



SCHOOL OF GRADUATES STUDIES

AN ASSESMENET OF PAY SYSTEM AND BENEFITS PRACTICE

AT ST.MARY'S UNIVERSITY

BY

SERAWIT KEBEDE

MAY, 2018

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST.MARYS UNVERSITY SCHOOL OF GRADUATE STUDIES
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**ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES FACULTY OF
BUSINESS**

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ABSTRACT

This study assesses employee pay system and benefit practice at St. Mary's University. Seventy two administrative employees from three divisions namely Head office, Distance education and Undergraduate program participated in this study. Data was collected using a set of questionnaires which consist five parts including demographic information of respondents, liker's scale perception items, and additional open ended questions for which 82.3% of respondents completed the questionnaires. Data analysis was done using descriptive statistics using SPSS ver.20:0 frequency, percentage, mean and standard deviation rating were used to present the perception of the respondents. The finding showed that employees perceived the current pay system and benefit practice to be inadequate, employees did not participate in pay and benefit decision making, the pay and benefit system is not periodically updated and communicated to employees. Moreover, employees are not evaluated based on their performance .The University should focus on changing the current pay system and benefit, ensure that the packages are periodically reviewed, and develop a reward system based on performance and qualification.

Key words: Pay system, Benefit practice, employee perception, employee satisfaction, employee benefit, employee compensation.

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This study assesses employee pay system and benefit practice at St. Mary's University. Seventy two administrative employees from three divisions namely Head office, Distance education and Undergraduate program participated in this study. Data was collected using a set of questionnaires which consist five parts including demographic information of respondents, liker's scale perception items, and additional open ended questions for which 82.3% of respondents completed the questionnaires. Data analysis was done using descriptive statistics using SPSS ver.20:0 frequency, percentage, mean and standard deviation rating were used to present the perception of the respondents. The finding showed that employees perceived the current pay system and benefit practice to be inadequate, employees did not participate in pay and benefit decision making, the pay and benefit system is not periodically updated and communicated to employees. Moreover, employees are not evaluated based on their performance .The University should focus on changing the current pay system and benefit, ensure that the packages are periodically reviewed, and develop a reward system based on performance and qualification.

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The core function in human resource management includes compensation management, and it is also the focus problem which brings the argument and conflict between employers and employees.

Compensation packages entail some basic features that tend to make employees satisfied on their jobs amongst which includes salaries, bonuses, incentives, allowances, promotion, recognition. All these have significant impact on employees' performance.

However, to avoid wrong perception and argument by the employees, compensation system must be clearly communicated to employees with job measurement which will drive the much needed performance of the employees.

Compensation is a payment to an employee in return to their contribution to the organization that he/she works for. Furthermore, Dessler (2004:302) stated that compensation is basic to all forms of payment or reward to employee in exchange for work performed. Compensation is a subject that includes employees and employers

- To employers, it is potentially a powerful tool to influence employees' behavior and attitude. The task facing the employers is to allocate this reward in a way that optimizes the returns in employee motivation and enthusiastically join the organization, to perform effectively, stay and work regularly to the employer's satisfaction(Henderson,1985:3)
- To employees it is a reward that is a source of both economic income and psychological improve/support. Compensation plays a great role in creating a favorable relationship between workers and management and initiates employees to work together on the job; usually compensation can be performed in the form of wage, salary. And/or benefit

Compensation is one of the key drivers of motivation because humans are naturally inclined to perform better when they perceive that they will get sufficient payment or returns from their efforts. While people apply effort for different reasons, today's competitive economic environment coupled with the consumer society has made compensation arguably the most important motivation factor. Most people are motivated by money at least for their basic needs and wants.

Compensation in any form is the most obvious extrinsic reward; it provides the carrot (motivational tool) that most people want. (Armstrong,2008). DeNisi and Griffins (2008) defines compensation as the set of rewards that organizations provide to individuals in return for their willingness to perform various jobs and tasks within the organization.

1.2. Statement of the problem

Although compensation is arguably one of the key drivers of motivation and one of the most studied areas, doubts have been casted by Herzberg et al. (1957) and Armstrong (2008) on the effectiveness of compensation. The effects of compensation on motivation vary from organization to organization.

Employee motivation through compensation can be in several forms including salary raises, performance bonuses, commissions, profit sharing and other extra benefits such as vacations, cars and other tangible items that are used as rewards. These compensation systems can be categorized as direct financial payment and indirect financial payments (Dessler, 2004).

It is not clear what methods were used to determine employees pay system and benefit at St. Mary's University or whether there is a system that is in place to identify employees' motivation level. In addition, the employee's satisfaction level with the current compensation scheme has not been documented. Therefore, this study is required to address such gaps by assessing St. Mary's University pay system and benefit practice.

1.3. Research Questions

- ❖ To what extent are employees in SMU Satisfied with the existing benefits?
- ❖ What are the problems associated with pay system and benefit practice at St. Mary's University?
- ❖ How does the pay system relate to employee performance at SMU?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study is to assess Pay System and benefit practice at SMU.

1.4.2. Specific Objectives

The specific objectives of the study were to:

- ❖ Explore whether employees of the University are satisfied with the existing benefit or not.
- ❖ Examine the relationship between pay systems and benefit practice with employee performance.

1.5. Significance of the Study

At the Completion of the Study, this paper will be providing the following importance:

1. It helps the University to examine its current compensation system gap if any and make the necessary improvement based on the information obtained;
2. It enable to find out that the available compensation scheme is well organized and has shown performance improvement, it encourages the University to continue and strengthen the current system;
3. Provide relevant information for researchers who are interested in conducting research in related areas.

