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Addis Ababa University

School of Commerce

Department of Business Administration and Information System

**The Role of Effective Compensation and Reward System on Employee
Performance in the Case of Commercial Bank of Ethiopia**

**A Thesis Submitted to Addis Ababa University, School of Commerce, for
Partial Fulfillment of the Requirements for Master of Arts Degree in
Human Resource Management**

By: Begashaw Tsegaye

Advisor: Worku Mekonnen (PhD)

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Addis Ababa University

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Department of Business Administration and Information System

The Role of Effective Compensation and Reward System on Employee

Performance in Commercial Bank of Ethiopia

Thesis Approval Sheet

Board of Examiners

Advisor

Signature

Date

External Examiner

Signature

Date

Internal Examiner

Signature

Date

Declaration

I, Begashaw Tsegaye, hereby declare that the thesis titled "**The Role of Effective Compensation and Reward System on Employee Performance in the case of Commercial Bank of Ethiopia**" is my original research work under the guidance of my advisor Dr. Worku Mekonnen. This research has not been submitted for any degree in other universities. All sources of materials used for this project have been duly cited and acknowledged.

Declared by,

Signature

Date

Begashaw Tsegaye

Advisor

Signature

Date

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List of Acronyms

CBE- Commercial Bank of Ethiopia

H.O-Head Office

HR-Human Resource

HRM-Human Resource Management

SPSS- Statistical Package for Social Science

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ABSTRACT

Compensation and reward management is one of the ways used by organizations for attracting and retaining suitable employees to improve their performance. The main objective of this study was to determine the role of effective compensation and reward system on employee performance in Commercial bank of Ethiopia. The population of this study was 12,622 employees of the organization who works in Addis Ababa.. In this study, both primary and secondary sources of data were used. The primary data were gathered through questionnaires from 388 sample respondents from Commercial Bank of Ethiopia using simple random sampling. A total of 388 sample sizes were selected from employees of the commercial bank of Ethiopia and a total of 381 employees completed the questionnaire properly. This study used journals, books, internet sources, and other references were used as secondary sources of data. Data was analyzed using descriptive statistics such as frequency tables and inferential statistics such as correlations and regression analysis using SPSS version 20. The findings of this study indicated that there was a significant relationship between compensation and reward system with employee performance. The study also indicated both financial and non-financial compensation and rewards have a significant relationship with employee performance. The non-financial compensation and rewards were found to be a more motivational than the financial rewards in Commercial Bank of Ethiopia. It was also found out that total rewards of CBE had an impact on employee performance. Therefore, creating competitive and effective compensation and rewards should be developed to motivate employees' performance.

Keywords: Compensation, reward, employee performance, financial reward, nonfinancial reward, total reward.

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

A company's employees are one of its most valuable assets, and managing them can be one of the most important but challenging tasks. Whatever the strategy, organizations are encouraged to pay attention to the happiness, well-being, and motivation of their staff. Productive and satisfied employees represent a crucial element to a successful business organization.

The history of compensation and reward dates back to the 1900s. The owner or operator usually bore the responsibility for people's pay, and little was offered outside of cash compensation. There was minimal government regulation, and, consequently, few safety nets such as medical insurance, unemployment compensation, overtime pay, or social security. Early in the twentieth century, benefits were practically nonexistent for the common worker. Benefits became popular as an acceptable way to evade wage and price controls during World War II because benefits were not counted as wages. Labor unions likewise increased their focus on benefits in the mid-1900s. By the 1970s and 1980s, organizations recognized that strategically designed compensation and benefits programs could give them the edge in a rapidly changing environment. Integration became key, and compensation and benefits professionals emerged as critical strategic partners in their organizations' leadership—a position still occupied by leaders in the field today. Increasingly, it became clear that the battle for talent involved much more than highly effective, strategically designed compensation and benefits programs. While these programs remain critical, the most successful companies have realized that they must take a much broader look at the factors involved in attraction, motivation, and retention (WorldatWork, 2007).

An effective compensation and reward philosophy takes into account each step of the organization's performance management process, enabling organizations to (1) identify constituents' needs and expectations; (2) design jobs that produce maximum results at the highest possible level of quality; (3) encourage leaders to build synergistic relationships with employees; (5) require leaders to conduct formal performance appraisals with employees; and (6) collaboratively create performance growth and development plans designed to enhance performance. Money continues to be a very popular form of reward and a powerful motivator.

For example, in a survey, 79 percent of salespersons chose cash as their favored reward. Interestingly, as respondents' salary increased, the importance of cash decreased. Of those who make under \$50,000 per year, 83 percent chose cash, compared to 66 percent of those who earn between \$151,000 and \$200,000 (Gilley, W. Gilley, A. Quatro, and Dixon, 2009).

Effective reward management is based on a well-articulated philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. It recognizes that if Human Resource Management is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution. Importantly, reward management adopts a 'total reward' approach, which emphasizes the importance of considering all aspects of reward as a coherent whole that is integrated with other human resource initiatives designed to achieve the motivation, commitment and engagement of employees (Armstrong and Murlis, 2004).

A high-performance culture is one in which people are aware of the need to perform well and behave accordingly in order to meet or exceed expectations. Employees will be engaged in their work and committed to the organization. Such a culture embraces a number of interrelated processes that together make an impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth, profits and, ultimately in profit-making firms, the delivery of increased shareholder value. In our more heavily service- and knowledge-based economy, employees have become the most important determinant of organizational success (Armstrong, 2007)

Commercial Bank of Ethiopia offers different types of benefit packages to its employees based on different criteria. The major benefits include: housing allowance, fuel allowance, hardship allowance, disturbance allowance, acting allowance, cash indemnity allowance, representation allowance, verification allowance, overtime payment, severance payment, annual bonus, annual salary increment, medical expense for active and pensioners, medical abroad, tuition fee, loans, maternity pay and other benefits (Commercial Bank of Ethiopia, 2007).

Therefore, I have conducted this study to find out the role of effective compensation and reward system on employee performance so as to achieve huge organizational goals.

