



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**COMPENSATION MANAGEMENT PRACTICES AND
CHALLENGES AT CHEMONICS INTERNATIONAL INC.**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL
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DEDICATION

This thesis is dedicated to my parents, Ato Gebregzi Tassew and W/O Abrehet Reda, who have been encouraging and supporting me to proceed with my career.

Also, I want this thesis to inspire my children, Ruth Teklit and Brook Teklit, to study hard and achieve their dreams.

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ACRONYMS/ABBREVIATIONS

HRM- Human Resources Management

USAID- United States Agency for International Development

SPSS- Statistical Package for the Social Sciences

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ABSTRACT

The main objective of this study is to explore the compensation management practices and challenges at Chemonics International Inc. and assess if relevant compensation determinant factors are considered while setting compensation package. Moreover, it assesses employees' perception towards the compensation practices. The rationale behind this study is, the gaps identified about the compensation management of the company while doing a preliminary study at the time of proposal writing. The researcher did pilot test and found out that there is gap in implementing internal equity. Also, the compensation system does not consider all relevant factors that are necessary for determining compensation package. As a result, employees are dissatisfied with the compensation package they receive from the company. So, to explore more on the gaps identified, the researcher conducted this study. While conducting this study, the researcher used questionnaire and interview to get first hand data from the employees of the company and leadership team respectively about the compensation management practice and its challenges. Then, data was analyzed using descriptive method by using frequency, percentiles, and grand mean scores. The main findings of the study are, there is no internal equity, the compensation management is 100% focused on employees past salaries instead of relevant determinant factors, such as internal equity, employee's education level, work experience, external equity, cost of living, etc. This implies that the compensation policy is not competitive enough to attract best candidates and motivate the existing employees. As a result, employees are dissatisfied with the current compensation practices. It is recommended that the company focuses on internal equity, external equity and on the relevant compensation determinant factors while setting compensation package to employees so that the company can attract talented individuals and motivate and retain the existing best employee. The significance of the thesis is to show the importance of effective compensation management in attracting, motivating, and retaining talented individuals.

Keywords: Compensation, Compensation Management, Employee Satisfaction, Productivity

CHAPTER ONE

INTRODUCTION

This chapter provides a brief description about what to study and the rationale behind the study by discussing the following points; background of the study, statement of the problem, research questions, objective of the study, significance of the study, scope of the study and its limitations and finally organization of the research report.

1.1. Background of the study

According to Armstrong (2006), human resources are core for company effectiveness and the greatest asset that a company can possess. The retention of skillful and well-equipped workforce in a company is pertinent to the growth and overall performance of a company. The satisfied employees surely contribute to the company to achieve its competitive advantage over its competitors. It is confirmed that fair, reasonable, and attractive compensation attracts skillful employees.

Compensation is referred as money and other benefits received by an employee for providing services to his/her employer. Compensation includes direct cash payments and indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity (Lawler, 1990).

As it is stated by Hating and Wood (2003), in the 21st century, people pay much more attention to their life style and the money they earn from the work. However, it remains unclear whether many of them would continue working if it were not for the money they earn. Employee expectations of a compensation plan are that it is fair and equitable, that it provides them with tangible rewards equivalent with their skills and, further that provides recognition and a livelihood.

Compensation in the companies of today is a major consideration in Human Resource Management and how it is allocated sends a message to employees about what the companies believe to be important and worth encouraging. For employers, the compensation usually represents a sizeable

proportion of operating costs. Many employers view this only as a cost, while failing to consider the strategic benefits of a well-considered remuneration and benefits plan, (Patricia and Joy, 2003).

Company can be effective when it has productive employees. For employees to be productive, they must feel that they are compensated fairly. So, compensation management is crucial for the success of a company (Bustamam et al. 2014; Greene 2014).

Compensation management is core for a company to hire and retain employees to achieve the company goal. It is the base to reinforce employees to perform and deliver what is expected from them (Bustamam et al. 2014; Shaw 2014; Terera and Ngirande 2014; Xavier 2014).

In general, without the presence of compensation management, company cannot hire and retain employees and cannot achieve its objective. For a company to be successful and gain competitive advantage, it must attract skilled workforce and be able to retain them by making sure they are compensated reasonably and fairly (Heneman et al. 2000; Ivancevich 2004).

This study is designed to see the practices and challenges of financial compensation management at Chemonics International Inc. Chemonics is a US based consulting company which works in over 70 countries and is committed to promoting meaningful change around the world to help people live healthier, more productive, and more independent lives. Chemonics has been contracted by the United States Agency for International Development (USAID) to manage different projects. Chemonics has been operating in Ethiopia since 2000 GC. Since that time, Chemonics has implemented 24 projects in Ethiopia in the fields of health, agriculture, economic development, environment, and other fields.

Chemonics International Inc. has an office in Addis Ababa and works with different government stakeholders, such as, Federal Ministry of Health, Pharmaceuticals Fund and Supply Agency.

Chemonics has a compensation policy in place. The company strictly follows the policy to implement compensation package to its employees. Chemonics compensation package is in the form of direct and indirect payments. The direct payment includes monthly salaries, over time

payments, while the indirect payments include provident fund, annual bonus, annual salary increments, travel allowance for meals and lodging, etc.

The study helps the management of the company to understand the compensation system practices and its challenges. Also, the management can understand the satisfaction level of employees towards the compensation system.

1.2. Definition of Terms

Employee- An individual working for the company (Chemonics International Inc. Operational Manual, 2016)

Leadership Team- All directors working for the company (Chemonics International Inc. Operational Manual, 2016)

Compensation- Any reward to employees in return for the work they do. The word compensation is used alternatively to ‘reward’ or ‘remuneration’ (Armstrong, 2002).

Financial compensation- Financial compensation includes salary, bonus, and other monetary benefits (Mathis & Jackson, 2010).

Benefit- is supplement to the regular monthly salary employees receive from their employers, such as provident fund, pension. (Folayan, 2006)

Compensation Management- is a general guide designed to help a company to properly manage the compensation practice. (Armstrong, 2002)

Internal Equity- Fair payment among employees on the same position and qualification (Mathis & Jackson, 2010)

External Equity- Fair payment in comparison with other similar companies (Mathis & Jackson, 2010)

Motivation- A force or desire that influence someone to do something (Kressler, 2003)

1.3. Statement of the Problem

Compensation package that a company offers to its employees plays an important role to the company's ability to recruit best candidates, motivate employees and retain best talents.

Financial compensation package at Chemonics International Inc. is based on the compensation policy established by the company. The compensation package includes both direct and indirect payments, such as salary, overtime pay, provident fund, pension, medical insurance, life insurance, bonus, travel allowance, stock share.

The researcher did preliminary study by interviewing 20 employees of the company. Accordingly, the researcher was able to identify the following challenges or gaps:

As per the information gathered, employees with the same qualification, work experience and level of responsibilities get paid differently. There is a situation that one's salary is 100% above the other one with the same level of responsibilities and level of skill. From this response, the researcher identified that the company's compensation management lacks to consider internal equity.

Also, according to the respondents, the compensation package is not competitive comparing to what similar companies pay to their employees. This implies that employees are dissatisfied with thier compensation package.

As per the above feedback collected from employees of the company, it is obvious that there are challenges in the compensation practices of the company. So, conducting this research helps identify the existing compensation practices and challenges of the company in detail and the findings of this research helps the management to conduct further analysis about the current compensation practices and challenges and make valuable decisions to improve the current compensation system.

1.4. Study Questions

1. To what extent is the compensation policy clear and understandable to the employees?
2. To what extent does the compensation management support all relevant determinant factors?
3. What are the challenges/gaps of the compensation practices?
4. How often is the compensation policy reviewed?

1.5. Objective of the Study

1.5.1 General Objective

To assess the current compensation practices and challenges at Chemonics International Inc.

1.5.2. Specific Objectives

1. To analyze if the compensation policy is clear and understandable by the employees.
2. To analyze if the compensation management considers all relevant factors.
3. To assess main challenges of the compensation practice.
4. To assess if the compensation policy is reviewed regularly.

1.6. Significance of the Study

This study is important as compensation practices are very sensitive area for both employees and employers. Employee-employer relations can be affected positively or negatively due to compensation practices, which at the end can determine the operation of the company. Hence, this study helps the management of Chemonics International Inc. to have a concrete information on the practices and challenges of the current compensation system. Also, the findings of this research helps the management to conduct its own analysis about the current compensation practices and

make improvements to ensure the company has satisfied and productive employees. It is theoretically proved that having productive employees is very crucial for the success of the company and it is also believed that employees can be productive if they are satisfied with the compensation they get. So, this research is very valuable to the company to assess the satisfaction level of its employees and their productivity.

In addition to the above general significance, the study has the following specific significances:

1. The research finding can motivate the management of the company to conduct further research on the compensation practices and challenges of the company and bring a positive change on the current compensation practices.
2. It gives information to other similar companies that compensation practices have a big role on employees' satisfaction, performance and productivity of the company.
3. It helps any interested stakeholder to have an understanding about the compensation practices and challenges of Chemonics International Inc.

1.7. Scope of the Study

Chemonics International Inc. is an international company that implements different projects over all the world. This study focused in analyzing the financial compensation practices and challenges at Chemonics International Inc. that operates in Ethiopia. Also, the study focused on permanent long-term employees.