1.6. Organization of the Study

This research work is presented by five major chapters that constitute sub chapters under each. The first chapter incorporates background of the study, statement of the problem, objective of the study, the research question, and significance of the study. The second chapter has presents different reviewed literature that support the research conducted. The third chapter describes about the methodology used by the researcher. Chapter four discuss about data presentation, analysis, and interpretation, data gathered from employees through questionnaire and interview is analyzed and presented with the help of tables and description is made under each table. In the last chapter, chapter five, Summary of findings, conclusion, and recommendation given by the researcher.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter reviews significant literature of current knowledge including substantive findings, theoretical and methodological contributions to the area of employee's compensation practice.

2.1.Theoretical literature

2.1.1 An Overview of Compensation

Compensation is the human resource management function that deals with every type of reward individuals receive in exchange for performing organizational tasks (Ivancevich, 2003:297).

As Dessler (2003:302); stated that employee compensation refers to all forms of pay or rewards going to employee and arising from their employment and it has two main components; direct financial payment(in the form of wage, salary, incentive commissions and bonuses) and indirect payments (in the form of financial benefit, like employer paid insurance and paid vacations). In turn, there are basically two ways to make direct financial payments to employees; an increment on time and performance basis.

Time based pay still popular; blue collar workers get hourly or daily wage, and others like managers or web designers, tend to be paid salaries on weekly basis, month or year. Performance pay ties compensation to the amount of production (or number of pieces) the worker produces, and is popular as an incentive plan.

Moreover; Marthis and Jackson (2004:103) highlighted that compensation system in organization must be linked to organizational objectives and strategies. But compensation also requires balancing the interest and costs of the employer with expectation of employees. Basically, a compensation program in organization has four objectives

1. Legal compliance with all appropriate laws and regulation.
2. Cost effectiveness for the organization.

3. Internal, external and individual equity for employees.
4. Performance enhancement for the organization.

2.1.2 Objective of Compensation

The objective of the compensation function is to create a system of rewards that is equitable to the employer and employee alike. The desired outcome is an employee who is attracted to the work and motivated to do a good job for the employee.

Ivancevich (2003:297) mentioned that Compensation policies have seven criteria for effectiveness:

1. Adequate: Minimal government, union and managerial levels should be met.
2. Equitable: Each person should be paid fairly, in line with his or her effort, abilities and training.
3. Balanced: Pay benefits and others rewards should provide areas on capable total reward package.
4. Cost effective: Pay should not be excessive, considering what the organization can afford to pay.
5. Secure: Pay should be enough to help an employee feel secure and aid him or her in satisfying basic needs.
6. Incentive providing: Pay should motivate effective and productivity work.
7. Acceptable to the employee: The employee should understand the pay system and feel that it creates an enabling environment for the system of the enterprise and him or herself.

2.1.3. Compensation Tools

Gomez and etal (2009:351) stated that there are two broad categories of compensation tools: job based approaches and skill based approaches. The typical job –based compensation plan has three components:

- ❖ To achieve internal equity, firms use job evaluation to assess the relative value of jobs through the firms.

- ❖ To achieve external equity, they use salary data as bench mark or jobs obtained from market sources to set a pay policy. To achieve individual equity, they use a combination of experience, seniority and performance to establish on individual equity, position within the pay range for his/her job.

On the other hand, Armstrong (2010:33) describes that the relationship of Contingent pay for performance, contribution, and competency or skill.

Contingent pay is concerned with answering two fundamental reward management questions :) 1) what do we value? And 2) what are we prepared to pay for? Individual contingent pay schemes provide additional financial rewards related to levels of performance, contribution, competence or skill. Contingent pay may be related to team or organizational performance (profit sharing, gain sharing or employee share schemes).

Individual contingent scheme payments may be added to base pay (i.e. ‘consolidated’). Alternatively or additionally they may be paid as cash bonuses. This is described as ‘variable pay’ and the payments are not consolidated. The main contingent pay schemes for individuals are:

- performance-related pay, which provides individuals with financial rewards in the form of increases to basic pay or cash bonuses that are linked to an assessment of performance, usually in relation to agreed objectives;
- contribution-related pay, which provides financial rewards related to both outputs(Performance) and inputs (competence);
- competency-related pay, which rewards people by reference to the level of competence they demonstrate in carrying out their roles;
- Skill-based pay, which provides employees with a direct link between their pay progression and the skills they have acquired and use effectively.

2.1.4. Compensation Responsibility

Compensation costs represent significant expenditures in most organizations. For instance at one large hotel, employee payroll and benefit expenditures comprise about 60% of all costs. Although actual compensation costs can be easily calculated the value derived by employers and employees prove more difficult to identify. To administer these expenditure wisely, human resources specialists and other managers must work together. Typically human resource division or unit is responsible to implement the compensation scheme in question as well as develop and administer the compensation system, conduct job evaluation and wage survey, develop wage salary structures and policies. Managers attempt to match performance and rewards recommended pay rates and increase based on guidelines from human resource unit. Evaluate employee performance for compensation purposes. (Mathis and Jackson, 2004: 373).

2.1.5. The Nature of Compensation

Compensation is an important factor that affects why people choose to work at one organization and why employers must be reasonably competitive with several types of compensation schemes in order to hire, keep, and reward performance of individual in the organization. Tangible components of compensation program are of two general types direct and indirect. Both pay and variable pay are the most common forms of direct compensation, indirect compensation commonly consist of employee benefit (Mathis and Jackson, 2004:103).

2.1.6. Types of compensation

According to Ivancevich (2004:297-298) compensation is the human resources management function that deals with every type of reward individuals receive in exchange for performing organizational tasks. Especially in today's service based economy it is one of the major method used to attract employees and motivate them for more effective performance. It is this also significant component of the economy.

