



**THE EFFECT OF COMPENSATION MANAGEMENT PRACTICE ON
EMPLOYEE PERFORMANCE: IN ACASE OF ETHIOPIAN
ELECTRIC POWER CORPORATION, HAWASSA DISTRICT,
SIDAMA REGIONAL STATE, ETHIOPIA.**

BY:

GIZACHEW NO'ORA

**MARCH, 2024
HAWASSA, ETHIOPIA**

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**THE THESIS IS SUBMITTED TO THE IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION**

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Declaration of the final Thesis

I, here by, declare that the thesis entitled ``**The effect of Compensation Management practice on Employee Performance, (In Case of Ethiopian Electric Power Corporation, Hawassa District, sidama regional state, Ethiopia** `` is my work and that all sources of materials used for this thesis have been duly acknowledged. This thesis is submitted in Partial Fulfillment of the Requirements for the Award of Masters of Business Administration degree in Marketing Management. I solemnly declare that this thesis was not being submitted to any other institution anywhere for the award of any academic degree, diploma, or certificate. Brief quotations from this thesis are allowable without special permission provided that accurate acknowledgment of the source is made. Requests for permission for extended quotation from or reproduction of this manuscript in whole or part may be granted by the Department of marketing Management. In all other instances, however, permission must be obtained from the author.

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APPROVAL OF RESEARCH THESIS ADVISORS

This is to certify that the thesis entitled “**The effect of Compensation Management practice on Employee Performance, (In Case of Ethiopian Electric Power Corporation, Hawassa District, sidama regional state, Ethiopia)**”, submitted in partial fulfillment of the requirements for the degree of Master’s **Business administration in Marketing Management**, the graduate program of the department of management and has been carried out by **Gizachew No`ora**, under my supervision. Therefore, I recommend that the student has fulfilled the requirements and hence here by can submit the thesis to the department for defense.

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ACRONYMS AND ABBREVIATIONS

ANOVA	Analysis of Variance
CP	Contingent Pay
CM	Compensation Management
Dv	Dependent Variable
EQP	Equal Pay
EP	Employee Performance
EEPCO	Ethiopian Electric Power Corporation
IV	Independent Variable
GS	Grade Structure
MoWIE	Ministry of Water Irrigation & Energy
MRS	Market Rate System
RP	Reward Policy
SR	Strategic Reward
SPSS	Software Package for Social Sciences
VIF	Variance Inflation Factor

ABSTRACT

This study aimed to determine the effect of compensation management practice on employee performance in Ethiopian Electric Power Corporation, Hawassa. The study was conducted the lack of satisfaction on employee performance. The study was serving as a benchmark for coming researchers. The scope of this study was took place as per schedules set by the school of management from September 2023 to March 2024. Limitations was in the specific sidama region Hawassa district and some respondents was not willingness to reply the research questioners. The conceptual framework of the study was included by summarizing different literature. The targeted populations was EEPCO Employees in Hawassa city and using simple random sampling method 109 respondents was selected from permanent office workers and 92 questionnaires was collected for further process. The study used primary data which was collected using structured questionnaires & unstructured interview, and secondary data that was collected from the annual reports, manuals, journals and policy documents of the organization. The collected data was sorted for validity, reliability and coded. A technique such as tabulation and percentages was employed and data was quantitatively analyzed using mean and standard deviation followed by a correlation and regression analysis. The study results revealed that though the organization uses a compensation Management practices to motivate its employees was not blended in line with the magnitude of their effect on employee performance. Finally, standing on study finding, recommendation was provided to the organization adjust its compensation policies in order to align the compensation Management practices with their respective correlation that could optimize employee performance.

Key words: *Compensation, Compensation Management, Employee Performance.*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the age of global competition, it is very essential to identify and retain the efficient, competent and knowledgeable employees in organization by developing and maintaining an effective Compensation program for getting the best job performance from the employee (Armstrong, & Tayler, 2014). Employees are the organization's key resource and the success or failure of organizations center on the ability of the employers to attract, retain, and compensate appropriately talented and competent employees. Employees' willingness to stay on the job largely depends on Compensation packages of the organization (Armstrong, 2003). In an attempt to ensure employees optimal performance and retention, organizations need to consider a variety of appropriate ways to compensate the employees to get the desired results (Armstrong, & Tayler, 2014). It has been argued that the degree to which employees are satisfied with their job and their readiness to remain in an organization is a function of Compensation packages and system of the Organization (Armstrong, & Tayler, 2014).

(Armstrong, & Tayler, 2014) posit that the fundamental tasks in human resources management is compensation management. It is a complex task that occurs periodically, demand accuracy and must not be delayed. Compensation management requires integrating employees' processes and information with business process and strategies to achieve optimal organizational goals and objectives ((Armstrong, & Tayler, 2014). This can be attributed to the fact that Compensation Management is an essential tool to "integrate individual efforts with strategic business objectives by encouraging employees to do the right things with ever improving efficiency. (Armstrong, & Tayler, 2014).

In other words, Compensation Management is' a powerful means of focusing attention within an organization. They send clear Messages to all employees of the, organization informing them about expected attitudes and behaviors (Schell and Solomon, 2007). Milkovich and Newsman, (2002) argued that Compensation Management system can create and sustain a competitive advantage for organizations. In recent years, the inclusion of non-financial measures has gained some popularity in Compensation Management, while some schools demonstrate positive effects of incorporating non- financial measures in to the Compensation Management system empirically (Widmier, 2002). He further states that, human resources model of compensation generally assume that higher performance requires greater effort or

that is in some other ways associated with disutility on the part of workers. In other to provide incentives, these models predict the existence of Compensation systems that structure Compensation so that a worker expected utility increase with' observed productivity.

Compensation Management is also seen as largely about managing expectations, which is what employees expect from their employers in return for their contribution and what employers expect from their employees in return for their pay and the opportunity to work and develop their skills.

In addition, it is the process of developing and implementing strategies, policies and systems which help the organization to achieve its objectives by obtaining and keeping the people it needs and by increasing their motivation and commitment. Recent developments in the business world have seen that people have become a firm's most valuable resource. (Armstrong, & Tayler, 2014)

This arises from the fact that competition has moved from the fixed resources to the human resources and specifically the intangible resources. As a result, employee performance has been of concern to organizations in the current competitive environment since it is now commonly accepted that employees create an important source of competitive advantage for firms,

This research work therefore seeks to explore the impact of Compensation Management practice on employee performance in EEPCO, Sidama regional state, Hawassa District.

1.2. Background of the organization

Electric power was introduced to Ethiopia in the late 19th century, during the era of Minilik. The first generator was said given to Minilik around the year 1898 to light the palace. In addition to the use of generators, Minilik got constructed the first hydro power plant on Akaki River in the Year 1912 in order to supply power to small factories. The name of organization was changed to “Ethiopian Electric Light and Power” in the year 1955. MoWIE annual report (2018).

The Ethiopian Electric Power Corporation (EEPCO) was named in 1997- after serving previously in the name of the Ethiopian Electric Light and Power Authority, which was established in 1956. EEPCO is a government owned utility responsible for the generation, transmission, distribution and sales service of electric energy in accordance with economic

and social development policies and priorities of the government and to carry on any other related activities that would enable it achieve its purpose. MoWIE annual report (2018).

Currently, the annual Electric production capacity of the corporation is about 4980 MW and the number of customers is about 1.9 million (Public relation of EEPCO). According to the organizations plan after the completion of Grand Ethiopian Renaissance Dam and other power generation projects, the power generation will be 15,000 MW and the number of customers will rise to 4 million. via (<http://www.eepco.gov.et>).

According to EEPCO Annual Report 2014, Currently, Ministry of Water Irrigation & Energy (MoWIE) is the lead institution for the Energy Sector, and it supervises three Institutions: via (<http://www.eepco.gov.et>).

The first one is Ethiopian Electric Power (EEP): - which works on Generation & Transmission Construction and Operation, Universal Electric Access Program, and Power Export the second one Ethiopian Electric Utility: - which works on Distribution and Sales and Ethiopian Energy Authority: - Regulatory body for electricity and energy efficiency whose responsibilities fall into Three Broad Categories: Resource assessment and development, Policy and regulatory, and Research & Development MoWIE annual report (2018) via (<http://www.eepco.gov.et>)

It was determined by the establishment regulation that the corporation shall have its head office in Addis Ababa and may have branch offices elsewhere, as may be necessary. EEPCO, Hawassa District is located in Southern Ethiopia especially in the youngest regional state of sidama, Hawassa town.

After preparation and establishment of the site was completed in 1958 and 1959, Hawassa Town has got Electric power for the first time in 1959 which is generated from Diesel. In 1974 Diesel generated power was replaced by Hydro power. Currently Hawassa district has power capacity of 28.5 MW and supplies 11 MW of power to 17,278 customers in the town and nearby rural kebeles. MoWIE annual report (2018) via (<http://www.eepco.gov.et>)

There are several employees consisted office and field workers who are responsible to serve these huge number of customers. As indicator from the source of this information, field worker is stand by for 24 hours, but it does not mean that the office workers are in rest. Whenever the power interruption is happened, sometimes it needs even the office workers who do have technical skills, to participate in additional work other than their position

responsibility, and give additional hours to work. Then it is clear that employees expect rewards and sufficient compensation from organization for their contribution and employer expects from its employees in return for their pay and the opportunity to work and develop their skills.

Therefore, an important duty in Human Resources Management is developing attractive compensation management and implementing strategies, policies and systems which could help the organization to achieve its objectives, and to satisfy its customers. When we come to EEPCO Hawassa district, the organization has developed and is implementing compensation management systems but the impact that the system has on employee performance and respective investigation that could optimize Human Resource usage has not been established.

1.3 Statement of the Problem

Even Compensation is arguably one of the key drivers of motivation and one of the most studied areas; doubts have been cast by (Armstrong, & Tayler, 2014). on the effectiveness of compensation. They argued that, while lack of it causes dissatisfaction, its provision does not result in lasting motivation. The effect of compensation on performance vary from organization to organization.

Most people are motivated by money at least for their basic needs and wants (DeNisi and Griffins, 2008). Employee motivation through compensation can be in several forms including salary raises, performance bonuses, commissions, profit sharing and other extra benefits such as vacations, cars and other tangible items that are used as rewards (Campbell, 2007). These compensation systems can be categorized as direct financial payment and indirect financial payments (Armstrong, & Tayler, 2014).

An analysis of the current trends show that most Compensation Management decisions are based more on social and political processes rather than academic information on the merit of the Compensation Management decision, (Chen & Hsieh, 2006). Besides, Compensation Management is seen as one of the most effective ways of increasing employee performance as depicted in the expectancy and instrumentality theories that Compensation Management touch on the very aspects of employee performance such as their expectations and behavioral tendencies towards their work, (Tahir, Mehamood, & Ramzan, 2013).

EEPCO in Ethiopia is an organization that offers essential energy services that support other sectors of the economy. It works on distribution, production and sales of energy and plays

very important role in the country's economic development. Transport (Railway), Agriculture, processing Industries, Large-scale Housing Programs and many other day to day activities need electric power. Electricity Export Market creates big opportunity in terms of foreign exchange, and government revenue.

Moreover, it creates Provision of employment. The industry has thus come up with an extensive Compensation Management policy and practice that needs to be studied in an attempt to determine the impact of compensation management on employee performance.

There have been various studies attempting to explain impact of Compensation and reward management on employee performance. However most of these studies Armstrong, (2009), (Armstrong, & Tayler, 2014) are more concentrated on Compensation by itself rather than compensation management practice, and with the studies on Compensation Management more concentrated in the banking industry and processing factories.

Gebremedhin (2014), conducted a research on reward and Compensation Management practices, and found out that the selected company (EEPCO) has a habit of Compensating and motivating its employees to let them work to its best interest. However, according to this research, managers placed Compensation Management systems for the administrative purposes for making decisions on employees' salary increment as its first priority. Moreover, the research identified that the criteria of the system are not valid and reliable, and the Compensating systems are not based on performance (Gebremedhin, 2014). But the research does not indicate the impact of the implemented Compensation Management practice or system on employee performance and which compensation practices are the best to increase employee performance.

Moreover, the current researcher observed that there are problems with employees to serve customers with the needed speed and with fairness and justice, which indicated the case organization has been facing with performance problem. Therefore, these studies give a detailed outline of Compensation Management practice to determine its relative impact on employee performance to enable managers prioritize the Compensation Management practices in order to use optimal employee performance.

1.3. Objectives of the Study

1.3.1. General Objective

The general objective of the study was to assess the effect of Compensation Management practice on employee performance in Ethiopian Electric Power Corporation, Hawassa District.

1.3.2. Specific Objectives

The specific objectives are;

1. To examine the effect of reward policy on the employees performance in EEPCO, Hawasa District.
2. To analyze the effect of strategic reward on the performance of employees of EEPCO, Hawasa District.
3. To examine the effect of equal pay each on the employees performance in EEPCO, Hawasa District.
4. To determine the effect of grade on the employees performance in EEPCO, Hawassa District, Sidama Region.
5. To identify the effect of contingent pay on the employees performance in EEPCO, Hawassa District, Sidama, Region
6. To examine the effect of market on the employees performance in EEPCO, Hawassa District, Sidama Region.

1.4 Research Hypothesis

The analysis was depend on data on assess the effect of Compensation Management practice on employee performance in Ethiopian Electric Power Corporation, Hawassa District, Sidama Region. Based on the existing theoretical and empirical literature, this study has conducted analyzing.

The proposed study is to prove or disprove the following research hypothesis which was prepared based on the conceptual framework of the study:

H₀₁: Reward Policy has no significant effect on employee performance in EEPCO, Hawassa District, Sidama Region.

H_{a1}: Reward Policy has significant effect on employee performance in EEPCO, Hawassa District, Sidama Region.

Ho2: Strategic Reward has no significant effect on employee performance in EEPCO, in the study area.

Ha2: Strategic Reward has significant effect on the employee performance in EEPCO, in the study area

Ho3: Equal Pay has no significant effect on the employee performance in EEPCO, in the study area.

Ha3: Equal Pay has significant effect on the employee performance in EEPCO, in the study area.

Ho4: Grade Structure has no significant effect on the employee performance in EEPCO, in the study area.

Ha4: Grade Structure has significant effect on the employee performance in EEPCO, in the study area.

Ho5: Contingent Pay has no significant effect on the employee performance in EEPCO, in the study area.

Ha5: Contingent Pay has significant effect on the employee performance in EEPCO, in the study area.

Ho6: Market Rate System has no significant effect on the employee performance in EEPCO, in the study area.

Ha6: Market Rate System has significant effect on the employee performance in EEPCO, in the study area.

1.5 Significance of the Study

The study would be of great importance to the managers in Electric power generating and Utility industry as well as other industries in designing policies on improving employee performance as well as policies on employee Compensation management practice. The study would also be of great help to the Human resource academic field and practitioners as it would give new empirical evidences and further theoretical elaborations.

