

**ST.MARY'S UNIVERSTY
COLLEGE
BUSINESS FACULTY
DEPARTEMENT OF MANAGEMENT**

**AN ASSESSMENT OF EMPLOYEES
COMPENSATION SYSTEM
META ABO BREWERY S.C (MAB)**

**BY
HIRUT MEZGEBU**

**JUNE, 2011
SMUC
ADDIS ABABA**

**AN ASSESSMENT OF EMPLOYEES
COMPENSATION SYSTEM: META ABO BREWERY
S.C (MAB)**

**A SENIOR ESSAY SUBMITTED
TO THE DEPARTMENT OF MANAGEMENT
BUSINESS FACULTY
ST.MARY'S UNIVERSTY COLLEGE**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF BACHELOR OF ARTS IN
MANAGEMENT**

**BY
HIRUT MEZGEBU**

**JUNE, 2011
SMUC
ADDIS ABABA**

ST.MARY'S UNIVERSTYCOLLEGE

**AN ASSESSMENT OF EMPLOYEES COMPENSATION
SYSTEM:**

META ABO BREWERY

BY

HIRUT MEZGEBU

FACULTY OF BUSINESS

DEPARTMENT OF MANAGEMENT

APPROVED BY THE COMMITTEE OF THE EXAMINERS

DEPARTEMENT HEAD

SIGNATURE

ADVISOR

SIGNATURE

INTERNAL EXAMINER

SIGNATURE

EXTERNAL EXAMINER

SIGNATURE

Acknowledgments

First of all, I would like to thank my advisor Mr. Abera Legesse for his constructive comments, suggestions and for sacrificing his available time.

I would also like to thank my Father Memire Mezgebu Meaza , my mother W/r Bogalch Kiflu ,my Sister Fanaye Mezgebu and my friend Kebebew Gesese who support me in finance and idea for writing this senior paper,

Finally, I want to express my deepest appreciation to those who responded to the questionnaires by sacrificing their precious time.

Table of contents

Acknowledgment	i
Table of content	ii
Lists of table	v
Acronyms	iv

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study	1
1.2. Statement of the Problem	3
1.3. Research Question	3
1.4. Objective of the Study	4
1.4.1. General Objective	4
1.4.2. Specific Objective	4
1.5 Significance of the Study	4
1.6 Delimitation /Scope of the Study	5
1.7 Definition of Terms	5
1.8 Research Design and Methodology	5
1.8.1 Research Design	5
1.8.2 Population and Sampling Technique	5
1.8.3 Types of Data to be Collected	6
1.8.4. Technique and Data Collection	7

1.8.5. Methods of Data Analysis -----	7
1.9. Limitation of the Study -----	7
1.10. Organization of the Study -----	7

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1. Introduction -----	8
2.2. An Overview of Compensation -----	8
2.3. Types of Compensation -----	10
2.4. Theories of Compensation -----	11
2.5. Components of Compensation -----	11
2.6. Importance of Compensation -----	12
2.7. Factors Affecting Compensation -----	13
2.8. Objective of Compensation System -----	20
2.9. Compensation Plans and Business Strategy -----	20

CHAPTER THREE

3. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

3.1. Respondent’s Biography -----	23
3.2. Analysis of Interview -----	39

CHAPTER FOUR

4. SUMMARY, CONCLUSIONS AND RECOMMENDATION

4.1. Summary	41
4.2. Conclusions	42
4.3. Recommendations	44

Bibliography

Appendix

Appendix A- English Questionnaire

Appendix B- Interview Questionnaire

Appendix C – Amharic Questionnaire

Lists of tables

Table	page
Table 1: Respondents Biography -----	24
Table 2: Salary and Responsibility Assumed -----	26
Table 3: Compensation and Employees Performance -----	27
Table 4: Types of Compensation System the Organization use -----	28
Table5: Overall Compensation System in the Organization -----	29
Table6: Wage and Salary Administration System of the Organization---	30
Table7: Employees Satisfaction on the Organization’s Compensation System -----	32
Table8: Rate of Compensation Mechanism used by the Factory-----	34
Table9: Management Competency-----	37
Table10: Factors Considered in Determining Employee’s Compensation -----	38
Table 11: Employee’s view on the Existing Compensation System of the Organization-----	39

ACCRONYMS

MAB: - Meta Abo Brewery

HR: - Human Resource

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Compensation is the total of all rewards provided to employees in return for their services .compensation is remuneration an employee receives in return for his or her contribution to the organization. Remuneration occupies an important place in the life of an employees. His or her standard of living, status in the society, motivation. Loyalty and productivity depends up on remuneration he or she receives. For the employer too, employee remunerations significant because of its contribution to the cost of production (Aswathappa, 2004: 243). Compensation classified in to two financial compensation and non-financial compensation .Financial compensation classified direct financial compensation and indirect financial compensation. Direct financial compensation /Benefit: - consist of the pay that a person receives in the form of wage, salaries, bonuses and commissions. Indirect Financial compensation/benefit: - include health benefits, payment of time not worked, fringe benefit and perquisites. Non financial compensation include: - challenging job responsibility, recognition of merit, growth prospects, competent supervision comfortable working condition, job sharing and flextime.

Meta Abo Brewery S.C (MAB) was established as a share company in 1967 with an initial capital of birr 2 million and

production capacity of 50,000 hl/annum. Since then, the company has shown a significant growth in the level of production coupled with sales and distribution over the years. The brewery is situated at distance of about 30 kms south west of Addis Ababa, the capital city of the country. Currently the production capacity is over 450,000 hl of beer for sales/annum. The product mix of which is 60% bottled beer and 40% draught beer. Local sales distribution coverage includes Addis Ababa, Tigray, Amhara, Oromiya, SNNPR, Afar, Benshagul Gumuz. The company currently provided employment opportunity to 771 permanent workers. With the realization of the company's on going expansion project it is envisaged that in the near event the annual production of beer for sales could surpass a million hl, coupled with product diversification. Meta Abo Brewery S.C has Implemented Environmental Management System and Quality Management System and Assured ISO 14001:2004 and ISO 9001-2000 certificated respectively. However, in Meta Abo Brewery S.C the compensation practice does not attractive enough to motivate and satisfy employee's needs. In the long run, this situation may endanger the existence of the organization. This study therefore, tries to investigate to what extent employees are satisfied with the remuneration practice of the organization. (Source: from organization brushers)

1.2. Statement of the problem

The backbone of Human Resource Management is pay system, pay system is one of the most important mechanisms that firms and managers can use to attract, retain and motivate competent employees to perform in ways that support organizational objectives. Employees get motivation to perform better when their past performance is rewarded and compensation to be received, if certain levels of performance are achieved. Employees achieving the desired levels of performance expect a certain level of compensation (Aswathappa, 2004:247). Meta Abo Brewery S.C play an important role in Designing Administrative Rules and Procedures to ensure fair allocation of pay, control labor costs, maintain parity with competitors pay levels for similar job. However, as confirmed through the informal discussion of some employees the existing compensation and reward system of the organization are not attractive enough to retain and motivate employees. Lack of these events will result in dissatisfaction, turnover, and absenteeism's and look forward to other organization.

1.3 Research Questions

Based on the problem the researcher tired to answer the following questions.

