



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

**PRACTICES AND CHALLENGES  
OF COMPENSATION SYSTEM  
AT BERHAN BANK S.C**

**BY  
FEREHIWOT DESTA**

**JUNE, 2019  
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMEN OF THE  
REQUIREMENTS FOR THE DEGREE OF  
MASTER OF PROJECT MANAGMENT**

**JUNE, 2019  
ADDIS ABABA, ETHIOPIA**

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

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## **ACKNOWLEDGMENT**

I am most grateful to the Almighty God for His infinite mercy and love that guided me throughout the duration of the program. Also my gratitude surely goes to my advisor, Asst Prof. Shoa Jemal for his valuable and continues advice, support, intellectual guidance during all the stage of this thesis .In addition, I want to thank my husband for his support and advice during the thesis period. Finally, I want to acknowledge Berhan Bank staffs for their willingness and support in providing the data for the study.

## LIST OF ACRONYMS

BrB.....	Berhan Bank
OT .....	Over Time
PF.....	Provident Fund
SPSS .....	Statistical Package for Social Science
NY.....	Taro Yamane method

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## **ABSTRACT**

*This study was undertaken to investigate the practices and challenges of compensation system in Berhan Bank s.c. The literature part of the study provides concepts of compensation and also determinants of compensation system. The researcher used descriptive research design which describes qualitatively the effect of compensation on employee's job satisfaction. Information was gathered from a sample of 222 employees of Berhan Bank through Likert scale questioner method and unstructured interview. After the data was captured the analysis was done through descriptive statistics method which include frequency, mean and aggregate using table format .This study was done for some determinants and types of compensation, which is included in the questioner. Major findings of the study indicates that the bank pays less when compared to other similar banks , there is inequity between employee salary who have similar job positions, there is also inequity in adjustment and bonus allocation across branches ,the bank has no proper salary scale format and when compared to the labor market it pays less. According to the findings the study concluded that BrB employees are working in a state of dissatisfaction. Based on this, the study recommends that the organization should revise its compensation system to create satisfaction among its employees and hence value itself.*

*Key words: compensation, compensation system, Equity*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

The study involves practices and challenges of compensation system of Berhan Bank. The compensation system of BrB has many difficulties and disadvantages regarding the satisfaction of its employees. Many scholars have different opinions and beliefs about compensation systems. Compensation is a fundamental component of human resource management and covers economic reward in the form of wages and salaries as well as benefits, indirect compensation or supplementary pay (Ojo, 1998). Compensation emanates basically from the fact that it provides income to workers and constitutes an important cost item to the employer (Martocchio, 2011).

Nowadays business environments run their industries through competitive business environment. In addition to this, Khan and Zarif suggested the following. In the current competitive business environment, organizations are facing a lot of challenges and among these issues, getting the right employees and retaining them is one of the most important ones. One of the main targets in any organization is adapting the changes in markets and employees' needs. (Khan and Zarif, 2011)

A Proper Compensation system plays a vital role in attracting and retaining qualified employees. In Addition, a Compensation system is very important tool that all banks can use to strait employees motivation and satisfaction in different ways. Banks give compensation and rewards to attract new employees to join their companies and to keep their qualified workforce performing to high level. Basically all types of rewards motivate employees to perform well by attracting with well-designed compensation package by banks. All employees of any bank must believe effective performance will lead to certain rewards (Malik Muhammad Shafiq, Mohammad AkramNaseem, 2013, P 2).

An organizations' compensation system can have far-reaching effects on its competitive advantage.

As compensation expert Richard Henderson (1961) noted, to develop a competitive advantage in a global economy, the compensation program of the organization must support totally the strategic plans and actions of the organization. Labor costs greatly affect competitive advantage

because they represent a large portion of a company's operating budget. By effectively controlling these costs, a firm can achieve cost leadership. The impact of labor costs on competitive advantage is particularly strong in service and labor-intensive organizations.

Compensation management is also an important tool that management can use to channel employee motivation and satisfaction in desired ways. The compensation system consists of all organization components – including people processes rules and decision making activities involved in the allocation of compensation and benefits to employees in exchange for their contribution to the organization. In order for an organization to meet its obligations to shareholders, employees and society, its top management must develop a relationship between the organization and employees that will fulfill the continuity in changing the needs of both parties.

In any profit-oriented organization, employment relationship is seen as an exchange process where employees provide inputs in terms of skills and expertise in return for various compensations from the employer. From the perspective of the employee, pay has an important influence on Standard of living, status, and security. Less direct forms of compensation such as health care, pensions and other benefits also have an important impact on employees' well being. From the employer's point of view, compensation is both a major cost of doing business that needs to be controlled, and an investment that must generate adequate returns in terms of employee attitudes, skills, behaviors, and organization performance (Heery & Noon, 2001).

Based on the above introductory background the main objective of this study is examining the practices and challenges of compensation system at Berhan Bank. Also the study aims in finding solutions on how the bank's compensation system can satisfy its employees and how to overcome the challenges of applying different compensation system in the working area.

## **1.2. Definition of Terms**

**Compensation:** - Compensation is a systematic approach to providing monetary value to employees in exchange for work performed.

**Compensation System:** -A compensation system is a system that is designed to determine amount of pay given to an employee in return for their contribution to production (Erasmus, et. al., 2001).

**Direct compensation**:-refers to monetary benefits offered and provided to employees in return of the services they provide to the organization

**Indirect compensation**:-refers to non-monetary benefits offered and provided to employees in lieu of the services provided by them to the organization.

**Base- salary:** - Base salary is the annual and monthly salary rates of an employee which are established under current personnel policy for each position.

**Overtime Pay (OT)**:-Overtime pay (OT) is always included in cash compensation. It is the pay to time worked in excess of an agreed upon time for normal working hours by an individual employee.

### **1.3. Statement of the Problem**

Compensation system is very important for an organization to compete within its industry. It is directly related to its employees but its ultimate effect goes to the organization itself. An experience of imbalanced compensation practices between monetary and non-monetary compensation in respective of Ethiopian banks could be the result of differing managerial philosophy or understanding about the purpose/objective of reward regarding its effect on job satisfaction. Also the absence of proper compensation system in a bank discourages the employees work initiation and motivation .This will put a negative impact on the customer handling and work output of the employees. As per preliminary survey and gathered data from concerned staff members of BrB, it shows a vast problem in the compensation system it follows. The problems facing the bank regarding its compensation system can be stated as follows: It pays less than other similar banks, there is inequity between employees salary who have similar jobs, adjustments and bonus allocations are unequal across branches, the bank has no proper salary scale format and when it's related to the labor market it pays less.

Therefore, the researcher intended to identify the practices and challenges of compensation system in BrB.

## **1.4. Research Questions**

1. How does the bank determine its financial compensation system?
2. What are the major compensation practices of Berhan Bank?
3. What challenges of compensation system faced by the Bank?
4. How does the bank compensation system is compared with other similar Banks?
5. How do employees perceive the compensation system of the company?

## **1.5. Objectives of the Study**

The objectives of the study are classified in to general and specific objectives

### **1.5.1. General Objective**

The general objective of this study is to examine the practices and challenges of financial compensation system in Berhan Bank.

### **1.5.2. Specific Objectives**

Specific objectives of the study are listed as follows

- To assess the banks financial compensation system
- To examine the major compensation practices of Berhan Bank.
- To analyze the challenges of compensation system faced by the Bank.
- To compare the bank's compensation system with other Banks.
- To assess the perception of employee about the compensation system of the Bank.

## **1.6. Significance of the Study**

The study is considered to be significant for the following reasons.

- It provides recommendation that would mitigate the existing problems.
- It empirically inform decision makers and other concerned parties about the existing problems and to solve the problems regarding the compensation system in the bank.
- It helps the management in designing effective compensation systems that effectively motivate employees and make them committed to the organization.

- It enables readers to know how financial compensation system is conducted at BrB and help the management to have a better understanding about the type of challenges existing in the evaluation process. This can help to solve the existing challenges.
- The finding may serve as a reference for those who have an intention for further study in the field.

### **1.7. Scope of the Study**

The study is conducted at Berhan Bank head quarter around Bole and in five city branches (Nifas silk, Saris Gumruk, Bole, Mehal Wello Sefer and Meshulkiya). The study specifically focuses on current practices and challenges of financial compensation system of BrB. Conceptually the study concerns some determinants and types of compensation like equity, banks ability to pay, employee service, value of the job, housing benefit, cost of living index, labor market, health benefit, provident fund and leave of absence .Also the research covers employees of the management, clerical and non clerical workers.

### **1.8. Limitation of the Study**

At the time of doing this study the researcher has faced with following limitations;-methodological limitation, the carelessness of respondents in completing the questionnaires and lack of access to the right data from the right person during interviews.

### **1.9 .Organization of the Paper**

The paper is organized in five chapters. The first chapter deals with the introductory parts the second chapter deals with the view of related literature and third chapter deals with the methodology .it gives highlights on research design, research population ,samples and sampling procedures, sources of data ,data gathering instruments and data analysis. The fourth chapter comprises the data analysis and interpretation .And finally the fifth chapter embraces summary of the major findings, conclusions drawn and recommendations seek to curve the problem under study. Questionnaires and interview items are annexed at the end of the research paper.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

This chapter elaborates different literature on compensation and also addresses related issues by going through definition of the concept, different theories and empirical evidence.

#### **2.1. Theoretical Literature**

##### **2.1.1. Compensation**

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction. An ideal compensation management system will help you significantly boost the performance of your employees and create a more engaged workforce that's willing to go the extra mile for your organization. A compensation system is a system that is designed to determine amount of pay given to an employee in return for their contribution to production (Erasmus, et. al., 2001).

Compensation processes are based on Compensation Philosophies and strategies and contain arrangement in the shape of Policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation (Bob, 2011). Compensation management is an integral part of human resources management approach to productivity improvement in the organization. It deals with the design, implementation and maintenance of compensation system that are geared to the improvement of organizational, team and individual performance (Armstrong, 2005).

