



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

**THE EFFECT OF COMPENSATION ON EMPLOYEES JOB  
PERFORMANCE THE CASE OF ETHIO TELECOM CONTACT CENTER  
EMPLOYEES**

**BY: - NETSANET BALEMI**

**DECEMBER, 2022**

**ADDISABABA, ETHIOPIA**

**THE EFFECT OF COMPENSATION ON EMPLOYEE JOB PERFORMANCE: THE  
CASE OF ETHIO TELECOM CONTACT CENTER EMPLOYEES**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE  
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## **DECLARATION**

I, Netsanet Balemi, declare that this research, entitled “The Effect of Compensation on Employee job Performance: The Case of Ethio telecom contact center employees” is my original work and has not been submitted to other institution of higher learning as a thesis and all sources of information have been duly acknowledged.

I have carried out the research independently under the supervision of the research advisor, Mr. Ashenafi Haile (Ph.D).

**Netsanet Balemi**

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**2022**

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## **ENDORSEMENT**

I Dr. Ashenafi Haile, hereby certify that the research entitled “The Effect of Compensation on Employee job Performance: The Case of Ethio telecom contact center employees” is conducted by Netsanet Balemi under my supervision. The work is original in nature and is appropriate for submission for the award of the Masters of Business Administration (MBA) degree.

**Ashenafi Haile (PH. D)**



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**2022**

**St. Mary’s University Addis Ababa, Ethiopia**

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## **Abstract**

*This study aims to examine the effect of compensation on employee's job performance in the case of Ethio telecom contact center employees, Addis Ababa, Ethiopia. By using the six dimensions of compensation (Salary, bonus, benefits, recognition, promotion and responsibility). In order to address the aim of the study, only primary data was collected and employed. In total, 323 questionnaires were distributed to the employees of Ethio telecom and 296 of them were properly filled and returned. The response rate was 91.6%. Stratified sampling method was used to distribute and collect questionnaire-based survey on the five-point Likert scale. Multiple linear regression analysis was used to analyse the data and to test six hypotheses. SPSS was used for mean, standard deviation, correlation and regression analysis. The study has indicated that there was positive correlation among all dimensions of compensation and employee job performance. Besides, with regard to the effect of predictor variables on employee job performance, the study indicated that out of the six predictor variables salary and bonus were found to have significant effect on job performance of Ethio telecom contact center employees. Finally, the company is recommended to give priority to the significant dimensions of compensation i.e., salary and bonus. As a result, all the objectives of this study have been achieved.*

**Keywords:** *Compensation, Employee Job performance, Salary, Bonus, Benefit, Recognition, Promotion, Responsibility*

# Table of Contents

<b>Statement of Declaration</b> .....	3
<b>Statement of Certification</b> .....	4
<b>Acknowledgements</b> .....	VI
<b>Abstract</b> .....	VII
<b>CHAPTER ONE: INTRODUCTION</b> .....	1
1.1 Background of the study .....	1
1.2 Statement of the problem .....	3
1.3 Research questions .....	4
1.4 Research objective.....	5
1.4.1 General objective .....	5
1.4.1 Specific objective .....	5
1.5 Significance of the study .....	5
1.6 Scope of the study .....	6
1.7 Limitations of the study.....	6
1.8 Organization of the study .....	6
<b>CHAPTER TWO: REVIEW OF RELATED LITERATURE</b> .....	7
2.1 Theoretical review.....	7
2.1.1 Historical approach of compensation .....	7
2.1.2 Definition and management of compensation .....	8
2.1.3 The Objectives of Compensation Management.....	10
2.1.4 Types of compensation .....	11
2.1.5 Employee Performance.....	12
2.1.6 The Objectives of Performance Management .....	13
2.1.7 Compensation Vs Employee performance .....	14

2.2 Empirical review .....	15
2.3 Hypothesis of the study .....	17
2.4 Conceptual framework .....	17
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>19</b>
3.1 Research Design .....	19
3.2 Research Approach .....	19
3.3 Target Population .....	19
3.4 Sample size and Sampling technique .....	20
3.4.1 Sample size .....	20
3.4.2 Sampling technique .....	21
3.5 Source of data.....	21
3.6 Data collection instrument .....	21
3.7 Validity and reliability .....	22
3.8 Method of data analysis.....	22
3.9 Ethical considerations .....	23
<b>CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION.....</b>	<b>24</b>
4.1 Descriptive analysis of respondent’s demographic profile .....	24
4.1.1 Gender .....	24
4.1.2 Age of respondents .....	25
4.1.3 Educational level of respondents .....	25
4.1.4 Work experience of respondents .....	26
4.2 Validity and Reliability analysis .....	26
4.3. Descriptive statistics of compensation practices and employee performance .....	27
4.3.1. Salary .....	28
4.3.2. Bonus.....	29

4.3.3. Benefits .....	29
4.3.4. Recognition.....	30
4.3.5. Promotion .....	31
4.3.6. Responsibility .....	32
4.3.7. Employee performance.....	33
4.3.8. Summary of overall descriptive statistics of variables .....	34
4.4 Correlation Analysis.....	34
4.5. Multiple linear regression analysis.....	37
4.5.1. Multiple linear regression analysis assumption tests.....	37
4.5.2. Result of multiple linear regression analysis .....	41
4.6. Discussion. ....	45
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION.....	47
5.1 Summary of major findings.....	47
5.2 Conclusion.....	48
5.3 Recommendation.....	49
5.4 Limitation and Future research recommendation.....	50
Reference .....	51
Appendix.....	54

## List of Tables

Table 3.1: Proportionally selected sample from the population (Wello sefer and Jemo).....	20
Table 4.1: Response rate.....	24
Table 4.2: Gender of respondents .....	24
Table 4.3: Age of respondents .....	25
Table 4.4: Educational level of respondents .....	25
Table 4.5: Work experience of respondents .....	26
Table 4.6: Reliability of the instrument .....	27
Table 4.7: Respondents range of agreement level .....	28
Table 4.8: Descriptive statistics of salary .....	28
Table 4.9: Descriptive statistics of bonus .....	29
Table 4.10: Descriptive statistics of benefits .....	30
Table 4.11: Descriptive statistics of recognition.....	31
Table 4.12: Descriptive statistics of promotion .....	31
Table 4.13: Descriptive statistics of responsibility .....	32
Table 4.14: Descriptive statistics of employee performance .....	33
Table 4.15: Summary of descriptive statistics of variables .....	34
Table 4.16: Correlation matrix.....	35
Table 4.17: Multicollinearity test result.....	38
Table 4.18: Model summary .....	42
Table 4.19: ANOVA.....	43
Table 4.20: Regression Coefficients .....	44
Table 4.21: Summary of hypotheses tests.....	46

## List of Figures

Figure 2.1: Conceptual framework .....	18
Figure 4.1: Normal distribution curve .....	39
Figure 4.2: Linearity .....	40
Figure 4.3: Homoscedasticity .....	41

## **List of Acronyms/Abbreviations**

EP	Employee performance
SPSS	Statistical package for social science
ANOVA	Analysis of variance
VIF	Variance inflation factor
Tol	Tolerance
Sig	Significant
SA	Salary
BO	Bonus
BE	Benefit
RE	Recognition
PR	Promotion
RES	Responsibility

# CHAPTER ONE

## INTRODUCTION

This chapter deals with brief discussion of the background of study, statement of the problem, basic research questions and objective of the study, significance of the study, scope of the study, limitations of the study, definition of key terms and organization of the study.

### **1.1 Background of the study**

Compensation management is one of the central pillars of human resources management (HRM). It 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 (Armstrong, 2005).

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).

Harrison and Liska (2008) in their study posit that reward is the Centre piece of the employment contract-after all it is the main reason why people work. This includes all types of rewards, both intrinsic and extrinsic, that are received as a result of employment by the organization. Compensation implies having a compensation structure in which the employees who perform better are paid more than the average performing employees (Pearce, 2010).

Brown (2003) sees compensation as a return in exchange between their employees and themselves as an entitlement for being an employee of the organization, or as a reward for a job well done. According to Efendi (2012) compensation is the total remuneration received by employees as a result of the implementation of work in the organization in the form of money or other. If the compensation received by the employee can meet the needs of the employee, then the employee will strive to continue achievement that will certainly contribute to performance employees.

Compensation plays a vital role in influencing organization's goal attainment (Dessler, 2011), the organizations should look up to its employees as the central source of development holding to stay in the market. Armstrong (2012) points out that the fundamental part of human resource management tactic that yield development in an organization is effective compensation system.

most organizations view compensation as only the financial compensation given to employees for their tangible services and benefits employees receive as part of an employment relationship (Mikovich & Newman 2008) thus, compensation is surrounded by the employee wages and salaries, incentive-payments, bonuses, and commissions. Employee compensation contains all forms of pay and rewards received by employees for the performance of their jobs (Snell & Bohlander, 2010). While Dessler (2011) argues that employee compensation means all forms of pay or rewards available to employees arising from their employment which may either be direct financial or indirect financial payments.

Dessler (2011) divides compensation into two components, which are: (1) Direct financial payments in the form of wages, salaries, incentives/benefits, commissions and bonuses; (2) Indirect payment is a form of benefits such as insurance or vacation on company or organization funds. This allowance is given in the welfare package which is given to all employees based on their membership in the company.

According to Cascio (2003), the compensation program consists of two dimensions, which are, direct and indirect. Direct compensation has to do with salary part while indirect compensation is the peripheral benefits a worker enjoys because of working in an organization. Mixing the two into a package will inspire the accomplishment of an organization's objectives.

Performance is a broad term, that it's meaning changes in accordance with user's perspective and needs (Kabuoh, Ogbuanu & Chieze, 2016). It entails productivity, quality and consistency. Thus, there is no universally acceptable definition of the concept of performance. Different writers have defined performance in different ways. Hellriegel, (2009) viewed performance as the level of an individual's work achievement after having exerted effort. Whetten, Cameron & Woods (2000) opines that performance is an individual phenomenon with environmental variables. Laitinen (2002) argues that performance can be viewed as the ability of an object to produce results in a dimension determined a priori, in relation to a predetermining objective.

Dessler (2011) defines performance as a work achievement that is a comparison between the actual performance of employees compared with the expected performance of employees. According to Simamora (2006), performance is defined as the achievement of certain job requirements that ultimately can be directly assessed based on the resulting output.

Kabuoh (2013) argues that performance level of any organization depends largely on the employees' productivity level and for any organization to excel and remain in business, it must be cautious of his/her work environment especially the internal environment by making provisions for all necessary facilities that will aid production.

By focusing on the above explained concepts of compensation and employee performance, this study was conducted to analyze the effect of compensation practices on employee performance in the case of Ethio telecom by using salary, bonus, benefits, recognition, promotion and responsibility as independent variables and employee performance as a dependent variable.

## **1.2 Statement of the problem**

According to (Osibanjoet 2014) compensation is a primary motivator for employees. People look for jobs that not only suit their creativity and talents, but compensate them in terms of salary and other benefits accordingly. As expressed in Maslow's (1958) theory of human needs cited in Omotayo, Pavithra, and Adeniji (2014), individuals are goal-oriented whose needs can influence their behavior. As such, unsatisfied needs influence behavior but satisfied needs do not act as motivator. More so, scholars assessing this theory have suggested that most needs at the physiological level could be satisfied fully, if the worker received equate compensation, so as to provide for those needs. This makes the issue of compensation very important.

Best designed compensation and benefit schemes affect the motivation of the employees to work. If the management of a company put an effort in identifying the need of employees and succeed on satisfying the needs by providing relevant compensation and benefit program then the motivational level of employee will increase towards the best achievement of job-related activities. (Greene, 2014).

Habtamu, (2018) studied the effect of compensation on employee productivity in the case of Kality foods manufacturing factory, Addis Ababa and concluded that financial compensation have positive and significant effect on employee productivity whereas, non-financial compensation

does not have any effect on employee productivity. Accordingly, Furtado, Aquino & Meira, (2019) on their study has established that compensation is one of the factors that sought to increase employee's engagement in the work place, which is an important ingredient in the work performance. However, the type and mix of compensation system in an organization might differ as a result of the type and environment of the organization. Compensation is associated with motivating workforce of organization for better performance, but, what type and mix of compensating tools to use is a challenge for the organizations. In view of this, the study examines the effect of compensation on employee performance with particular reference to Ethio Telecom.