Moreover, both Ivancevich (2004:297) and Cole (2001:302) agree that compensation has two main components. The first one is direct financial payments which consist of

the pay an employee receives in the form of wage, salaries, bonuses or commissions, and there are two ways to make direct financial payment such as on increment of time and on performance. On the other hand the second compensation is indirect financial payment or benefits which consist of all financial rewards that are not included in direct financial payment such as employer paid insurance and vacations. However Saiyadin (2003:331) seems to have different idea, according to him compensation package consist of two kinds of payment, namely during employment and after employment .while during employment package is basically consisting of four components such as basic salary, allowance, bonus and perquisites. Compensation after employments is a payment an employee receives once he or she left the organization either Voluntarily or on super annulations and can continue to draw certain kinds of benefits from it such as pension, gratuity and so on, overall the above authors' idea are somehow similar, the only difference is that Ivancevich and Cole classified compensation based on its relation with the job. while Saiyadin classified compensation based on the timing it will be provided to employees. Due to this, the student researcher suggests that compensation can be classified in both ways dependently or interdependently.

2.1.7. Compensation Components

The components of compensation and the interrelationships between them are described below.

2.1.7.1. Business Strategy

The starting point of the reward system is the business strategy of the organization. This identifies the business drivers and sets out the business goals. The drivers are unique to any organization but will often include items such as high performance, profitability, productivity, Innovation, customer service, quality, price/cost leadership and the need to satisfy stakeholders (Armstrong, 2010: 29).

2.1.7.2. Base pay or Pay

The base rate is the amount of pay (the fixed salary or wage) that constitutes the rate for the job. It may be varied according to the grade of the job or, for shop floor workers,

the level of skill required. Base pay will be influenced by internal and external relativities (going rates). The internal relativities may be measured by some form of job evaluation. External relativities are assessed by tracking market rates. Alternatively, levels of pay may be agreed through collective bargaining with trade unions or by reaching individual agreements. Base pay management is achieved through grade and pay structures.

Base pay may be expressed as an annual, weekly or hourly rate. The latter is sometimes called a time rate system of payment. The base rate may be adjusted to reflect increases in the cost living or market rates by the organization unilaterally or by agreement with a trade union. Pay that is related entirely to the value of the job rather than the person is called job-based pay. Where the base rate can be enhanced by payments related to a person's level of competency or Skill it is known as person-based pay. The latter term can be extended to include contingent Pay which rewards people for their performance or contribution. (Armstrong, 2010:30).

2.1.7.3. Job Evaluation

Job evaluation is a systematic process for defining the relative worth or size of jobs within an organization in order to establish internal relativities and provide the basis for designing an equitable grade structure, grading jobs in the structure and managing relativities. It does not determine the level of pay directly. Job evaluation can be analytical or non-analytical. It is based

On the analysis of jobs or roles, which leads to the production of job descriptions or role profiles? (Armstrong, 2010:31).

2.1.7.4. Service-related Pay

Armstrong (2010:33) stated that Service-related pay provides fixed increments, which are usually paid annually to people on the basis of continued service either in a job or a grade in a

pay spine structure. Increments may be withheld for unacceptable performance (although this is rare) and some structures have a 'merit bar' that limits increments

unless a defined level of 'Merit' has been achieved. This is the traditional form of contingent pay and is still common in the public and voluntary sectors and in education and the health service, although it has largely been abandoned in the private sector. Service-related pay is supported by many unions because they perceive it as being fair – everyone is treated equally. It is felt that linking pay to time in the job rather than performance or competence avoids the partial and ill-informed judgments about people that managers are prone to make. Some people believe that the principle of rewarding people for loyalty through continued service is a good one. It is also easy to manage; in fact, it does not need to be managed at all.

Armstrong (2010:33) highlighted the arguments against service-related pay:

- It is inequitable in the sense that an equal allocation of pay increases according to service does not recognize the fact that some people will be contributing more than others and should be rewarded accordingly.
- It does not encourage good performance; indeed, it rewards poor performance as much as good.
- It is based on the assumption that performance improves with experience, but this is not automatically the case.
- It can be expensive – everyone may drift to the top of the scale, especially in times of low staff turnover, but the cost of their pay is not justified by the added value they provide.

The arguments against service-related pay have convinced most businesses, although some are concerned about managing any other form of contingent-pay schemes. They may also have to face strong resistance from their unions and can be unsure of what exit strategy they should adopt if they want to change. They may therefore stick with the status quo.

2.1.7.5. Pensions and Employee Benefits

Pensions and employee benefits such as sick pay, insurance cover, company cars and a number of other 'perks' comprise elements of remuneration additional to the various

forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual Holidays ‘Flexible’ benefit schemes allow employees to decide on the make-up of their benefits package within certain limits (Armstrong, 2010:34)

2.1.7.6. Allowances

Allowances are paid in addition to basic pay for special circumstances or features of employment (working unsocial hours). They may be determined unilaterally by the organization but they are often the subject of negotiation. The main types of allowances are location allowances; overtime payments, shift payments, working conditions allowances, and stand-by or call-out allowances (made to those who have to be available to come in to work when required). (Armstrong, 2010: 34).