1.8. Organization of the Study

This paper is composed of five chapters. The first chapter provides background of the study, statement of the problem, objectives of the study, research questions, significance of the study, and scope of the study.

Chapter two discusses related literatures. Chapter three explains the research methodology and research design used to gather and analyze data. Chapter four focuses on data analysis, data interpretation and data presentation. Chapter five presents findings of the study, conclusions, and recommendations of the study.

CHAPTER TWO

LITRATURE REVIEW

This chapter discusses relevant literature reviews. This chapter composes of theoretical, empirical and conceptual framework of compensation management. Reviewing related literatures helps to facilitate a comprehensive analysis and understanding of the research questions.

2.1 Theoretical Review

2.1.1. Compensation

According to Cascio (2003), compensation is a reward that employees desire to receive and what the employer can afford to pay in exchange of the service rendered by the employee. Compensation can be financial or non-financial. Financial compensations include direct and indirect payments. The direct payments include wages, salaries, incentives, commission, and bonus. While, the indirect compensations are employers paid insurance, medical, and other benefits. Non-financial compensations include anything that has no monetary value but enhances employees' moral, such as recognition, conducive work environment, supportive company culture, opportunities for training and personal development, Dessler, G. (2005).

As per Mondy (2010), compensation is a total of all rewards provided to employees in return for their service. The overall purposes of which are to attract, retain and motivate employees. As compensation is comprised of both fixed and variable components as well as employees benefits and services, an optimum combination of these elements is ideal to effectively influence employees' performance.

Compensation is the set of valuable things that is given to employees in exchange for their labor. Usually compensation is money, which is given to employees as an hourly wage or salary. However, in addition to salary, some companies offer benefits, stock options, bonuses, profit sharing, commissions, allowances, and other rewards (Namasivagam and Zhao, 2007).

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction. An ideal compensation management system helps a company to significantly boost the performance of its employees and create a more engaged workforce that's willing to go the extra mile for a company. Such a system should be well-defined and uniform and should apply to all levels of the company as a general system. It also helps a company to have a clearer visibility into employee's performance when it is time to make critical compensation planning decisions (Ibojo. B and Asabi.O, 2002)

According to Patnaik et.al. (2012), compensation practice helps to balance employer-employee relation by providing monetary and non-monetary benefits to employees. Compensation is an integral part of human resource management, which helps in motivating employees and improving companies' effectiveness. Employee compensation plays such a key role because it is at the heart of the employment relationship, being of critical importance to both employees and employers. Employees typically depend on wages, salaries and so forth to provide a large share of their income and on benefits to provide income and health security. For employers, compensation decisions influence their cost of doing business and it influences employers' ability to compete for employees in the labor market and to attract and retain and manage their attitudes and behaviors while the employees are with the employer.

2.1.2. Compensation Management

Compensation management is one of the most complex and dynamic issues in the field of human resource management. For a company to achieve its stated objectives, there is the need to effectively manage the human resources aspect of the company, taken into consideration one of the core aspect of resource management known as compensation management. The ability of a manager to achieve its stated objectives to a large extent depends on the effective implementation of compensational packages to motivate the subordinates and employees within and beyond their expectation (Armstrong, 2016).

Compensation management plays a crucial and functional role because it is the heart beat of human resource management. It is also vital to both employees and the employer. This is because employees typically depend on wages and salaries, and it must be equivalent to the work done. However, to managers, compensation decisions influence the cost of doing business and thus, their ability to sell at a competitive price in the product market (Barry et al, 1995).

According to Ibojo, B. and Asabi, O. (2002), it is an obvious fact that effective implementation of favorable compensation management will not only aid in stabilizing and retaining employees but it also helps in reducing labor turnover within the company. Employees' compensation is all forms of financial returns and tangible benefits that employees receive as part of an employment relationship. It can be referred to as the totality of the financial and non-financial rewards an employee receives in return for his/her labor or services. Compensation management refers to the process of establishing the structure of wages level for the various positions designing incentive systems, setting individual wages and incentives within the established structures. It is an integral part of human resources management that affects the performance of employees because it establishes the degree of relationship between employer and the employee.

According to Tsai, et.al. (2005), compensation management is a key function in human resource management systems in modern enterprises, playing an important role in attracting, retaining, and motivating employees. In the global world of today, for any company to have competitive edge, there must be in place a formidable compensation strategy to attract and motivate people to join the company. This should also reduce the turnover intent from the employees.

In order to improve productivity, companies must give attention to favorable compensation management system, Armstrong (2005). The compensation system should be designed in a way that brings high individual performance and high productivity to a company. Compensation management is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably, and consistently in accordance with their values to the company, (Armstrong, 2005). Compensation management as the name suggests, implies having a compensation structure in which the employees who perform better are paid more than the average performing employees (Hewitt, 2009). This encourages employees to work harder to gain more

salaries. Armstrong and Brown (2005) postulated that compensation management is an integral part of human resource management (HRM) approach to managing people and as such it supports the achievement of business objective and it is strategic in the sense that it addresses longer term issue relating to how people should be valued for what they want to achieve.

According to Armstrong (2005), compensation management is all about developing a positive employment relationship and psychological contract that adopts a total compensation approach which recognizes that there are numbers of ways in which people can be compensated. In similar view, Bob (2001) and Anyebe (2003) mentioned that compensation management is a set of beliefs and guiding principles that are consisted with the values of the company which recognizes the fact that if human resource management is about investing in human capital from which a reasonable return is required, then it is proper to compensate people differently according to their contributions. Harrison and Liska (2008) in their study positioned that reward is the center piece of the employment contract; after all it is the main reason people to work. This includes both extrinsic and intrinsic received because of the employment by the company. In similar pattern, Brown (2003) saw compensation as a return in exchange for being employee of a company, or as a reward for a job well done. Gehart and Milkovich (1992) stated that employees' pay does not depend solely on the jobs they hold, instead company vary the amount paid according to differences in performance of the individual, group or whole company, differences in employee's qualities such as seniority, education levels and skills.

Compensation management is a useful instrument in the hand of management to contribute to the company effectiveness and can impact positively on the behavior and productivity of employees (Bustamam et al. 2014; Greene 2014).

Compensation management determines the hiring and retention of employees to attain the objectives of a company and is the basis of involvement of individuals to reinforce the performance of employees. Compensation management is, therefore, a major factor in attracting and retaining employee. (Bustamam et al. 2014; Shaw 2014; Terera and Ngirande 2014; Xavier 2014).

A skilled and stable workforce enables companies to successfully implement their strategies to gain competitive advantage over competing companies (Heneman et al. 2000; Ivancevich 2004). While substantial financial resources are invested in designing, organizing, and managing compensation systems and despite their prominent role in determining the success and development of the firm, scholars and practitioners have lamented the slow pace of research on compensation management specifically (Heneman et al. 2004; Kersley and Forth 2005). The design, delivery and use of compensation management have undergone major shifts to accommodate the motivational aspect of employee performance that promotes improved company performance (Heneman et al. 2000; Purcell et al. 2003).

2.1.3. Objective of Compensation Management

Compensation has direct impact on employees' satisfaction and company's productivity. To be effective, compensation system should provide sufficient level of rewards to fulfill basic needs, it should provide equity with external labor market, equity within the company, and it should address the need of each member of the company. The main objective of compensation system is to attract, retain, and motivate employees (Casio, 2003).

According to Danish and Usman (2010), Reward and motivation are positively related. This implies that if there is a change in rewards that are being offered to employees, then there will be a corresponding change in satisfaction and work motivation.

It is noted that compensation influences employee motivation, which directly affects the performance of the employee and productivity of the company. When employees are motivated, productivity increases. Hence, companies should have a compensation system that attracts and motivates and retain best employees to stay competitive in the market, (Prasetya and Kato, 2011).

According to Griffin (2012), if employees feel that they are compensated lower than their contribution to the company, they will leave the organization or show poor performance and irresponsibility during their stay with the company until they get a better payer company. So,

companies should develop acceptable compensation package to its employees to have dedicated and motivated employees.

Company's compensation practices influence recruitment, motivation of employees, retention of employees, and pay equity.

Recruitment

Armstrong (2007) stated that compensation packages are a critical factor to many would-be employees. In other words, while employees may be attracted to a company for a variety of reasons, compensation packages are important, and they play a major role when it comes to recruiting top talent to a company.

Motivation

Compensation is critical to employee motivation. Employees who feel they are adequately rewarded for their contributions and their efforts are more likely to perform their jobs well, have a decreased level of absenteeism and have greater longevity than employees who feel underpaid or under-appreciated, (Victor. H, 1964)

Retention

Compensation management is important not only to recruiting top individuals but to keeping them in their positions once hired. Companies often invest significant amounts of time and money in training new employees and bringing them up to speed. A company that loses a key player to the competition because of poor compensation management not only loses a talented employee in which it has invested, but the company also incurs additional expenses when it comes to rehiring and retraining for the vacated position (Harrison and Liska, 2008)

2.1.4. Challenges of Compensation Management

According to Hempel (1998), the most challenging part of the compensation is to keep it equal and consistent for everyone. Sometimes, companies use pay secrecy as a tool to promote for individual performance and make him/her feel that he/she is more important for the company, however this

can create inequality among employees. So, companies should avoid pay secrecy and the payment system must be more transparent to prevent conflicts and misunderstanding.