For this study, compensation and benefit for the employee has its problem during the process. This is because, sometimes company set or amend the parameters of its performance evaluation methods which make employee frustrated and lack of trust on the implementation of fair compensation and benefit. The term compensation most of the time goes to financial reward employee get in return to some performed task or swift of expected responsibility but when we come to benefit it's represented someone can get being a member of the organization or a group. in our case ethio telecom implement both compensation and benefit but thus motivating factors have to implement properly and update with what the time demand to ensure the desired outcome., the poor compensation and benefits will lead to low performance, thus lead to low satisfaction level and increase absenteeism in employee and the outcome will decrease. The organization that manages compensation and benefits of the employee poorly will decrease the motivation of the employee to work harder.

Therefore, this research is designed to examine the Effect of Compensation on Employee performance in the case of Ethio telecom company call center staffs. The aim of this study is to fill the gap in what level employees are motivated by the implemented compensation policy of the organization This research paper will help to determine those rewards that can enhance the performance of Ethio Telecom Company.

### **1.3 Research questions**

In line with the above identified study problem, the study tried to address the following basic research questions

- i. What is the current compensation practice used in Ethio telecom?

ii. What is the relationship between compensation and employee performance in Ethio telecom?

iii. What is the effect of compensation on employee performance in Ethio telecom?

## **1.4 Research objective**

### **1.4.1 General objective**

The General objective of this study was to analyze the effect of compensation on employee performance in the case of Ethio telecom.

### **1.4.1 Specific objective**

1. To assess the current compensation practice used in Ethio telecom
2. To identify the relationship between compensation and employee performance in Ethio telecom
3. To investigate the effect of compensation on employee performance in Ethio telecom

## **1.5 Significance of the study**

This study is conducted to obtain more information about the effect of compensation towards employee performance in the case of Ethio telecom employees. This study is significant for:

- **To the Organization:** The study is significant for the Organizations improvement of Compensation Schemes, by deeply understanding of Compensation schemes that could influence employee's performance.
- **To the Management:** the findings provide answers to the fundamental question of why employees stay and what would cause them to leave and to help the company formulate appropriate compensation and benefit policies and strategies to enhance employee satisfaction and company performance.
- **To the body of Knowledge:** it enables to wide up more knowledge on the issue of compensation and employee performance.
- **To other researchers:** the result of the study serves as a literature to throw more light on the effect of Compensation on employee performance. The outcome further serves as secondary data for future research on the topic.

## **1.6 Scope of the study**

**Geographical scope:** This study was conducted in Ethiopia Addis Ababa Jemo and wello Sefer customer service division of Ethio telecom.

**Theoretical scope:** theoretically the study is delimited to determining the effect of compensation on job performance. Compensation is composed of six dimensions i.e., salary, bonus, benefits, recognition, promotion and responsibility as independent variables and employee performance as a dependent variable.

**Methodological scope:** The population pools of this study are the contact center advisor's Cache's, supervisor and managers of Ethio telecom customer services division. The sample of this study is 324 respondents out of 1681 staffs. The probability sampling method was used in this research since the number of the population selected is known. This research was conduct by using the quantitative method. The questionnaire distributed among the sample of population.

## **1.7 Limitations of the study**

The study focused on contact center employees in the organization to study the effect of compensation on employee job performance. This limits the finding to just the call center staffs and exclude other devotion of the organization. Also, the study only focused on assessing the influence of compensation on employee performance and it doesn't consider other factors which can influence employee performance like Motivational factors, employee engagement and others. The study is conducted only in Ethio telecom contact center in Addis Ababa, so the findings cannot be generalized to other industries/products and also other countries.

## **1.8 Organization of the study**

The study is organized into five chapters. The first chapter that is the introduction chapter includes: background of the study, Statement of the problem, Research Questions, Objectives, Scope, Significance, limitation of the study, definition of key terms. The second chapter contains review of related literature including Theoretical and empirical reviews as well as hypothesis of the study and conceptual framework of the study. Chapter three deals with research methodology employed in the study. Chapter four focuses on presentation, analysis and interpretation of the data collected through questionnaire. Finally, Summary, Conclusion, Recommendation and directions for future research is presented in Chapter Five.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

This chapter deals with the related literature reviewed on the study. It includes theoretical literatures which are related with compensation and employee performance, empirical evidences, hypotheses of the study and conclude with the conceptual framework.

#### **2.1 Theoretical review**

##### **2.1.1 Historical approach of compensation**

The history of compensation for bodily injury initiates shortly after the arrival of written history itself. The Nippur Tablet No. 3191 from ancient Sumeria in the Fertile Crescent outlines the law of Ur-Nammu, king of the city-state of Ur. It dates to approximately 2050 B.C... The law of Ur provided monetary compensation for exact injury to workers' body parts. Also, the code of Hammurabi from 1750 B.C. prepared a similar tradition of rewards for specific injuries and their implied permanent impairments. Ancient Greek, Roman, Arab, and Chinese law provided sets of compensation schedules as well, with precise payments for the loss of a body part. For instance, under the ancient Arab law, loss of a joint of the thumb was worth one-half the value of a finger (Guyton, 1999: 106).

Furthermore, according to Guyton (1999), the early compensation structures consisted of "schedules" such as this; particular injuries determined specific rewards. The notion of an "impairment" (the loss of function of a body part) discrete from a "disability" (the loss of the ability to perform specific tasks or jobs) had not yet arisen. Yet the compensation schedules of antiquity were gradually replaced as feudalism of the Middle Ages gradually became the primary structure of government. The concept of compensation for the worker was assured in the doctrine of noblesse oblige which is an honorable lord would care for his injured serf.

Succeeding European examples from the 19th century, states in the U.S. started to develop workers' compensation laws in the early 1900's to identify the swelling risks and damages of occupational injuries and illnesses which is related to the industrial revolution. In 1911, Wisconsin became the first state to establish a workers' compensation system that resisted constitutional

challenges in the courts. By 1920, most states and territories had followed a special uniform of this system. Mississippi was the last state to adopt a workers' compensation law in 1948. These laws prepared partial benefits to affected workers and keep employers from tort suits for occupational injuries and illnesses. This "grand bargain" circumvents lengthy, expensive trials where the burden of proof was on the employee and removed a source of financial uncertainty for the employer, (Utterback et al., 2014: 4).

According to Chaklader (1998), Chairman of the British Columbia Federation of Labor, J. H. McVety, wrote that an injured worker, "should receive compensation no matter what way the injury arises...a sure payment, even if smaller, without the necessity of proceedings of law on the part of the injured one would be a more satisfactory arrangement than any legislation we have existing now in British Columbia."

According to Wal-Mart Watch (2007), the modern system of workers' compensation laws is a result of the rapid industrial growth taking place within the United States during the 19th and early 20th centuries. With the industrial flourishing came a corresponding increase in work-related accidents; during that time, the only option for a worker seeking compensation for an on-the-job injury was to sue their employer for negligence. In the early 20th century, a gradual increase in state legislation geared towards compensating injured workers appeared. These regulations were suggested in order to benefit both workers and employers by allowing workers to receive prompt payment for work-related injuries, and by insulating employers from paying for pain and suffering or facing punitive damages.

### **2.1.2 Definition and management of compensation**

Compensation refers to all forms of financial return, tangible services and benefits employees receive as part of employment relationship. The compensation strategy plays an important role not only in retaining an employee but also converting him into a more productive and motivated factor of production (Parashar, 2009).

Compensation is a term related to financial rewards received by people through their employment relationship with an organization. According to Rivai and Sagala (2009), compensation is something that is received by employees as a substitute for the contribution or service they provide to the company. Compensation can help companies to obtain and maintain employees well. With adequate compensation, employee morale can increase and employees become loyal to the

company. Conversely, without adequate compensation, the employee's morale can decrease and it is very possible to leave the company.

For corporate body organizations where special libraries and information centers form part of the organization, compensation and benefits will depend on the annual appraisal or job satisfaction based on criteria spell out in their organization's handbook. Evaluation forms also contains inter alia: what you are expected to do according to your job descriptions, your relationship with staff, creativity, sense of direction, delegation of duty, which will be rated as either fair, good, very good, satisfactory and excellence. All these indices hinge on employees' performances. Though an employer compensates his employee with motivation and benefits based on job performance, there is need for job satisfaction. Every employer expects certain degree of result-oriented services that would fall in line with his vision and mission while every employee demands job satisfaction, (Oduunlade, 2012).

Adeniyi (2013), an organizational compensation management system includes anything an employee's value and desire that an employer is able and willing to offer in exchange for employee's contribution. More specifically such compensation includes financial and non-financial rewards. Financial rewards include direct payment (such as salary) plus indirect payments in the form of employee's benefits. Non- financial reward includes everything in a work environment that improves a worker logic of self-respect and esteem by others (such as work environments that are physically, socially and mentally healthy; chances for training and personal growth; effective super vision and recognition).

As to Armstrong (2006), Compensation management is one of the central pillars of human resources management (HRM). It 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.

Compensation management can be defined as all the employers' available tools that may be used to attract, retain, motivates and satisfy employees. This encompasses every single investment that an organization makes in its people and everything its employees value in the employment relationship, (Adeniyi, 2013).

The notion of compensation strategy originally surfaced in the literature on executive compensation. From a strategic perspective, compensation for executives was defined in terms of several basic elements: base pay, short- and long-term incentives, benefits, and perquisites. The major strategic decisions focused on the deployment of total compensation among the basic elements to best achieve the missions of the organization. Long term incentive as a percent of total compensation is an example. Attention was directed at choices among various short-term versus long-term incentive schemes, the relative emphasis on corporate versus subunit performance, and the riskiness of the total compensation package, (Patnaik and Padhi, 2012).

### **2.1.3 The Objectives of Compensation Management**

According to Armstrong (2006), the following are the objectives of compensation management

- ✓ Reward people according to what the organization values and wants to pay for;
- ✓ Reward people for the value they create;
- ✓ Reward the right things to convey the right message about what is important in terms of behaviors and outcomes;
- ✓ Develop a performance culture;
- ✓ Motivate people and obtain their commitment and engagement;
- ✓ support in attracting and retaining the high-quality people the organization needs;
- ✓ Create total reward processes that recognize the importance of both financial and nonfinancial rewards;
- ✓ Develop and promote a positive employment relationship and psychological contract;
- ✓ Align reward practices with both business goals and employee values; the ‘alignment of your reward practices with employee values and needs is every bit as important as alignment with business goals, and critical to the realization of the latter;
- ✓ Operate fairly – people feel that they are treated justly in accordance with what is due to them because of their value to the organization;
- ✓ Apply equitably – people are rewarded appropriately in relation to others within the organization, relativities between jobs are measured as objectively as possible and equal pay is provided for work of equal value;
- ✓ Function consistently – decisions on pay do not vary arbitrarily and without due cause between different people or at different times;

- ✓ Operate transparently – people understand how reward processes operate and how they are affected by them.

#### **2.1.4 Types of compensation**

Compensation provided to an employees can be direct in the form for monetary benefits and or indirect in the form of non-monetary benefits known as perks, time off e. t. c. compensation does not include only salary but it is the sum total of all rewards and allowances provided to the employees in return for their' services. If the compensation is effectively managed, it contributes to high organizational productivity (Adeniyi, 2013).

##### **2.1.4.1 Salary**

Money has been the major mechanism for rewarding performance but very little is known about how it works. To understand how money modifies performance, the preference or taste of the person being rewarded must be known or understood and this makes it a challenge for most managers. Money cannot be a powerful motivator, when employees cannot see a connection between performance and merit increases. To make this clear in the minds of employees, a well-designed appraisal system should be adopted. The clarity does not just happen; managers must work hard at communicating the performance-financial reward connection, (Doreen et al., 2013).