1. How is the employee's satisfaction with the current compensation system of the Meta Abo Brewery?
2. How is the existing compensation system of the organization attractive enough to retain and motivate employees?

3. What are the factors that the organization considers to determine the employee compensation system?

1.4 Objective of the Study

1.4.1 General Objective

The main objective of the study is to assess employee's compensation system of Meta Abo Brewery S.C.

1.4.2 Specific Objectives

- To assess employee satisfaction with the compensation system of the organization.
- To assess whether the existing compensation of the organization is attractive enough to retain and motivate employees.
- To identify main factors that the organization consider to determine employee compensation system.
- To recommend the organization to use the advantageous system to attract, retain and motivate employees.

1.5 Significance of the Study

- The study helps the organization to examine its current compensation system and make the necessary improvements based on information obtained.
- The study also helps the researcher to acquire more experience on research.
- It will serve as a stepping- stone for other researchers who aspire to make in depth study about the issue under the study.

1.6. Delimitation (scope) of the study

This study was focusing on the main organization of Meta Abo Brewery S.C. In addition to this, because of shortage

of time and money, the researcher delimited this study only on employee's compensation system and benefit covers only in the last three years (2007-2010).

1.7. Definitions of Terms

Remuneration: - is the compensation an employee receives in return for his or her contribution to the organization (Aswathappa, 2004:243).

Employee benefits: - are elements of remuneration given in addition to the various form of cash pay that is basic salary and incentive bonus payments (Michael, 2002:629).

1.8 Research Design and Methodology

1.8.1 Research Design

The researcher was used descriptive method. Because it pictures situation in the organization and shows accurately the characteristics of a particular situation.

1.8.2 Population and Sampling Technique

Meta Abo Brewery S.C has 771 employees; out of these 15% (i.e.116) employees were selected. Because of limitation to cover all employees are the reasons to restrict the sample to 15%.

The researcher was selected using proportionate stratified sampling technique and random sampling technique to distribute questionnaire.

Sample Size

Stratum	population	Sample size 15% of population
Production department	276	41
Technique department	147	22
Sales department	166	24
Purchasing department	32	4
Administration department	104	15
Finance department	46	6
Total	771	116
Total sampling		116

Source; from primary data

18.3 Types of Data Collected

In order to gather information for the study both primary and secondary sources were used. The primary data include information from questionnaire and interview. Where as, secondary data gathered from the organization document and by reviewing literature on the related area.

1.8.4 Technique and Data Collection

The student researcher data collection instruments were questionnaire including open and close ended question and interview were used to collect data from the respondents. Questionnaires were developed for the Non Management Staff and interview was conducted for Human Resource Department Head of Meta Abo Brewery S.C.

1.8.5 Methods of Data Analysis

Information or data collected from primary and secondary sources. Was presented and analyzed using tabulation and percentage method.

1.9 Limitation of the Study

The researcher was constrained by various limitations, among the major limitation the factory's officials unwillingness to provide necessary information. In additions, it was a challenging experience that some of the respondents were not willing to fill the questionnaires and return them in time.

1.10 Organization of the Study

The paper consists of four chapters. The first chapter deals with introductory aspects. The second chapter contained- the review of the related literature. And then presentation, analysis and interpretation of the data were discussed in chapter three. Finally the paper is ended up with summary, conclusion and recommendation in the fourth chapter.

CHAPTER TWO

2. Literature review

2.1. Introduction

This chapter focuses on the conceptual and Empirical frame work of the study and the related works an assessment of employee compensation from other researchers and books. An overview of compensation, objective of compensation, components of compensation, and theories of compensation and importance of compensation are the main part of this chapter.

2.2. An overview of compensation

There is no universally acceptable definition of compensation different authors suggest their idea in different terms.

According to Bernardin, (2004, P: 214) “All forms of financial returns and tangible benefits that employees, receive as part of an employment relationship as compensation.” As the business environment becomes increasingly complex and global, the challenge to create and maintain effective compensation programs, given cost constraints, also requires greater professionals, given cost constraints, also requires grater professional expertise, or organizational1 creativity and vision than ever before.

Compensation is an employee receives in return for this or her contribution to the organization. Also it occupies

all important places in the life of an employee (Aswathappa, 2004, P: 243).

Dessler, (2004, P: 302) on this part says that “Employee compensations refers to all forms of pay or rewards going to employees and arising from their employment.”

Further, Meija, (2003, P: 324) “Total compensation is the package of quantifiable rewards on employee receives for his or her labors.” Includes three compensation pay incentives, base compensation and indirect compensation system.

wayne, (2006,P:418) organizational reward system includes anything on employee values and desires that an employer is able and willing to after in exchange for employee.

Werther, (1993, P: 432) “Compensation is what employees receive in exchange for their contribution to the organization compensation management helps the organization obtain and retain a productive workforce.” According to Aswathappa, (2004, P: 243) “Remuneration is the compensation an employee receives in return for his or her contribution to the organization.”

Michael, (2002,P:296) consider remuneration as the compensation reward, wage or salary given by an organization to a person or a group of persons in return to a work done, service rendered, or a contribution made to words the accomplishment of organizational goals.

Weight, (2003, P: 144) on this part says that, “Remuneration usually mean the financial rewards an organization gives its employees in return fort heir labor.” Furthermore, in the words of Bernard (2003, P: 214) “Remuneration refers to all forms of financial returns and tangible benefits that employees receive as part of an employment relationship.”

2.3. Types of compensation

Bernardin, (2004, P: 216) compensation is typically divided in to two parts direct and indirect compensation.

2.3.1 Direct compensation; - is used to describe the cash received in the form of base salary, overtime pay, shift differentials, bonuses, sales compensation and so on.

Direct compensation is further divided into Two components:-

A) The wage and salary program (Base salary, overtime pay, shift differential etc.).

B) Pay that is contingent on performance (merit increase, bonuses, gain shorting pay, commissions, etc).

2.3.2 Indirect Compensation: - refers to general category of employee benefit programs.

There are also two type of indirect compensation

a) Legally required programs (e.g. Social security works, compensation)

b) Discretionary programs (e.g. medical coverage, paid time off).

2.4. Theories of Compensation

In order to understand which components of compensation are more effective, we need to understand the conceptual frame work or theories of employee compensation such theories are as follows:-

Reinforcement and Expectancy Theories

The reinforcement theory postulates that a behavior which has a rewarding experience is likely to be repeated.

Equity Theory

Adam's Equity Theory posts that an employee who perceives in equity in his or her rewards seeks to restore equity.

✚ Agency Theory

Focuses on the divergent interests and goals of the organization's stake holders and the way that employee compensation can be used to align these interests and goals (Aswathappa, 2004, P: 245).