1.2. Statement of the Problem

According to a study done by American based Management institute, financial leverage, economics of scale and new services and technologies among others are the strengths and opportunities of Commercial Bank of Ethiopia (CBE), while high staff turnover along with work inefficiencies and other macroeconomic issues are identified as its weaknesses and threats. Employment turnover, especially for mid-level and upper level managers, is not only the challenge for the state giant financial institution, CBE. It is rather becoming the general character of the financial sector in general and public financial institutes in particular. Almost all of the presidents and managers in the private financial institutions are from CBE. These infant private finance institutes cannot find the human resources they need nowhere else except from the seasoned public financial institutions, mainly CBE (Ethiopian Bankers' Association, 2017)

Reducing staff turnover and attracting new employees is important for all banks. And for a bank such as CBE, which dreams to become a world class bank by 2025, the issue becomes more important. However, with the current rate of expansion, the banking sector might face the same challenge in the future what it faces now. It will be impossible to keep increasing salaries every time. Most bankers agree that staff mobility will be the biggest challenges of the banking industry. Banks that respond to this situation with sound policies will reap the benefit of retaining productive staff (Ethiopian Business Review, 2014). According to CBE's Human Resource Transaction record, for instance, in 514, 461 and 485 employees were terminated in 2010, 2011, & 2012 respectively. A total of 3,008 employees left CBE in only six years. This showed it is a signal for CBE since rewards are the major factor for employees.

CBE's overarching strategic result for vision 2025 is strong and stable financial position and enhanced developmental partnership, stakeholder responsiveness process efficiency and effectiveness and finally motivated and proficient employees (CBE-IS System Development and Customization, 2012). So, a motivated and proficient employee is one of the major components that CBE is planned to achieve by the year vision 2015.

If the problem of disagreement between the bank and the employees over the benefits of employee continued, it will limit the motivation and the performance of employees, as well as affect organizational performance particularly to that of CBE whose vision is to become a world class bank by the year 2025.

It was a hot issue in the media in the month of July, 2011 as the state owned Commercial Bank of Ethiopia (CBE) and its labor union were in dispute over salary increments, bonuses, overtime payments, and employee reshuffling. The union took their case even up to the Supreme Court for the right of the employees. The bank was forced to adjusted the employees salary and benefit packages since July, 2011. Are CBE staffs now be a satisfied and a high performer?

1.3. Research Questions

The following questions regarding the role effective compensation and reward system on employee performance guides the study:

1. To what extent compensation and reward packages available in CBE?
2. What is the relationship between compensation and rewards with employee performance in CBE?
3. What is the effect of compensation and rewards on employee performance?
4. What is the relationship between demographic information with employee performance?

1.4. Hypothesis

H1: Financial compensation and rewards have significant relationship with employee performance.

H2: Non-financial compensation and rewards have significant relationship with employee performance.

H3: Financial compensation and rewards are a more motivating factor to increase employee performance than non-financial.

H4: A total reward system has an impact employee performance.

1.5. Objective of the Study

1.5.1. General Objective

The general objective of the study is to find out the role of effective compensation and reward system on employee performance in Commercial Bank of Ethiopia.

1.5.2. Specific Objectives

Moreover, the study has the following specific objectives:

- ☞ To study the extent of compensation and reward packages available in CBE.
- ☞ To examine the relationship between compensation and reward system with employee performance?
- ☞ To examine whether compensation and rewards have an impact on employee performance
- ☞ To examine the relationship of demographic information with employee performance

1.6. Significance of the study

This study can initiate CBE to develop effective practices of compensation and reward system for its employee based on the results obtained and recommendations forwarded. The company will improve the practices of compensation and reward related activities to boost employee performance. It may also be used by other researcher as a reference who conducts a research on the subject matters of this research area in the future. Furthermore, the research on CBE's compensation and reward system broaden the knowledge of the researcher. More importantly, upon completion of this research, he will be awarded an academic qualification & certified for his accomplishment.

1.7. Scope of the Study

This study focused only the compensations and reward system that CBE provides to its employees. Additionally, the contents of compensation, reward, and performance are a wide theory and the researcher has not covered all aspects of these issues because of time and limited finance. Moreover, the title of this research was limited to the role of effective compensation and reward system for employee performance. That is, it doesn't consider the role of compensation and reward system for the company's productivity, development, organizational performance, employee motivation, etc.

Practically, the study geographically limited to employees of Addis Ababa areas because it is obvious it would be very difficult to conduct a study throughout the bank's branches stretched across Ethiopia. It would be more generalizable if the study took samples from the total populations of the company.

Moreover, the researcher delimited its target population to employees who served the bank for a year and above and non-clericals employees such as janitors, security guards, and messengers are excluded as they are outsourced from commercial nominees' plc.

1.8. Limitations of the Study

The research sample population of this study is taken from employees who work in Addis Ababa area. This might affected the generalization of the research findings to the whole Commercial Bank of Ethiopia's employee since the total population of CBE is large as conducting and taking sample from the whole population is not possible because of money and time constraints at this level. Some of the employees were not willing to fill the questionnaires distributed. The researcher has not employed a qualitative research method since the willingness of the top managers to give interviews are poor due to the work overload they have and they fear they have compromised confidentiality of the bank. This might affect the results of the study. Another limitation is that the study included the main compensation and rewards and excluded some variables of compensation and rewards offered by CBE due to shortage of time available.

1.9. Organization of the Study

The study's report is organized in to five chapters. The first chapters deals with background of the study, background of the organization, statement of the problem, objective of the study, significance of the study, scope of the study, and limitation of the study. The second chapter elaborated review of related literature that the researcher has utilized in support of the study. The third chapter discussed about research methodology and design. Then, analysis of data has been made on chapter four and finally, conclusions and recommendations which were given to the company is the last chapter of this study.

1.10. Definitions of Terms

Compensation refers to all forms of financial returns and tangible service and benefits employee receives as part of an employment relationship. The term compensation is used to mean employee' gross earning in the form of financial rewards and benefits as part of employment relationship (Singh, 2012).

Reward management is about the development, implementation, maintainance, communication and evaluation of reward processes. When certain conditions exist, reward system has been demonstrated to motivate performance. Organizations typically rely on reward systems to do four thinngs: motivate employees to perform effectively, motivate employees to join the organization, motivate employees to continue work and motivate individuals by indicating their position in the organization structure (Singh, 2007)

Total reward- typically encompass not only traditional, quantifiable elements like salary, variable pay and benefits, but also more intangible non-cash elements such as scope to achieve and exercise responsibility, career opportunities, learning and development, the intrinsic motivation provided by the work itself and the quality of working life provided by the organization (Armstrong, 2010).

Performance is indeed often regarded as simply the outcomes achieved: a record of a person's accomplishments. Performance management is an important HRM process that provides the basis for improving and developing performance and is part of the reward system in its most general sense (Armstrong , 2009).