As stated by Lawler, E. (1990), pay equality or comparable worth means, the pay should be based on work done not based on gender or race. Pay increment should be based on the superiority and performances. There should be proper pay structure so that there should be no confusion among employees. Companies should make an interesting compensation package so that it should motivate the employees to increase the company's productivity and so that everyone should come punctually and work efficiently for the company. Thus, compensation helps in running a company effectively and accomplishing its goals. The most competitive compensation helps the company to attract and sustain the best employee.

Compensation structures are a leading issue for human resources departments in companies of all sizes. In a company where budgets are limited, compensation packages may be limited as well. Thus, companies with limited budget are challenged with providing a competitive pay rate for attracting, motivating, and retaining top talent and still maintaining fiscal responsibility (Richard Thorpe, 2000).

2.2. Practices and Challenges of Compensation Management at Chemonics

2.2.1. Practices of Compensation Management

Chemonics International Inc. has operational manual that is used as a guideline for the company's human resource policies and procedures. The manual addresses any questions that employees might have in relation to employees, responsibilities, and obligations. It also serves as a guide for supervisors and managers in administering human resource policies and procedures.

In Chemonics, employees start work when they receive signed contract agreement from the company. The contract agreement includes position title, scope of work, duration of assignment, location of employment, starting salary, and position title of immediate supervisor.

Salary Determination

Chemonics International Inc. determines salary based on previous individual's salary history. The maximum salary increment offered to a selected candidate is 5% of the previous latest salary of the individual. This salary determination system has been a challenge to attract individuals with low salary history. Also, the salary determination system has created internal inequity among internal employees as individuals who have the same skill that work in the same position with similar responsibilities and accountabilities could have different salaries because of their salary history.

Overtime Pay

Chemonics pays overtime for employees, who are on assistant level and that work in accounting, administration, and human resources department, for the extra hours worked after office hours. However, program employees do not get overtime even though the work demands them to work more than office hours.

Annual Performance Evaluation and Salary Increment

Chemonics International Inc. has a system of evaluating performance of employees on annual basis and provide annual salary increment. Salary increment ranges from a maximum of 3% of base salary to a minimum of 2% of base salary. Employees assess their performances based on the criteria set in the performance evaluation form. Then, immediate supervisors provide their feedback on the performance of the employees. Once the assessment from both sides is discussed and agreed between the employee and the immediate supervisor, the evaluation result will go to the country director for approval. Based on the result of the evaluation, salary increment is applied to the employee.

Annual Bonus

Chemonics provides annual bonus to employees. Employees that have worked for the company for one year or more, will receive one-month salary. For those, who served less than one year, will receive prorated bonus based on the months worked.

Fringe Benefits

Chemonics International Inc. grants 12.8% employee's base salary to employees as a provident fund. The 1.8% of the provident fund is saved to an interest-bearing account. The other 11% is contributed as a pension and declared to the local tax authority. Employees get the 1.8% provident fund when they terminate their employment with the company. The 11% will only be accessible at the time of retirement age.

Chemonics provides medical benefit to employees. The annual medical budget is used to cover medical expenses of the employee and immediate family (children and spouse). Chemonics follows medical expense reimbursement procedure. The employee will be required to pay his/her medical expense first and ask for reimbursement by submitting proof of payments to the finance unit. There is also twenty-four-hour insurance coverage for any accident happens to employees. In addition to this, there is life insurance coverage.

Travel allowance

When employees travel for work purpose out of their duty station, Chemonics provides per diem, which covers meals and incidentals and lodging. Chemonics has established per diem rate that applies for all employees traveling for work purpose.

2.2.2. Challenge of Compensation Management

As mentioned in the introduction part, Chemonics is an implementing partner for USAID. It implements USAID projects based on the contract agreement signed between Chemonics and USAID. Among other things, the contract agreement states the compensation policy for Chemonics. The policy states that employee's compensation package depends on individuals' salary history. This led the company's compensation package to be 100% dependent on salary histories instead of the relevant compensation determinant factors that were mentioned by different literature reviews. This negatively affected the internal inequity of the company. Also, the policy makes the company not to be competitive enough to attract talented individuals with low salary history.

In general, the fact that Chemonics must follow the existing compensation policy because of the contract agreement that the company has with its donor is a challenge to keep internal equity and attract best candidates.

2.3. Empirical Literatures

In this section, the researcher discusses different studies conducted by different researchers about compensation management.

According to the study conducted by a Nigerian researcher, Ibojo B., Asabi O. and Oludele M. (2014), there is a significant relationship between compensation and employee's performance. Moreover, there is a significant relationship between compensation management and improved productivity. The researcher data analysis clearly shows the positive relationship between compensation and motivation.

Ayesha Aslam, 2015, mentioned in his study that institutes which have more appropriate compensation packages embed an affirmative effect on employee's performance. Therefore, the turnover of employees become less and they sincere with their job and stay in company.

Muhammadriaz (2014), concluded that compensation in the form of incentives, and salaries will perform an important part to enhance motivation of employee and positively impact company performance.

Based on the study made by Broad (2007), effective compensation given to employees will bring success to a company because of enhanced employee's performance. Employees get motivated and work hard when their work is recognized and when they are compensated well in terms of monetary and non- monetary values. In addition to this, creating a good and healthy employee and employer's relationship is a key factor in motivating employees to work hard.

Rahel Mulugeta (2016), Addis Ababa University, who studied the compensation practice of Ethiopia Post office, emphasized the importance of compensation system as compensation is the

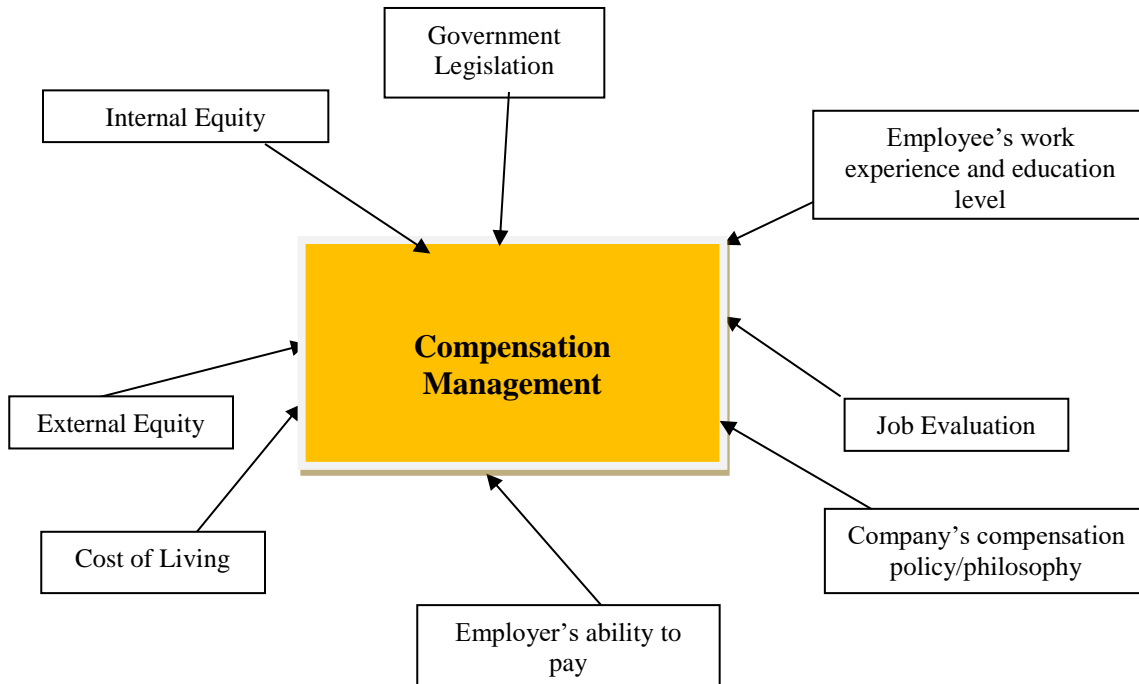
main driving force for individuals to come to work and engage themselves to perform what is stated in employment agreement with the employer. Likewise, the compensation system is important for the employer to effectively utilize its budget and human resources.

Belachew Hailemichael (2013), St. Mary's University, who studied about employee perception on the compensation practice of Management Science for Health International Organization, found out from his study that there is dissatisfaction among the employees because the employees believe that the compensation they receive is not competitive comparing to what other similar organizations pay.

Based on Abirham Tekeste (2014), Addis Ababa University, in his thesis, he discussed that employees are demotivated and feel undervalued because of lack of internal equity.

2.4. CONCEPTUAL FRAMEWORK OF COMPENSATION MANAGEMENT

From the theoretical literature reviews, the following conceptual frame work was developed for this study. This framework was developed to fit the requirement of this study. It shows how compensation management is dependent on the below mentioned determinant factors.



Source- (Hating and Wood, 2003; Casio, 2003)

According to the above figure, the relevant compensation determinant factors are internal equity, employees' education level, employees' work experience, employees' performance, company's ability to pay, company's philosophy, labor market, cost of living, job evaluation and government legislation.

Company's Ability to Pay-This is one of the most significant factor influencing employee compensation. If a company has sufficient budget to pay more than the competitive rate, then it would be able to attract a superior caliber of personnel, (Hating and Wood, 2003).

Employee Performance—It is always rewarded with pay increase and as a result it motivates the workers to do better in future, (Hating and Wood,2003).

