the simple

activity to the higher level of activity is operated more by people and technologies and machines are more or less operated minimum level.

The hotel industry shares the same objective and application of the compensation system. Employees goal in the compensation package is their pay is fair, adequate, secured and the same with the employer where the compensation package should be cost – effective, competitive, fair benefits them so that it attract, motivate, retain most talented and skilled staff in the organization (Robert 1992).

Table 2.2 Financial and non-financial pay in hotel industry

Financial	Non-financial
Salaries	Flexible working hour
Hourly pay	Meal privilege
Cost-of-living adjustment	Shoes and clothes
Tips	Transport facilities
Commissions	Providing discount service
Bonuses	Providing hygiene materials
Incentive pay	Paid vacations
Profit sharing	
Paid leave	
Service charge	

Source: Hayes and Ninemeler (2009).

Hayes and Ninemeler (2009) states that even though money is the most important reward, financial reward may be most important for some while non-financial reward is more important than financial reward.

The hospitality industry is unique in that many jobs have their own built-in individual merit pay plan. Employees who have direct contact with a customer and receive tips from the customer are directly tied to the money they get and it is more effective than other reward systems.

According to Robert (1992), direct financial compensation for hospitality employees typically consists of salaries, wages, incentives/bonuses, tips and other related pays. According to Saiyadian (2004), wages and salary are used interchangeably however both have different meaning and application. Wages is refers to worth of a job which means that the payment is fixed for a fixed job, the calculation is done hourly and for this reason it does not imply long-term employment relationship. While salary refers to worth of an individual where by the individual negotiate on the amount to be paid and it might be paid monthly or weekly which imply there is long term employment relationship.

Incentive and bonus are types of payments which are added to basic pay based on two different approaches. Incentive is a type of payment directly linked to the working performance of an individual or working group as a result of prior arrangement which includes payment by result or product on skilled based or performance related (Torrington et al, 2008). In this case employees are paid on achievement of specific objective given by the employer. Many companies set such incentive plan to attract talented employees from the market and while doing so they put as a condition that employees should achieve. On the other hand bonus is not directly earned by the employee rather the employer provides as a gratuitous payment and employees are not entitled to receive this payment as a result of contract of employment and cannot be assured of receiving it in return of achieving specific goal or performance.

In hotel industry, tips are perhaps the most unmistakable example of performance –based compensation where it is directly given by customers to the employees (Hayes and Ninemeler 2009). Customers give this payment by their mercy, if they are happy and satisfied by the service or product. The guest leaves the tips and the employees may share the tip or earn it individually. Tip is still the most controversial compensation system. It is so because the payment is not provided from the employers and it should not be part of the compensation. It cannot be regulated by law or by the employer.

In addition to salary, wages, bonus or incentive, employers provide insurance program for their employees. It is a mandatory benefit for employees. Employees in hotel industry expect more than salary or hourly pay or insurance; they seek additional considerations that will

enrich their lives and assist them financially (Hoque 2002). Health insurance (medical insurance, life and accident insurance) transport allowance, food allowance, paid time-off; paid vacation plans are all important in this regard (Barrows et al. 2012). Service charge is the other compensation packaged practiced in the hotel industry where it is collected from customers through employers and it will be distributed to employees (Boella and Turner 2005). The host (employers) will make additional charge to service or produced customers consumed then this amount of money will be distributed to employees. This type of payment is distinctive type of payment in the hotel industry.

In addition to the financial based compensation, many companies offer other types of compensation which have motivating impact on employees. This includes, increased participation in decision making, greater job freedom, more responsibility, flexible work hours, opportunities for personal growth, and diversity of tasks, employees birthday program, staff or employee meetings programs outside of the work place, employee outing arrangement, arranging different sport and recreational team, which can be considered as non-financial compensation (Barrows et al. 2012).

2.5 History of Hotel Industry in Ethiopia

The beginning of modern hotel industry in Ethiopia started in 1907 by Empress Taitu and the hotel was named after her. Taitu hotel has contributed big role for the development of modern hotel. The next generation of hotels were opened during the five years Italian occupation and were called “ALBERGO” and the third generation hotels were built during the establishments of OAU and ECA.

Many research writings and history proved that the development of hotel industry is related with travelling. Mackenzie and Chan (2009) explained that hotels provide food and beverage and accommodation service for tourists or travellers. Likewise, the development of hotels in Ethiopia is also related with the increasing number of local and foreign travellers in the country. According to G/egziabher (2015) development in Ethiopia’s foreign relations, particularly during the reign of Menelik II had, relatively speaking, an impressive impact in the country, by implanting the seeds of modernization through the importation of European technology and institution among which “hotel” is one subject.

According to Ministry of Couture of Tourism (2015), currently there are around 463 hotels in Ethiopia and out of this 112 hotel are found in Addis Ababa and the international chain hotels are five in numbers which are Sheraton Addis, Hilton Addis, Radisson Blu, Golden Tulip and Marriot Executive Apartment. This total number of hotels in Ethiopia as well as in Addis Ababa is including star and non-star hotel. Out of 112 hotels in Addis Ababa, 76 of them are star hotels (from five star to one star). The rest of the hotels found in Ethiopia: 92 hotels in Oromia, 87 Amhara Region, 22 Dire Dawa, 53 Southern Region, 46 Tigray, 13 Afar, 12 Harare Region, 14 Somalia Region, and 8 in Beninshangul Gumuz Regional state.