Compensation implies having a compensation structure in which the employees who perform better are paid more than the average performing employees (Pearce, 2010). Compensation Management is concerned with the formulation and implementation of strategies and Policies



that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization.

The task in compensation administration is to develop policies and the terms of attracting, satisfying, retaining and perhaps motivating employees (Anyebe, 2003). Armstrong (2005) in his own analysis says compensation management is all about developing a positive employment relationship and psychological contract that adopts a total compensation approach which recognizes that there are a number of ways in which people can be compensated.

According to Deluca (1993) and Rajkumar (1996), compensation is defined as pay, reward, remuneration, or salary and wage management. These terms are often used interchangeably in organization. In an organization perspective, compensation is often defines as an important human resource management function where it emphasizes planning, organizing, and controlling various types of pay systems. For example, direct and indirect payments, monetary and non-monetary rewards and cash and non-cash payments, those compensation is used for rewarding employees who perform in their work or service (Noe, et al, 2004). In this research, compensation refers to all forms of financial returns and tangible services employees receive as part of employment relationship. It can be seen as a measure of justice. Normally, it is the major source of employees' financial security (Milkovich and Newman, 2008).

### **2.1.2. Compensation System**

A compensation system is a system that is designed to determine amount of pay given to an employee in return for their contribution to production (Erasmus, et. al., 2001). On its simplest level, a manager simply makes his or her best guess as to what an individual should be paid and what he or she will accept. In its most complex form, a compensation system contains many different decision rules, guidelines, and processes for determining pay level and pay structure.

A compensation system includes various components such as Pay Structure which is the relative pay differential among various jobs within the organization and how this is determined. Pay Level which is the relative amount of pay assigned to each job compared to the job market. Pay Form which is the makeup of the pay this individual receives. Basis for pay increases which illustrate how pay changes from year to year (Erasmus et al., 2001).

Compensation and benefits are the most critical factors in attracting and retaining high quality employees.

The employees' commitment and motivation are directly tied to this aspect of the employment relationship. Great employers provide generous monetary and non-monetary compensation and benefits to their workforce. Money is considered as the reward which is given to employees against work, to support their family, and payment for the work which is done. Barton (2002) suggested that organization should take into account financial rewards like salary because it has strong influence on employee motivation and retention.

An organization's compensation system can have far-reaching effects on its competitive advantage. As compensation expert Richard Henderson (1961) noted, to develop a competitive advantage in a global economy, the compensation program of the organization must support totally the strategic plans and actions of the organization. Labor costs greatly affect competitive advantage because they represent a large portion of a company's operating budget. By effectively controlling these costs, a firm can achieve cost leadership. The impact of labor costs on competitive advantage is particularly strong in service and other labor-intensive organizations. Equity considerations hold the philosophy that the compensation system should be fair and equitable. It means that compensation system should be similar for the same type of work within the organization.

Similarly, it should be fair relative to what other people get for the similar job in another organization. It is important because any imbalance between what the employees contribute and what they obtain as return would lead to greater job dissatisfaction, employee turnover and absenteeism.

### **2.1.3. Types of Financial Compensation System**

There are two types of compensation financial and non financial. Financial also divided in to two direct and indirect compensation.

#### **2.1.3.1. Direct Financial Compensation System**

The monetary benefit offered by an organization to its employees in return for their service is called direct compensation. This includes an employee's base pay (hourly wage or annual salary), performance-based variable pay, bonuses (rewards for special occasions or exceptional performance) as well as stock options (a right to purchase a part of business as a reward for exceptional service

### **2.1.3.2. Indirect Financial Compensation System**

Indirect compensation is a non-monetary benefit provided to employees in addition to their salary. These benefits are important because they can help companies in attracting and retaining talent.

Simply put, “Indirect Compensation” is a non-cash benefit provided to an employee. It is a compensation which is not paid directly to the employee. Indirect compensation is an addition to direct compensation, which is a monetary remuneration, paid directly to employees for their services. Direct compensation with additional indirect compensation makes the total remuneration package:

Total remuneration package = direct compensation + indirect compensation

### **2.1.3.3. The Importance of Indirect Compensation**

It is wise for employers to acknowledge the power that indirect compensation can play in getting and retaining employees, especially if the employees are otherwise satisfied with their direct compensation.

According to Glassdoor research, 57% of candidates report benefits being among their top considerations before accepting a job. Many employees have recognized the importance of benefits in attracting top talent. Your best job candidates are passive job seekers. Passive job seekers are those candidates who are not actively looking for a new job but would be willing to accept a better offer. Remember, a better offer doesn't necessarily mean more money. It can be a benefit like flexible working time, education, opportunities to grow, cool projects and many others.

### **Types of Indirect Compensation**

There are many different types of indirect compensation. It is worth mentioning that only a few types of indirect compensation are mandated by law (for example overtime policy). Most types of indirect compensation are optional, which means that companies are not required to offer them, but they can choose to provide them if they want.

Here is the list of the most common examples of indirect compensation:

Health insurance	Housing benefits
Life insurance	Vacation days
Disability income protection	Leave policy (sick, casual, maternity leave)
Retirement benefits	Overtime policy
Social security	Flexible working hours
Employer student loan contributions	Company car
Educational benefits	Company laptop
Childcare	Company mobile phone
Relocation benefits	

#### **2.1.4. Determinants of Compensation System**

Compensation is a primary motivator for employees. People look for jobs that not only suit their creativity and talents, but compensate them both in terms of salary and other benefits accordingly. According to Henderson (2003), the level of compensation largely depends upon organizational performance as well as operating policies and strategies. He asserted that organization ability to pay, demand and supply of labor, management philosophy and government regulations as follows: Sometimes, the organization itself evaluates where it is in order to prepare compensation plans. The position of the organization is determined by its productivity, when the productivity of the worker is high, it assesses itself as a higher position. As a consequence of it, the compensation system is determined at a higher level.

Contrary to it, in case of lower productivity, wages/salary rates tend to be low. Thus, any shift in productivity and employee performance has direct impact on the wage level of the organization. Large organizations can often pay at a higher wage rate than smaller ones. Organizations typically increase in size because their services and products are in demand. With increased size comes an economy of scale and the opportunity to increase profits with each additional product or unit of service provided.

Dessler (2005) suggested that the compensation system of an organization is determined by its ability to pay, employees productivity, labor laws and regulations, job requirement, reward systems and strategies, trade unions and organization structure.

#### **1. The Firms' Ability to Pay**

As Dessler, (2005), argues that compensation can be divided in to various parts. One way is to break it down into three parts namely, fixed -Pay, Flexible Pay and Benefits (Beard, 1986). The

other way is to divide Compensation in to two parts, Performance- based pay and Non-performance based pay. In the first classification, fixed pay is the compensation given to employees as their base salaries e.g. promotions, merit increase and cost of living increase.

These come under fixed pay because all of them become part of the employee's base salary after its effect. Flexible pay consists of two components in itself, variable pay and deferred income. Variable pay relates to commissions, bonuses, gain sharing, goal-based pay etc: where, the amount of pay is variable or its distribution is not certain, which is given usually to salespeople. Deferred income is long-term organization pay schemes e.g. profit sharing, company savings plans employee stock ownership etc. Finally we have Benefits, which include things like vacations, sick leave, company car, company house, severance pay, medical insurance, retirement benefits etc (Dessler, 2005).

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

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

## **2. Employee Productivity**

Organizations that link pay to individual performance are more likely to attract individualistic types of employees, while organizations relying more heavily on team rewards are more likely to attract more team-oriented employees.

It has been found that different pay systems attract different people depending on their personality traits and values (Judge & Bretz, 1992). The implication is that the design of compensation programs needs to be carefully coordinated with

the business and human resource strategy.

The mechanism for recognizing employee contributions differs for new and existing employees. Contributions made by new employees are recognized by varying the level of starting pay they receive. New employees usually are paid at the minimum rate unless their qualifications exceed the minimum qualifications of the job. Those exceeding minimum qualifications are paid more because they can make a greater contribution, at least initially. Existing employees' contributions usually are recognized in the form of pay raises, typically granted on the basis of seniority and performance (Henderson, 2003).

### **3. Labor Market**

The labor market conditions or supply and demand forces operate at the national, regional and local levels, and determine organizational wage structure and level. If the demand for certain skills is high and supply is low, the result is a rise in the price to be paid to these skills. When prolonged and acuter, these labor market pressures probably force most organizations to reclassify hard to fill jobs at a higher level" that suggested by the job evaluation. The other alternative is to pay higher wages if the labor supply is scarce; and lower wages when it is excessive. Similarly, if there is a great demand for labor expertise, wages rise; but if the demand for manpower skill is minimal, the wages will be relatively low.

The supply and demand compensation criterion is very closely related to the prevailing pay, comparable wage and ongoing wage concepts since; in essence, all of these remuneration standards are determined by immediate market forces and factor (Judge & Bretz, 1992).

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

### **4. Laws and Regulations**

In the early 20th century, the America government took a significant role and began to introduce several changes in many aspects of workers pay and remuneration.

This brought about Acts such as the fair Labor Standards Acts of 1938, which dictated equal pay for equal work. However, recessions dotted the following twenty years but later on the economy

boomed and government played an increasingly important role in America's workplace by ratifying the equal pay Act Executive order 11246, Title 7 of the Civil Rights Acts in 1963(McNamara, 2008). Workers' compensation (WC) laws generally vary from state to state. For instance in line with the workmen's compensation (Decree of 1987), all organizations and businesses in Nigeria provide workers' compensation coverage for the benefit of their employees who may be injured or incapacitated while on the job. This is followed by pensions Reform Act of 2003 which requires every employment to maintain a life insurance policy in favor of an employee for a minimum of 3 times the annual total emolument or pay of the employee (Aloysus, 2007).

One important implication is that a statutory minimum wage may actually result in an increase in employment, because it forces interest employers to raise their wage rates and thereby fill existing vacancies. Further work has under lined the extent to which many Labor markets could be subject to 'dynamic interest, because of the difficulties workers face in gaining accurate information about alternative jobs and the costs incurred in leaving one job and starting another (Stewart, 2001). Regardless of the effects of legislation on salaries in general, compensation continue to be influenced by several factors that are producing some important trends in compensating workers. One of such trends is aligning wages to the organizations goals. Others include tailoring compensation to the needs of employees; better salary, and pay equity (Fisk, 2001).