Employee Experience—This makes a person perfect by providing valuable insights and thus rewarded also. Companies presume that experienced candidate possess leadership skills which influence the other behavior and performance. Generally, experienced candidate performs the job without need of training which is time consuming and deals with matter of cost to the company. Hence the experienced candidates demand more pay than an unexperienced candidate, (Hating and Wood, 2003).

Employee Seniority—In today's environment, seniority of employees makes a difference in payment of compensation compared to junior employees. Naturally, senior employees demand for more salary than fresh employees because of their hold on related job and its functions. Today, many companies are demanding senior employees for key positions by offering fat pay and even sometimes retired employees are offered with handsome salary for key positions which deals with multitasking in company, (Hating and Wood, 2003).

Employee Potential—Companies also pay their employees, especially young ones based on their potential.

Internal Equity -Internal equity deals with the perceived worth of a job relative to other jobs in the company. All employees compare their jobs to other jobs within the company. The management must often determine the "worth" or "value" of one job in relation other jobs for pay programs. Maintaining appropriate pay relative to the value or worth of a job achieves internal equity (Casio, 2003).

External Equity -External equity deals with the issue of market rates for jobs. An employer's goal should be to pay what is necessary to attract, retain and motivate a sufficient number of qualified employees. This requires a base pay program that pays competitively (Casio, 2003).

Individual Equity -Individual equity deals with how individuals perceive how they are being paid relative to other individuals within the company and perhaps within the same position. In simple terms, employees want to feel that the rewards they receive for and how they do their work are comparable to the rewards received by others for the same amount of effort or output, all other factors being equal (Casio, 2003).

Government Legislation- Every country has its own rules and regulation regarding employees' compensation to make sure companies pay at least minimum wage that allows employees to satisfy basic needs.

Pay Structure- The basis for most pay programs is a pay structure. Pay structure is a hierarchy of jobs with pay ranges and/or rates assigned. Pay structures are designed to ensure the greater the worth of a job, the higher the pay, grade and range. Developing a pay structure is a process with series of steps, such as job analysis, job documentation, (Hating and Wood, 2003)

Job Analysis

This involves collecting and evaluating relevant information about jobs. Any data collected should clarify the nature of the work being performed (principal or essential tasks, duties, and responsibilities), the level of the work being performed, the extent and types of knowledge, skill, mental and physical effort and requirements, and responsibility required for the work being performed ((Hating and Wood, 2003).

Job Documentation

There needs to be a formalized way to document job content. In most companies, a job description is the means used to accomplish this. Job documentation is used to evaluate job content, provide objective criteria for making pay comparisons, ensure that jobs are classified according to content as opposed to individual personalities. It should be reviewed by line management (Hating and Wood, 2003).

Development of a Job Worth Hierarchy

A job worth hierarchy is the result of job evaluation, the overall process of comparing jobs. There are 6 major methods of comparing jobs to develop the job worth hierarchy. The first three methods are "whole-job" evaluations and are non-quantitative in nature. These include ranking, classification, and slotting (Hating and Wood, 2003).

Establishment of Pay Ranges

To establish a pay structure, a company needs to set rates of pay for the jobs in the job hierarchy. Before doing this, a company needs to ask, and answer, the following questions:

- Should the company's pay level relate to the external market? Should the company be a pay leader, should it match the market or pay less than market?

- Is the company willing to pay for a job content, seniority, performance, skills, cost of labor, or some combination of all of these?
- What steps does the company need to take to ensure that pay is administered in a manner free of bias and discrimination?

If a company decides to use pay ranges, it will have to determine how many ranges to have. This will depend on the number of different levels of relative job value that are recognized by the company and the difference in pay between the highest and lowest paid jobs in the pay structure.

Creating a pay structure is not the final step in the creation of a compensation plan. A company must also decide how to administer this compensation plan. This means deciding how to pay new employees, how and when to give employees increases, how to determine the pay increase for an employee being promoted from one job to another and what influence, if any, cost of labor increases will have on the determination of pay increases for employees. This is also a challenge for the management performance Appraisal.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

The purpose of this study is to assess the practices and challenges of compensation management at Chemonics International Inc. The data for this study was collected from the employees of the company using questionnaire. The questionnaire is focused on the major compensation package determinant factors, company compensation policy, internal equity, experience and educational level of individuals, external equity, cost of living, job evaluation, and local labor law. In addition to the questionnaire, the researcher interviewed leadership team to strengthen the responses found from the questionnaire.

3.1. Research Design

The researcher used descriptive survey research design to assess the compensation practices and challenges at Chemonics International Inc. The descriptive survey study type is chosen because it helps the researcher to get firsthand accurate and reliable information from the direct users of the compensation system of the company. Also, the researcher used the information that are already available as a secondary data to complete this study.

3.2. Research Approach

Both quantitative and qualitative research approaches have been used. Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be express in terms of quantity (Kothari, 2004). The purpose of quantitative research is to gather, analyze, and measure statistical data. In a quantitative research approach, a number of objects selected and studied in order to increase the ability to draw general conclusions. Qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior (Kothari, 2004). Such an approach to research generates results either in non-quantitative form or in the form that are not subjected to rigorous quantitative analysis. Generally, the techniques of focus group interviews, projective techniques and in-depth interviews are used. In addition, the purpose of qualitative research is to gain a deeper understanding and describe a problem. The researcher, therefore, has used combined quantitative and qualitative (mixed) approaches.

3.3. Source of Data

The study is supported by both primary and secondary data. The primary data was gathered directly from the employees of the company through questionnaire and interviewing the leadership team. The response from the interview was used to strengthen the responses collected via questionnaire. In addition to the questionnaire and interview, company operational manual and other human resource related documents was used as a secondary data.

3.4. Population Sample Size and Data Collecting Method

Chemonics International Inc. has 154 local long-term employees. Among this, 65 employees are in Addis Ababa, the rest are stationed in different regional areas of the country. Census data collection method was used to collect the data. This way, the researcher was able to gather information that is very representative of the fact.

3.5. Data Collection Instruments

The data was collected using structured questionnaire, and semi structured interview method. The questionnaire was used to collect data from employees of the company while interview was used to collect data from the leadership team.

Structured questionnaire helps to gather data from large group of people with relatively low cost. It is also easy and quick to collect results with built in tools.

Semi structured interview was used, because it helps to obtain detailed information about personal feelings, perceptions, and opinions. It allows the researcher to ask more detailed questions. It is an opportunity for the researcher to clarify ambiguities.

3.6. Procedures of Data Collection

The researcher developed questionnaires and interview questions that have open ended statements. The researcher distributed the questionnaires to all employees of the company. Data gathering through questionnaire helps respondents to take time and think carefully to provide accurate responses to the questions stated in the questionnaire. Once the questionnaires were distributed, the researcher collected the response directly from the respondents to keep employees' information confidential.

Out of the total questionnaires distributed, 139 questionnaires were completed and returned. This implies that 90.25% of the questionnaires distributed were completed and collected back, which is a good representative of the population (154 employees). Based on Sekaran (2001), 30% response rate is acceptable for most studies. Since the response rate for this study is 90.25%, it is by far an acceptable rate.

To strengthen the data gathered through questionnaire, interview was conducted with the leadership team. The interview responses were used to elaborate major facts about the compensation management system of the company.

3.7. Validity and Reliability

The researcher did pilot test by distributing questionnaires to 39 employees of the company to measure the validity and reliability of the questionnaire.

The validity and the reliability of the questionnaire was checked using Cronbach's Alpha (α) measure scale.

According to Field, 2009; Cohen and Sayag, 2010, a reliability value (α) greater than 0.700 is very acceptable and according to Cronbach's (1951), a reliability value (α) greater than 0.600 is also acceptable.

Based on the Cronbach's alpha result, the reliability value for this pilot study was 0.904 for all variables. This shows that the questionnaire is appropriate for this study and it is easily understandable by the respondents. The below table shows the reliability value of this study

Table 3.1. Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .904 | 30 |

Source- Own Survey

3.8. Methods of Data Analysis

The data collected was analyzed using quantitative and qualitative data analysis techniques. The numerical data was analyzed using SPSS (statistical packages for social science) software program. In addition to this, the data was analyzed through cross-tabulation. The analytical tool was also supported using frequency and percentage techniques. The results of the study were presented using tables. The qualitative data was analyzed using content analysis; that is items was identified, categorized, and grouped then they were interpreted.

3.9. Data Coding

The researcher entered all questions from the questionnaire into Statistical Package for the Social Sciences (SPSS) software and updated all the required information for each question in the SPSS. Once the data file was checked and adjusted, the coding phase followed. Coding is “The process of assigning a numerical score or other character symbol to previously edited data” (Sigmund et al. 2010).

The coding process started from section one of the questionnaire. The first question is regarding gender of the respondents, male is coded as 1 and female is coded as 2. The next question is about marital status of the respondents, the coding is from 1 to 4. The third question is about age of the respondents, it is coded from 1 to 4. The fourth question is regarding education level of the

respondents, and it is coded from 1 to 4. The last question is about length of service in the company, this is coded from 1 to 3.

Section two of the questionnaire was used with a five-point Agree-Disagree scale. In this scale, strongly disagree is coded as 1, disagree is coded as 2, neutral is coded as 3, agree is coded as 4 and strongly agree is coded as 5.