The study would expand the depth of available knowledge on Compensation Management practice in EEPCO and in Ethiopia in general, and in Hawassa District in particular. It would

also shape the human resource practice across various firms in regards to aligning Compensation Management practice to the need to optimize and bring the employees vision to have more emphasis to increase efficiency and effectiveness. Finally, the study would also contribute to the corpus of literature which helps for future scholars as it forms foundation for their future studies in related field. The study also may give suggestions for further studies which guide the future scholars in selecting their topics for research.

1.6 Scope of the Study

The scope of the study was comprised of four different dimensions. Conceptual scopes: the scopes of the study were factors affecting the effect of Compensation Management practice on employee performance in Ethiopian Electric Power Corporation, Hawassa District. Geographic scope: the study was delimited in Hawassa District (Number 1, Number 2, Number 3 and Number 4). Methodological scope: a qualitative and quantitative approach, furthermore to analyze the data descriptive statistics, correlation, and multi-linear regressions (inferential statistics) were applied. Time scope: the study took place as per schedules set by the school of management from September 2023 to June 2024.

1.7 Limitations of the study

The researcher acknowledges some inherent limitations which were associated with this study. The study was limited to one region and in spite of the fact that the sample size was too small in order to represent the whole population of EEPCO, Hawassa and makes the generalization weak. In order to reflect a stronger image on the issues the research areas should cover more than one region and different organization for comparison; this could make the sample size bigger and much more representative for the generalization, hence, this may underweight the researcher's conclusions.

1.8 Organization of the study

The research paper is organized in five chapters and the organization of the chapters were as follows, Chapter one said about:- background of the research, organization, statement of the problem, basic research questions, objective of the study, significant of the study, scope and limitation of the study.

Chapter two included:- literature review which discusses the related literatures of the studied focused in terms of employee performance, Compensation Management practice within the institution by considering the collective agreement of the institution and the working procedures in the institution and Human Resource Department. Chapter three consisted:-

research methodology, sources of data, population of the study, sampling techniques procedures, sample size determination, methods of data collection, validity and reliability, methods of data analysis and ethical considerations.

Chapter four contained:- data presentation, data analysis and interpretations. Chapter five included:- summary of findings, conclusions, recommendations and implications of further study. And finally the paper has the references and appendix to be included.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Compensation Management

Compensation Management is the process of managing, analyzing and determining the salary, incentives and benefits each employee receives. Compensation managers aim to attract, retain and engage employees by offering broad and competitive compensation plans within the company budget, (Armstrong & Stephens), (2015).

While Compensation Management practice refers to the structure, policy and procedures that enables organization to pay employees proportionately based on their level of performance of assigned tasks to perform better and paid more than the average performing employees. (Armstrong, & Tayler, 2014).

Compensation Management deals with the strategies, policies and processes required to ensure that the contribution of people to the organization is recognized by both financial and non-financial means. It is about the design, implementation and maintenance of reward systems (reward processes, practices and procedures), which aim to meet the needs of both the organization and its stakeholders. The overall objective is to reward people fairly, equitably and consistently in accordance with their value to the organization in order to further the achievement of the organization's strategic goals (Armstrong & Stephens, 2015).

Compensation Management is not just only about pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, learning and development opportunities and increased job responsibility.

2.1.1 The Aims of Compensation Management

According to Armstrong & Stephens, (2005) said that the aims of Compensation management are to: Compensate people according to the value they create, align reward practices with business goals and with employee values and needs, reward the right things to convey the right message about what is important in terms of behaviors and outcomes, help to attract and retain the high-quality people the organization needs, motivate people and obtain their engagement and commitment and develop a high-performance culture. From my personal observation from the above aim of reward most of them are not applicable on the company

The aims of Compensation Management are achieved by developing and implementing strategies, policies processes and practices that are founded on a philosophy, operate in

accordance with the principles of distributive and natural justice, function fairly, equitably, consistently and transparently, are aligned to the business strategy, fit the context and culture of the organization, are fit for purpose and help to develop a high-performance culture.

In order to create incentives for employees to achieve the organization's goal, different types of rewards are used. Rewards consist of monetary rewards (e.g. bonuses and loan rises), as well as nonmonetary rewards (e.g. recognition and autonomy). Thus, besides the monetary reward such as bonuses or personal salary raises, nonmonetary reward such as recognition and autonomy are also involved. Merchant (1998) lists some major forms of rewards that organizations use (see appendix A).

Merchant lists the examples of positive and negative rewards given in organizations. The regular positive rewards are, for instance, autonomy, power, salary increases, bonus, stocks and options, praise, recognition, advancement, vacation trips, time off and training opportunities, etc. According to Merchant's positive reward pool, this thesis further divides compensation types into two categories: non-monetary and monetary rewards in figure below.

2.1.2 Methods Used to Determine Employee's Compensation

According to Gomez et al. (2012), employee's compensation is the single most important cost in most firms, in some manufacturing organizations it accounts for 60 of the total cost. However, this is even higher in some service organizations and this means that the effectiveness with which compensation is allocated can make a significant difference in gaining or losing the competitive edge.

The same is echoed by Dessler (2008) who says that developing a good employee compensation plan is important for any organization and its employees. He continues to say that improperly developed compensation plan may result to a wage rate that is too high hence unnecessary expenses; while paying less may guarantee inferior employee quality and high employee turnover. At the same time internally inequitable wage rates reduce employee morale and cause endless complains from the employees.

The most important aspect of any compensation plan is the relationship that exists between performance and reward (Nelson and Spitzer, 2003). For that reason, administration of compensation in any organization involves designing a cost effective pay structure that was attract, motivate and retain competitive employees (Decenzo et al, 2007). Amstrong (2008) also notes that one of the aims of Compensation Management is to motivate people and obtain their commitment and engagement.

According to Dessler (2008) there are several factors that affect the design of any compensation plan, these include, legal considerations, union influences, company policies and competitive strategic objective and lastly internal and external equity. To fully understand how any organizations, determine its employee compensation plan one need to look at how employee compensation plans are categorized, the factors used to determine the compensation plans and the process of developing the compensation plans.

2.1.3. Categorization of Employee's Compensation

According to Dessler (2008) there are two broad ways of categorizing compensation, namely; Job-based approach and Skill-based approach. The Job-based approach is the most traditional and widely used type of compensation plan. According to Gomez et al. (2012) the plan assumes that jobs are very well defined and titled, for example a cashier, a matron or a chef. The works in these jobs is done by people who are paid to perform them well. In this plan since all jobs are not equally important to the firm, the labor market puts greater value on some jobs than on others with the most important jobs paying the most. DeNisi and Griffin (2008) refers to this as pay-for-knowledge, which they describe as compensating employees for learning specific information. Milkovich et al. (2013) defines job-based approach, as paying an individual for the jobs they are assigned irrespective of skills they possess.

The skill-based approach on the other hand assumes that workers should not be paid for the jobs they hold but for how capable they are at performing the task or multiple tasks (Gomez et al, 2012). The greater the variety of job-related skills one possesses the more they are paid. DeNisi and Griffin (2008) defines skill-based pay as rewards to employees for acquiring skills. Milkovich et al. (2013) defines skill-based approach as paying an individual for all the skills they have been certified regardless of whether the work they are doing requires all or just a few of those particular skills.

From the definitions given by DeNisi and Griffins (2008), Gomez et al. (2012), and Milkovich et al. (2013), and in conjunction with an article by *Neil Kokemuller of Demand Media* in the Houston chronicles extracted from Compensation & Benefit review of September 1994, we can see that some of the advantages of Job-based pay, include simplicity of understanding and administration.

This offers employees a more predictable method of pay, making it easier to budget and plan for raises each year. The approach rewards employees who stay with the employer for a long time and there is less room for unfairness within job titles since pay is structured by the job.

This reduces the potential for discriminatory pay practices. On the other hand Job-based pay offers little room for upward pay mobility for employees who have no desire for promotion; there is little incentive to gain new skills, some people also get frustrated when they perform at a higher level and see colleagues get similar pay.

In some organizations, senior employees struggle for motivation because they are at the high end of the pay schedule and can go no further regardless of performance. This system also contributes to sometimes controversial office politics because employees feel the only way to get ahead is to work their way up the corporate ladder.

Skill-based approach on the other hand rewards those employees who learn new skills and acquire new knowledge. Ambitious, self-motivated employees typically prefer this approach because it gives them a reason to focus on career development. It also provides a mechanism to reward employees who want to perform at a higher level. When companies pay for knowledge and skill development, they contribute to a systemic rising of the bar for performance across all jobs.

On the negative side of the approach, the competitiveness within job ranks may cause conflict among colleagues and co-workers. Colleagues may feel slighted or bitter toward one another especially where one makes more money performing similar tasks. One may also feel underpaid and undervalued if they are not paid the same as someone doing the same job at a competing company. The approach may also cost the individual and organization more in terms of time and cost additional training to develop skills in the bid to make more money.

2.1.4 Factors Determining a Compensation Plan

Whether an organization uses job-based or skill-based compensation plan, the main aim of the plan is to enable the organization achieve its strategic objectives (Gomez et al, 2012) and attract, motivate and retain competent employees (Decenzo et al, 2007). It is for these reasons that the plan is developed to fit the organizations unique characteristic and environment (Gomez et al, 2012).

According to Gomez et al. (2012), the key factors to be considered when determining a compensation plan in any organization are: - Internal versus external equity. This refers to the perception of the plan to be fair within the company and relative to what other employers are paying, flexibility of the pay; whether the pay is fixed or variable, employee performance consideration in the plan; whether the plan pays for performance or for membership,

value placed on the job versus individual skill, employee differentiation; whether all employee are treated the same (Egalitarianism) or treated differently (Elitism), motivation method; whether the plan motivates with monetary or non-monetary awards, employee compensation information accessibility to employees and finally the decision making process in the organization whether it is centralized or decentralized.

2.1.5 Compensation Plan Determination Process

Determining a well-balanced employee's compensation plan comprises of five steps namely, salary survey, job evaluation, grouping similar jobs into pay grades, pricing each pay grade and fine-tuning pay rates (Amstrong, 2008). Salary survey is the conducting a survey of what other employers are offering for comparable jobs, this helps ensure there is external equity (Dessler, 2008).

This is also called benchmarking and is the process of identifying the rates of pay in the labor market for comparable jobs to inform decisions on level of pay within the organization (Amstrong, 2008). A good salary survey provides specific wage rates for specific jobs and a salary survey can be done formally (written questionnaire) or informally by use of telephone, internet check or newspaper adverts. Salary surveys published by consulting firms, professional associations or government agents can also help.

Job evaluation is a systematic process of defining the relative worth or size of jobs within an organization in order to establish internal relativities and provide the basis for designing an equitable grade structure, grading jobs and managing job and pay relativities Amstrong (2008). The process involves comparing, the effort required, responsibility, and skills and this helps ensure there is internal equity.

The process eventually results to a wage or salary hierarchy as the jobs that require greater qualifications, more responsibilities and more complex jobs are paid more highly than jobs with lesser requirements Dessler, (2008). Job evaluation does not determine the level of pay directly and it is based on the analysis of jobs or roles, which leads to the production of job descriptions or role profiles Amstrong, (2008).

Job-grouping entails grouping similar jobs into pay grades; it is the process of turning job evaluation results to pay grades. A pay grades comprises of jobs of approximately equal difficulty or importance as established by job evaluation Dessler, (2008). Pricing each grade is also referred to as the process of forming a wage curve. A wage curve shows the relationship between the value of a job and the wage paid for the job Dessler, (2008). Fine-

tuning pay rates, this involves developing pay ranges and correcting out-of-lines rates Dessler, (2008). Pay range is a series of steps or levels within a pay grade, usually based upon years of service.

According to Amstrong (2008), pay grades and pay structures are important part of a reward plan and if well designed and maintained they provide a logically designed framework within which an organization's pay policy can be implemented. They enable the organization to determine where jobs should be placed in a hierarchy, define pay levels and the scope for pay progression, and they provide the basis upon which relativities can be managed, pay equality achieved and lastly they show how the process of monitoring and controlling the implementation of pay practice can take place. A grade structure can also serve as a medium through which the organization communicates career and pay opportunities available to employees.

2.2 Theoretical Review

Different theories explain the impact of Compensation management on employee performance laying emphasis on the role of Compensation management practices. These theories would form the foundation of the present study.

2.2.1 Expectancy Theory

The concept of expectancy was originally contained in the Valency–Instrumentality–Expectancy (VIE) theory formulated by Victor H. Vroom, Yale School of Organization and Management New Haven. Vroom,(1964), In this theory, Valency stood for value, instrumentality was said to be the belief that if we do one thing it leads to another while expectancy was said to be the probability that action or effort lead to an outcome. This principle was borrowed as the foundation of valency theory that all actions are based on expectation of a favorable result.

The modern expectancy theory thus states that all actions are based on the expectation of a favorable reward putting bi-polar pressure on organizational employee-employer relationship. The first side is the pressure on management to reward employee to the expectations of their performance and the second to employees to perform to the expectation of the employers. (Porter & Lawler III, 1973).

This theory was developed by Porter & Lawler (1973) into a model that follows Vroom's ideas by suggesting that there are two factors determining the effort people put into their jobs

namely the value of the reward to individuals in so far as they satisfy their need for security, social esteem, autonomy and self-actualization and the probability that reward depends on effort, as perceived by individuals. The theory thus asserts that the greater the value of a set of rewards, and the higher the probability that receiving each of these rewards depends upon effort, the greater the effort that was made in a given situation. But, as Porter and Lawler emphasize, mere effort is not enough. It has to be effective effort if it is to produce the desired performance.

Researchers argue that as much as the strength of expectations may be based on the strength met expectations have on improved performance as among the employees. Therefore proposes that compensation management is about understands the expectations of employees and meeting these expectations to ensure their performance keeps on improving (Sturman, 2011).

Expectancy theory thus explains the effects of rewards and extension of rewards management has on employee performance. This theory thus be used in the study to explore the various compensation management practices used and how they fit in the scheme of expectations of the EEPKO employees in Hawassa District and further how these expectations shape the actions of these employees which would translate to their performance.

2.2.2 Instrumentality Theory

Instrumentality can be defined as the belief that if we do one thing it will lead to another. In its crudest form, instrumentality theory stated that people work only for money, though this early version has been modified with time. The theory emerged in the second half of the 19th century, when the emphasis was on the need to rationalize work and to concentrate on economic outcomes.

At the time, the theory assumed that employee performance is tied to the direct relationship between rewards and penalties to performance Candy, Clark, & Harol, (2005). From this basis, it is seen that the theory has its roots in the scientific management methods who wrote and the assertion that it is impossible, through any long period of time, to get workmen to work much harder than the average men around them unless they are assured a large and permanent increase in their pay. Taylor & Muchinsky, (1976).