CHAPTER TWO

REVIEW OF RELATED LITERATURE

In this chapter, a detailed discussion of related literature works about compensation, reward and performance will be presented. Both theoretical and empirical framework of the study will be discussed in detail to support this study.

2.1. Theoretical Literature of Compensation, Reward and Performance

2.1.1 Types of Rewards

Performance management can play an important part in a total reward system in which each reward element is linked together and treated as an integrated and coherent whole. These elements comprise base pay, contingent pay, employee benefits, and non-financial rewards, which include intrinsic rewards from the work itself (Armstrong, 2006).

According to Armstrong (2010), rewards can be seen broadly from two perspectives:

1. Financial Rewards

Financial rewards comprise all rewards that have a monetary value and add up to total remuneration base pay, pay contingent on performance, contribution, competency or skill, pay related to service, financial recognition schemes, and benefits such as pensions, sick pay and health insurance.

2. Non-Financial Rewards

Non-financial rewards are those that focus on the needs people have to varying degrees for recognition, achievement, responsibility, autonomy, influence and personal growth. They incorporate the notion of relational rewards, which are the intangible rewards concerned with the work environment (quality of working life, the work itself, work-life balance), recognition, performance management, and learning and development.

Increasing motivation and raising levels of commitment and engagement are key organizational imperatives. The development of reward management policies, structures and practices will be underpinned by assumptions about how people can best be motivated to deliver high levels of performances, discretionary effort and contribution. These assumptions may not be articulated

but the reward philosophies and policies of an organization can be no better than the motivational theories and beliefs upon which they are based (Armstrong and Murlis, 2004).

2.1.2. Total Rewards

According to WorldatWork (2007), total rewards can be defined as all of the employer's available tools that may be used to attract, motivate, and retain employees. This encompasses every single investment that a company makes in its people and everything its employees value in the employment relationship. A total reward is the monetary and nonmonetary return provided to employees in exchange for their time, talents, efforts, and results. It involves the deliberate integration of five key elements that effectively attract, motivate, and retain the talent required to achieve desired business results. The five key rewards elements are:

- A. Compensation- Pay provided by an employer to an employee for services rendered (i.e., time, effort, and skill). Includes both fixed and variable pay tied to levels of performance.
- B. Benefits-Programs an employer uses to supplement the cash compensation that employees receive. These health, income protection, savings, and retirement programs provide security for employees and their families.
- C. Work-Life-A specific set of organizational practices, policies, and programs plus a philosophy that actively supports efforts to help employees achieve success at both work and home.
- D. Performance and Recognition-
 - a) Performance: The alignment of organizational, team, and individual efforts toward the achievement of business goals and organizational success. It includes establishing expectations, skill demonstration, assessment, feedback, and continuous improvement.
 - b) Recognition: Acknowledges or gives special attention to employee actions, efforts, behavior, or performance. It meets an intrinsic psychological need for appreciation for one's efforts and can support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success.

E. Development and Career Opportunities-

- a) Development: A set of learning experiences designed to enhance employees' applied skills and competencies. Development engages employees to perform better and engages leaders to advance their organizations' people strategies.
- b) Career opportunities: A plan for employees to advance their career goals. May include advancement into a more responsible position in an organization (WorldatWork, 2007).

According to Armstrong (2010), the concept of total rewards describes an approach to reward management which emphasizes the need to consider all aspects of the work experience of value to employees, not just a few such as pay and employee benefits. It aims to blend the financial and non-financial elements of reward into a cohesive whole. It is a holistic view of reward which looks at the overall reward system in order to determine how its elements should be integrated so that they provide mutual support in contributing to the overall effectiveness of the system. The concept of total rewards combines the impact of the two major categories of reward as defined below:

- i. **Transactional rewards:** tangible (financial) rewards arising from transactions between the employer and employees concerning pay and benefits. These are all extrinsic.
- ii. **Relational rewards:** intangible (non-financial) rewards concerned with the work environment (quality of working life, the work itself, work–life balance), recognition, performance management and learning and development.

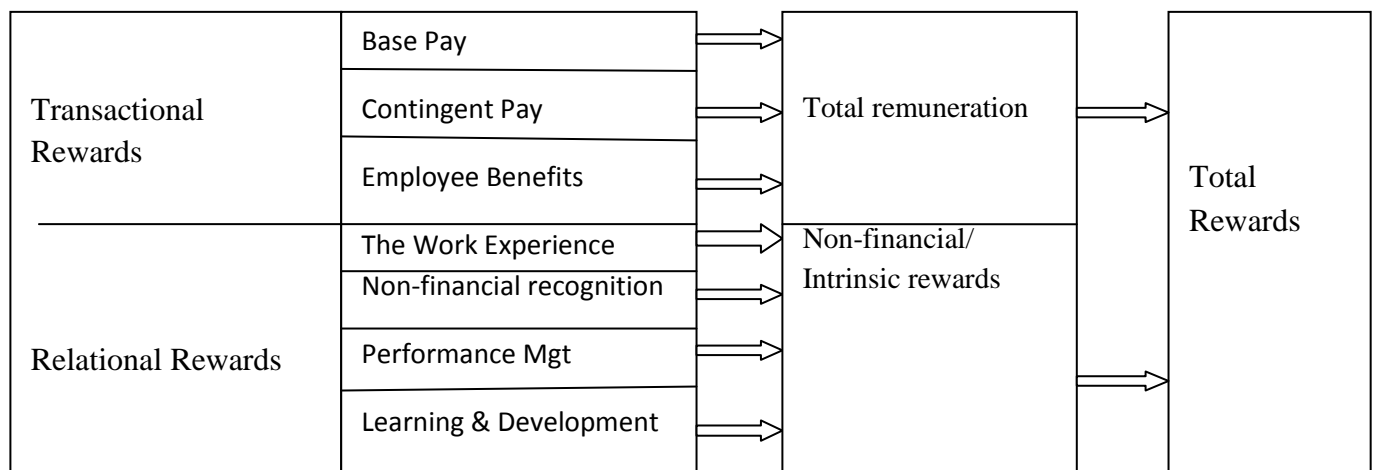


Figure 1: The Elements of Total Rewards (Armstrong, 2010).

2.1.3. Performance

Performance management can be defined broadly as the process of taking systematic action to improve organizational, team and individual performance. It enables performance expectations to be defined and creates the basis for developing organizational and individual capability. For individuals and teams, performance management is associated with both financial and non-financial rewards (Armstrong, 2010).