##### **2.1.4.2 Incentives and Rewards**

Rewards can generate a fundamental role for employee performance. A good employee feel that value of the company is working for the enhancement of the batter work they are well-being. Taken seriousness by their employee and their career self-assessment also taking care by their commonalty employee are the big part of organization like an engine of the organization. The reward knows organization scan and attain any objective with its employee, and blame the productivity of the workers on several factors provided adequate failure compensation for hard work. The real success of organization from employee willingness to use their creativity and among how the employee increases the positive employee efforts and rewards practices. The principal of motivating employees cannot exist enough in organizations context motivated employee highly productive more efficiency, but providing and willing to perform in the organizations in views that if the employee performance efficiently more than ten leaders to organizations rewards as a result of employee performance, (Ramzan et al., 2014)

### 2.1.4.3 Indirect compensation

Indirect Compensation or Employee benefits are elements of payment given in addition to the various methods of cash pay. Also, they include items that are not firmly remuneration such as annual holidays. Management uses indirect compensation presumably to facilitate its recruitment efforts to influence the potential of employees coming to work for a company, influence their stay or create greater commitment, raise morality, reduce absenteeism in general and improve the strength of the organization by instituting a comprehensive program in this area, (Ruby, 2012).

Some type of indirect composition offered by today organization (Ramzan et al., 2014)

- ✓ **Social security:** this is managing insurance system by the rules of employee must pay into system and enclose perchance of pay up to maintain bound. Also, it covers average monthly wages give the security of the employee.
- ✓ **Workers' compensation:** it also says that employee from loss of salary associated extra job-related illness. The laws commonly provide the medical expenses.
- ✓ **Retirement plan:** it gives that bases of income who have retail money paid for a previous service. Given that the time of employment one from of plan is contribution plan also called as beneficial annual plain.
- ✓ **Paid holiday:** The new-year day, independent day which is called holiday plain of employee to employee.
- ✓ **Paid for vacation:** generally, depends on employee services. Most of the company's unit less than one year.
- ✓ **Other benefits:** It involves the additional benefits food services may be wide range purchases discount example for the especially attractive for the retail stores.

### 2.1.5 Employee Performance

Armstrong (2006), performance management can be defined as a systematic process for improving organizational performance by developing the performance of individuals and teams. It is a mean of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. Processes exist for establishing shared understanding about what is to be achieved, and for managing and developing people in a way that increases the probability that it will be achieved in the short and longer term. It focuses people on doing the right things by clarifying their goals. It is owned and driven by line management.

Many modern organizations are placing a greater emphasis on their performance management systems as a means of generating higher levels of job performance. Performance management systems, along with other human resource management programs, straightly is an impact key of organizational outcomes such as financial performance, productivity, product or service quality, customer satisfaction, and employee job satisfaction. This prompts for an adaptable performance management system that is rooted to strategic goals if organizations aim for favorable results in these success indicators. The idea of alignment makes the association between performance and organizational competitiveness very clear, (Resurreccion, 2012).

Employees are the most important part of any organization in increasing the performance. They can be motivated through financial and non-financial benefits and that you can says that composition is reward which is receiving by the employee to show their performance. Employee concentrated pay or wages and similar to non-monetary exchange for the employee performance. Good organization can maintain to design and enable the organizations to attract the highly skilled and qualified employee by retaining and motivating towards objective and goals to achieve productivity (Ramzan et al., 2014).

### **2.1.6 The Objectives of Performance Management**

The overall aim of performance management is to establish a high-performance culture. Individuals and teams take responsibility for the continuous improvement of business processes and for their own skills and contributions within a framework provided by effective leadership. And, these aims are expressed by various organization as following (Armstrong, 2006):

- ✓ Empowering, motivating and rewarding employees to do their best. Armstrong World Industries
- ✓ Concentrating employee's tasks on the right things and doing their right. Aligning everyone's individual goals to the goals of the organization. Eli Lilly & Co
- ✓ Proactively handling and resourcing performance against agreed accountabilities and objectives. ICI Paints
- ✓ The procedure and behaviors by which managers manage the performance of their people to carry a high-achieving organization. Standard Chartered Bank

- ✓ Maximizing the possibility of individuals and teams to benefit themselves and the organization by focusing on achievement of their objectives. West Bromwich Building Society

### **2.1.7 Compensation Vs Employee performance**

It has been found that there is a significant relationship between compensation and employee and organizational performance. (Shin-Rong and Chin-Wei 2012). For example, Mayson and Barret (2006) found that a firm's ability to attract, motivate and retain employees by offering competitive salaries and appropriate rewards is linked to firm performance and growth. On the other hand, Inés and Pedro (2011) found that the compensation system used for the sales people has significant effects on individual salesperson performance and sales organization effectiveness. Therefore, in an ever-competitive business environment, many companies today are attempting to identify innovative compensation strategies that are directly linked to improving organizational performance (Denis and Michel 2011).

According to Nebeker et al. (2001) Customer's satisfaction and organizations performance is the result of its employee's satisfaction. There has been research proving a positive relationship between stock bonus and employee performance. The evidences in Taiwan suggest that there exist positive associations between the amount of stock bonuses and firms' operating performance. It is also found that firms with larger firm size or high growth opportunity tend to adopt stock bonus.

Performance-based compensation is the dominant human Resource practice that firms use to evaluate and reward employees' efforts (Collins and Clark, 2003). Evidently, performance-based compensation has a positive effect upon employee and organizational performance. In a quantitative content analysis of the narrative descriptions of 50 rapid-growth firms and a comparison group of 50 slow-growth companies conducted by Barringer et al., 2005 results demonstrated that employee incentives differentiated the rapid-growth from the slow growth firms. Firms that were rapid-growth oriented provided their employees financial incentives and stock options as part of their compensation packages. In doing so, firms managed to elicit high levels of performance from employees, provide employees the feeling that they have an ownership interest in the firm, attract and retain high-quality employees, and shift a portion of a firm's business risk to the employees.

Delery and Doty (1996) identified performance-based compensation as the single strongest predictor of firm performance. Both performance-based compensation and merit-based promotion can be viewed as ingredients in organizational incentive systems that encourage individual performance and retention (Cho et al. 2005). Collins and Clark (2003) studied 73 high-technology firms and showed that the relationships between the HR practices and firm performance (sales growth and stock growth) were mediated through their top managers' social networks. Cho et al. (2005) suggested that incentive plans is effective in decreasing turnover rates. Banker et al. (2001) conducted a longitudinal study of the effectiveness of incentive plans in the hotel industry and found that incentive plans were related to higher revenues, increased profits, and decreased cost. In a related study Paul and Anantharaman (2003) found that compensation and incentives directly affect operational performance. To be effective, compensation practices and policies must be aligned with organizational objectives. While performance-based compensation can motivate employees, sometimes employees perceive it as a management mechanism to control their behavior (Lawler and Rhode, 1976). In such a case, employees are less loyal and committed, thus compensation plans have the opposite than desired outcome (Rodríguez and Ventura, 2003). Employee turnover can significantly slow revenue growth, particularly in knowledge-intensive industries (Baron and Hannan, 2002).

## **2.2 Empirical review**

Prior studies (Murty, (2012), Dito and Lataruva, (2010), Dhermawan, Sudibya and Utama, (2012), Suwati, (2013), Sukmawati, (2008) and Potu, (2013)) suggest compensation has a positive effect and significant to employee performance. The intended effect is, that the company acts wisely, by giving all employees rights in accordance with applicable regulations. So that it is expected to give birth to good work attitudes and behaviors, and have an impact on achieving performance. In line with the above research, Damayanti and Sumaryati (2013), Nugraha and Ratnawati (2010) and Reza and Dirgantara (2010) suggest that compensation has a significant effect on performance.

Some research show that direct compensation has significant effect on productivity (Dewi, 2014). Pratama et. al. (2016) also states that there is a significant positive effect of financial compensation on employee work productivity. Malonda (2013) state that simultaneously and partially, job satisfaction and motivation have a positive effect on work productivity. Sagita Sukma Haryani,

Djamhur Hamid, dan Heru Susilo (2015) state that financial and non-financial compensation affects work motivation. Thara Afifah and Mochammad Al Musadieg (2017) also state that job satisfaction has a significant effect on work motivation. Danang Agil Wicaksono (2013) reveal that there is a positive and significant effect between motivation on employee work productivity.

Pergamit and Veum, 1999 which is supported by Ellickson (2002) in his study of a public employee found that there is a strong relationship between promotion opportunity and job satisfaction. Bowen et al. (2008) supported this assertion. In addition, Keiner and Kinicki (2001) lamented that a significant relationship exists between job satisfaction and promotion, and they viewed that job satisfaction is contingent upon what employee perceives as equity in his employment relation like reward.

Quresh, Zaman and Shah (2013) conducted research on the relationship between extrinsic and intrinsic rewards with the employee's performance among cement companies in Pakistan. The study gathered data using structured questionnaires which was used to collect data from over 100 employees. The data was then analyzed by use of SPSS. The analysis method was based on regression and descriptive statistics. The study found that recognition techniques used in cement factories are good for the maximum employee performance. The study also established that wages and bonuses increase employee performance in the cement factories in Pakistan. The research examined the relationship between extrinsic rewards, intrinsic rewards, financial rewards and social recognition rewards and organization performance.

Muhammad (2014) investigated the effect of compensation of employee performance on organization commitment in the Republic of Saudi Arabia. The study targeted 45 public institutions in the country with an average of 265 employees. The data was collected by using structured questionnaires which were constructed in relation to the research objectives.

Kwenin, Muathe and Nzulwa (2013) studied the impact of direct and indirect financial compensation in the performance of employees in customer service companies in the Republic of Ghana. The authorss used descriptive research design. The target population was the 223 employees of the 23 listed customer service companies in the country. The authors analyzed data descriptively as per the data collected by use of structured questionnaires. The study found that reward dimensions have significant effect on employee's performance. In particular, they found that pay, performance bonus, recognition and praise are the tools that management can use to

motivate employees in order for them to perform effectively and efficiently. Thus, workers reward package matters a lot and should be a concern of both the employers and employees.

### **2.3 Hypothesis of the study**

Based on the above reviewed theoretical and empirical literatures, the study developed the following five research hypotheses:

H1: Salary has a positive significant effect on employee performance

H2: Bonus has a positive significant effect on employee performance

H3: Benefits has a positive significant effect on employee performance

H4: Recognition a positive significant effect on employee performance

H5: Promotion a positive significant effect on employee performance

H6: Responsibility has a positive significant effect on employee performance

### **2.4 Conceptual framework**

The conceptual framework of the study shows the dependent and independent variable. The dependent variable is the employee performance. On the other hand, the independent variables of the study were classified under Extrinsic and Intrinsic compensation. For the purpose of this study both the Extrinsic and Intrinsic compensations were further classified into salary, bonus, benefit, recognition, promotion responsibility and working condition.

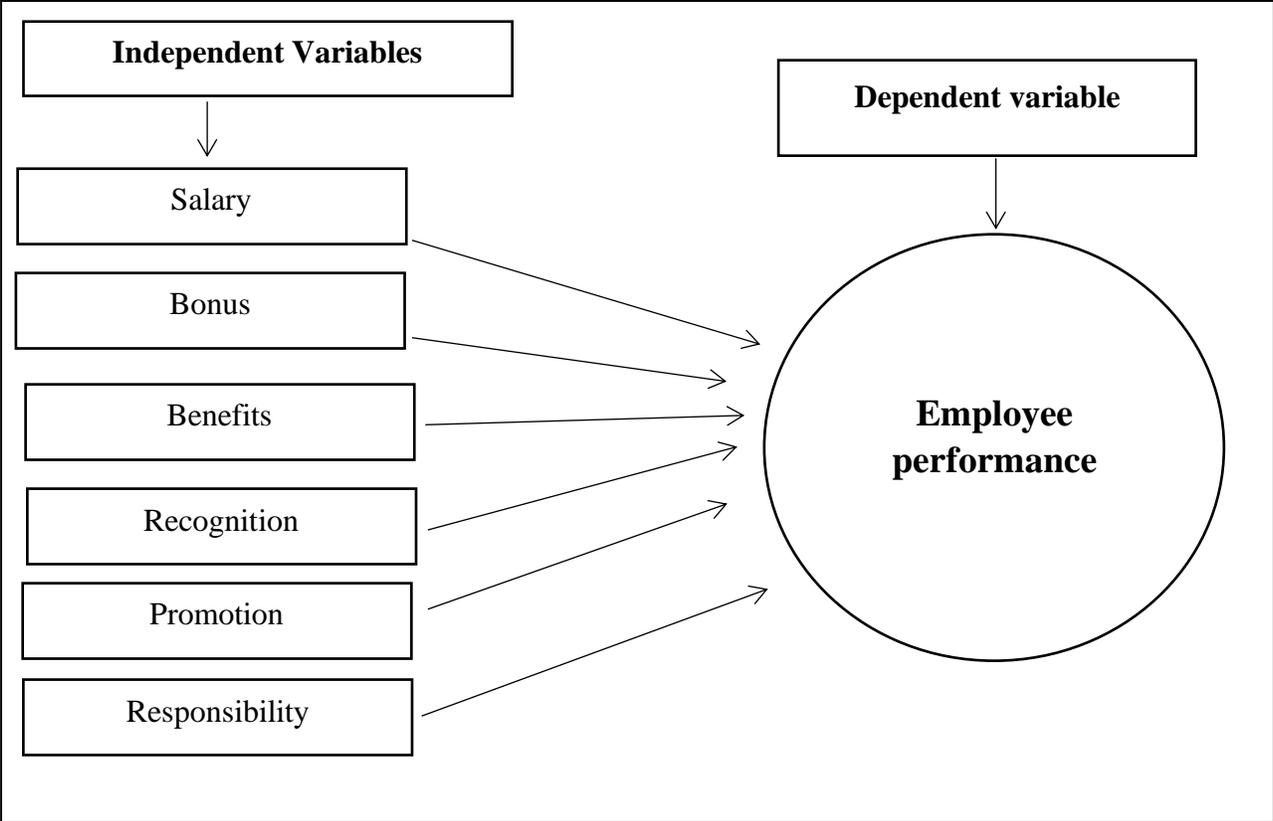


Figure 2.1: Conceptual framework

Source: Own conceptual framework based on the literature review

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter addresses the overall methodologies to be employed in this research. It consists of brief discussion of the study design & approach, population of the study, determination of sample size, sampling method, data type and source, data collection methods, data analysis methods and ethical considerations.