3.10. Ethical Considerations

The researcher got permission from the company to collect relevant data for this study and the data was used only for academic purpose. Also, the researcher kept the data collected from respondents confidential by ensuring that all responses are collected directly from the respondents and by ensuring that all collected questionnaires are kept in a locked and safe place. Moreover, in the questionnaire, the researcher did not put instruction to put names of the respondents for confidentiality purpose. While collecting data through interview, the researcher made sure that the interview is conducted in a place which had privacy.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter presents, analyses, and interprets the data which were gathered for the completion of this study. During the study, questionnaire and interview were conducted to collect the necessary data from employees and leadership team respectively. The data collected through questionnaire was presented using tables with frequency, percentage and mean and grand mean scores. Also, the analysis and interpretation of the data is done under each table.

In the subsequent sections, the researcher will analyze the data collected through questionnaire and interview. The analysis will start by presenting respondents demographic characteristics and then will continue analyzing data related to the study.

4.1. Demographic Characteristics of the Respondents

In this section, the researcher will see demographic information of the respondents. Accordingly, the following demographic variables of the respondents were gathered and summarized in Table 4.1. The variables include, gender of the respondents, marital status of the respondents, age of the respondents, and their education level.

Table 4.1 Demographic Characteristics of the Respondents

| Demographic Characteristics | | Responses of the Respondents | |
|--------------------------------|-------------------------|------------------------------|--------------|
| | | Frequency | Percent |
| Gender | Male | 90 | 64.7 |
| | Female | 49 | 35.3 |
| Total | | 139 | 100.0 |
| Marital Status | Married | 104 | 74.8 |
| | Single | 35 | 25.2 |
| Total | | 139 | 100 |
| Age | 21-30 | 3 | 2.2 |
| | 31-40 | 49 | 35.3 |
| | 41-50 | 69 | 49.6 |
| | 51 and above | 18 | 12.9 |
| Total | | 139 | 100.0 |
| Education Level | Diploma | 15 | 10.8 |
| | First Degree | 79 | 56.8 |
| | Second Degree and above | 45 | 32.4 |
| Total | | 139 | 100 |
| Length of Service at Chemonics | Less than a year | 39 | 28 |
| | 1-5 | 100 | 72 |
| | 5-10 | 0 | 0 |
| | Total | | 139 |

Source: Own Survey, 2018

As shown in Table 4.1, 90 of the respondents are male and the rest 49 are female. 74.8% of the respondents are married while the rest (25.2%) are single. Also, out of the total respondents, 49.6% of them are within the age of 41-50 years. The next big respondents, 35.3% are within the age group of 31-40 years. The third biggest respondents, 12.9% are 51 years old and above.

From this presentation, the researcher understands that majority of the employees are senior and who have family responsibility. As a result, it is understood that the employees would expect attractive compensation package. According to Kressler, H.W. (2003), naturally, senior employees demand for more salary than fresh employees because of the skill and the knowledge they developed on a related job and its function.

Concerning education level of the respondents, majority of the respondents, 56.8%, hold first degree, while 32.4% have second degree and above. The rest, 10.8% of the respondents, have diploma. When it comes to the respondents' length of service at the company, 72% of them have been serving the company 1 to 5 years. While, the rest, 28% of the respondents have been with the company for a maximum of one year.

As it is presented in Table 4.1, majority (more than 50%) of the respondents have been with the company from 1 to 5 years and their education level is above first degree.

In summary, as per the above presentation, the researcher can conclude that the respondents have sufficient knowledge to accurately respond to the questionnaire and that their responses will show a good picture of the compensation system of the company.

4.2. Data Analysis Related to the Study

In this section, the researcher analyzed, and interpreted data collected under the following variables, Company's Compensation Policy, Internal Equity, Employees' Education Level & Work Experience, External Equity, Cost of Living, Job Evaluation, Local Labor Law, and Employee's Perception, using tables, showing frequency, percentage and mean value of the respondents for each question under each variable. Grand mean is also calculated for each variable.

Table 4.2 Company's Compensation Policy

| Statement | Responses | Frequency | Percent | Mean |
|--|-------------------|------------|--------------|-------------|
| The company has sufficient budget to offer attractive compensation package. | Strongly Disagree | 0 | 0 | 3.3 |
| | Disagree | 29 | 20.9 | |
| | Neutral | 40 | 28.8 | |
| | Agree | 60 | 43.2 | |
| | Strongly Agree | 10 | 7.1 | |
| | Total | 139 | 100 | |
| The company's philosophy is to provide higher compensation package to attract talented candidates. | Strongly Disagree | 7 | 5.0 | 2.8 |
| | Disagree | 60 | 43.2 | |
| | Neutral | 30 | 21.6 | |
| | Agree | 36 | 25.9 | |
| | Strongly Agree | 6 | 4.3 | |
| | Total | 139 | 100.0 | |
| The compensation policy gives emphasis to positive relationship b/n employees and employer. | Strongly Disagree | 0 | 0 | 2.7 |
| | Disagree | 77 | 55.4 | |
| | Neutral | 36 | 25.9 | |
| | Agree | 16 | 11.5 | |
| | Strongly Agree | 10 | 7.2 | |
| | Total | 139 | 100.0 | |
| The compensation policy is clearly communicated to employees. | Strongly Disagree | 0 | 0.0 | 3.6 |
| | Disagree | 15 | 10.8 | |
| | Neutral | 35 | 25.2 | |
| | Agree | 76 | 54.7 | |
| | Strongly Agree | 13 | 9.4 | |
| | Total | 139 | 100.0 | |
| The compensation policy considers all relevant compensation determinant factors. | Strongly Disagree | 5 | 3.6 | 2.7 |
| | Disagree | 64 | 46.0 | |
| | Neutral | 39 | 28.1 | |
| | Agree | 28 | 20.1 | |
| | Strongly Agree | 3 | 2.2 | |
| | Total | 139 | 100.0 | |
| | Grand Mean | | | 3.02 |

Source: Own Survey, 2018

Table 4.2 explains the responses collected regarding the company's compensation policy. Based on the data collected, 43.2%, which is majority of the respondents, agree that the company has sufficient budget to pay attractive compensation package to its employees. While, the smallest

respondents, none of them strongly disagree. This means that, more than half of the respondents believe that the company has sufficient budget to provide attractive compensation. Based on the responses of the questionnaire and the information obtained from the interview, the researcher easily identified that the company is in a good position regarding its financial capacity. According to Armstrong (2007), company's ability to pay is one of the major factors for determining employees' compensation package. In this case, Chemonics fulfills this specific determinant factor to provide attractive salaries and financial benefits.

Concerning the company's compensation philosophy of paying higher rate to attract talented individuals, the majority (43.2%) disagree while smallest group (4.3%) of the respondents strongly agree. This implies that the company does not believe in paying higher rate to attract talented individuals. Detail responses is presented in Table 4.2 Chemonics compensation policy does not support the principle of paying higher rate to attract best candidates and motivate and retain the existing ones, this implies that it would be difficult for Chemonics to be competitive and attract talented individuals. As a result, the probability of hiring skilled work force is at risk.

The researcher also identified that the majority (55.4%) disagree that the compensation policy gives emphasis to positive employee/employer relationship. While, 25.9% of the respondents are neither disagree nor agree with the statement. However, the rest, 11.5% and 7.2% of the respondents agree and strongly agree that the compensation policy gives emphasis to the positive relationship between employees and employer. This means that the company did not give emphasis to the positive relationship between employees and employer, which could create demotivation among employees and then negative effect on the growth and development of the company. According to Patnaik et.al. (2012), compensation practice helps to balance employer-employee relation by providing monetary and non-monetary benefits to employees. Also, According to Broad (2007), attractive compensation will bring enhanced employee's performance and then positive employee/employer relationship.

In relation to communicating compensation policy to the employees, 76 respondents, which is the majority, 54.7% of the total respondents, agree that the compensation policy is communicated clearly to the employees. And, 9.4% strongly agree. While, 25.2% of the respondents are not either

in agreement or disagreement with the statement about clear communication of the compensation policy to the employees. However, 10.8% of the respondents disagree that the company has communicated its compensation policy to its employees clearly. From this presentation, the researcher can tell that Chemonics did communicate its compensation policy to the employees clearly. This is a good indication that Chemonics is transparent about its policy.

Regarding the statement that the compensation policy considers all relevant determinant factors, the highest respondent, 46%, disagree while the least respondent, 2.2% strongly agree. This shows us that Chemonics does not consider all relevant compensation determinant factors to determine employee's compensation package. Also, based on the responses from the interview, Chemonics compensation policy is almost 100% dependent on individual's salary history, so there is no room to consider all relevant factors to determine compensation package. This compensation system leads to providing unfair compensation to employees as the ones with higher salary history get advantage of the policy.

According to Harrison and Liska (2008), fair compensation management system is when all relevant determinant factors are considered while setting compensation package. However, in the case of Chemonics, the researcher understands that Chemonics compensation policy lacks to consider relevant compensation determinant factors. This has its own disadvantage as the company will not be able to provide fair and equitable compensation to its employees

Based on table 4.1, the grand mean for compensation policy is 3.02. This implies that the compensation policy is moderate. This result is obtained because, according to the respondents, the company has sufficient budget for compensation package and the company clearly communicated to the employees about the compensation policy. However, the mean result regarding the philosophy of the company, its emphasis about employee- employer relationship and considering all relevant determinant factors is below moderate. This shows that the compensation policy is not favorable.