According to Ann Gilley, et al., 2009, the performance challenge facing every organization is to develop management systems that make employees the firm's greatest asset. Designing, developing, and implementing an organization-wide performance management process links performance to the organization's strategic goals and objectives, constituent needs and expectations, and employee compensation and rewards. Applying the concepts, principles, and ideas of the performance management process at both the organizational and individual levels promotes maximum efficiency and performance throughout the firm. Organizations have, over the years, learned much about human productivity, employee work and motivation, components of supervisor effectiveness, and the impact of organizational leadership and support with respect to performance management. Effective performance management techniques are applicable at the organizational, departmental (business process), and individual levels.

- 1. Organizational Level:** The primary aim of performance management at the organizational level is achievement of strategic goals and objectives. Common organization goals and objectives include increases in sales, customer satisfaction, or profits; greater community involvement; higher rankings or perceived quality compared to competing firms; and so forth.
- 2. Department (Business Process) Level:** No department or division is an island-all interact with or support others. Every job interacts with others at the business process or departmental level (e.g., finance, human resources, admissions, counseling, accounts payable, etc.). Establishing goals for each process, function, and department collectively helps the organization meet the needs and expectations of its internal and external stakeholders.

Identifying interfaces between these business processes to reduce breakdowns or isolate potential improvements improves organizational efficiency and overall performance. In turn,

organizations are able to uncover related opportunities for individual employee performance improvement, growth, and development.

3. Individual Level: Employees execute the tasks and assignments required to meet individual, departmental, and organizational responsibilities. Although the organizational and business process levels may be architectural masterpieces, if performers cannot execute efficiently and effectively, performance quality and outputs will be negatively affected. Unless organizations create conditions by which their employees can produce adequate products and services, organizational process goals will be jeopardized. Individuals are the heart of any organization—we do the work! Hence, the discussion that follows focuses on performance management at the individual level. It is suggested to have an enhanced performance management system that consists of the following 11 steps:

1. Identify stakeholder needs and expectations
2. Link the job to the organization's strategic goals and objectives
3. Provide resources
4. Establish preliminary job-related performance goals
5. Hire/promote/select qualified performers
6. Establish employee-specific performance goals
7. Develop performance standards and expectations
8. Coach and provide feedback
9. Conduct developmental evaluations
10. Create performance growth and development plans
11. Link compensation and rewards to individual goals, growth, and development (Gilley, W. Gilley, A. Quatro, and Dixon, 2009).

2.1.4. Effects of Reward on Performance

Reward makes an overall positive impact on performance when it contributes to the development of a high-performance culture, one in which the values, norms and HR practices of an organization combine to create a climate in which the achievement of high levels of performance is a way of life. Such a culture can be manifested in a high-performance work system. Within the high-performance culture and work system, reward impacts on individual and organizational performance by:

- ✓ Focusing attention on the values of the organization for high performance and the behaviors required to achieve it;
- ✓ Ensuring that performance expectations are defined and understood;
- ✓ providing the means to encourage and recognize high performance;
- ✓ enhancing engagement and promoting positive discretionary effort;
- ✓ Persuading talented people to join and stay with the organization (Armstrong, 2010).

2.1.5. Motivation

A motive is a reason for doing something. Motivation is concerned with the strength and direction of behaviour and the factors that influence people to behave in certain ways. The term ‘motivation’ can refer variously to the goals individuals have, the ways in which individuals chose their goals and the ways in which others try to change their behaviour. Motivating other people is about getting them to move in the direction you want them to go in order to achieve a result. Motivating yourself is about setting the direction independently and then taking a course of action that will ensure that you get there. Motivation can be described as goal-directed behavior. People are motivated when they expect that a course of action is likely to lead to the attainment of a goal and a valued reward – one that satisfies their needs and wants. Well-motivated people engage in discretionary behavior – in the majority of roles there is scope for individuals to decide how much effort to exert. Such people may be self-motivated, and as long as this means they are going in the right direction to attain what they are there to achieve, then this is the best form of motivation (Armstrong, 2009).

2.1.5.1. Types of Motivation

According to Armstrong (2009), motivation can be divided in to two:

1. Intrinsic motivation

Intrinsic motivation can arise from the self-generated factors that influence people’s behavior. It is not created by external incentives. It can take the form of motivation by the work itself when individuals feel that their work is important, interesting and challenging and provides them with a reasonable degree of autonomy (freedom to act), opportunities to achieve and advance, and scope to use and develop their skills and abilities. Intrinsic motivation can be enhanced by job or role design.

2. Extrinsic motivation

Extrinsic motivation occurs when things are done to or for people to motivate them. These include rewards, such as incentives, increased pay, praise, or promotion; and punishments, such as disciplinary action, withholding pay, or criticism. Extrinsic motivators can have an immediate and powerful effect, but will not necessarily last long. The intrinsic motivators, which are concerned with the 'quality of working life' (a phrase and movement that emerged from this concept), are likely to have a deeper and longer-term effect because they are inherent in individuals and their work and not imposed from outside in such forms as incentive pay.

2.1.6. Reward Management

According to Armstrong (2010), reward management is fundamentally about people. It is stakeholder orientated, integrated, and strategic and evidence based.

Reward management and people- reward management is concerned with people – especially the employees who are rewarded for their efforts, skills and contribution but also the directors, managers and reward specialists who plan, manage and administrate rewards.

A stakeholder approach- the purpose of human resource management (HRM) is to meet the needs of all the stakeholders in the business – employees, customers, and suppliers and the public at large as well as management and shareholders. Reward management shares that purpose. In doing so, it can make a significant contribution to meeting the varied needs of stakeholders successfully.

Integrated reward management-integrated reward management is an approach to reward management that provides for reward policies and practices to be treated as a coherent whole in which the parts contribute in conjunction with one another to ensure that the contribution people make to achieving organizational, departmental and team goals is recognized and rewarded. It consists of a related set of activities that impinge and impact on all aspects of the business and the HRM practices within it. Integration takes three forms:

- i. Strategic integration: the vertical integration of reward strategy with business strategy.
- ii. HRM integration: the horizontal integration of reward strategies with other HR strategies, especially those concerned with high performance, engagement, talent management and learning and development.

- iii. Reward integration: the internal integration of reward to ensure that its various aspects cohere and that a total reward philosophy is adopted that means a full range of mutually supporting financial and non-financial rewards is used.