2.5. Components of Compensation

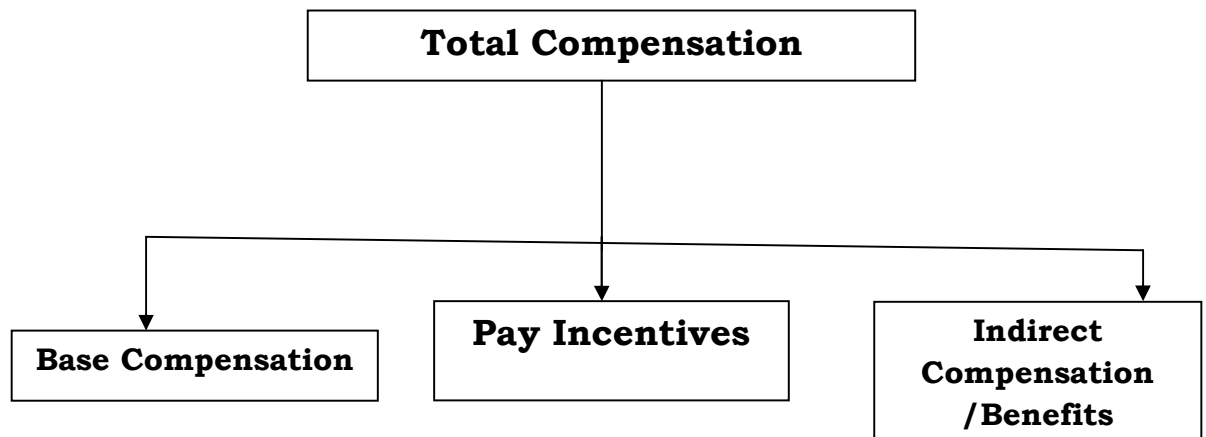
Mejia, (2003, P: 324) total compensation is a package of quantifiable rewards an employee receives for his or her labor.

Includes three components:-

Base Compensation:- The fixed pay an employee receives on a regular basis, either in the form a salary or as an hourly wage.

Pay incentives:-A program designed to reward employees for good performance.

Indirect compensation /benefits:-Health insurance, vacations and unemployment compensation perquisites or parks.



Source: Element of Total Compensation (Mejia 2003, P: 325)

According to Wayne, (2006, P: 418) organizational reward system include financial as well as non financial components:-

Financial rewards: - including direct payments (e.g. salary) plus indirect payment in the form of employee benefits.

Non-Financial rewards: - include everything in a work environment that enhances a worker's sense of self-respect and esteem by others (e.g. work environments that are Physically, Socially, and mentally healthy, opportunities for training and personal developments, effective supervision, recognition).

According to Dessler, (2004, P: 302) compensation has two main components:-

Direct financial payments:-Pay in the form of wages, salaries, incentives, commission and bonuses

Indirect financial payments:-Pay in the form of financial benefits like employer-paid insurance and vacations.

2.6. Importance of Compensation

An effective system of compensation is highly significant because several problems relating to personnel centre around one element, namely compensation. Many employees, for example, absent themselves from work often because they feel they are not paid enough. They look for new and better prospects because the present emoluments may not be attractive enough to stay on. They agitate, put stones, use foul language, resort to graffiti, turn violent, fall sick, because the compensation paid to them may not be adequate (Aswatappa, 2004,P:246).

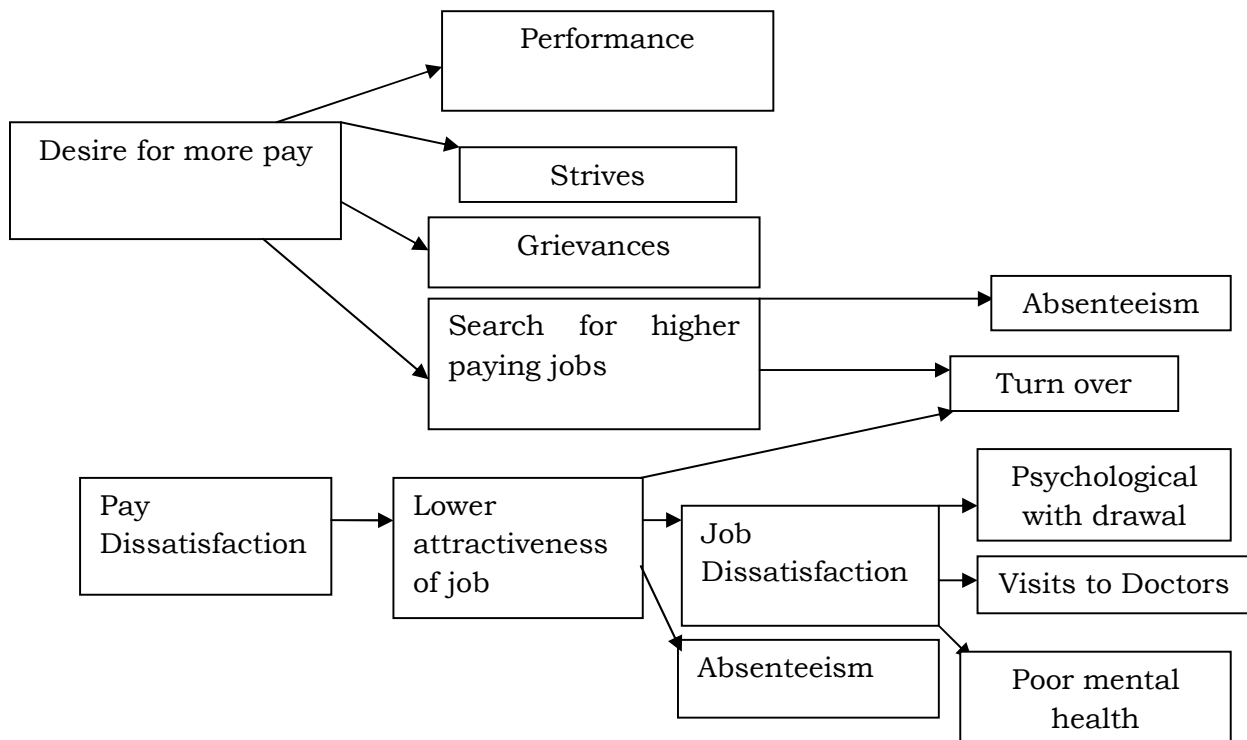
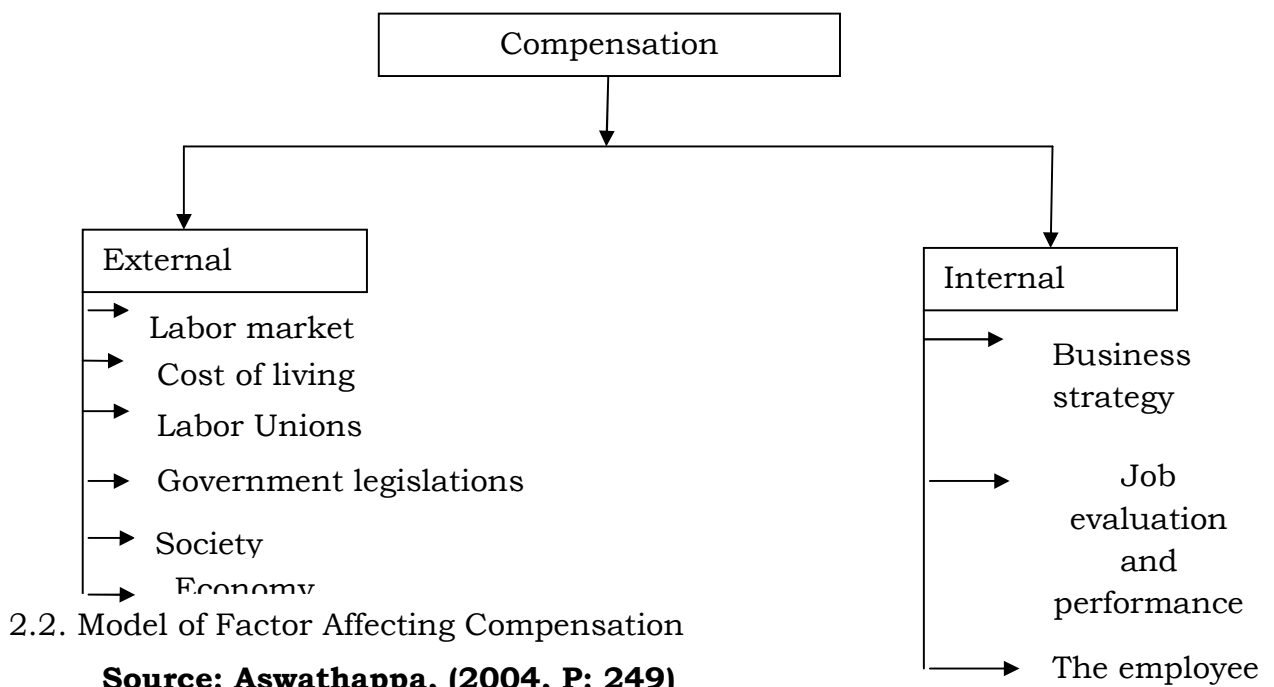


