

# **CHALLENGES OF REWARD MANAGEMENT**

A CASE OF UPPER AWASH AGRO INDUSTRY ENTERPRISE/UAAIE/

**BY: HAILEMARIAM KEBEDE**

**Submitted To:**  
**The School of Graduate Studies of Addis Ababa University; In Partial  
Fulfillment of The Requirements For The Degree of Masters' of  
Business Administration**

**ADVISOR - DR. ZEWDIE SHIBIRE**

የአድዲስ አበባ ዩኒቨርሲቲ  
የድህረ ገጽ ጥቅም  
የሰነድ ቤት  
የሰነድ ቤት

**June 2008  
Addis Ababa**

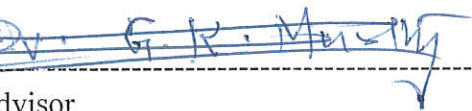
**Addis Ababa University  
School Of Graduate Studies**

**Challenges of Reward Management**

BY

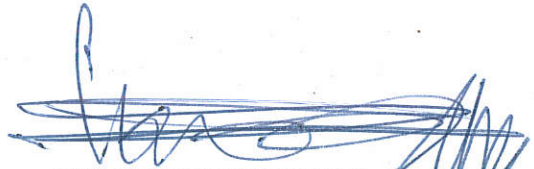
**HAILEMARIAM KEBEDE**

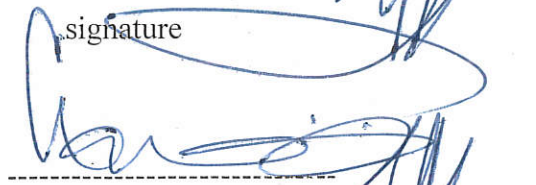
Approved by the board of examiners

  
-----  
Advisor

  
-----  
Internal examiner

-----  
External examiner

  
-----  
signature

  
-----  
signature

-----  
signature





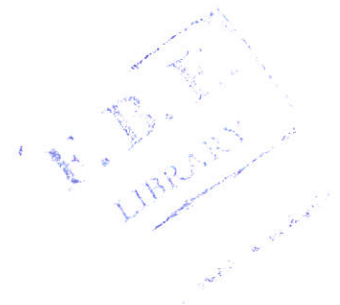
## List of Tables

Item	Descriptions	Page
Table 3.1	General information about the enterprise	42
Table 3.2	Non-cultivated land	43
Table 3.3	Topography	44
Table 3.4	Production capacity	48
Table 4.1	Reward philosophy and strategy	54
Table 4.2	Pay structure	57
Table 4.3	Performance management	60
Table 4.4	Reward procedures	63
Table 4.5	Job evaluation	67
Table 4.6	Variable pay	73
Table 4.7	Employee benefits	78
Table 4.8	Reward discriminations	81



## List of Figures

Item	Descriptions	Page
Figure 2.1	The impact of pay structure	40
Figure 4.1	Reward policy	56
Figure 4.2	Pay structure	59
Figure 4.3	Communication and involvement	65
Figure 4.4	Basic salary	69
Figure 4.5	Variable pay	75
Figure 4.6	Life insurance	77
Figure 4.7	Causes of Reward discrimination	82



## List of appendices

- Appendices 1      Questions designed for employees
- Appendices 2      Interview questions designed for managers



# Abstract

The main objective of this study was to find out what really matters when companies try to reward employees for the contribution they made. To select the sample respondents, random sampling method was used. This was done to give equal and non-zero chance for all and every elements of the target population. Questionnaire and interview were used as a major data collection tools. Fourteen employees, ten from each farm units were sampled. For interview purpose, a couple of managers from the different levels of the enterprise were also considered.

Generally speaking, the finding shows that majority of employees are not happy with the reward management practices and process of the enterprise. There is no written and formal reward philosophy and strategy and most decisions are made with out the involvement of employees. The pay structure is not coherent and logical with the entire organizational structure. Majority of employees are not happy with the amount of all types of rewards. Finally, the company is exercising severe discriminations in distributing and deciding on the type and size of financial rewards.

In deciding the variable payments, non-discriminatory system is used. The system gives credit for the annual performance of the enterprise not individual employees. This method becomes a reason for the conception of increasing number of free riders. However, the simple fact of the matter is, most best performed employees are become dissatisfied and they are not ready to exert their best.

## Table of Contents

Items	Page
Acknowledgment	I
List of tables	II
List of figures	III
List of appendices	IV
Abstract	V
<b>Chapter One</b>	
1.1 Background of the study	1
1.2 Statement of the problem	3
1.3 Objectives of the study	5
1.4 Methodology	6
➤ Target population	6
➤ Measurement	7
➤ Sampling design	7
➤ Data collection methods	8
1.5 Analysis	9
1.6 Limitation and delimitations	10
1.7 Significance of the study	11
1.8 Structure of the paper	12
<b>Chapter Two</b>	
<b>Literature review</b>	
2.1 The conceptual frame work	3
2.2 the components of a reward system	4
2.3 The elements of employee reward	14
2.4 Reward philosophy strategy and policy	17
2.5 Employees as stockholders	19
2.6 The aims of employees reward	20
2.7 Traditional approach to managing pay	27
2.8 Pay for performance and its challenges	29
2.9 Equal pay for work of equal value	32
2.10 Performance management	35
2.11 pay structure	39
<b>Chapter Three</b>	
<b>Company profile</b>	
3.1 Historical background	41
3.2 Location	42
3.3 Resources	43
3.4 Organizational structure	45

3.5 Capacity of processing	49
3.6 Export activities	50

## **Chapter Four**

### **Presentation and analysis of major findings**

4.1 Reward philosophy strategy and policy	53
4.2 Pay structure	57
4.3 Performance management	59
4.4 Reward management procedures	62
4.5 Communications and involvement	64
4.6 Pay determination/job evaluation	66
4.7 Employee basic salary	69
4.8 Variable pay	72
4.9 Benefits	76
4.10 Reward discriminations	80
4.11 Concluding remarks	83

## **Chapter Five**

### **Conclusion and recommendations**

5.1 Conclusion	85
5.2 Recommendation	87

### Bibliography

Annex 1

Annex 2

14. Is the structure defensible as being fair and equitable?  
 a. Yes  
 b. no
15. Does it enable the organization to manage internal and external relationships effectively?  
 a. Yes  
 b. no

**3. Performance management /ye sera kuteter/**

16 Is there a **performance management** system? If so:

- A. Is that owned by line managers?  
 Yes  
 no
- B. Is that helps in the process of managing expectation?  
 Yes  
 no
- C. Is that operates on the basis of performance agreements and plans and of regular feedback and reviews?  
 Yes  
 no
- D. Is that provides valid and acceptable data on performance as the basis of performance-related pay decisions?  
 Yes  
 no

**Instructions** – indicate on the scale below how strongly you agree or disagree with the statement

1. strongly disagree
2. disagree
3. either agree no disagree
4. agree
5. strongly agree

		1	2	3	4	5
17	My views were listened to when discussing the performance agreement.					
18	I receive regular and fair feedback from my manager on my performance throughout the year.					
19	The performance review meeting was positive-focusing on the future rather than dwelling on the past.					
20	I was given a good opportunity to express my point of view during the meeting.					

21	The feedback I got from my manager during the meeting was objective and fair.						
22	At the end of the review meeting I felt motivated to do even better next year.						
23	I know what is expected of me.						

**4. Reward procedures/ yekefiya hhidet/**

24. Are there clearly-defined and properly-operated procedures for conducting pay reviews and deciding on levels of pay?

- Yes
- no

25. To what extent are they modernized?

- low
- medium
- high

26. Has sufficient authority been devolved to line managers to deal with pay issues, without losing control?

- Yes
- no

27. The grade structure functions well

- agree
- disagree

**5. Communication and involvement/ asatafinet/**

28. Are reward policies and practices sufficiently 'transparent' - ie communicated clearly to employees?

- Yes
- no

29. Are employees involved in decision on key aspects of the reward system?

- Yes
- no

**6. Pay determination/job evaluation/tilk yeser behari gimgema/**

30. Is there a formal job evaluation/not performance appraisal/ scheme? If so:

A. Does it consistently and systematically measure relative values?

- Yes
- no

B. Are the factors representatives of the organization's values?

- Yes
- no

C. Is it measuring the right things (eg. Competences)?

- Yes
- no

D. Is it generating too much paper and/or taking up too much time?

- Yes
- no

E. Does it need to be substantially changed or replaced because it has decayed in some way or is no longer appropriate?

- Yes
- no

31. If not/for question 22/, are internal relativities illogical or difficult to defend?

- Yes
- no

32. Are market rates tracked thoroughly by reference to reliable survey data?

- Yes
- no

33. Are any inconsistencies between the need for internal equity and the need to be externally competitive identified and dealt with satisfactorily?

- Yes
- no

#### 7. Employees basic salary/werahwi demoz/

34. Are you satisfied with the monthly salary that the company is paying for you?

- yes
- no

35. Did you ever compare it with what others are paying for their employees?

- yes
- no

36. Is there a periodical increment for your monthly salary?

- yes
- no

**Instructions** – indicate on the scale below how strongly you agree or disagree with the statement

1. strongly disagree
2. disagree
3. either agree no disagree
4. agree
5. strongly agree



		1	2	5	4	5
37	I am properly paid for the work I do in relation to other people in the company					
38	Rates of pay in the company compare favorably with those paid elsewhere for similar jobs.					
39	I understand what the pay policy of the company is and how it affects me.					
40	I get full feedback on how I am doing from my manager/team leader.					
41	The job evaluation system for grading jobs is fair.					
42	I understand how decisions are made about my pay.					
43	Decisions about my pay are fairly and consistently.					
44	If I have any queries about my pay, they are answered fully and quickly.					
45	I feel that this company gives me good opportunity to take on extra responsibilities and thus earn more.					

**8. Variable pay/k demoz wech yalu kefeyawech/**

46. Is there any **performance-related pay** or other type of incentive scheme? If so, for any scheme:

A. Are rewards clearly related to performance?

- Yes
- no

B. Do employees feel that the basis for paying out rewards is fair?

- Yes
- no

C. Is there any evidence that the scheme does in fact motivate employees?

- Yes
- no

D. Is variable pay detrimental to quality or teamwork?

- Yes
- No

E. Is there any evidence of wage drift i.e. the tendency for the average level of wages actually paid to rise above wage rates through increases in overtime and other factors?

- Yes
- no

F. Is the operation of the scheme carefully monitored?

- Yes
- no

47. Is team pay being used where appropriate?

- a. Yes
- b. no

48. If so, do the arrangements generally accepted by workers?

- c. Yes
- d. no

49. Is effective use made of company-wide schemes such as profit-sharing and gain-sharing?

- e. Yes
- f. no

50. The performance-related pay/bonus/incentive schemes provide rewards which are clearly and fairly related to my performance.

- Agree
- Disagree

**Instructions** – indicate on the scale below how strongly you agree or disagree with the statement

1. strongly disagree
2. disagree
3. either agree or disagree
4. agree
5. strongly agree

		1	2	3	4	5
51	Performance of the workers are the only criteria that taken in to consideration in deciding the variable pay of the workers					
52	The variable pay system is highly exposed for the problem of job dissatisfaction and stress					
53	The incentive system help workers to attain their goals and objectives					
54	The variable pay system is damaging the cooperation of the workers					
55	The variable pay scheme is reducing the intrinsic drives					

**9. Employee benefits/tikimatikem/**

56. What kinds of benefits are available in your company?

- Medical benefits
- Retirement benefits
- Disability benefits
- Life insurance
- Paid Time Off
- Fringe benefits
- Other

57. Are these benefits sufficient to you?

- yes
- no

58. Is there a balance and cost-effective approach to the provision of employee benefits?

- a. Yes
- b. no

59. Are employees given a reasonable amount of choice on the type or scale of benefits they receive?

- c. Yes
- d. no

60. Did you ever compare this benefits with what other firms have for their employees

- yes
- no

61. if yes, is your company's benefits (pensions, sick pay, etc) larger and higher than others

- yes
- no

62. You would like more choice over the benefits you receive.

- Yes
- No

**10. Performance Appraisal/Yesera afetsa tem Gimgema/**

**Instructions** – indicate on the scale below how strongly you agree or disagree with the statement

1. strongly disagree
2. disagree
3. either agree no disagree
4. agree
5. strongly agree

		1	2	5	4	5
63	The criteria that the company use to measure the performance of employees is not under the control of the employees					
64	The appraisal criteria are highly subjective					
65	Raters/evaluators are not fair and independent					
66	The rating system of the enterprise is not reliable enough to measure the real performance of the employees					

**11. Discrimination/yekefeya medelo/**

67. Is there any kind of discrimination and segregation in determining and grading pay for employees?

- Yes
- no

68. If yes, what kinds of discriminations are there?

- gender
- ethnic background
- proximity
- other

69. Are you benefited from this?

- yes
- no

70. Who is responsible for this problem?

- top level mangers
- middle level mangers
- supervisors
- workers
- all

71. Anything about your company's reward discrimination

-----

-----

-----

-----

-----

-----

-----

-----



# Chapter One

## 1.1 Background of the study

As Michael Armstrong (2000) says, whether it is writing software code at BMC (*Meteor Burst Communications*) or designing memory chips at *Kingston-technology*<sup>1</sup>, employees are being rewarded more for their performance these days than for just showing up to work. Moreover, reward systems are quickly changing away from a model of entitlement and status to competence and performance. It is also discovering that as companies increase their use of performance based rewards, they face new challenges that may interfere with the objectives of employee motivation and commitment.

In today's world, financial rewards are a fundamental part of the employment relationship. Organizations distribute money and other benefits in exchange for the employee's availability, competence, and behavior. In most companies today, the pay system is one of the most important mechanisms that firms and managers can use to attract, retain and motivate competent employees. It also has a direct bearing on the extent to which labor costs detract from or contribute to business objectives and profitability.

From the employer's point of view compensation is the single most important cost component. Personnel costs are as high as 60% of total costs in certain manufacturing environment and even higher in some service organizations (Gomez 2001). This means that, the effectiveness with which compensation is

---

<sup>1</sup> A business organization found in the United States of America



allocated can make a significant difference in gaining or losing competitive edge. From employees point of view their paycheck is certainly important for their purchasing power. In most societies today, a person's earning also serve as an indicator of power, prosper, and are tied to feelings of self-worth.

*Gomez (2001 -p 365)*, said that all incentive systems have advantage and disadvantage. For instance bonus or pay rise given to individual employee are more motivating than some other incentives, because they allow employees to see how their personal contribution led to a direct reward. At the same time, they tend to create more internal competition, which leads to less cooperation. Bonuses given to teams or work units promote cooperation because they foster a sense of common interest but they also prevent individual employees from linking the reward to their own efforts and thus reduce the reward's motivational impact.

Incentive plans should provide for individual differences. People are complex and a variety of incentive system may have to be developed to appeal to various organizational groups ad individual. Not everybody will want to same type of incentives rewards, thus individual incentives system must be designed carefully. Even the best conceived pay for performance program can fail if managers have a poor history of labor relations or of the organization have a cutthroat culture. Under this condition, employees are not likely to relate rewards to good performance, but rather to chances or good impression. If an incentive program is to have a chance of succeeding, managers need to build-

employee trust, which may require making major changes in the organization's climate.

An old saying among compensation practitioner is: "acceptability is the ultimate determinate of success in any compensation plan. " when employees do not view a compensation program as legitimate; they will usually do whatever they can do to subvert the system from setting maximum production quotas for themselves to shunning coworkers who receive the highest rewards.

This project paper therefore is carried out in view of the fact that undertaking a research in the area can provide a useful insight regarding the challenge of the reward systems and their possible solutions in Upper Awash Agro Industry Enterprise.

## **1.2 Statement of the problem**

As it is known, most workers believe that those who work harder and produce more should be rewarded accordingly. If employees see that pay is not distributed as the basis of merit, they are more likely to lack commitment to the organization, decrease their effort and look for employment else where. Many employees profess to have a pay system based on performance, but relying performance appraisal information for making pay rewards assume that the appraisal is done well, and this is always the case, especially for employees whose work can not be measured easily.