CHAPTER THREE

METHODOLOGY OF THE STUDY

3.1 Research Approach and Design

The objective of this research was to identify compensation system of selected privately owned four and five star hotels. This research is considered most appropriate research design of descriptive and qualitative research, because it describes characteristics of object, groups, organizations or environment and it tries to give explanation by addressing who, what, when, and how questions of current economic and employment situations (Zikmund et al 2013). Besides this it has the characteristics of qualitative research, because it is more concerned with phenomena relating to or involving quality of kind and it aims at discovering the underlying motives and desires, using in depth interviews for the purpose (Cooper and Emory 1995). Furthermore, the research followed a cross-sectional descriptive study because the data collected at one point (W. Creswell 2014) and cross-sectional studies various segments of population are sampled and data collected at a single moment in time. In addition to this, survey research is descriptive research and mostly used associated with quantitative findings however most surveys are conducted to quantify certain factual information and some aspects of surveys may also be used in qualitative.

3.2 Data Sources and Data Collection Methods

The sources of data are both primary and secondary source. From the primary source questioner and observation are the main source while focus group, depth interview and case studies are additional source. Compensation policy and procedure, employee handbook and other documents provided by the hotels.

3.3 Population and Sampling

Sampling provides a range of reduced number of data needed for the study from all available sources. According to Ministry of Culture and Tourism of Ethiopia (2015), in the year 2015 there are around 20 four and five star hotels in Addis Ababa.

Table 3.1 lists of four and five star hotels in Addis Ababa

No	Name of the hotel	Star designed
1	Sheraton Addis Hotel	5 Star+ (luxury)
2	Ellily International Hotel	5 star
3	Capital Hotel and Spa	5 star
4	Marriot Executive Apartment	5 star
5	Radisson Blu Hotel	5 star
6	Golden Tulip Addis Ababa Hotel	4 star
7	Dreamliner Hotel	4 star
8	Debredamo Hotel	4 star
9	Friendship International Hotel	4 star
10	Gatefam Hotel	4 star
11	Harmony Hotel	4 star
12	Intercontinental Hotel	4 star
13	Jupiter International Hotel (Kazanchis)	4 star
14	Jupiter International Hotel (Bole)	4 star
15	Nazrawi Hotel	4 star
16	Nexus Hotel	4 star
17	Sarem International Hotel	4 star
18	Saromaria Hotel	4 star
19	Tegen Guest House Hotel	4 star
20	Washington Hotel	4 star

Source: Ministry of Culture and Tourism (2014)

From the above 20 four and five star hotels, for the purpose of this research paper, five hotels are selected. Sheraton Addis, Radisson Blu and Capital hotel and Spa are selected from five star hotels and Intercontinental, Harmony hotel and Jupiter International hotel are selected from four star hotels. These hotels were selected purposely based on their business impact and the influence they have on hosting large number of customers, hiring many employees, when it's compared with other hotel, by the organizational structure they accommodate. In addition

to these, the hotels are located centre of the city and found similar area as well as easy for transportation accessibility while the researcher collect necessary data.

Table 3.2 list of selected four and five star hotels in Addis Ababa

Name of the Hotels	Level	Years of Establishment	No. of Employees	No. of Rooms	No. of Beds
Radisson Blu Hotel	5 star	4 Years	312	212	228
Capital Hotel and Spa	5 star	3 Years	310	114	114
Intercontinental Addis Hotel	4 star	8 Years	275	152	182
Jupiter International Hotel (Kazanchis)	4 star	8 Years	259	102	155
Harmony Hotel	4 star	4 Years	366	150	187

Source: Survey data (2016)

These hotels has joined the industry around four years back where there were no standard hotel in Addis Ababa for this reason, they have huge impact in the market in hosting large number of guests outside of Ethiopia. In addition to this, they are more organized and follow the international standard so that they may have well organizational structure and implement system, they also hire more than 180 employees and it is good to collect enough data for the research.

The major data collection instrument is questionnaires and it is developed based on the various types of compensation in the hotel industry. The target population are hotel employees who are line staff; do not include managerial level employees. The sample population is categorized based on the position they have. The main reason to differentiate the questionnaire based on the position is: the information might be affected by the position of the employees. These are housekeeping and laundry attendants, waters and chefs, receptionist

(front office employees), drivers and security guard, finance, and other administrative employees. From each group of employees (positions), five employees will fill the questionnaire and 25 questionnaires will be collected from one hotel. The questionnaire is a complete survey of 16 questions covering mostly compensation packages. Likewise as supportive data collection instrument qualitative interview, because interview can help to gather valid and reliable data which is relevant to the research questions and objectives (Shajaham 2004). Interview is also one of the most popular and frequently used method of gathering information from people about anything and popular method used within social sciences (kothari 2004). In the interview, Human Resource Managers, Hotel Managers (if possible), targeted employees on specific case and selected management employees will be interviewed and face to face and telephone interview will be conducted. Observation is the only method available to gather certain types of information and we can collect the original data at the time they occur (Cooper and Emory 1995). During the observation, the researcher uses direct observation where the observer is physically present personally and observes the situation and collects data. To gather in-depth information from a number of individuals simultaneously and to seek the individuals view, perceptions and opinions, discussion group is applied.

3.4 Data Cleaning

Primary data was the first method of the researcher used to collect data and from 85 questionnaires 72 were returned back. The sample only represented a part of population of all employees, because of limited variety of sections or responsibility of employees, the understanding level of employees and the working hour of employees. Thus the study lacks universalism and is not large enough to cover the whole hotel industry and all employees of selected hotels. With regards to language initially the questionnaire was written in English however few parts of the questionnaires were translated to Amharic for the reason that the educational and understanding level of employee's because the problem of uncompleted questionnaires is very common. To handle this, after the researcher collected the responses the researcher went through them and selected only the filled questionnaires and threw away uncompleted ones.