Figure 2.1. Consequence of Job Dissatisfaction

2.7. Factors affecting compensation

A number of factors affect the compensation payable to employees. They can be categorized into external and internal factors relation to compensation decision. According to Aswathappa, (2004,P:248) those factors are the following:-



External Factor

Factors External to an organization are labor market, cost of living, labor unions, Government legislations, the society and the economy. Let's discuss each of these factors in detail.

- **Labor Market:** - This market has great influence in the compensation scheme of an organization. Among others, the most influential to orders are discussed here under:-

A. Demand and Supply of Labor: - this has an influence on supply of labor exceeds the demand for it. A higher wage will have to be paid when the demand exceeds supply, as in the case of skilled labor. A paradoxical situation is prevailing in our country excessive unemployment is being juxtaposed with

shortage of labor while unskilled labor is available in plenty; there is a shortage of technician's computer specialists and professional managers. High compensation to skilled labor is necessary to attract and retain it. But exploitation of unskilled labor like, paying extremely low wages is unjustifiable (Aswathappa, 2004,P: 249).

B.Going rate of pay: - is another labor related factor influencing employee compensation. Going rates are those that are paid by different units of an industry in a locality and by comparable units of the same industry located us where (Ibid, 249).

This is the only way of fixing salary and wage in the initial stages of plant operations subsequently; a comparison of going rates would be highly useful in resolving wage relative disputes.

C. Productivity of Labor:- this also influence wage fixation production can arise due to increased effort of the worker, or as result of the factors beyond the control of the worker such as improved technology, sophisticated machine and equipment, better management and the like. Greater effort of the worker is rewarded through price or other forms of incentive payments. This form of productivity, due to individual effort cannot form a criterion of general wage movements. Productivity arising from advanced technology and more efficient can be measured interims of any one of the several factors such as capital, equipment, materials, fuel and labor what matters most is labor productivity. It is the relation ship between the input of labor measured in man-hours and the out put of the entries economy of a particular industry or plant measured interims of money or in physical terms. It may be stated that productivity has only subordinate role in wage fixation (Ibid, 249).

It can at best, help determine fair wages. Productivity linked wages may help utilize human resources better. This is particularly relevant to our country where productive is very low.

- **Cost of living:** - this criterion matters during periods of rising prices and is forgotten when prices are stable or falling. The justification for cost of living as criteria for wage fixation is that the real wage of workers in the cost of living is sought to be compensated by payment of dearness allowance, basic pay to remain undistributed. Many companies include an escalatory clause in their wage agreement in terms of which dearness allowance increases or decreases depending up on the movement of consumer price index.
- **Labor Unions:** - The presence or absences of labor organizations often determine the quantity of wages paid to employees. Employees in non- unionized factories enjoy the

freedom to fix and salaries as they please. Because of large scale unemployment, these employers hire workers at little or even less than legal minimum wages. An individual non-unionized company may be willing to pay more to its employees if only to discourage them from forming one, but will buckle under the combined pressure from the other non-unionized organizations. The employees or strongly unionized companies too, have no freedom in wage and salary fixation.

They are forced to yield to the pressure of labor representatives in determining and revising pay scales.

- **Labor laws/Government legislation/**

To protect employees labor laws are set by the government. Some of those laws which have a bearing on employee compensation are the payment of wages, the Minimum wages, and other payment of bonus, equal compensation and the payment of gratuity. For example, the payment of wages act is passed to regulate to payment of wages to certain classes of person employed in the industry. It also seeks to protect workers against irregularities in payment of wages and unauthorized deductions by the employers.

In addition, the law ensures payments of wages in particular form and equal intervals (Ibid, 250) the minimum wage act on the other hand enable the central and the state governments to fix minimum rates of wages payable to employee's in sweated industries. The payment of bonus act provides for payments of a specified rate of bonus to employees in certain establishments. The gratuity act provides for payments of gratuity to employees after they attain superannuation. The equal compensation act provides for payment of equal compensation to men and women workers for same or similar work (Ibid, 251).

- **Society:** - compensation paid to employees is reflected in the prices fixed by an organization for its good and services. For

this reason, the consuming public is interested in compensation decisions. It is well-known that the problem of wage structure with which industrial adjudication is concerned in modern democratic state influence, in the ultimate analysis, to some extent ethical and social

considerations. The advent of the doctrine of a welfare state is based on nations of progressive social philosophy which have rendered the old doctrine of laissez faire absolute. Though then financial position of the employer and the state of the national economy have their say in the matter of wage fixations. "The requirements of a work man living in a civilized and progressive society also come to be recognized. Hence, according to the Supreme Court, the social philosophy of the period provides the background for decisions on industrial disputes relative to the wage structure. "

- **The economy:** - the economy has its impact on wage and salary fixation is the state of the economy. While it is possible for some organizations to thrive in recessional there is no question that economy affects compensation decisions for example a depressed economy will probably increase the labor supply this, in turn should serve to lower the going wage rate.

In most cases, the cost of giving will rise in an expanding economy since that cost of living is community used as a pay standard; the economy's health exerts a major impact up on pay decisions. Labor unions, the government and the society are all less lively to press for pay increases in a depressed economy.

The Internal Environment

Among the internal factors which have an impact on pay structure are the company's strategy, job evaluation, performance appraisal and the worker himself or herself.

Business strategy: - the overall strategy which a company pursues should determine the compensation to its employed. Where the strategy of the enterprise is to achieve rapid growth, compensation should be higher than what competitors pay. Where the strategy is to maintain and protect current carryings, because of the declining fortunes of the company, compensation levels need to be average or below average (Aswathappa, 2004, p: 252)

Job evaluation and performance appraisal: - helps establish satisfactory wage differentials among jobs. Performance appraisal helps award pay increases to employees who show improved performance.