Incentive system should be tied as much as possible to desired performance. Employees must see a direct relationship between their efforts and their rewards. Further both employee and managers must see the reward as equitable and desirable. Expectancy theory indicates that incentives are most effective when employees can see clearly that extra effort lead to increased performance and desirable rewards. Because people tend to produce what is measured and rewarded, it is important to make sure that what is being rewarded is really what is needed and that nothing important is being left out. In spite of this fact the problem of *credibility gap*<sup>2</sup>is become very critical. Some studies indicate that as many as 75% of a typical firms employees question the integrity of pay for performance plans. If employees don't consider the system legitimate and acceptable, it may have negative rather than positive effects on their behavior.

Because of the problems noted earlier, managers may shy away from using pay to reward performance. However, unless an organization creates an atmosphere in which performance makes a difference, it may end up with a low achievement organizational culture. In a sense, then, reward systems are the lesser of two evils because without them, performance may drop even lower.

In carrying out the study, therefore, attempts are made to address and seek answers for the following basic questions:

1. What are the basic challenges that manager's of UAAIE face in implementing and administering reward systems?

---

<sup>2</sup> The believe that incentive programs are not fair or that they are not truly reward performance.

2. What possible solutions are there to overcome these challenges?

### 1.3. Objective of the study

In every organization, properly designed reward system presents managers with an excellent opportunity to align employee interest with those of the organization. However this seldom happen, hence the central purpose of this study will be to identify the basic challenges that managers of UAAIE face in implementing reward system; then to forward possible solutions to meet these challenges. To this end, this paper has a few more specific objectives which are going to be obtained simultaneously with the general objectives; they are deemed to check

- ✓ Whether there are reward philosophy and strategy or not
- ✓ Whether the pay structure is coherent and logical or not
- ✓ Whether the base-pay, benefit packages and variable pays are satisfactory or not
- ✓ Whether the company involve employees in making decisions that affect rewards
- ✓ Whether the performance management scheme is sound and help in distributing equitable and fair pay or not
- ✓ Whether reward discrimination is a problem or not



## 1.4 Research Methodology

### ✓ Target Population

Since the study is concerned with identifying the possible challenges that the enterprise faces in rewarding employees, the primary target population was the employees of Upper Awash Agro Industry Enterprise /UAAIE/.

In addition, management staffs from the different level of the organization were asked about the challenges and problems they face in implementing and administering the reward system.

At the time of sampling and data manipulation, care was taken to avoid any kind of problem against the will of respondents, which includes the following

- Assuring that the respondent gives his or her consent to be included in the study.
- Assuring that the respondent has voluntarily agreed to participate.
- Assuring that the respondent is fully informed of his or her right not to participate and of any risks and /or benefits that might accrue from the study.

To avoid the problems of *non-response error*<sup>3</sup>, efforts were made to increase the response rate. Regarding the sampling frame error, the researcher were tried to make the source list or the framing as complete as possible, by including everyone and by making it up-to-date.

---

<sup>3</sup> A statistical error which could be occur when only a small proportion of the subjects responds,

- **Measurement**

In measuring variables (assignment of numbers) nominal and ordinal measurement scales were considered to be appropriate. For questions which deemed to have either yes or no responses, nominal scale were used, then, each participant or observation in the study were placed into one mutually exclusive and exhaustive category.

For questions designed with likert format, ordinal measurement scale was chosen to be appropriate. For instance, Number '1' is assign if they strongly disagree with a statement and number '5' if they strongly agree with a statement.

Since all research is plagued by the presence of confounding variables<sup>4</sup>, efforts were made to minimize it. Randomization processes was the best tool to tackle this problem. To this end, any decision that was made in the past years regarding the rewarding system was seriously analyzed.

- **Sampling design/methods**

Since sampling is critical to external validity<sup>5</sup>; it is believed that, sample has to be drawn from the targeted population according to one of several **probability sampling plans**. To ascertain the representative-ness of the sample to the general population, **stratified sampling methods** was used. First, the target population was divided or classified in to strata, or groups, on the basis of some

---

<sup>4</sup> The noise that covers up the information you would like to have,

<sup>5</sup> The extent to which findings of a study can be generalized to people or situations other than those observed in the study

common characteristics (farm-unit)<sup>6</sup>, after the classification is done every member of population was going to be found in one and only one stratum (farm-unit), then after, separate **random samples** were drawn from each stratum (farm-unit). From each of four farm units 10 employees were sampled and the total number of the sample was 40, which are around 13% of the target population. The target populations for this study are **permanent employees** of the enterprise which are around 311 in number. In addition, for the interview purpose, four managers from four farm-units were considered.

- **Data collection methods/instruments**

For this study, questionnaire and interview were the main data collection instruments. The questions for the questionnaire was designed in different formats, including **dichotomous format i.e.** a test or survey item that offers two alternatives for each item (e.g. yes/no), **polytomous format i.e.** a test or survey item with three or more alternative responses for each item (i.e. Multiple choice), and, **likert format i.e.** item that would indicate the degree of agreement with a particular attitudinal question or statement (e.g. *strongly disagree, disagree, neither disagree nor agree, agree, strongly agree*). Management bodies from the different levels of the enterprise were considered for interview purpose; especially those that have a lion share in decisions related to rewarding system were given a priority. For each of four managers three hours are taken to made interviews. Three consecutive days are used to contact with them.

---

<sup>6</sup> Independently organized agricultural units

After preparing the questions, they were pre-tested on a group of respondents. These groups were closed as possible to reflect the characteristics of the study sample. Based on the result of the pre-test the questionnaire was revised.

## **1.5 Analysis**

### **✓ Organizing and Coding Data**

Prior to data analysis, the collected data were organized in a format suitable for analysis. Since measurement is all about assigning numbers to observations, based on the measurement scale that was discussed earlier, numbers were assigned for each observation. After developing a coding scheme for each of the variables used in a research project, this information were compiled in a codebook. This codebook was served as a guide to translate the raw data in to an input device for later use in computerized statistical analysis. It can also be a reference for the principal investigator (researcher) and other researchers who wish to use the data set.

### **✓ Data Analysis and Interpretation**

The data analysis process was started with organization or representation of collected data in the form of statistical tables. To this end, statistical methods were employed to describe and make inferences about measurable characteristics of a large group. From statistical methods, descriptive statistics was used to describe and summarize data.

In addition to the statistical analysis, visual aids i.e. graph, and charts were used to present the data. Since graph enables the reader to compare or see the

trend of the distribution more vividly than simply looking at numbers in a frequency table, they are useful supplement to statistical analysis. To this end different types of graphs were used, which is commonly used to present data; bar, and pie charts were the most frequently used one.

### 1.6 Limitations and Delimitations

**Limitation-** This study might have potential weakness, which is partly because of the possible sources of error to which the research design exposed. The inherent problem in analysis, data collection instruments, and sampling design could be the basic source for these weaknesses.

- ✓ **Limitation in the Data Collection instruments:** Since, the study is highly relying on questionnaires, response and non-response error will affect the accuracy and the representative-ness of the data to the general population.
- ✓ **Limitation in the sampling design:** there will be a potential problem in preparing a source list or a sample frame; this in turn will affect the chance of all units in the population to have a known, equal and non-zero probability of being included in the sample.
- ✓ **Other limitations:** as usual, the shortage of resources like money, time, and computer hardware & software could have their own bearing on the quality of the studies.

**Delimitation (scope)** –the scope of this study is narrowed or bounded in identifying possible challenges of rewarding *financial incentives* like basic-

pay, incentives and benefits; thus *non-financial incentives*<sup>7</sup> are not a concern for this project paper. From the total number of workers which are found in the enterprise, only permanent employees were considered as a target population.

The methodological procedure that was used here is probability random sampling i.e. not non-probability sampling. The reason is to give equal, non-zero chance for each elements of the population, which in turn will have a direct impact on the representative-ness of the sample to the population

### **1.7 Significance of the Study**

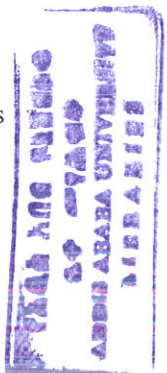
This study will have a paramount importance in *refining, revising, or extending* the existing knowledge in the areas under investigation. Note that such refinements, revisions, or extensions will have a substantive, theoretical, or methodological significance

This study will have two potential audiences: *Practitioners and professional peers*, both of these audiences will be the potential beneficiary. Practitioners will use the findings and recommendations to make better decisions in rewarding employees. The collected data and findings will help Professional peers to do better studies in the same area of investigation.

Finally, the enterprise could use the facts and recommendations as a potential input for decision-making in implementing and administrating rewards.

---

<sup>7</sup> Rewards /incentives which are not tangible and hardly measurable, like recognition, praise and considerations



## **1.8 Structure of the paper**

The paper is designed to have five chapters. In the first chapter introductory issues; like background, methodology, and, problem statement are discussed. In chapter two; related literatures which can be used as a benchmark for recommending and concluding the finding will be stated. Chapter three is designed to put the detailed profile of the enterprise including the structure, date of establishment, major products, and other related facts. The collected data are analyzed in the next chapter. Finally, in the fifth chapter, the findings of chapter four are concluded and concrete recommendations are forwarded.

## Chapter Two Literature Review



### 2.1. The Conceptual Framework

*Armstrong (2000 p-2)* said that, an employee reward system consists of an organization's integrated policies, processes and practices for rewarding its employees in accordance with their contribution, skill and competence and their market worth. It is developed within the framework of the organization's reward philosophy, strategies and policies, and contains arrangements in the form of processes, practices, structures and procedures which will provide and maintain appropriate types and levels of pay, benefits and other forms of reward.

### 2.2. The components of a reward system

A reward system consists of financial rewards (fixed and variable pay) and employee benefits, which together comprise total remuneration. The system also incorporates non-financial rewards (recognition, praise, achievement, responsibility and personal growth) and, in many cases, performance management processes. As *Armstrong (2000)* stated, the main components of the system are:

- *Processes for measuring the value of jobs*, the contribution of individuals in those jobs, and the range and level of employee benefits to be provided; these processes consist of job evaluation, market rate analyses and performance management.

- *Practices for motivating people by the use of financial and non-financial rewards*; the financial rewards consists of base and variable pay and employee benefits and allowances, and non-financial rewards are provided generally through effective management and leadership, the work itself, and the opportunities given to employees to develop their skills and careers.
- *Structures for relating pay and benefit levels to the value of positions in the organization and for providing scope for rewarding people according to their performance, competence, skill and/or experience.*
- *Schemes for maintaining the system and for ensuring that it operates efficiently and flexibly and provides value for money.*

### **2.3. The Elements of Employee Reward**

#### **Base pay**

R. Schuster (1992) said that, base (or basic) pay is the level of pay (the fixed salary or wage) that constitutes the rate for the job. It may provide the platform for determining additional payments related to performance, competence or skill. It may also govern pension entitlement and life insurance. The basic levels of pay for jobs reflect both internal and external relativities. The internal relativities may be measured by some form of job evaluation which places jobs in a hierarchy (although the trend now is to play down the notion of hierarchy in the new process-based organizations). External relativities are assessed by tracking market rates. Alternatively, levels of pay may be agreed through negotiation: by collective bargaining with trade unions or by reaching individual

agreements. The rate for a job is sometimes regarded as the rate for a competent or skilled person in that job. Such a rate may be varied in a skill-based or competence-based system according to the individual's skills or competence.

As Newman (1987) stated, levels of pay may be based on long-standing structures the origins of which are shrouded in the mists of time and which have been updated in response to movements in market rates and inflation, and through negotiations. In many organizations pay levels evolve- they are not planned or maintained systematically. Rates are fixed by managerial judgment of what is required to recruit and retain people. They may be adjusted in response to individual or collective pressure for increases or upgrading. This evolutionary and ad hoc process can result in a chaotic and illogical pay structure which is inequitable, leads to inconsistent and unfair decisions.

*Armstrong (2000)* expressed base pay as an annual, weekly or hourly rate. This is sometimes referred to as a time rate system of payment. Such systems are simple but they can be made more complex by the addition of various kinds of allowances such as overtime or shift payments. Time rates may be 'spot rates' i.e., comprising one rate for the job- or there may be a range of pay for each job grade in which progression takes place according to time in the job, performance, competence and/or skill. The rate may be adjusted to reflect increases in the cost of living or market rates by the organization unilaterally or by agreement with a trade union. Service-related, performance, skill-based or

competence-related pay increases may be added to, or 'consolidated' into, the basic rate, and these form the basis for pension contributions, sick pay, payment for overtime, and bonuses or profit shares when these are awarded as a percentage of base pay.

### **Contingent pay**

Additional financial rewards may be provided that are related to performance, skill, competence and/or experience. These are referred to as 'contingent pay'. If such payments are not consolidated into base pay, they can be 'pay at risk', as in *the CBI/Wyatt survey (1993)*. For example, the pay of sales representatives on a 'commission - only' basis is entirely at risk. The main types of contingent pay are:

- *individual performance related pay* - in which increases in base pay or cash bonuses are determined by performance assessment and ratings (also known as merit pay)
- *bonuses* - rewards for successful performance which are paid as cash (lump) sums related to the results obtained by individuals, teams or the organization
- *Incentives* - payments linked with the achievement of previously - set targets which are designed to motivate people to achieve higher levels of performance; the targets are usually quantified in such terms as output or sales.
- *Commission* - a special form of incentive in which sales representatives are paid on the basis of a percentage of the sales value they generate

- *Service - related pay* - which increases by fixed increments on a scale or pay spine depending on service in the job; there may sometimes be scope for varying the rate of progress up the scale according to performance.
- *competence-related pay*- which varies according to the level of competence achieved by the individual
- *contribution-related pay*- which relates pay to both outputs (performance) and inputs (competence)
- *Career development pay* - which rewards people for taking on additional responsibilities as their career develops laterally within a broad grade (a broad-banded pay structure).

### **Employee benefits**

Employee benefits, also known as indirect pay, include pensions, sick pay, insurance cover and company cars. They comprise elements of remuneration additional to the various forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual holidays. *Griffin and Denisi (2005)*

### **2.4 Reward Philosophy, Strategy and Policy**

Reward philosophy represents the broad values and beliefs that an organization holds about rewards. It specifies the assumptions which underpin the reward system and determine its form. It shapes the way strategies and policies are developed and implemented in the form of practices and procedures. *Armstrong (2000)*

*Schuster and Zingheim (1992)* stated that, reward strategy directs pay programs to what the organization wants to achieve. It is a declaration of intent as to how the organization is going to put its reward philosophy into practice. It provides a broad perspective on how critical reward issues will be addressed. Strategies should be distinguished from plans. A strategy indicates the direction in which the organization wants to go in developing its reward processes and structures. A plan spells out how it is going to get there. A plan may include, for example, specified programs or projects to develop new job evaluation processes, new methods of payment, or different types of pay structure. These programs are designed to achieve the strategic reward objectives. Reward policy indicates how reward processes should be designed and managed within the context of the reward philosophy. It provides guidelines for line managers and personnel or pay specialists on how particular and recurring reward issues should be dealt with. It enables consistent decisions to be made where appropriate while recognizing the need for flexibility and the perils of rigidity.

The integration of reward and other personnel and development processes is equally important. This is sometimes called 'bundling' the processes of bringing all HR- policies and processes together so that they form a coherent and mutually reinforcing whole. To facilitate integration it is important to treat reward as part of the total approach to managing and developing people. It should not be regarded as a separate entity. Reward management cannot take place in isolation from people development and other business and personnel

management processes. Frequently, new reward structures and systems are developed to fit or support a new organizational structure or following a business process re-arranging exercise. *Schuster and Zingheim (1992)*

## **2.5 Employees as stakeholders**

*According to Armstrong (2000)*, another recurring concept here is the need to treat employees as stakeholders- people who have a legitimate claim to share in the prosperity of the organization and to be involved in decisions affecting their pay and other terms and conditions of service. This implies the generation of a climate of mutual trust.