Table 4.3 Internal Equity

| Statement | Responses | Frequency | Percent | Mean |
|--|-------------------|------------|--------------|------------|
| Employees with the same type of job & qualification have similar salary. | Strongly Disagree | 17 | 12.2 | 2.5 |
| | Disagree | 69 | 49.6 | |
| | Neutral | 29 | 20.9 | |
| | Agree | 14 | 10.1 | |
| | Strongly Agree | 10 | 7.2 | |
| | Total | 139 | 100.0 | |
| Employees with higher responsibility get higher salary. | Strongly Disagree | 8 | 5.8 | 2.4 |
| | Disagree | 78 | 56.1 | |
| | Neutral | 41 | 29.5 | |
| | Agree | 9 | 6.5 | |
| | Strongly Agree | 3 | 2.2 | |
| | Total | 139 | 100.0 | |
| | Grand Mean | | | 2.4 |

Source: Own Survey, 2018

Table 4.3 illustrates respondents' reaction about internal equity. The majority (49.6%) disagree, while only 7.2% of the respondents strongly agree.

According to the responses from the questionnaire, above half of the respondents does not believe that there is internal equity. Also, as per the researcher's interview with the leadership team, practicing internal equity is a challenge because employees have different salary history and the compensation policy is solely dependent on employees' previous salaries.

According to Mathis & Jackson (2010), internal equity is fair payment among employees on the same position and qualification. If employees perceive that they are not equally treated or equally valued then they will be discouraged, demotivated. absenteeism or voluntary resignation will increase, which leads to decrease in productivity as a company.

Regarding the statement that employees with higher responsibility get higher salary, 56.1%, the highest of the total respondent, disagree while 5.8% of the respondents strongly disagree. 29.5% of the respondents neither disagree nor agree about the statement. Unfortunately, very few employees, 6.5% and 2.2% of the respondents, agree and strongly agree with the statement. In

summary, more than 50% of the respondents do not believe that Chemonics pays higher rate for higher responsibilities. This demotivates employees from taking higher responsibilities as the reward is not attractive.

According to Plunkett and Attner (1986), employee's attitude for work will be influenced by the reward they receive. If employees are assigned for higher responsibilities, they expect higher pay.

The researcher did check the grand mean result of internal equity. According to the grand mean result of table 2.4., it is 2.4. The result is below moderate. This shows that the internal equity problem is high.

Table 4.4 Experience & Education Level

| Statement | Responses | Frequency | Percent | Mean |
|--|-------------------|------------|--------------|-------------|
| The company compensation package matches with the qualification requirement set for a job. | Strongly Disagree | 17 | 12.2 | 2.6 |
| | Disagree | 50 | 36.0 | |
| | Neutral | 40 | 28.8 | |
| | Agree | 25 | 18.0 | |
| | Strongly Agree | 7 | 5.0 | |
| | Total | 139 | 100.0 | |
| The company considers work experience to determine salary | Strongly Disagree | 10 | 7.1 | 2.7 |
| | Disagree | 62 | 44.6 | |
| | Neutral | 30 | 21.6 | |
| | Agree | 29 | 20.9 | |
| | Strongly Agree | 8 | 5.8 | |
| | Total | 139 | 100.0 | |
| The company considers education level to determine salary | Strongly Disagree | 8 | 5.8 | 2.6 |
| | Disagree | 63 | 45.3 | |
| | Neutral | 39 | 28.1 | |
| | Agree | 22 | 15.8 | |
| | Strongly Agree | 7 | 5.0 | |
| | Total | 139 | 100.0 | |
| Employees' compensation matches with their responsibility and accountability | Strongly Disagree | 9 | 6.5 | 2.7 |
| | Disagree | 60 | 43.2 | |
| | Neutral | 24 | 17.3 | |
| | Agree | 46 | 33.0 | |
| | Strongly Agree | 0 | 0 | |
| | Total | 139 | 100.0 | |
| | Grand Mean | | | 2.65 |

Source: Own Survey, 2018

As it is shown in Table 4.4, 36% of the respondents disagree that the compensation package matches with the qualification requirements set for a job. While only 5% of the respondents strongly agree with the statement. The detail is found in Table 4.4

As per the data collected about whether the company considers work experience to determine salary, 44.6% and 7.1% of the respondents disagree and strongly disagree respectively, while

21.6% of the respondents neither agree nor disagree. However, the rest, 20.9% and 5.8% agree and strongly agree respectively.

Regarding whether the company considers education level to determine salary, 45.3% and 5.8% of the respondents disagree and strongly disagree respectively. The other 28.1% neither agree nor disagree. However, the rest, 15.8% and 5% agree and strongly agree respectively.

Concerning the comparison of compensation package with the amount of responsibilities and accountabilities given to employees, the majority (43.2%) reported disagreement, while the smallest respondents, which is none of the respondents strongly agree.

According to table 4.4 and the interview result, the company's compensation system does not consider employees' work experience and education level as one factor to determine compensation package. This is again because of the salary history policy.

When it comes to the mean results, it ranges from 2.6 to 2.7. The grand mean is 2.65. This implies that the current compensation management does not give much attention to employee's education level and experience while determining compensation package.

According to Brown (2003), employee's seniority, educational level and skill and his/her performance are among the determinant factors for compensation package. However, as per Chemonics compensation policy, individuals with the same level of education and work experience could earn different compensation package because of their salary history. This creates internal inequity. Also, it creates sense of worthlessness as employees believe that the time, and the energy they spent in pursuing their education and the skill and knowledge they acquired from their years of experience was not given any credit or contributed anything to their earning. Also, according to literature reviews, salaries must correspond to employees' sense of worth, based on their education and experience. Otherwise, it would be unfair to employees.

Also, the researcher identified that more than half of the respondents feel that Chemonics has not given emphasis to the level of responsibility an employee has while determining his/her salary. Table and this creates an impression on employees that they are not compensated fairly to the level

of responsibility and accountability they have at their work place. According to Trevor (2008), if employees perceive that they are not getting rewarded well for the responsibilities and accountabilities they are assigned for, they will be demotivated, and quality of work will be decreased, as a result the success of the company will suffer.

Table 4.5 External Equity

| Statement | Responses | Frequency | Percent | Mean |
|---|-------------------|------------------|----------------|-------------|
| Employee's salary is determined by demand & supply of labor market | Strongly Disagree | 10 | 7.2 | 2.6 |
| | Disagree | 58 | 41.7 | |
| | Neutral | 37 | 26.6 | |
| | Agree | 34 | 24.5 | |
| | Strongly Agree | 0 | 0 | |
| | Total | 139 | 100.0 | |
| Employee's compensation package is attractive comparing to the labor market | Strongly disagree | 10 | 7.2 | 2.7 |
| | Disagree | 70 | 50.4 | |
| | Neutral | 14 | 10 | |
| | Agree | 40 | 28.8 | |
| | Strongly Agree | 5 | 3.6 | |
| | Total | 139 | 100.0 | |
| Employee's compensation package is comparable with similar companies | Strongly disagree | 3 | 2.2 | 2.8 |
| | Disagree | 56 | 40.2 | |
| | Neutral | 40 | 28.7 | |
| | Agree | 40 | 28.7 | |
| | Strongly Agree | 0 | 0 | |
| | Total | 139 | 100.0 | |
| | Grand Mean | | | |

Source: Own Survey, 2018

Table 4.5 demonstrates responses regarding external equity. Among the total respondents, 41.7% (the highest respondents) disagree. While none of the respondents strongly agree that compensation package is determined by demand & supply of labor market. From this the researcher can conclude that Chemonics does not consider labor market as a factor to determine compensation package. This has a negative impact in recruiting talented individuals.

Regarding the compensation package being attractive, 50.4%, the highest respondents disagree that employee's compensation package is attractive comparing to the labor market. While, only

3.6% strongly agree with the statement. From this finding, the researcher can conclude that it is very challenging for the company to motivate and retain employees. According to Ibojo. B and Asabi.O (2002), it is an obvious fact that effective implementation of favorable compensation management will not only aid in stabilizing and retaining employees but also helps in reducing labor turnover within the company.

Concerning comparability of employee's compensation package with similar companies, 40.2% of the respondents (the response of the majority) disagree. However, there is no one that strongly agrees with the statement.

The mean results range from 2.6 to 2.8 and the grand mean is 2.7. This implies that the compensation package of the company is not competitive enough comparing to other similar companies. This negatively affects the recruitment process since attracting best individuals would be a challenge.

The researcher identified from the above presentation that the company's compensation package is not attractive and lower than what other similar companies offer to their employees. Also, from what the researcher understood during the interview section, Chemonics has not done market survey to identify the gap about its compensation package and did not try to adjust it to be comparable with other similar companies. This implies that the company will have a challenge to attract best candidates, motivate and retain the existing best employees, as a result its productivity will reduce. In addition to that, there could be a high probability of employees motivated to leave the company looking for a better compensation package.

To support the idea, the researcher put the following literature review, according to Heneman et al. (2000), for a company to be successful and gain competitive advantage, it must attract skilled workforce and be able to retain them by making sure they are compensated reasonably and fairly. Also, according to Armstrong (2003), companies would want to hire and retain best candidates, hence, it is important that companies preferably pay higher salary than other competitors.