2.1.7. Reward philosophy

Reward management adopts a 'total rewards' approach that emphasizes the importance of considering all aspects of reward as a coherent whole that is linked to other HR initiatives designed to win the engagement of employees and further their development. Some of the reward philosophies are described as follows which was written by Armstrong (2010):

A. Distributive justice

Distributive justice refers to how rewards are provided to people. They will feel that they have been treated justly if they believe that the rewards have been distributed in accordance with the value of their contribution, that they receive what was promised to them and that they get what they need.

B. Procedural justice

Procedural justice refers to the ways in which managerial decisions are made and reward policies are put into practice. The five factors that affect perceptions of procedural justice are:

- 1) The viewpoint of employees is given proper consideration.
- 2) Personal bias towards employees is suppressed.
- 3) The criteria for decisions are applied consistently to all employees.
- 4) Employees are provided with early feedback about the outcome of decisions.
- 5) Employees are provided with adequate explanations of why decisions have been made.

C. Fairness

A fair reward system is one that operates in accordance with the principles of distributive and procedural justice. This states that pay systems will be fair if they are felt to be fair. The assumptions underpinning the theory are that:

- i. There is an unrecognized standard of fair payment for any level of work.
- ii. Unconscious knowledge of the standard is shared among the population at work.
- iii. Pay must match the level of work and the capacity of the individual to do it.
- iv. People should not receive less pay than they deserve by comparison with their fellow workers.

D. Equity

Equity is achieved when people are rewarded appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible and that equal pay is provided for work of equal value.

E. Consistency

A consistent approach to reward management means that decisions on pay do not vary arbitrarily without due cause between different people or at different times. They do not deviate irrationally from what would generally be regarded as fair and equitable.

F. Transparency

Transparency exists when people understand how reward processes function and how they are affected by them. The reasons for pay decisions are explained at the time they are made. Employees have a voice in the development of reward policies and practices.

G. Strategic alignment

The strategic alignment of reward practices ensures that reward initiatives are planned by reference to the requirements of the business strategy and are designed to support the achievement of business goals.

H. Contextual and culture fit

The design of reward processes should be governed by the context (the characteristics of the organization, its business strategy and the type of employees) and the organization's culture (its values and behavioral norms). The design will be affected by the political and social factors present in the organization.

I. Performance and reward

Reward strategies, policies and practices focus on performance and contribute to the achievement of a high-performance culture. This is one in which people are aware of the need to perform well and behave accordingly in order to meet or exceed expectations. Employees will be engaged with their jobs and the organization and be prepared to exercise productive discretionary effort in getting their work done.

J. Segmentation

Different segments of the workforce, and individuals at different stages in their career, will be motivated by different combinations of rewards. A total rewards package should be tailored to meet these different needs. Organizations may consider segmenting their package for different

types of jobs, or to reflect the different types and levels of contribution people make, or to respond to different needs.

2.1.8. Fundamental views of Reward Management

The following fundamental concepts influence the aims of reward management, reward strategy and how people are valued.

1. The Resource Based View

The role of reward management is to contribute to the acquisition and retention of such people. This is the view that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. HRM delivers added value and helps to achieve sustainable competitive advantage through the strategic development of the organization's rare, hard to imitate and hard to substitute human resources.

2. Human Capital Management

It is human capital that is the differentiator for organizations and the actual basis for competitive advantage'. Human capital management (HCM) is often described as being about measurement in the sense of obtaining, analyzing and reporting on data relating to employees that inform HRM decisions. But it is sometimes defined more broadly without the emphasis on measurement. Human capital management is an integrated effort to manage and develop human capabilities to achieve significantly higher levels of performance.

3. Human Process Advantage

A distinction should be made between human process advantage and human capital advantage. The former results from the establishment of 'difficult to imitate, highly evolved processes within the firm', while the latter follows from employing people with competitively valuable knowledge and skills. This suggests that one of the roles of reward management is to differentiate from rather than imitate the 'best practices' of other firms.

4. Motivation theory

Motivation is the force that energizes, directs and sustains behavior. Motivation theory explains how motivation works and the factors that determine its strength. It deals with how money and other types of rewards affect the motivation to work and levels of performance, what creates job satisfaction, and the link between job satisfaction and performance. It therefore influences decisions on how people should be valued, the choice and design of financial rewards and the use of non-financial rewards. A distinction is made between extrinsic and intrinsic motivation.

Extrinsic motivation occurs when things are done to or for people to motivate them. There are four main categories of motivation theories as described below.

a. Instrumentality theory

Instrumentality theory states that people only work for money. It assumes that people will be motivated to work if rewards and penalties are tied directly to their performance; thus the awards are contingent upon effective performance.

b. Content (needs) theory

This theory focuses on the content of motivation in the shape of needs. It provides guidance on what needs should be satisfied by the reward system if motivation is to occur. The basis of content theory is the belief that an unsatisfied need creates tension and a state of disequilibrium. The main needs identified by these and other writers are those for achievement, recognition, responsibility, autonomy and the opportunity to develop and use skills. These have to be taken into account in deciding how people should be rewarded and also in achieving motivation through job design.



Figure 2 the link between total rewards and Maslow's hierarchy of needs(WorldatWork, 2007)

c. Process theory

In process theory, the focus is on the psychological processes or forces that affect motivation, as well as on basic needs. The three main theories are:

- i. **Expectancy theory** states that motivation will be high when people know what they have to do to get a reward, expect that they will be able to get the reward and expect that the reward will be worthwhile.
- ii. **Goal theory** which states that motivation and performance are higher when individuals are set specific goals, when goals are difficult but accepted, and when there is feedback on performance.
- iii. **Equity theory** which states that people will be better motivated if they are treated equitably, and demotivated if they are treated inequitably. The main distinction between content and process theory is that the former provides guidance on what needs should be satisfied by a reward system while the latter indicates how they should be satisfied, especially in pay schemes that are contingent on performance, contribution or skill. In their case, process theory is the most important.

d. Cognitive Evaluation Theory

Cognitive evaluation theory argues that placing strong emphasis on monetary rewards decreases people's interest in the work itself, thus dampening a powerful alternative source of motivation. In other words, extrinsic rewards erode intrinsic interest.

5. Principal agent theory

Principal agent theory, sometimes known as agency theory, is based on the supposition that the separation between the owners (the principals) and the agents (the managers) means that the principals may not have complete control over their agents. The latter may therefore act in ways which conflict with what the principals want. So it is desirable to provide for 'incentive alignment', which means paying for measurable results deemed to be in the best interests of the owners.