## **5. Job Requirements**

The factors or criteria which have influenced pay and pay increases include profit (but generally Unrelated to individual or group performance), job evaluation, seniority, cost of living, manpower shortage or surplus, negotiating strength of the parties and skills. Performance measures such as productivity or profit related to the performance of a group have been of less Importance in determining pay increases.

Though skills have been reflected in pay differentials, pay systems have been seldom geared to the encouragement of skills acquisition and application (Droar, 2006).

Modern organizations are making very significant changes in their compensation systems in order to better fit the dynamic, highly competitive business environment. Firms increasingly are using things such as skill-based pay,, which compensates employees for the number and types of skills they possess instead of the type of job they have. Similarly, there is a strong movement to

at-risk compensation, where employee pay is tied to performance. Under this system, the employee's bonus does not become part of his or her base pay. Instead, the bonus must be re earned each year.

These changes, and numerous others, are designed to help offset compensation costs by gains in productivity, and to develop more flexible work forces (Kleiman, 2000). To achieve internal consistency, a firm's employees must believe that all jobs are paid what they are worth. In other words, they must be confident that company pay rates reflect the overall importance of each person's job to the success of the organization.

Because some jobs afford a greater opportunity than others to contribute, those holding such jobs should receive greater pay. For pay rates to be internally consistent, an organization first must determine the overall importance or worth of each job. A job's worth typically is assessed through a systematic process known as job evaluation. In general, the evaluation is based on informed judgments regarding such things as the amount of skill and effort required to perform the job, the difficulty of the job, and the amount of responsibility assumed by the jobholder (Mathis & John, 2006).

A firm achieves external competitiveness when employees perceive that their pay is fair in relation to what their counterparts in other organizations earn. To become externally competitive, organizations must first learn what other employers are paying and then make a decision regarding just how competitive they want to be. They then establish pay rates consistent with this decision. The firm begins by conducting or acquiring a salary survey. This survey provides information on pay rates offered by a firm's competitors for certain benchmark jobs i.e., jobs that are performed in a similar manner in all companies and can thus serve as a basis for making meaningful comparisons. Some firms gather this information from existing surveys already conducted by others, such as those produced by the Bureau of Labor Statistics (Milkovich, & Jerry, 2005).

An increasing number of organizations are trying to link pay to performance, through programs such as variable or incentive pay, where a percentage increase in pay depends on the employee's achievement of predetermined measurable goals; skill-based pay, where

## **6. Cost of Living Index**

The cost of living index compares the cost of living in a major city to a corresponding metropolitan area. The index incorporates the expense of various living expenses creating an aggregate measure that workforce entrants can use as a benchmark. As college graduates weigh



employment alternatives and currently employed job seekers consider relocation, the index provides an informative snapshot of rental, transportation and grocery costs. Different indexes may calculate living expenses differently.

### **Components of Compensation**

As Zhou, Qian, Henan and Lei (2009) stated that compensation provides competitive base salary levels necessary to attract and retain talent and compensates for day-to-day responsibilities performed at fully acceptable level and above. Chen and Brian (2004) propose that the types of compensation typically contain the following components base salary, overtime pay (OT), bonuses, commissions, the dollar value of restricted stock awards and gains from exercising stock options, profit sharing, and so on. The following is the definition for the two components of compensation.

- **Base-Salary**

Base- salary is the annual and monthly salary rates of an employee which are established under current personnel policy for each position. Besides, base- salary is to represent the employee's straight-time pay for a standard 40- hour workweek (Anonymous, 2007). Base- salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis. In other view of running a business, base- salary can also be viewed as the cost of acquiring human resources for running operations, and is then termed personnel expense or salary expense. Besides, Henderson (2006) and Young (1999) are stated that base-salary is a base pay that is given to employees on a weekly, monthly or yearly basis based on job structure.

### **Overtime Pay (OT)**

Overtime pay (OT) is always included in cash compensation. It is the pay to time worked in excess of an agreed upon time for normal working hours by an individual employee (Answers.com, 2008). In addition, Overtime Pay (OT) is defines as the payment of premium time and one-half rates in form of monetary compensation or time off is required for hours worked in excess of 40 in one a week, with exception of those considered exempt. The overtime pay rate usually is 1.5 times of base wage per hour (Anonymous, 2007).

- **Bonus**

Bonus is referred to as a cash payment provided to employees based on their performance. For example, monetary incentives for achieving job targets (Bloom & Milkovich, 1998; Gupta & Shaw, 1998; Lowery, Beadles, Petty, Amsler & Thompson, 2002). Steven and Loring (1996) stated that bonus is a single, one-off, lump-sum payment which can be in the form of cash or other creative monetary scheme, such as stock options. Bonus is defined as all payments to employees which is not paid regularly at each pay period, for example bonuses paid at fixed periods. Besides, bonus payments are generally linked to individual or collective performance. Bonus can be distributed randomly as the company can afford to pay a bonus, or the amount of the bonus pay can be specified by contract (Anonymous, no date).

## **2.1.5. Theories of Compensation**

### **2.1.5.1. Equity Theory**

Pay systems are designed to attract, retain and motivate employees. The most important objective of any pay system is fairness or equity. Equity can be assessed on at least three dimensions; Internal Equity, External Equity and Individual Equity (Cascio, 2006). Early studies indicate that inequitable treatment directly affects and influences employee behavior and performance. In Equity Theory towards a General Theory of Social Interaction (The Academic Press, 1976), J. Stacy Adams proposed that an employee continuously monitors his or her inputs and outputs on the job, and perceives an equitable situation when the ratio of his or her inputs and outputs are equal, to those of other employees. If this ratio is not equal, the employee may feel angry as a result of not being paid enough or guilty as a result of being paid too much. Perceptions of inequity are expected to cause employees to take actions to restore equity.

According to Cardy, Miller & Ellis (2007), in an organization, employees will have a level of perceived equity," which is how the employee perceives what they get from the organization in comparison to what they could get at other organizations. Perceived equity is divided into three groups: value equity, brand equity, and retention equity. Perceived equity can be linked to the idea of opportunity cost; in this case it is the opportunity cost of working at one place over another. Employees weigh that decision throughout their time at a given organization, and once the opportunity cost is no longer in their favor, they're at a high risk of leaving. Therefore,

organizations will benefit from a closer analysis of perceived equity to create higher retention rates. Long-term employees that have maintained high job performance and increased productivity for the organization should be valued and treated preferentially, so that they will continue to maintain their strong commitment to the organization. Internally, equity can be expressed in terms of employees who perform similar Jobs or those who perform dissimilar jobs, those who work within the same department or those who work in different departments. Similarly externally, equity can be expressed in terms of employees who work in the same industry or in different industries, those in the same union or in the same profession, In the same geographic location, Or in different geographic locations, In organizations of similar size or in organizations of differing sizes. On the other hand, Individual equity exists when an employer compensates individuals who are in similar jobs on the basis of variations in individual performance-so-called pay for performance. Excellent performers, for example, would receive more compensation than average performers (Henderson, 2003).

According to Cowherd and Levine (1992) used a sample 102 business units in 41 corporations to examine whether the size of the pay differential between lower-level employees and top management had any impact on product quality. Cowherd and Levine suggest that individuals often compare their pay to that of people higher in the organization structure. If lower-level employees feel inequitably treated, they may seek to reduce their effort to achieve equity. Quality, in their study, was defined as customer perceptions of the quality of goods and services. They hypothesized that extra role, or citizenship behaviors, such as freely offering to help others, following the spirit rather than letter of rules, and correcting errors that would ordinarily escape notice, would be less likely when pay differentials between hourly and top managerial employees were large. Their results supported this hypothesis, suggesting that organizations need to take care that they not forget the potential adverse motivational consequences of executive pay for the motivation of other employees.

#### **2.1.5.2. Agency Theory**

Until recently best known in the economics, finance, and law literature, focuses on the divergent interests and goals of the organization's stakeholders, and the ways that employee compensation can be used to align these interests and goals (Eisenhardt, 1989). Ownership and management are typically separate in the modern corporation.

With most stockholders far removed from day-to-day operations, so-called agency costs i.e., costs that arise from the interests of the principals/owners and their Agents/managers not

converging are created. What is best for the agent/manager may not be best for the owner (Lambert & Larcker, 1989).

According to Mahaney and Lederer, (2003), agency theory is also of value in the analysis and design of non-managers' compensation. In this case, the divergence of interests may exist between managers now in the role of principals and their employees who take on the role of agents in designing managerial or non -managerial compensation. Agency theory says that the principal must choose a contracting scheme that helps align the interests of the agent with the principal's own interests i.e., reduces agency costs. These contracts can be classified as either behavior oriented e.g., merit pay or outcome oriented e.g., stock options, profit sharing, commissions. At first blush, outcome -oriented contracts seem to be the obvious solution.

If profits are high, compensation goes up. If profits go down, compensation goes down. The interests of "the firm" and employees are aligned. An important drawback, however, is that such contracts increase the amount of risk borne by the agent. Furthermore, because agents are averse to risk, they may require higher pay (a compensating wage differential) to make up for it (Fisk, 2001).

### **2.1.5.3. Reinforcement and Expectancy Theories**

Reinforcement theory was propounded by Skinner (1938). This theory holds that individuals can actually be motivated by their work environment when it is properly developed. Hence, rather than considering internal factors such as attitudes, feelings, impressions and other cognitive behavior, employers should keep on making positive changes in the external environment of the organization. It emphasizes the importance of a person's actual experience of a reward, and the implication of this for compensation management is that high employee performance followed by a monetary reward will make future high performance more likely.