#### **3.1 Research Design**

A research design is the general plan about how the researcher will go to answering his or her research questions. Burns and Bush, 2010 further describes it as a set of advance decisions that makes up the master plan specifying the methods and procedures for collecting and analyzing the needed information.

The type of research applied for the purpose of this study is causal (explanatory) research, to realize the cause-and-effect relationship of the independent and the dependent variables. This helps to investigate the cause-and-effect relationship. To determine causality, the researcher was observing variations in the independent variable and measure the changes in the dependent variable.

#### **3.2 Research Approach**

There are three basic approaches to research: Quantitative, qualitative and the combination of the two. Quantitative approach involves the generation of data in quantitative form, which can be subjected to rigorous quantitative analysis in a formal and rigid fashion and qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior. Research in such a situation is a function of researcher's insights and impressions Finally, mixed approach is the combination of the two. Hence, in order to achieve the intended objective, quantitative method is select to use.

#### **3.3 Target Population**

The target populations for the study includes 1681 employees of Ethio telecom which are located at Jemo and wello sefer contact center division of the company.

### 3.4 Sample size and Sampling technique

#### 3.4.1 Sample size

Sample size determination is a process of selecting a sufficient portion of the population for the purposes of generalizing the findings. The aim of using sampling method is to adequately manipulate the large number and reduce the cost of gathering data from the entire population. The researcher used the formula for estimating the sample size provided by Taro Yamane (1973).

$$n = \frac{N}{1 + N(e^2)} \quad n = \frac{1681}{1 + 1681(0.05^2)} = 323$$

Where;

**n** is the sample size,

**N** is the population size and

**e** is the margin of error at 5 percent (0.05). A 95% confidence level is assumed for the equation.

Therefore, by applying the above formula, the calculated sample size is almost 323. Thus, out of the 1681 employees' questionnaires were distributed to 323 selected respondents.

Table 3.1: Proportionally selected sample from the population (Wello sefer and Jemo)

Position	No of Employees	Percentage	Sample size
Managers	5	0.5	2
Supervisors	25	1.5	5
Coaches	133	8	26
Advisors	1518	90	290
Total	1681	100	323

Source: Ethio telecom HR Department

### **3.4.2 Sampling technique**

Probability sampling methods is adopted in selecting the study organizations. Probability sampling ensures that each element of the population of interest has an equal chance of selection as they are drawn from the sampling frame (Haer and Becher, 2012). Probability sampling techniques include random, cluster, stratified sampling etc. In order to ensure that all the population of interest (employees) have a chance to be select for the study, stratified sampling technique was applied to get valid views from the respondents. The strata were composed from different level from the customer service staff in the company. Specifically, customer service manager, supervisors and Quality Assurance, contact center advisors. Furthermore, proportionate stratified sampling technique was implemented to further pick the sample.

### **3.5 Source of data**

The data for the study was collected from primary sources. Primary data was obtained through Structured Questionnaires, which includes closed questions in retrieving data and current status of Compensations affecting employee performance at Ethio telecom, in the customer service contact center staffs including coaches, supervisors and managers. This instrument is preferable because it enables to secure information about the cause and effect at a time.

### **3.6 Data collection instrument**

A structured questionnaire was used for gathering data in this study. The rational is the method is easy to standardize and produce results that are easy to summarize, compare and generalize. It also contributes to reliability by promoting greater consistency; since every respondent is asked the same questions.

The questionnaire is divided in to two sections. In the first section the demographic characteristics of the respondents was requested to provide information about their gender, age, and education level. The second section of the questionnaire was designed to enable the researcher to gather information about compensation and employee performance. For all questionnaire to be included in section 2, the respondents were requested to indicate their feeling on a five-point Likert scale type to measure weighted as follows: 1=strongly disagree, i.e., very much dissatisfied with the item, 2=disagree, i.e., not satisfied with the item, 3=neutral, i.e., uncertain with the case, 4=agree, i.e., feeling alright with the item, and 5= strongly agree, i.e., very much supportive of the item.

### 3.7 Validity and reliability

Reliability and validity analysis was conducted to check whether a scale used in this study consistently reflects the subset it measures. The Cronbach 's  $\alpha$  was used as a measure of internal consistency.

### 3.8 Method of data analysis

In this study data analysis was done by using descriptive and inferential statistics. Descriptive analysis is an important first step for conducting statistical analyses. It gives you an idea of the distribution of your data, helps you detect outliers and types, and enable as identify associations among variables, thus making one to conduct further statistical analyses. On the other hand, Inferential statistics analysis is a statistical technique that attempts to explain movements in one variable, the dependent variable, as a function of movements in a set of other variables, called the independent (or explanatory) variables, through the quantification of a single equation. To do so, the study used SPSS software version 21.

#### Regression model specification

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + e$$

Where:

Y= the dependent variable (Employee performance)

$\alpha$ = Constant

$\beta$ = Coefficient of the factors

X= the independent variables Extrinsic and Intrinsic Compensations

e= error estimates

**Extrinsic Compensation=**    **X<sub>1</sub>= Salary/Wage**    **X<sub>2</sub>= Bonus**    **X<sub>3</sub>=Benefits**

**Intrinsic Compensation=**    **X<sub>4</sub> = Recognition**    **X<sub>5</sub>=Promotion**    **X<sub>6</sub>=Responsibility**

### **3.9 Ethical considerations**

Before starting the actual data collection, for the purpose of the study, the right to participate and refuse will be told to the study subjects. Verbal consent from the study subjects is obtain. Confidentiality of the information is guaranteed by not writing a name or anything that enable to identify study participants. In addition to that a respondent answer will be kept in a confidential place. The researcher acted responsibly according to ethical standards to ensure that the information gather is not brought to disregard. All respondents have the right to privacy, to safety, to know the true purpose of the research, to obtain research results and to abstain from answering questions.

## CHAPTER FOUR

### DATA ANALYSIS AND PRESENTATION

This section presents the results of the data analyzed based on the research methodology discussed in Chapter Three. A detailed discussion regarding the five-research hypothesis is also presented and tested under the umbrella of this chapter.

#### Response rate

Hence, to examine the effect of compensation on Employee Performance (EP), a structured questionnaire was designed for respondents to give their feedbacks. 323 questionnaires were distributed for employees of Ethio telecom. From the total number of questionnaires distributed to respondents 296 questionnaires were properly filled and returned. The remaining 27 questionnaires were discarded because some of them had missing data and were not fully answered. Therefore, the number of valuable questionnaires were gathered with a response rate of 91.6%.

Table 4.1: Response rate

Distributed questionnaires	323	100%
Valuable questionnaires	296	91.6%
Discarded questionnaires	27	8.4%

Source: survey result, 2022

#### 4.1 Descriptive analysis of respondent's demographic profile

##### 4.1.1 Gender

Table 4.2: Gender of respondents

Gender of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	211	71.3	71.3	71.3
	Female	85	28.7	28.7	100.0
	Total	296	100.0	100.0	

Source: survey result, 2022

Based on the above shown table 4.2 (71.3%) of the respondents were male, while (28.7%) of the respondents were female. From the table 4.2 we can understand that majority of the respondents on this study were male.

#### 4.1.2 Age of respondents

Table 2.3: Age of respondents

Age of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25	33	11.1	11.1	11.1
	26-35	148	50.0	50.0	61.1
	36-45	115	38.9	38.9	100.0
	Total	296	100.0	100.0	

Source: survey result, 2022

The respondent's age is shown in the above Table 4.3. The Table indicated that (50%) were found within the age range of 26-35 years followed by (38.9%) age range of 36-45. Whereas the remaining respondents (11.1%) were between 18-25 years old. from the above table we can understand that majority of the target population age range is between 26-35.

#### 4.1.3 Educational level of respondents

Table 4.4: Educational level of respondents

Educational background of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	First Degree	219	74	74	74
	Masters and above	77	26	26	100.0
	Total	296	100.0	100.0	

Source: survey result

The educational level of respondents is shown in the above table 4.4. The educational level of respondents was composed of BA Degree holders (74%) and Masters and above holders (26%). Depending on the above table 4.4 it can be concluded that majority of the respondent's educational level was above first-degree level.

#### 4.1.4 Work experience of respondents

Table 4.5: Work experience of respondents

Work experience of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 1 year	9	3.0	3.0	3.0
	1-5 years	118	39.9	39.9	42.9
	6-10 years	141	47.6	47.6	90.5
	> 10 years	28	9.5	9.5	100.0
	Total	296	100.0	100.0	

Source: survey result, 2022

The work experience of respondents mentioned in the above table 4.5 shows that (47.6%) of the respondents have a work experience between 6-10 years. (39.9%) have a work experience between 1-5 years, (9.5%) have a work experience of more than 10 years and finally (3%) of the respondents have less than 1 year experience. From this data the study concluded that majority of the respondents have a work experience above 5 years.

#### 4.2 Validity and Reliability analysis

Testing goodness of data is testing the reliability and validity of the measures. Since the statements have been generated from an extensive review of academic and practitioner's literatures, it is assumed that the construct validity will hold.

Reliability analysis was conducted to check whether a scale used in this paper consistently reflects the subset it measures. For this study, the Cronbach 's alpha was used as a measure of internal consistency. From data analysis the Cronbach's alpha for this study was at acceptable zone according to the standard set by George and Mallery, (2003) and it is over the acceptable limit of >0.70. For all individual items, Cronbach's alpha is greater than 0.70, which is shown in table 4.6, that signifies greater internal consistency between the items and measures the intended dimension of the variables.

Table 4.6: Reliability of the instrument

Reliability of the instrument	Item Cronbach's alpha	Number of items
<b>Compensation practices</b>		
Salary	0.778	5
Bonus	0.760	2
Benefits	0.848	6
Recognition	0.787	2
Promotion	0.782	5
Responsibility	0.741	3
Employee performance	0.820	8

Source: Survey result, (2022)

Cronbach 's alpha was calculated for each field of the instrument. Table 4.6 shows Cronbach 's Alpha value for each and the entire questionnaire. For each field, Cronbach's Alpha value ranges from 0.741 - 0.848. Therefore, grounded on the test, the values for the items are reliable and acceptable.

### **4.3. Descriptive statistics of compensation practices and employee performance**

Descriptive statistics, mean and standard deviations (SD) of the respondents' scores were computed and analysis has been done by comparing these mean scores and standard deviations among respondents. The reason for using descriptive statistics is to compare the different factors that affect the employee performance of Ethio telecom by using the means and SD values.