3.5 Data Analysis

The analysis of research on privately owned hotels in Addis Ababa has been analysed by using theoretical evidences through questionnaire and interview that was presented in table, pie chart, and bar. The data through primary and secondary sources have been analysed using quantitative and qualitative approach. Data collected from the questionnaire and interviews were analysed. Describing the respondent's profile is analysed by using descriptive statistics through percentage, pie charts, table and bar. Besides to identify the different types of compensation, the most preferred compensation by employees, percentage and mode values are used. Besides depth interview is conducted with quantitative findings to analyse the administration of compensation in the hotels. Since the research is descriptive and qualitative, simple statistical analysis like percentage and mode value is used in order by using Statistically Package for Social Science (SPSS).

CHAPTER FOUR

RESULTS AND DISCUSSION

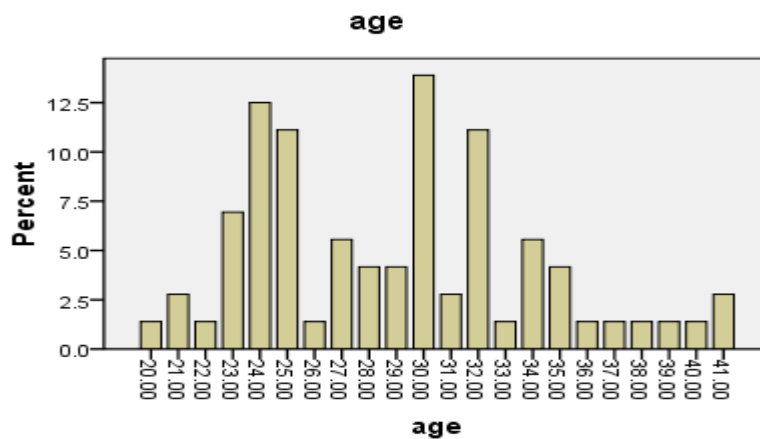
This chapter will discuss of the final result and the process through which the result were obtained. Besides that, background information of respondents will be presented. The data is analysed by using SPSS version 16.

4.1 Demographic Data

4.1.1 Hotel Employees by Age

According to the data analysed employees who work in the hotel industry are young employees between the ages of 23 and 32 (Figure 4.1).

Figure 4.1 Distribution of age of employee

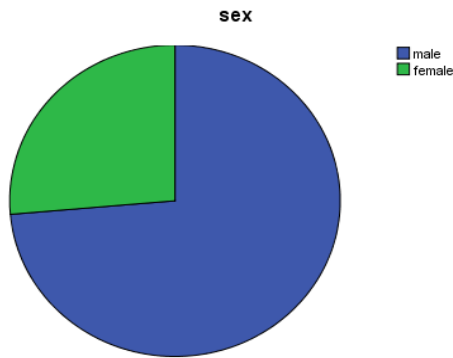


Source: Survey data (2016)

4.1.2 Hotel Employees by Sex

The sample of respondents contained more male employees than female employees which are almost 75% of employees are male employees while 25% are female employees.

Fig 4.2 Pie chart; hotel employees by sex



Source: Survey data (2016)

4.1.3 Hotel Employees by Educational Background

According to table 4.4, the highest education levels of employees Diploma (29.2%), Certificate which is from Level I to Level V and it is 25% and Degree Level (29.2%). The rest of the employees are high school completed.

Table 4.4 Educational level of respondents

	Frequency	Percept	Valid Percept	Cumulative Percept
Junior	1	1.4%	1.4	1.4
10 th Grade	3	4.2%	4.2	5.6
12 th Complete	9	12.5%	12.5	18.1
Certificate	18	25.0%	25.0	43.1
Diploma	20	27.8%	27.8	70.8
First Degree	21	29.2%	29.2	100.0
Total	72	100%	100.0	

Source: Survey data (2016)

4.2 Result and Discussion

4.2.1 Result

In this section, the results which are provided based on the face to face interview; questionnaire and discussions the analysed data will be discussed. The types of compensation in the selected hotel, which types of compensations are chosen by respondents and they reason why they choose them and other results will be discussed.

4.2.1.1 Types of Compensation in Hotels

The face to face interview response of respondents is presented below in generalized term. Results from interview showed that the types of compensation adopted by hotels in Addis Ababa includes both financial and non-financial types and the hotels adopted similar compensation types in all the case studies examined by this study. The main compensation system includes basic salary, service charge, health insurance (Medical insurance, accident insurance) with different amount, meal allowance (in kind), transport allowance (to those employees who work at night shift), and awards of different types. Flexible working hour, provide discount, paid vacations, incentive are also the other types of compensations exercised in the hotels. Detail account of the different types of compensations is presented in the subsequent sections.

4.2.1.2 Types of Financial Compensation Used by Hotels in Addis Ababa

According to the interviewee, the basic financial compensations are basic salary and service charge. This is supported by Hayes and Ninemelr (2009) who described wage, incentives/bonus, and tips as the most commonly used financial compensation types in the hotel industry.

Incentive or bonus is provided at the end of the budget year when hotels make profit. It is calculate depending on their salary which could be two month salary or any calculation. As per the interviewee, the hotels at the end of the budget year, if they make profit, they give to all employees their one month salary or more. However this practice do not have consistence because of lack of policy or guideline to follow.

Incentive is also the other type of financial compensation paid to employees on the good performance of the employee or completion of certain task. Employee of the month or

employee of the year is the basic type of incentive experience in all hotels. Hotels pay an average of 800 ETB (interview survey) for the winner of employee of the month and an average of 400 ETB for the nominees. This type of incentive is paid monthly and an employee may get once per year or years.