2.1.8. Challenges of reward system.

As any function of human resource management, reward management practice has also some challenges. These challenges according to Schuler (1995:444-445) are as follows. The first one is a difficulty in specifying and measuring performance which is caused by:

- Change in the nature of work
- Multidimensional nature of work
- Technological developments
- Lack of supervisory training and
- Managers value system

While the second one is problem in identifying valued rewards caused by

- Choice of rewards
- Utilizing rewards of in sufficient size or magnitude
- Poor timing of rewards and finally fast but not least

Difficulties in thinking reward to performance due to failure to

- Create appropriate contingencies between reward and performance
- Create in appropriate contingencies
- Notify intended contingency and employee opposition

2.1.9. Impact of Reward on Individual Performance

Armstrong (2010:112) stated that extrinsic rewards can be used as motivators to improve performance, although they are not necessarily effective in this role. They can also convey the message that performance is important and help to focus on specific aspects of performance that need to be improved. People can be motivated to achieve certain goals and will be satisfied if they achieve these goals through improved performance. They may be even more satisfied if they are then rewarded by extrinsic recognition or an intrinsic sense of achievement. This suggests that performance improvements can be achieved by giving people the opportunity to perform through job and work-system design and leadership, ensuring that they have the knowledge and skill required to perform, and rewarding them by financial or non-financial means when they do perform.

2.1.10. Managing Individual Performance

Armstrong (2010:118) highlighted that Individual performance is developed through performance management systems, which play an important part in performance and reward management. They provide the framework for improving performance through the agreement of performance expectations and the formulation of performance development plans. As vehicles for feedback and recognition they have a major role in a performance and reward system. They inform contingent pay decisions.

2.1.11. Performance Management Strategy

Performance management strategy is based on the resource-based view that it is the strategic development of the organization's rare, hard to imitate and hard to substitute human resources that produces its unique character and creates competitive advantage. The strategic goal will be to 'create firms which are more intelligent and flexible than their competitors' (Boxall,1996) by developing more talented staff and by extending their skills base, and this is exactly what performance management aims to do (Armstrong, 2010:119).

2.1.12. The Purpose of Performance Management

The purpose of performance management is to get better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. It is a process for establishing shared understanding about what is to be achieved, and an approach to managing and developing people in a way that increases the probability that it will be achieved in the short and longer term. It is owned and driven by line management. Performance management enhances the engagement of people by providing the foundation upon which many non-financial motivation approaches can be built (Armstrong, 2010:119).

2.1.13. Overcoming challenges of reward system.

Shuler (1995:444-445) did not only mention the challenges but also the solution on how to overcome the challenges, including how organizations can design effective reward system by:

- Developing techniques for spacing desirable behaviors and clarifying the objective of the organization.
- Utilizing evaluation procedure that recognize the utility dimensional nature of performance
- Clearly defining long term consequence of performance contingent and non contingent reward practices
- Making managers aware of the effects of rewards in employee performance and satisfaction.
- Training managers to establish appropriate contingencies between reward and performance.
- Using information obtained from appraisal of employees performance as basis for reward allocation decisions.

Even though, these are some series issues that organization should give due attention, it only address what should be done from the management side. But more importantly,

Casicio (2003:434) pointed out that effective reward systems must be simple, specific, attainable and measurable.

2.1.14. The Task of Developing and Implementing Reward Systems

The task of development and implementation is a critical one because of the fast-moving nature of the reward scene. It is necessary to constantly review the system to ensure that it is meeting business needs and this frequently means innovating new or fundamentally revised processes.

Business and HR strategies change and the reward strategy must change accordingly. This applies to all the main areas of reward management, namely: job evaluation, pay structures, contingent pay and pensions and benefits. Job evaluation schemes decay in use and do not fit new organizational arrangements, pay structures are no longer appropriate, contingent pay schemes do not deliver what was expected from them and pension and benefit schemes have to be changed to meet new legal and fiscal requirements, to cater for different employee needs or to make them more affordable. The task starts with objective setting and continues with processes of analysis, diagnosis, evaluation of alternatives and selection of the most appropriate one, design or development, implementation and evaluation. (Armstrong, 2010:408)

2.1.15. The Approach to Development and Implementation

No initiative should be planned without making a business case for it. The extent to which will add value rather than create work should be assessed. A value-added approach means that processes and schemes will not be introduced or updated without assessing the effect they are expected to have on the engagement and performance of people, on the ability of the organization to recruit and keep the right sort of employees and, ultimately, on the results achieved by the organization. Bearing this in mind, and against the background of a preliminary statement of objectives, the approach to the development and implementation of reward systems should be evidence based, realistic about risks, costs and what can be achieved, focused on how it will be put into effect,

and positive about involving stakeholders and communicating information to them on proposals and plans and how they will be affected by them. (Armstrong, 2010:410).

2.1.16. Evidence-based Development

Evidence-based development means considering what needs to be done by reference to an analysis of the internal and external context and the strengths and weaknesses of the present reward arrangements, benchmarking good practice elsewhere and consulting relevant research.

Armstrong, (2010:410), Based on an assessment of requirements poses such questions as:

- What are the aims of our reward practices? What do we want to achieve with them?
- What would successful reward practices look like? How would we know? What criteria and measures can we use to assess their effectiveness?
- What evidence do we have to assess the current level of effectiveness and to highlight the strongest and weakest aspects of the current rewards package?
- What information can we gather to inform that review and how do we relate financial and non-financial information in making any assessment?
- What should we do in response to these findings?
- What level and type of change is appropriate?
- What are the objectives of the change in such terms as higher levels of engagement, and how will we know they have been achieved?
- How do we pilot, test and implement any changes to maximize their chances of success?
- How do we ensure continuing success in the future, and how should rewards respond to further internal and external changes and development.

2.1.16.1. Cost

A new or substantially revised reward system is an investment. But the costs of that investment need to be assessed to answer the question ‘is it affordable?’ and thus provide the basis for deciding whether or not the investment is worthwhile and indicate what can be done to contain costs, and how costs will be controlled during the project. (Armstrong, 2010:411).