In order to show the level of agreement or disagreement of the respondents, descriptive analysis of variables is presented in the form of mean and standard deviation. The response of the respondents was measured on a five-point Likert scale stretches from: 1= Strongly disagree - 5= Strongly agree. But when making interpretation of the outcomes of mean and standard deviation the scales are reassigned as follows to make the interpretation easy and clear. According to Best, (1977) as cited by Gebeyehu, J. (2014) the intervals for breaking the range in measuring each variable with five-point scale is calculated as follows:

<b>Respondents level of agreement = <u>Maximum- Minimum</u> = <u>5-1</u> = 0.8</b>		
	<b>5</b>	<b>5</b>

Hence, the range of the score indicates:

Table 4.7: Respondents range of agreement level

1.00 – 1.80	<b>Strongly disagree</b>
1.81 – 2.60	Disagree
2.61 – 3.40	Neutral
3.41 – 4.20	Agree
4.21 – 5.00	Strongly agree

Source: Best, (1977) cited by Gebeyehu, (2014)

#### 4.3.1. Salary

For measuring salary, respondents were asked five questions. The result is presented in the Table 4.8. Based on the Table 4.8 “I feel I am being paid a fair salary amount for the work I do” scored the highest mean of 3.58 with standard deviation 1.141 followed by “The pay I earn is compatible to other people in other industries with the same level and experience” with mean of 3.50 and standard deviation 1.150, “The periodic salary increment amount is good” has scored a mean of 3.44 with standard deviation 1.148, “My basic pay is well balanced compared to other employees in the Company” has scored a mean of 3.43 with standard deviation 1.225. The fifth item of salary i.e., “My salary is compatible with my job and I am satisfied and motivated with my current pay” scored mean of 3.12 with standard deviation 1.316. Since the mean result 4 of the 5 items is between the ranges of 3.41-4.20 it means majority of the respondents tend to be agreed by the items of salary. The low standard deviation indicates that the mean represents the rate given by the majority of the respondents.

Table 4.8: Descriptive statistics of salary

Independent variable 1: salary	N	Mean	Std. Deviation
--------------------------------	---	------	-------------------

I feel I am being paid a fair salary amount for the work I do.	296	3.58	1.141
The periodic salary increment amount is good.	296	3.44	1.148
The pay I earn is compatible to other people in other industries with the same level and experience.	296	3.50	1.150
My salary is compatible with my job and I am satisfied and motivated with my current pay.	296	3.12	1.316
My basic pay is well balanced compared to other employees in the Company.	296	3.43	1.225
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.3.2. Bonus

For measuring bonus, respondents were asked two questions. The result is presented in the Table 4.9. Based on the Table 4.9 “The Company provides Bonus to motivate employees” scored the highest mean of 3.82 with standard deviation 1.012. the second item i.e., “I feel satisfied with the bonus and other payments like variable payment, over time schemes of the company” scored mean of 3.77 and standard deviation 1.052. Since the mean result of the two items falls between the ranges of 3.41-4.20 it means majority of the respondents tend to be agreed by the items of bonus. The low standard deviation indicates that the mean represents the rate given by the majority of the respondents.

Table 4.9: Descriptive statistics of bonus

Independent variable 2: bonus	N	Mean	Std. Deviation
The Company provides Bonus to motivate employees	296	3.82	1.012
I feel satisfied with the bonus and other payments like variable payment, over time schemes of the company.	296	3.77	1.052
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.3.3. Benefits

For measuring benefits, respondents were asked six questions. The result is presented in the Table 4.10. Based on the Table 4.10 “The benefit package we have is equitable” scored the highest

mean of 4.09 with standard deviation 1.033 followed by “I am satisfied with the fringe benefits like medical expense, education fee coverage etc” with mean of 4.02 and standard deviation 1.048, “I am motivated to perform with the benefits I Receive” has scored a mean of 4.01 with standard deviation 1.202, “The benefits we receive are as good as most other organizations offer” has scored a mean of 3.78 with standard deviation 1.145, “The benefit package you receive did create positive attitude towards your performance” has scored a mean of 3.70 with standard deviation 1.029. The sixth item of benefits i.e., “I am motivated and satisfied with the overall benefits receive from the company” scored mean of 3.62 with standard deviation 1.181. Since the mean result all the six items fall between the ranges of 3.41-4.20 it means majority of the respondents tend to be agreed by the items of benefits. The low standard deviation indicates that the mean represents the rate given by the majority of the respondents.

Table 4.10: Descriptive statistics of benefits

Independent variable 3: benefits	N	Mean	Std. Deviation
I am motivated to perform with the benefits I Receive	296	4.01	1.202
The benefits we receive are as good as most other organizations offer.	296	3.78	1.145
The benefit package we have is equitable.	296	4.09	1.033
The benefit package you receive did create positive attitude towards your performance	296	3.70	1.029
I am satisfied with the fringe benefits like medical expense, education fee coverage etc.	296	4.02	1.048
I am motivated and satisfied with the overall benefits receive from the company.	296	3.62	1.181
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.3.4. Recognition

For measuring recognition, respondents were asked two questions. The result is presented in the Table 4.11. Based on the Table 4.11 “When I do a good job, I receive recognition for that” scored the highest mean of 3.78 with standard deviation 1.058. the second item i.e., “I feel that my job

receives enough attention from my company” scored mean of 3.58 and standard deviation 1.080. Since the mean result of the two items falls between the ranges of 3.41-4.20 it means majority of the respondents tend to be agreed by the items of recognition. The low standard deviation indicates that the mean represents the rate given by the majority of the respondents.

Table 4.11: Descriptive statistics of recognition

Independent variable 4: Recognition	N	Mean	Std. Deviation
When I do a good job, I receive recognition for that	296	3.78	1.058
I feel that my job receives enough attention from my company	296	3.58	1.080
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.3.5. Promotion

For measuring promotion, respondents were asked five questions. The result is presented in the Table 4.12. Based on the Table 4.12 “I am motivated to perform with the overall promotional schemes of my job” scored the highest mean of 3.94 with standard deviation 1.179 followed by “There is really high chance for promotion on my job” with mean of 3.60 and standard deviation 1.142, “The company gives me enough authority to perform my job” has scored a mean of 3.46 with standard deviation 1.283, “Those who do well on the job have a fair chance of being promoted” has scored a mean of 3.38 with standard deviation 1.347. The fifth item of promotion i.e., “People get promoted as fast in the company as they become best performer” scored mean of 3.25 with standard deviation 1.268. Since the mean result 3 of the 5 items is between the ranges of 3.41-4.20 it means majority of the respondents tend to be agreed by the items of promotion. The low standard deviation indicates that the mean represents the rate given by the majority of the respondents.

Table 4.12: Descriptive statistics of promotion

Independent variable 5: promotion	N	Mean	Std. Deviation
The company gives me enough authority to perform my job.	296	3.46	1.283

There is really high chance for promotion on my job.	296	3.60	1.142
Those who do well on the job have a fair chance of being promoted	296	3.38	1.347
People get promoted as fast in the company as they become best performer	296	3.25	1.268
I am motivated to perform with the overall promotional schemes of my job	296	3.94	1.179
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.3.6. Responsibility

For measuring responsibility, respondents were asked three questions. The result is presented in the Table 4.13. Based on the Table 4.13 “I am supervised too much while at work” scored the highest mean of 3.61 with standard deviation 0.995, “Responsibilities are delegated to co-workers while top-level managers are not available in the company” has scored a mean of 3.59 with standard deviation 0.970. the third item i.e., “I am satisfied with my role and responsibilities at this company” scored mean of 3.46 and standard deviation 1.054. Since the mean result of the three items fall between the ranges of 3.41-4.20 it means majority of the respondents tend to be agreed by the items of responsibility. The low standard deviation indicates that the mean represents the rate given by the majority of the respondents.

Table 4.13: Descriptive statistics of responsibility

Independent variable 6: responsibility	N	Mean	Std. Deviation
I am satisfied with my role and responsibilities at this company	296	3.46	1.054
Responsibilities are delegated to co-workers while top-level manager are not available in the company	296	3.59	.970
I am supervised too much while at work	296	3.61	.995
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.3.7. Employee performance

For measuring employee performance, respondents were asked eight questions. The result is presented in the Table 4.14. Based on the Table 4.14 “I have all the resources I need to do my job successfully” scored the highest mean of 3.58 with standard deviation 1.176 followed by “My job enables me to perform with all of my capacity” with mean of 3.58 and standard deviation 1.141, “In general, I like working here” has scored a mean of 3.55 with standard deviation 1.178, “My job helps me to grow professionally” has scored a mean of 3.50 with standard deviation 1.150, “My role is clearly defined, and its attainable to perform” has scored a mean of 3.47 with standard deviation 1.141, “I am interested by the challenge of my job” has scored a mean of 3.44 with standard deviation 1.148, “Managers always encourage others commitment to quality of job” has scored a mean of 3.43 with standard deviation 1.225. The eighth item of employee performance i.e., “I am involved in decision making that affects my work” scored mean of 3.12 with standard deviation 1.318. Since the mean result seven of the eight items fall between the ranges of 3.41-4.20 it means majority of the respondents tend to be agreed by the items of employee performance. The low standard deviation indicates that the mean represents the rate given by the majority of the respondents.

Table 4.14: Descriptive statistics of employee performance

Dependent variable: employee performance	N	Mean	Std. Deviation
My job enables me to perform with all of my capacity	296	3.58	1.141
I am interested by the challenge of my job	296	3.44	1.148
My job helps me to grow professionally	296	3.50	1.150
I am involved in decision making that affects my work	296	3.12	1.316
Managers always encourage others commitment to quality of job.	296	3.43	1.225
My role is clearly defined, and its attainable to perform	296	3.47	1.141
In general, I like working here	296	3.55	1.178
I have all the resources I need to do my job successfully	296	3.58	1.176
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.3.8. Summary of overall descriptive statistics of variables

Table 4.15 clearly summarizes perceptions of the respondents with respect to the six predictor variables and the dependent variable. Benefits has scored mean of 3.87 with SD 0.83, bonus has scored mean of 3.81 with SD 0.92, recognition has scored Mean of 3.68 with SD 0.97, responsibility has scored mean of 3.55 with SD 0.81, promotion has scored mean of 3.52 with SD 0.91, employee performance has scored mean of 3.45 with SD 0.78 and salary has scored mean of 3.41 with SD 0.87. The low standard deviation indicates that the Mean represents the rate given by the Majority of the respondents. Based on the mean results of each variable, this outcome implies that most of the respondents are satisfied with the level of compensation offered by the organization.

Table 4.15: Summary of descriptive statistics of variables

	N	Mean	Std. Deviation
Benefits	296	3.8711	.83519
Bonus	296	3.8176	.92544
Recognition	296	3.6807	.97090
Responsibility	296	3.5552	.81693
Promotion	296	3.5250	.91090
Employee Performance	296	3.4595	.78892
Salary	296	3.4142	.87166
Valid N (listwise)	296		

Source: survey result, 2022

#### 4.4 Correlation Analysis

Correlation analyses was used to determine the degree and the direction of the association between variables (Sekaran, 2003). For the purpose of this study, the Pearson product-moment correlation was selected. A correlation coefficient (r) closer to -1 or +1 means the two variables are strongly related. In contrast, when r is close to 0, it means the two variables are weakly correlated (Coakes, 2005). According to Coakes (2005), strength of correlations can be interpreted as follows: Strength of correlation.

r=-+0.10 up to -+0.29

Small effect

r= -+0.30 up to -+0.49

Moderate effect

r= -+0.50 up to -+ 1.00

Strong effect

Depending on this assumption, all basic constructs were included into the correlation analysis and a bivariate two tailed correlation analysis was done and it show that all the six independent variables are positively correlated with the dependent variable.