The Institute of Personnel and Development's (IPD) statement *People Make the Difference* (1994) made the point that much has been done in recent years to introduce a sense of reality into employee relations. According to the IPO:

*Managers should no kid themselves that acquiescence is the same thing as enthusiastic involvement. The pace of life and changing work patterns in the future will put a strain on the best of relationships between employees and managers.*

The IPD suggested that building trust was the only basis on which commitment might be generated and the tensions contained. For these reasons, attaining or sustaining world-class levels of performance will be increasingly unlikely in organizations that do not treat their employees in ways which are consistent with their status as the key business resource. This means that:

- Employees cannot be treated just as a factor of production.

- Organizations must translate their values into specific and practical action. In too many organizations inconsistency between what is said and what is done undermines trust, generates employee cynicism and provides evidence of contradictions in management thinking. The formulation of reward strategies and policies must take account of the need for trust and the need for integration.

## **2.6 The Aims of employee reward**

### **The organization's requirements**

As *Shuster (1994)* stated a reward system expresses what the organization values and is prepared to pay and provide non-financial rewards for. It is governed by the need to reward the right things to convey the right message about what is important. The basic philosophy is that people should be rewarded for the value they create.

As *O'Neal (1994)* points out: 'Pay is a function of the work system it supports ... Pay systems will need to support the development of intellectual capital, universal use of information technology, strategic alliances, continuous learning, and employee populations that come and go'.

### **Overall aim**

The overall aim of employee reward is to support the attainment of the organization's strategic and shorter-term objectives by helping to ensure that it has the skilled, competent, committed and well-motivated workforce it needs. This means providing for the continuing improvement of individual, team and

therefore organizational performance, and taking steps that contribute to the creation of added value and the achievement of competitive advantage. *O'Neal (1994)*

As *Lawler (1990)* has noted:

The challenge is to develop pay programs that support and reinforce the business objectives of the organization and the kind of culture, climate and behavior that are needed for the organization to be effective. He also made the important point that 'Pay practices are only as good as the impact they have on organizational effectiveness.'

It has been emphasized by *Schuster and Zingheim (1992)* that 'People are the principal variable in organizational success.' Pay programs should aim to accomplish the following organizational objectives:

- To make excellent performance financially worthwhile
- To communicate to satisfactory performers the importance of acceptable and better performance
- To communicate to less-than satisfactory performers the need to improve.

### **Contribution to added value**

In accounting language, added value is the difference between the income of the business arising from sales (output) and the amount spent on materials and other purchased goods and services (input). In more general terms, it is the development and use of any resource in such a way as to ensure that it yields a substantial and sustainable higher return on whatever has been invested in it.

Added value often means the creation of more out of less, and an increasingly popular index of overall organizational performance is added value per of employment costs.

Added value is generated by people. It is people at various levels who create visions, define values and missions, set goals, develop strategic plans, and implement those plans in accordance with the underpinning values. Added value will be enhanced by anything that is done to obtain and develop the right sort of people, to motivate and manage them effectively, to gain their commitment to the organizations values, and to build and maintain stable relationships with them based on mutual trust.

Employee reward contributes to the creation of added value by helping to ensure that people with the required competencies and levels of motivation are available, and by playing a part in creating a culture and environment that stimulate high-quality performance. *Schuster and Zingheim (1992)*

### **Contribution to competitive advantage**

Sustainable competitive advantage as formulated by *Porter (1985)* arises when a firm creates value for its customers, selects markets in which it can excel, and presents a moving target to its competitors by continually improving its position. According to Porter, three of the most important factors are innovation, quality and cost leadership, but he recognizes that all these depend on the quality of an organization's advantage is crucial to a business's growth and prosperity. *Newman (1987)*

Unique talents among employees, including superior performance, high productivity, flexibility, innovation, and the ability to deliver excellent personal customer service are ways in which people provide a critical ingredient in the development of the competitive position of a business. People are also the key to managing the pivotal interdependencies across functional activities and important external relationships. It can be argued that one of the benefits arising from competitive advantage based on the effective management of people is that such an advantage is hard to imitate. An organization's personnel strategies, policies and practices are a unique blend of processes, procedures, personalities, styles, capabilities and organizational culture. One of the keys to competitive advantage is the ability to differentiate what the business supplies to its customers from what its competitors offer. Such differentiation can be achieved by having better-quality people. Employee reward practices can make an important contribution to getting and keeping such people and to providing them with the incentives which will motivate them to achieve higher levels of performance.

### **Management and reward**

An organization's performance depends ultimately on the quality of its management and employees, and the reward system can help to improve that quality. But the improvement of organizational effectiveness cannot be left to the reward system along; the culture, values and management style of the organization, together with its performance management and employee



development programs, are equally important. Reward systems, however well conceived and effective, are no substitute for good management.

### **Rewards aims from the organization's point of view**

According to *Armstrong (2000)*, from the organization's point of view, the specific aims of employee reward are to:

- Help to attract, retain and motivate high-quality people
- Play a significant part in the communication of the organization's values, performance, standards and expectations
- Encourage behavior that will contribute to the achievement of the organization's objectives and reflect the 'balanced score-card' of the key performance-drivers of customers, finance, processes and people- two of the basic questions to be answered when developing reward systems are 'What sort of behavior do we want?' and 'How can reward processes promote that behavior?'
- Underpin organizational change programs concerned with culture, process and structure
- Support the realization of the key values of the organization in such areas as quality, customer care, teamwork, innovation, flexibility and speed of response
- Provide value for money: no reward initiative should be undertaken unless it has been established that it will add value, and no reward practice should be retained if it does not result in added value.

### **Reward aims from the employees' point of view**

From the employees' point of view the reward system should:

- Treat them as stakeholders who have the right to be involved in the development of the reward policies that affect them
- Meet their expectations that they will be treated equitably, fairly, and consistently
- Be transparent - they should know what the reward policies of the organization are and how they are affected by them.

It is sometimes said that to achieve these aims an organization's pay practices should be 'internally equitable and externally competitive'. This is all right as far as it goes, but it is not always easy to attain and it represents a somewhat limited point of view. The first problem is that the goals of internal equity and external competitiveness are often hard to reconcile. The pressure of market forces may overcome internal equity considerations when people with scarce talents have to be recruited. On the other hand, a crude wish to be competitive may be inappropriate. As *Schuster and Zingheim (1992)* point out: 'The competitive pay should be contingent upon providing a level of work quality, productivity, or performance which must justify pay levels that reflect expected reasonable goal performance.' Competitive pay should be linked with competitive performance.

### **Achieving the aims**

As *Lawler (1990)* stated, the employee reward system will achieve its aims if:

- It adopts a strategic approach that is aligned to the business and HR strategies and is congruent with the culture of the organization
- Reward policies and processes are modified in accordance with the changing need of the business
- Employees are valued according to their contribution, skill and competence
- The reward system is transparent and employees are treated as stakeholders who are entitled to make representations on any area of reward that affects interests and who will be involved in the development of reward processes
- Employee relations strategies are designed to build mutual trust and to develop a partnership approach which provides for increases in prosperity to be shared with all employees (not just the favored few at the top)
- Reward policies emphasize the need for equity, fairness and consistency while recognizing that the ideal of internal equity may not be sustainable in full because of market pressures
- Maximum freedom is devolved to line managers to manage the reward system within their budgets are in accordance with abroad policy guidelines
- There is a constant thrust to maximize the performance leverage of any money spent on pay
- Reward initiatives are taken only when their interaction with other business and personnel policies has been assessed, and an integrated approach adapted to the development of mutually supportive processes.

## **2.7 Traditional approaches to managing pay**

*Armstrong (2000)* notes out that, the traditional approach to managing pay in the 1960s and 1970s embraced all the processes which were incapable to meet the expectations of the employees. But in line with typical personnel management practices of the time it did not recognize the strategic elements and failed to integrate pay with other personnel processes. It also ignored the total approach to reward management which has emerged in the 1990s and which emphasizes the significance of performance management rather than conventional appraisal schemes and the need to pay as much attention to non-financial as to financial rewards.

Salary administrative, as it used to be called, placed pay in a subordinate role. Salary administrators, if they existed at all, policed the system, ensuring that everyone adhered to rigidly defined procedures for grading jobs and progressing pay. Line managers did what they were told. As their title indicates, salary administrators were concerned only with white-collar staff. The pay of manual workers was left to industrial relations officers, work-study engineers and rate-fixers.

However, as *Schuster and Zingheim (1992)* remark, 'traditional pay practice was not unplanned or poorly directed'. It emphasized the need to 'attract, motivate and retain' employees but the focus was on 'competitive attributes rather than on the more important strategic or tactical issues'.

Traditional pay practices understandably reflected how organizations were structured and managed. They tended to be bureaucratic and geared to extended hierarchies and vertical communication systems the organizational 'chimneys' largely separate from other organizational chimneys. Progress up the hierarchy was largely by regarding and, frequently, by means of fixed increments within grades or a pay spine.

Job evaluation concentrated on measuring job size, so that jobs could be slotted into an appropriate grade in the hierarchy and job-holders could be upgraded if they were promoted to a job with a higher points rating. Job evaluation schemes were often complex, rigid, administratively cumbersome and paper-intensive. The emphasis was on managing internal relativities and on jobs that were defined by means of elaborate and lengthy descriptions. The focus was on jobs rather than on people. The need for pay to be competitive was, of course, recognized, but market-rate pressures were regarded as unwelcome intrusions, and if the organizations had to bow to such pressures, jobs were 'red-circled' to indicate that they were exceptions to the rule.

Employee benefits - 'fringe benefits', as they were known tended to proliferate, often so as to avoid income tax. Little attempt was made to get value for money, and the system was administered rigidly. Everyone got what management felt they ought to get. There was no choice.

During the 1980s some elements of this traditional approach were changing in many organizations. Incremental pay structures were largely abandoned in the



private sector and performance-related pay (PRP) suddenly becomes popular. The government of the day discovered PRP like religion and sought to impose it on the public sector in the naive belief that it invariably improves performance and transforms everyone into entrepreneurs overnight. The entrepreneurial 1980s were, of course, the decade of greed, when the ultimate answer to motivation, transformation and success was money through PRP, share options, and so on. It was a decade characterized by Gordon Gekko, in the film *Wall Street*, whose creed was that 'greed was good'. It harked back to Jonas Chuzzlewit, whose education, as described by Dickens (1844), 'had been conducted from the cradle on the strictest principles of the main chance. The very first word he learnt to spell was 'gain' and the second (when he got into two syllables), 'money'.

There were also movements towards more flexibility in managing pay and benefits, and some organizations began relating shop-floor pay to skill levels. Traditional job evaluation schemes were attacked by *Lawler (1990)* and others as unsuited to the new flexible and de-layered organizations and inappropriate for the knowledge workers increasingly employed in high-technology industries.

## **2.8 Pay for performance: the challenges**

As *Gomez (1999 p-394)* stated, one important element of an employee's level of contribution to the company is the job he or she holds. Employees with more responsible positions generally make greater contribution to the organization, which is why they receive higher levels of pay.

Pay for performance system reward employee performance on the basis of three assumptions.

- ✓ Individual employees and work teams differ in how much they contribute to the firm not only in what they do. But also in how well they do it
- ✓ The firms overall performance depends to a large degree on the performance of individuals and groups within the firm
- ✓ To attract, retain and motivate high performers and to be fair to all employees, a company needs to reward employees on the basis of their relative performance.

These assumptions seem straightforward and acceptable. However, it is widely recognized that incentive systems can create negative consequences for firms. According to Gomez (1999 p-395) the following are the basic challenges that the firm face in implementing the pay for performance system.

### **The 'Do what you get paid for' syndrome**

To avoid the charge that pay is distributed on the basis of subjective judgments or favoritism, pay for performance system tend to rely on objective indicators of performance. This may lead some managers to use whatever objective data are available to justify pay decisions because doing so lets them explain judgment calls to subordinates. Unfortunately, the closer pay is tied to particular performance indicators, the more employees tend to focus on those indicators and neglect other important job components that are more difficult to measure.

*As Gomez (1999 p-394)*

### **Lack of control**

Employee often can not control all of the factors affecting their performance. Some examples of factors that are beyond an employee's control are the supervisor, performance of other work group members, the quality of the material or product the employee is working with, working conditions, and the amount of support from management. Linking pay to performance in such a situation is inequitable and demoralizing. As Gomez (1999 p-394)

### **Difficulties in measuring performance**

Assessing employee performance is one of the thorniest tasks a manager faces, particularly when the assessment is used to dispense rewards. At the employee level, the appraiser must try to untangle individual contributions from those of the work group while avoiding judgments based on a personality bias, likes and dislikes, and political agendas. At the group or team level, the rater must try to isolate the specific contributions of any given team when all teams are interdependent. In short accurate measures of performance are not easy to achieve and trying pay to inaccurate measures is likely to create problems. As Gomez (1999 p-394)

### **Physiological contracts**

Once implemented, pay-for-performance system creates a psychological contract between the employee and the firm. This is a set of expectations based on prior experience, and it is very resistant to change. Several factors account for this resistance: fear of unknown, perceived threats to self interests, distrust of

management, and the existence of powerful groups within the firm that prefer to do things as they have been done in the past. As Gomez (1999 p-394)

### **The credibility gap**

Employees often do not believe that pay for performance programs are fair or that they truly reward performance, a phenomena called the credibility gap. Some studies indicate that as 75% of a typical firms employees question the integrity of pay for performance plans. If employees do not consider the system legitimate and acceptable, it may well have negative rather than positive effects on their behavior.

### **Job dissatisfaction and stress**

Pay for performance system may lead to greater productivity but lower job satisfaction. Some research suggests that the more pay is tied to performance, the more the work unit begins to unravel and the more unhappy employees become. As Gomez (1999 p-394)

## **2.9 Equal pay for work of equal value**

### **Way discrimination takes place**

As Armstrong (2000) has stated: historically it has been generally accepted by men in mans world that women's place was in the home, unless they were needed to carry out menial and therefore underpaid jobs. Women's work has been undervalued because of low rates of pay. The entry of women into the professions in the ninetieth century and pressures for women's rights in the twentieth heralded a very gradual change in this climate of discrimination.

It seems that historical attitudes about the fundamental values of women compared with men continue to exert a powerful influence on relative rates of pay. This means that women tend to be concentrated in lower paying jobs, a problem aggravated by the relative lack of training opportunities for women's. Undoubtedly this because the work undertaken by women has been insufficiently recognized.

### **Discrimination in job evaluation**

Clearly the first thing to do when attempting to eliminate discrimination is to look at the scheme itself. But, the way in which the scheme is implemented can discriminate, especially when organizations simply install off-the-shelf schemes which appear to be non-discriminatory, and then proceed to allow grading and pay decisions to be made which continue to be gender based. Both these issues need to be considered.

### **Discriminatory pay structures**

As Armstrong (2000) stated, pay structure can be discriminatory in the following ways

- ✓ The grade boundary lines in a multi-graded structure are based purely on judgments which may simply reinforce existing inequalities
- ✓ Generic job descriptions take insufficient account of significant differences between male and female roles
- ✓ An analytical job evaluation scheme is not used to define grades or allocate jobs to grades-whole jobs are slotted in to a graded, broad-banded or

job family structure by a process of internal benchmarking which could simply perpetuate existing discrimination

- ✓ Benchmarking jobs do not fairly represent the distribution of male and female jobs
- ✓ Market related pay levels and differentials produced marketplace gender discrimination and do not take account of internal relativities

### **Minimizing other types of discrimination**

Eliminating unequal pay because of racial discrimination is more a matter of developing and implementing an equal opportunity policy and operating the evaluation scheme without bias than of the design of the scheme itself. Clearly, Segregation and prejudice are most likely causes of discrimination, and they can be removed only if there is a policy for ensuring equal opportunities in employment, promotion and training and if the policy is under printed by a continuous program of education and training. *Gomez (2000)*

### **Auditing equal pay**

According to *Flood C. and Gannon G. (1995)*, Equal pay audits should be carried out regularly in order to ensure that

- ✓ The job evaluation scheme remains free of bias and properly reflects the type and levels of work
- ✓ New jobs are properly evaluated and graded without bias
- ✓ Evaluations are made purely on job content without reference to the sex of job-holders or historical position in the pecking order.