2.1.16.2. Planning for Implementation

Armstrong, (2010:413) stated that and supported the research conducted by Brown and Purcell (2007) figure’s Barriers to the implementation of reward changes. It is normally assumed that the processes of development and implementation are sequential: you develop something and then you implement it. This is a mistake. If constant thought is not given during and throughout the development of a reward system on how it will work and how it will be made to work, then the implementation will fail. The two go together. Implementation plans have to take account of the barriers to reward changes revealed in the research conducted by Brown and Purcell, especially those concerned with the attitudes of line managers and staff, communications and line managers’ skills.

- the use of pilot tests to identify any operational problems;
- the possibility of phasing the introduction of the changed system so that each step is Manageable in the time available;
- setting up a projects team with an experienced project manager;
- developing an involvement strategy – deciding who should be involved in the development programmed and how they should be involved;
- Formulating a communications strategy.
- Preparing a plan for briefing and training line managers.
- preparing a detailed project plan setting out objectives, timings and cost budgets for each phase and indicating how the project will be controlled;

2.1.16.3. Involvement

Involve stakeholders from the word go – bottom up as well as top down. It is vital to get the contribution of line managers, staff and employee representatives as well as senior management at all stages of the project. Use attitude surveys, focus groups and workshops to obtain views, explore issues and exchange ideas. The aim is to achieve ownership and acceptance of the outcome of the project.(Armstrong, 2010:413)

2.1.16.4. Communication

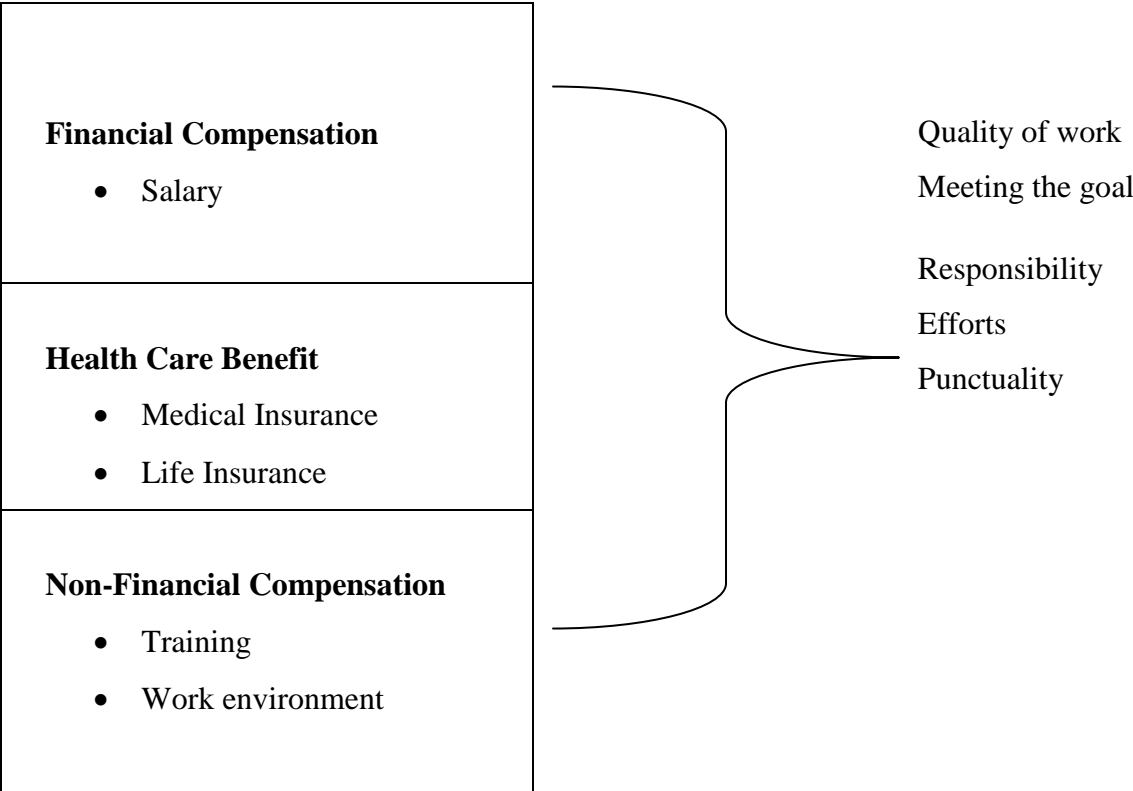
Effective communications are important because reward systems can be complex and difficult to understand and therefore need to be explained carefully. Rewards are emotive issues. So many personal needs are tied up in them – for security, recognition, status and so on – that changes to them almost inevitably generate emotional and often hostile responses from at least some employees. People can be suspicious about the reasons for change and feel that it will affect them adversely. It may be difficult to overcome these fears but a sustained attempt must be made to do so (Armstrong, 2010:413).

2.2. Empirical literature

Compensation and reward is an important feature of Human Resources Management. The compensation system that an organization offers to its employees plays an important role in determining the commitment levels of employees and their retention. According to Willis (2001), compensation is one of the crucial issues as far as attracting and keeping talent in organizations is concerned. The fundamental hypothesis is that money influences employee behavior through shaping their attitudes (Parker & Wright, 2001).Therefore wages influence the attraction and retention of the workforce (Parker & Wright, 2001).

Therefore, an organization's compensation Plan should be able to attract the right quality of employees, retain suitable employees and also to maintain equity amongst the employees.

2.3. Conceptual Frame Work



CHAPTER THREE

RESEARCH METHODOLOGY

This chapter discuss about the methodology of the study, it explain the research design, the population and sample size, the sampling design, the implement and the process of data collection and finally the chapter concludes by describing the statistical procedures used to analyze the data so as to complete the objective of the study.