Service charge is the other compensation package used in the hotel industry where it is collected from customers through employers and paid to employees (Boella and Turner 2005). Service charge is the basic amount of monthly payment to the employees. The interviewee confirmed that, service charge is the basic and the first type of payment to the employees and employees concern on basic salary is stronger than basic salary because the amount to be paid depends on the sales volume of the hotel. Employees, however, explained their discontent basically about the distribution and payment of service charge in the hotels surveyed by this study.

Tips are the other type of financial compensation which is practiced in all the hotels studied. However, tips are not considered as a type of payment provided by the employer rather it is directly collected from the customer. The main difference with service charge is, they earn the tips directly from the customer, there is no any interference from the employers as well as there is no any tax involve on it. All employees do not enjoy this type of compensation, but rather those who have direct interaction with the customers when they provide the service. It is not permanently paid by the customer rather they pay as an award for the good product and service they received from the employee. Therefore, even though it does not involve employer to administer it, it still considered as part of financial compensation.

4.2.1.3 Types of Non-financial Compensation Used by Hotels in Addis Ababa

Training, health insurance, transport allowance, food allowance are one of non-financial compensations. Training is considered as the first benefit employees get while working in the hotel. Hotels to have standard service and to build their positive image in the industry, they continuously train their employees. This training changes the knowledge and skill of the employees as well as it creates their future career.

Health insurance includes accident insurance and medical insurance. The surveyed hotels in Addis Ababa have schemes of accident insurance and medical insurance to all their employees. The results of the interview with employees revealed that employees are pleased to have covered their medical expenses. The employees further noted that medical expenses in private hospitals are very expensive these days and they consider the provision of medical insurance as positive contribution. They usually visit a hospital where the hotels have prior agreement. The respondents further confirmed that the employers select best clinics and hospitals in the city that provide every type of medical treatment. As a result, employees who were the subject of this study were happy about this compensation package.

Food is the other type of non-financial compensation provided to employees in the hotels studied in Addis Ababa. Employers provide three meals per day to all employees who work in the shift. Daily meal covers from 30 to 35 birr and it is calculated per month and added on monthly income. However, the respondents in all the surveyed hotels unanimously questioned the quality of meals provided by the hotels. Beside the quality of the food, the employees in all the hotels complained about the deduction of cost of meals introduced to their salary recently. The hotels started to calculate the amount per month and include it in the monthly earning to be part of the income tax. Employment income shall include any payment of gains in cash or in kind received from employment by an individual, including income from former employment or otherwise or from prospective employment (Article 12 Sub-Article 1 of Proclamation No. 286/2002). Some two years ago such practice did not exist despite the fact that the country's tax law mentions to tax any kind of in cash or in kind payment as part of income. However currently all hotels start calculating and this created complain from their employees. When the deduction started to exercised employees begin to complain about the quality of the food.

Transportation service is the other type of non-financial compensation package provided by hotels in Addis Ababa. The service is found to be provided to those employees whose working hours are in the evening. Therefore, this is the type of compensation is not available for all the employees and it is also commented by employees as obligation of the employer to provide this facility.

Training includes short term and long term training which might be given on the job or out of the job training. It includes on work related training and it could be to maximize their knowledge or skill on the profession they are working. In addition, the data gathered from interview shows, employers provide cross training which means that; employees will get the opportunity to have training on additional professions in case where there is vacant position they may transfer them to another or better position as per the employee basic skill and knowledge.

According to Table 2.2 providing of shoes and clothes, hygiene materials are considered as non-financial compensation. However these are considered as hotel's obligation to fulfil these materials because they are considered as the necessary material for the completion of work. Hygiene material are different in the hotels, it include providing soap and towel to employees on specific period, tooth brush with the tooth paste and building comfortable showers to their employees.

Discount is the other major types of non-financial compensation in hotels. Employees will have the privilege to buy specific products from the hotel with maximum of 25% discount rate. These include, cakes, inviting their close families with maximum of 3 individuals in the hotel to have the discount privilege.

Though the hotels have listed out compensations, they do not have organized compensation policy or guideline except Capital Hotel and Spa. The administration of compensation is governed through experience.

4.3 Discussion

4.3.1 Comparison of Financial and Non-financial Compensation

In this section a discussion on the ranking of different types of financial and non-financial compensation types based on employees' preferences is provided. As presented in Table 4.1, employee's first preference among both financial and non-financial compensation packages is service charge, which is preferred by 86% of the employees. This was seconded by training, which is a non-financial compensation type. In the third place, medical insurance was chosen by employees as the most attractive compensation type (Table 4.3). This is also proved by

table 4.1 and 4.2 which specifically show the ranking of financial and non-financial compensation.

Table 4.1 Ranking of financial Compensation based on respondents' preference

Financial compensation				
Basic Salary	Service Charge	Tips	Bonus	Award
Yes	Yes	Yes	Yes	Yes
23.4%	70%	9.4%	3.1%	4.7%
2nd	1st	3rd	5th	4th

Source: Survey data (2016)

Table 4.2 Ranking of non-financial Compensation based on respondents' preference

Non-financial compensation				
Meal allowance	Medical	Transportation service	Training	Employee party
Yes	Yes	Yes	Yes	Yes
10%	16%	16%	50%	0%
--	2nd	3rd	1st	--

Source: Survey data (2016)

Table 4.3 Ranking of Compensation based on respondents' preference

List of compensation	Total	Mode value¹	Percept	Rank
Service Charge	72	62	86.1%	1
Training	72	31	45.8%	2
Health insurance	72	26	36.1%	3
Meal allowance	72	20	27.8%5	4
Basic salary	72	18	25.0%	5
Tip	72	16	22.2%	6
Bonus	72	2	2.8%	7
Award/Incentive	72	2	2.8%	7
Employee party	72	-	-	-

Source: Survey data (2016)

¹ The mode value is the count of employees who responded 'yes'

It is possible to decide that, hotel employees prefer financial compensation than non-financial compensation. On the literature by Hayes and Ninemeler (2009) money which is financial compensation is the most important reward for employees who work in hotel industry.