The Employee: - Several employee-related factors interact to determine his or her compensation. These include performance, Seniority, experience, potential and even sheer luck. Performance is always rewarded with a pay increase rewarding performance motivates the employee to do better management prefer performance to effect pay increases but unions view seniority as the most objective criterion for pay increases. Experience makes an employee gain valuable insights and should therefore be rewarded. Potential is useless if it is never realized. Let, organizations do pay some individuals based on their potential young managers are paid more because of their potential to perform even they are short of experience.

Some people have luck to be at the right place at the right time (Ibid, 252).

2.8. Objective of compensation system

According to Wayne, (2006; 419) the most important objective of any pay system is fairness or equity.

Equity can be assessed on at least three dimensions:-

Internal equity: - In terms of the relative worth of individual jobs to an organization are pay rates fair.

External equity: - are the wages paid by an organization “fair” in terms of competitive market rates outside the organization.

Individual equity:-is each individual’s pay “fair” relative to there of other individual doing the same or similar jobs.

2.9. Compensation plans and Business strategy

Compensation plans like any other human resource activity must become an input to formulating a business strategy. But in most companies this integration rarely occurs. The general practice is to pay what competitors pay or to adhere to the “Corporate policy” the actual compensation plans should not be strictly a matter of what is being paid in the market place. Instead, wage and salary plans must derive from an assessment of what must be paid to attract and retain the right people, what the organization can afford and what will be required to meet the organizations strategic goals(Aswathappa,2004,p:252).

Devising a Compensation Plan

Any compensation plan must be understandable, workable and acceptable. The compensation scheme must have two

components a base rate and the scope for increasing the base rate. The compensation plan must be determined keeping in mind the requisites and the components. The persons

responsible for determining a compensation plan are advised to employ sequential steps or described below.

Job Descriptions: - are crucial in designing pay systems for they help to indentify important job characteristics. They also help determine, define and weigh compensable factors (Factors for which an organization is willing to pay-skill, experience, effort and working environment).

Job Evaluation: - the next step in pay fixation is to establish relative worth of jobs by employing job evaluation.

A number of techniques are available to evaluate jobs. For example, in the point ranking method of job evaluation, each job is analyzed and defined in terms of the compensable factors and organization has agreed to adopt. Points are assigned to each degree a compensable factor such as responsibility.

Job Hierarchy: - the points assigned to all compensable factors are aggregated. The total points scored will help establish the hierarchy of job worth, starting from the highest point total to the lowest point total.

Pay Survey: - job hierarchy being established, the next step is to establish pay differentiates before fixing wage and salary. Differentials preventing wage and salary rates in the labor market need to be ascertained. Hence the relevance of pay surveys. One way of collecting pay detail is to conduct a survey. This requires that a sample of key jobs and a sample of companies need to be selected.

Pricing Jobs: - in pricing jobs, the job evaluation worth is matched with labor market worth, activates need to be per formed.

➤ Establishing the appropriate pay level for each job. In order to set a pay level, the points assigned and the survey wage rates are combined through the use of a graph called scatter gram.

➤ Grouping the different pay levels in to pay grades. A pay grades comprises jobs of approximately equal difficulty or importance (Aswathappa, 2004, p: 253).

CHAPTER THREE

3.DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents, analyze and interpret the data collected through questionnaire and interview. The information obtained from the sample population is the basis for the analysis of compensation system in Meta Abo Brewery.

The sample taken includes both the management and employee of the factory. The interview was conducted with the human resources department head of the factory .The questionnaire were distributed to the sample employees that were selected randomly.

From the 116 questionnaires distributed 108 were filled and returned satisfactorily. 8 questionnaires were not filled properly. As a result, this presentation, analysis and interpretation is carried out by taking into account the 108 respondents.

3.1. Respondents Biography

Table1 below shows the general characteristics of the sample population that includes age, sex, educational back ground and year of service in the organization.

Table 1 Respondents' Biography

No	Question	Frequency of respondents	
		No	%
1	sex		
	- Male	87	80.5
	- Female	21	19.4
	Total	108	100
2	Age category		
	- 18-28	42	38.8
	- 29-39	45	41.6
	- 40-50	15	13.8
	- 51 and above	6	5.6
	Total	108	100
3	Educational background		
	- Below grade 12	12	11.1
	- Grade 12 complete	31	28.7
	- Certificate	4	3.7
	- Diploma	43	39.8
	- Degree	18	16.6
	- Master	-----	-----
	Total	108	100
4	Year of service in the organization		
	- Less than 5 years	32	29.6
	- 6-10 years	52	48.1
	- 11-15 years	5	4.6
	- 16-20 years	2	1.8
	- 21-25 years	7	6.4
	- 26 and above	10	9.2
	Total	108	100

Source: Questionnaire, 2011

As shown in table 1, 80.5% of the respondents are male and 19.4% are female .this data show that most of the respondents are male. The table further shows that, 41.6% of respondents between the age 29-39, 38.8% respondents between the age 18-28, 13.8% of respondents between the age 40-5, and the remaining 5.6% of respondents 51 years and above. In general the data shows that majority of the respondent's lies between the ages range of 29-39 years. This shows that most of the respondents are young employees. This age group can be considered the most productive and highly motivated for change and look forward for better life.

Regarding educational background as can be observed in table 1, 39.8% of respondents are diploma holders, 28.7% of respondents are grade 12 complete, 16.6% of respondents are degree holders, 11.1% of respondents are below grade 12, and the remaining 3.7% of respondents are certificate . The data shows that majority of respondents have diploma. This shows that the factory activity performed by educated employees. So, it has positive effect on productivity.

Finally, concerning service year of respondents in the organization as shown in item 4, 48.1% of respondents have worked for 6-10 years, 29.6% of respondents have worked for less than 5 years, 9.2% of respondents have worked for 26 and above years, 6.4% of respondents have worked for 21-25 years and 4.6% of respondents have worked for 11-15 years. Majority of respondents have worked for 6-10 years. According to the respondents data shows most of employees in the factories are well experienced.

Table.2 Salary and Responsibility Assumed

No	Question	Frequency of respondents	
		No	%
1.	To what extent do you agree that your salary is equivalent with the responsibility you assumed?		
	- Strongly agree	9	8.3
	- Agree	15	13.8
	- Somehow	39	36.1
	- Disagree	26	24
	- Strongly disagree	19	17.6
Total		108	100

Source: Questionnaire, 2011

As shown in table2, 36.1%, 24% ,17.6%, 13.8% and 8.3%, of respondents stated that, , somehow agree, disagree strongly disagree, agree and strongly agree for the question to what extent do you agree that your salary is equivalent with the responsibility assumed respectively . The majority of the respondents are not satisfied by payment of the organization. So, the researcher believes that the factory payment is not balanced with the responsibility the employees assumed.