Table 4.16: Correlation matrix

		EP	SA	BO	BE	RE	PR	RES
EP	Pearson Correlation	<b>1</b>						
	Sig. (2-tailed)							
	N	<b>296</b>						
SA	Pearson Correlation	<b>.941**</b>	1					
	Sig. (2-tailed)	<b>.000</b>						
	N	<b>296</b>	296					
B O	Pearson Correlation	<b>.649**</b>	.447 **	1				
	Sig. (2-tailed)	<b>.000</b>	.000					
	N	<b>296</b>	296	296				
BE	Pearson Correlation	<b>.378**</b>	.371 **	.237 **	1			
	Sig. (2-tailed)	<b>.000</b>	.000	.000				
	N	<b>296</b>	296	296	296			
RE	Pearson Correlation	<b>.460**</b>	.427 **	.291 **	.381 **	1		
	Sig. (2-tailed)	<b>.000</b>	.000	.000	.000			
	N	<b>296</b>	296	296	296	296		
PR	Pearson Correlation	<b>.514**</b>	.496 **	.314 **	.519 **	.403**	1	
	Sig. (2-tailed)	<b>.000</b>	.000	.000	.000	.000		
	N	<b>296</b>	296	296	296	296	296	

RE S	Pearson Correlation	<b>.485**</b>	.476 **	.264 **	.184 **	<b>.387**</b>	<b>.278*</b> *	1
	Sig. (2-tailed)	<b>.000</b>	.000	.000	.001	.000	.000	
	N	<b>296</b>	296	296	296	296	296	296
**. Correlation is significant at the 0.01 level (2-tailed).								

Source: survey result, 2022

The results in Table 4.16 shows that salary and employee performance have a strong, positive and significant relationship at 0.01 significant level. The result of correlation between the two variables is shown in the above table 4.16. As the table indicated that there is a statistically significant relationship between salary and employee performance ( $r=0.941$ ,  $P<0.01$ ).

The results in Table 4.16 shows that bonus and employee performance have a strong, positive and significant relationship at 0.01 significant level. The result of correlation between the two variables is shown in the above table 4.16. As the table indicated that there is a statistically significant relationship between bonus and employee performance ( $r=0.649$ ,  $P<0.01$ ).

The results in Table 4.16 shows that benefits and employee performance have a moderate, positive and significant relationship at 0.01 significant level. The result of correlation between the two variables is shown in the above table 4.16. As the table indicated that there is a statistically significant relationship between benefits and employee performance ( $r=0.378$ ,  $P<0.01$ ).

The results in Table 4.16 shows that recognition and employee performance have a moderate, positive and significant relationship at 0.01 significant level. The result of correlation between the two variables is shown in the above table 4.16. As the table indicated that there is a statistically significant relationship between recognition and employee performance ( $r=0.460$ ,  $P<0.01$ ).

The results in Table 4.16 shows that promotion and employee performance have a strong, positive and significant relationship at 0.01 significant level. The result of correlation between the two variables is shown in the above table 4.16. As the table indicated that there is a statistically significant relationship between promotion and employee performance ( $r=0.514$ ,  $P<0.01$ ).

The results in Table 4.16 shows that responsibility and employee performance have a moderate, positive and significant relationship at 0.01 significant level. The result of correlation between the

two variables is shown in the above table 4.16. As the table indicated that there is a statistically significant relationship between responsibility and employee performance ( $r=0.485$ ,  $P<0.01$ ).

Therefore, based on the above correlation test, all the six independent variables i.e., salary, bonus, benefits, recognition, promotion and responsibility have a strong and positive relationship with employee performance. Relatively salary has the highest association with employee performance followed by bonus, promotion, responsibility, recognition and benefits with  $r$  values 0.941, 0.649, 0.514, 0.485, 0.460 and 0.378 respectively.

Accordingly, it can be concluded that there is a positive relationship between all the six independent variables and employee performance. Hence any improvement in one of the six independent variables will positively contribute to employee performance.

## **4.5. Multiple linear regression analysis**

Regression analysis is used to assess the relationship between one dependent variable and several independent variables (Hair et al., 2019). It is employed to test the research hypotheses. In this study standard multiple regressions are used to analyse the effect of the variables based on the research questions and objectives.

### **4.5.1. Multiple linear regression analysis assumption tests**

Before analyzing multiple linear regression, the presence of multi-co linearity, Linearity, Normality and Homoscedasticity was tested and presented as follows;

#### **4.5.1.1 Sample Size**

Tabachnick and Fidell (2001) give a formula for calculating sample size requirements, taking into account the number of independent variables that you wish to use:  $N > 50 + 8m$  (where  $m$ =number of independent variables). In this study there are six independent variables, therefore  $N > 50 + 8 \times 6 = 98$  cases are needed. In this study 323 sample size/cases were considered, which satisfied the sample size condition for conducting multiple regression analysis.

#### **4.5.1.2 Multicollinearity**

Multicollinearity refers to the relationship among the independent variables. Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other

independent variables in the model and is calculated using the formula  $1 - R^2$  for each variable. If this value is very small (less than 0.10), it indicates that the multiple correlation with other variables is high, suggesting the possibility of multicollinearity. The other value given is the variance inflation factor (VIF), which is just the inverse of the Tolerance (Tol.) value (1 divided by Tolerance). VIF values above 10 would be a concern here, indicating multicollinearity (Pallant, 2020).

In this study the tolerance value for each independent variable is greater than 0.10; therefore, not violated the multicollinearity assumption. This is also supported by the VIF value, which is well below the cut - off of 10. The finding indicated that the model had no serious multicollinearity problem (Hair et al., 2019).

Table 4.17: Multicollinearity test result

<b>Variable</b>	<b>Tol. &gt; 0.10</b>	<b>VIF &lt; 10</b>
Salary	0.552	1.810
Bonus	0.780	1.283
Benefits	0.686	1.458
Recognition	0.698	1.432
Promotion	0.605	1.652
Responsibility	0.728	1.374

Source: survey result, 2022

#### 4.5.1.3 Normality

The multiple linear regression analysis requires all variables to be normal. This assumption can best be checked with a histogram. the following histogram and the curve show that how the data is distributed, so from the following histogram the researcher concludes that the data is normally distributed.

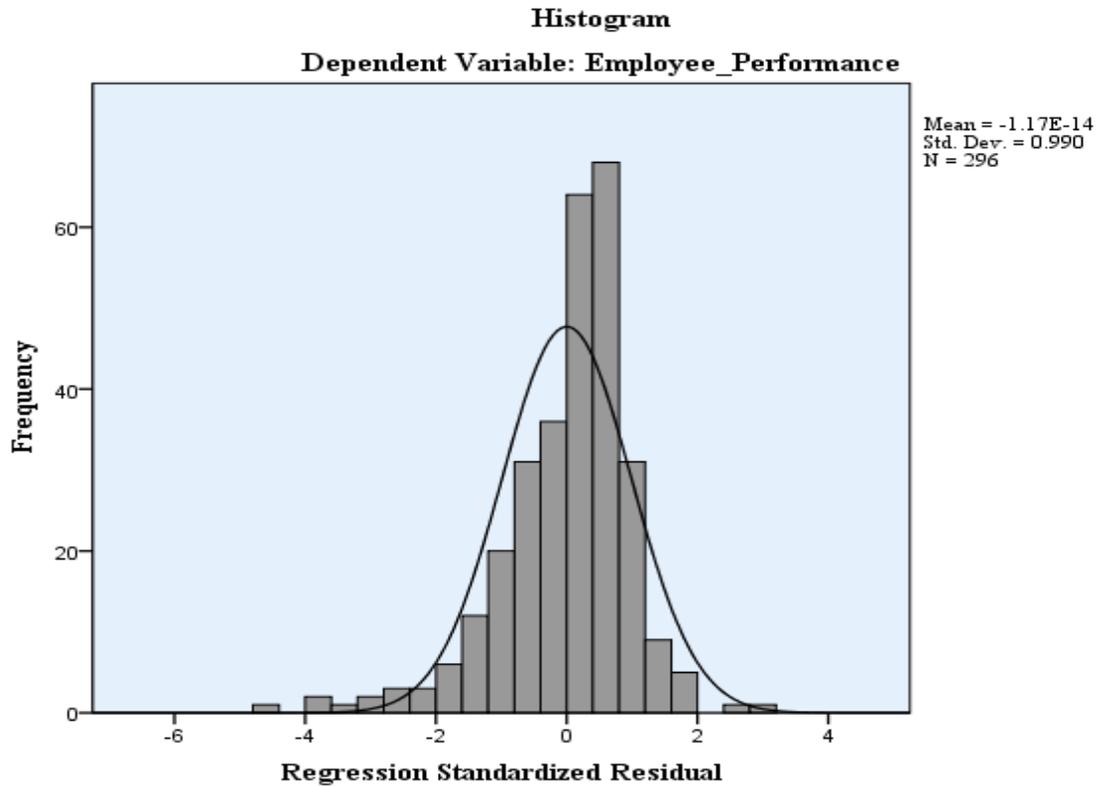


Figure 4.1: Normal distribution curve

Source: survey result, 2022

#### 4.5.1.4 Linearity

Linearity is the assumption that the relationship between dependent variables and independent variables can be characterized linear. Linearity relationship between the dependent and independent variable represented the degree to which the change in the dependent variable is associated with the independent variable. The following P-P plot tell us that if the relationship between the variables is linear, then the dots should lie on the straight diagonal line.

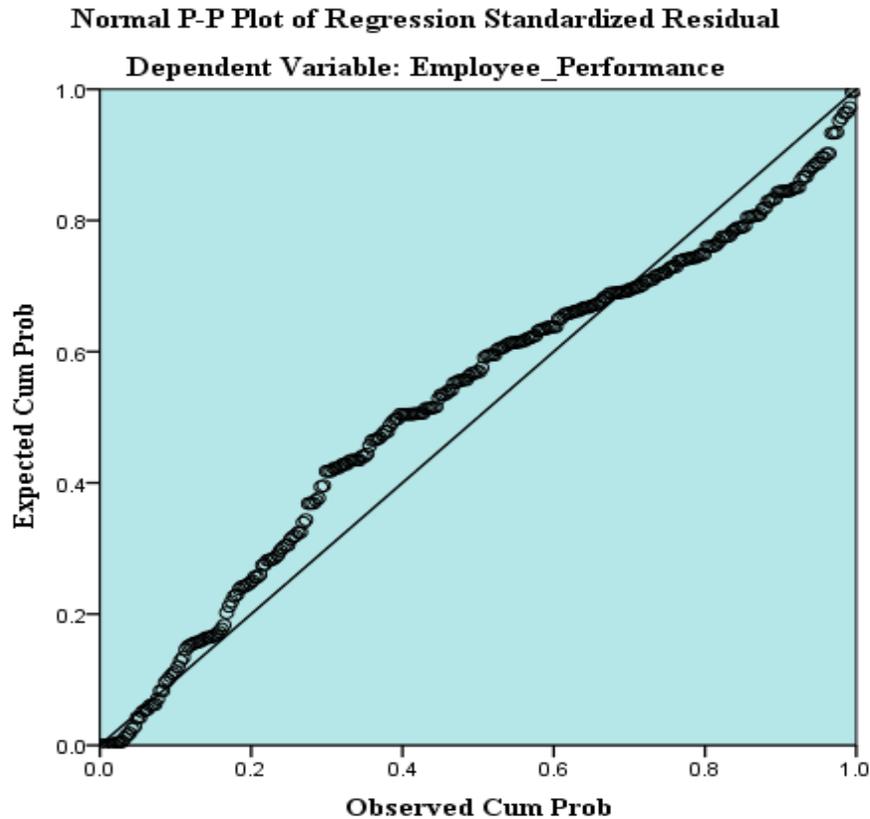


Figure 4.2: Linearity

Source: survey result, 2022

#### 4.5.1.5 Homoscedasticity

Homoscedasticity is homogeneity of variance. This assumption is referred to as the description of data in which the variance of the error terms ( $\epsilon$ ) appears constant over the range of values of an independent variable. In the scattered residual plots, the residuals scattered randomly about the zero line and did not exhibit a triangular shaped pattern, thus providing sufficient evidence to satisfy the assumption for homoscedasticity of the error terms.