6. The Psychological Contract

A psychological contract is a set of unwritten expectations that exist between individual employees and their employers. A psychological contract is a system of beliefs that encompasses the actions employees think are expected of them and what response they expect in return from their employer (Michael Armstrong, 2010).

2.2. Empirical Review

A study in South Asian country of Bangladesh, on the title of the “Impact of Rewards on Employee Performance in Commercial Banks of Bangladesh indicated that there is a statistical significant relationship between all of the independent variables with dependent variables employee work performance and all the independent variables have a positive influence on employee work performance. Based on result of the study, it showed that only extrinsic or intrinsic rewards are not sufficient to motivate employee to perform work highly. The results of correlation matrix, there was a positive relationship among extrinsic rewards, intrinsic rewards and employees’ performance. There is also strongly relationship between extrinsic rewards and intrinsic rewards. Basic pay was a highly significant factor which affected employee performance than performance bonus. Challenging work was a highly significant factor which affected employees’ performance (Aktar, Sachu and Ali, 2012).

A study conducted in West African country, Nigeria on the title of the “Effect of Rewards on Employee Performance in Organizations indicated the presence of a relationship between rewards and employee performance and that there is a significant difference on the effects of intrinsic and extrinsic rewards on employee performance. The respondents agreed that when their work provides an opportunity for growth, they will enjoy it. Respondents opined that when their contributions are recognized by superiors in the organization they feel motivated. Respondents perceived that extrinsic rewards, such as: a competitive salary and cash bonus for exceeding work targets motivate them to achieve greater feats (Ihedinhmah, Chijioke, Egbunike, Chinedu, 2015).

A study conducted in our neighboring country, Kenya on the “Effect of Reward on Employee Performance: A Case of Kenya Power and Lighting Company Ltd., Nakuru, Kenya” showed cash bonuses (i.e. financial reward) had no significant effect on employee performance. The findings of the study showed that cash bonus have no effect on employee performance ($p=0.8$). Those who had received and those who had not received cash bonus perceived it to affect their performance the same; hence concluded it did not have a significant effect on performance of employee (Njanja, Maina, Kibet & Njagi, 2013).

A study in the Kenyan Country Government studied on the title of “Influence of Compensation and Reward on Performance of Employees at Nakuru County Government showed that there was a strong relationship between compensation and reward on employee performance in the county government of Nakuru. There was a weak positive relationship between compensation and reward and employee performance ($r=0.290$). The overall findings revealed appreciable influence of the compensation & reward on employee performance. The adopted pay strategy of basing compensation to knowledge was effective and had rippled the effects of motivating employees to further their studies which would in turn enhance employee performance (Njoroge & Kwasira, 2015).

In our country, Ethiopia, a study in Dessie town on four commercial banks (Commercial Bank of Ethiopia, Construction and Business Bank, Dashen Bank, and Wegagen Bank) showed many employees believed that the current compensation and benefit was not fair and banks need to cope-up with ongoing cost of life. Compensation and benefit packages were not periodically updated and evaluated for effectiveness. Furthermore, the existing benefits are not well communicated to employees. When employees are participating on compensation process banks need to take factors like market condition, nature of the jobs, competitors, government regulations and also the internal factors like values of the job grades through job analysis. Some employees felt that organizations considering seniority than performance. They explained that there was great imbalance of salary payment and benefits between supervisor and clerical officer, this may affect the majority of employees’ perception on compensation management system and benefit policy (Ponduri and Soudikar, 2016).

In Jimma, survey conducted on the effect of compensation on employees’ motivation in Jimma University academic staff showed that payment, promotion, recognition, working conditions, and payment influence work motivation. The study also indicated there was significant and positive relationship between compensation and work motivation. The study has shown that Jimma University staffs were not motivated and satisfied in payment system of the university. The findings of this study also indicated that there was a relationship between compensation and its components and employee work motivation. Moreover, money they earned from their job was not satisfactory and staffs dissatisfied with the assignment of responsibility in the university and fairness promotion is in appropriate (Negash, Zewude, Megersa, 2014).

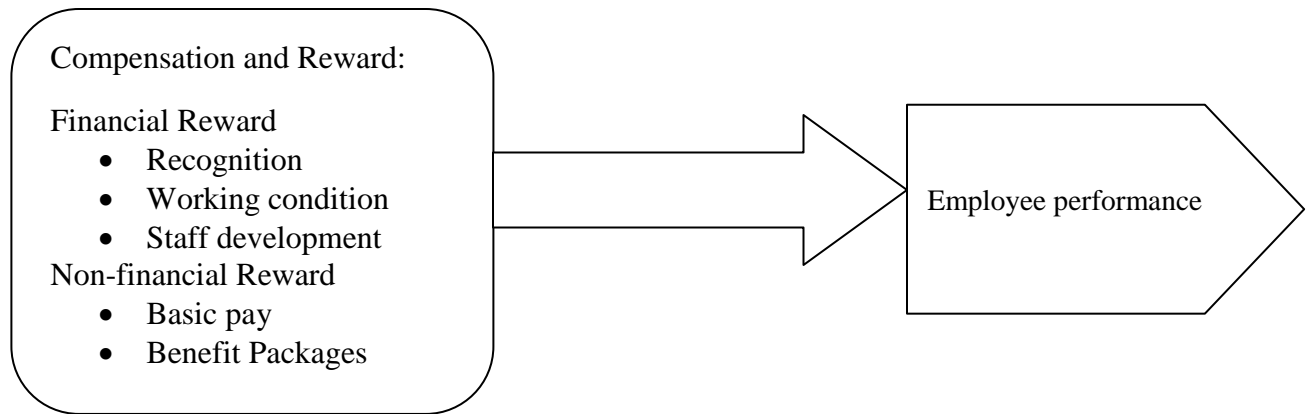


Figure 3: Conceptual Framework of the Research (Source: Aktar, Sachu and Ali, 2012)

CHAPTER THREE

RESEARCH METHODOLOGY

In this chapter, a detailed description of research methods and techniques used in the study for the collection, analysis and presentation of data was presented.

3.1. Research Approach

The researcher used quantitative approach to answer the research questions. This is based on the assumption that quantitative method was enough to address the research problem. A quantitative research enables the researcher to collect objective and numerical data to apply statistical tools and used to establish relationships of the variables used in this study.