- ✓ Evaluations are updated to reflect changes in jobs
- ✓ Sex bias has not crept in to evaluations and grading
- ✓ The allocation of jobs to grades or bands does not indicate bias
- ✓ Jobs which appear to be paid unequally for work of equal value are identified and action taken to remove unjustified inequalities

## 2.9. Performance management

Performance management is the systematic process by which an organization involves its employees, as individuals and members of a group, in improving organizational effectiveness in the accomplishment of organization mission and goals.

Note: the reference for this literature is found at the bottom of this page<sup>8</sup>

Employee performance management includes:

- **Planning** work and setting expectations,
- Continually **monitoring** performance,
- **developing** the capacity to perform,
- Periodically **rating** performance in a summary fashion, and
- **rewarding** good performance



---

<sup>8</sup> <http://www.opm.gov/perform/overview.asp>

### Planning

In an effective organization, work is planned out in advance. Planning means setting performance expectations and goals for groups and individuals to channel their efforts toward achieving organizational objectives. Getting employees involved in the planning process will help them understand the goals of the organization, what needs to be done, why it needs to be done, and how well it should be done. The regulatory requirements for planning employees' performance include establishing the elements and standards of their performance appraisal plans. Performance elements and standards should be measurable, understandable, verifiable, equitable, and achievable. Through critical elements, employees are held accountable as individuals for work assignments or responsibilities. Employee performance plans should be flexible so that they can be adjusted for changing program objectives and work requirements. When used effectively, these plans can be beneficial working documents that are discussed often, and not merely paperwork that is filed in a drawer and seen only when ratings of record are required.

### Monitoring

In an effective organization, assignments and projects are monitored continually. Monitoring well means consistently measuring performance and providing ongoing feedback to employees and work groups on their progress toward reaching their goals. Regulatory requirements for monitoring performance include conducting progress reviews with employees where their performance is compared against their elements and standards. Ongoing

monitoring provides the opportunity to check how well employees are meeting predetermined standards and to make changes to unrealistic or problematic standards. And by monitoring continually, unacceptable performance can be identified at any time during the appraisal period and assistance provided to address such performance rather than wait until the end of the period when summary rating levels are assigned.



In an effective organization, employee developmental needs are evaluated and addressed. Developing in this instance means increasing the capacity to perform through training, giving assignments that introduce new skills or higher levels of responsibility, improving work processes, or other methods. Providing employees with training and developmental opportunities encourages good performance, strengthens job-related skills and competencies, and helps employees keep up with changes in the workplace, such as the introduction of new technology.

Carrying out the processes of performance management provides an excellent opportunity to identify developmental needs. During planning and monitoring of work, deficiencies in performance become evident and can be addressed. Areas for improving good performance also stand out, and action can be taken to help successful employees improve even further.

### Rating

From time to time, organizations find it useful to summarize employee performance. This can be helpful for looking at and comparing performance over time or among various employees. Organizations need to know who their best performers are. Within the context of formal performance appraisal requirements, rating means evaluating employee or group performance against the elements and standards in an employee's performance plan and assigning a summary rating of record. The rating of record is assigned according to procedures included in the organization's appraisal program. It is based on work performed during an entire appraisal period. The rating of record has a bearing on various other personnel actions, such as granting within-grade pay increases and determining additional retention service credit in a reduction in force.

### Rewarding

In an effective organization, rewards are used well. Rewarding means recognizing employees, individually and as members of groups, for their performance and acknowledging their contributions to the agency's mission. A basic principle of effective management is that all behavior is controlled by its consequences. Those consequences can and should be both formal and informal and both positive and negative.

Note: This literature is cited from the website found at the bottom of the page<sup>9</sup>

---

<sup>9</sup> <http://www.opm.gov/perform/overview.asp>

## **2.10 Pay structure**

Newman (1987), said that, in a classic article on pay structure, Livernash asserts that employees desire fair compensation. He stated that employees judge the fairness of their pay through comparison with the compensation paid other jobs related in some fashion to their own jobs. Such interrelated job he called job cluster. Accordingly the criteria for assessing the internal pay structure is its acceptability to the employees involved. Effectiveness of the pay structure is depends on employees acceptance.

Since employee judgments about pay structure are so important, we need to understand how employees make these judgments. The exhibit below show the main determinates of whether an employee is likely to perceive pay for a job as being equitable. The model, adapted from the distributive justice and inequity models, shows that employees judgment s about equity are based on comparison. a pay structure will be perceived as equitable or inequitable depending on whether the pay for job A compared to its requirements (education, experience,), the work performed (task, behaviors, working conditions), and he value of contributions (to organization objectives and /or consumers) is congruent with the pay for the job B relative to its requirements, work performed, contributions, and so on, through all jobs in the structure.

Exhibit 2.1  
Perceived equity of a pay structure

$$\frac{PayA}{Qa, Wa, Pa} \text{ compared to } \frac{PayB}{Qa, Wa, Pa} \text{ compared to } \frac{PayC}{Qc, Wc, Pc} \text{ etc.}$$

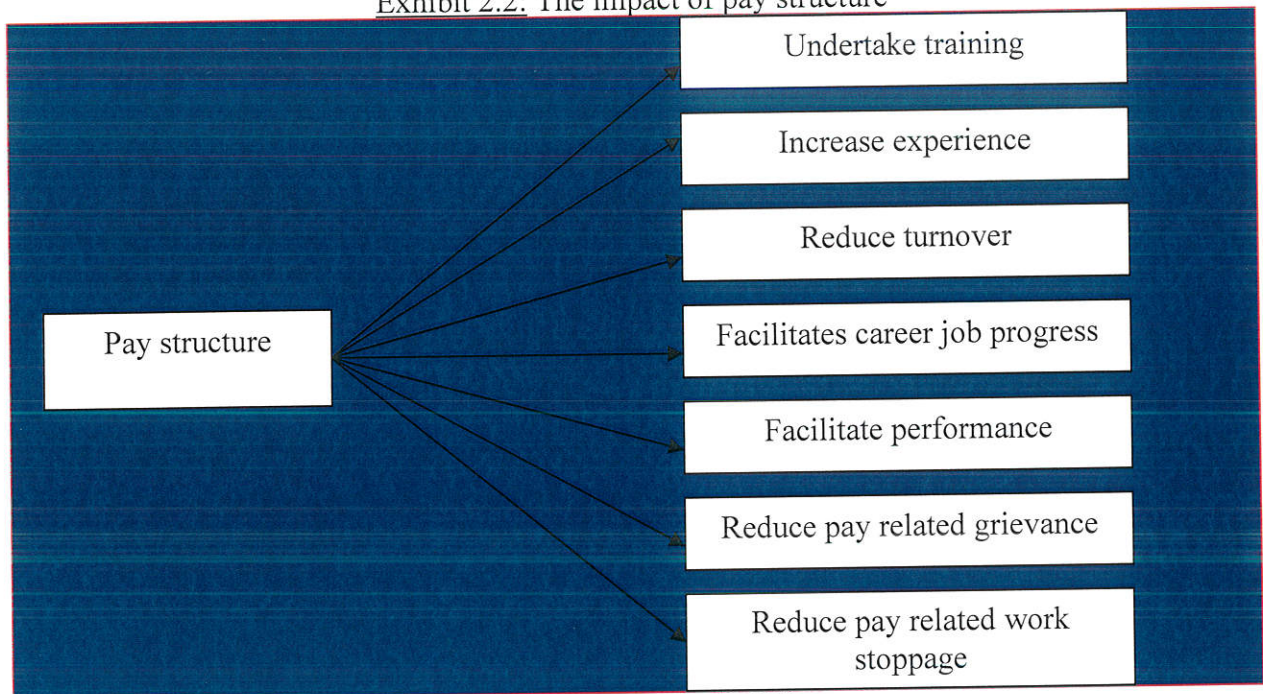
Where

*Q* = qualifications  
*W* = work performed  
*P* = product value

**Pay structure and work behavior**

In the compensation literature, the pay structure is said to be related to every thing from employee performance to strikes. Several writers argue that employees' judgments about the fairness of the pay structure affect their work behaviors. The following exhibit suggests some consequences of pay structure.

Exhibit 2.2: The impact of pay structure



Source-Newman (1987)

## **Chapter Three**

# **Profile of the Enterprise**

### **3.1 Historical Background and General Information**

The foundation of the four farms, which are currently organized under the enterprise, dates back to the regime of Atse H/ Selassie. They had been established by local and foreign investors, which were then owned by local and foreign investors, than nationalized by the socialist government of the Dergue<sup>10</sup> in 1974.

In 1979/80 the four farms were reorganized under a state owned enterprise by the name Nura- Era Agricultural Development Enterprise (NADE) under the direct responsibility of the Ex- Horticultural Corporation under the Ministry of State Farms. In 1982 the Merti Fruit and vegetable processing plant was also established under the enterprise. After the collapse of the Dergue regime, the Enterprise was re- established by the name Upper Awash Agro Industry Enterprise (UAAIE) on November 19/1993. Currently after the transfer of Awash Melka farm to HVA sugar company April 9/2007, the enterprise manage's three farms namely, Tibila, Nura-Era and Merti-Jeju farms and one fruit and vegetable processing factory.

UAAIE is found on the citrus-belt of the world. It is the biggest producer of fresh vegetables and tropical and sub- tropical fruit and processed fruits and vegetable. It also produces a variety of cereals, fiber crops (cotton), cut flowers

---

<sup>10</sup> A political party ruled Ethiopia between the years 1974 - 1991

seeds and others for local and foreign markets. Moreover, the Enterprise is the only source of parent planting materials for citrus and is a pioneer in modern commercial horticulture farming in the country.

The cropping pattern has gone through several changes and it was during the late 70's and early 80's that efforts have been made to work on expansion of tropical and non-tropical fruits, the diversification of vegetables in all farms parallel to the installation of the processing plant as a result of which the area coverage of the enterprise increased significantly. The effort has enhanced the production of fresh agricultural and processed fruit and vegetable products both for local and foreign markets.

### 3.2 Location

The Enterprise is situated along the Upper bank of the Awash River 174Km east of Addis Ababa. And its economic units are located in Oromiya regional State. (Details are depicted on Table below)

#### Certain Information and background of the Enterprise's Economic Units

Table 3.1. General information

PRODUCT ION CENTERS	DISTANCE FROM		ARABLE LAND		OTHERS	TOTAL	CURRENT CONDITION		IRRIGABLE WITH	
	Inter office	A.A	Irrigable	Rain fed			Non- Cultivat ed	Cultivate d	Gravi ty	Pump
Tibila	35	148	754,00	206,68	1,120,68	1,120,68	206,68	754,00	323	431
Merti-jeju	2	176	1,517,00	-	1,700,00	1,700,00	-	1,517,00	830	687
Nura-Era	13	179	3,106,00	-	3,2767,00	3,277,00	281,00	2825,00	2825	-
MPP	0.5	174	-	-	13,00	13,00	-	-	-	-
<b>Total</b>			5,377,00	206,68	6,110,68	6,110,68	487,68	5,096.00	3978	118

Source, secondary source

N.B Other Land holding refers to land covered with bushes and shrubs and also allocated to infrastructures.

**Additional information about the 487.68 hectares of non- cultivable land**

Table 3.2. non-cultivated land

SR. NO	DETAIL REASONS	HE.	REMARK
1	Rain fed that receives insufficient And uneven distribution of RF	206,68	Requires High initial investment
2	Marshy land & problem of salinity	112,00	“ “ “ “
3	Illegal Settlers	169,00	Requires Higher officials intervention
		<b>487,68</b>	

Source, secondary source

The enterprise has a logistic office located at Addis Ababa, and this office organizes monitors and deals with matters concerning logistics and export works.

**3.3 Resources:**

**A. land and irrigation Water**

Currently, the total area of land under the ownership of the enterprise has reached 6,110.68 hectares out of which 5,583.68 hectares is cultivable while some 527 hectares is held by bushes and infrastructures like roads, residential houses, canal etc. Although, 318.68 hectares of the arable land needs further reinvestment, 5,096 hectares of cultivable area is irrigable while the rest 169 hectare is held by illegal settlers. The irrigation schema is of two types; pump driven and gravitational. While 1,118 hectares is cultivated by water pump

driven irrigation water, the rest 3,978 hectares are through gravitational scheme. The sources of irrigation water are rivers known as Awash, Biskello, and Worenso; More than 98% of the irrigation water source is Awash River, one of the biggest rivers in the country.

### B. Agro- Climate

The Agro-Industry is very suitable for horticulture development by virtue of the optimum climatic and edaphic factors is blessed with. The farms have an altitude ranging from 1100 (At Nura Era) to 1200 M.A.S.A (At Tibila) and mean annual rainfall of about 500mm. Annual minimum and maximum temperatures are 15.30c and 32.6 , respectively. The soil type ranges from clay (15%) to loam (48%) and has a PH ranging from 7.5 - 9.1 at Enterprise level.

### Summary of Topography, Climate, Soil type and irrigation Water resources

Table.3.3 Topography

NAME OF FARMS	ELEVATION (M.A.S.A)	TOPOGRAPHY	SOIL TYPE	IRRIGATION WATER SOURCE
Tibila	1,200	Plane and sloppy	Sandy clay loam black and loam	Awash, Werenso and Biskello Rivers
Merti jeju	1,150	Rough and level	Sandy clay loam, black and loam	Awash River
Nura Era	1,100	Rough, level & plane	Sandy clay loam, black and heavy	Awash River

Source, secondary data

### C. Communication facilities

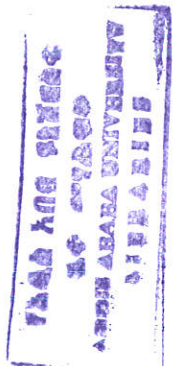
The enterprise is currently equipped with such communication facilities as astatine radios, portable radios (walky talky), telephone, Fax and have Internet access (Dial-up connectivity). Stationed radios are available in all the farms

with the exception of MPP and portable radios serve in all the farms. Regular telephone fax and Internet access computer are installed and serving only at enterprise office. The processing plant also does have a telephone service .Local area network installation has been undertaken and under use some years ago.

### **3.4 Organizational Structures and Manpower**

According to the organizational structure, the total professional and non-professional manpower of the enterprise is composed of 311 permanent labors of different educational levels. The average annual actual seasonal labor of the enterprise varies between 9,000 and 11,000 based on the annual product mix. The labor discipline of the employees is highly dependable and so possible to say that there is favorable industrial peace with in the organization. The Organizational structure of the enterprise basically consist of ten (including projects, productivity and service reform office) functional units that have distinct duties and responsibilities to accomplish. Under these basic functions, there are sub- functions that also have their own duties and responsibilities. Besides the farms and the processing plant do have their own Managers who manage main sections that are structural replica of the basic functions of the organization. It is only the audit and inspection service function that does not exit at farm / factory level.

**The organizational structure of the firm is attached on the next page;**



### **Free Service Provisions**

The enterprise's head quarter and production centers are situated far from cities and towns. Based on this fact, UAAIE has to provide shelters and other services for both permanent and seasonal employees. Other alternatives do not exist in the area other than build its own shelters to go along with its manpower requirement. In addition to this, the enterprise provides electricity, water, medical facilities and insurance service to its employees with out charges.

### **C. Production and Processing Technology**

The agricultural production of the farm units are mechanized through the use of Tractors, Farm Implement, and water pumps cooling units and pack- house (for exportable crops only). Generators and such heavy duty track laying machineries as excavators' graders and loaders are also found. Since the processing plant installed before 20 years back, most of the processing accessories and the technology dare of that age and require replacement and rehabilitation.