At present, instrumentality theory is based on the principle of reinforcement, which states that, with experience in taking action to satisfy needs, people perceive that certain actions help to achieve their goals while others are less successful. Success in achieving goals and

rewards therefore acts as a positive incentive and reinforces the behavior, which is repeated the next time a similar need emerges. Conversely, failure or punishment provides negative reinforcement, suggesting the need to seek alternative means of achieving goals. This process has been called the law of effect Tahir, Mehamood, & Ramzan, (2013).

2.3 Direct Financial Payments and Employee's Motivation

Financial payments are rewards that enhance employees financial wellbeing directly or indirectly (Decenzo et al, 2007). According to Dessler (2008) the direct financial rewards refers to payment to employees which when done they enhances employee's financial position directly. Direct financial rewards come in form of wages, salaries, incentives, commissions and bonuses (Dessler, 2008). Bowen (2000) also notes that financial rewards mean those direct and indirect payments that enhance an employee's wellbeing, they make employee financially sound so that he/she can fulfill his/her material desire.

There are two main categories of direct financial rewards namely: - Base/Basic pay and Contingent pay. Dessler (2008) reckons that financial payments are determined on the basis of equity which he defines as the fair treatment of employees. This may be internal equity where employees are paid according to relative value of their jobs within same organization or external equity where organizations' employees are paid comparably to workers who perform similar jobs in other firms.

2.3.1 Base/ Basic Pay

Base/ Basic pay also known as membership based reward, refers to the amount of pay that constitutes the rate for the job, it may be varied according to the grade of the job or for manual workers, the level of skill required (Amstrong, 2008). Several factors influence the base pay; these include legal (government regulations), union (staff labour relations), company policy (company strategic aims) and equity (internal and external/market comparisons) (Dessler, 2004). Chruden and Sherman (1980) indicate that other additional factors include worth of the job and individual bargaining power.

According to Amstrong (2008) the basic pay is normally expressed in form of normal rate and allowances. The normal rate may be hourly, weekly, monthly or annually while the allowances may be overtime, shift working or increased cost of living adjustment. DeNisi and Griffin (2008) differentiates between salary and wage by defining salary as income paid to an individual on the basis of performance or position held while wages refers to hourly compensation paid to operating employees on the basis of time worked.

Basic pays as the name suggests, are just base pays and though their absence de-motivates employees, their presence may not necessary motivate the employees as they expect to get it anyway for the work done, time worked or for them being there. According to Amstrong, (2008) some of the key determinant of an individual basic pay include; organization policies, labour market, the job content and finally the employees themselves. It is however important that base pay helps achieve the internal and external equity to avoid de-motivation (Dessler, 2008). Drafke (2002) emphasis this point by pointing out that money can increase performance but this is often limited to short term increase.

On the other hand, DeNisi and Griffin (2008) argues that in general higher levels of pay and more attractive benefits tend to result in greater satisfaction, a point that is affirmed by Bretz and Thomas (1992) who stated that pay dissatisfaction reduce performance and morale. Clegg and Birch (2002) argues that “pay peanuts and you will get monkeys”, and in addition to that they said that if you show that you value people by paying a reasonable wage then they appreciate it.

2.3.2 Contingent Pay

Contingent pay on the other hand refers to additional financial rewards that may be provided and are related to performance, competence, contribution, skill or experience (Amstrong, 2008). They may come inform of incentives, commissions, bonuses and merit pays (Decenzo et al, 2007). Dransfield, (2000) states that automatic increases within the fixed pay bands have largely disappeared and the trend is toward performance-related-pay as the preferred method. Dessler (2008) defines financial incentives as financial rewards paid to workers whose production exceeds some predetermined standard.

Bowen (2000) adds to the definitions that performance based rewards are such benefits which are provided on the basis of an employee's job performance ability. The reward depends upon the performance of an individual in the actual work floor. These rewards are exemplified by the use of commissions, piece work pay plans, incentive systems, group bonuses or other forms of merit pay plans. Many people see contingent pay as the best way to motivate people, but it is simplistic to assume that it is the only extrinsic motivator in the form of pay that creates long- term motivation (Amstrong, 2008).

Gomez et al. (2012) states that most employees believe that they should be rewarded to recognize their performance, they defined pay-for-performance or incentive system as a system that rewards employees on the assumptions that individual employees and work teams

differ in how much they contribute to the firm and that the firm's over-all performance depends to a large extent on the individuals and groups within the firm.

They also argued that for a firm to attract, retain and motivate employees, the firm needs to reward employees on the basis of their relative performance. Lazear (2000), Paarsh and shearer (2000) and Parent (1999) reconns that use pay performance schemes has been shown to increase employee morale. Brown and Session (2003) confirmed the same by stating that employees prefer environment where productivity is rewarded and that this increases employee morale.

Amstrong (2008) says that there are different incentives and recognition programs applicable to different people in a firm, they include incentives for individual employees, sales people related, team or group based, organization wide and executive incentives. He continues to argue that the individual employee incentive and recognition programs are incentive plans particularly suited for use with individual employees and examples include; Piece work plan, merit pay as an incentive, merit pay options and incentives for professional. According to Bowen, (2000) the incentive plan can be designed on individual, group or organization wise performance.

An individual incentive refers to incentives given to individual employees for their additional contribution towards organizational objectives, while group incentives applies when the output of the individual employees is not measurable due to interdependency with other employee's tasks. An organization incentive occurs when the incentives are provided to all employees of the organization.

Dessler (2008), defined some of the incentives such as piece work plan, which refers to a system of pay based on a number of items processed by individual worker in a unit of time. Merit pay as an incentive, (also known as merit raise) is a salary increase to an individual for better performance; it goes toward increasing one's base salary. Merit pay options are one off short term bonuses, given to individuals as recognition of better performance without raising the base pay of the individual.

Decenzo et al. (2007) refers to incentives for professional employees like system analysts and programmers, engineers, doctors, economists whose work involves use of learned knowledge to provide solutions, to as competency-based compensation plan. Professional employees are also incentivized by used of recognition-based awards, these are non-financial incentives such as employee-of-the-year award, job well done card, star award card which are meant to

give performance feedback (Decenzo et al, 2007).

Incentives for sales people come in the form of sales commissions, straight salaries or combination of both, this is with aim of ensuring the top line numbers or turnover (Dessler, 2008). Amstrong, (2008) expounded the above points by giving the applicability of the different forms like salary only, salary plus commission and salary plus bonus. He argued that the “salary only option” is applicable in a company where direct selling is more important than sales volume; hence need to encourage its customer service rather than high pressure selling.

This may however attract under achievers while salary plus commission is more appropriate when it's believed that sales can go up if a commission is given, however, a base salary is needed to attract people as it provides a direct motivation for performance.

This may result to people concentrating on easier to sell product and not those generating high margins. Finally, the salary plus bonus operates well when flexibility in providing reward is important and sales staffs need to be motivated to focus on certain aspects of their work other than simply maximizing sales volume, thus ensure that other goals like high margins are achieved. The latter may however be complex to administer and understand. Commission only works well when sales performance depends on ability to sell and staff is not involved in non-selling activities. This provides a direct financial incentive, attracts high performing sales staff and ensure selling cost vary directly with volume.

Finally, additional non-cash rewards for example recognition and opportunity to grow, is better applied when it is believed that other methods of payments need to be enhanced to provide additional motivation to the sales person.

Team or group incentives plans are plans in which production standard is set for a specific work group and its members are paid incentives if the group exceeds the standard (Dessler, 2008). While team incentives may foster a sense of cooperation and unanimity, the main disadvantage of plans is that one may not get paid proportionately to the personal effort put to the work, which may de-motivate top workers (Dessler, 2008). In addition, Gomez et al. (2012) also adds that although team based approach may aid in performance measurement, the system may allow free-riding effects and social pressure may limit performance.

Organization-wide incentive plans, also called variable pay plan are plans in which all or most employees enjoy rewards as a result a performance of over-all companywide nature (Dessler, 2008). Examples include profit sharing, employee stock ownership (ESOP) and gain sharing plans. According to Bowen (2000), these organization-wide rewards are also called

Membership based rewards. They are those rewards that are paid on the basis of being a member of an organization.

It means, the basis of allocating rewards is employee's organizational membership. Hence, the reward goes to all employees irrespective of their performance. Incentives for managers and executives are rewards meant for recognizing the crucial roles that managers play in the divisional and companywide profitability (Dessler, 2008). They may be informing of short-term incentives like, annual bonus or long-term incentives like stock options.

2.4 Benefits and Employee's Motivation

According to Armstrong, (2008), there is more to rewarding people than throwing money at them, a point that is also echoed by Clegg and Birch (2002) that reward is not all about money. Decenzo et al. (2007), states that today's workers expect more than just a salary or wage, they want additional considerations that will enrich their lives. They described non-financial rewards as the desirable extras in the organization which do not directly increase the employee's financial position, but rather add attraction to life on the job. Examples of such rewards may include things like, preferred office furnishing, assigned parking space, business cards, own secretary and recognition and amongst other things.

Dessler (2008) defines benefits as indirect financial and non-financial payments employees receive for continuing their employment with the company. Gomez et al. (2012) also says that benefits are sometimes called indirect compensation as they are given to employees in form of plan rather than cash; they provide security for employees and their family members. Decenzo et al. (2007) too defines employees benefits as non-financial rewards offered to attract and keep employees, he adds that they have grown in importance and variety as employers have realized that such benefits affect the discretion of applicants when accepting or declining employment offers. DeNisi and Griffins (2008) defines benefits as the various rewards, incentives and other things of value that an organization provides to its employees beyond their wages, salaries and other forms of direct financial compensation. Bernardin (2003) defines benefits as indirect forms of compensation that are intended to maintain or improve the quality of life for employees. Indirect financial rewards come in form of subsidized benefits such as retirement plans, paid sick leaves and purchase discounts (Decenzo et al, 2007). Dessler (2008) classifies other payments like employer-paid insurance and vacations as forms of financial benefits.

2.4.1 Benefits Classifications

Employee benefits have been classified widely according to different authors and the context of circumstance. Dessler (2008) for example classifies benefits into four basic types, namely; Supplemental pay benefits, Insurance benefits, Retirement benefits and Personal Service and family-friendly benefits. Supplemental pay benefits provide for time not worked, they include unemployment insurance, vacation and holiday pay, severance pay and supplemental unemployment benefits.

Insurance benefits includes, worker's compensation, group hospitalization, accident and disability insurance; and group life insurance. Retirement benefits include social security and pension plans. Personal service and family-friendly benefits include food services, recreational and child and child-care opportunities, legal advice, credit unions, educational subsidies and counseling. These may also be referred to as voluntary benefits.

Decenzo et al. (2007) on the other hand classifies the benefits into seven categories, legally required benefits such as social security, Unemployment insurance, Voluntary benefits, Retirement benefits, Survivor benefits, paid time offs, Insurance plans and Health insurance. Cole (2002) classifies employee benefits into three key categories, security benefits like pension and life insurance, work related benefits like subsidized meals and special training opportunities and finally status-related benefits like prestige car and entertainment allowance. DeNisi and Griffin (2008) argues that although most of the above named benefits are designed for all the employees in an organization (with varying levels) some organizations have developed a cafeteria- style benefit plans which allows the employees to choose the benefits that fits them.

2.4.2 Recognition Benefits

The irony of benefits however is though they attract and retain good workers; they do not directly affect worker's performance. According to Decenzo et al. (2007) they are membership based offered regardless of performance levels as their absence contributes to employee's dissatisfaction and increased absenteeism and turnover. According to Nelson and Spitzer (2003) there is revolution going on in today's workplace, workers want respect and they want it now, they want to be trusted to do a good job, they want autonomy to decide how best to do it, they want support even if they make mistake and they want to be appreciated when they do a good job. Cascio (2010) adds that employee benefits do not enhance productivity but are rather powerful tools of attracting and retaining talent, and for improving the quality of life of employees and their dependents.

Recognition and performance are closely linked (Nelson and Spitzer, 2003), this is because recognition helps one motivate employees more and it helps in providing practical feedback. A genuine and effective recognition system exhibit the following characteristics of being based on contingency, being timely, frequency, informal and spontaneous, the right setting and context (personal touch), significance of provider and value to the recipient.

Nelson in his study also found out that low use of recognition as a tool for motivation was attributed to six main excuses described as follows; I don't know how best to do it, I don't feel it is important, I don't have time, I might leave somebody out, others don't value the recognition I give, the organization does not facilitate or support the initiative. Clegg and Birch (2002) indicates that a simple recognition for success, whether it's a simple pat on the back or Nobel prize can be very useful.

As a matter of facts a simple comment can have totally disproportionate impact on motivation. It is hard to believe but extra cash in the pocket does not motivate as much as genuine recognition argues, Clegg and Birch (2002). Clegg and Birch 2002 adds that the effect of recognition becomes weaker as the numbers get larger. The more personal the better and it is also important that the person giving recognition is respected by the recipient.

2.4.3 Other Benefits

Nelson and Spitzer (2003) also gave the following list of item as the prime non- financial motivators which if more are present the more the employees are motivated. These are action, fun, variety, input, stake sharing, choice, responsibility, leadership opportunity, social interaction, teamwork, using strength, learning, error tolerance, measurement, goals, improvement, challenges, encouragement, appreciation and significance. Robert (1999) in his hand book, *"Dealing with People"* concurs with Nelson & Spitzer's list.

Expounding on the motivators, Nelson and Spitzer, (2003), and Robert Heller (1999) explained action as being actively engaged in productive work while fun is a work environment that includes enjoyable activities not just hard work. Input on the other hand represents feeling that one's opinion matters while stake sharing is the feeling of ownership in the organization. Choice is about being empowered to make discretionary decisions while responsibility is taking a role in whole task rather than piecework.

A leadership opportunity is a chance to manage a team, meeting or event. Social interaction is the freedom to interact with others freely while team work is about being a member of a productive team. Using strength is being encouraged to do the things that one does well and learning is enhancing one capabilities. Error tolerance is being allowed to fail without punishment and being helped to learn from experience. Measurement is being encouraged to keep one's own score rather than being micromanaged while goals is being encouraged to set one's targets rather than having them imposed by others.

Improvement is being in an environment that enables people to become little better every day while challenge is about giving appropriately difficult tasks that cause one to stretch without feeling anxious. Encouragement is being in an environment which others believe in people while appreciation is about receiving acknowledgment of contributions and lastly significance is feeling part of a mission that matters.

DeNisi and Griffin (2008) adds to the above list by noting that some organizations have resulted to different type of benefits known as wellness programs. These concentrate on keeping employees from becoming sick rather than paying expenses when they become sick. Others forms include child care and Eldercare. Pilbeam and Corbridge (2006) reckon that a diverse workforce has diverse benefit needs. Flexible benefits provide an opportunity to respond to this diversity in the workforce and to increase the potency of the benefits offer within the total reward value proposition while checking on cost. Cheatle (2001) also adds that with increasing competition for scarce skills in the market place, many employers are looking to develop innovative packages to recruit and retain key staff.