As per table 4.1, 4.2 and 4.3 employees preference financial compensation than non-financial compensation in addition service charge, training and medical insurance are the most attractive compensation type and it is important to question the ground.

1. Service charge

People at their young age mostly focuses more on the amount of money they earn rather compensation gained in kind because it is the age where they struggle to build their future career, start family, saving money and other necessities for life. According to the data analysed the respondents are young and that is why they choose service charge. For this reason cash has importance in covering different expenses in building their individual and family life. For this reason financial compensation like service charge is mostly preferred. Service charge and basic salary are the basic in cash paid for employees and it is possible to decide they are the only cash fixed and monthly paid. However service charge is still more preferred than basic salary because the amount paid service charge is bigger than basic salary.

2. Training

The employees who are working in these hotels, the highest educational background are First Degree. In this case, the employee's knowledge is more of theoretical knowledge and it is advantageous for them to support and develop their theoretical knowledge with practical training. Training is the second choice of respondents' from total list of compensation next to service charge. Training has big influence in changing the future career of employees as well as in increasing their monthly income. The training they get is more practical from the training they got from school and help them to update their knowledge on the field, help them to be more skilled as well as to get additional training other than the position they are working. If the employees have certificate on the training they took, they will be talented and get the chance to work in another hotel with better salary and position. In addition to this the cross training is more important than other work related training because they will have the chance to be transferred to another position with better compensation. For example; a waitress

may get cross training on basic cash handling, basic software on how to use the computer and related software and in case there is vacant position on cashier, she might be transferred to the position and get better income and other benefits. The data collected from interview shows that, there is a high number of transfer and promotions in the hotel and it is the main advantage employees get while working with them.

3. Medical Insurance

Health insurance is the other compensation type chosen by respondents on the third level. Sometimes non-financial compensation is also more important than financial compensation and expect more than salary; they seek additional consideration that will enrich their lives and assist them financially that is health insurance (medical, life and accident insurance) (Barrows et al 2012). This is also described by the finding where 36.1% of respondents prefer medical insurance next to training. In addition to this, data collected from interview confirms that respondents primarily prefer medical insurance from non-financial compensation. Accident and medical insurance are mostly provided by employers where for any injury occurred on duty and medical insurance. Based on the interview the five hotels provide 9000 birr to 10000 birr medical insurance per annum which also includes maternity expense coverage. Due to the high price of medical treatment in health centres, employees prefer to go to the hospital where they can get free or minimum price treatments as per their benefit they have. Besides, the medical insurance covers the maternity expense which has huge impact in covering employee's expense. The other reason where medical insurance chosen on the third by respondents could be the medical expense covers maternity expenses. As it is mentioned above on section 4.2, the average age of employees is from the age of 24 to 31 which is the fertile age and it is possible to decide that health insurance is chosen because of the high price of medical in hospitals as well as its maternity expense coverage.

4.3.2 Comparison of Basic Salary and Service Charge

Service charge and basic salary are the only monthly paid financial compensation. However both of them have different amount paid and mode of distribution to the employees. The amount of basic salary paid to employees depends on the experience, educational background, the position, or knowledge of the employee and it has different scale. However service charge is distributed to all employees equally after it is collected from customers.

The minimum basic salary is 800 ETB and the maximum paid basic salary is 6000 ETB. The minimum monthly paid service charge is 1000 ETB and the maximum paid service charge is 8000ETB. The average paid basic salary is 1885 ETB and service charge is 4204 ETB (Table 5.4). In addition to this, the survey the amount of service charge is more than basic salary that is why employee prefer service charge than basic salary (Table 4.3).

Table 4.5 Comparison of basic salary and service charge

	Gross basic salary (ETB)	Gross service charge (ETB)
Minimum Paid	800.00	1000.00
Maximum Paid	6000.00	8000.00
Average Paid	1885.39	4204.76

Source: Survey data (2016)

Table 4.6 Comparison of respondents' preference on basic salary and service charge

Compensation	Total	Percept	Rank
Service Charge	72	70%	1
Basic Salary	72	23.4%	2

Source: Survey data (2016)

The amount of service charge depends on the sales volume of the hotel. Four and five star hotels have big sales volume and the amount of service charge collected from customers is high and due to this employees gain more service charge than basic salary. According to the survey interview, the basic salary fixed by the employer depends on the amount of service charge the employer expected to collect from customers. That is; if the hotel has number of outlets for example; more than 100 rooms, more than one restaurant, bars and other recreational facilities then the amount of service charge is high then employers have small

basic salary scale. On the other way if the hotel has small outlets for example less than 80 rooms and limited to one restaurant and other facilities, that means the service charge collected from the guest is small amount and in this case the basic salary is higher when it is compared to hotels with many outlets. In general, employees' basic monthly income is service charge that is what interviewed employees confirmed and it is more attractive than basic salary.

4.3.3 Factors That Determine Choice of a Hotel

Table 4.7 Ranking of factors that determine employees' recommendation of a hotel

Choice of ground	Total	Percentage	Ranking
Working environment	72	47.3%	1
Brand of the hotel	72	45.5%	2
Compensation system	72	25.5%	3
Convenient for transportation	72	21.8%	4
Others	72	9.1%	5

Source: survey data 2016

As presented on table 4.4 the highest percentage of employees explained that they recommend a hotel when it has working environment. Working environment includes fair and equal treatment of all employees, fair promotion, transfer system, fair compensation system, protecting of basic employee rights, preparing and fulfilling the necessary working materials, smooth relationship among line team and management team, flexible working hour and other related requirements. Based on this survey working environment is the first recommended to a friend, international or brand hotel is recommended secondly, compensation is recommended thirdly while convenient for transportation and other reasons are on the fourth and the fifth rank (Table 4.6).