Table- 3 Compensation and Employees' Performance

NO	Question	Frequency or respondents	
		No	%
1.	Do you agree that the organization pay compensation to employees based on their performance?		
	- Strongly agree	8	7.4
	- Agree	18	16.6
	- Somehow	35	32.4
	- Disagree	36	33.3
	- Strongly disagree	11	10.1
Total		108	100

Source: Questionnaire, 2011

As shown in table 3, 33.3%, 32.4%, 16.6%, 10.1% and 7.4%, of respondents stated that they disagree, somehow agree, agree, strongly disagree, and strongly agree with the compatibility of organization compensation and their performance respectively. This data shows that the majority of respondents are not satisfied by the payment of the organization. It implies that the compensation system of the organization don't go with employees performance.

Table -4 Types of Compensation System the Organization Use

NO	Question	Frequency of respondents	
		No	%
1.	What types of compensation does the organization use?		
	- Financial	2	1.8
	- Non-financial	17	15.7
	- Both	89	82.4
Total		108	100

Source: Questionnaire, 2011

As shown in table 4, 82.4% of respondents stated that the organization uses financial and non-financial compensation system, while 15.7% of respondents stated that the organization uses non-financial compensation system. On the other hand, 1.8% of respondents stated that the organization uses financial compensation system. This implies that the organization uses both financial and non-financial compensation system. So, this data shows that even if the organization uses both financial and nonfinancial compensation, there is unattractive and insufficient enough to motivate employee performance.

Table -5 The Overall Compensation System in the Organization

No	Question	Frequency of respondents	
		No	%
1.	Do you agree that the overall compensation system in the organization is sufficient?		
	- Strongly agree	2	1.8
	- Agree	11	10.1
	- Somehow	48	44.4
	- Disagree	34	31.4
	- Strongly disagree	13	12
	Total	108	100

Source: Questionnaire, 2011

As shown in table5, 44.4%, 31.4%, 12%, 10.1%, and 1.8%, of respondents stated that they some how agree, disagree, strongly disagree, agree, and strongly agree on sufficiency of the overall compensation system of organization is sufficient respectively. This data shows that the majority of respondents feel somehow. So the researcher believes that the overall compensation systems in the organization given to employees are medium.

Table -6 The Wage and Salary Administration System of the Organization

NO	Questions	Frequency of respondents	
		No	%
1	How do you see the wage and salary administration system of the organization? <ul style="list-style-type: none"> - Very good - Good - Fair - Poor - Very poor 	2 17 40 36 13	1.8 16 37 33 12
	Total	108	100
2	If your answer for the above question is poor or very poor what is the reason? <ul style="list-style-type: none"> - Managerial problem - Lack of budget - Because of weakness of employees performance - Other please specify 	48 1 -- ---	97.9 2 ---- ----
	Total	49	100

Source: Questionnaire, 2011

Item 1 of table 6, indicated that the factory the Wage and Salary Administration system fair as confirmed by 37% of respondents, 33% of respondents stated that it is poor on the on the other hand, 16%, 12% and 1.8% of respondents responded that the organization wage and salary administration system is good, very poor and very good respectively. Hence, the fact shows that

majority of the respondents replied that the factory wage and salary administration system is poor/very poor.

The table further shows that the reason for the unattractiveness of wage and salary administration system in the factory, majority of the respondents i.e. 97.9% replied that management problem as a major cause where the rest of respondents indicated lack of budget as one reason. In general, the data shows that the wage and salary administration system in the organization is unattractive because of managerial problem. This implies that the compensation problem is encountered due to inefficiency of management.

Table-7 Employee's Satisfaction on the Organization's Compensation System

NO	Questions	Frequency of respondents	
		No	%
1	How would you rate your satisfaction with the existing compensation system in the organization? <ul style="list-style-type: none"> - Very satisfactory - Satisfactory - Moderate - Unsatisfactory - Very unsatisfactory 	4 15 46 30 13	3.7 13.8 42.6 27.7 12
	Total	108	100
2	If your answer in the above question is unsatisfactory and very unsatisfactory and what are the reasons for the dissatisfaction of employees with the existing compensation system? <ul style="list-style-type: none"> - Fringe benefit and other incentives are minimal - Salary scale is not attractive - No close relationship between employees and management - Less attention given to employees from employer - Other please specify 	9 30 1 3 ---	21 69.7 2.3 7 ---
	Total	43	100

Source: Questionnaire, 2011

Item 1 of table 7, indicated employees satisfaction with the existing compensation system is moderate as confirmed by

42.6% of respondents, 27.7% of respondents stated that it is unsatisfactory, on the other hand, 13.8% of respondents viewed it as satisfactory, the rest respondents 12 % and 3.7% of respondents perceived as very unsatisfactory and very satisfactory respectively. This data shows that the majority of the respondents are dissatisfied by the existing compensation system of the organization.

The table further shows that the reason for dissatisfaction of employees with the existing system. From these data it can be seen that the respondents replied 69.7% salary scale is not attractive, 21% fringe benefit and other incentive are minimal, 7% less attention given to employees from employer and the rest of 2.3% employees responded no close relationship between employees and management. The evidence shows that the reason for dissatisfaction of employees on the existing compensation system is the salary scale of the organization not attractive.

Table -8 Rate of Compensation mechanism Used by the Factory

Compensation types		Very high	High	Average	Low	Very low	Total
Salary/Wage	No	2	5	55	38	8	108
	%	1.8	4.6	51	35.1	7.4	100
Commission	No	3	2	30	49	24	108
	%	2.7	1.8	27.8	45.3	22.2	100
Bonus	No	3	8	52	33	12	108
	%	2.7	7.4	48.1	30.5	11.1	100
Over time	No	7	13	47	32	9	108
	%	6.4	12	43.5	29.6	8.3	100
Allowance	No	1	8	27	52	20	108
	%	0.9	7.4	25	48.1	18.5	100
Insurance	No	9	28	42	24	5	108
	%	8.3	25.9	36.1	22.2	4.6	100
Retirement plan	No	8	26	48	23	3	108
	%	7.4	24	44.4	21.2	2.7	100
Provident Fund	No	2	9	68	11	18	108
	%	1.8	8.3	63	10.1	16.6	100
Health coverage	No	22	29	41	8	8	108
	%	20.3	26.8	38	7.4	7.4	100
Sick leave	No	20	26	44	14	4	108
	%	18.5	24	40.7	13	3.7	100
Uniform and protection wears	No	5	25	49	15	14	108
	%	4.6	23.1	45.3	13.8	13	100
Annual leave and maternity leave	No	30	31	31	11	5	108
	%	27.7	28.7	28.7	10.1	4.6	100

Source: Questionnaire, 2011

As indicated in table 8, employees were asked to rate the compensation mechanism used by the factory, from these data it can be seen that 51% of respondents replied average, 35.1% low, 7.4% very low, 4.6 % High and the rest 1.8% of respondents rate very high. This implies that majority of the respondents believe the factory use fair compensation system for salary /wage.

The table further shows employees rate the compensation system use for commission 45.3% of respondents rate low, 27.8% average, 22.2% very low, 2.7%, very high and 1.8 high. The data show that majority of the respondents believe the factory use compensation system for commission low rate.

In terms of bonus also 48.1%, of respondents stated that average, 30.5%, low and 11.1% of the respondents responded very low. From the data one can understood the majority of respondent's rate average.

The employees also asked to rate the compensation system on over time the data indicated that majority of the respondents i.e. 43.5% rate average, 29.6% low,12% high, 8.3% very low and the remaining respondents rate the compensation system on overtime 6.4% very high.