3.1 Research Design

To accomplish the above objectives and to seek answer to the research question the student researcher used descriptive types of research method since it helps in describing and determining the Employee Compensation and benefit practices of St. Mary's University. Descriptive type of research method is used in determining the frequency with which an event could take place .The student researcher also used both the quantitative and qualitative measurement methods. The qualitative measurement helped to interpret ideas which were gathered through interview and open ended questions while, the quantitative measurement method helps to interpret ideas which were gathered through close ended questions.

3.2. Population and Sample Size and Sampling Techniques

3.2.1 Population

The population of this study consisted permanent Administrative employees of St. Mary's University.

3.2.2. Sample Size

In order to determine the sample size the following formula has been used.

Where n= sample size N=Population e= margin of error

$$n= N/1+N (e)^2$$

$$n=258/1+258(0.05)^2$$

$$n=65$$

Considering some defaulters (non-respondents and erroneous questionnaires) 10% rate is taken therefore the sample size= 72

3.2.2.1 Sampling Frame

The sampling frame for this study was a list of all administrative employees of St .Mary's University, a total of 258 employees as provided by the Human resources office of the University.

3.2.3. Sampling Techniques

The population of the study comprised employees and managers working in SMU. The total numbers of administrative employees are 258. To make the study meaningful employees and managers working in SMU are considered as target population of the study. To contact informants' disproportionate stratified systematic sampling technique had been used .The reason that the technique is preferred is that it allows to select respondents randomly from each stratum without bias to a single stratum and hence there will be a reasonable distribution from all categories of workers.

3.3. Data Collection Methods

The student researcher used both primary and secondary data. The primary data were collected from managers and employees. The secondary data was obtained from the company documentation center, relevant books, company manual, profile and magazine.

3.4. Data collection instruments

The researcher used questionnaires and interviews as the instruments for collecting data from the sampled population. These two instruments were used to help the researcher provide explanation for some of the responses obtained from the respondents. Interviewing was also used as a support instrument to the questionnaires.

3.5. Data Analysis Methods

The questionnaires were collected and sorted to eliminate those with errors and the incomplete ones. Data was then analyzed using descriptive statistics like percentages and frequencies. Descriptive statistics are methods used for describing the basic features of the data in a study. The tools used for the analysis were Microsoft excel and statistical package for social science (SPSS)

3.6. Ethical Consideration

The nature of the research does not require ethical consideration. However, name of respondents have been kept secret to avoid unnecessary mis-understandings between management and other employees.

CHAPTER FOUR

DATA ANALYSES AND INTERPRETATION

This chapter mainly consists of two parts, which are the general characteristics of the respondent and analysis of the findings of the study. The study tries to investigate the employee's pay system and benefit practices at St. Mary's University.

To collect respondent's data for the study the researcher distributed 72 questionnaires in the head office, undergraduate program, distance education and the response rate for this research was about 82.3% and the researcher interviewed human resource managers and department heads of the University and the result is analyzed as follows:

Table-4.1. Demographic profile of the Respondents

No.	Item	Distribution	
		Frequency	Percentage
1	Gender		
	Male	40	66.7%
	Female	20	33.3%
	Total	60	100%
2	Age		
	20-30	28	46.7%
	31-40	24	40%
	41-50	3	5%
	51-60	5	8.3%
	Total	60	100%
3	Length of service		
	<1 year	2	3.3%
	1-5	17	28.3%
	5-10	26	43.3%

	>10 years	15	25%
	Total	60	100%
4	Educational Level		
	Diploma	11	18.3%
	BA	35	58.3%
	MA/MSC	13	21.7%
	PHD & Above	1	1.7%
	Total	60	100%

As indicate in table-1 of item 1 regarding gender composition from the total respondent of the population male respondents was 40(66.7%) while the female were 20(33.3%). Although this is not the focus of this study it is worth mentioning that the majority of the staff members are male as is the case in many institutions which may call for attention on the issue.

In case of age 28(46.7%) of respondents between the age group of (20-30), 24(40%) of respondents between the age group of 31-40), 3(5%) and 5(8.3%) of respondents between the age group of (41-50) and (51-60) respectively. Given the fact that the majority of the Ethiopian population is within this range (20-40) in this case 86.7%, it is not surprising to have such proportion; however, it may trigger the need to focus on drastic changes in both compensation policy and strategy for the needs and wants of this group is wider than the group that are above 40 years of age.

Regarding, work experience 2(3.3%) of respondent less than 1year and 17(28.3%) 1-5 years of work experience, 26(43.3%) of respondents 5-10 years the rest of 15(25%) of respondents above 10 years. This shows that one quarter of the respondents have more than 10 years of experience, In order for these persons share experience and enable a smooth knowledge transfer an appropriate incentive mechanism may need to be in place.

Relating to educational level of respondents 11(18.3%) having diploma and first degree 35(58.3%), second degree holders 13(21.7%) finally 1(1.7) % of respondents located doctors

4.2 Analysis of the Collected Data

4:2:1. Employee's view on implementation of pay and benefit System

Part I of the questionnaire had seven items which requested respondent of their view on pay and benefit system implementation. As indicated on the table these were rated in terms of the following:

1=strongly disagree (SD)

2=Disagree (D)

3=Neutral (N)

4=Agree (A)

5=strongly agree (SA)