### **D. Production And Sales**

The production mix of the enterprise is composed of about 30 types of farm products and 11 types of factory processed products. The current area coverage of tropical and non- tropical fruits is about 2,049.21 hectares, which is about 44% of the total cultivated area of the enterprise and the rest 56% is composed of vegetables cereals seeds fibers and others. The citrus area is about 1,518.44

hectares, which is 74% of the total fruit area and 32% of the total cultivated area.

Table 3.4 production output of farm units

TYPE OF PRODUCTS	TIBILA FARM	M/ JEJU FARM	NURA ERA FARM	TOTAL
<b>1. Farm Products</b>				
<b>A. Fruit</b>				
1. Orange	53.23	94.40	772.00	919.63
2. Mandarin	-	24.00	167.00	191.00
3. Grape Fruit	0.51	-	-	0.51
4. Avocado	3.44	-	-	3.44
5. Papaya	50.00	-	-	50.00
6. Guava	-	-	55.00	55.00
7. Mango	-	11.70	49.89	61.59
8. Grape Vine	-	18.93	0.93	19.86
9. Mtcb	-	7.38	-	7.38
S. Total(A-1)	107.18	156.41	1,044.82	1,308.41
<b>A-2non- Bearings</b>				-
1. Orange	107.65	64.91	86.56	259.12
2. Mandarin	11.21	1.09	15.87	28.17
3. Grape Fruit	-	-	16.09	16.09
4. Lime	-	-	34.09	34.09
5. Mango	34.60	92.22	148.61	275.43
6. Grape Vine	1.50	70.54	12.73	84.77
7. Lemon	-	-	1.15	1.15
8. Papaya	30.38	-	-	30.38
9. Mtcb	-	11.10	0.50	11.60
S. Total (A-2)	185.34	239.86	315.60	740.80
<b>Total (A)</b>	292.52	396.27	1,360.42	2,049.21
<b>B. Fr/Seedlings</b>	-	0.66	8.71	9.37
<b>C. Forestry</b>	13.78	76.56	31.80	82.14
<b>D. Annual Crops</b>	484.34	963.91	1,092.35	2,540.60
Total Area	790.64	1,397.40	2,493.28	4,681.32

Source, annual magazine

## **Processing Plant**

Merti fruits and vegetables processing plant has contributed a lot for transforming fresh fruits and vegetables in to long shelf life canned foods and in keeping up the profit of the Agro Industry for the last two decades. The enterprise can be referred to as, a small technology transfer center in the field of Fruits & Vegetables Agro Industry. To this end, it can be viewed as role model for agro Industry in the country from which a lot experience can be shared.

### **3.5 capacity of Processing**

Total production could reach 50,000 qt of finished processed products annually. So far 48,000 (qt) have been achieved in years of high market demands. The processing lines have the following capacities of processing:-

- 10,000 to 13,000 tons of tomatoes ,
- 1,000 to 2,000 tons of fresh orange,
- And small quantities of guava,
- Lemon/ lime etc.

In condition where, all fresh farm raw materials are supplied by the sister farms which are 3 to 20 km away from the factory, the processing plant has attained maximum processing hour of 5,000 in the year 1998/99 since its establishment. With in the last 20 years of processing activities; the plant has received and processed:

- million qt of raw tomatoes

- 229,000 quintals of fruits ; And the corresponding out puts of these fresh raw material were :-
  - ✓ 299,000 qt of tomato products
  - ✓ 236,000 qt of fruit based products.

This performance implies that the processing plant has been functioning at an average rate of 50% of its attainable capacity annually. The various farm output comprises 95% while factory processed ones 5% of the average annual production of the Enterprise. Since the retroactive system (HACCP)<sup>11</sup> is believed to be a benchmark requirement for any food item to be sold in especially European countries .MPP is currently one of the active participants in the national food safety program, which include not all but few domestic food producers .But nowadays the factory fulfilled the required criteria through enjoying the good helps, consultancy and training by UNIDO, MOH& MOTI and is awarded the so called “SANS HACCP CIRTIFICATE” recently. To this end, already basic GHP (Good Hygienic practices) and GMP (Good manufacturing practices) are implemented in Merti processing plant.

### **Export activities:**

The major export crops are mainly Bob beans, Alliums flower, lint cotton & haricot bean seed. The green beans export is becoming more and more encouraging and interesting because the Upper Awash ahs currently been

---

<sup>11</sup> See the glossary part

awarded safety and quality certificate of EUREP/GAP<sup>12</sup> for its green beans product. Upper Awash agro industry as an experienced producer and exporter of green beans to Europe ; has become the 1<sup>st</sup> national company to be booked by the EUREP GAP Protocol, in August 2003. Since then the Agro Industry has mobilize its resources towards accomplishments of different tasks like:-

- ✓ Building and upgrading green beans pack house at four different sites.
- ✓ Upgrading of all necessary working conditions and implementing good hygienic practices.
- ✓ In this regard, four mobile toilets were purchased and resumed functioning in working fields. These mobile toilets have changed the old notions of sanitation and enhanced the image of the company.
- ✓ Developing and up grading different manuals and guidelines record keeping etc.
- ✓ Training all involved personnel about the EUREP GAP benchmark standards and their implementation .The intensive efforts conducted with in a few months have dramatically transformed the activities in planning, production, control and export of green beans.

Internal audits has been frequently practiced to correct and re- correct every non – conformances observed. After few consecutive visits were conducted by European customers, UAAIE was fully ready to be audited by the (CB) certifying body. The audit took place in March 2004 and the result was highly encouraging.

---

<sup>12</sup> A certification for best performance in the area of horticultural products exporting

Upper wash agro industry enterprise full filled the Europe gap protocol and be awarded Europe gap certificate: namely the Europe gap protocol for fresh fruits and vegetables ( version 2/2004) which is valid from 30 may -04 until 29 may 07. It is obviously true that the certificate will encourage the activities of exporting any other horticultural product to EUROPE by repeating the same efforts expended to green beans export certification .To this end, many work procedures and manuals are already underway to be able to apply good agricultural practices in the major crop production processes.

## **Chapter Four**

# **Presentation and Analysis of Major Findings**

In this part of the paper, both primary and secondary data are presented and analyzed. The primary data were collected using questionnaires and interviews. Questions are presented using tables and charts along with employees' responses. For simplicity purpose, questions are categorized into ten different topics. The categorization is based on their similarities. The analysis is made based on these topics rather than on each questions. Interview results are presented and analyzed beside with questionnaire results; the aim is to give a clear and comprehensive analysis for readers.

### **4.1. Reward Philosophy, Strategy and Policy**

As most scholars agreed, the purpose of a reward philosophy and strategy is to define the critical requirements of company's compensation and reward programs so to enable the company to effectively manage the people resources. Although managers in the UAAIE agreed on the above statement, so far they did not developed any written and formal reward philosophy and strategy. Even if, it is not must to have a written statement, they are not even clear and familiar with these terms. On the other hand they noted that, it is important to consider both internal and external factors as pay decisions are made. As they said, internally importance should be placed on equity in relation to others in like job/positions, as well as an individual's skills, knowledge, performance, and job/position related experience. Furthermore they believe that, externally the

relevant labor market should be monitored to determine market movement, keeping in mind its effect on employees and their respective pay. Other external market elements like academic institutions and general industry employers with whom they compete for employees with relative skills and experience are also properly considered before major reward decisions are made. Despite their fault to note their philosophy and strategy readily, the already mentioned views of managers might be considered as a basement/believe of the employers to manage the reward practices of the enterprise.

The table below presents the attitudes of sample respondents towards the availability of reward philosophy and strategy.

**Table 4.1 Reward Philosophy & Strategy**

Questions	No.	%
Is there a reward philosophy in your enterprise?		
Yes there is	5	12.5
There is no	6	15
I don't have information	29	72.5
Is there a reward philosophy in your enterprise?		
Yes there is	5	12.5
There is no	6	15
I don't have information	29	72.5

Source, Survey Result, May 2008

Apart from its importance, majority of employees have not information whether there is a written and formal reward philosophy and strategy or not. Without proper reward philosophy and strategy, it will be very delicate to have the guiding principles and beliefs up on which reward policies and procedures could based. 15% of the respondents are clear about the absence of these terms

at all in the enterprise; in other words they are sure that none of these terms are available in the rewarding system of the enterprise. The firm is in the middle of no where in respect to these basic reward issues. This may become a reason for some decision makers to practice ad-hoc and untamed type decision making processes in the areas of reward management. Anomalies and disappointments will be the immediate consequences of this setback.

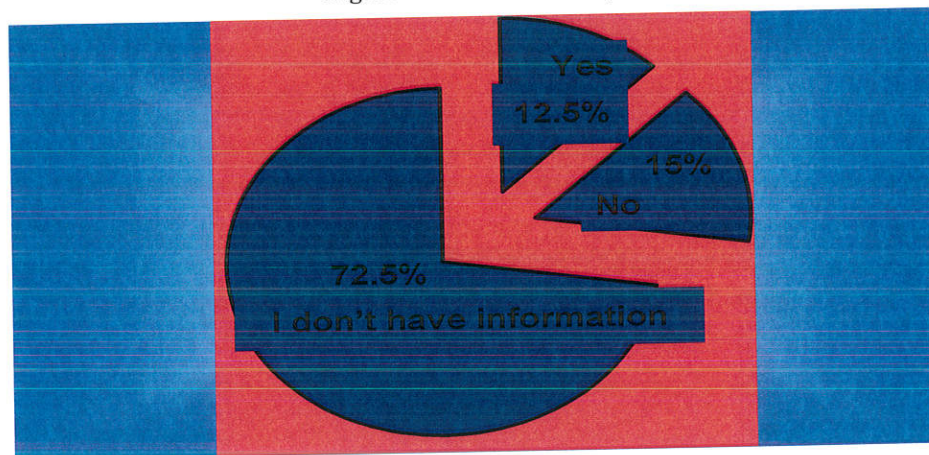
These differences in the views of employees could lead us to make a sort of conclusion on the weak spot of the enterprise in creating a common understanding among employees in the area under discussion. With such kinds of facts, the company may not be able to develop a future oriented reward process and practices which could be aligned to the business and human resource strategy of the enterprise, its culture, and the environment in which it operates.

Moreover, the enterprise is not, at least for now, in a position to reflect the positive organizational culture, to provide clear guiding principles, to address the key issues and to communicate employees how much they are valued using philosophies. No time to expire for developing reward strategies, otherwise the company will not be lucky enough to secure benefits like supporting the business and personnel strategies, and driving & supporting desired behaviors. These all should be done with the involvement and consultation of interested parties.

The figure below shows the attitudes of employees regarding their awareness about the presence and absence of reward policy.

**Q. Is there a reward policy in your enterprise?**

Figure-4-1 Reward Policy



Source, Survey Result, May 2008

Practically the enterprise has already formulated and used a written reward policy to govern issues like internal equity, variable pay, employee benefits and pay structure. However, 87.5% of respondents/employees are not aware about its existence.

Since a meaningful policy provides guidelines for how various reward programs should be designed and managed, it is sensible for the company to exert some efforts to create consensus and awareness about these policies. Furthermore, the enterprise can reduce possible anomalies and dissatisfactions if employees have a part in formulating and implementing this policy.

## 4.2. Pay structure

In today's world, because of diversified reasons, companies are forced to have a reward structure which is coherent and logically interrelated with their organizational structure. The reward structure of the Upper Awash Agro Industry Enterprise was first designed by individuals who were responsible for designing pay structure for all publicly owned firms. These people were designed the pay structure which was identical for all firms regardless of their differences in nature and values. After that time onwards, the enterprise made a lot of changes and improvements on the pay structure based on the authority given by the government.

The subsequent table shows the attitudes of sampled respondents on the subject of the pay structure of the enterprise.

Table 4. 2 Pay Structure

	No	percentage
Is the pay structure logical and coherent to the organizational structure?		
Yes	8	20
No	32	80
Does it enable the organization to manage internal and external relativities effectively?		
Yes	8	20
No	32	80

Source, Survey Result, May 2008

The UAAIE has two pay structures, one for *managerial*<sup>13</sup>, *professional*<sup>14</sup>, *technical*<sup>15</sup>, sales and administrators or in general for permanent workers and

<sup>13</sup> Individuals who engaged in the leading function

<sup>14</sup> Employees who are working in a job which needs special and rare know-how's and skills

another for manual or temporary workers. These pay structures have not support from 80% of respondents. Many employees have a reservation and doubt about the coherency, and relevancy of the structure with the entire organizational structure. These people argue that the pay is concentrated on the hands of few top and middle managers which account only 5 % of the total employees. Similarly the fairness and equitability of the structure is under question by more than 4/5 of employees. This figure shows how much the pay structure is far from getting acceptance from employees and how much works are waiting for the enterprise to convince employees and/or to design new pay structure.

A company with such kinds of truths, its pay structure will not able to provide a logically-designed framework with in which equitable, fair and consistent reward policies could implemented. In addition, the enterprise may not be found in a position to use the pay structure as a medium through which it could communicate the pay opportunities available to employees. Majority of responses show that, the company is not managing internal and external relativities effectively. This in turn could affect the human side of the firm. In the near future, high turnover, salary dissatisfaction, and low productivity will become a common phenomenon of the enterprise.

The following figure presents the attitudes of respondents towards the pay structure of the company

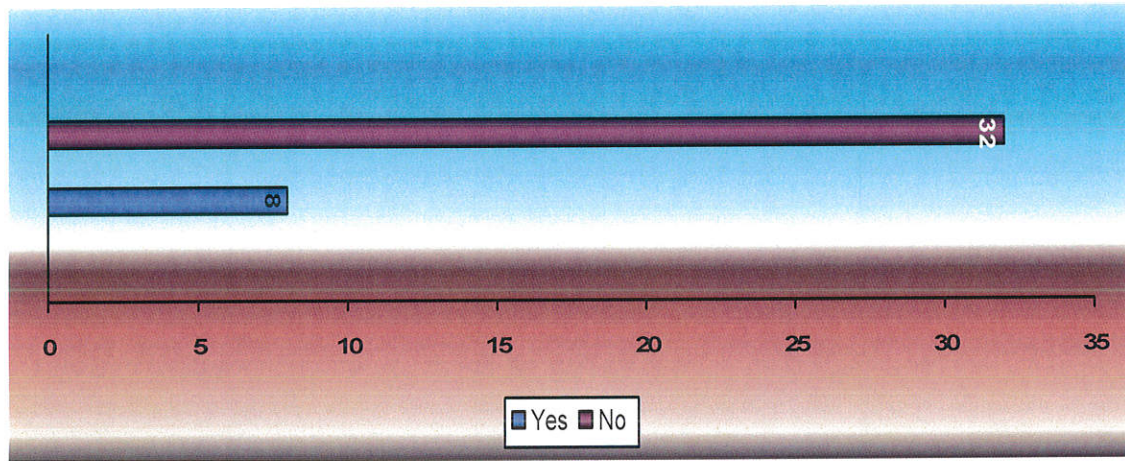
---

<sup>15</sup> Individuals who are working in jobs like maintaining, repairing, installing, and other relate areas



**Q. Is the pay structure fair and logical?**

Figure 5-2 Pay Structure



Source, Survey Result, May 2008 1

In generally terms, new recruits, operational workers, and non-management employees are highly against the pay structure. The possibility of getting fresh skills and know-how's with dynamic working culture will be at risk. The bad mouth from the employees those leave the enterprise will affect the reputation that the firm holds in the industry. The composition of the total compensation of employees should be remixed to compensate those feel dissatisfaction by the pay structure. Otherwise, instability will override among the majority of marginalized workers.

**4.3. Performance Management**

Before the implementation of the new Integrated Performance Management System /IPMS/, the company has been employed the traditional performance appraisal method for the purpose of measuring performances and to make

reward decisions. Problems like incapability of raters, illogicality of factors, and subjectivity of criteria's were the main weaknesses that the system exposed. These inherent weaknesses of the old/traditional appraisal system were the primary reasons that forced the enterprise to adopt the new system. The company incurred significant amount of costs to implement the new system. The cost could be considered insignificant if the system gives the expected benefit, but most employees believe that it is less probable for the system to meet these expectations. Thus, majority of employees have a complaint on the money that the firm incurs for implementation.