Here, compensation is preferred on the third level however the first and the second reasons still have direct relation with compensation. According to the interview made with the respondents, they prefer to work in brand or international hotel with higher grade. The reason they mentioned is, international or brand hotels have better working environment for

employees, they have organized system, the amount of compensation is better when it is compared with other local hotels. The types of customers dine in brand hotels are international customers and their paying capacity is high. They will get many tips, the service charge is high, they at list fulfil minimum standard for their employees, their meal facility is standardized and overall all the compensation system and working environment is better in brand and international hotel.

The selected hotels located on the centre of the city (Kazanchis and Bole) and they are convenient for transportation. These areas are where many four and five star hotels are located because the areas are close to the Bole International Airport and also where ECA (Economic Commission for Africa) and other international organizations build. For this reason, the hotel's location is convenient for transportation. Besides, employees may not have difficulties to get transportation facilities and will also minimize their transportation cost that has positive impact on compensation.

4.3.4 The Legal Status of Compensation Used in Hotels under Ethiopian Law

The labour of the country adopted on the 26th February 2004, Proclamation No. 377/2003. It is applicable on privately owned companies and their employees. Its major objective is to guide the employment relationship in health and smooth manner.

It included vast provisions of the relationship; obligation of the parties, grounds of formation and termination of contract agreements, administration of working hour, different types of leave, payment mode and other detail provisions.

Employer and employee has equal obligation when it comes to employment relationship. Employees have to perform their obligation as per the contract agreement they signed while the employer has an obligation to pay to the employee for the work performed as per the law and contractual relationship they have. The contract agreement shall be in written form and include, the position the employee has, place of work, the type of contract and the amount of salary paid and mode of payment (Article 4 Sub-Article 3 of Proclamation No. 377/2003).

1. Basic salary

Basic salary is administered according to what is written in Article 53 and the following articles of the labour law proclamation no. 377/2003. Contract of employment shall include the

amount of basic salary, method of calculation and manner and interval of payment shall be included in the contract agreement (Article 4 Sub-Article 3 of Proclamation No. 377/2003). The labour law clearly provide when and how the employee should be paid, on what condition it should be deducted and how much should deduct. Besides the basic salary, the calculation of over time is also included in the labour law (Article 66 and the following Article of Proclamation No. 377/2003).

2. Other allowances or benefits

Bonus, commission, incentives and other allowances are not considered as wage and administered by the labour law (Article 53 Sub Article 2 of Proclamation No. 377/2003). Mode and execution of payment under the same Proclamation describe about basic salary. Other allowances can be administered by the hotel's internal gridlines and procedure.

3. The status of service charge under the labour law

Under Article 53 sub article 2 of proclamation No. 377/2003 service charge is considered as not part of wage or basic salary. According to this provision, service charge cannot be administered by the labour law. For this reason, employers have their own way of administration of service charge. Due to this reason, execution of payment, any absence or deduction is administered according to their internal management system. According to the interview made with the human resource managers, all of them described that the administration of service charge is by experience.

As per the interview result service charge is not included in the contract agreement because employers cannot guarantee and it is not possible to decide the amount to be paid. It varies every month and it is not secured. Compensation must be secured and guaranteed so that employees can be motivated and productive because at the end of the month they know how much money they receive and there is no anything that worries them regarding the case however in the case of service charge the amount varies every month and employees are not secured and guaranteed on their income. The main objective of payment is securing; should be enough to help an employee feel secure and aid him or her in satisfying basic needs (Redman and Wilkinson 2006).

According to the interviewees, service charge is deducted in case of absence with or without permission, legally evidenced sick leave. The justification they give is; first service charge is paid for the service the employees give for the customers that is on the day where the service is provided for the customers. Employees should be present and make their own contribution. Second the amount of sick leave recorded increased and absenteeism also high every month. Many employees abused the purpose of getting sick leave and there are many forged sick leaves and it was not easy to identify who is seriously sick and who is not. Therefore it is the main way of minimizing high sick leave and forged sick leaves. Therefore the employees whether they are absent with or without permission on in case of sick leave, they are not entitled for the payment of service charge. However employers made exceptions for the case of sick leave when it is extended sick leave and very serious case or when there is hospital admission. In addition to this if the health problem or accident is caused by work related accident or health problem and also when it is evidenced by health institutions, they do not deduct service charge. In addition, in case of maternity leave, annual leave and weekly rest service charge is not deducted.

According to personal observation and interview made way of administration of service charge is different on Radisson Blu Hotel. There is no any exception on deduction of service charge in case of sick leave that is, it does not make any exception on sick leave rather it deduct service charge on any type of sick leave. In this case the frustration of employees on their monthly income is very high. There are two cases on this issue, which are presented below.

Case 1: an employee who is working in the housekeeping department on the position of Housekeeping Attendant, he was sick because of Tuberculosis and he was admitted in hospital and was getting home treatment for two months (January and February 2016). This employee's monthly basic salary is 828 ETB and he already exceeds his medical insurance which is 10000 ETB per annum. The hotels policy on sick leave was not flexible even on this case and he was not paid service charge for the month of January and February. He made application however the hotel management could not give any decision on the case. Employees (employees who are working with him) were supporting him 100 Birr from their salary and that was how he survived.