Table-4.2. Employee's views on Implementation of pays and benefit system

STATEMENT		Scoring						
		SD	D	N	A	SA	Mean	Std. Deviation
1	Motivates employees to perform better	8 (13.3%)	6 (10%)	6 (10%)	13 (21.7%)	27 (45%)	3.75	1.457
2	Improve employees punctuality to work							

	and reduce employee absenteeism	6 (10%)	14 (23.3%)	13 (21.7%)	6 (10%)	21 (35%)	3.37	1.426
3	Develop employee willingness to do extra work and go the extra mile	3 (5%)	3 (5%)	10 (16.7%)	15 (25%)	29 (48.3%)	4.07	1.148
4	Make employees committed to the University	8 (13.3%)	12 (20%)	14 (23.3%)	8 (13.3%)	18 (30%)	3.27	1.425
5	Creates very good working relationship between management and employees to improve performance	8 (13.3%)	26 (43.3%)	6 (10%)	8 (13.3%)	12 (20%)	2.83	1.380
6	Attracts and motivates qualified personnel to work better	6 (10%)	12 (20%)	4 (6.7%)	9 (15%)	29 (48.3%)	3.72	1.485

7	Reward hard working employees to sustain high performance	3 (5%)	3 (5%)	1 (1.7%)	8 (13.3%)	45 (75%)	4.48	1.097
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If one looks at table 3 of the agree/strongly agree component of the responses, one observes that 88% of the respondents see compensation as positively impacting on rewarding hard working employees to sustain high performance, second in the categories is that of developing employee willingness to do extra work and go extra miles constituting 73% of the respondents and thirdly 66% of the respondents believe that compensation helps the institution to motivate employees to perform better. It is also worth noting that 47% of the responds which is on the high side of the category do not think that motivation creates very good working relationship between management and employees to improve performance. Although overall it was only about 13% of the respondents who were not sure of the impact and remained neutral, it is also in the issue of employees' commitment to the University that 23% of the respondents were neutral.

“As shown the same table means value is less than 3 this indicates most respondents disagree with the statements also the standard deviation is near to mean. However the human resources manager said that the current employees' salary scales as much as adequate and sound to employees compare to other University”.

Table-3

Table 4.3. Compensation Challenges

1=to little extent 2= to less extent 3= Neutral 4=to some extent 5=to great extent

Challenges &								Std.
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Communication	1	2	3	4	5	Mean	Deviation
The packages of benefit are managed well	25 (41.7%)	20 (31.3%)	8 (13.3)	7 (11.7%)	0	1.95	1.016
Compensation is managed to ensure that all employees receive equal pay for the same kind of work	31 (51.7%)	10 (16.7)	0	19 (31.7%)	0	2.12	1.342
My colleague in another department with the same qualification receives more pay and benefit	7 (11.7%)	30 (50%)	0	23 (38.3)	0	2.65	1.117
The managers of compensation packages are well trained to do so	21 (35%)	39 (65%)	0	0	0	1.65	0.481
Every detail of available compensation packages are well communicated to the employees	60 (100%)	0	0	0	0	1	.00

❖ *The packages of compensation are managed well.*

73% of the respondents do not think that the compensation packages are well managed. 13.3% has no opinion either because they don't know about the packages

or lack interest in the system. It is a negligible percentage of respondents who think that is managed well to some extent. Generally, the figures indicate that employees are dissatisfaction with the management of compensation packages.

- ❖ Compensation is managed to ensure that all employees receive equal compensation for the same kind of work

On allocation of equal compensation for the same kind of work, it was the majority i.e. 68% who indicated that it is very rarely that it is practiced.

- ❖ My colleague in another department with the same qualification receives more compensation

The overall result shows that there is a discrepancy in the implementation of compensation policy (11.7% to little extent, 50% less extent, and 38.3% to some extent.)

- ❖ The managers of compensation packages are well trained to do so

There was no proper training for the direct implementers of the compensation policy as we can observe from the figure 35% little extent and 65% less extent.

- ❖ Every detail of available compensation packages are well communicated to the employees

The result 100% of the respondent indicates that Compensation packages information is not communicated to the employees and if communicated it is to a little extent.

“Express their opinion concerning the challenges of the exiting pay system of the University all respondents’ responses to little extent and less extent. From this we can infer that employees are dissatisfied with the exiting pay and benefit system. One thing that the student researcher reminded that the same question forwarded to human resources manager of the University do you believe that the company compensation system satisfy the workers? As the Managers explained, the company has established different pay system, and first of all we have a salary scale which has considered the

labor market however, employee's expectation is unlimited and the existing competitors company's bring more challenge for the existing practice. “

Table-4.4. direct financial payment and employee motivation

No.	STATEMENT	SCORING					Mean	Std. Deviation
		1	2	3	4	5		
1	My basic pay is reviewed periodically	7 (11.7%)	36 (60%)	7 (11.7%)	6 (10%)	4 (6.7%)	2.40	1.045
2	My basic pay motivates me to do my work well	51 (85%)	0	2 (3.3%)	7 (11.7%)	0	1.92	0.381
3	My basic pay is well balanced compare to the work I do	26 (43.3%)	24 (40%)	10 (16.7%)	0	0	1.73	0.733
4	An increase in my basic pay will motivate me improve on my performance	0	6 (10%)	7 (11.7%)	24 (40%)	23 (38.3%)	2.48	0.833
5	If my organization meet its target am confidence that I will			6	17	37		

	be rewarded	0	0	(10%)	(61.7%)	(28.3%)	4.52	0.676
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Where 1=strongly disagree (SD), 2=Disagree (D) 3=Neutral (N)

4=Agree (A) 5=strongly agree (SA)

4:3:8 direct financial payment and employee motivation

- ❖ The respondents were asked if the basic pay was reviewed periodically, the response rate was that 11.7% of the respondents strongly disagree, 60% disagree, 11.7% no opinion, 10% agreed, 6.7% strongly agree.
- ❖ To the question whether they were motivated by the basic pay, 85% strongly disagree, 11.7% disagree, 3.3% no opinion
- ❖ Respondents reaction to their basic pay as compared to their work load was that no one believes that they are paid what they deserve i.e. none agreed or strongly agreed, while 43.3% strongly disagree, 40% disagreed, 16.7% no opinion.