In terms of allowance 48.1%, of respondents replied low, 25% some how, 18.5% very low, 7.4% very high and 0.9% high. Majority of respondents stated that low. Therefore, this data shows that the allowance payment is low rate.

In terms of insurance coverage employee's rate 36.1%of respondents replied average, 25.9% high, 22.2% low, 8.3% very high and the remaining 4.6% replied very low.

Most of the respondents stated that average. So, the insurance coverage of the organization is medium.

In terms of retirement plan employee's rate 44.4% of respondents replied average, 24% high, 21.2% low, 7.4% very high and the rest 2.7% very low. Majority of respondents

responded that average. So, this data shows that the factory provide fair retirement plan.

The table further shows employees' rate compensation system for uniform and protection wears. 45.3% of respondents replied average, 23.1% high, 13.8% low, 13% very low and the remaining 4.6% replied very high. So this data shows that the factory provides medium compensation for uniform and protection wears.

Finally, employees rate compensation system for annual leave and maternity leave. 28.7% of respondents replied high, 28.7% average, 27.7% very high, 10.1% low and the remaining 4.6% replied very low. From this data one can understood the compensation system for annual leave and maternity leave rated high.

Table -9 Management Competency

No	Question	Frequency of respondents	
		No	%
1.	How do you evaluate the competency of the management?		
	- Very high	7	6.4
	- High	11	10.1
	- Average	51	47.2
	- Low	28	26
	- Very low	11	10.1
Total		108	100

Source: Questionnaire, 2011

Table9 shows the competency level of the management as evaluated by employees. Accordingly, 47.2% rated as average, 26% low, 10.1% very low, 10.1 % high and the rest says very high .From these we can infer that the competency of management in the organization is good.

Table-10 Factors Considered in Determining Employee's Compensation System

<u>No</u>	Question	Frequency of respondent	
		<u>No</u>	%
1.	What factors do the organizations consider to determine employee's compensation system? <ul style="list-style-type: none"> - Employees knowledge and ability to perform - Social relation and behavior or employees - Close relationship of employees with the management - Employees experience - other, please specify 	22 4 10 54 18	20.3 3.7 9.2 50 16.6
Total		108	100

Source: Questionnaire, 2011

As shown in table 10, for the question what factors do the organization considers to determine employee's compensation system. 50% of respondents replied that based on employees experience, 20.3% replies that based on employees knowledge and ability, 16.6% of respondents give different answer to determine employees compensation system. Therefore, the data shows that the organization mainly considers to determine employees compensation system based on employees experience.

Table-11 Employee's View on the Existing Compensation System of the Organization

No	Question	Frequency of respondents	
		No	%
1.	Do you agree that the existing compensation system of the organization is attractive enough to retain good employees?		
	- Strongly agree	2	1.8
	- Agree	10	9.2
	- Somehow	43	39.8
	- Disagree	37	34.2
	- Strongly disagree	16	14.8
Total		108	100

Source: Questionnaire, 2011

As shown in table 11, 39.8. % of respondents replied some how agree, 34.2% disagree, 14.8 % strongly disagree, 9.2% agree and the remaining 1.8% respondents strongly agree. The data shows that the majority of respondents are not attracted by the existing compensation system. The unattractive compensation system brings dissatisfaction of employees and less productivity of the factory

3.3. Analysis of Interview

An interview is conducted with human resource manger of Meta Abo Brewery S.C. Accordingly; the result of the interview is shown as below.

According to the management employees satisfaction with the current compensation system in the factory is good.

The main factor used to determine compensation system in the organization is based on employee's experience. The organization also uses performance appraisal result for salary increment and bonus.

The manager disclosed that the organization try to attract and retain competent employees by using different compensation mechanisms, like giving provident fund, providing appropriate insurance coverage, bonus, salary increment and other non financial compensation system to motivate the employees.

The manager suggests the following to improve the compensation system

- Increasing the productivity and profitability of the organization try to provide attractive motivation to employees based on their competency.
- The organization should consider cost of living during providing financial compensation.

CHAPTER FOUR

4. SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter summarizes the main findings of the study and presents conclusion and give recommendations. The study was designed to make an assessment of employee's compensation system practice in Meta Abo Brewery S.C. The student researcher was used descriptive method and proportionate stratified sampling technique. From 116 questionnaires distributed 108 were filled and returned satisfactorily, 8 questionnaires were not filled properly.

4.1. Summary of major findings

- Regarding employment history, the study shows that the majority of respondents i.e. 87.9% are senior and professionals.
- Most of the respondent's i.e.41.6% said that their salary is not equivalent with the responsibility they assumed.
- Concerning the compensation system of the factory, most of the respondents i.e.43.4% are unsatisfied with the payment provided in relation to their performance
- Most of the respondents i.e. 82.4% believe that even if the organization uses both financial and non financial compensation, there is unattractive and insufficient enough to motivate employee performance.
- The overall compensation system of the factory used is not sufficient enough to motivate employee's 43.4% of the respondents are not happy on the existing compensation system provided by the factory.

- The finding shows *that*, i.e. 39.7% of the respondents believe that the factory has no satisfactory compensation system to motivate employees. The study also show that, the management

that consider to determine compensation system is based on employees experience.

➤ In the open ended questions majority of the respondents replied that there is no participation of employee's in the compensation system of the factory.

➤ The majority of respondent's i.e.153.5% replied that the factory paid low commission, bonus, and allowance payment. The majority of the respondents in the compensation system of the factory.

➤ The finding shows that, i.e.49% of respondents replied the factory has no satisfactory compensation system to retain, attract and motivate employees.

4.2. Conclusions

The research finally comes with the following conclusion on the basis of findings regarding on assessment of compensation system on workers performance in Meta Abo Brewery.

➤ According to the findings there are sufficient professionals in the factory .This may be helpful if the employee performance is rewarded adequately. The adequate compensation system may help the performance of employees and factories superior and efficient in the overall operation of the factory and employees.

➤ The finding shows that the employees are not treated equally and fairly in terms of salary. This kind of discrimination causes dissatisfaction and poor relationship between management and employees which affects the productivity and motivation of employees towards job.

➤ The proper design of employee's compensation system helps the factory to retain, to attract and to motivate competent employees and to increase employee's performance and productivity.

- The finding shows that both financial and nonfinancial compensation system provided by Meta Abo Brewery is not attractive and not sufficient enough to motivate employee's performance. The result of this affects the dissatisfaction of employees and reduces the productivity of the factory.
- According to the findings the compensation system is not tied up with performance. The insufficient of compensation is the main cause of dissatisfaction of employees and it certainly will have negative impact on the failure of the factory.
- No free communication between employees and employer and less attention of management to employee affects the employee's participation in decision making on compensation system of the factory. The result of this affects the interest of employees, with out interest it is difficult to perform different tasks and it affects profitability of the factory.
- In this study the other view of respondents is that the management of the factory is in efficient to design appropriate compensation system for employees. And this in turn directly affects the compensation system of the factory.
- As can be seen from the research made so far, it can be concluded that the majority of respondents i.e. 41.6% consider the factory compensation system is not satisfactory and equivalent in relation to their performance.