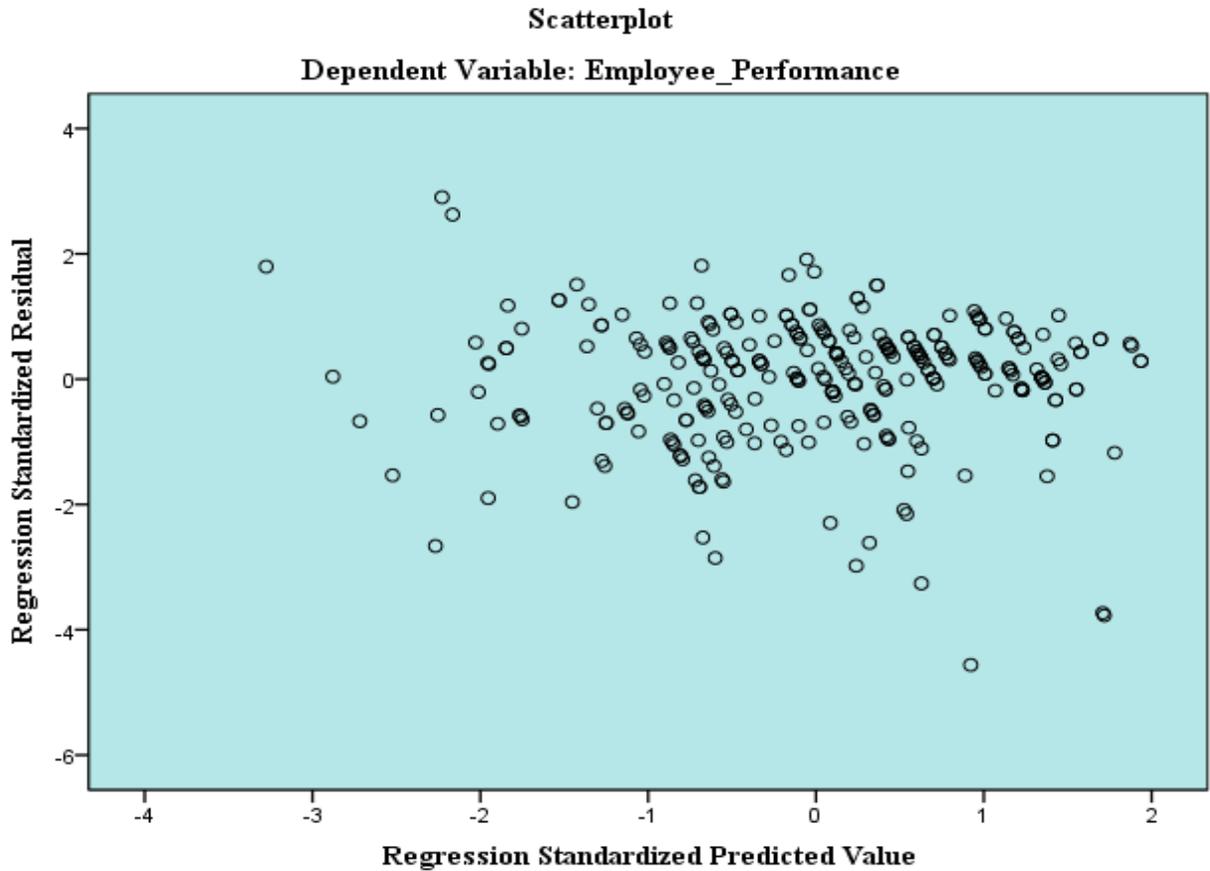


Figure 2.3: Homoscedasticity

Source: survey result, 2022

#### 4.5.2. Result of multiple linear regression analysis

To identify the compensation dimension that make the greatest contributions to overall employee performance in Ethio telecom, multiple regression analyses were conducted with employee performance as the dependent variable and the six variables are as the independent variables. The result has been shown below.

In Table 4.18 there is a list of the models that were tested. In this study, there was only one model used R is the square root of R-square (shown in the next column). R-square is the proportion of variance in the dependent variable (EP) which can be predicted from the independent variables. This value indicates that 95.2% of the variance in EP can be predicted from the variable's salary, bonus, benefits, recognition, promotion and responsibility.

Note that this is an overall measure of the strength of association, and does not reflect the extent to which any particular independent variable is associated with the dependent variable.

In case of adjusted R - square, as predictors are added to the model, each predictor will explain some of the variance in the dependent variable simply due to chance. One could continue to add predictors to the model which would continue to improve the ability of the predictors to explain the dependent variable, although some of this increase in R-square would be simply due to chance variation in that particular sample. The adjusted R-square attempts to yield a more honest value to estimate the R - squared for the population. The value of R - square was 0.952, while the value of adjusted R - square was 0.951.

Table 4.18: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.976 <sup>a</sup>	.952	.951	.17420
a. Predictors: (Constant), Responsibility, Benefits, Bonus, Recognition, Promotion, Salary				
b. Dependent Variable: Employee Performance				

Source: survey result, 2022

Table 4.19 shows the model number (in this case only one model is run, so it is model #1). Also, this column shows the source of variance, regression, residual, and total. The Total variance is partitioned into the variance which can be explained by the independent variables (Regression) and the variance which is not explained by the independent variables (Residual). Note that the sums of squares for the regression and residual add up to the total variance, reflecting the fact that the total variance is partitioned into regression and residual variance.

The degree of freedom (df) is associated with the sources of variance. The total variance has  $N - 1$  degrees of freedom (df). In this case, there were  $N = 296$  observations, so the DF for total is 295. The regression degree of freedom corresponds to the number of predictors minus 1 ( $K - 1$ ). This would be  $6 - 1$  (since there were 6 independent variables in the model). But, the intercept is automatically included in the model (unless explicitly omit the intercept). Including the intercept, there are 7 predictors, so the regression has  $7 - 1 = 6$  degrees of freedom. The residual degree of freedom is the df total minus the df model,  $295 - 6$  is 289.

The mean square is, the sum of squares divided by their respective df. For the regression,  $174837 \div 6$  is equal to 29.140. For the residual,  $8770 \div 289$  equals 0.030. These are computed so you can compute the F ratio, dividing the mean square regression by the mean square residual to test the significance of the predictors in the model.

The F value is the mean square regression (29.140) divided by the Mean Square Residual (0.030), yielding  $F = 960.266$ . The  $p$  - value associated with this F value is very small (0.0000). These values are used to answer the question “Do the independent variables reliably predict the dependent variable?”. The  $p$  - value is compared to your alpha level (typically 0.05) and, if smaller, it is concluded “Yes, the independent variables reliably predict the dependent variable”. If the  $p$  - value were greater than 0.05, the group of independent variables do not show a significant relationship with the dependent variable, or that the group of independent variables do not reliably predict the dependent variable. Note that this is an overall significance test assessing whether the group of independent variables when used together reliably predict the dependent variable, and does not address the ability of any of the particular independent variables to predict the dependent variables.

Table 4.19: ANOVA

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	174.837	6	29.140	960.266	.000 <sup>b</sup>
	Residual	8.770	289	.030		
	Total	183.607	295			
a. Dependent Variable: Employee Performance						
b. Predictors: (Constant), Responsibility, Benefits, Bonus, Recognition, Promotion, Salary						

The ability of each individual independent variable to predict the dependent variable is addressed in the Table 4.20 where each of the individual variables is listed. Table 4.20 shows the model number (in this case only one model run, so it is model #1). These are the predictors (SA = Salary, BO = Bonus, BE = Benefits, RE = Recognition, PR = Promotion and RES = Responsibility) in the regression equation.

B is the values for the regression equation for predicting the dependent variable from the independent variable. The column of parameter estimates provides the values for B<sub>0</sub>, B<sub>1</sub>, B<sub>2</sub>, B<sub>3</sub>, B<sub>4</sub>, B<sub>5</sub> and B<sub>6</sub> for this equation. Expressed in terms of the variables used in this study, the regression equation is

$$EP_{Predicted} = -0.079 + 0.710 (SA) + 0.238 (BO) + 0.065$$

It indicates that SA=Salary (p = 0.000 and BO = Bonus, influence employee performance significantly. The remaining four variables i.e., BE = Benefits, RE= Recognition, PR = Promotion, and RES = Responsibility, have no significant effect on employee performance.

These estimates tell about the relationship between the independent variables and the dependent variable. These estimates tell the amount of increase in employee performance (EP) that would be predicted by a 1 unit increase in the predictor.

For the independent variables which are not significant, the coefficients are not significantly different from 0, which should be taken into account when interpreting the coefficients. The columns with the *t* - value and *p* - value tests whether the coefficients are significant.

**Interpretation of results**

Keeping other variables constant at 0, which means if the company is not using any of the compensation practices, the employee’s performance will decrease by 7.9%.

**Salary (SA):** For every unit increase in SA, there is a 0.710 (71 %) increase in the predicted employee performance (EP).

**Bonus (BO):** For every unit increase in BO, employee performance (EP) is predicted to be 0.265 (23.8%) higher.

Table 4.20: Regression Coefficients

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-.079	.065		-1.207	.229
	SA	.710	.016	.785	45.369	.000
	BO	.238	.012	.279	19.169	.000
	BE	-.006	.015	-.006	-.392	.695

	RE	.023	.013	.028	1.836	.067
	PR	.020	.014	.023	1.368	.173
	RE	.021	.015	.021	1.423	.156
a. Dependent Variable: Employee Performance						

Source: survey result, 2022

From the two significant predictor variables (i.e., SA and BO), salary (SA = 71%) has the highest effect on employee performance followed by (BO = 23.8%) in the case of Ethio telecom, Addis Ababa, Ethiopia.

#### 4.6. Discussion.

Hypothesis (H) testing is based on standardized coefficients beta and P-value to test whether the hypotheses are rejected or not. Based on the Table 4.18 multiple linear regression results, each proposed hypothesis is tested as follows.

***H1: Salary has positive and significant effect on employee performance.***

The regression result of salary with employee performance shows significant level of influence at 95 percent confidence interval with a Sig. value of 0.000. Because the  $B = 0.710$  and  $p = 0.000 < 0.05$ . This result supports the first hypothesis. This result is also supported by Habtamu, (2018) saying financial compensation (Salary) has a positive and significant effect on employee productivity.

***H2: Bonus has positive and significant effect on employee performance.***

The regression result of bonus with employee performance shows significant level of influence at 95 percent confidence interval with a Sig. value of 0.000. Because the  $B = 0.238$  and  $p = 0.000 < 0.05$ . This result supports the second hypothesis. This result is also supported by Habtamu, (2018) saying financial compensation (Bonus) has a positive and significant effect on employee productivity.

***H3: Benefit has positive and significant effect on employee performance.***

The regression result of benefit with employee performance shows insignificant level of influence at 95 percent confidence interval with a Sig. value of 0.695. Because the  $B = -0.006$  and  $p = 0.695 > 0.05$ . This result rejects the third hypothesis. This result is also supported by Habtamu, (2018) saying non-financial compensation has no effect on employee productivity.

***H4: Recognition has positive and significant effect on employee performance.***

The regression result of recognition with employee performance shows insignificant level of influence at 95 percent confidence interval with a Sig. value of 0.067. Because the  $B = 0.023$  and  $p = 0.067 > 0.05$ . This result rejects the fourth hypothesis. This result is also supported by Habtamu, (2018) saying non-financial compensation has no effect on employee productivity.

**H5: Promotion has positive and significant effect on employee performance.**

The regression result of promotion with employee performance shows insignificant level of influence at 95 percent confidence interval with a Sig. value of 0.173. Because the  $B = 0.020$  and  $p = 0.173 > 0.05$ . This result rejects the fifth hypothesis. This result is also supported by Habtamu, (2018) saying non-financial compensation has no effect on employee productivity.

**H6: Responsibility has positive and significant effect on employee performance.**

The regression result of responsibility with employee performance shows insignificant level of influence at 95 percent confidence interval with a Sig. value of 0.156. Because the  $B = 0.021$  and  $p = 0.156 < 0.05$ . This result rejects the sixth hypothesis. This result is also supported by Habtamu, (2018) saying non-financial compensation has no effect on employee productivity.

Table 4.21: Summary of hypotheses tests

Hypotheses	Result	B	P
H1: Salary has positive and significant effect on employee performance	Accepted	0.710	0.000
H2: Bonus has positive and significant effect on employee performance	Accepted	0.238	0.000
H3: Benefit has positive and significant effect on employee performance	Rejected	-0.006	0.695
H4: Recognition has positive and significant effect on employee performance	Rejected	0.023	0.067
H5: Promotion has positive and significant effect on employee performance	rejected	0.020	0.173
H6: Responsibility has positive and significant effect on employee performance	Rejected	0.021	0.156

Source: survey result, 2022

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary of major findings

The objective of this study was to examine the effect of compensation on employee performance in the case of Ethio telecom. The study listed salary, bonus, benefits, recognition, promotion and responsibility as independent variables and employee performance as a dependent variable. The researcher employed explanatory research design. With regard to research approach, quantitative research approach was implemented. The target populations of the study were 1681 employees of Ethio telecom working at Wello sefer and Jemo contact centers. Primary source of data was employed as a source of information and collected from respondents using questionnaires. The study was conducted by distributing structured questionnaires to 323 employees of the company. Among the distributed questionnaires 296 questionnaires were collected.