The following table shows the attitudes of respondents regarding the performance management system of the enterprise

**Table 4.3 Performance Management**

Questions	No.	%
Is there a performance management system? if so		
Is that owned by line managers?		
Yes	14	35
no	26	65
Is that helps in the process of managing expectations?		
Yes	15	37.5
no	25	62.5
Is that operates on the basis of performance agreements and plans and of regular feedback and review?		
Yes	14	35
no	26	65
Is that provides valid and acceptable data on performances as the basis of performance related pays?		
Yes	10	25
No	30	75

Source, Survey Results, May 2008

Starting from September 2008, the company launched a performance management system called Integrated Performance Management System/IPMS/. The objective was to get better results from the organization, team and individuals. It was all about agreement of objectives, knowledge's, skills and competence requirement and personal development plans. From that time onwards, the company uses this system to produce ratings to determine the distribution of financial rewards for the performance related pay schemes.

In spite of this fact, the system is not accepted by majority of respondents/employees. Line managers have not sufficient right and the responsibility to handle the system for employees under their control. Furthermore, 65% of employees argue that, the system is not operated on the basis of performance agreement, plans and of regular feedbacks. To this end, the enterprise did not implement the system as designed by external specialists. As far as its validity is concerned  $\frac{3}{4}$  of respondents have a reservation and said it is not sound to serve as a base for performance related pay decisions. This gap is mainly created because of the flaw of the management bodies to convince employees concerning the significance of the system both for the company and them.

The firm can use the system to provide a basis for predicting potential on the assumption that people who perform well in the present are likely to go on doing so in the future. However, the company should know that, past performance is a predictor of future performance only when there is a

connecting link i.e. there are elements of the present job which are also important in a higher-level job.

Furthermore, the firm can use the feedback process to provide positive reinforcements when behavior which leads to improved performance is identified. Here the object is to recognize specific performance improvements as soon as possible after the event. That is why performance management should be regarded as a continuing process. Recognition and therefore reinforcement take place whenever appropriate throughout the year. In focusing on continuous development, the firm can use the system to motivate people by providing opportunities for growth.

#### **4.4. Reward management procedures**

In most companies today, reward management procedures deals with methods of fixing pay on appointment or promotion and resolving anomalies. It also refers to methods of appealing against grading or pays decisions, usually through the organizations normal appeals procedures.

For the past consecutive years the company used different techniques to review and make increment on the basic salaries and other compensation elements of permanent employees. The review was made based on the accomplishment of the standards set at the beginning of the year. If the firm made a profit in the previous year, reviews will be made if no profit, reviews will not be made. The increment is highly depending on the success of the company in meeting 75%



of its standards. In addition, if major reward anomalies are turn out reviews will be considered.

The table below presents attitudes of respondents regarding the reward management procedure of the firm

**Table 4.4 Reward Procedures**

Questions	No.	Percentage
Are there clearly defined and properly operated procedures for conducting pay reviews and deciding on levels of pay?		
yes	6	15
no	34	85
To what extent are they modernized?		
low	34	85
medium	5	12.5
high	1	2.5
Has sufficient authority been devoted to line managers to deal with pay issues without losing control?		
Yes	6	15
No	34	85
The grade structure functions well?		
Agree	6	15
Disagree	34	85

Source, Survey Result, May 2008

The procedure that the enterprise used to conduct pay reviews are not accepted by significant number of employees. In their view, the procedure is not fair and equitable enough to satisfy the needs and expectations of majority of workers. Dissatisfaction In financial rewards, especially in the basic salary of employees will be indispensable challenge that the firm could face. Furthermore, employees will be forced to look for other employer with better reward procedure. The absence of technologies like computers in reviewing and making such decision may adversely affect the procedure. Human resource information

system should be considered to track every information that the needy need in reviewing pays.

Line managers have not sufficient authority to deal with pay issues. This will have a direct impact both on line managers and employees. The act of bypassing against the line managers may create sense of isolation and job-dissatisfaction. Furthermore, employees will be happy if they are treated and reviewed by line managers than someone with little knowledge about their weakness and strength.

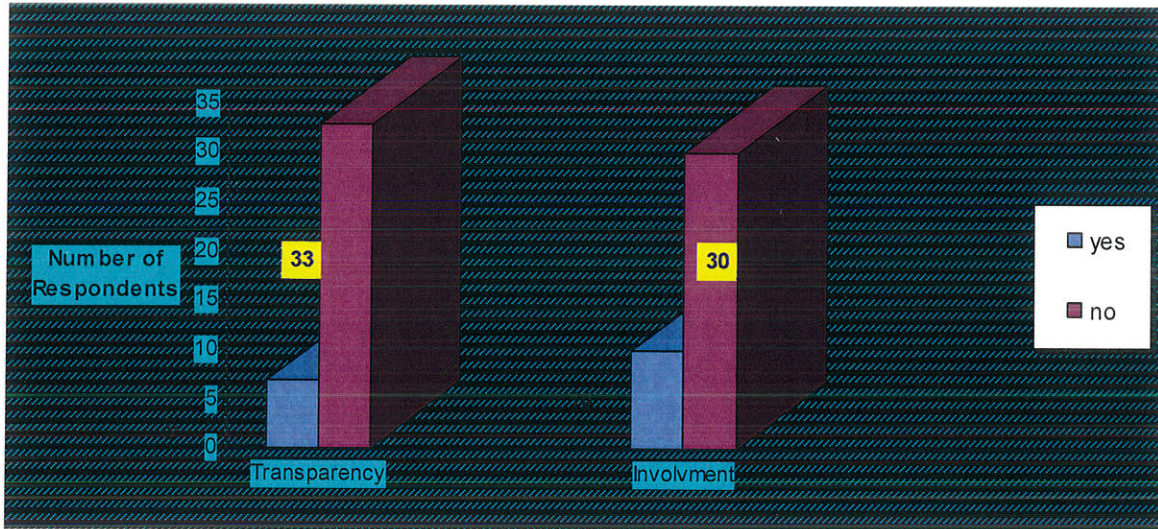
In reviewing the pay, they are not exhaustively using the existing grade structure which was designed to give a guideline for determining how and what should be rewarded for employees.

#### **4.5. Communication and involvement**

Employees reward will motivate if people are told that what they have got is because of their contribution to the company. It is therefore important to communicate employees collectively about the reward policies and practices of the organization and individually about how those policies affect them-now and in the future.

The following figure shows the degree of transparency and involvement in making reward decisions in the company.

Figure 4-3 Communication & Involvement



Source, survey result, May 2008 2

As the survey shows majority of the decisions related to rewards are made independently by top managers. If employees mislay their part in a decision which affects them, they may not be ready to cooperate with and accept the reward policies and procedures. Although sometimes union leaders have got a chance to participate in such decisions, it is not sufficient to change the feelings of employees as they are the part of the decisions.

The enterprise is not treat employees as a stakeholder, and not ready to give every opportunity to participate and contribute to the decision making process concerning the development of reward policies and practices.

Trade union representatives have a right to participate in decisions regarding collective reward issues. Although unions could be a right representative for collective reward issues, they may not be good for individual reward issues: thus the company should involve employees individually for issues which need to be treated personally. It is clear that, without the involvement of employees,

any attractive and best reward issues may not attain its objectives. Employees' involvement will result in greater understanding of the rationale behind the plan, greater commitment to the pay plan, and a better match between individual needs and pay plan design.

Finally, it is impossible to separate communication of pay information from decision making about pay. Both are essential power issues within an organization. Decision making directly involves power; in participative decision making individuals are being given power that has traditionally been held by management. Moving to a more public approach to pay also involves a transfer of power. The simple fact of the matter is that, when individuals get more information about pay, they have more power than they do under a highly secretive approach.

#### **4.6. Pay determination/job evaluation**

Organizations evaluate jobs, whether or not they have a formal job evaluation methodology. Even an approach that states 'we pay what it takes' is a job evaluation approach. In UAAIE the job evaluation is always started with the external labor market and does not try to create total internal equity across the organization. Rather, they establish internal equity with in broad families like, human resources, marketing, production and finance. It does not try to compare or create internal equity across job functions such as comparing accounting jobs and engineering jobs. The elements that create job value are the market value of the functional area of the job and the key skills required.

The focus of the enterprise is external rather than internal. Generally the enterprise determines a competitive labor market rate for all jobs and may modify this subsequently if a job has significant strategic impact on the organization.

The following table presents major facts of the job evaluation scheme of the enterprise as suggested by sampled respondents

**Table 4.5 Job Evaluation**

Questions	Number of respondents	Percentages
Is there a formal job evaluation schemes? If so		
Is it consistently and systematically measure relative values?		
Yes	9	22.5
No	28	70
Are the factors representatives of the enterprises values?		
Yes	9	22.5
no	28	70
Is it measuring the right things (e.g. Competence)?		
Yes	9	22.5
no	28	70
Is it taking generating too much paper and too much time?		
Yes	21	52.5
no	16	40
Does it need to be changed or replaced?		
Yes	20	50
no	17	42.5
If there no job evaluation, are internal relativities illogical to defend?		
Yes	2	5
no	1	2.5
Are market rates tracked thoroughly by reference to reliable survey data?		
Yes	3	7.5
no	0	-

Are any inconsistencies between the need for internal equity and the need to be externally competitive identified and dealt with satisfactorily?		
Yes	3	7.5
no	0	-

Source, Survey Result, May 2008

The company expects the following purposes from the job evaluation scheme

- Provide a rational basis for the design and maintenance of an equitable and defensible pay structure
- Help in the management of the relativities existing between jobs within the organization
- Enable consistent decisions to be made on grading and rates of pay
- Establish the extent to which there is comparable worth between jobs so that equal pay can be provided for work of equal values.

Significant numbers of respondents have a clear disappointment on the knack of the scheme in measuring the relative values consistently and systematically. The incapability of the scheme to measure the relative values may have an unswerving impact on the soundness and validity of the pay structure. Furthermore, the human side of the enterprise will become direct victim; lower job satisfaction, less productivity and possibly higher turnover will turn out to be a common phenomenon. Factors which the firm used to evaluate jobs are also under question by more than 70% of employees.

According to many respondents, the evaluation is not measuring the right things like competence. This weakness of the scheme may hinder the

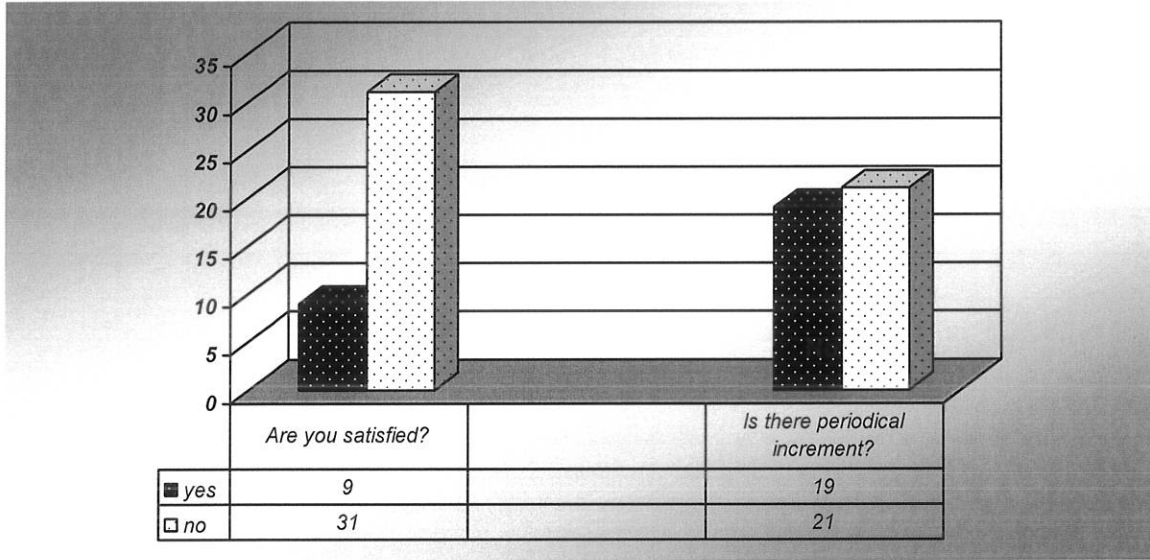
company's effort to link good performance with better pay. Although, respondents with income level greater than 3500 are in favor of the scheme, it is not sufficient for the enterprise to conclude that the scheme is acknowledged by employees. Even if, the scheme is generating too much paper and time, most respondents are not tired of it. These people believe that such kind of red tap is the inherent problem of the scheme.

#### **4.7. Employee basic salary**

In the enterprise, base or basic pay is considered as the level of pay that constitutes the rate for the job. Furthermore, this pay may provide a podium for determining additional payments related to performance, competence, or skill. It may also govern pension entitlement and life insurance. In setting the basic salary of the workers the company considers both internal and external relativities.

The following figure shows the attitudes of respondents towards their basic salary.

Figure 4-4 Basic Salary



Source, Survey Result, May 2008

The basic salaries of the employees are not satisfactory enough to meet their expectations. As majority of respondents confirmed, they are not paid properly for the work they do in relation to other people in the company. Furthermore, the rates of pay in the enterprise are not compared favorably with those paid elsewhere for similar jobs.

Since the attract, motivate and retain objectives are focused principally on the base pay of employees, the company is in red light in achieving these objective unless they made immediate and effective corrective measures.

The base pay strategy of the enterprise is focuses on the individual employee, the job to which the individual is currently assigned, and the next higher job hierarchically. Because of this, employees may become concerned only with themselves and the internal relationship around them. In addition, it may

cause employees to focus only on vertical career growth and internal job and pay relationships rather than on horizontal job and skill opportunities and helping the organization to outperform external business competitors.

In principle the base pay of the workers in the company are increases according to merit increase system; that is, the best performers have larger increases than average performer and the average performer increases larger than marginal performers. In spite of this clear and concise principle, the enterprise raises the base pay of employees without discrimination. In other words every body in the company who participate in that specific accounting year will be illegible for any increment. The company used to measure the performance of the workers by considering the attainment of the entire company objectives rather than the accomplishment of individual work divisions and sections. This application of increment will affect employees' especially those who performed better than others.

Finally, unless the enterprise has some way to monitor and manage human resource expenditures in the form of base pay, they often cannot compete effectively. Base pay costs will become excessive and make the organization financially non competitive. Because of this, some formal way to manage base pay is generally required.

#### **4.8. Variable pay**

The enterprise uses a variety of approaches to reward performance in the form of variable pays. At the most micro level, the company attempt to identify and reward the contributions of individual employees. This plan is not commonly used plan. Of the individual-based plans, merit pay is by far the most popular. In addition to the individual plan, the firm used corporate-wide pay plans. This system reward employees based on the entire performance of the enterprise. The most widely used program of this kind is profit sharing. According to the plan, if the enterprise achieved 75% of their objectives/standard/, the entire worker will get pay; if not they will wait for the coming year to try again. This non-discriminatory way of rewarding employees create a disappointment among employees especially with those found in the best performer farm units.