Cole (2002) closes on employee benefits by saying that in deciding on a benefits policy to adopt an organization need to consider several things such as, the main purpose of the benefit policy, the range of benefit to be provided, the recipients of the benefits, the estimated cost of the benefits' program, the impact of the program in the industry, and finally the expected results of such program internally.

2.5 Compensation and Performance Management

2.5.1 Performance

Performance of something or someone refers to how successful they are or how well they do something. Measuring performance is of great importance to an incentive plan because it communicates the importance of established organizational goals. What gets measured and rewarded gets attention. (Bholder, Snnell and Sherman, 2001)

In discipline of human resource management, different writers suggest the following indicators for measuring employee performance and they include: quality that can be measured by percentage of work output that must be redone or is rejected; Customer satisfaction that can be measured by the number of royal customers and customer feedback. Also, timeliness, measured in terms of how fast work is performed by the employee when given a certain task; absenteeism/tardiness observed when employees absent themselves from work; and achievement of objectives measured when an employee has surpassed his/her set targets, he/she is then considered to have performed well to achieve objectives (Hakala, 2008); Armstrong, A handbook of Human Resource Management Practice (10th ed), (1928).

The management of individual performance within organizations has traditionally centered on assessing performance and allocating reward, with effective performance seen as the result of the interaction between individual ability and motivation. It is increasingly being recognized that planning and an enabling environment have a critical effect on individual performance, with performance goals and standards, appropriate resources, guidance and support from the managers all being central (Torrington, Hall & Stephens, 2008).

Human resource policies and practices indeed do affect organizational as well as individual performance. Job satisfaction for example, has for a long time been seen as key to affecting business performance as well as commitment. In addition, researchers have also identified motivation as the mediating mechanism and some identify trust and morale. In spite of more recent attention to commitment, motivation is still considered to be an important influence to performance (Torrington, Hall & Stephens, 2008).

2.5.2 Relationship between Rewards and Performance

Compensations can be used to improve performance by setting targets in relation to the work given e.g. surpassing some sales targets. When the employee surpasses their target, he or she can be given an additional amount to their salary; this will make them strive to achieve more (Maund, 2001). Research has proven that when human being are appreciated and praised they tend to improve their performance.

This is another way an organization can apply as a reward so as to improve performance.

Praise could be shown in the organization newsletter or in meetings. When managers take time to meet and recognize employees who have performed well, it plays a big role in enhancing employees' performance (Torrington, Hall & Stephens, 2008). Organizations should reward employees more often. This greatly improves performance compared to having the rewards may be only once a year. This is because frequent rewards are easily linked to the performance (Thompson, Rampton, 2003).

Another way through which organizations can use reward systems to increase output is by personalizing the reward. When rewards tend to be so general, employees do not value them. Organizations can use rewards to improve employee performance by incorporating appraisal or promotion for employees who have a good record of performance. Managers should be on the lookout for employees who perform well.

2.5.3 Performance Management

Performance management is a strategic and integrated process that delivers sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of individual contributors and teams.

Purpose of Performance management:- The fundamental purpose of performance management is to get better results from the organization, teams and individuals by understanding and managing performance within an agreed framework of planned goals, standards and competence requirements. It is a process for establishing shared understanding about what is to be achieved, and an approach to managing and developing people in a way that increases the probability that it will be achieved in the short and longer term. It is owned and driven by line management.

2.6 Empirical Review

In any competitive business environment, both locally and globally, it is common for companies to offer employees attractive, lucrative and competitive remuneration packages. These are directly linked or inter-related to improving individual's job competency, retaining high achievers and finally achieving the organizational performances and goals. An attractive remuneration package has been a norm of any employment contract.

The appraisal and rewards compensation for employees are now closely linked to the performance measurement indicators of the companies. If such compensation does not commensurate with their job performance, this can lead to low motivation and high attrition, finally affecting service delivery (Thun & Sardana, 2012).

Remuneration and rewards are thus very important to ensure that adequate benefits and rewards packages can significantly increase the motivation of an individual to increase their work performance. Compensation systems have traditionally been designed to attract and retain productive employees as well as to motivate them to increase their effort and output towards achieving the organizational goals (Phillips & Fox, 2003).

Compensations has therefore been seen to be a vital instrument in employee performance. This is because a well-compensated employee feels valued by the company. The employee is thus encouraged to work harder and better if they are aware that their well-being is taken seriously by their employers, and that their career and self-development are also being taken care of by their company thus increasing employee performance (Candly, Clark, & Harol, 2005).

The real success of companies originates from employees' willingness to use their creativity, abilities and know-how in favor of the company and it is organization's task to encourage and nourish these positive employee inputs by putting effective reward practices in place. (Markova & Ford, 2011). Motivated employees are more productive, more efficient and more willing to work towards organizational goals than the employees who are experiencing low levels of motivation. (Armstrong, & Tayler, 2014).

Reward and compensation system that is based on the expectancy theory suggests that employees are more likely to be motivated to perform when they perceive there is a strong link between their performance and the compensation they receive (Mendonka, 2002). Compensation is one of the keys that motivate employees to perform as expected (Guest, 2002). Performance-related schemes compensation a group or team of employees with a cash payment for achieving an agreed target. These schemes are all designed to enhance company performance by aligning the interests of employees with the financial performance of their companies.

Reward strategy is the policy that provides specific directions for the organization to develop and design programs which will ensure its rewards the performance outcomes supporting the achievement of its business goals (Armstrong, Performance Management, 2000). Furthermore, reward strategy gives specific direction to how the company will design its individual reward programs. This rises from the fact that a reward strategy is seen as the deliberate utilization of the pay system as an essential integrating mechanism through which the efforts of various sub-units and individuals are directed toward the achievement of an

organization's strategic objectives.

Total compensation is seen as the combination of both the financial and non-financial rewards made available to the employees. It includes all type of rewards, direct and indirect, as well as intrinsic and extrinsic. Each aspect of rewards is being linked together as an integrated and rational whole to (Armstrong, & Stephens, 2005). The trend of reward method is changing from a simplex to a multiplex context due to the rapidly changing environment (Chen & Hsieh, 2006). The adoption of total reward system is believed to help in retaining the best worker and ensure the organization stay in a best positioned for future success. This is depicted into five elements that are compensation, benefit, work-life, performance, recognition, development and career opportunities. They also take into concern of the external influences on a business, such as legal or regulatory issues, cultural influences practices and competition.

Equal pay system is seen as a reaction to the job analysis and the grade pay structures which are seen as a demotivation factor by the low paid groups from a feeling of being less valued than their colleagues in the same organization. The system thus proposes a flat rate pay for all employees known as equal pay, (Bloom, 1999). It has its own weakness whereby more skilled and experienced employees would feel despised by getting the same pay as the other employees. This would thus go against the expectancy theory as the said employees had specific expectations based on their level of education and level of experience, (Pierce, 2004).

The equal pay system is modified that brought in an aspect of allowances and bonuses for the more skilled and experience employees as well as employees with greater responsibilities to bridge the dissent gap (Phillips, 2009). A system requires first to address equity of employees before making adjustments to various employees based on their levels of competence. The system also has a weakness that putting everyone at par gives no incentives for employees to work harder and attain higher rewards than others, (Theen, 2012). This thus becomes the weakest reward system.

Job analysis can be said to as process in which information about jobs is systematically collected, evaluated and organized. Data about each job but not about every person is gathered in an organization. It can also be said to be a descriptive process of breaking down a specific job into its component by using a collection of tools and techniques to establish job requirements. Amos et al., (2004) adds that job specification deals with the personal aspects of the job and education or qualification background, skills, knowledge and ability.

In a layman human resources term, the job description can be associated with the hard issues whilst the job specification may focus some soft issues. Job evaluation is another aspect of job analysis which is a systematic procedure to determine the relative worth of jobs. Although different approaches to job analysis exist, there is a general feeling that job analysis should consider the responsibilities, skill, knowledge, abilities and working conditions inherent in the job in order to determine which jobs are worth more to the organization than others, (Markova & Ford, 2011)

This would become a better means of determining employee compensation as it covers all aspects of the job and the employee such as the employee academic qualifications and level of experience and skills as well as the level of performance the employee is expected to attain (Ojiambo, 2012). This is balanced with the importance of the task in the organization to come up with a fair reward for the employee. This is in agreement with the equity theory which states that employees often desire to get from their organizations value perceived to be equivalent to their input in term of academic qualification, skills and experience as well as the value of the task they do to the overall organization objectives

Furthermore, a grade/pay structure compensation system is a compensation practice which comes up with different pay schemes for different professions in the same organization such as technician's accountants, drivers, security personnel, sales team and craftsmen earning different pay schemes which are uniform within the specific job specification, (Ripley, 2002). Such a compensation system gives employees a sense of fairness which according to Herzberg's theory is one of the motivators to employees as they feel accepted and appreciated in the organization (Apeyusu, 2012).

Compensation system leads to some form of friction within employee circles leading to clubs of super employees and across department sabotages where a group of employees feel less valued than a more rewarded group and constantly engage in negligence of duty either to express displeasure or from a feeling that the group compensated more should do more work thus they should do less work (Wekesa, 2013).

Besides, grade structures are needed to provide a logically designed framework within which an organization's pay policies can be implemented. Structures enable an organization to determine where jobs should be placed in a hierarchy, to define pay levels and the scope for pay progression and provide the basis on which relativities can be managed, equal pay can be achieved and the processes of monitoring and controlling the implementation of pay practices

can take place. A grade and pay structure is also a medium through which the organization can communicate the career and pay opportunities available to employees (Armstrong & Murlis, 2007).

Grade system is a system where groups of employees are put on hierarchical arrangement based on skills, experience and responsibility from which pay or compensation boundaries are set (Sturman, 2011). As a result, pays of employees within the same grade are very close with a few differences due to other factors. In such a system, progression from one pay grade to the other is based on merit measured through a balance of experience, skills and performance. Some institutions give more prominence to experience for promotion while a few give prominences to additional educational qualification while most organizations base their promotions on performance.

Promotions to the next grade in most organization, is through a competitive interview where employees have to show evidence of higher performance than their colleagues competing for the same promotion in order to qualify for the promotion (Cherotich, 2012). Grade structure provides promotion as a very strong motivation for employees to perform highly and attain the non-cash rewards such as recommendations, testimonials, certificates and other non-cash tangible awards which they accumulate to give them a better chance in promotion to the next job grade (Sandilyan, 2012).

In addition, grade system is seen as source of non-ending rewards since employees remain motivated at all times and are opportunities to shine and attain a recognition which they would keep in order to attain a promotion (Mokaya, Musau, Wagoki & Karanja, 2013). This is a super reward as it gives value to all the other rewards especially the tangible non cash rewards. (Wekesa, 2013).

However, this form of reward would only be a motivator to self-driven employees who would be driven to attain the higher grades as the employees who are comfortable with their present grade however low would not be motivated to perform highly as a way of getting promotion to the next grade, where some employees don't seek promotion to the next grade and sit comfortable in their entry grade till they retire. Such employees would therefore need other reward schemes to motivate their improved performance (Mzera, 2012).

On the other hand, the principle of contingent pay is the wage incentive which ties an employee's financial reward directly to performance which in this case is measured by output by paying the employee a fixed rate per unit of output made by the employee. In the service industry the base rate is often expressed in terms of input such as rate per given period of time. Contingent pay structure is modified to include rate as expressed in job rating units (Osterman, 2006). Banks put high value on sales and service and for this reason performance-based management systems are used, increasingly tying remuneration to performance, with a differentiated reward system (Bohnstedt, 2008). The system works very well with production plants where output is very tangible and quantifiable and with sales teams where volume of sales is easy to determine but not in the service industry (Freeman, 2011).

This system found quite impractical to use given that output is a result of so many intervening variables and not an adequate measure of employee performance (Cherotich, 2012). This would thus motivate employees who work hard but produce low yield due to factors beyond their control and would encourage employees who are not equally hard working but produce high yields due to circumstantial factors.

Finally, a market rate reward system is where an organization does an industry analysis to determine what the other players within the industry and more specifically its competitors gives as a reward to its employees in order to determine how to reward its employees. Such an organization in most cases sets its reward either at par with its competitors or above its competitors, (Candy, Clark, & Harol, 2005). Researches argue that a reward at par with the competitors would keep the employees satisfied but not motivated as this would be the bare minimum to keep the employees from seeking higher rewards by moving to the competitors. The argument is that rewards lower than that offered by the market would lower both employee satisfaction and motivation to work as employees would seek to move to the organizations that pay higher (Osterman, 2006).

In the other hand, higher rewards would motivate the employees as they would feel more appreciated than their colleagues of the same qualification working in other firms and this high satisfaction would be translated to higher performance (Rahmanm, 2009). Besides on organization paying higher rewards than other in an industry becomes an employer of choice thus there is high competition of prospective employees who would wish to be employed by the organization. This puts pressure on the existing employees (Cherotich, 2012).

The study carried out on the “effect of reward and recognition programs on employee motivation and satisfaction” (Ali & Ahmed, 2008). Research design used was exploratory. Sample chosen for the study was 80 employees of Unilever companies and data collection instrument used was a questionnaire. Pearson’s correlation was used to analyze data to determine the degree of relationship between reward, satisfaction and motivation. Major findings indicated a positive relationship between rewards and work satisfaction as well as motivation. Factors affecting satisfaction were identified; payment 86%, promotion 74%, works conditions 61%, personal 37%. Analysis showed support for a positive relationship between reward and employee satisfaction. The researchers recommended that further studies can be done on impact of reward and recognition on motivation and satisfaction for diverse groups of people” example gender, race and disability.

The study made on the „Assessment of Reward and Compensation Management Practices at Ethiopian Electric Power Corporation Training Institution and Head Quarter (Gebremedhin, 2014). “ The study examined how the selected company works on the issue and it aimed at finding out the extent to which the institution gives focus on rewarding and compensating its employees in order to encourage them and thus assist it to reach its goals and visions.

The summary of the results revealed that, the reward system implemented in EEPCO is used for administrative purpose, the criteria of the system are not valid, reliable, and not job related. According to the study no re-reward discussions were held between employees and managers and employee do not participate in reward process. Most of respondents are not satisfied by reward system and payment.

Then the overall result shows that even though the selected company (EEPCO) has a habit of rewarding and motivating its employees, the rewarding systems are not motivating its employees to be competitive and work to the best interest of the company, given that the rewarding systems do not take competitiveness and performance into account. The researcher recommended for further research to be carried out on Reward and compensation Management Practices considering additional variables and additional geographic areas.