Another theory that is relevant to the study is the Expectancy theory propounded by Victor Vroom (1964). This theory though focuses on the link between rewards and behavior too emphasizes expected rewards rather than experienced rewards. In other words, it is mainly concerned with effects of incentives. It stresses that behaviors (job performance) can be described as a function of ability and motivation while motivation is a function of expectancy, instrumentality, and valence perceptions. Expectancy perceptions often have more to do with job design and training than pay systems. Extrinsic motivation depends on rewards – such as pay and benefits – which are controlled by an external source whereas intrinsic motivation depends

on rewards that flow naturally from work itself. Therefore, while it is important to keep in mind that money is not the only effective way to motivate behavior, and that money rewards will not always be the answer to motivation problems, it does not appear that monetary rewards run much risk of compromising intrinsic motivation in most work settings.

## **2.2. Empirical Review**

The thesis conducted by Mengistu Matino by the title of practices compensation system (July 2010), The study gives especial focus on nine private banks in Wolaita Sodo City includes: Abyssinia Bank, Abay bank, Awash Bank, Brihan Bank, Dashen Bank, Dehub Global Bank, Hibret Bank and Nib Bank, Oromiya Bank. The banks are working best for their survival and to stay connected with different benefits. These all have expert/workers who handled the customers. These workers need compensation to stay long period with that bank by gaining according to their performance. So that, this research tries to examine practice and challenges compensation system in nine private banks in wolayta sodo.if the compensation is not practiced in a good manner, it lowers employee's performance; they will have low productivity and creates employees' carelessness and becomes the cause of interruption of customer service.

For most employers the workers compensation claim process occurs behind the scenes. Many transactions between the injured employee and private bank companies are carried out unknown to the employer. However there are many common problems associated with the claim process that ultimately have an impact on the employer's workers compensation program and pricing.

Compensation plays an important role in an organizations ability to attract and retain qualified and high performance workers. If employees will compensate in good manner, they will create good working habit and achieve goals of the organization

In consideration of these problems, the researcher intended to conduct the research on compensation effectiveness at private banks in Wolaita Sodo branch whether their compensation plan/system that they are giving is effective or not.In line with the above reality the resarch intended to give solution for the following resarch questions ,What are the factors that affect compensations effective at Wolaita Sodo private banks, Is the private banks compensation is effective and What are the challenges of compensation plan is effective and ineffective at banks.

The employees who work in private Banks in Wolaita Sodo branch was the target population of the study. The representation of research design basis and the element selection technique used the sample that should be non-probability sampling. Sample design element selection technique was restricted sampling probability of stratified sampling .

Stratified sampling method was used to collect data form total population . The reason is the total populating was not manageable to get acquire relevant information from each employee in the organization. And Both primary and secondary sources used to get the required information. The primary data was collected from employees through questionnaires and though interview, which were both structured and uninstructed.

Finally the researcher recommends the bank as follows, Compensation system is needed to attract and retain employees. So in order to utilize the compensation effectively, recommend that: if it is effective compensation available to the workers/experts, it is better to compensate based on employees performance and it avoids employees dissatisfaction and increases employee's moral. If the private banks compensation is effective, it is better to compensate employees based on the on their work effort rather than use centralized compensation system.

Although, the researcher advice compensation is better for organizations provided frequently to motivate, compensate employees and they have a better achievement for the organizations' success. It is better the organization to the private bank sectors to improve the payment according to their contribution in the organization due to sustainability. When the government changes and proclaims the new things in monetary system or making very high the public sectors, there are more probability to the experts to shift. That any private bank sector should look critically what the government have been doing in view point of compensations, salaries and other benefits.

Another thesis conducted by Eman Fuad ( July 2010), assessment on compensation and Benefit package practice in Ethiopian Road Authority .The finding shows that the absence of employees discussion in preparing compensation plan in organization not only this they don't know from where they can get information regarding the compensation plan of the organization. Employees are unsatisfied with the current monetary incentives bonus and son on. In general his finding shows that satisfaction level of employees with the existing remuneration system of the organization is limited in case of salary.

This means employees may not stay in the organization for long period of time and this may not lead to increase turnover and absenteeism of the organization. He also recommend that the company attention should be given for improvement in area of existing remunerating system to increase the level of satisfaction of employees; the organization could be able to allocate appropriate remuneration system for satisfaction of employees and also he recommend the organization should administer the salary scale fairly based on the responsibility they have qualified and relevant year of experience to retain and motivate employees for higher performance.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

The objective of this research is to examine the practices and challenges of compensation system in Berhan Bank S.C. To this end, this chapter aims to give an overview of the research design and methodology of the study used to investigate the research problem. Thus, the research design, the data sources, population and the sampling technique, measuring instrument, data processing and analysis using statistical tools that are used in the entire study are presented in this chapter.

#### **3.1. The Research Design And Approach**

According to Creswell (2009), research designs are plans and the procedures for research that span from broad assumptions to detailed methods of data collection and analysis. Research design usually refers to the blue print of the research.”

In order to describe the practices and challenges of financial compensation system at Berhan Bank S.C, descriptive research design was employed. Descriptive research is used to obtain information concerning the current status of phenomena to describe “what exist” with respect to variable or conditions in a situation .Quantitative data was collected from staff members using self administered questionnaires .Also qualitative data was collected through interviews from managers .The reason that this instruments was chosen is because of their ability to collect the primary data accurately.

The study focuses on reveling the current practices and challenges of financial compensation system at BrB. To this effect descriptive design was employed on the assumption that it helps to gather a sufficient data related to the subject under the study. Therefore, this section of the study revealed sources of data , how study areas were identified and how samples were selected.



## **3.2. Sample Size, Population and Sampling Techniques**

### **3.2.1. Research Population**

Creswell (2009) point out that, “Population is the group of interest to the researcher, the group to whom the researcher would like to generalize the results of the study. Jankowicz (1995) points out that in order to draw a sample; you have to know how many people are in the population, and how this total is made up from people falling into various subgroups in which you might be interested. So that the total number of the population of this study is 500.

### **3.2.2. Sampling Size**

The sample size is a given fraction drawn out of the population to represent them. The sample size is also dependent up on time; available budget and the necessary degree of precision The sample were selected from the total population of 500 employees including . Hence sample employees were selected by using the Taro Yamane (1973) formula.

**$NY = N/(1+Ne^2)$ .....where N=Total population, E=error level percent confidence interval or alpha level i.e. 0.05**

$$NY = 500 / (1 + 500 \times (0.05)^2)$$

$$500 / (1 + 1.25)$$

$$= 222$$

Thus, sample size of this study was 222 employees of BrB. Here it can be interpreted that the sample size of 222 employees represents the population. The respondent of the study were requested to complete the structured questionnaire on voluntary basis.

### **3.2.3. Sampling Techniques**

A random sampling technique was used in obtaining information for the research. In this sampling method the researcher selected individuals who could give the required information for

the study randomly. This method has the ability to gather adequate information from employees in the bank.

Table 3.1 Population, Sample Sizes and Response Rates

No	Item	Employee Number
1	Population	500
2	Sample size	222
3	Responses	222

Source: Calculated by the Researcher

### 3.3. Data Sources

Data are obtained from both primary and secondary sources. The primary data was gathered by conducting interview, through questionnaires filled by employees and the management bodies .The secondary data was collected from sources such as books, journals and from internet.

### 3.4. Data Gathering Instruments

Questionnaires and unstructured interview were prepared for the staffs of BrB to the data collection.

#### 3.4.1. Designing the Questionnaire

Questionnaire consisting two sections was developed to collect the primary data for the study and it was prepared in English version. Questionnaire tool was appropriate in this study because all sample individuals were expected to be literate. The first sections was used to gather profile of BrB staffs and to collect information regarding employee knowledge towards the research title respectively. The second section contains 38 statements and used to identify and measure the key aspects of compensation system. Each statements corresponds to determinant and theories of compensation The questionnaire comprises a 5 point Likert scale of 1 - 5 where, 1 shows high level of disagreement and 5 shows high level of agreement. The respondents were instructed during the administration of the questions by the researcher to mark the most suitable

answer. Respondents were also required to answer intelligently and given to employees at evaluation period.

### **3.4.2. Unstructured Interview**

In order to obtain information from managers interview method was used. Using unstructured interview format has a good advantage in obtaining an in depth information for phrased question on the topic. This method gives the researcher an opportunity to make face to face contact with the interviewees. This enables the interviewer to clarify the question for the interviewees.

On this study ten unstructured interview questions were constructed on the bases of practices and challenges of compensation system.

### **3.5. Procedures of Data Collection**

First the researcher collected an introductory letter from SMU, School of Graduate to the examined organization. This assisted to increase the willingness and participation of the staffs for data collection. The researcher hired and oriented part time field workers to deliver and collect the questionnaires. The orientation was carried out in two sessions; first the researcher tested the questionnaires with a small sample of 30 respondents as a pilot test. Secondly, the questionnaires were corrected and refined for the final data collection stage.

To accomplish this effectively the researcher carefully supervised the pilot test, delivery and collection process; this ensured the quality of data obtained. Being a cross sectional survey, the data were collected at just a point in time. Secondary sources of data supported the primary data. Also the data collection through the interview was conducted by speaking to the respondents face to face. Before conducting the interview, necessary understanding was established with respondents by creating a conducive atmosphere and explaining clearly what the purpose of the interview was. The respondents were also assured that responses were kept in absolute confidentiality. They were also assured that they were held responsible for the research outcome and reported only as part of the entire group responses. Finally SPSS database was used for the investigation and analysis purpose the collected data.

### **3.6. Pilot Testing**

### 3.6.1. Reliability Test

Cronbach's Alpha coefficient is typically equated with internal consistency De Vellis (1991). The Cronbach's Alpha is interpreted as a coefficient Alpha and its value ranges from 0 to 1. Sekaran (2000) explained that when calculating Cronbach's reliability coefficient, reliability less than 0.6 are considered poor, reliability within 0.7 ranges are considered acceptable and those coefficients over 0.8 are considered good.