The table in the consecutive page presents the attitudes of sampled respondents towards their the variable pay scheme of the enterprise

Table 4.6 Variable Pay

Questions	Number	percentage
Is there any <i>performance-related pay</i> or other type of incentive scheme? If so, for any scheme:		
Are rewards clearly related to performance?		
Yes	5	12.5
no	35	87.5
Do employees feel that the basis for paying out rewards is fair?		
Yes	5	12.5
no	35	87.5
Is there any evidence that the scheme does in fact motivate employees?		
Yes	5	12.5
no	35	87.5
Is variable pay detrimental to quality or teamwork?		
Yes	9	22.5
N	31	77.5
Is there any evidence of wage drift		
Yes	6	15
no	34	85
Is the operation of the scheme carefully monitored?		
Yes	5	12.5
No	35	87.5
Is team pay being used where appropriate?		
Yes	11	27.5
No	29	72.5
If so, do the arrangements generally accepted by workers?		
Yes	8	72.7
No	3	27.3
Is effective use made of company-wide schemes such as profit-sharing and gain-sharing?		
Yes	4	36.7
No	7	63.6
The performance-related pay/bonus/incentive schemed provide rewards which are clearly and fairly related to my performance.		
Agree	3	72.7
Disagree	8	27.3

Source, Survey Results, 2008

The essence of performance related pay is that it requires performance to be measured and these measurements serve as the basis for an assessment, most often expressed as a rating. Furthermore, to ascertain the fairness and equitability of the pay, there should be a right match between performance and rewards. Currently, this basic requirement is hardly found in UAAIE. As most respondent answered, so far the company is not able to relate variable rewards with the performance of employees. This reality will affect the morale of employees in doing their best to meet the standards. In addition to this, the basis for paying out rewards is not fair, as most respondents said.

This result strongly suggests that the scheme is as it operated had, at most, only a small positive motivational effect on staff. The lack of impact was primary attribute to staff perceptions that the system operated unfairly, believing that whatever well they performed, their box marking or rating was not appropriate because of the inherent weakness of the system and favoritism. 77.5 percent of those surveyed felt that the variable pay scheme is not capable enough to create quality and teamwork habits. Despite the company's intention in designing the system to have these results, it is not quite simple as expected earlier. This disappointment will initiate the company to identify the cause and to fix it before incurring more costs and losing more employees.

The survey found that in response to a question about wage drift<sup>16</sup>, majority of respondents claimed that the variable pay is not a reason for wage drift i.e. This fact shows that, the company is at least successful in controlling unnecessary

---

<sup>16</sup> The tendency for the average level of wages actually paid to rise above wage rates through increases in overtime and other factors.

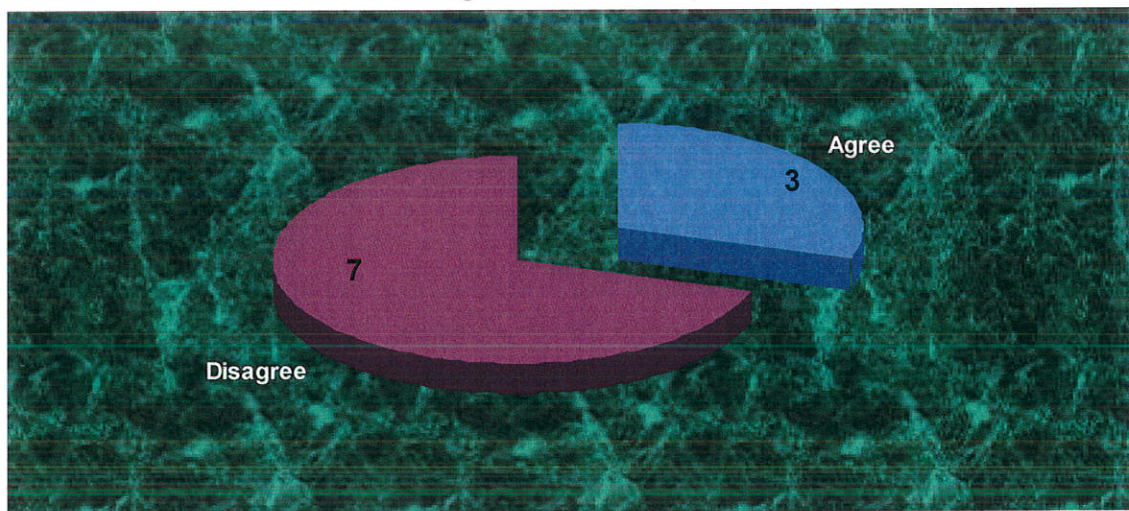
expenditures in relation to variable pays. The problem of poor monitoring is also expressed in the views of the respondents. After the implementation of the scheme, the firm never exerts any kind of effort to review and improve the system. It is important to the company to check whether the system is implemented and working as it is expected when it was designed, or not.

In an attempt to motivate employees as a team rather than individually, the enterprise has a team based variable pay scheme. In spite of this, most workers are not aware about this plan. Every employee is not illegible for this plan rather a limited number of employees especially those found in the lower level of the structure are part of this plan.

***The performance-related pay/bonus/incentive schemes provide rewards which are clearly and fairly related to my performance.***

- ***Agree***
- ***Disagree***

Figure 4-5 Variable Pay



Source, Survey Result, May 2008



Survey respondents' believed that variable pay is not creating any ties between performance and pay. This may be a weak vote of confidence for the system. The only reservation that can be made about this result is that, it represents the opinion of the respondents, who are totally permanent employees. If the feelings of the temporary employees are identical with this the enterprise needs to change the system to relate pay with performance properly.

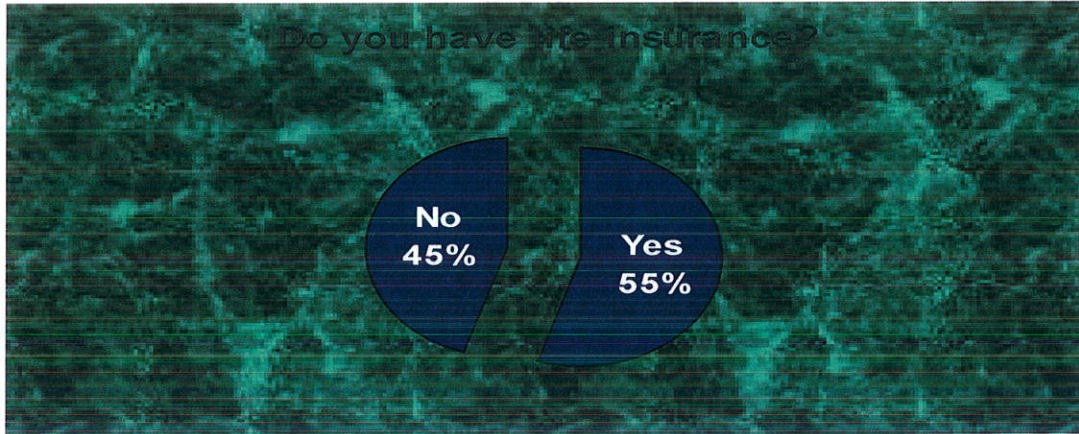
The use of variable pay in the company as a business opportunity will be significant. Since they relate it to their financial results, it helps to stabilize earnings, particularly in labor intensive organization, like them. Thus higher variable pay awards during successful earning period and lower variable pay during less successful periods make for greater stability in organizations earnings. An organization with such steady earnings can escape some of the financial hardships. Furthermore, this will permit the enterprise to focus and invest more on the long term while maintaining shorter-term financial results.

#### **4.9. Benefits**

Almost all permanent employees have the core/basic benefit plans. Medical, retirement, and disability benefits are the most common type. This benefit plan complements the base compensation and pay incentive components of total compensation. Individuals from the top levels of the structure have 24 hour life insurance coverage. This discrimination in the illegibility of employees for life insurance coverage creates disappointment among those who have not coverage. For some employees the degree of exposure for different hazards is

high but they are not illegible for this plan. The firm should consider the exposure of the employees for job related hazards than their position in choosing for such plan.

Figure 4-6 Life Insurance



Source, Survey Result, May 2008

The enterprise believed that these benefits will protect employees from risks that could jeopardize their health and financial security. Further more, the firm is using this benefit packages to attract employees from the labor market and to retain the existing employees.

The next table shows the views of sampled respondents in different issues regarding their base-pay

Table 4.7 Employee benefits

Questions	Number of respondents	percentage
What kinds of benefits are available in your company?		
○ Medical benefits	40	100
○ Retirement benefits	40	100
○ Disability benefits	40	100
○ Life insurance	22	55
○ Paid Time Off	40	100
○ Fringe benefits	40	100
○ Other	40	100
Are these benefits sufficient to you?		
○ yes	12	30
○ no	28	70
Is there a balanced and cost-effective approach to the provision of employee benefits?		
a. Yes	12	30
b. no	28	70
Are employees given a reasonable amount of choice on the type or scale of benefits they receive?		
c. Yes	13	32.5
d. no	27	67.5
Did you ever compare this benefits with what other firms have for their employees		
○ yes	39	97.5
○ no	1	2.5
if yes, is your company's benefits (pensions, sick pay, etc) larger and higher than others		
○ yes	9	22.5
○ no	31	77.5
You would like more choice over the benefits you receive.		
○ Yes	40	100
○ No	0	-

Source, Survey Results, May 2008

Majority of respondents felt that the benefit packages which are available in the company are not sufficient to meet their needs. The benefit mixes are highly

discriminatory, in a sense that, the benefit packages are designed in favor of the top managers. This feeling is a negative symptom for the benefit package, thus it is better for the company to make fast and proper corrective measure to convince employees; if not, this dissatisfaction will create a clear challenge for managers in administering the plan.

Decision on any additional or fringe benefits are not made with the involvement of employees. Respondents have a reservation with the company's effort to participate beneficiaries in decisions that affect them. This problem may become reason for employees to feel isolation and lose of sense of ownership for the package. This in turn could damage the success of the benefit plan.

As most of the respondents claimed, they have relatively lower benefit than what others are paying for their employees in the industry. Metehara and Wonji sugar factories have better packages than other firms in the industry. The climatic condition of the area where the enterprise found is the basic factor for employees for needing more and more benefit mixes. This is clearly a red light for the company that might force to budget more money for benefits or to lose some of their employees who expects more.

100% of respondents testify that they would like more choice over the benefits they receive now. As much as possible this expectation should be fulfilled, otherwise poor performance accomplishment and dissatisfaction is expected. Most benefit advocators are interested in the reasons for increased benefits that are under the control of management. More total compensations dollars need to be

focused on base pay. At the same time it is important to recognize that employees value some elements of benefits highly than others. Offering more than reasonable levels of benefits, however, does not result in increased satisfaction, performance, or productivity. It is base pay that can insure the organizations ability to compete effectively by communicating performance priorities to all employees.

The enterprise should determine its total compensation mix and the level of benefit costs that it is willing to expend, and then manage benefit accordingly. Focusing on the competitiveness of specific benefit provisions is not necessary. Employees do not generally leave organizations because of benefits nor do employees join organizations solely because of benefits. In addition employees' perceptions of benefits and the cost of the benefits do not often equate. Most employees' always value defined contribution plan more than defined benefit plans

#### **4.10. Reward discrimination**

When equals are treated unequally discrimination will arise. This unfair treatment of workers in pay issues is becomes a common phenomenon in the enterprise.  $\frac{3}{4}$  of respondents believe that they are adversely discriminated in decisions related to pay. Proximity is by far the most common type of discrimination followed by ethnicity. The surveyed workers claimed that, top managers have the lion share for creating this discrimination.

The following table shows the attitudes of employees regarding reward discrimination

**Table 4.8 Reward Discriminations**

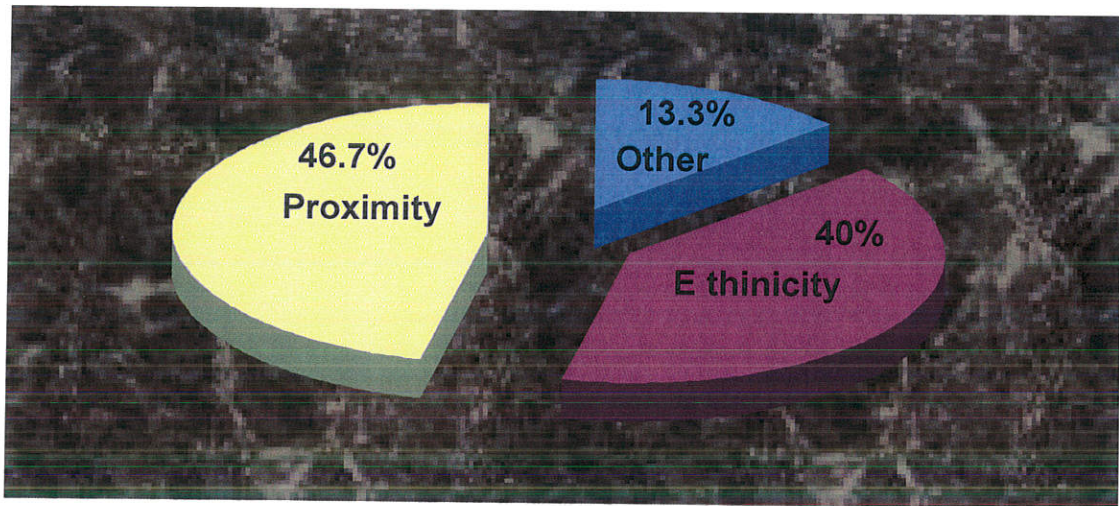
Questions	Number	percentage
Is there any kind of discrimination and segregation in determining and grading pay for employees?		
○ Yes	30	75
○ no	10	25
Who is responsible for this problem?		
○ top level mangers	11	36.7
○ middle level mangers	4	13.3
○ supervisors	0	0
○ workers	0	0
○ all	15	50

Source, Survey Results, May 2008

Gender based discrimination is not found in the company, women and men are treated equally, these might be considered as a strong side of the firm. Although gender is not an issue of discrimination, the company should try its best to eliminate other kind of segregation. The cooperation and unity spirit of the workers will be negatively affected unless the firm takes a corrective measure.

### Causes of reward discrimination

Figure 4.7 Reward Discriminations



Source, Survey Result, May 2008 3

From the above diagram, we can conclude that proximity and ethnicity constitute the highest percentages of causes for discrimination than other types. Ancestry or ethnicity discrimination make employees disappointed with their boss. Some employers practice blatant forms of minority discrimination by paying lower salaries and other compensation just because employees are belongs to in one or another ethnic group. Some middle managers engaged in denying promotions and jobs to individuals on the basis of race. As most respondent testify, mangers always give priority for good opportunities for those who have closest personal relationship with them. This blatant segregation is potentially dangers for the company to cooperate and bringing employees together to attain objectives.

Finally, Employers must take several steps in order to make sure that discrimination is not an issue. If an employee feels that he/she is being treated unfairly this may erase good will in the organization. This will negate the recognition efforts and erode loyalty. The individual will then become resentful and trust will be destroyed.

#### **4.11. Concluding questions**

- ***What is your general opinion about the effectiveness of the system? What do they see as its main strengths and weaknesses?***

Since this question is design in an open ended format, the responses are not limited to a specific alternatives or choices. Most respondents are not satisfied by the entire reward system of the company. According to them, the discriminatory nature of the pay structure and poor involvement are the major weakness of the reward system. As they felt, about 10 percent of top mangers have around 50 percent of the total compensation expenditure of the enterprise. Except core benefits packages the majority of the workers are not getting additional benefits like life insurance and other. Employees who are not known by the majority of workers are sometimes getting amazing salary increments with a few years of experience. However for some employees, salary increment is become a daydream.

Poor involvement and participation of employees are become a chronic weakness of the reward system. Most decisions for employees' rewards are made independently by top mangers. Except union leaders, most employees

have not got a chance to involve in reward decisions. Because of this, most workers have not confidence up on the entire reward system.

The strong side of the company's reward system is not visible enough to the majority of respondents. But some said that the initial salary for the new comers is better than other firms in the industry. In addition, for some employees the acceleration of the increment on their basic pay is satisfactory i.e. they are getting more and more increments on their basic salaries which sometimes totally incomparable with any firm in the industry. Finally, most employees feel secured at least for their job and this makes them to think for long terms than worrying for searching an employer elsewhere.

- ***What impacts is the reward system having on the performance of the organization?***

Almost all respondents have common understanding about the powerfulness of the reward system at least to affect their day to day performance and effectiveness. They believe that pay system can make a significant contribution to organizational effectiveness. If the enterprise makes the right choice, it can gain a competitive advantage through its reward system. This view is supported by considerable evidence showing that effective pay practices can produce a number of positive results.