Table 4.6 Cost of Living

| Statement | Responses | Frequency | Percent | Mean |
|--|-------------------|------------|--------------|------------|
| The company considers cost of living while determining compensation package. | Strongly Disagree | 16 | 11.5 | 2.3 |
| | Disagree | 80 | 57.6 | |
| | Neutral | 21 | 15.1 | |
| | Agree | 22 | 15.8 | |
| | Strongly Agree | 0 | 0 | |
| | Total | 139 | 100.0 | |
| The compensation package is sufficient to cover basic expenses, such as food, shelter, transportation. | Strongly disagree | 1 | .7 | 3.4 |
| | Disagree | 36 | 25.9 | |
| | Neutral | 29 | 20.9 | |
| | Agree | 50 | 36.0 | |
| | Strongly Agree | 23 | 16.5 | |
| | Total | 139 | 100.0 | |
| The company makes salary adjustment when there is an increase in cost of living | Strongly disagree | 12 | 8.6 | 2.3 |
| | Disagree | 77 | 55.4 | |
| | Neutral | 45 | 32.4 | |
| | Agree | 4 | 2.9 | |
| | Strongly Agree | 1 | .7 | |
| | Total | 139 | 100.0 | |
| | Grand Mean | | | 2.6 |

Source: Own Survey, 2018

Table 4.6 captures responses concerning cost of living. The majority, 57.6% disagree that the company considers cost of living while determining compensation package. While none strongly agrees with the statement. Detail responses is found from Table 4.6.

In general, the researcher understands that Chemonics does not see cost of living as one factor to determine compensation package. This has implication on employees as it would be difficult for them to cope up with the day to day change of the cost of living.

36% and 16.5% of the respondents agree and strongly agree that the compensation package is sufficient to cover basic expenses. 20.9% are neither agree nor disagree. While, the rest, 25.9% and 0.7% disagree and strongly disagree respectively.

Regarding whether the company makes salary adjustment when there is an increase in cost of living, 55.4% and 8.6% of the respondents disagree and strongly disagree respectively. The other 32.4% neither agree nor disagree. Unfortunately, very minimal respondents, 2.9% and 0.7% agree and strongly agree respectively.

The mean results of table 4.6 ranges from 2.3 to 3.4. The grand mean result is 2.6. This implies that the compensation system is not good enough since it does not give due attention to increase in cost of living and does not consider cost of living as one of the relevant determinant factors while determining compensation package to employees.

From the above presentation, the researcher can tell that the compensation package is relatively fair to cover basic expenses. However, Chemonics does not have a system to amend compensation package when there is inflation. Also, as per the interview response, because of the 5% salary increase compensation policy, Chemonics did not take into consideration the cost of living to determine compensation package to employees.

Table 4.7 Job Evaluation

| Statement | Responses | Frequency | Percent | Mean |
|--|-------------------|------------|--------------|------------|
| My job is evaluated properly and given the appropriate value and grade. | Strongly Disagree | 10 | 7.2 | 2.7 |
| | Disagree | 50 | 36.0 | |
| | Neutral | 43 | 30.9 | |
| | Agree | 31 | 22.3 | |
| | Strongly Agree | 5 | 3.6 | |
| | Total | 139 | 100.0 | |
| The company considers the importance of a job while determining compensation package to a job. | Strongly disagree | 17 | 12.2 | 2.9 |
| | Disagree | 47 | 33.8 | |
| | Neutral | 20 | 14.4 | |
| | Agree | 40 | 28.8 | |
| | Strongly Agree | 15 | 10.8 | |
| | Total | 139 | 100.0 | |
| | Grand Mean | | | 2.8 |

Source: Own Survey, 2018

Table 4.7 illustrates responses about job evaluation. 36% and 7.2% of the respondents disagree and strongly disagree respectively that jobs are evaluated properly and given the appropriate value. 30.9% of the respondents neither agree nor disagree. The rest, 22.3% and 3.6% of the respondents agree and strongly agree respectively.

Concerning the statement that the company considers the importance of a job while determining compensation package, the majority, 33.8% disagree while the minority, 10.8% strongly. The detail is found in Table 4.7.

The grand mean for job evaluation is 2.8. The score depicts that job evaluation is not done satisfactorily. This implies that it is difficult for the company to effectively determine compensation for a specific job as jobs did not get evaluated properly.

Based on the responses gathered from the questionnaire and interview, Chemonics does not have job grading and pay scale, as a result it is impossible to evaluate a job and give the appropriate value to it. However, according Armstrong (2006), job grading and pay scale are very crucial in compensation system. It helps to where to categorize jobs and determine compensation package according to the importance of a job. It is important to properly design and implement job grading and pay scale for a company to fairly determine its compensation package for a job.

Table 4.8 Government Legislation

| Statement | Responses | Frequency | Percent | Mean |
|--|-------------------|------------|--------------|-------------|
| The company considers labor law while determining compensation package. | Strongly Disagree | 0 | 0 | 4.0 |
| | Disagree | 4 | 2.8 | |
| | Neutral | 30 | 21.6 | |
| | Agree | 71 | 51.1 | |
| | Strongly Agree | 34 | 24.5 | |
| | Total | 139 | 100.0 | |
| The company pays at least minimum wage and benefits (as per labor law) to its employees. | strongly disagree | 0 | 0 | 4.5 |
| | Disagree | 0 | 0 | |
| | Neutral | 10 | 7.2 | |
| | Agree | 53 | 38.1 | |
| | Strongly Agree | 76 | 54.7 | |
| | Total | 139 | 100.0 | |
| | Grand Mean | | | 4.25 |

Source: Own Survey, 2018

Table 4.8 shows the responses whether the company follows labor law while determining compensation package. Accordingly, 51.1% and 24.5% agree and strongly agree respectively. While, 21.6% neither agree or disagree. However, the rest, 2.8% of the respondents disagree.

Also, 38.1% and 54.7% of the respondents agree and strongly agree respectively that the company pays at least a minimum wage and benefit according to labor law. 7.2% of the respondents neither agree nor disagree. There is no one that disagree or strongly disagree about the statement.

The grand mean result for following government legislation is 4.25. This shows that the company effectively follows government legislation.

From the above responses, the researcher identified that Chemonics, even though it is a foreign company it follows local labor law while determining compensation package. This is consistent with the principle that any foreign investor should abide by the rules and regulations of the base country (Berman (1983)).

Table 4.9 Employees' Perception

| Statement | Responses | Frequency | Percent | Mean | |
|--|-------------------|------------|--------------|------|------------|
| I feel that my salary is fair for the service I am providing to the company. | Strongly Disagree | 4 | 2.9 | 2.8 | |
| | Disagree | 72 | 51.8 | | |
| | Neutral | 20 | 14.4 | | |
| | Agree | 38 | 27.3 | | |
| | Strongly Agree | 5 | 3.6 | | |
| | Total | 139 | 100.0 | | |
| I am satisfied with my financial benefit package. | Strongly Disagree | 5 | 3.6 | 3.0 | |
| | Disagree | 55 | 39.6 | | |
| | Neutral | 28 | 20.1 | | |
| | Agree | 43 | 30.9 | | |
| | Strongly Agree | 8 | 5.8 | | |
| | Total | 139 | 100.0 | | |
| I feel that my annual salary increment is fair. | Strongly Disagree | 14 | 10.1 | 2.3 | |
| | Disagree | 86 | 61.9 | | |
| | Neutral | 22 | 15.8 | | |
| | Agree | 17 | 12.2 | | |
| | Strongly Agree | 0 | 0.0 | | |
| | Total | 139 | 100 | | |
| | Grand Mean | | | | 2.7 |

Source: Own Survey, 2018

Table 4.9 shows employees perception about their salaries. 51.8% and 2.9% of the respondents disagree and strongly disagree respectively that they are compensated fairly for the service they are providing. While, 14.4% of the respondents neither agree nor disagree about the fairness of their compensation package comparing to the service they provide to the company. Unfortunately, only 27.3% and 3.6% of the respondents agree and strongly agree respectively about the fairness of their compensation package comparing to the service they provide to the company.

In summary, majority of the respondents (54.7%) feel that they are undervalued. They believe that their salary is not fair comparing to what they deliver to the company. They are not satisfied with their earnings. The implication is that, as stated by Dessler, (2005), unsatisfied employees, will not be motivated to perform well and as a result, productivity of the company will decrease.

Concerning financial benefit package, the majority (39.6%) are dissatisfied with their benefit package. 3.6% of the respondents are very dissatisfied. While 20.1% of the respondents neither

agree nor disagree. However, the rest 30.9% and 5.8% of the respondents agree and strongly agree respectively.

Regarding annual salary increment, out of the total respondents, 86 employees disagree that the annual increment is fair. 10.1% of the respondents strongly disagree. While, 15.8% neither disagree nor agree. Unfortunately, no employee strongly agrees, and only 12.2% agree.

Based on the responses about employee perception, majority of the employees are not satisfied with their compensation package, which includes salary and other financial benefits. Also, Employees are dissatisfied with the percentage of the annual increment. Almost all think that the annual salary increase is too small comparing to the work being done the whole year.

When it comes to the mean results, it ranges from 2.3 to 3. And, the grand mean is 2.7. This implies that employees are not satisfied with their compensation package.