Based on this criterion, Cronbach's Alpha reliability coefficient was calculated to estimate the reliability of the data collection instrument and results are given Table 3.2. The average Cronbach's Alpha reliability coefficient for all variables was 0.943 as indicated in Table 3.2, which is good. The results in Table 3.2 indicate average Cronbach's Alpha reliability coefficient for each independent and dependent variables, which were reasonably good Alphas. Moreover, APPENDIX C displayed the entire reliability test of the questionnaire. Therefore, for this research, the Cronbach's Alpha Reliability test resulted 0.943 which is considered very reliable. The data collection instrument was a reliable measure of the employees' perception to the banks compensation system.

Table 3.2: Average Cronbach's Alpha Reliability test

Cronbach's Alpha	No of items
0.943	30

Source: Calculated From the Researcher Survey Data, 2019

### 3.6.2. Predictive Validity

Predictive validity is the extent to which a score on a scale or test predicts scores on some criterion measure Cronbach & Meehl; as cited in Gleam & Rosemart (2003). So in APPENDIX D displayed the result of validity test.

### 3.7. Method of Data Analysis

The data collected through the survey questionnaires were coded, organized and analyzed using statistical package for social sciences (version SPSS) 20. In order to analyze the data descriptive statistics were used.

Descriptive statistics including frequency and percentage were used to report the profiles of participants to provide a comparative representation of the findings for the research question.

### **3.8. Ethical Considerations**

Ethical considerations of confidentiality and privacy were addressed. A concerted and conscious effort was made at all times to uphold this promise. A guarantee was given to the BrB respondents that their names were not revealed in the research report. In order to ensure the success of the research, finally, the organization was given a copy of the final research study.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

This Chapter present and discuss the demographic characteristics and the response frequency to different questions. The previous chapter discussed the methodology followed within this research study. The chapter tried to cover study areas like research design, population, sample size, the instrument used and its reliability and validity; the process of data collection, capturing and analysis, the calculation of Cronbach's Alpha coefficient and ethical consideration.

#### 4.1. RESPONSE RATE

The Previous chapter presented that 222 employees surveyed in the sample, and all of them responded the questionnaires successfully. This was a result of Behan Bank managers, who were helpful in accepting, dispersing and collecting the questionnaires.

Table 4.1 Response Rate

Response Rate			
	Collected	Uncollected	Total
Number of questionnaires	222	0	222
Percentage	100%	0	100

Source: Calculated From the Researcher Survey Data, 2019

#### 4.2. DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

The table 4.2 below illustrated demographic characteristics like gender, age, academic qualification and year of experience of the respondents. Table 4.1 shows that distribution of male respondents is 46.8% and of females is 53.2%. This shows that it is almost of equal value with a slight increment in females. The age division is illustrated in table 4.1 showing that

75.2% of the respondents were between the age of 25 to 35 and thus majority of the respondents are relatively young.

The academic qualification table illustrates that 67% respondents have Degree. Also table 4.1 shows 53.2% of respondents have 2-5year experience, 35.1% have 5-10year experience and above 10 years are 11.3%. It shows that most of the sample population has 2-5 years' experience.

Table 4.2: The Demographic Response in % of the Sample Population

Demographic type	Variables	Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	104	46.8	46.8	46.8
	Female	118	53.2	53.2	100
	<b>Total</b>	<b>222</b>	<b>100</b>	<b>100</b>	
Age	Below 25	6	2.7	2.7	2.7
	25-35 year	167	75.2	75.2	77.9
	36-45 year	49	22.1	22.1	100
	<b>Total</b>	<b>222</b>	<b>100</b>	<b>100</b>	
Academic Qualification	Diploma	14	6.3	6.3	6.3
	Degree	149	67.1	67.1	73.4
	Masters	59	26.6	26.6	100
	<b>Total</b>	<b>222</b>	<b>100</b>	<b>100</b>	
Experience Year in the Bank	2-5 years	118	53.2	53.2	53.2
	5-10 years	78	35.1	35.1	88.3
	Above 10 years	26	11.7	11.7	100
	<b>Total</b>	<b>222</b>	<b>100</b>	<b>100</b>	

Source: survey data (2019)

### 4.3. Data Analysis and Interpretation

#### 4.3.1 Descriptive Analysis

The researcher prepared two hundred twenty two questionnaires by Likert scale with 38 statements. The entire questionnaires were distributed by using random sampling method. All the questionnaires were collected properly .After that the collected data was analyzed through frequency, percentage ,mean and aggregate mean using version 20 SPSS software and to make the interpretations understandable, the mean score is converted to percentage score using the formula (Rao and Abraham 1991) cited in HRD Climate and Job Satisfaction in the Public Sector of

Ethiopia by Mulatu Takele as climate percentage score= (mean value-1)\*25 ; where the score 1 corresponds to 0%, 2 represents 25%, 3 corresponds to 50%, 4 represents 75% and 5 represents 100%. It is certainly desirable to have percentage scores at least above 50% (average) on each item to have moderate HRD climate.

As Rao (1991) noted, if the score 60% and above it do have a good developmental climate, and if the score 75% and above there is a good degree of improvement desirable in the organization and presumed that at this level there are conducive HRD policies and practices and most employees have positive attitudes towards their work and the organization. Although the data analysis organized through ten table format and interprets by its mean and aggregate mean.

**Table 4.3.1.1: Employee Response on Equity**



Statement	Response	Frequency	%	Mean	Aggregate mean
Employees performing similar jobs will receive the same salary	Strongly Disagree	17	7.7	2.62	2.59
	Disagree	119	53.6		
	Neutral	27	12.2		
	Agree	49	22.1		
	Strongly Agree	10	4.5		
I am Satisfied in the internal equity of yearly Bonus	Total	222	100	2.56	
	Strongly Disagree	14.00	6.30		
	Disagree	117	52.7		
	Neutral	51	23		
	Agree	33	14.9		
I am satisfied with my opportunities for pay raises and bonuses	Strongly Agree	7	3.2	2.4	
	Total	222	100		
	Strongly Disagree	33	14.9		
	Disagree	114	51.4		
	Neutral	34	15.3		
Overall ,monthly salary is more attractive when compared to sister companies	Agree	35	15.8	2.75	
	Strongly Agree	6	2.7		
	Total	222	100		
	Strongly Disagree	20	9		
	Disagree	88	39.6		
Fair salary increment is available by the bank	Neutral	56	25.2	2.62	
	Agree	44	19.8		
	Strongly Agree	14	6.3		
	Total	222	100		
	Strongly Disagree	19	8.6		
Fair salary increment is available by the bank	Disagree	104	46.8	2.62	
	Neutral	51	23		
	Agree	39	17.6		
	Strongly Agree	9	4.1		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.1 shows employee Response of equity .The table tried to address whether the BrB has built compensation system that can address equity in the bank.

As the above table shows the mean value for the statement of employees performing similar jobs will receive the same salary is 2.62 which falls in the range of poor, that means the bank have no proper compensation system to pay the same salary for those employees who perform similar jobs. According to this finding the bank recommended to adjust its salary scale to create equity.

Although the mean value for statement of I am satisfied in the internal equity of yearly Bonus is 2.56 which falls in the range of disagree. This indicates employees are not satisfied in their yearly bonus and it indicates difference in bonus payment across branches.

As we can see in the above table 2.4 is the mean value for the statement of I am satisfied with my opportunities for pay raises and bonuses. As the mean value indicate opportunities for pay raises and bonuses is not at satisfactory level. For the statement of overall, monthly salary is more attractive when compared to sister companies is 2.75. Thus the mean value shows poor level that means other sister companies pays more than BrB.

The last statement under table 4.3.1 is fair salary increment is available in the bank. The mean value for this statement is 2.62 which show the presence of unfair salary increments across employees, that mean the bank does not consider year of experience and skill during salary increment.

Finally as the above table illustrates, the aggregate mean value is 2.59 and percentage score  $(2.59-1)*25=39.75\%$  which indicates poor level. Thus it implies there is absence of equity in the bank and it needs top management revise their practices to approve their practice in equity.

### **Table 4.3.1.2: Employee Response on the Bank's Ability to Pay**

Statement	Response	Frequency	%	Mean	Aggregate mean
The level of compensation largely depends up on the banks performance	Strongly Disagree	29	13	2.44	2.476
	Disagree	109	49		
	Neutral	50	23		
	Agree	25	11		
	Strongly Agree	9	4		
	Total	222	100		
When there is an increase in bank's financial ability salary will increase	Strongly Disagree	17	8	2.54	2.476
	Disagree	123	55		
	Neutral	34	15		
	Agree	42	19		
	Strongly Agree	6	3		
	Total	222	100		
The bank has high potential to pay during overtime work	Strongly Disagree	12	5	2.52	2.476
	Disagree	119	54		
	Neutral	61	28		
	Agree	23	10		
	Strongly Agree	7	3		
	Total	222	100		
Financial ability of the bank determine yearly salary increment and bonus allocations	Strongly Disagree	39	18	2.44	2.476
	Disagree	91	41		
	Neutral	50	23		
	Agree	40	18		
	Strongly Agree	2	1		
	Total	222	100		
Financial ability of the bank determine its budget allocation	Strongly Disagree	48	22	2.44	2.476
	Disagree	80	36		
	Neutral	49	22		
	Agree	38	17		
	Strongly Agree	7	3		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.2 shows responses for the Bank's Ability to Pay and it tried to address whether the BrB has the potential to pay its employees properly or not and effects of bank's ability to pay on salary increment.

According to the above table the mean value for the statement of the level of compensation largely depends up on the banks performance is 2.44 which is under the range of poor level

.That means the bank will not be willing to improve its compensation system whether there is an increase in its performance. Statement two of the above table resulted in mean of 2.54 which shows the bank will not increase its employee's salary when there is unconditional increase in their performance.

As we can see in the above table 4.3.1.2 the mean value for statement the bank has high potential to pay during overtime work is 2.52 which indicate employees perform their overtime work with fewer amounts. The bank has the ability to pay better in OT jobs but as the above table mentioned ,it prefers to handle OT jobs with fewer amounts.

For the statement financial ability of the bank determine yearly salary increment and bonus allocations the mean value is 2.44 which is under the range of poor level which means salary increment and bonus allocations is allocated based on yearly performance of the employees and branches. The last table under table 4.3.1.2 is financial ability of the bank determine its budget allocation with the mean value of 2.44 which is at poor level.