2.7 Conceptual Framework of the Study

Conceptual framework is a system of concepts, assumptions, expectations, beliefs, theories that support and inform your research. It can be written or visual presentation that explains either graphically, or in narrative form and presents the main things to be studied, the key factors and concepts or variables and the presumed relationship among them. (Miles & Huberman, 1994). Based on literatures reviewed, the proposed research model/conceptual framework is developed and presented in Figure: 2.6.1 below

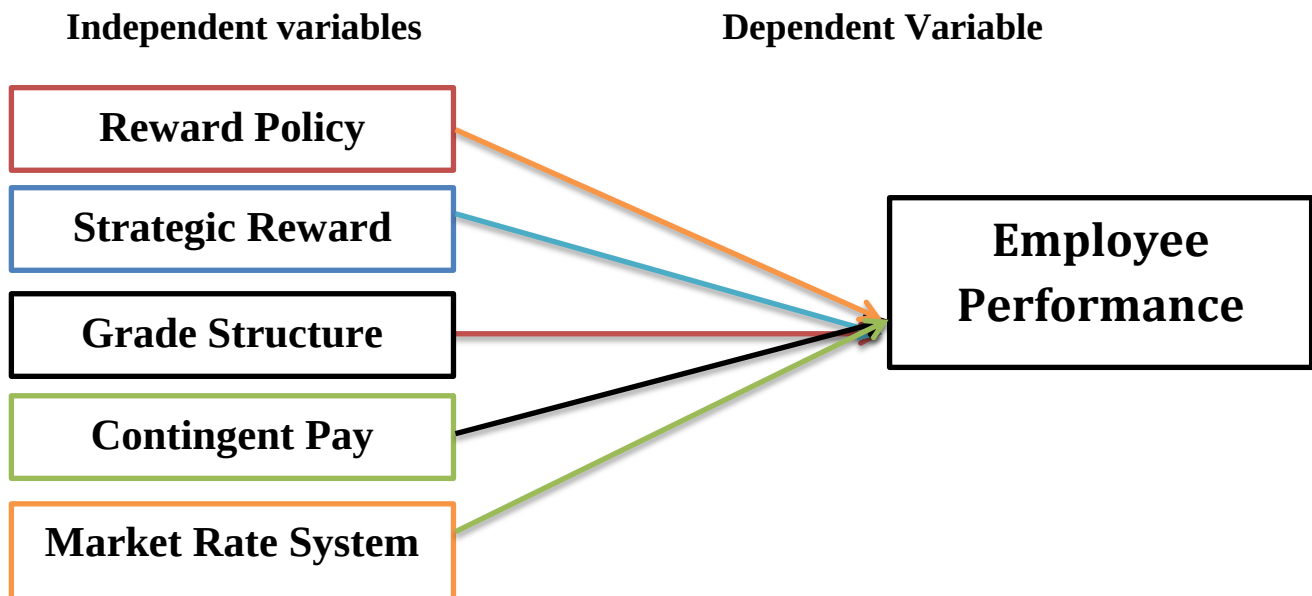


Figure 2. 1: Conceptual Framework

Source: Owen Survey result, (2023)

CHAPTER THREE

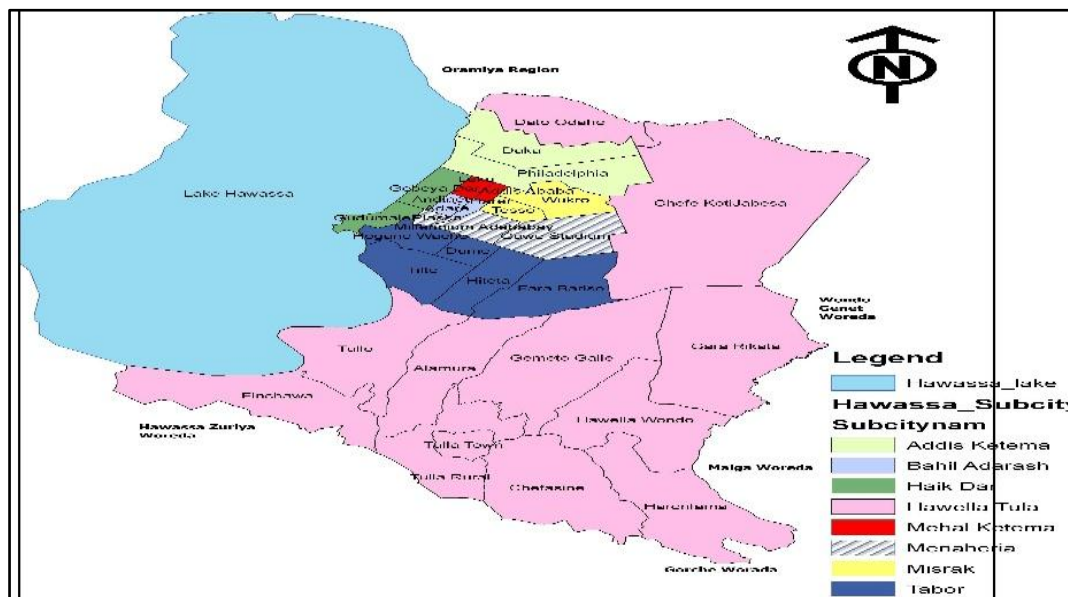
RESEARCH METHODOLOGY

3.1. Description of the study area

Hawassa is a city in Ethiopia, on the shores of Lake Hawassa in the Great Rift Valley. It is located 285 km south of Addis Ababa via Bishofitu, 130 km east of Sodo, and 75 km north of Dilla. It lies on the Trans-African Highway 4 Cairo-Cape Town and has a latitude and longitude of 7°3'N 38°28'E Coordinates: 7°3'N 38°28'E and an elevation of 1708 meters above sea level and Population (2016 east 1500000) with Density 6,300/km² (16,000/sq mi). This city is home to Hawassa University (which includes an Agricultural College, a Main Campus, and a Health Sciences College), Awasa Adventist College, and a major market. The city is served by Awasa Airport (ICAO code HALA, IATA AWA), which opened in 1988. Postal service is provided by a main branch; electricity and telephone service are also available. Important local attractions include the St. Gabriel Church and the Hawassa Kenema Stadium. Fishing is a major local industry.

Hawassa was the capital of the former Sidamo Province from about 1978 until the province was abolished with the adoption of the 1995 Constitution. It then became the capital of the Southern Southern Nations, Nationalities, and Peoples' Region. When the Sidama Region was formed in June 2020, the city became part of that region. Hawassa city currently serves as the capital of the Sidama Region and the Southern Nations, Nationalities, and Peoples' Region. Hawassa was continue to serve as the seat of government of the Southern Nations, Nationalities, and Peoples' Region for two national electoral cycles, after which the regional government will move to a city within the region's boundaries.

Figure 3. 1: Study Area Description



Source: Hawassa city administration finance and economic development, demographic Affairs office (2013)

3.2 Research Design

The research design that was used for the study is descriptive and explanatory design. It is selected due to its ability to assess and describes the existing nature of compensation management practice at the organization. This further enables the study to analyze the existing practice by comparing it with the theoretical aspects

A descriptive research design was used to determine the frequency or level of a particular attribute in a defined population at a particular point in time (Lotta, 2012). Also used in assessing practices, attitudes, knowledge, and beliefs of a population either the entire population or a subset thereof is selected, and from these individuals, data are collected to help answer research questions of interest (Kothari, 2004)

3.3 Source of Data

According to Cooper, D., and Schindler, P., (2008), primary data refers to data that is collected for the first time specifically for a research project whereas secondary data refers to data that was collected by someone other than the user and also to fully meet the objectives of the study, the primary data gathered from research area was support by secondary data from journals, and articles. Therefore, the researcher was used both primary and secondary data to obtain the necessary information about the research. In this research, the researcher used questionnaires and interview methods to collect data from primary sources such as the

employees themselves and the human resource department and secondary sources are necessary documents that was accessed from the EEPCO Hawassa district office and journalism. Using a five-point Likert scale ranging from (1 strongly disagree, 2 disagrees, 3 is neutral, 4 agrees and 5 strongly agrees).

3.4 Target Population

In research, the concept of a population refers to the totality of all the individual people or objects that possess the characteristics or qualities that are of interest to the research at hand (Liu et al., 2014). It refers to all the subjects that the researcher wants to investigate or study.

In this study, the target population was all permanent office workers of Ethiopian Electric Power Corporation in Hawassa district, Sidama regional state and organization management, but different constraints like time, finance, and proximity the target population for the study was restricted to permanent office workers under EEPCO Hawassa district are only that are 157 in number.

3.5. Sampling Design and Sample Procedure

3.5.1. Sampling Design

A sampling technique involves the process of selecting a sample from a large population (Cooper, D., & Schindler, P., 2008). In this research, probability sampling technique was used particularly from simple random sampling and determine the sample size from the total population of 157 employees of the district.

3.5.2 Sample size

The sample size is a smaller set of the larger population (Cooper, D., and Schindler, P., 2008). It must be keenly selected to be an agent of the populace. As stated above the target population size is 157 in number. For the sample size determination of this study, Yamane, (1967: 886) provides a simplified formula to calculate sample sizes because of the similarity and homogeneity of the target population. At 95% confidence level and $e=0.05$ is assumed for the following equation:

$$n = \frac{N}{1+N(e)^2}$$

Where, n = sample size, N = size of the population, e = level of precision

$$N= 157, \quad e=0.05$$

$$n = 157 / (1+157(0.05)^2) = \underline{\underline{109}}$$

Table 3. 1: Distribution of the Target Population

No	Name of sample EEPCO Hawassa district	Total popn	Number of employee individuals in Hawassa district	The proportion of sample size
1	Number 1	36	36 employees	$\frac{36}{157} * 109 = 25$
2	Number 2	50	50 employees	$\frac{50}{157} * 109 = 35$
3	Number 3	41	41 employees	$\frac{41}{157} * 109 = 28$
4	Number 4	30	30 employees	$\frac{30}{157} * 109 = 21$
Total		157	157 employees	109

Source; Own Survey result (2023)

3.6 Methods of Data Collection

Following the completion of data collection, the data was analyzed using quantitative and qualitative statistical methods or approaches. The information obtained from interviews was analyzed through a process of content analysis and categorized into themes. The coded data then was analyzed using descriptive statistics such as mean scores and standard deviations. The mean scores gave the standardized response for each of the research questions and the standard deviation established the variation of the responses from the standardized response. The researcher used correlation and multiple regression analysis through the application of SPSS version 20.0 software to analyze. At this stage, the independent variables which in this case are compensation management practices are used as the X variables and the Dependent variable which in this case is employee performance is used as the Y variable to determine the correlation coefficient which indicated the nature of the relationship between the two variables and the effect of IVs on DV.

The model specification is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \dots \beta_n X_n + e$$

Where: -

Y is employee performance

β_0 = the constant

β is the unstandardized coefficient of correlation

X1 = Reward Policy

X2 = Strategic Reward System

X3 = Grade/Structure

X4 = Contingent Pay

X5 = Market Rate Reward System

3.7 Validity Test

Validity is the extent to which a test measures what it claims to measure (Lakshmi and Mohideen, (2013). There are different types of validity measurements including, face validity whether at face value, the questions appear to be measuring the objective of the study. The researcher undertook a pre-test on selected respondents to check the validity of the questionnaire and corrections were made based on the feedback collected.

Those respondents who were part of the pilot test will be not included in the actual conduct of the study. To establish face validity of the research instrument, this study used existing scales that has validated by other researchers. Further, the research instrument is subjected to critique by experts in the Hawassa University, School of Management, who assesses the instrument items and terminology to ensure it is clear and logical.

According to Kindy et al. (2016), content validity is the extent to which the items in an instrument cover the entire range of the significant aspects of the area being investigated. The content validity also assured when the questionnaire was prepared based on extensive reading of literature review. While preparing the questionnaire ambiguous or vague wordings will avoid ensuring that respondents would read and answer the question consistently on different occasions in the same context. The data from different sources can help for crosschecking the information obtained.

3.8 Reliability Test

Reliability is the degree to which measurements are repeatable when different authors perform the measurements on different occasions under different conditions with supposedly alternative instruments which measure the same thing (Drost, 2011). Reliability is consistency of measurement or stability of measurement over a variety of conditions in which basically the same results should be obtained. Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure while reliability has to do with the accuracy and precision of a measurement procedure.

As multiple items in all constructs were used, the reliability of compensation practices and performance were determined with Cronbach's Alpha and the reliability values for all

constructs are confirmed as greater than 0.7, which are considered ideal and acceptable (Joseph et al., 2014; Ken, 2013). Research items that had Cronbach's Alpha value that was greater than or equal to 0.7 were accepted since they were deemed to have been measured consistently while all items whose Cronbach's alpha value were less than 0.7 were rejected as they were regarded as unreliable. The results of pilot study showed that all research items had Cronbach's Alpha values greater or equal to 0.7 indicating that the items will be reliable.

3.9 Ethical Consideration

The ethical issues were considered in the study by getting informed consent from the respondents regarding the background and the importance of data and issues of confidentiality. Verbal consent from the study group was obtained. Names or other personal identification were not used in the response to keep the confidentiality of the information. Furthermore, all the responses were kept confidential for academic purposes only.

Table 3. 2: Summary on reliability of item

Items	Items	Sample	Cronbach's alpha Value
Reward Policy	3	92	0.808
Strategic Reward	4	92	0.779
Grade Structure	6	92	0.808
Contingent pay	5	92	0.727
Market rate System	3	92	0.764
Employee performance	14	92	0.803
Cronbach's alpha Value for all items			0.823

Source: own survey 2023

These are clearly acceptable. Cronbach's alphas value should be above 0.70 (DeVellis, 2003), (Sekaran, 2003). All the items appeared to be worthy of retention, resulting in a decrease in the alpha if deleted. The questionnaire consists of 3 parts with "Part one", "Part two" and "Part three". "Part one" consisted of item seeking demographic data such as sex, age, education level, work experience, marital status and monthly salary with no score attached to it.

"Part two" consists of the items, which collect information about Compensation Management practices, such as Reward policy, Strategic reward, Equal pay, Grade structure, Contingent

pay and Market rate system (I.V's). "Part three" consists of the items, which collect information about the employee performance (D.V). "Part two" and "Part three" of the questionnaire measured on five point Likert scale ranging as (1 is strongly disagree, 2 is disagree, 3 is neutral, 4 is agree and 5 is strongly agree).

3.7 Methods of data Analysis

Following the completion of data collection, the data was analyzed using quantitative and qualitative statistical methods or approach. The information obtained from interviews was analyzed through a process of content analysis and categorized into themes. The coded data then was analyzed using descriptive statistics such as mean scores and standard deviations. The mean scores gave the standardized response for each of the research questions and the standard deviation established the variation of the responses from the standardized response. The researcher used correlation and multiple regression analysis through the application of SPSS version 20.0 software to analyze. At this stage, the independent variables which in this case are Compensation Management practices are used as the X variables, and the Dependent variable which in this case is employee performance is used as the Y variable to determine the correlation coefficient which indicated the nature of the relationship between the two variables and the effect of IVs on DV. The model used is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \dots + \beta_n X_n$$

Where: -

Y is employee performance

β_0 is the constant.