Case 2: an employee who worked in the same hotel resigned for the reason that she experiences many sick leaves. The health problem caused at work when she lift high loaded material and it felt down on her leg. On the date the accident occurred she immediately went to the hospital and treated. However she did not report the case to the concerned person about the accident. Through time the accident causes related problem and she start to be sick and being absent from work. And the sick leave and service charge deduction causes argument in the human resource department however the employer could not support her and she is forced to resign up on her wish.

The case of service charge deduction in case of any type of sick leave is additional comment given by respondents in this hotel. Therefore it is possible to decide that financial compensation which is service charge is not secured and does not fulfil the main objective which should be secured and guaranteed.

Besides, the reason that the payment is not fixed and varies every month, employees do not know how much the hotel earns and they have doubt that the employer is stealing. According to the interview made with the respondents and quantitative data collected from the respondents; they have commented that the employers are not paying them and recommend that there should be a system to control the amount of service charge collected. According to Redman and Wilkinson (2006), the other objective of compensation is employee should understand the pay system which means that employees should know how it is calculated and paid.

4.3.5 Impact of Compensation on Employees

According to the data collected, employees before working in one hotel, they basically focus on the amount of compensation they earn monthly. A hotel which pays high compensation, basically service charge and basic salary is preferred by employees. The amount of compensation paid also affects the employees to stay in one hotel or to jump to another hotel. However, compensation is not the only reason to choose a hotel or to jump in to another hotel; working environment and the type or level of hotel has also effect.

According to the interview made with the Human Resource Managers, one of the main factors for the turnover is compensation. A new opening hotel always join the industry with better payment to attract talented employees from the market for this reason, employees resign immediately when a new hotel opened. They confirmed that compensation has its own impact on turn over. Besides, the type or level of the hotel affect the compensation because when the hotel is brand or international hotel, even though it does not have better compensation, it pays well with regard to service charge, tips and other allowances.

Motivational factor is the other major impact of compensation on employees. According to Rao (2004), pay or compensation has is one factor to motivate employees. Incentives, bonus and different awards are the most practiced financial compensation in the hotel. These four and five star hotels are basically organized and developed in their internal policy and guidelines though almost all of them do not have organized compensation policy. Bonus and award for performance are the most paid for the employees to motivate them for their performance and high profit making of the hotel. In addition they pay for their employees fixed amount of money during holiday.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Major Findings

This study had the objective of identifying the types of financial and non-financial compensation types adopted by four and five star hotels in Addis Ababa. It had also the aim of ranking the different types of compensation and to identify the factors that influence employees to recommend friends to seek employment in hotels. The major findings are summarized and presented below:

- ✚ In hotel industry the list of compensations includes both financial and non-financial compensations and it is similar in the four and five star in. The main compensation packages includes; basic salary, service charge, health insurance (Medical insurance, accident insurance) with different amount, meal allowance (in kind), transport allowance (to those employees who work at night shift), awards and prizes and training.
- ✚ Employees prefer financial compensation from non-financial compensation. The age group which is from 24 to 31 affects to choose financial compensation from non-financial compensation. This age group is young group where it is the time to build individual and family life and it requires having strong financial capacity.
- ✚ Training is chosen on the second level by employees. Training is also the other pay which helps to have better knowledge and skill on the position working and even to have better payment.
- ✚ Medical insurance is the other non-financial compensation which is preferred by employees on the third level. The current price for medical expenses is very high in the country and for this reason employees get advantage to have free or minimum price for their medical expenses. In addition to these maternity expenses is also covered under the medical insurance and more female employees prefer medical insurance than men employees. The age group which is visible in the hotel industry is the fertile age and at this time female employees are more advantageous than male employees and that the basic reason to choose medical insurance.
- ✚ Basic salary and service charge are the first financial compensation chosen by employees. Basic salary preferred by almost 86% of employees though basic salary

preferred by 25% though it is fixed monthly income. The amount of service charge earned is bigger than service charge and that is the basic reason why employees prefer service charge than basic salary.

- ✚ Basic salary and other allowances or benefits are included and governed under the labour law however service charge and other allowances and benefits are not included in monthly paid of reward. The administration of service charge is left to the hotel management. The labour law does not define it under wage or basic salary for this reason employer administers it based on their internal policy.

5.2 Conclusions

Based on the findings of the study, the following conclusions are made

- ✚ The compensation system in hotel industry is similar; all hotels provide the similar type of financial and non-financial compensation.
- ✚ Based on the finding, service charge has the highest impact on employee's preference from other financial compensation. Training is the other non-financial compensation next to the service charge that has impact to choose one hotel from the other. Therefore service charge and training has the highest preference by employees in hotel.
- ✚ The amount of service charge paid to employees is more than basic salary however service charge is not fixed rather varies every month which is affected by the sales volume. Service charge is not covered under the labour law No. 377/2003 as one part of reward which can be governed by except giving a simple definition. It does not have legal protection under the labour law.
- ✚ Service charge is not secured and guaranteed compensation for the reason that it is not governed by any law, it is not fixed amount of payment, it is not part of employee contract agreement rather employers promise them verbally that they will be entitled to service charge.
- ✚ The reason that a hotel is international or brand hotel then it has positive impact on the compensation system and the positive working environment.