Lastly, the above table illustrates that the aggregate mean value is 2.476 and percentage score  $(2.476-1)*25=36.9\%$  which indicates poor degree. Hence it implies bank's ability to pay is very unsatisfactory and it must make amends to improve its practice.

### **Table 4.3.1.3: Employee Responses on Employee Services**

Statement	Response	Frequency	%	Mean	Aggregate mean
The bank gives equal opportunity for all its employees regarding educational benefits.	Strongly Disagree	16	7.2	3.09	
	Disagree	50	22.5		
	Neutral	85	38.3		
	Agree	39	17.6		
	Strongly Agree	32	14.4		
	Total	222	100		
The Bank's offer to teach its employees up to Degree level is satisfactory.	Strongly Disagree	11.00	5.00	2.91	2.3825
	Disagree	67	30.2		
	Neutral	83	37.4		
	Agree	54	24.3		
	Strongly Agree	7	3.2		
	Total	222	100		
The bank has subsidize cafeteria service for its employees	Strongly Disagree	86	38.7	1.78	
	Disagree	112	50.5		
	Neutral	15	6.8		
	Agree	5	2.3		
	Strongly Agree	4	1.8		
	Total	222	100		
I am satisfied with the gift package the bank offers for weddings	Strongly Disagree	86.00	38.70	1.75	
	Disagree	106	47.7		
	Neutral	29	13.1		
	Agree	1	0.5		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.3 shows responses on employee service and the table tried to address whether the BrB prepare different employee service or not.

As the table 4.3.1.3 shows the first statement i.e. the bank gives equal opportunity for all its employees regarding educational benefits has the mean value 3.09 which is at moderate level .It implies that BRB is giving equal chance for those employees who needs educational benefit. Although, the statement i.e., the bank's offer to teach its employees up to Degree level is satisfactory has the mean value 2.91 which dissatisfied the employees. This indicates that BrB must extend its level of education to be competent through the industry.

As it has been shown in the above table the third statement i.e., the bank has subsidize cafeteria service for its employees has the mean value 1.78 which is at very poor level. So this mean value indicates that the bank should include this service in the policy to attract more employees. The last statement for the above table is I am satisfied with the gift package the bank offers for weddings

has the mean value 1.75 which is also at poor level. So it indicates that the bank has no gift package for its employees

Finally, the above table illustrates that the aggregate mean value is 2.38 and percentage the score  $(2.38-1)*25=34.5\%$  which indicates very poor status. It implies compensation system regarding employee service in the bank is at poor level and top management needs to improve policies and practices to attract younger, educated employees from the labor market.

**Table 4.3.1.4: Employee Response on Value of the Job**

Statement	Response	Frequency	%	Mean	Aggregate mean
There is job evaluation in the bank	Strongly Disagree	1	1	4.01	3.0725
	Disagree	1	1		
	Neutral	20	9		
	Agree	172	78		
	Strongly Agree	28	13		
	Total	222	100		
The bank prepare paying scale after jobs are evaluated	Strongly Disagree	17	8	3.16	
	Disagree	35	16		
	Neutral	93	42		
	Agree	50	23		
	Strongly Agree	27	12		
	Total	222	100		
The bank considers the level of complexity in a job and pays accordingly	Strongly Disagree	22	10	2.5	
	Disagree	112	51		
	Neutral	45	20		
	Agree	41	19		
	Strongly Agree	2	1		
	Total	222	100		
The bank uses skilled-based pay	Strongly Disagree	24	11	2.62	
	Disagree	75	34		
	Neutral	88	40		
	Agree	32	14		
	Strongly Agree	3	1		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.4 demonstrates responses employees on value of the jobs and the table tried to address whether the BrB consider the value of jobs.

Now a days, firms increasingly are using practices such as skill-based pay, which compensates employees for the number and types of skills they possess instead of the type of job they have

with mean value of 4.01 .It implies desirable mean level, which means the bank properly evaluate its jobs level of complexity.

Under the statement of the bank prepare paying scale after jobs are evaluated shows moderate level . It implies that the bank prepare scale for those evaluated jobs.

The above table shows for the third statement which is, The bank considers the level of complexity in a job and pays accordingly with mean value 2.5 .This demonstrate that the bank did not consider level of job complexity through preparing paying scale rather the bank use its own paying system. The last statement which is the bank uses skilled-based pay mean value is 2.65 .It implies that the bank is not in the way of using skill based pay which dissatisfy its employees.

Table table 4.3.1.3 illustrates that the aggregate mean value is 3.07 and percentage score  $(3.07-1)*25=51.75\%$  which indicates moderate level. Thus it implies the bank’s attitude on value of a job is an average level and should be improved to become a better competitor in the market.

**Table 4.3.1.5: Employee Response on Housing Benefit Given By the Bank**

Statement	Response	Frequency	%	Mean	Aggregate mean
The bank has housing benefit for its employees	Strongly Disagree	57	26	2.39	2.305
	Disagree	103	46		
	Neutral	6	3		
	Agree	31	14		
	Strongly Agree	25	11		
	Total	222	100		
Housing benefit is fully covered by the bank	Strongly Disagree	60	27	2.22	
	Disagree	112	51		
	Neutral	1	1		
	Agree	40	18		
	Strongly Agree	9	4		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.5 indicates responses on housing benefit given by the bank. Also the table tried to cover the BrB prepare housing benefits for its employees or not.

Under statement one which is the bank has housing benefit for its employees under mean value of 2.39, which illustrates the bank, have no any housing allowance for its employees. Statement two is about housing benefits is fully covered by the bank with mean value of 2.22 which is under very poor level which implies that the bank is not fully covered housing loan for its employees

rather it covers 80% of the actual selling amount. As it has been shown in the above table that the aggregate mean value is 2.31 and percentage score  $(2.31-1)*25=32.75\%$  which indicates very poor status. Housing benefit is a major compensation system in any organization. It includes housing allowance for rent, for electricity, for food and the like. Hence, it implies housing benefit is at very poor level and top management needs to improve policies and practices on housing benefits to be competent with other sister companies.

**Table 4.3.1.6: Employee response on Cost of Living Index**

Statement	Response	Frequency	%	Mean	Aggregate mean
When there is inflation in the country the bank will make pay rise	Strongly Disagree	36	16	2.13	2.91
	Disagree	127	57		
	Neutral	54	24		
	Agree	4	2		
	Strongly Agree	1	1		
	Total	222	100		
The bank pays enough so that the employees have standard life style to current economic situation	Strongly Disagree	15	7	3.05	
	Disagree	43	19		
	Neutral	81	37		
	Agree	83	37		
	Total	222	100		
Salaries are typically adjusted annually	Strongly Disagree	20	9	3.31	
	Disagree	25	11		
	Neutral	47	21		
	Agree	126	57		
	Total	222	100		
The bank make adjustments in salary when an employee moves into expensive economic area	Strongly Disagree	20	9	3.15	
	Disagree	31	14		
	Neutral	66	30		
	Agree	105	47		
	Total	222	100		

Source own survey, 2019



Table 4.3.1.6 shows responses on Cost of Living Index. And the table tried to address how the banks react with changing economic situation.

The mean value for statement number one is 2.13 .That shows any economic change does not affect compensation system of the bank. Also the second statement that is, the bank pays enough so that the employees have standard life style to current economic situation has moderate mean value ,this implies the payment is under normal circumstance to live standard life.

As the third statement shows 3.31 is the mean value. Which demonstrate the bank is in the level paying its employees which can enable them to live according to the economic situation.

Compensation system should consider expensive areas to live in to account by preparing special pay rise and bonus . So after having this in to account the mean value of the last statement is the bank make adjustments in salary when an employee moves into expensive economic area is at moderate level.

Lastly the above table mentioned that the aggregate mean value is 2.91 and percentage score  $(2.91-1)*25=47.75\%$  which indicates very poor status according to Rao 1991 .Cost of living index is a major challenge to consider in any organization and needs special attention. Inflation in the economy is an example to be stated. But the bank top management did not consider it as a major criteria and it clearly shows on the percentage score. It better to give special attention so as to meet the employees' job satisfaction and thus good work output.

**Table 4.3.1.7: Employee Response on Labor Market**

Statement	Response	Frequency	%	Mean	Aggregate mean
I am satisfied by my salary when compare to the market	Strongly Disagree	22	10	2.58	2.905
	Disagree	121	55		
	Neutral	15	7		
	Agree	57	26		
	Strongly Agree	7	3		
	Total	222	100		
Supply and Demand forces, operate and determine the banks' salary structure and level	Strongly Disagree	4	2	3.06	
	Disagree	37	17		
	Neutral	130	59		
	Agree	43	19		
	Strongly Agree	8	4		
	Total	222	100		
When there is a great demand for labor expertise the bank salary rise	Strongly Disagree	20	9	2.86	
	Disagree	28	13		
	Neutral	138	62		
	Agree	36	16		
	Strongly Agree	0	0		
	Total	222	100		
When an employee acquires experience and gets a promotion the salary raise is satisfactrywhen compared to the market	Strongly Disagree	17	8	3.12	
	Disagree	49	22		
	Neutral	50	23		
	Agree	103	46		
	Strongly Agree	3	1		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.7 demonstrates responses of labor market. It encompasses question related to the demand and supply of labor in the market.

Statement one of table 4.3.1.7 checks the relationship of labor and salary with the mean value 2.58 which fall in the range of disagree. As the information obtained from the interview has also proved that the bank is not paying enough salary with accordance to the market. This might affect employees' satisfaction negatively.

The mean for the second statement which is supply and demand forces, operate and determine the banks' salary structure and level has the mean value 3.06 falls on the range moderate level. Unlike the above result employees of BrB agreed on the statement of the bank's salary structure and level determined by the supply and demand force the labor market.

Obviously if there is an increase in the demand of labor in the market there will be an increase in salary. The mean for statement three of the above table is 2.86 which fall in the range of poor level that strength the statement that the bank not makes any salary adjustment when there is a great demand for labor expertise. From the above result and analysis one can deduce that the bank not considering the demand and supply forces.