β is unstandardized coefficient of correlation

X1 is Reward Policy

X2 is Strategic Reward System

X3 is Equal Pay

X4 is Grade/Structure

X5 is Contingent Pay

X6 is Market Rate Reward System

Pearson Product Moment Correlation measures linear dependence between two variables giving a value between +1 and -1. This statistic is called a correlation coefficient (r). The study used Pearson Product Moment Correlation to test the relationship between Compensation Management practice and employee performance, and presented the findings in figures and tables to make easier to analyze

The study used values of unstandardized coefficient „B” values from multiple regression result to interpret and predict the increase in dependent variable due to a unit increase in each independent variable, and the standardized coefficients “Beta” values, to compare the extent of the effect of each independent variable has on dependent variable.

3.8 Procedure of Data Collection

In conducting the study, therefore, the researcher used questionnaire and interview methods to collect data from primary sources such as the employees themselves and the human resource department. In this case, the feeling and attitudes of the employees as well as their beliefs about what should be done within the institution in order to enhance the compensation issues are also part of the data collection parts in the questionnaire and interviews. In addition, the researcher tried to portray documented materials such as collective agreements of the EEPCO so as to point out how the institution handles the compensation issues. The institution’s policy of compensating, the country’s labor law, as well as the labor union agreements EEPCO signed are also used by the researcher as an input to the study. The researcher would use documents of the last five years’ compensation within EEPCO.

3.9 Ethical Consideration

The ethical issues were considered in the study by getting informed consent from the respondents regarding the background and the importance of data and issues of confidentiality. verbal consent from the study group was obtained. Names or other personal identification were not used on the response to keep the confidentiality of the information. Furthermore, all the responses have been kept confidentially for academic purpose only.

CHAPTER FOUR

RESULTS AND DISCUSION

4. Demographic profile of the Respondents

The demographic profile of the respondents was analyzed and given below. This was done purposely to determine the suitability of the respondents to provide the needed information for the validity of the study. The sex composition of respondents and the other demographic information is presented in the Table: 4.1, including age category, education level, work experience, marital status and monthly Salary of respondents.

4.1. Response Rate

A total 109 questionnaires distributed to selected respondents and the response rate was indicated in the Table 4.1 below.

Table 4. 1: Respondent Rate

Items	Response rate	
	No	Percentage
Sample size	109	100
Collected response rate	92	84.40
Remain uncollected	17	15.59

Source: Own Survey Result (2023)

From the above Table 4.1, from 109 distributed questionnaire 92(84.40%) were collected while 15(15.59%) of the questionnaire remained uncollected .Therefore, analysis were made based on the responses obtained from 92 questionnaire.

Table 4. 2: Demographic profile of the Respondents

Respondent profile	Description	Frequency	Percent
Sex of respondents	Male	71	68
	Female	21	32
Age of respondents	18-25 years	8	16.6
	26-35 years	50	33.3
	36-45 years	27	28.33
	46-55 years	4	11.6
	Above 55 years	3	10
Education Level of the respondent	Below Certificate	15	25
	Certificate (Level 1 & 2)	7	13.33
	Diploma (Level 3)	48	46.66
	Degree and above	22	15
Work Experience of the respondent	Less than 5 years	23	21.6
	5-10 years	39	31.66
	11-15 years	15	21.6
	16-20 years	7	11.6
	More than 20 years	8	13.33
Marital Status of the respondent	Married	69	81.66
	Unmarried	23	18.33
Monthly Salary of the respondent	Less than 600 birr	0	0
	1,651-3,200 birr	32	53.33
	3,201-5,250 birr	40	33.33
	5,251-7,800 birr	15	8.33
	7,801-10,900 & Above	5	3.33

Source: own survey 2023

Based on the data gathered from EEPKO Hawassa district HR department and summarized in table 4.2 total number of respondent is 60 which consisted of 19 (32%) of Females and 41 (68%) of Males. This may indicate that the large number of the workers in this organization is dominated by males. Regarding to the sex composition of sample respondents, 19 (32%) of

them are Females and the rest 41(68%) of them are Males. Sex composition of respondents is proportional to the total population and represents it.

Based on the above table: 4.1, the age of the respondents showed that 20 (33.33%) of the respondents fall 26-35 years, 17 (28.3%) were 36-45 years, 10 (16.6%) were 18- 25 year, 7 (11.6%) were 46-55 year and 6 (10%) were above 55 years. This shows that the majority of the respondents were in age range of 18 -45 years, which accounts for 47 respondents (78.33%) of the sample. This shows that the organization has an opportunity to use the strategic and long term Compensation systems such as paying employees depend on their performance, compensating them based on management objectives and rewards in recognition of series of achievements.

Regarding to the education level of the respondents, 28 (46.66%) were Diploma (Level 3), 15 (25%) were Below Certificate, 9 (15%) were Degree and above, and 8 (13.33%) were Certificate (Level 1 & 2). The majority of respondents were diploma (Level 3) holders.

When we come to the work experience of the respondent, 19 (31.6%) were 5-10 years, 13 (21.6%) were 11-15 years, 13 (21.6%) were Less than 5 years, 8 (13.33%) were More than 20 years, and 7 (11.66%) were 16-20 years. According to the above result 47 respondents meaning almost 78.33.3% of respondents have more than five-year experience in the organization. This shows they can give relevant opinion about the organizations Compensation management practices in relation to Employee performance.

The marital status of the respondents showed 49 (81.66%) were married and 11 (18.33%) were unmarried. This shows that most of the respondents are married.

Finally, Monthly Salary of the respondent showed that 32 respondents (53.33%) were in salary range of 1,651-3,200 birr, 20 respondents (33.33%) were in 3,201-5,250 birr, 5 respondents (8.33%) were in 5,251-7,800 birr, only 2 respondents (3.33%) were in 7,801-10,900 birr, and only 1 respondent (1.6%) was in Less than 600 birr. This implies that majority 52 (86.66%) of the respondents earn salary of 1,651-5,250 birr monthly. This indicated that most of the respondents earn lower salary than the salary offered by the market and are in need of additional incentives.

4.2. Compensation Management practice & Employee Performance

As stated earlier the objective of the study was to determine the effect of Compensation management practice on employee performance. To determine this, the study had first to determine the extent to which Compensation management is conducted. This was achieved by breaking down Compensation management practice into its components namely reward policy, strategic reward, equal pay, grade structure, contingent pay and market rate reward system.

4.2.1. Reward Policy

Table 4. 3: Measure of Reward Policy

Items	Mean	Std. Deviation
The organization has documented reward policy	4.02	1.055
The compensation of employees is systematic	3.57	.946
Employees are paid well in my organization	2.89	.935
Reward Policy overall	3.50	.716

Source: (own survey 2023)

Table 4.3: shows that the respondents agree that the organization have documented reward policy (mean 4.02, standard deviation 1.055) and the reward is systematic (mean 3.57, standard deviation 0.946). The respondents were however disagreed on the organization pay well (mean 2.89, standard deviation 0.935). This thus shows that the organization have documented reward policy and have systematic employee compensation but does not pays employees well. This thus shows that the EEPCO Hawassa district used reward policy as a Compensation Management practice though the pay for its employees is not well. This is also confirmed by the interview response of district manager and Human Resource department head. Doe to the low salary scale of the organization, majority of the workers are not happy with the salary they earn and it is true that it is below the market rate.

4.2.2. Strategic Reward

Table 4. 4: Measure of Strategic Reward

Items	Mean	Std. Deviation
The pay of employees depend on their performance	4.14	.759
Employees are rewarded based on management objectives	3.94	.780
The organization rewards in recognition of series of achievements	3.87	.707
Each Strategic objective has a reward for being met	2.79	.806
Strategic Reward Overall	3.69	.206

Source: (own survey 2023)

Table 4.4: above shows that the respondents agree that the pay of employees depend on their performance (mean 4.14, standard deviation 0.759), the employee reward is based on management objectives (mean 3.94, standard deviation 0.780) and that the organization rewards in recognition of series of achievements (mean 3.87, standard deviation 0.707). The respondents were however disagreed on each strategic objective had a reward for being met (mean 2.79, standard deviation 0.806).

Based on this one can say that the pay of employees in this organization depends on their performance, the reward is based on management objectives and organization rewards in recognition of series of achievements. However, not all strategic objectives have rewards for being met. This thus implies that the organization effectively used strategic reward as a one compensation management practice but for not having a reward for meeting each strategic objective.

4.2.3. Grade Structure

Table 4. 5: Measure of Grade Structure

Items	Mean	Std. Deviation
There are wide differences in reward across different job groups	4.14	.759
The employees are spread into job groups	3.97	.879
Employees of the same job group earn similar rewards	3.87	.729
Promotion to the next job group is based on performance	3.71	.792
The job groups are based on professional qualification	3.29	.869
The job groups are based on experience	3.13	.959
Grade Structure overall	3.69	.226

Source: (own survey 2023)

Table 4.5: above shows that the respondents agreed that there are wide differences in reward across different job groups (mean 4.14, standard deviation 0.759), that the employees are spread into job groups (mean 3.97, standard deviation 0.879), that the employees of the same job group have similar rewards (mean 3.87, standard deviation 0.729), that promotion to the next job group is based on performance (mean 3.71, standard deviation 0.792) and that the job groups are based on professional qualifications (mean 3.29, standard deviation 0.869). The respondents are however neutral on the fact that the job groups are based on experience (mean 3.13, standard deviation 0.959).

This means that employees are spread into job groups and that there are wide differences in reward across different job groups, employees in the same departments as well as those with the same job group have similar rewards and the job groups are based on experience. It is however not clear whether the job groups are based on professional qualifications. It can therefore be inferred that the EEPCO Hawassa District effectively used grade structure as a compensation management practice. However, there seems to be no clarity on the basis used on structuring the job groups based on professional qualifications.

4.2.4. Contingent Pay

Table 4. 6: Measure of Contingent Pay

Items	Mean	Std. Deviation
The organization pays for overtime	4.62	.521
The organization pays special allowances where need arises such as mileage, airtime and night outs	4.32	.618
The organization gives additional benefits for its employees	3.30	1.145
The organization has bonuses based on productivity	3.08	1.082
The organization has incentives for the employees	2.92	1.097
Contingent Pay overall	3.65	.498

Source: (own survey 2023)

The above on Table 4.6: shows that the respondents strongly agreed that the organization pays overtime for the employees (mean 4.62, standard deviation 0.521). They agreed that the organization pays special allowances where need arises such as mileage, airtime and night outs, (mean 4.32, standard deviation 0.618) and that the organization gives additional benefits for its employees (mean 3.30, standard deviation 1.145). The respondents are however neutral on the organization has bonuses based on productivity (mean 3.08, standard deviation 1.082) and they disagreed on the item says that the organization pay incentives for its employees (mean 2.92, standard deviation 1.097).

This indicates that the organization pays overtime for the employees, pays special allowances where need arises such as mileage, airtime and night outs and gives additional benefits for its employees. However, the organization does not seem it has bonuses based on productivity and has incentives for its employees. It is thus seen that the organization used contingent pay as a compensation management practice but with less interest to give bonuses based on productivity and does not pay incentives to its employees.

4.2.5 Market Rate System

Table 4. 7: Measure of Market Rate System

Items	Mean	Std. Deviation
The organization pays the employees higher than what the other organizations pay their employees	3.22	.888
The organization has more incentives for its employees than other organizations	3.21	.864
The organization has a system in place to ensure it rewards higher than the other organizations do.	2.76	.928
Market Rate System overall	3.064	.658

Source: (own survey 2023)

Table 4.7: shows that the respondents are on neutral that the organization pays to employees higher than what the other organizations pay their employees (mean 3.22, standard deviation 0. 888), that organization has more incentives for its employees than other organizations (mean 3.21, standard deviation 0. 864). However, they disagreed on that the organization has a system in place to ensure its compensation higher than the other organizations do (mean 2.76, standard deviation 0.928).

This means that the organization does not seem pay more incentives and pays higher than other organizations pay their employees, and there is no system in place to ensure the consistency of the practice. It therefore shows that EEPKO Hawassa district is not clear in using market rate system as a Compensation Management practice.

The study made face to face interview with key persons in the organization and the result revealed that the organization used the Compensation Management practices to improve the Employee Performance based on their actual achievement, planed performance and change implementation in the organization. They responded that the employees serve their customers as per the organizational goals and priorities as needed. However, the interviewee responded that their customers may not be satisfied by the service delivered in the organization because of the huge gap between demand and supply and lack of technology. Thus, they confirmed the structured questionnaire result on the item of performance measurement that respondents disagreed on the items that the employees serve their customers with the needed speed and with fairness and justice. In the last, they were asked to add some additional questionnaire

items, but they found it good and it covered almost all Compensation Management practices and terms which could help to improve Employee Performance.

4.2.6 Employee Performance

Table 4. 8: Measure of Employee Performance

Items	Mean	Std. Deviation
Have team work	4.52	.669
Handle explosive situations calmly	4.43	.734
Serve diligently	4.41	.733
Are security conscious	4.38	.792
Respond adequately to challenges faced by customers	4.30	.710
Are firm in their service	4.17	.708
Meet the desired targets	4.16	.700
Maintain high professionalism	4.11	.764
Serve with a human face	3.60	.730
Are understanding to customers and management	3.57	.734
Maintain decorum and etiquette at all times	3.49	.840
Are sensitive to customer requirements	3.48	.759
Serve with fairness and justice	2.92	.955
Serve with the needed speed	2.44	.799
Employee Performance over all	3.86	.291

Source: (own survey 2023)

Table 4.8 shows that the respondents strongly agreed that the employees have team work (mean 4.52, standard deviation 0.669). The respondents also agreed that they Handle explosive situations calmly (mean 4.43, standard deviation 0.734), they serve diligently (mean 4.41, standard deviation 0.733), are security conscious (mean 4.38, standard deviation 0.792), respond adequately to challenges faced by customers (mean 4.30, standard deviation 0.710), are firm in their service (mean 4.17, standard deviation 0.708), meet the desired targets (mean 4.16, standard deviation 0.700), maintain high professionalism (mean 4.11, standard deviation 0.764), serve with a human face (mean 3.60, standard deviation 0.730), are understanding to customers and management (mean 3.57, standard deviation 0.734), that the

employees maintain decorum and etiquette at all times (mean 3.49, standard deviation 0.840), and are sensitive to customer requirements (mean 3.48, standard deviation 0.759). The respondents are however disagreed on that they serve with fairness and justice (mean 2.92, standard deviation 0.955) and on the item of employees serve with the needed speed (mean 2.44, standard deviation 0.799).