As per Robins and Coulter (2006), employees perceive what they get from a job outcome in relation to what they put into it and then compare the input vs. outcome ratio. If the ratio is one, then the compensation is fair, and the employee perceives that he/she is being compensated fairly for the service the employee is providing to the company. However, if the ration is different from one then, then it means the employee is either under rewarded or over compensated.

Reward and motivation are positively related. This implies that if rewards being offered to employees were to be altered, then there would be a corresponding change in satisfaction and work motivation while the periodic salary increments, allowance, bonuses, financial benefits and other compensations on regular and specific periods keep their morale high and makes them more motivated (Danish and Usman 2010).

CHAPTER FIVE

Summary of Findings, Conclusions and Recommendations

This chapter presents summary of key data findings, conclusions drawn from the findings and researcher's recommendations to bring an improvement in the current compensation system of the company.

5.1. Summary of the Major Findings

Based on the results of the data collected through questionnaire and interview, the researcher summarized the following findings.

The grand mean for internal equity is 2.4, which is less than average. Hence, Internal inequity is a big challenge at Chemonics. This is because salaries are determined based on individuals' salary history. A person with higher salary history relatively gets an advantage of the policy while the ones with lower salary history are victim of the compensation policy. As a result, internal inequity is a major problem in the company.

The grand mean result regarding employee's education level and work experience while determining compensation package is 2.65, which is almost average. This implies that neither the level of education nor the seniority plays a big role in determining compensation package.

The reason for this is, the compensation system is almost 100% dependent on employee's salary history.

The grand mean for external equity is 2.7, which a little bit higher than average. This implies that employee's compensation package is not competitive and attractive comparing to what other similar companies pay. Hence, the company would be in difficult situation to attract talented individuals and motivated the existing ones.

The grand mean for job evaluation is 2.8. This is a bit higher than average, which indicates that the company does not give attention to job evaluation for determining compensation package for a job. There is no job grading or salary scale. The compensation package is determined by employee's previous salary. The importance of a job has not been evaluated or given any grade. So, job evaluation does not have any contribution for determining compensation at Chemonics.

Chemonics has never done market research or cost of living analysis to make compensation package adjustments as required. This led the company not to be competitive in the labor market.

5.2. Conclusions

Compensation plays an important role in attracting, motivating, and retaining employees. Compensation is a major factor to ensure success of the company by motivating skilled man power to be productive and retain them. This gives an alert message to companies to give attention to their compensation management to be successful in achieving their goals.

Based on the findings of the study, the researcher concluded the following points:

Internal equity is not practiced in the company. Employees with the same level of responsibilities and qualifications earn different salaries because of their salary history.

Chemonics pay lower than other similar companies. So, it is difficult for Chemonics to be competitive to hire talented individuals, motivate and retain the existing best employees.

Employees feel that they are not compensated well comparing to the service they provide to the company. As a result, they are demotivated to perform better. They do not have any interest of taking higher responsibilities as the salary increment they receive in compensation of higher responsibilities are dissatisfactory.

In general, the researcher concluded that the current compensation system is not satisfactory.

5.3. Recommendations

Based on the study, the following recommendations are made.

It was noted that the current Chemonics compensation policy is based on the contract agreement signed between Chemonics and USAID. However, since the compensation policy does not attract, motivate and retain employees, it is advisable that Chemonics discusses the challenges and convince USAID to adjust the policy to include all relevant factors for determining employees' compensation package in addition to checking salary history.

It is stated in the finding that employees with the same qualification and responsibilities receive different salaries and this created dissatisfaction among employees. Hence, it is advisable that the management does internal equity analysis and make the necessary adjustment to ensure employees are compensated fairly and equally.

As per the finding, the company does not have job grading structure or pay scale. It is recommended that the company has job grading structure so that jobs are categorized according to their level of importance and then appropriate salary range is given to each job.

The current compensation practice is not competitive enough comparing to what other similar companies provide to their employees. Hence, the researcher recommends that Chemonics does market survey to check the current labor market and adjust its compensation package to be comparable and attractive for existing employees and whoever is interested to work for the company.

Regarding annual salary increment, as per the finding, it is very demotivating for employees to devote themselves for an excellent performance as the 3% maximum increment is too small to reward an employee who performed very hard the whole year. So, the researcher recommends that Chemonics does a market assessment to identify what percentage of annual salary increase is used in other similar companies so that it can adjust its annual performance increment to a reasonable percentage.

5.4. Limitation of the Study

This study has the following limitations:

1. This study focused only at Chemonics International Inc operating in Ethiopia. It did not see the compensation practices and challenges of Chemonics operating in other countries.
2. Due to time limitation, this study did not see the compensation practices of other similar companies for comparison purpose.

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Appendix I Questionnaire

Chemonics International Inc. Compensation Practices and Challenges Assessment Questionnaire St. Mary's University School of Graduate Studies MBA Program

Dear Respondent,

This questionnaire is designed to collect information for a study entitled "Compensation Practices and Challenges at Chemonics International Inc.". The successful completion of this study depends on your genuine responses. Therefore, I respectfully request you to provide responses to all questions/statements below. Your responses will be treated very confidential and will be used only for academic purpose.

Thanks in advance for your cooperation!!

Section One: Demographic Variables of the Respondents

Please put an "X" mark in the space provided below.

1. Gender Male Female
2. Marital Status
- Single Married Divorced Widowed
3. Age Category
- 21 to 30 years 31 to 40 years
- 41 to 50 years 51 & above years of age
4. Your education level
-

Certificate

Diploma

First Degree

Second Degree & above

6. Length of service at Chemonics International Inc.

Less than a year

1 to 5 years

5 to 10 years

Section Two: Respondents opinion regarding current compensation management system of Chemonics International Inc.

State your level of agreement for the following statements using 1 to 5 rating scale.

1= Strongly Disagree, 2=Disagree, 3= Neutral, 4=Agree, 5= Strongly Agree

| Sr # | Statement | Strongly Agree (5) | Agree (4) | Neutral (3) | Disagree (2) | Strongly Disagree (1) |
|------|--|--------------------|-----------|-------------|--------------|-----------------------|
| | Company Compensation Policy | | | | | |
| 1 | The company has sufficient budget to provide competitive compensation package to its employees. | | | | | |
| 2 | The company philosophy is to provide higher compensation package to attract and retain talented individuals. | | | | | |
| 3 | The policy gives emphasis to the positive relationship between employers and employees. | | | | | |
| 4 | The company has clearly communicated its policy to all employees. | | | | | |
| 5 | The company's compensation policy considers all the relevant compensation determinant factors, such as company's financial capacity, labor market. | | | | | |
| | Internal Equity | | | | | |
| 1 | Employees who have the same type of job and qualification within the company earn similar salary. | | | | | |
| 2 | Employees with higher responsibility get higher salary. | | | | | |

| | | | | | | |
|---|--|--|--|--|--|--|
| | Experience and Education Level | | | | | |
| 1 | The compensation package matches with the qualification requirement set for a job. | | | | | |
| 2 | The company considers employee's years of relevant experience while determining salary. | | | | | |
| 3 | The company considers employee's education level while determining salary. | | | | | |
| 4 | My compensation matches with the level of responsibility and accountability I have. | | | | | |
| | External Equity | | | | | |
| 1 | Employee's salary is determined based on the demand and supply of labor in the market. | | | | | |
| 2 | Employee's compensation package is attractive comparing to the labor market rate. | | | | | |
| 3 | Employee's compensation package is similar with the compensation package paid by another company for the same type of job and qualification. | | | | | |
| | Cost of Living | | | | | |
| 1 | The company considers cost of living while determining compensation package. | | | | | |
| 2 | The compensation I receive is enough to cover my basic expenses such as housing, food, transportation, healthcare, and children's education fee. | | | | | |
| 3 | The company makes salary adjustment when there is an increase in cost of living. | | | | | |
| | Job Evaluation | | | | | |
| 1 | My job is evaluated properly and given the appropriate value and grade. | | | | | |
| 2 | The company considers the relative importance of a job to the achievement of the company's goal while | | | | | |

| | | | | | | |
|---|--|--|--|--|--|--|
| | determining compensation package to a job. | | | | | |
| | Local Government Legislation | | | | | |
| 1 | The company compensation system considers labor law while determining salaries and benefits. | | | | | |
| 2 | The company provides at least the minimum wage and financial benefits to its employees. | | | | | |
| | Employee Perception | | | | | |
| 1 | I feel that my salary is fair for the service I am providing to the company | | | | | |
| 2 | I am satisfied with my financial benefit package. | | | | | |
| 3 | I feel that my annual salary increment is fair. | | | | | |

Appendix II

Interview Questions

1. To what extent is the financial capacity of the company sufficient in relation to employees' compensation package?
2. What factors were considered while developing the company's compensation policy?
3. To what extent does the company policy consider labor market to determine compensation package?
4. Does Chemonics have job grading and pay scale? If so, to what extent do you think the job grading and pay scale is fair to the employees?
5. How do you feel about employees' perception about the compensation system at the company?
6. To what extent do you think the compensation package attracts new employees and motivate and retain the existing ones?
7. What are the basis for annual salary increment? Is the annual salary increment fair to all employees?
8. What are the challenges of the compensation system at Chemonics International Inc.?

DECLARATION

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

Name

St. Mary's University, Addis Ababa

Signature

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

Signature

St. Mary's University, Addis Ababa

May 2018