The last statement in the above table asked the presence of salary increment that consider today's market when the employee get promotion and better experience. The mean value for this statement is 3.12 falls in the range of moderate level. These shows as the bank do not consider the market condition when there is promotion.

The above table illustrates that the aggregate mean value is 2.905 and percentage score  $(2.91-1)*25=47.62\%$  which indicates very poor status. The bank should conduct a measurement or survey on the existing compensation system within itself and sister companies by external or internal professionals and effectively implement the areas of improvement. This will enhance the job satisfaction; maximize the productivity of the bank and attraction of new employees.

**Table 4.3.1.8: Employee Response on Health Benefit**

Statement	Response	Frequency	%	Mean	Aggregate mean
I am satisfied with the health plan options	Strongly Disagree	47	21	2.25	2.368
	Disagree	105	47		
	Neutral	41	19		
	Agree	25	11		
	Strongly Agree	4	2		
	Total	222	100		
Health expense of the employee is fully covered by the bank	Strongly Disagree	50	23	2.44	
	Disagree	79	36		
	Neutral	54	24		
	Agree	24	11		
	Strongly Agree	15	7		
	Total	222	100		
Health expense of the employee is partially covered by the bank	Strongly Disagree	43	19	2.51	
	Disagree	95	43		
	Neutral	12	5		
	Agree	72	32		
	Strongly Agree	0	0		
	Total	222	100		
The bank chooses best hospitals for its employees	Strongly Disagree	48	22	2.45	
	Disagree	79	36		
	Neutral	53	24		
	Agree	31	14		
	Strongly Agree	11	5		
	Total	222	100		
I am satisfied with the bank international health plan option	Strongly Disagree	42	19	2.19	
	Disagree	132	60		
	Neutral	15	7		
	Agree	29	13		
	Strongly Agree	4	2		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.8 shows employee responses on health benefit. It encompasses question related to the packages of health benefits that the bank provided to its employees.

As we can see in the above table, statement one is about the health plan option of the bank with mean value 2.25 which falls in the range of disagree .As information gained from the interview most employees are not satisfied by the health plan option that is prepared by the bank.

In addition, the employees suggested that the bank should review its health plan option by providing letters from the bank that states hospitals must comply with employees and offer free medical service and later the medical expenses will be covered by the bank.

The second and the third statement which is health expense of the employee is fully or partially covered by the bank has the mean value 2.44 and 2.51 respectively. Which falls in the range of disagree .This implies that employees medical expense is not fully covered by the bank rather the bank covers its employees expense partially.

The mean value for statement number four is 2.45 which falls in the range of disagree. As most interviewed employees says that the bank did not choose today's new best hospitals that are comfortable for its employees. So they suggested that the bank must include those new best hospitals. The last statement of the above table is about the bank's international health plan option with mean value 2.19 which implies poor level .During the interview period most employees raised that the bank has international health plan option but the bank does not pay all expenses of the employees in the international health plan option. Also it has arranged up to ten thousand Dollar and thus needs improvement of the policy.

Finally above table illustrates that the aggregate mean value is 2.368 and percentage score  $(2.368-1)*25=34.2\%$  which indicates poor level. The bank top management should review it health plan option and other health related benefits so as to maintain motivated and healthy employees.

**Table 4.3.1.9: Employee Response on Provident Fund**

Statement	Response	Frequency	%	Mean	Aggregate mean
I am satisfied by the percentage that the bank deposit for its employees as PF	Strongly Disagree	68	31	2.07	2.3333333
	Disagree	93	42		
	Neutral	43	19		
	Agree	14	6		
	Strongly Agree	4	2		
	Total	222	100		
The bank has attractive provident fund compared to sister industries	Strongly Disagree	23	10	2.38	
	Disagree	103	46		
	Neutral	88	40		
	Agree	4	2		
	Strongly Disagree	4	2		
	Total	222	100		
The bank pays PF for those employee who work in the bank under two years at the time turn over.	Strongly Disagree	26	12	2.55	
	Disagree	76	34		
	Neutral	96	43		
	Agree	20	9		
	Strongly Agree	4	2		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.9 shows that employee response on provident fund and the table tried to address whether the BrB has best practice on the practice of provident fund or not.

As table 4.3.1.9 shows that the first statement of I am satisfied by the percentage that the bank deposit for its employees as PF has the mean value 2.07 .Thus it implies that employees are dissatisfied on their PF percentage .when we see statement two, the bank have no attractive PF percentage with related sister companies.

As the mean value shows for the statement of the bank pays PF for those employees who work in the bank under two years at the time of turnover is 2.55.Under this circumstance the bank will not pay for those employees who have below two years’ work experience.

Finally the above table illustrates that the aggregate mean value is 2.33 and percentage score  $(2.33-1)*25=33.25\%$  which indicates very poor level.

The bank should review the provident fund deposited for its employees since the survey shows that most of the population thinks that the bank have unsatisfactory PF percentage and so the bank should improve its provident fund policy.

#### 4.3.1.10: Employee Response on Leave of Absence

Statement	Response	Frequency	%	Mean	Aggregate mean
I am satisfied with the number of annual ,and sick leave days that I receive	Strongly Disagree	1	1	2.65	2.535
	Disagree	133	60		
	Neutral	31	14		
	Agree	57	26		
	Strongly Agree	0	0		
	Total	222	100		
Number of maternity leave are adequate for its employees	Strongly Disagree	14	6	2.42	
	Disagree	128	58		
	Neutral	52	23		
	Agree	28	13		
	Strongly Agree	0	0		
	Total	222	100		

Source own survey, 2019

Table 4.3.1.10 indicates that with responses on leave of absence. Also the table address the current practice of the bank in relates to leave of absence policy of the bank.

Under statement number one it deals with the number of annual and sick leaves with the mean value of 2.65 which shows poor level. That means that most employees disagree with the number of sick and annual leave which is provided by the bank.

The second statement under this table is number of maternity leave are adequate for its employees with the mean value of 2.42. It also falls under the range of poor level. So it indicates that maternity leave inadequate.

Finally the above table demonstrate that the aggregate mean value is 2.535 and percentage score  $(2.535-1)*25=38.37\%$  which indicates very poor level. So the bank should review its maternity leave by taking as a reference the new amended maternity leave policy the government.

## CHAPTER FIVE

### FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The previous chapter briefly presented the data analysis and interpretation of the research study. This chapter presents summary of major findings, conclusions and recommendations.

#### 5.1 Summary of Major Findings

Based on the analysis and discussion, the researcher presented the following major findings.

- The first discussion was employee response on equity. As the result illustrated that it is at poor level. Thus it implies there is absence of equity in the bank and top management needs to revise their practices to approve equity throughout the bank.
- . The second matter was employee response on the bank's ability to pay. According to the aggregate mean value it is also poor degree. Hence it implies bank's ability to pay is very unsatisfactory and it must make amends to improve its practice.
- The third discussion was employee response on employee Service. The result indicates very poor status. It implies compensation system regarding employee service in the bank is at poor level and top management needs to improve policies and practices to attract younger, educated employees from the labor market
- The fourth discussion was employee response on value of the job. The result shows moderate level. Thus it implies the bank's attitude on value of a job is in average level and should be improved to become a better competitor in the market.
- The fifth finding was housing benefit. Housing benefit is a major compensation system in any organization. It includes housing allowance for rent, for electricity, for food and the like. Hence, it implies housing benefit is at very poor level so the bank needs to improve policies and practices on housing benefits.
- The sixth discussion was employee response on cost of living index. According to the percentage score result indicates very poor status. Cost of living index is a major challenge to consider in any organization and needs special attention. Inflation in the economy is an example to be stated. But the bank top management did not consider it as



a major criteria and it clearly shows on the percentage score. It must be given special attention so as to meet the employees' job satisfaction and thus good work output.

- The seventh discussion viewed employee response on labor market. As the result implies that employee response on labor market resulted very poor status. The bank should conduct a measurement or survey on the existing compensation system within itself and sister companies by external or internal professionals and effectively implement the areas of improvement. This will enhance the job satisfaction and maximize the productivity of the bank.
- The eighth discussion was about employee response on health benefit. The result showed poor level. The bank top management should review its health plan option and other health related benefits so as to maintain motivated and healthy employees.
- The ninth discussion viewed employee response on provident fund. The result implies employee response on provident fund was very poor level. Hence, the bank should review the provident fund deposited for its employees since the survey shows that most of the sample population think it is not enough and should be improved.
- The tenth discussion was employee response on leave of absence. The result implies very poor level at employee response on leave of absence. The bank should review the maternity leave by referring the new policy amended by the government.

## **5.2. Conclusions**

Based on the findings of the study and research determinant analysis, the following conclusion is drawn.

In today's competitive and challenging business environment the management must try to acquire or retain a well-educated, motivated and experienced workers so as to be competitive in the market and to make the organization profitable. In accordance to this phase the bank has youngest, well educated, and with low service year i.e. less experienced employee. Based on this the company has difficulty in retaining employee because the employee have movable profile and research questions will be answered in this section.

The bank determines its compensation system based on its current situation of performance in relation to last forecasting budget and it determines by market pay. As finding number two

shows as the bank's ability to pay is not the only means for determining compensation. So we can conclude that BrB determine its compensation system by using end of year performance that shows us the bank has no specific scale and use this in determining its financial compensation system .

The bank practices its financial compensation system in the form of both direct and indirect compensation. When we see the major direct compensation practice in the bank, it is mostly concerned on monthly salary, bonus and overtime pay. Also the major indirect compensation practices of the banks are health benefit and leave and absence policy.

The bank faced different challenges relating its compensation system. The major areas that the bank faced challenges are in the area of equity. This means the bank practices inequity of salary across employees who have similar jobs .This discourages employees work motivation and work out put. And also the bank faced challenges in the areas of labor market which implies that if there is any change in the labor market the bank won't react accordingly. This dissatisfies employees and decreases the quality of the job.