This therefore indicates that the employees perform highly with special focus on team work, handle explosive situations calmly, serve diligently, maintaining security conscious, respond adequately to challenges faced by customers, meet the desired targets, firms in their service, high professionalism, serve with a human face, understanding to customers and management, maintain decorum and etiquette at all times and are sensitive to customer requirements. However, the employees do not serve with fairness and justice and they do not serve with the needed speed.

4.3 Multiple linear Regression Analysis

Regression analysis is a statistical technique that investigates the relationship between a dependent variable and specified independent variables. When paired with assumptions in the form of a statistical model, a regression can be used for prediction, inference, and hypothesis testing, and modeling of causal relationships (Aron, 1994). As per Dereje K. (2019) in his book noted the relationship is expressed in the form of an equation or a model that connects the relation of dependent and independent variables.

Multiple regression analysis employed to examine the effect of compensation management on employee performance on Ethiopian electric power corporation, Hawassa district. Before going to analyze multiple regressions test results, the test result of the main assumptions of multiple regression analysis should be presented.

4.3.1 Multiple Regression Assumptions

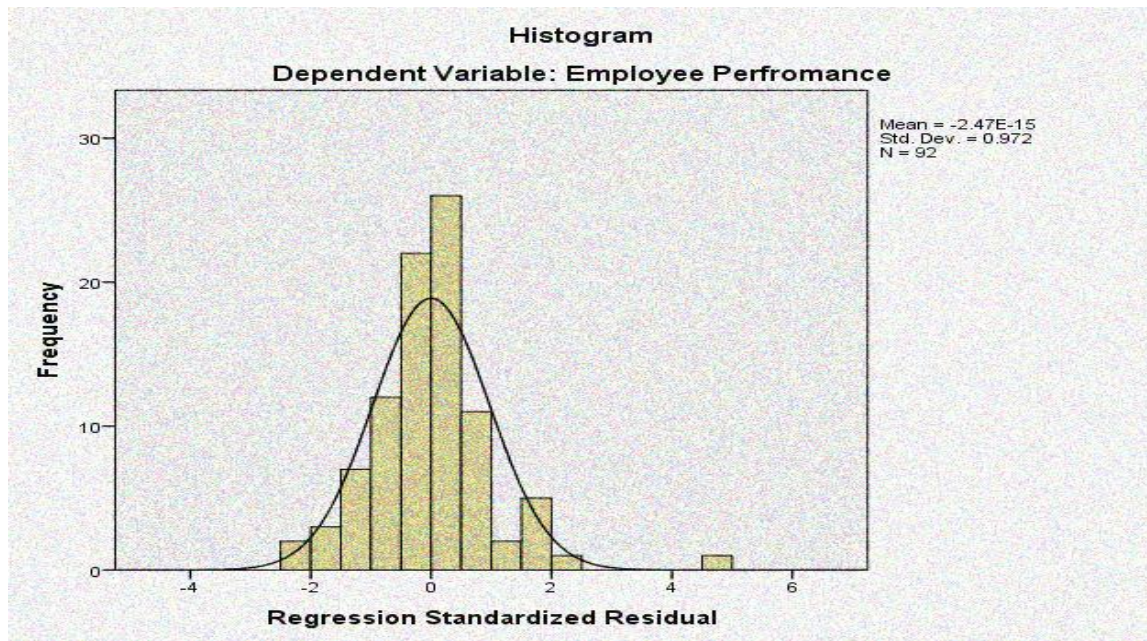
Gujarati, D., (2003) stated that the main assumption tested to use multiple regression are normality test, multi-collinearity test and linearity test. Therefore, the researcher tested these three assumptions and test results on the assumptions of regression are summarized and presented in following sub-sections.

4.3.1.1 Normality Test

Normality can be seen on the data distribution when the curve does not pass through either the left or the right (Ghozali, 2006). In order to test the normality of the data, kurtosis and skewness measurement are critical. Kurtosis measure the level of peak of the histogram. High

peak has positive kurtosis, while flatter distribution has negative kurtosis. For a normal distribution, the value of the kurtosis is zero. On the other hand, skewness measures the degree to which cases are clustered towards one end of an asymmetry distribution. Skewness is the measures of the asymmetric. The normal distribution is symmetric with a skewness value of zero. In order to test the normality of the data, kurtosis and skewness value was checked and illustrated in Figure 4.1.

Figure 4. 1: Histogram dependent variable: employee performance

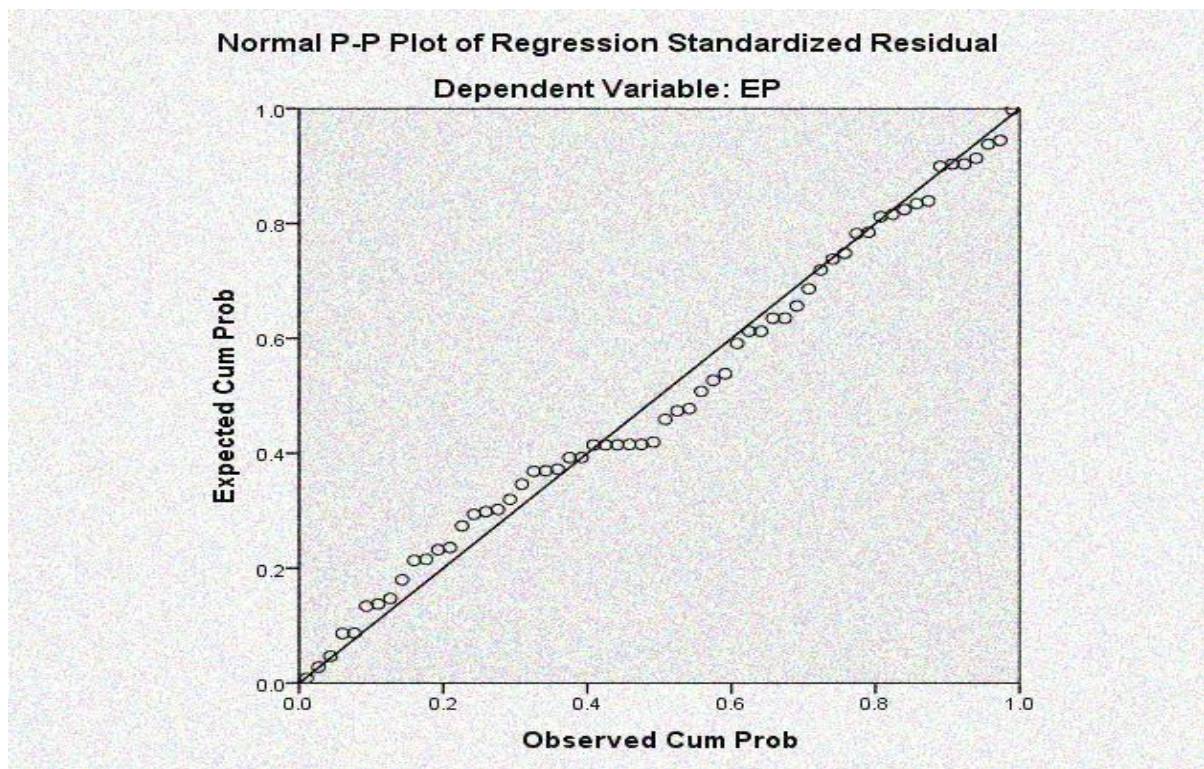


Source: (Own survey Result 2023)

4.3.1.2 Linearity Test

According to Gujarati, D. (2003), linearity means that the amounts of the rate of change, between scores on two variables, are constant for the entire range of scores. The underlying assumption of the regression analysis is that the relationship between the variables is linear, meaning that the points in the P-P plot form a pattern that can be approximated in to a straight line.

Figure 4. 2: normal p-p of regression standardized residual dependent variable: EP



Source: (own survey 2023)

In conclusion, all of the assumptions are necessary for regression analysis. According to Tabachnick and Fidell (2001) statement if multiple regression assumptions are confirmed acceptable hence the results of the regression analysis will be taken to be statistically viable.

4.3.1.3. Multi-collinearity Statistics

From the assumptions of multiple linear regressions one is that the independent variables should not have very high association or correlation when the independent variables are highly correlated, it is regarded as a problem in the model and this problem is called multi-collinearity. The existence of multi-collinearity can be tested by analyzing the values of tolerance and Variance Inflation Factors (VIF) (Gujarati, D., 2003). As most authors have suggested, a tolerance value of < 0.10 and/or a VIF > 10 indicates the existence of multi-collinearity problem. For this particular research the results in relation to multi-collinearity test are stated below

Table 4. 9: Summary of Multi-Collinearity Diagnostic

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Reward Policy	.450	2.221
	Strategic Reward	.616	1.624
	Grade Structure	.605	1.654
	Contingent Pay	.676	1.478
	Market Rate System	.551	1.816

Source: (Own Survey Result 2023)

In specific context tolerance is a statistics used to indicate the variability of the specified independent variable not explained by the other independent variables. For this model as stated in the multi-collinearity matrix of independent variables in table 4.9 above, the results of tolerance for all independent variables are above 0.1 and below 1, which are fairly acceptable tolerance values. Similarly, the results of variance inflation factors (VIF) for all independent variables are between 1 and 10, which are also absolutely acceptable.

Therefore, the researcher concludes that there was no multi-collinearity problem between the predictor variables, as the results are in the acceptable ranges.

4.4. Multiple linear Regression Test for the effect of Compensation Management practice on Employee Performance

The research study used multiple regression analysis in order to analyze effect t of independent variables, in this research, compensation management practices on dependent variable, employee performance. Using stepwise method, it was identified that the variables have the ability to predict the Employee performance.

4.4.1 Regression Model Analysis on the effect of Compensation Management practice on Employee performance.

The regression model value was determined by the value of R^2 . Coefficient of determination R^2 is the measure of proportions of the variance of a dependent variable about its mean which is explained by the independent or predictor variables (Hair,*et. al*, 1988). A higher value of R^2 indicates greater explanatory power of the regression equation. The results regarding this were summarized and presented in table 4.4.1 below.

Table 4. 10: Model summary of the effect compensation management practice on employee performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869 ^a	.755	.734	.15036
a. Predictors: (Constant), Contingent Pay, Grade Structure, Strategic Reward, Reward Policy				

Source: (Own survey result 2023)

The above table shows multiple regression coefficient represented by „R“= 0.869, shows that 86.9% relationship exists between dependent variable and independent variables. The coefficient of determination, „R Square“ = 0.755 shows that 75.5% of variation in employee performance is explained by the predictor variables jointly, while the remaining 24.5% could be due to the effect of extraneous variables. This result is in line with Rizwan and Ali, (2010); Schaufeki et al, (2002); Ali and Ahmed, (2009) and Entwistle, (1987), that compensation management practice is the predictor of employee’s performance.

4.4.2. Analysis of Variance (ANOVA) of the effect of compensation management practice on Employee performance

As stated by Dejene K. (2019), ANOVA was developed by the statistician Sir Ronald A. Fisher in 1918. ANOVA means that the total variance is divided in meaningful components to have a better idea how a particular object reacts to a change applied to it. ANOVA has two aims, to explain the relative contribution of each variable to the total amount of variability and to test the null hypothesis

The present researcher in this research produced the ANOVA model to determine whether the model used for research purpose is fit/appropriate or not. The result regarding this is summarized and presented in table 4.11 below.

Table 4. 11: ANOVA Model of effect of compensation management practice on employee Performance

ANOVA ^a				
Model		Sum of Squares	Mean Square	Sig.
1	Regression	3.975	.795	.000 ^b
	Residual	1.289	.023	
	Total	5.264		
a. Dependent Variable: EP				
b. Predictors: (Constant), MRS, RP, SR, GS, CP				

Source: (Own survey result 2023)

The study finding in ANOVA table 4.11 indicated that the overall regression model was significant, $P = 0.000$, which is less than $P < 0.05$, „R Square“ = 0.755. This implies that over all regression models is statistically significant, valid and fit. The valid regression model implied that all independent variables, taken as a set explained that there is a positive and significant relationship with dependent variable.

4.5. The Relationship between Compensation Management Practice and Employee Performance

The objective of the study was to investigate the relationship between Compensation Management practices (Reward policy, strategic reward, equal pay, grade structure, contingent pay and market rate system) and Employee Performance in case of EEPCCO hawassa District. Therefore, in this part of the chapter revealed the result of correlation between compensation management practices and employee performance, and its significance used in the study.

As explained in the previous section the independent variables of this study were Compensation Management practices such as Reward policy, strategic reward, equal pay, grade structure, contingent pay and market rate system, and dependent variable was employee performance. Pearson correlation coefficient is a technique used to measure the degree of association between two variables which may have any value between 1.0 and -1.0. The correlation coefficient is represented by r . Correlation can take on any value in the range $[-1, 1]$. The sign of the correlation coefficient indicates the direction of the relationship, while the magnitude of the correlation (how close it is to -1 or +1) indicates the strength of the relationship.

- -1: perfectly negative linear relationship
- 0: no relationship
- +1: perfectly positive linear relationship

The strength was assessed by this general guide, (which may vary by discipline): (Altman, 1990)

- $.1 < |r| < .3$... small / weak correlation
- $.3 < |r| < .5$... medium / moderate correlation
- $.5 < |r|$ large / strong correlation

Altman, 1990 if the value of r is 1, there is perfect positive linear (straight-line) relationship. If the value of r is -1, there is perfect negative linear relationship. The strength of association will be stronger as the value of correlation approaches to one while it will be weaker as the value of association approaches to zero

Table 4. 12 : Correlation matrix between Compensation Management Practices and Employee Performance.

		Correlations					
		Employee Performance	Reward Policy	Strategic Reward	Grade Structure	Contingent Pay	Market Rate System
Employee Performance	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	92					
Reward Policy	Pearson Correlation	.759**	1				
	Sig. (2-tailed)	.000					
	N	92	92				
Strategic Reward	Pearson Correlation	.596**	.641**	1			
	Sig. (2-tailed)	.000	.000				
	N	92	92	92			
Grade Structure	Pearson Correlation	.543**	.722**	.534**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	92	92	92	92		
Contingent Pay	Pearson Correlation	.655**	.716**	.635**	.684**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	92	92	92	92	92	
Market Rate System	Pearson Correlation	.561**	.668**	.538**	.587**	.740**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	92	92	92	92	92	92
**. Correlation is significant at the 0.01 level (2-tailed).							

Source: (own survey Result 2023)

Based on the result revealed in the above table 4.12, the sig. value „0.000“, shows that all compensation Management practices have significant relationship with Employee Performance, with $p < 0.05$, and the stars „**“ indicate the correlation is significant at 0.01 level. Correlation between Compensation Management practice and Employee Performance in EEPCO Hawassa district were discussed one by one in the following manner.