With respect to the reliability and validity of the questionnaire, the test result indicated that Cronbach alpha( $\alpha$ ) value for each variable was 0.778, 0.760, 0.848, 0.787, 0.782, 0.741, 0.820 and 0.925 for salary, bonus, benefits, recognition, promotion, responsibility, employee performance and the overall items respectively. Moreover, valid items were identified from an extensive review of academic and practitioner's literatures.

When assessing the respondents' level of agreement with regard to the variables, the highest rate scale was given to Benefits scoring mean of 3.87 with SD 0.83, bonus has scored mean of 3.81 with SD 0.92, recognition has scored Mean of 3.68 with SD 0.97, responsibility has scored mean of 3.55 with SD 0.81, promotion has scored mean of 3.52 with SD 0.91, employee performance has scored mean of 3.45 with SD 0.78 and salary has scored mean of 3.41 with SD 0.87. This outcome implies that most of the respondents have agreed with the variables under study.

The results of the correlation analysis showed that all predictor variables were positively and significantly correlated with the dependent variable i.e., employee performance at 99 percent confidence level ( $P < 0.01$ ). The most correlated dimension with employee performance among the compensation dimensions is salary ( $r = 0.941$ ), followed by bonus ( $r = 0.649$ ), promotion ( $r = 0.514$ ), responsibility ( $r = 0.485$ ), recognition ( $r = 0.460$ ) and benefit ( $r = 0.378$ ).

The results of multiple regressions analysis of the six dimension of compensation reveals that the study was conducted on a 95% level of confidence i.e.,  $P \text{ value} \leq 5\%$ . The result shows that the model tested is significant ( $p < 0.05$ ). The multiple R is 0.976, R square 0.952 and adjusted R square 0.951. This indicates that 95.2% of variance in the dependent variable (employee performance) can be explained/predicted from the independent variables (salary, bonus, benefits, recognition, promotion and responsibility). In this case 95.2% variance on employee performance is attributed by the six dimensions of compensation. The rest 4.8% variance can be caused by other factors which are not included in this research. Regarding to the relative effect of the independent variables on employee performance,  $\beta$  value & their significance was used to identify their relative importance in affecting employee performance. The beta value for salary was  $\beta = 0.710$ . This indicates that, the dimension has relatively strong degree of importance on employee performance followed by bonus with  $\beta = 0.238$ . The remaining four dimensions i.e., benefits, recognition, promotion and responsibility were found to be insignificant to affect employee performance. Therefore, the finding revealed that, salary was the most dominant compensation dimension in determining employee performance of Ethio telecom employees contact center.

## **5.2 Conclusion**

Based on the correlation analysis all the six predictor variables were found to have a positive and significant effect on employee performance.

Which means any improvement on any of the six variables will positively contribute for the employee's performance. Therefore, it is concluded that compensation dimensions have a positive and significant association with employee performance.

- Salary has a positive relationship with employee performance of Ethio telecom employees
- Bonus has a positive relationship with employee performance of Ethio telecom employees
- Benefits has a positive relationship with employee performance of Ethio telecom employees
- Recognition has a positive relationship with employee performance of Ethio telecom employees
- Promotion has a positive relationship with employee performance of Ethio telecom employees

- Responsibility has a positive relationship with employee performance of Ethio telecom employees

Based on the multiple regression analysis, the researcher concluded that two of the six independent variables i.e., salary and bonus were found to have a positive significant effect on employee performance of Ethio telecom employees. The remaining four predictor variables i.e., benefits, recognition, promotion and responsibility doesn't have any effect on employee performance of Ethio telecom employees. And also, the study finding indicates that 95.2% variance on employee performance is attributed to the six predictor dimensions. As far as the relative effects of the significant independent variables on employee performance is concerned, salary is the most predictor dimension in explaining the variation in employee performance.

- Salary has significant effect on employee performance in the case of Ethio telecom contact center employees
- Bonus has significant effect on employee performance in the case of Ethio telecom contact center employees
- Benefits has insignificant effect on employee performance in the case of Ethio telecom contact center employees
- Recognition has insignificant effect on employee performance in the case of Ethio telecom contact center employees
- Promotion has insignificant effect on employee performance in the case of Ethio telecom contact center employees
- Responsibility has insignificant effect on employee performance in the case of Ethio telecom contact center employees

### **5.3 Recommendation**

Based on the conclusions drawn in the previous section, the following recommendations are proposed for Ethio telecom to help improve their employee's performance so that they can achieve their objectives.

According to the finding, two of the six compensation dimensions have positive and significant effect on employee performance. Therefore priority toward this important dimension is expected from the company.

### **The possible task for each dimension includes:**

From the six compensation dimensions, salary has the highest effect on employee performance. Based on the regression coefficient result, a unit increase on the salary dimension can increase employee performance by 71%. Therefore, Ethio telecom should give more attention to this dimension in order to increase its employee's performance. This could be done by:

- Paying a fair salary amount for the work employees do
- Periodic adjustment/increment of employee's salary

From the six compensation dimensions, bonus has the second highest effect on employee performance. Based on the regression coefficient result, a unit increase on the bonus dimension can increase employee performance by 23.8%. Therefore, Ethio telecom should give more attention to this dimension in order to increase its employee's performance. This could be done by:

- Providing bonus to motivate employees

The remaining four predictor variables doesn't have a significant effect on employee performance but since they have positive relationship with employee performance the company is recommended to do the following specific tasks in each of the four compensation dimensions.

- ✓ Providing benefit packages to create positive attitude towards the job
- ✓ Giving recognition for better performing employees
- ✓ Providing chances of promotion for better performing employees
- ✓ Giving employees roles and responsibilities which can suit their ability/performance

### **5.4 Limitation and Future research recommendation**

The study only focused on assessing the influence of compensation on employee performance and it doesn't consider other factors which can influence employee performance like Motivational factors, employee engagement and others. The study is conducted only in Ethio telecom contact center in Addis Ababa, so the findings cannot be generalized to other industries/products and also other countries. Therefore, this limitation provides for further research.

This study emphasized the significance of compensation on employee performance of Ethio telecom employees.  $R^2$  which is the coefficient of determination was 95.2% which means that

compensation can account for 95.2% of the variation in employee performance. While the remaining 4.2% variation in employee performance is attributable to other factors. Therefore, Future research is recommended to identify other factors that affect employee performance. The researcher recommends the effect of the following variables on employee performance to be conducted in the future. i.e., Motivational factors and employee engagement.

## **Reference**

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## **Appendix**

### **ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES MBA PROGRAM**

The purpose of this questionnaire is to collect primary data for the study on "The Effect of Compensation on Employee performance in the case of Ethio telecom contact center staffs for the

partial fulfillment of the requirements for the degree in Master of Business administration. The study is required for academic purpose only. Your cooperation in filling the Questionnaire is crucial and makes the paper very much valuable. So, kindly take few minutes to fill the questionnaire and be objective while completing your answers. I would like to assure that the information you give would strictly be kept confidential.

**Instructions**

- Do not write your name
- Put “√” mark in the box provided for choice questions
- Your response will be utilized only for the purpose of this survey.

**PART ONE: Demographic Information**

Please complete the items by placing the answers in the spaces provided or by applying (√) when required.

1. Gender

Male  Female

2. Age

18-25

26-35

36-45

46-55

Above 55

3. Education Background

Primary school

1<sup>st</sup> degree

Secondary school

Second degree and above

Diploma

4. Please specify your current position in the company

Managerial position  non managerial position

5. How long have you been working in the company?

Less than one year  6-10 years

1-5years  above 10years

**PART TWO: Compensation and Employee performance**

The following questions are prepared on a 5 five-point Likert Scale. If the item indicated strongly matches with your response, choose strongly disagree (1) and if you completely disagree with the item choose Strongly agree (5). This is to know how you feel about the compensation system of Ethio telecom towards your performance. Be honest and give a true picture of your feelings.

**Instruction:** Please indicate the extent to which you either agree or disagree with the following statements

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

No.	Item	(1)	(2)	(3)	(4)	(5)
<b>Salary</b>						
1.	I feel I am being paid a fair salary amount for the work I do.					
2.	The periodic salary increment amount is good.					
3.	The pay I earn is compatible to other people in other industries with the same level and experience.					
4.	My salary is compatible with my job and I am satisfied and motivated with my current pay.					

5.	My basic pay is well balanced compared to other employees in the Company					
<b>A2. Bonus</b>						
6.	The Company provides Bonus to motivate employees					
7.	I feel satisfied with the bonus and other payments like variable payment, over time schemes of the company.					
<b>Benefits</b>						
8.	I am motivated to perform with the benefits I Receive					
9.	The benefits we receive are as good as most other organizations offer.					
10.	The benefit package we have is equitable.					
11.	The benefit package you receive did create positive attitude towards your performance					
12.	I am satisfied with the fringe benefits like medical expense, education fee coverage etc.					
13.	I am motivated and satisfied with the overall benefits receive from the company.					

<b>Recognition</b>						
14.	When I do a good job, I receive recognition for that					
15.	I feel that my job receives enough attention from my company					
<b>Promotion</b>						
16.	The company gives me enough authority to perform my job.					
17.	There is really high chance for promotion on my job.					
18.	Those who do well on the job have a fair chance of being promoted					
19.	People get promoted as fast in the company as they become best performer					
20.	I am motivated to perform with the overall promotional schemes of my job					
<b>Responsibility</b>						
21.	I am satisfied with my role and responsibilities at this company					
22.	Responsibilities are delegated to co-workers while top-level manager are not available in the company					
23.	I am supervised too much while at					

	work						
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**EMPLOYEE JOB PERFORMANCE**

24.	My job enables me to perform with all of my capacity						
25.	I am interested by the challenge of my job						
26.	My job helps me to grow professionally						
27.	I am involved in decision making that affects my work						
28.	Managers always encourage others commitment to quality of job.						
29.	My role is clearly defined, and its attainable to perform						
30.	In general, I like working here						
31.	I have all the resources I need to do my job successfully						

**Statistical outputs**

**Correlations**

		Employee Performance	Salary	Bonus	Benefits	Recognition	Promotion	Responsibility
Employee Performance	Pearson Correlation	1	.941**	.649**	.378**	.460**	.514**	.485**

	Sig. (2-tailed)		.000	.000	.000	.000	.000	.000
	N	296	296	296	296	296	296	296
Salary	Pearson	.941**	1	.447**	.371**	.427**	.496**	.476**
	Correlation							
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000
	N	296	296	296	296	296	296	296
Bonus	Pearson	.649**	.447**	1	.237**	.291**	.314**	.264**
	Correlation							
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000
	N	296	296	296	296	296	296	296
Benefits	Pearson	.378**	.371**	.237**	1	.381**	.519**	.184**
	Correlation							
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.001
	N	296	296	296	296	296	296	296
Recognition	Pearson	.460**	.427**	.291**	.381**	1	.403**	.387**
	Correlation							
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000
	N	296	296	296	296	296	296	296
Promotion	Pearson	.514**	.496**	.314**	.519**	.403**	1	.278**
	Correlation							
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.000
	N	296	296	296	296	296	296	296
Responsibility	Pearson	.485**	.476**	.264**	.184**	.387**	.278**	1
	Correlation							
	Sig. (2-tailed)	.000	.000	.000	.001	.000	.000	.000
	N	296	296	296	296	296	296	296

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.976 <sup>a</sup>	.952	.951	.17420

a. Predictors: (Constant), Responsibility, Benefits, Bonus, Recognition, Promotion, Salary

#### ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
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1	Regression	174.837	6	29.140	960.266	.000 <sup>b</sup>
	Residual	8.770	289	.030		
	Total	183.607	295			

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Responsibility, Benefits, Bonus, Recognition, Promotion, Salary

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.079	.065		-1.207	.229
Salary	.710	.016	.785	45.369	.000
Bonus	.238	.012	.279	19.169	.000
Benefits	-.006	.015	-.006	-.392	.695
Recognition	.023	.013	.028	1.836	.067
Promotion	.020	.014	.023	1.368	.173
Responsibility	.021	.015	.021	1.423	.156

a. Dependent Variable: Employee Performance