Although, the bank face challenges in annual and maternity leave .All branches annual and maternity leave are maintained by Human Resources staffs located at head office manually which can easily be abused .

As compared to other similar banks compensation system in BrB is not well organized. Major finding of the study indicates that presence of dissatisfaction among employees. When we compare the bank to the others the bank have no proper scale when related to others, have no specific bonus allocation across branches, and have no housing allowance. So when we see the trend at BrB it decreases the attractiveness of the bank and work motivation of employees .which directly affect the service which is given by the bank.

.Although, employees perceived that the occurrence of as such not well organized compensation system in the bank which directly affect customer handling. Generally BrB must review its compensation system by outsider's professionals to sustain employees work motivation and work out put since it is service giving company.

### **5.3. Recommendations**

Having analyzed, discussed and interpreted the data collected in this study, the researcher forwarded the following recommendations. The company could be more productive, effective and competitive if the following recommendations are employed

- The Bank has to look different ways to improve its compensation practices. Especially by finding ways to improve the current payment system or scales, areas which show low level of satisfaction.
- The bank must try to consider the economic situation and review its salary scale, pay raises and bonuses to meet the satisfaction of its employees.
- The bank should conduct a measurement or survey on the existing compensation system within itself and sister companies by external or internal professionals and effectively implement the areas of improvement. This will enhance the job satisfaction and maximize the productivity of the bank.
- To create long term employee work motivation, the bank should evaluate complexity in a job and follow skill based pay. Also employees on the same job position must get equal benefits.
- The maternity leave must be reviewed by referring the new policy amended by the government.
- It is better the bank to consider housing benefits, review it health plan option and educational benefits so as to maintain motivated and healthy employees.

Finally, the bank needs to arrange its compensation policy by considering labor market, financial ability of the bank and cost of living index. Since it has best compensation system it will have also best employees which can run the business in radiant way in the country.

## **Implication for Further Research**

Finally, other researchers have to do more studies on these compensation systems which increase employees effectiveness, in order to see how these system look like in different organizations in the country and to understand more on the contribution of this system in motivating employees.

As far as the samples are concerned, possible enlargement of the sample of the study in other branches would be highly desirable. In this regard, similar studies at other companies that use compensation systems widely would seem appropriate.

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# APPENDICES

# APPENDIX A: QUESTIONNAIRE



**ST.MARY'S UNIVERSITY**

**POST GRAGUATE PROGRAM**

## **Questionnaire to be filled by Berhan Bank Employees**

This questionnaire is designed to request information only for academic Purposes and is treated with at most confidentiality. This is to enable the researcher to complete his/her thesis on the topic;" compensation practice and challenges in Berhan Bank". In partial fulfillment of Masters of project management. I would like to thank you in advance for your co-operation and scarifying your respected time.

N.B: writing your name is not necessary.

Instruction: Please use a tick or mark (√) in the boxes provided to choose from the options given and answer in writing where appropriate. You don't have to write your name.

### **Part I: Respondent's Profile**

1. Gender: Male  Female
2. Age: Below 25  25-35  36-45
3. Academic Qualification: Diploma  Degree  Masters
4. How many years have you been working in the bank?
- 2-5 years  5-10 years  above 10 years



## Part II: Information on compensation Practice and Challenges

Please mark or tick(√) the statement that indicates your level of agreement in the responses box.

EQUITY						
No	Statements	RESPONSES				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Employees performing similar jobs will receive the same salary					
2	I am Satisfied in the internal equity of yearly Bonus					
3	I am satisfied with my opportunities for pay raises and bonuses					
4	Overall ,monthly salary is more attractive when compared to sister companies					
5	Fair salary increment is available by the bank					

The Bank's Ability to Pay						
No	Statements	RESPONSES				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The level of compensation largely depends up on the banks performance					
2	When there is an increase in bank's financial ability salary will increase					
3	The bank has high potential to pay during overtime work					
4	Financial ability of the bank determine yearly salary increment and bonus allocations					
5	Financial ability of the bank determine its budget allocation					

<b>Employee Service</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>	<b>Neutral</b>
1	The bank gives equal opportunity for all its employees regarding educational benefits.					
2	The Bank's offer to teach its employees up to Degree level is satisfactory.					
3	The bank has subsidize cafeteria service for its employees					
4	I am satisfied with the gift package the bank offers for weddings					

<b>Value of the Job</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1	There is job evaluation in the bank					
2	The bank prepare paying scale after jobs are evaluated					
3	The bank considers the level of complexity in a job and pays accordingly					
4	The bank uses skilled-based pay					

<b>Housing Benefit</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1	The bank has housing benefit for its employees					
2	Housing benefit is fully covered by the bank					

<b>Cost of Living Index</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1	When there is inflation in the country the bank will make pay rise					
2	The bank pays enough so that the employees have standard life style to current economic situation					
3	Salaries are typically adjusted annually so that its employees cop-up with the changing economy					
4	The Bank make adjustments in salary when an employee moves into expensive economic area					

<b>Labor market</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1	I am satisfied by my salary when compare to the market					
2	Supply and Demand forces, operate and determine the banks' salary structure and level					
3	When there is a great demand for labor expertise the bank salary rise					
4	When an employee acquires experience and gets a promotion the salary raise is satisfactory when compared to the market.					

<b>Health Benefits</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1	I am satisfied with the health plan options					
2	Health expense of the employee is fully covered by the bank					
3	Health expense of the employee is partially covered by the bank					
4	The bank chooses best hospitals for its employees					
5	I am satisfied with the bank international health plan option					

<b>Provident Fund (PF)</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>	<b>Neutral</b>
1	I am satisfied by the percentage that the bank deposit for its employees as PF					
2	The bank has attractive provident fund compared to sister industries					
3	The bank pays Pf for those employees who work in the bank under two years at the time turn over.					

<b>Leave of Absence</b>						
		<b>RESPONSES</b>				
<b>No</b>	<b>Statements</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
1	I am satisfied with the number of annual ,and sick leave days that I receive					
2	Number of maternity leave are adequate for its employees					

If you have any suggestions/ comments on the compensation practices of the bank, please specify.

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**Thank you for your time!**

## **APPENDIX B: INTERVIEW QUESTIONS**

1. Do all employees performing similar jobs receive the same salary?
2. Does the bank have an attractive salary when compared to sister companies?
3. How does the bank prepare paying scale by evaluating job status?
4. Does the bank consider the level of complexity in a job when preparing salary scale?
5. How does the bank relate its performance to employee compensation?
6. Does the bank pay in consideration of the labor market?
7. Does the bank make adjustments on employee salary when there is inflation in the economy?
8. What do you think about the health benefits package?
9. Do you think that a 2% provident fund is satisfactory?
10. Do you think the maternity leave is adequate?

## APPENDIX C: RELIABILITY TESTS RESULTS

### Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.943	.941	38

Item-Total Statistics	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
Employees performing sir	110.8	331.476	0.789	.	0.94
I am Satisfied in the interr	110	341.31	0.851	.	0.939
I am satisfied with my opp	109.97	348.102	0.564	.	0.942
Overall ,monthly salary is	109.83	338.213	0.764	.	0.94
Fair salary increment is av	109.63	363.344	0.239	.	0.944
The level of compensation	109.3	372.838	-0.169	.	0.945
When there is an increase	109.8	334.786	0.813	.	0.939
The bank has high potenti	110.27	352.202	0.398	.	0.943
Financial ability of the bar	109.67	357.126	0.73	.	0.942
Financial ability of the bar	109.47	375.982	-0.397	.	0.946
The bank gives equal oppo	110.73	335.03	0.78	.	0.94
The Bank's offer to teach i	111.07	349.651	0.643	.	0.941
The bank has subsidize cat	112.07	357.995	0.617	.	0.942
I am satisfied with the gift	112.07	357.995	0.617	.	0.942
There is job evaluation in	109.63	355.551	0.763	.	0.941
The bank prepare paying s	110.6	334.8	0.832	.	0.939
The bank considers the lev	110.97	337.62	0.862	.	0.939
The bank uses skilled-bas	111.27	355.513	0.547	.	0.942
The bank has housing ben	111.63	349.551	0.426	.	0.943
Housing benefit is fully co	111.77	352.254	0.464	.	0.943
When there is inflation in	111	362.828	0.325	.	0.943
The bank pays enough so t	110.5	340.603	0.884	.	0.939
Salaries are typically adjus	110.33	336.437	0.89	.	0.939
The bank make adjustmen	110.4	335.766	0.923	.	0.939
I am satisfied by my salary	111.5	350.534	0.632	.	0.941
Supply and Demand force	110.57	384.806	-0.552	.	0.949
When there is a great dem	110.93	350.478	0.793	.	0.941
When an employee acqui	110.73	334.892	0.883	.	0.939
I am satisfied with the hea	110.2	330.51	0.921	.	0.938
Health expense of the em	109.83	373.868	-0.115	.	0.949
Health expense of the em	111.1	356.921	0.264	.	0.945
The bank chooses best ho	109.9	334.369	0.802	.	0.939
I am satisfied with the bar	110.57	360.323	0.249	.	0.944
I am satisfied by the perce	111.9	365.817	0.139	.	0.944
The bank has attractive pr	111.43	356.944	0.53	.	0.942
The bank pays Pf for those	111.4	351.145	0.705	.	0.941
I am satisfied with the nu	111.27	361.72	0.277	.	0.944
Number of maternity leav	111.57	356.668	0.624	.	0.942



## APPENDIX D: PREDICTIVE VALIDITY

Case Processing Summary

		N	%
Cases	Valid	30	100.0
	Excluded <sup>a</sup>	0	.0
	Total	30	100.0

a. Listwise deletion based on all variables in the procedure.

## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Shewa Jemal (Ass Proff). All sources of materials used for the thesis have been duly acknowledged, I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree. It is offered for the partial fulfillment of the degree of MA in Project Management (MPM).

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Name

St Mary's University,

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Signature

Addis Ababa Jun, 2019

**ENDORSEMENT**

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

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Advisor

Signature

St Mary's University, Addis Ababa

JUNE, 2019