4.5.1 Employee Performance and Reward policy

Reward policy was found to have a significant positive relationship with employee performance at ($r = 0.759$) in EEPCO Hawassa District. This result coincides with Torrington, Hall & Stephen, (2008) and Armstrong & Stephens, (2005), Chen & Hsieh (2006). According to the above result, Reward policy has statistically strong positive relationship with employee performance.

4.5.2 Employee Performance and strategic reward

Strategic reward was also found significantly positively correlated with employee performance at ($r = 0.596$, $p = 0.000$) in EEPCO Hawassa District. There is statistically strong relationship. Many researchers concluded that Strategic management has strong positive relationship with employee performance, Bohlander et al, (200), Thomson & Rampton, (2003) and (Amos, 2004). The above result also revealed that there is strong positive relationship between strategic reward and employee performance in the organization.

4.5.3 Employee Performance and Grade Structure

The forth variable is Grade structure and it is significantly positively correlated with employee performance at ($r = 0.543$, $p = 0.000$) in the study organization. There is statistically strong relationship between Grade structure and Employee performance. This finding is supported by researchers Sandilyan et al, (2012), Mokaya et al, (2013), Wekesa & Nyaroo (2013) agree that grade structure provides promotion as a very strong motivation for employees to perform highly and the put it as super Compensation as it gives value to all the other Compensations. Based on the above result it was concluded that in EEPCO, South region, Hawassa District grade structure also has statistically strong relationship with Employee Performance.

4.5.4 Employee Performance and Contingent Pay

The another variable Contingent Pay and it is found to be significantly positively correlated with employee performance at ($r = 0.655$, $p = 0.000$) in the study organization. There is statistically strong relationship between Contingent Pay and Employee performance. Some researchers argue the system works very well with production plants where output is very tangible and quantifiable and with sales teams where volume of sales is easy to determine but not in the service industry (Freeman, 2011). But, based on the above result it was concluded that in EEPCO, South region, Hawassa District contingent pay has statistically strong relationship with Employee performance.

4.5.6 Employee Performance and Market Rate System

The last variable is market rate system and it is found to be significantly positively correlated with employee performance at ($r = 0.561$, $p = 0.000$). There is statistically strong relationship between market rate system and Employee performance. Researchers (Candy, Clark, & Harol, 2005), (Osterman, 2006), (Gebremedhin, 2014), argue that a Compensation at par with the competitors would keep the employees satisfied but not motivated or improve performance. This indicates employee can get par or labor market similar value or Compensation wherever they go in the qualification within the same industry. Based on the above result it was concluded that in EEPCO, South region, Hawassa District, market rate system has statistically strong relationship with Employee performance.

Therefore, in each case, the significance is below 0.05 thus one can say that the results from the sample are a true reflection of the entire population. This finding can thus be said to be true in EEPCO, South Region, and Hawassa District, there is high correlation between Compensation Management practices and employee performance.

4.6. Coefficients of Compensation Management Practices on Employee Performance.

As stated by Kotari, C., (2004) and Jullie, P., (2005), standard multiple linear regressions are used to explore the relationship between one continuous dependent variable and a number of independent variables or predictors, how it enables to get response on regarding how well a set of variables are able to predict a particular outcome and which variable in a set of variables is the best predictor of an outcome. Thus, the researcher implemented multiple regression analysis to examine the effect of Compensation Management practice on employee performance and the results were presented in table 4.6.: below, and these values substituted in the model equation

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6.$$

Table 4. 13: Coefficients of Compensation Management Practices on Employee Performance.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.502	.434		1.158	.252
	RP	.130	.040	.320	3.281	.002
	SR	.259	.118	.182	2.185	.033
	GS	.231	.103	.180	2.254	.008
	CP	.149	.052	.254	2.877	.006
a. Dependent Variable: Employee Performance						

Source: (Own survey result 2023)

The study used the values of unstandardized coefficient, B values to interpret and predict the increase in dependent variable due to a unit increase in each independent variable, and the standardized coefficients, Beta values, to compare the extent of the effect of each independent variable has on dependent variable.

Based on the above regression Table 4.11., The Regression Coefficient of Reward policy, β_1 value (.130) indicates a unit increase in Reward policy will lead to 13% increase of employee performance if the other variables are remaining constant. It implies Reward Policy has significant effect on the employee performance of EEPC, Hawassa District and. The „Beta” value (.320) indicates Reward policy has strongest effect on employee performance in the organization.

The Regression Coefficient of Strategic reward, β_2 value (.259) indicated that one-unit increase in Strategic reward will lead to 25.9% increase of employee performance if other variables are remaining constant. It implies that Strategic reward has significant impact on the employee performance of EEPCO, Hawassa District. The Beta value (.182) indicates Strategic reward has the second weakest effect on Employee Performance in the organization next to grade structure.

The Regression Coefficient of Grade Structure, β_4 value (.231) indicated that one-unit increase in Grade Structure will lead to 23.1% increase of employee performance if other

variables are held constant. It implies that Grade Structure has significant effect on the employee performance. The Beta value (.180) indicates Grade structure has the weakest impact on Employee Performance in the organization.

The Regression Coefficient of Contingent Pay β_5 value (.149) indicated that one-unit increase in Contingent Pay will lead to 14.9% increase of employee performance if other variables are held constant. It implies that Contingent Pay has significant effect on the employee performance of EEPCO, Hawassa District. The Beta value (.254) indicates Contingent pay has the second strongest effect on Employee Performance in the organization next to Reward policy.

The stepwise regression method excludes 5th independent variable (Market rate system) from the model, because of the significance level more than $P < 0.05$. It implies that the Market rate system has no the amount of unique variance it accounts for statistically significant impact on the employee performance of EEPCO, Hawassa District That means it has no amount of variance it contributes to employee performance which is unique to itself that the other independent variables did not explained.

Therefore, In the regression analysis using the coefficient of determination with the developed research model equation $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e$ the researcher arrived at the following results and conclusions; $Y = .502 + .130*X_1 + .259*X_2 + .149*X_3 + .231*X_4 + .149*X_5$ EP = .502 + .130*Reward policy + .259*Strategic reward + .149*Equal pay + .231*Grade structure + .149*Contingent pay. Unstandardized coefficient „B“ values are used here, because the constant „ β_0 “ is included. $Y = .502$, even when all the values of independent variables (X_1, X_2, X_3, X_4, X_5) are 0.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Introduction

The main objective of this study was to examine the effect of Compensation Management practice on employee performance of EEPCO Hawassa District. This chapter summarized and discussed the main findings obtained from each of the research questions. It also dealt with the conclusions that were derived from the analysis, as well as recommendations that can be implemented or used for future research.

5.1 Summary of major findings

- The objective of the study was to determine the effect of Compensation Management practice on employee performance in EEPCO Hawassa District.
- EEPCO The research used descriptive design. Researcher used simple random sampling method. Primary data was collected by questionnaire and face to face interview, while secondary data was collected by reviewing relevant documents of the organization. EEPCO
- The normality of data was calculated by SPSS version 20.0 software and when it was transformed and got normal, different statistical tests were applied on the data for analysis. Firstly, descriptive analysis was made and then correlation and regression was calculated between Compensation Management practices, such as Reward policy, Strategic reward, Equal pay, Grade structure, Contingent pay and Market rate system and employee performance.
- EEPCO The research also found out the order of priority given by the organization on the Compensation Management practices based on the rate to which each practice is applied. EEPCO Hawassa District used Strategic Reward, Grade Structure, Contingent Pay and Reward Policy as a Compensation Management practices to compensate its employees in that order of priority.

5.2 Conclusion

The study tried to examine the Compensation Management practices implemented in EEPCO, Hawassa District, analyzed the impact it has on the employee's performance, and determined the order of priority on the Compensation Management practices. The study found that the workers in case organization are good performers and the organization uses a Compensation Management practices such as Equal Pay, Strategic Reward, Grade Structure, Contingent Pay and Reward Policy. However, the organization used market rate system with less interest. The study also found that there is strong, significant and positive relationship between Compensation Management practices and employee performance, and each and every independent variable has the unique contribution to explain the dependent variable except the Market rate system

A comparison of the priority given to each Compensation Management practice and the correlation each practice has on employee performance indicated that the compensation management practices given higher priority by the organization have lower correlation to employee performance, but those practices with high correlation to employee performance are given lower priority by the organization. The items that the organization has concentrated on in its compensation management practices, such as Strategic Reward have a relatively low correlation with employee performance and weak effect, while those practices do not gate concentration, such as Reward policy and contingent pay have relatively high correlation and strong effect.

As indicated by Phillips and Fox (2003) for employee performance to be optimum, the compensation management practices must be blended in line with the magnitude of their impact on employee performance. The practices with the highest impact on employee performance should be given higher priority for the performance to be optimum. Therefore, one can say that the Compensation Management policy and practice used in EEPCO Hawassa District is fairly weak.

5.3 Recommendations

As the finding of this study indicated that Compensations have a positive impact on employee performance. However, no Compensation Management system is perfect, because motivation is personal and what motivates one employee could be different from what motivates the other this aims peoples do what they can do when they love to do it. Managers should work at all levels to find out what actually motivates individual employees most, so that the Compensation Management practice can be effectively applied to achieve enhanced performance. Based on the findings and the conclusions of this study, the researcher made the following recommendations:

- The organization should have to improve its reward policy and strategic compensation system to insure a Compensation for meeting each strategic objective as well as cumulative Compensations for meeting a series of objectives. This would therefore encourage the employees to perform better in a unified direction in order to meet the strategic objectives.
- The grade structure system used in the organization lacked clarity on the basis used on structuring the job groups. Therefore, it will be better if the job groups are arranged in a hierarchical structure, and employees also have better if their job groups indicated on their letters and pay slips to make them understand the differences in their Compensations. This would ensure the employees to be clear on promotion to the next job group to attain higher Compensations. If this is then pegged on performance, the employee performance will improve.
- The organization has poorly used the market rate system, but Compensations lower than that offered by the market would lower both employee satisfaction and motivation. Therefore, it will be better if the organization improves its pay and incentive systems according to industry pay Compensations, and it would be better if there be system in place to ensure the consistency of the practice.
- It is better if the organization adjusts its Compensations policy to ensure the priority given to the various Compensation Management practices are in line with the magnitude of impact the practice has on Employee Performance. Reward policy and contingent pay have been found to be very potent in motivating employees to put up better performance. It is better to work on these items to provide employees with adequate Compensating practice to facilitate the achievement of desired high productivity. The more efficiently an organization manages its Compensations practices, the better the employees will perform.

5.3 Future Area for Research

Compensation Management practice is not the only human resource management function which improves employee performance. The optimal employee performance depends on systematic and harmonized use of a number of techniques such as Compensation Management, on the job training, job enrichment, organizational restructuring and job redesign, and other Human Resource practices related to employee performance. To conduct in-depth analysis of more public and private organizations, to comprehend some other factors contributing towards the employee performance, is recommended. Future study should involve desirable mix of all the techniques for optimum employee performance.

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APPENDICES

Appendix 1; Research Questionnaire

HAWASSA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Dear respondents

I am a prospective graduate student of Hawassa University, doing a Masters of Business Administration, in human resource management and carrying out a research thesis on title of the impact of compensation Management practice on Employee Performance at Ethiopian Electric Utility (EEPCO), Sidama Regional state, Hawassa District. I have designed this questionnaire to collect data from employees. Therefore, you are kindly requested to spare some of your time to answer these questions aimed at obtaining responses about this research. The information collected will only be used for academic purpose and will be treated with utmost confidentiality.

If you are interested to have further information about this study or have any problem infilling this questionnaire you can contact me.

Gizachewu No'ora

Tel No. 0945853888

Thank you in advance for your cooperation.

General instruction

1. It is not required to identify yourself anyway, you all are not expected to write your name
2. Please answer all the questions because they are equally important for the completion of the study.

Part One: - Demographic information

Instruction: please answer by making a tick ☒ in the box provided.

1. SEX: - MALE ☐ FEMALE ☐
2. Age category 18-25 years ☐ 26-35 years ☐ 36-45 years ☐
45-55 Years ☐ above 56 years ☐
3. Education level; Below certificate ☐ Certificate/level I & II ☐
Diploma/level III ☐ Degree and above ☐
4. Work experience: - less than 5 years ☐ 5-10 years ☐ 11-15 years ☐
16-20 years ☐ above 20 years ☐
5. Marital status; married ☐ unmerited ☐ widowed ☐ divorced ☐
6. Monthly salary; less than 6000 ☐ 601-1,650 ☐ 1,651-3,200 ☐ 3,201-5,250 ☐
5,251-7,800 ☐ 7,801-10,900 ☐ above 10,900 ☐

Part Two: - Compensation Management

Instruction: Give your view on the following statement about Compensation management in your organization by making a tick (✓) in the space corresponds to your view. (1 = strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree).

Compensation management and policy	1	2	3	4	5
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1. Reward Policy					
The organization has a documented reward policy					
Employees are paid well in my organization					
The compensation of employees is systematic					
2. Strategic Reward					
The pay of employees depend on their performance					
Employees are rewarded based on management objectives					
The organization rewards in recognition of series of achievements.					
Each Strategic objective has a reward for being met					
3. Equal Pay					
The compensation of employees is within a very close range					
Employees in the same department get the same range of pay					
Employees of the same professional qualification get the same range of pay					
4. Grade Structure					
The employees are spread into job groups					
The job groups are based on professional qualification					
The job groups are based on experience					
Promotion to the next job group is based on performance					
Employees of the same job group earn similar rewards					
There are wide differences in reward across different job Groups					
5. Contingent pay					
The organization pays for overtime					
The organization pays special allowances where need arises such as mileage, airtime and night outs					
The organization has bonuses based on productivity					
The organization has incentives for the employees					
The organization gives additional benefits for its employees					
6. Market rate System					
The organization pays the employees higher than what the other organizations pay their employees					
The organization has more incentives for its employees than other organizations					
The organization has a system in place to ensure it rewards higher than the other organizations do					

Part Tree: Employee performance

Instruction: Give your view on the following statement about employees performance in your organization by making a tick () in the space corresponds to your view. (1 = strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = strongly agree).

Employees in my organization	1	2	3	4	5
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Serve diligently					
Serve with the needed speed					
Are sensitive to customer requirements					
Are understanding to customers and management					
Serve with fairness and justice					
Have team work					
Meet the desired targets					
Serve with a human face					
Are firm in their service					
Respond adequately to challenges faced by Customers					
Maintain high professionalism					
Maintain decorum and etiquette at all times					
Handle explosive situations calmly					
Are security conscious					

Appendix 2: Interview Questions

1. What are the main purposes of compensation in your organization?
2. What kind of evaluation criteria do you use in your organization to compensate your employees?
3. How do the employees in your organization serve their customers?
4. Would you recommend some additional statement that could be included in the compensation system?