5.3 Recommendations

In this section, based on the findings of the survey conducted on the employees of the selected four and five star hotels in Addis Ababa, the study reached on the following recommendation:

- ✚ Hotel industry is service industry where employees have direct contact with customers. To sell the food and beverage and accommodation, employees are in the middle as a sales agent as well as server therefore they play the major role in satisfying the need of the customer. To provide standard service for the customers, employees should be motivated and work in positive working environment. Employers must create conducive working environment, motivate their employees and compensate them fairly. At the end employees give the best service and customers will be happy, consume a lot and employees will earn high amount of service charge. Even though hotels have similar compensation system, they should have compensation policy or guideline to have organized and fair system so that employees will be aware of the system and feel that they are treated fairly and not cheated by their employers.
- ✚ Hotels should work hard on conducting training to their employees because it is the basic and first preferences by employees besides financial compensation. This helps the employee as well as the hotel to build positive reputation in building professionalism as well as in creating positive working environment.
- ✚ There should be a mechanism to include and create a mechanism to administer service charge under a legal framework. It is one of the major sources of income for hotel employees and the income they earn should help them to manage their economic and social life. The legal framework includes similar administration with basic salary even though the income is dependent on third party. Hotel employee's right to payment should be treated equally with other industry employees.
- ✚ Finally, there should be a separate law governing the hotel industry as well as the employees. The industry is one of the main service industry which function 24 hour per day and employees who work in this industry work all the day per shift for this reason depending on the working condition and the industry, there should be separate legal framework governing employees of the industry. The current labour law (No.377/2003) is not enough in governing hotel employees regarding, working hours, types of compensation and its administration, administration of contract agreement, management of over time,

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APPENDIX

Appendix A: Questionnaire



**ST. MARY'S UNIVERSITY
SCHOOL OF BUSINESS
MBA-PROGRAM**

**COMPENSATION SYSTEM IN HOTEL INDUSTRY IN ETHIOPIA
QUESTIONNAIRE TO BE FILLED BY HOTEL EMPLOYEES**

Dear Employees,

My Name is EmeyuMulugeta. I am a graduate student at St. Mary's University. Currently, I am conducting a research on "compensation system in hotel industry of Ethiopia" as a partial fulfilment of the master's degree in Business Administration. Your genuine response is highly important for the study and there are no any risks from participating in the survey. You are not required to write your name and mention your participation is completely voluntarily. Please feel free to contact me for further information at any time through: **0911374609** or rittamulugeta@gmail.com

PART I: General information

Please select the choice which is suitable to you

1. Sex 1. Male 2. Female
2. Age _____ Years
3. For how long you stayed in school _____ Years
4. What is your maximum educational level?
 1. Elementary School 2. Junior School 3. 10th grade complete
 4. 12th grade completes 5. Certificate 6. Diploma
 7. First degree 8. 2nd Degree (Masters) 9. PHD

PART II: The following statements relate to the perception, experience and knowledge about the hotel compensation system.

1. Why do you choose to work in this hotel? **(You can circle more than one answer)**
 1. The management system of the hotel is attractive to me
 2. The hotel has good/positive reputation
 3. The compensation package of the hotel is attractive
 4. _____ Other _____ reasons
(Mention) _____
2. What is the position in the hotel you are working currently? _____
3. How long have you been working in hotel industry? **Please put in years** _____
4. How many hotels have you worked before? **Please put in number** _____
5. When you decide to join the hotel industry, which compensation package is important to make a decision? **(Multiple response is possible)**
 1. Monthly basic salary
 2. Meal allowance (facilities)
 3. Tips
 4. Service charge
 5. Medical and insurance coverage
 6. Bonus
 7. Prizes (Awards)
 8. Training and personal development
6. How much is your monthly basic salary? **Please put in (ETB)** _____

7. How much do you get, on average, from service charge/monthly? **Please put in ETB**
- _____
8. Which of the following compensation package attracts you most in the hotel you are Working now? (**Multiple responses is possible**)
1. Meal allowance
 2. Transport allowance
 3. Basic salary
 4. service charge
 5. Tips
 6. Annual Bonus
 7. Different prizes and Awards
 8. Training and development
9. Which type(s) of compensation package do you prefer?
1. Financial compensation
 2. Non-financial compensation
10. From the financial compensation package, which one attracts you most in the hotel you are working now?
1. Basic Salary
 2. Service charge
 3. Tips
 4. Bonus
 5. awards and prizes
11. From the non-financial compensation package, which one attracts you most in the hotel you are working now?
1. Meal allowance
 2. Medical and insurance coverage
 3. Transportation service
 4. Training and development
 5. Annual employee party or outing
12. Do you recommend a friend to work in this hotel?
1. Yes
 2. No
13. If your answer is “**yes**” to the above question, why do you recommend? (**Multiple response allowed**)
1. The hotel protects basic rights of employees

2. The hotel's location is convenient for transportation
 3. The hotel pays well to employees (compensation package)
 4. The hotel is international and brand hotel
 5. The working environment of the hotel is very good
14. If you have any comment about the compensation and benefit package of the hotel you are working now, please mention it here

Thank You!!!

Appendix B: Questionnaire

Interview guidelines

1. How many employees does your hotel have? How many rooms and beds does it have?
2. What are the compensation (financial and non-financial) packages of your hotel?
3. Does your hotel have compensation policy or guidelines? If yes, what are the bases to prepare this policy or guidelines?
4. Who is responsible in your hotel to prepare/change or revise compensation policy or guidelines?
5. How do you relate and differentiate financial and non-financial compensation?
6. What are the determinants or factors that affect compensation policy or guidelines in your hotel?
7. How much do you pay service charge to your employees (an average)?
8. What do you think that attracts employees (new employee) to work with this hotel?
9. How does the hotel manage service charge and tips? Is there any guideline on how to distribute or pay to your employees? (Does it have the same implementation system with the basic salary; sick leave, different leave, termination payment, or on hiring process) Did you face any challenges on the implementation of service charge to employees, do you have any information about service charge on the labour law?

10. Does your hotel consider other hotels compensation system/policy, as experience sharing?
11. How competitive is your compensation package compared to the market?
12. Based on what factors you choose to work in this hotel?
13. What is the main reason you change one hotel from the other? Why? (if you change more than one hotel?)