3.2. Descriptions of Study Area

This study was studied in Commercial Bank of Ethiopia, Addis Ababa area. Data was collected from 12 Grade IV branches. There are four Districts in Addis Ababa namely North, South, east and West Addis. The study selected three branches from each District. From North Addis District, Addis Ababa, Arat Kilo and Gulelem branches were selected. In South Addis District, Lideta, KirkosKebele, TemenjaYaz were selected. In East and West Addis Districts, Africa Godana, MeskelAdebabay and Megenagna and Teklehaimanot, Addis Ketema and Abakoran branches were the study area of this study.

3.3. Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions. In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information (Adams, Khan, Raeside & White, 2007). The study used a descriptive and inferential design to identify the role of effective compensation and reward system on employees of Commercial Bank of Ethiopia. Descriptive research design for the demographic information and frequency and table were used to describe the result. Regression analysis was used to determine the impact of compensation and reward on employee performance.

3.4. Population and Sampling Design

According to CBE’s record as of December 2016, employees of CBE in total reached 28,278 working in 1140 branches stretched across the country. However, this study focuses only employees of CBE in Addis Ababa working in the Head Office (H.O) and four Districts in Addis Ababa, North, South, East and West Addis Districts. This study used simple random sampling.

Table 1: Sample Population

Offices	No. of Employees)	No. of Branches
<i>Head Office</i>	3045	0
<i>Districts</i>	9,577	371
East Addis Ababa District	2363	91
North Addis Ababa District	2590	90
South Addis Ababa District	2379	83
West Addis Ababa District	2245	107
<i>Grand Total</i>	<u>12,622</u>	<u>371</u>

(CBE’s Human Resource Transaction Management record, Dec., 2016)

These four Districts in Addis have 371 branches in Addis Ababa with employees of 9577 and 3045 employees in H.O which sum up a total of 12,622 target populations. CBE’s branches are mainly categorized in to four depending on the number of customers and employees. They are categorized as Grade-I, Grade-II, Grade-III and Grade-IV. Grade-I branches has least employees and less market share while Grade-IV has big market share and customers with more employees than all the rest grades. The researcher randomly selected Grade-IV branches as a sample. There are 24 Grade-IV branches in Addis Ababa and the researcher took 50 % of these 24 branches as a sample which is 12 Grade-IV branches. The researcher selected three branches from each District on a lottery basis and employees from the H.O. were taken as a sample population. Head Office population accounts 24% of the target population while the combined four districts account 76% of the target population. Selection of the sample population was also based on this proportion. Therefore, In order to determine the sample size of the population, the study used

Yamane's (1967) formula with 95% confidence and 5% acceptable sampling error. Based on the following formula 388 employees were taken as a sample.

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

Where, n= is the required sample size

N= is the population size

e= the acceptable sampling error (Yamane Taro, 1967).

Therefore, proportionately 93 employees from H.O and 295 employees from 12 branches (atleast 24 employees from each branch) were selected as a sample and questionnaire was distributed accordingly. Questionnaires were randomly distributed in all braches while the employees were leaving for luch and collected after they finished their work before leaving their home.

3.5. Sources of Data Collection Methods

Once the research methodology and the sampling size were formalized, then the processes of collecting survey questionnaire from respondents were carried out. Both primary and secondary data were used for this research. Of the data gathering tools, the study used written questionnaires administration approaches to gather datum. The primary data was collected from the respondents by using survey questionnaire. A questionnaire was distributed to 388 sample employees and 381 questionnaires filled and 7 questionnaire was not returned. The secondary data was collected from various books, documents, Journals, Articles and internet sources related to compensation and reward systems.

3.6. Data Analysis Method

The quantitative data collected from the respondents, described and analyzed using statistic software called SPSS (Statistical Package for Social Science) version 20. The data was entered and coded into the SPPS spreadsheet to describe and analyze the results along with figures and tables to present and discuss the results of the study. A descriptive statistical such as mean, frequencies and standard deviation were used to describe the profile of respondents, employee performance levels and effects of employee compensation and reward. Chi-square test was used to test whether demographic variables and employee performance have significant relationship or not. Correlation test was used to determine the nature, direction and significance level of the

relationship of compensation and reward with employee performance. Regression analysis was also carried out to determine the impact of compensation and reward system on employee performance.

3.7. Reliability and Validity of the Research

The data was tested for its reliability using Cronbach's alpha. The data have relatively high internal consistency (Cronbach's Alpha=0.827). The questionnaires were taken from various journal articles and for its validity the researcher conducted a pilot test on two of CBE's branch by distributing 30 questionnaires. Based on the pilot test, improvements were made by consulting my advisor and then after all it was found to be valid and reliable.

Table 2: Reliability Statistics

No.	Variables	Cronbach's Alpha	N of Items
1	Financial Rewards	.706	11
2	Non-financial rewards	.723	15
3	Employee performance	.801	15
4	Grand	.827	41

3.8. Ethical Considerations

This study used proper citation of the copy right holders. Any confidential information of the bank or the employees has not been disclosed since the main intention was to gather data for the research purpose. This research is conducted on the consent of the bank and with the arrangement of Addis Ababa University, School of Commerce with authorized legal letter to the researcher.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

This chapter discusses the results survey which is the analysis of data obtained from data 381 respondents as seven questionnaires were not returned to the researcher.

4.1. General Demographic Information

Table 3: Descriptive Statistics

		Frequency	Percent
Gender	male	203	53.3
	female	176	46.2
	Total	379	99.5
	Total	381	100.0
		Frequency	Percent
Age	Below 25	83	21.8
	26-35	199	52.2
	36-45	63	16.5
	Above 46	32	8.4
	Total	381	100.0

		Frequency	Percent
Education	Diploma	31	8.1
	Degree	268	70.3
	MA/MSc	81	21.3
	Total	381	100.0

		Frequency	Percent
Work Experience	1-5	171	44.9
	6-10	116	30.4
	11-15	45	11.8
	16-20	21	5.5
	21-25	15	3.9
	above 26	13	3.4
	Total	381	100.0

Marital Status	Single	195	51.2
	Married	172	45.1
	Divorced	8	2.1
	widowed	2	.5
	Total	381	100.0
Salary Range	Below 4000	39	10.2
	40001-6000	128	33.6
	6001-10000	158	41.5
	10001-15000	46	12.5
	15001-25000	9	2.4
	Above 25001	1	.3
	Total	381	100

(Source: Researcher's Survey)

As we can see from the above table 3, male and female in CBE constitutes about 53.3% and 46.2% respectively which shows the samples taken represented male and female is relatively distributed on fairly basis.