“When we look the table direct financial payment directly related to employee motivation this indicate that people are often motivated by money, employees doesn't simply view his salary as a dollar amount, he sees it as the value his employer places on him as a worker “.

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENDATION

This chapter deals with summary of findings, conclusion and recommendations. The summary of findings includes the demographic information of respondents and employees view towards the existing compensation and benefit packages.

5:1 Summary of findings

5, 1.1 Employees view on pay system and benefit practice

- ✓ A compensation scheme is seen as positively impacting on rewarding hard working employees to sustain high performance, in developing employee willingness to do extra work and go extra miles, and that it helps the institution to motivate employees to perform better.

5.1.2 Compensation packages available in SMU

- ✓ The compensation packages that are available in institution include: career development opportunity, medical insurance, maternity leave, provident fund, pension scheme, free training and sick leave but other packages such as car loan. Fuel allowance, examination leave, and extra duty allowance do not exist.

5.1.3 Challenges in the management of Compensation scheme

- ✓ There are no trained personnel on management of the scheme as such and this might be the reason that it is not well managed.
- ✓ Detail of available compensation packages are not well communicated to the employees

5.1.4 Direct financial payment and employee motivation

- ✓ The basic payment does not motivate employees
- ✓ The basic pay is not reviewed periodically
- ✓ The work load and the basic pay are not balanced
- ✓ Basic pay increase has a potential to improve performance

5:2 CONCLUSIONS

The purpose of the study was to assess the pay system and benefit practice at St. Mary's University. Based on the major findings, the following conclusions were drawn.

- ❖ Compensation in various forms increases productivity and performance. However, the university employees are not satisfied with the existing compensation system. This therefore calls for a change in the current compensation system by considering cost of living, market condition, and nature of the jobs, competitors and government regulations as well as all those components that will make a compensation scheme attractive.
- ❖ Compensation and benefit package are not periodically reviewed, restructured and evaluated. In addition the existing benefits are not well communicated to employees this leads to negatively impact their willingness and responsibility. Hence employees do not wish to continue to serve in the university.
- ❖ There are several factors challenging the compensation system, some of them are that employees are not evaluated based on their performance, there is no organized group (management team) that may recommend the well performing employees and there is no system that rewards employees based on performance and qualification.

5.3 RECOMMENDATIONS

Based on the major findings of the investigation the student researcher would like to suggest the following recommendation

- ✓ St. Mary's should give emphasis for pay and benefit practice to motivate people in order to continue the University as it is and being competitive to others. Moreover the institute should pay adequate compensation for their employees as related to their works

- ✓ The management should put in place a pay system based on the degree of an employee's contribution to the University. In addition to this of this while implementing the pay system the University should offer monetary financial system like bonuses, overtime to encourage employees for better and improved performance.
- ✓ St. Mary's University has to examine, evaluate and improve accordingly and make sure that the pay and benefit policy is always updated.
In order to solve the problem while implementing the pay and benefit system, like if there is faire salary increment, equitable compensation system and good administration.

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APPENDIX-A
ST.MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MASTERS PROGRAM IN
BUSINESS ADMINSTRATION

Dear Respondent

The researcher would like to thank you in advance for your cooperation in filling this questionnaire.

The main purpose of this questionnaire is to collect data for assessment of Compensation and benefit practices at St. Mary's University .I would like to confirm that your response to this questionnaire will be kept strictly confidential and will only be used for academic purposes i.e. to prepare a research paper in partial fulfillment of the requirements for the award of Masters Degree in Business Administration.

PART 1: General Information

Instruction: please put a tick mark (√) in the box against your appropriate response.

1. Type of Respondent Administrative staff

2. Gender Male Female

3. Age
20-30 31-40 41-50 51-60

4. How long have you worked for St. Mary's University less than 1 year
1-5
5-10 above 10 years

4	Make employees committed to the University					
5	Creates very good working relationship between management and employees to improve performance					
6	Attracts and motivates qualified personnel to work better					
7	Reward hard working employees to sustain high performance					

2.2 Please provide a list of other compensation packages available in your organization which are not in the above.

PART-3:

3.1 Challenges in the management of compensation

To what extent do you agree with the following statement as they apply?

Kindly indicate according to the rating as follows

1=to little extent 2= to less extent 3= Neutral 4=to some extent 5=to great extent

Management& Communication		1	2	3	4	5
19	The packages of compensation are managed will					
20	Compensation is managed to ensure that all employees receive equal compensation for the same kind of work					
21	My colleague in another department with the same qualification receives more compensation					
22	The managers of compensation packages are well trained to do so					
23	Every detail of available compensation packages are well communicated to the employees					

4.2 Briefly suggest ways in which compensation packages can be better managed

PART-4:

Direct Financial payments and employee motivation

Please tick

Where 1=strongly disagree (SD), 2=Disagree (D) 3=Neutral (N)

4=Agree (A) 5=strongly agree (SA)

No.	STATEMENT	SCORING				
		1	2	3	4	5
24	My basic pay is reviewed periodically					
25	My basic pay motivates me to do my work well					
26	My basic pay is well balanced compare to the work I do					
27	An increase in my basic pay will motivate me improve on my performance					
28	I am involved for a reward if the whole organization achieves its set target.					

Thank you for your time

St. Mary's University
School of Graduate Studies

MASTERS PROGRAM IN
BUSINESS ADMINISTRATION
Appendix – B- Interview Checklist

This interview checklist is intended to gather relevant information regarding the employee's compensation and benefit practice at St.Mary's University.

Interview Questions

1. Do you believe that the company compensation system satisfy the workers?
2. What are the main challenges of compensation and benefit practice on the company?