As they felt, the pay programs can motivate them to perform more effectively. It helps them to create a culture in which they care about the organization and its success. Furthermore the firm can attract and retain the kinds of talents that they needs in order to be effective.

## **Chapter five**

# **Conclusions and Recommendations**

### **5.1. Conclusions**

- ✓ In the company there is no any written and formal reward philosophy and strategy. Although policies are already formulated for different reward issues, majority of employees are not aware of it.
- ✓ There are two pay structures one designed for permanent employees and the other for temporary employees. The pay structures are not accepted and supported by majority of respondents/employees. As they felt, both structures are not coherent and logical with the organizational structure. The pay is highly concentrated on the top of the organizational structure or it is on the hands of few top and middle managers.
- ✓ Since September 2008, the enterprise launched the performance management system called /IPMS/. This system was not designed and implemented with the involvement of majority of employees. This isolation creates a kind of disappointment among employees. The firm uses this system to decide on variable financial payments.
- ✓ Currently the company is not involving and communicating employees regarding pay issues. Majority of decisions are made independently by top managers. This creates low confidence among majority of employees up on the reward system. Union leaders have a right to involve in such decisions.

- ✓ Most respondents/employees have a reservation on the way that the firm uses to make pay reviews. As they said, it is not clear and transparent for everybody. Anomalies are not managed properly and equally. There is a low determination from the management side to involve employees.
- ✓ The company has a periodical job evaluation scheme. This scheme is not able to measure relative values consistently and systematically. The factors that the firm used to evaluate jobs are not best to represent the values of the enterprise. As most of them felt, it is not measuring the right thing like competence.
- ✓ Most workers are not satisfied with their base salary. Especially those found in the lower level of the structure are highly dissatisfied. There is discriminatory type of base-pay increment system. For some it becomes a dream where as for few employees it is as simple as writing letters.
- ✓ The company use variable pay plans. Company wide plan is the most common type. The firm pays for everyone in the company if they meet 75% of their standards. In spite of huge budget for this plan, it is not doing well in boosting productivity and creating teamwork.
- ✓ Most workers have at least the core benefit plans. The plans are highly discriminatory i.e. top managers have more and wide benefit plans than those

who are exposed for different potential hazards. They are need more and more type of benefits schemes.

✓ Reward discrimination is a common problem that the reward system exercised. Proximity and ethnicity are by far the most common causes of reward discrimination.

## **5.2. Recommendations**

Based on the findings discussed in the previous chapter, the following recommendations are forwarded. These recommendations will help the enterprise if they properly considered in making decisions regarding reward issues.

✓ In today's market reality, having clear and formal reward philosophy and strategy is becoming very important to attract and retain the finest minds of the labor market. Although, the enterprise is not damaged much because of the absence of these things, in the future things may not be going like this, thus it is better to have a written and formal reward philosophy and strategy and they should communicate it with employees before implementing.

✓ It is clear that the enterprise will not be benefited from the disappointments of employees with the pay structure. As soon as possible the company should design the structure which is going to be coherent and logical with the organizational structure. Pay structure anomalies should be corrected, but the cost of correction should not be huge in normal

circumstances. As a response for internal and external pressures, it is better to review the pay structure; and adjustment should be made on the previous internal and external relativities.

✓ The company should use performance management as a means of indicators for how individuals should be rewarded in relation to their performance and the level of competence they achieve. The new IPMS should be properly implemented to reduce and avoid suspicions by employees against the validity of the system. Managers should be given whatever training, guidance, and help they need to ensure that they are capable of exercising their discretionary powers wisely.

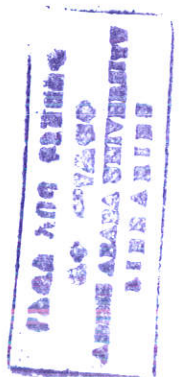
✓ Line managers should have a major say in any offers and some freedom to negotiate when necessary, especially for those issues concerned with individual pay reviews. In reviewing the pay, better technologies like computers should be used. Any anomalies related to this reviews should be corrected through making higher increases for those who are underpaid relative to their performance and time in the job, and lower increases for those who are correspondingly overpaid.

✓ If reward policies and practices are not sufficiently transparent, it is always hardly to create confidence among employees. Thus, managers should communicate these policies clearly to employees before they put it in to effect. Details of any changes in the reward system, the reason for such changes, how employees will affected by them, and the importance of doing this should be

clearly communicate. Trade unions and their representative should take more part in the process of participation and consultation. If they have negotiating right, it is wise to involve them in the initial stages, to sound out their opinions and reach as much agreement as possible on the way forward.

✓ The process of identifying the relative importance of jobs may be seen as a prerequisite for designing a fair and equitable pay system. In selecting factors, organizations should explicitly declare what values they believe to be important when assessing job worth. Consistency checks should be made periodically by means of cross evaluations and by analyzing the outcome of any new evaluations compared with the benchmarks. Finally, job evaluation scheme can decay and may need to be rejuvenated. This should be carried out following an audit and employees should be involved.

✓ The focus of the base pay should be to serve as a reflection of the value of the job in the external market rather than internal equity. Furthermore, the base pay should be reserved for the things it does best and not try to perform functions better performed by variable pay. Increments should be made especially for those who found at the lower level of the structure. the enterprise has been placed to many expectations on base pay but rather than trying to force base pay to serve purposes for which it is ill suited, the firm should knows that, base pay is limited to functions it performs better than variable pay and indirect pay.



✓ Unless there is a clear relationship between pay and performance, the power of variable pay scheme to improve productivity will not be good. All variable pay schemes have their strengths and weaknesses, and the key issues for practicing managers is not only to pick out the most appropriate pay scheme for their situation but also to try and maximize the potential advantages and minimize the disadvantage. People react in widely different ways to any form of motivation thus; it is bad mistake to believe that money by itself will result in sustained motivation. Success is always far more dependent on communications and involvement, thus the firm should try to do this.

✓ There should be a budget for employee benefit then costs and expenditures should be monitored against it so that corrective action can be taken if costs exceed the budgeted figure. Regular surveys should be undertaken of the attitudes of employees to the benefits packages. The enterprise should consider flexible benefit packages or sometimes called cafeteria system, this system can allow employees to choose with in benefits and/or to choose between benefits but it should be with in certain limits. Finally, out side help from benefit and tax specialists should be considered to audit the system and advice on whether the selected schemes are good or bad. Life insurance should be given for all permanent employees rather than giving it for few top managers.

✓ Every possible measure should be taken to reduce the causes and impacts of reward discrimination. Every employee that qualifies for an award



should receive it in the same manner to avoid any discrimination charges. Top managers should revise their relationships with their subordinates and friends. When issuing an award for a job well done, the employer should ensure that all employees be evaluated by the same criteria. The policy should provide a system of validation for outstanding performance to avoid discriminatory practices. Every laws and legislations proclaimed by the government should be properly understood before making any reward decisions. Work arrangements and assignments should be designed with the consideration of these problems.

# BIBLIOGRAPHY

## Authored Books

Armstrong M.: (2000): *Employee Reward*: 2<sup>nd</sup> Edition: Short Run Press: London: UK.

Cartwright R. Collins M. Green G. and Candy A: (1993): *Managing People*: 1<sup>st</sup> Edition: Blackwell Publishers: Oxford: UK.

Flood C. and Gannon G.: (1995) *Managing Without Traditional Methods*: 1st Edition: Addison. Wesley Publishers' Ltd.: USA.

Griffin and Denisi: (2005): *Human Resource Management*: 2<sup>nd</sup> Edition: Houghton Company: Boston: USA

Gomez R.: (2001) *Managing Human Resources*: 3<sup>rd</sup> Edition: Prentice Hall: Upper Saddle River: New Jersey.

Ibbeston R: (1977): *The Management Of Motivation And Remuneration*: 1<sup>st</sup> Edition: Alden Press: London

Lawler III E.: (1990): *Strategic Pay*: 1<sup>st</sup> Edition: Jossey-Bass Publishers: San Francisco.

Newman: (1987): *Compensation: 2<sup>nd</sup> Edition*: Business Publication Inc.: United States of America.

Richard T.: (2000): *Strategic Reward Resources: 1<sup>st</sup> Edition*: Prentice Hall: England:

Shuster J. and Zinghriem K.: (1992): *The New Pay: 1<sup>st</sup> Edition*: Macmillan Inc.: New York.

Storey J, Salaman G, and Mabey C.: *Human Resource Management: (1999): 2<sup>nd</sup> Edition*: Blackwell: USA.

Tyson: *Strategic Prospects For HRM: (1995): 1<sup>st</sup> Edition*: Short Run Press: London: UK.

## **Journals**

Ian G. Smith. Reward Management: A Retrospective Assessment, Employee Relations, 1993, V: 15 Issue: 3, pp: 45 - 59, MCB UP Ltd

Joseph duffey, spring, 1988, compensation an human resources, managing human resources, volume XXX, No-3, pp-92

Michael C. and Richard Steele, august 2005, turning great strategy performance, the high performance organization, pp-60

Peter M. and Helga Drummond, 1993. Work effort and performance. employee relation, volume-15, No-3, pp-37-44

Stephen A. spring 1888. pension vs. mutual funds. managing human resources. volume-XXX, No-4, pp-75

Tim J. Hart. Human Resource Management -- Time to Exorcize the Militant Tendency. Employee Relations. 1993, V-15, Issue: 3, pp: 29 – 36, MCB UP Ltd

### **Websites**

<http://www.opm.gov/perform/overview.asp>

[www.wikipedia.com](http://www.wikipedia.com)

[www.jestro.org](http://www.jestro.org)

[www.emerland.com](http://www.emerland.com)

[www.blackwell-synergy.com](http://www.blackwell-synergy.com)

[www.sloanmanagement.com](http://www.sloanmanagement.com)

[www.fair-resourceslaosn.com](http://www.fair-resourceslaosn.com)

[www.sloan.edu](http://www.sloan.edu)

[www.search-epnet.com](http://www.search-epnet.com)

## Glossary/acronyms

UAAIE	Upper Awash Agro Industry Enterprise
HVA	Metehara Sugar Factory
M.A.S.A	Tibila sugar factory
UNIDO	United nation international development organization
MOH	Ministry of healthy
MOI	Ministry of trade and industry

Annele I Johnson

# FOR EMPLOYEE

This questionnaire is designed to collect data to write project paper for partial fulfillment for a master's degree in business administration (MBA) at the Addis Ababa University.

Please be as honest and realistic as possible in your answers! Your response will be treated in confidence.

## Simple instructions

- ✓ Please don't write your name
- ✓ Read the questions properly
- ✓ Don't give more than one answer for a single question (except for question no.30 and open ended questions)
- ✓ Before answering the questions be sure that you have a clear understanding of the questions
- ✓ If questions are not clear, please ask someone who might have better understanding

## Part I

### Demographic /classification questions

#### 1. Age

- above 18 – below 24
- above 24 – below 29
- above 29 – below 35
- above 35 – below 40
- above 40 – below 45
- above 45

#### 1. sex

- female
- male

#### 2. income level

- below 500
- 500 – 1500
- 1500 – 2500
- 2500 – 3500
- Above 3500

#### 3. position

- operational worker
- sub unit/section head
- unit/ department head
- other

**4. educational qualification**

- below 10<sup>th</sup> grade
- high school complete
- college certificate
- college diploma
- BA or BSc degree
- Post graduate
- PhD

**5. work experience**

- below 2 years
- between 2 and five years
- between 5 and 10 years
- between 10 and 15 years
- between 15 and 20 years
- above 20 years

**1. Reward philosophy, strategy and policy**

**6. Is there a **reward philosophy** in your enterprise**

- Yes, there is
- There is no
- I don't have information

**7. if yes, do you agree with and advocate it**

- yes
- no

**8. Is there a **reward strategy** in your enterprise**

- Yes, there is
- There is no
- I don't have information

**10. If yes, do you agree with and advocate it**

- yes
- no

**11. Is there a **reward policy** in your enterprise**

- Yes, there is
- There is no
- I don't have information

**12. if yes, do you agree with and advocate it**

- yes
- no

**2. Pay structure /ye demoz mewaker/**

**13. Is the pay structure logical, coherent and relevant to the organizational structure?**

- a. Yes
- b. no

## Interview questions

Red  
H  
M

### *Reward Philosophy, strategy and policy*

1. is there a reward philosophy in your company
  - ✓ what are the reward philosophy issues
  - ✓ what is your company's belief
  - ✓ how you developed your reward philosophy

-----

-----
2. is there a reward strategy in your enterprise
  - ✓ what are the basic strategy issues
  - ✓ what are the contents of the strategy
  - ✓ how you developed

-----

-----
3. is there a reward policy in your enterprise
  - ✓ what are the basic issues
  - ✓ basic contents
  - ✓ reviewing policies

-----

-----
4. Is there evidence that the reward *philosophy, strategies and policies* are not only relevant to present requirements but also

under constant review to ensure that they are adapted to the changing circumstances of the organization?

-----

-----

### Pay determination

5. Is there a formal job evaluation scheme? If so:
  - ✓ Does it consistently and systematically measure relative values?
  - ✓ Are the factors representatives of the organization's values?
  - ✓ Is it measuring the right things (eg. Competences)?
  - ✓ Are the results generally accepted by those concerned as fair and equitable?
  - ✓ Is it being manipulated?
  - ✓ Is it generating too much paper and/or taking up too much time?
  - ✓ Does it need to be substantially changed or replaced because it has decayed in some way or is no longer appropriate?
6. If not, are internal relativities illogical or difficult to defend?
7. Are market rates tracked thoroughly by reference to reliable survey data?
8. Are any inconsistencies between the need for internal equity and the need to be externally competitive identified and dealt with satisfactorily?

### Pay structure

9. Is the pay structure logical, coherent and relevant to the organizational structure?
10. Is the structure defensible as being fair and equitable?
11. Does it enable the organization to manage internal and external relativities effectively?

# FOR MANAGERS

## Performance management

13. Is there a performance management system in place which:
- ✓ Is owned by line managers?
  - ✓ Helps in the process of managing expectation?
  - ✓ Operates on the basis of performance agreements and plans and of regular feedback and reviews?
  - ✓ Provides valid and acceptable data on performance as the basis of performance-related pay decisions?

## Variable pay

14. Is there any performance-related pay or other type of incentive scheme? If so, for any scheme:
- ✓ Are rewards clearly related to performance?
  - ✓ Do employees feel that the basis for paying out rewards is fair?
  - ✓ Is there any evidence that the scheme does in fact motivate employees?
  - ✓ Is variable pay detrimental to quality or teamwork?
  - ✓ Is there any evidence of wage drift?
  - ✓ Is the operation of the scheme carefully monitored?
15. Is team pay being used where appropriate?
16. If so, do the arrangements meet the criteria set out under 6 points above
17. Is effective use made of company-wide schemes such as profit-sharing and gain-sharing?

## Employee benefits

18. Is there a balance and cost-effective approach to the provision of employee benefits?

19. Are employees given a reasonable amount of choice on the type or scale of benefits they receive?

## Reward procedures

20. Are there clearly-defined and properly-operated procedures for conducting pay reviews and deciding on levels of pay? To what extent are they computerized?
21. Has sufficient authority been devolved to line managers to deal with pay issues, without losing control?

## Communication and involvement

22. Are reward policies and practices sufficiently 'transparent' - i.e. communicated clearly to employees?
23. Are employees involved in decision on key aspects of the reward system?

## Overall

24. Is the organization getting value for money from its reward system?
25. What is the general opinion of managers and employees about the effectiveness of the system? What do they see as its main strengths and weaknesses?
26. What impacts is the reward system having on the performance of the organization?

## Declaration

I, the undersigned; declare that this project work is my own work, and has never been presented in any other universities and research institutions. All sources of materials used for this paper duly acknowledged.

### Declared

Name

Handwritten name: Habtemariam Gebremichael

Signature

Handwritten signature

Date

Handwritten date: 20/07/08

### Confirmed by advisor

Name

-----

Signature

-----

Date

-----



Place and date of submission: Addis Ababa: June 2008