4.3. Recommendations

Based on the conclusion the research finally comes with the following recommendations.

- Meta Abo Brewery S.C should provide equitable and fair compensation system on employee's performance.
- The factory should readjust both financial and non financial compensation system in relation to working environment.
- The management should administer their compensation system based on requirement of the job qualification and

years of service as well as the competency of employees with the same qualification so that it can avoid employee frustration.

- To retain, to attract and to motivate them to better performance, the factory should read just the salary of the employee. It should administrate the salary difference among the some qualification. So that they can have a belongingness feeling to factory.
- To retain the most experienced employees motivating them by using financial and non financial compensation system are indispensable mechanisms and taking the bench mark of similar factory makes a significant improvement on the attitude of employee to ward the factory.
- The factory should revise compensation system such as insurance, salary, bonus, protection wears, allowance, commission and provident fund of employees based on their qualification, experience, performance, and working condition.
- The factory should improve the relationship between managers and employees through clear communication.

Bibliography

- Aswatappa.k,(2004). **Human Resource Management and Personnel Management.** New Delhi: Tata McGraw – hill publishing company limited.
- Bernardin John. H, (2004). **Human resource Management and experiential approach.** New Delhi: Tata McGraw – hill publishing company limited.
- Cascio. W. F (2004).**Managing Human Resource;** productivity, quality of work life, profit.
- Dessler Gray,(2004). **Human resource Management.** New Delhi: prentice hall of India private limited.
- Gomez Mejia, L. (2003).**Managing Human Resource.** New Delhi: Prentice hall of India private limited.
- Michael. V. p (2002).**Human Resource Management and Human Relation.** Mumbai: Hamaliya publishing house
- Weight Man.J (2003). **Managing People.** London: Cromwell press, wilshare.
- Werther, (1993). **Human Resource and Personnel Management.** New York: Tata McGraw – hill publishing company limited.

APPENDICES

Appendix A

St. Mary's University College
Faculty of business
Department of management

This is questionnaire to be filled by employees of Meta Abo Brewery Share Company on Assessment of compensation system.

The objective of the study is to assess employee's compensation system and to give recommendation.

Dear respondents, the aim of this study is for partial fulfillment of bachelor of Art in management. The area of the study is compensation system at Meta Abo Brewery S.C. on assessment of employee's compensation system.

Instruction:

- Indicate your response to the following "✓" inquire by putting mark in the box and /or by writing on the respective space provided.
- Confidentiality will be respected and there is no need to write your name.
- Thanks for your cooperation

Part I background information

1. Sex male Female
 2. Age category
18-28 29-39 40-50 51 and
above
 3. Educational background
 - a. Below grade 12
 - b. Grade 12 complete
 - c. Certificate
 - d. diploma
 - e. degree
 - f. master
- G. other please specify _____

4. Year of service in the organization

- a. Less than 5 years
- b. 6-10 years
- c. 11-15 years
- d. 16-20 years
- e. 21-25 years
- f. 26 and above

Part 2. General information

5. To what extent do you agree that your salary is equivalent with the responsibility you assumed?

- a. Strongly agree
- b. Agree
- c. Some how
- d. disagree
- e. Strongly disagree

6. Do you agree that the organization pays compensation to employees based on their performance?

- a. Strongly agree
- b. Agree
- c. Some how
- d. disagree
- e. Strongly disagree

7. What types of compensation does the organization use?

- a. Financial
- b. non financial
- c. Both
- d. other, please specify _____

8. Do you agree the overall compensation system in the organization is sufficient?

- a. Strongly agree
- b. Agree
- c. Some how
- d. disagree
- e. strongly disagree

9. If your answer for question number "8" is strongly disagree what should be included?

10. How do you see the wage and salary administration system of the organization?

- a. Very good d. poor
b. Good e. very poor
c. Fair

11. If your answer question "10" is poor or very poor, what is the reason?

- a. Managerial performance c. because of weakness of employees
b. Lack of budget d. other, please specify

12. How would you rate your satisfaction with existing compensation system of the organization?

- a. Very satisfactory d. unsatisfactory
b. Satisfactory e. very unsatisfactory
c. moderate

13. If your answer question "12" is unsatisfactory and very unsatisfactory what are the reasons for the dissatisfaction of employees with the existing compensation system? (you can tick than one)

- a. Fringe benefit and other incentives are minimal
b. Salary scale is not attractive
c. No close relationship between employees and management
d. Less attention given to employees from employer
e. Other, please specify _____

14. How do you rate the following compensation mechanism used by the factory ?

b. Agree

e. strongly disagree

c. Some how

18. What suggestion do you recommend the organization to improve its existing compensation system? Please specify

Appendix B

Structural interview conducted with HR Manager

These interviews questions are prepared for the human resource (HR) department head of Meta Abo Brewery S.C. to gather information.

1. How is the employee's satisfaction with the current compensation system of the organization?
2. What are the factors that the organization considers to determine the employee compensation consider to determine the employee compensation system?
3. How is the existing compensation system of the organization attractive enough to retain good employees
4. What is your general comment?

Thank you very much for your cooperation

Appendix C

••••• ••••• ••••••• •••

••••• •••••

••••• ••••• •••

•• ••• ••••• ••• •• •• ••••• ••••• ••••• •••••
••• •••• ••••• ••• ••••• ••••• ••• ••••••• ••••••• •••
••••• ••••• ••••••• ••• ••••• ••••••• ••• ••••• •••
••••••• •••••••
••••• •• ••• ••••• ••••••• ••••••• ••• ••• ••••••• ••
••••••• •••••

•••••

- ••••• ••••• ••••• ••••• "✓" ••••• ••••• ••• ••• ••
••••• •• ••••• •• ••• ••••• ••••• ••••• ••• •••••
•••••••••
- •• ••••• •••••••
- ••••• ••••• ••••• ••••••• ••• ••••••••••• ••••• •••••
••••• •••••••••••

••••• •••••

••••••••• ••• ••••••• •••••

1. ••

•. ••• •. ••

2. •••

•. 18-28 •. 29-30 •. 40-50 •. 51•• •••••

3. ••••••• •••

•. •12• •••••• •. •••••
•. 12• ••••••••• •. •••••
•. ••••• •. ••••••••••

4. ••••• ••• ••••••• ••

•. •5 ••• ••• •. •6-10 •••
•. •11-15 ••• •. •16-20 •••
•. •21-25 ••• •. •26 •••••••••••

••••• •••••

••••• •••••

5. ••••••• ••• ••••••• ••••• ••••••• ••••••• •••••••

•• ••••• •••••?
•. •••••••••• •. ••••••• •. •••••
•••••••

..

 ?

17.

..... ?

..

.....

..

18. ? ..
 ?

Declaration

I the undersigned declare that this senior essay is my original work prepared under the guidance of Mr. Abera Legesse. All sources of materials used for the manuscript have duly acknowledged.

Name: Hirut Mezgebu

Signature: _____

Place of submission: - **St. Mary's University College**
Department of Management

Date of submission: - July 02, 2011

ADVISOR DECLARATION

This paper has been submitted for examination with my approval as the university college advisor.

Name: _____

Signature: _____

Date: _____