According to the above table 3 , age category of the respondent shows highly dominated by youngsters between ages 26-35 which accounts more than half of the respondents (52.79%) followed by 22.02% of the respondents are below age 25, while age group of 36-45 and above 46 constitutes 16.71% and 8.49% respectively. This indicates that most of the employees are young and highly implies CBE's employment trend focuses on new and young employees.

Regarding to the employee education qualification, the above table 3, clearly indicated that majority of the work forces (70.53%) acquired their first degree and Master degree holders constitute 21.32% of the respondent while the rest 8.16 % of the respondents are Diploma holders. This shows that majority of the employees are degree holders because the company adopted a recruitment policy of young fresh graduate and a minimum of bachelor degree is required to join the workforce of CBE.

The management staffs accounts 20.05% and professional employees' represented by 79.95%. Categorizing the employees in such a way helps the researcher to determine whether the performance of the employees vary from the management and the professionals.

Majority of the respondents (44.9%) joined CBE as new comers for the company from the last five years and 30.4% of the respondents spent their employment time for 6-10 years with the organization. There are also employees who served the bank for 11-15 years and are about 11.8% and 5.5% of the employees served for 16-20 years working in the bank. 3.9% and 3.4% of the respondents served the bank and spent their life with CBE for 21-25 and above 26 years respectively working for the company. Therefore, the sample is more of from employees that joined CBE in the last five years.

Since most of the employees of CBE are youngsters, the above table shows almost half of the employees are single about 51.2% while 45.1% of the respondents are married. Unluckily, there are 2.1% and 0.5% of the employees are divorced and widowed respectively. Since marital status has its own impact on employee performance, the researcher has accessed this result for comparison between their statuses.

The salary range of the employee indicated most of the respondent's (41.47%) salary ranges from ETB 6,001-10,000 while 33.60% of the employees earn a salary of between ETB 4,000-6000. Employees of CBE which account about 10.24% earn a salary of below ETB 4,000.00 and relatively high paid employee's salary ranges from ETB 10,000-15,000, who are management and administrative staffs, constitute 12.07% of the respondents. There are employees who earn a salary of between ETB 15,000-25,000 and above 25,000 which accounts 2.36% and 0.26% of the employees. Therefore, comparing the salary of the employee helped us to compare the performance of the employees since it is part of the reward.

4.2. Analysis on Demographic versus Employee Performance using Chi-square Test

Gender of the respondent * Employee Performance

Table 4: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	36.959 ^a	28	.120
Likelihood Ratio	44.960	28	.022
Linear-by-Linear Association	.922	1	.337
N of Valid Cases	379		

a. 36 cells (62.1%) have expected count less than 5. The minimum expected count is .46.

As the Chi-Square Table above shows, the p value is (sig. = .120) is greater than the significance value of $\alpha=0.05$, indicating that there is no relationship between gender and employee performance in CBE.

Age of the Respondent * Employee Performance

Table 5: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	96.588 ^a	84	.164
Likelihood Ratio	92.870	84	.238
Linear-by-Linear Association	.946	1	.331
N of Valid Cases	377		

a. 92 cells (79.3%) have expected count less than 5. The minimum expected count is .08.

The Chi-Square of age and employee performance indicated that the p value is (sig. = .164) is greater than the significance value of $\alpha=0.05$, indicating that there is no relationship between age and employee performance in the case of CBE

Education level * Employee Performance

Table 6: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	88.406 ^a	56	.004
Likelihood Ratio	78.458	56	.025
Linear-by-Linear Association	10.740	1	.001
N of Valid Cases	380		

a. 68 cells (78.2%) have expected count less than 5. The minimum expected count is .08.

The Chi-Square, Table 5 above, indicated that the p value is (sig. = 0.004) is less than the significance value of $\alpha=0.05$, indicating that there is significant relationship between education qualification and employee performance in Commercial Bank of Ethiopia.

Employment type * Employee Performance

Table 7: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	36.323 ^a	28	.135
Likelihood Ratio	35.773	28	.148
Linear-by-Linear Association	9.368	1	.002
N of Valid Cases	379		

a. 37 cells (63.8%) have expected count less than 5. The minimum expected count is .20.

The Chi-square above indicated that the p value is (sig. = 0.135) is greater than the significance value of $\alpha=0.05$, indicating that there is no significant relationship between employment type (professional and administrative) and employee performance.

Work experience * Employee Performance

Table 8: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	183.527 ^a	140	.008
Likelihood Ratio	155.063	140	.182
Linear-by-Linear Association	.067	1	.796
N of Valid Cases	381		

a. 151 cells (86.8%) have expected count less than 5. The minimum expected count is .03.

The Chi-square test of work experience and employee performance's p value is ((sig. = 0.008) is less than the significance value of $\alpha=0.05$, which indicates that there is significant relationship between work experience and employee performance.

Marital Status * Employee Performance

Table 9: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	107.205 ^a	84	.045
Likelihood Ratio	66.496	84	.920
Linear-by-Linear Association	1.287	1	.257
N of Valid Cases	377		

a. 94 cells (81.0%) have expected count less than 5. The minimum expected count is .01.

The Chi-square test of p value in the above table is ((sig. = 0.045) is less than the significance value of $\alpha=0.05$, therefore, marital status has significant relationship with employee performance.

Monthly salary range * Employee Performance

Table 10: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	167.865 ^a	140	.054
Likelihood Ratio	130.806	140	.699
Linear-by-Linear Association	2.353	1	.125
N of Valid Cases	381		

a. 149 cells (85.6%) have expected count less than 5. The minimum expected count is .00.

According to the above table, the p value is ((sig. = 0.054) is greater than the significance value of $\alpha=0.05$, which shows us there is no significant relationship between salary range and employee performance.

4.3. Data Analysis

4.3.1 Analysis of Financial reward

Table 11: Descriptive Statistics of Financial Reward

	N	Mean	Std. Deviation
I'm satisfied with the current salary scale of CBE for the job I'm doing now	381	2.22	1.089
CBE's salary is competitive compared to other companies in Eth.	381	2.55	1.261
My salary is based on the current market & is enough to satisfy my basic needs	381	1.81	.936
Annual salary increment and adjustment is fair & reasonable	381	2.16	1.094
Bonus scheme of CBE is motivating to increase employee performance	381	3.65	1.163
Overtime payment in CBE is reasonable & initiates for high performance	381	1.88	1.004
Medical benefits are easily accessible & offer satisfactory health care services	381	3.92	1.094
Fuel allowance fully covers my transportation expenses	381	3.73	1.101
Housing allowance covers my rent fully	381	1.48	.716
Mortgage loan offered by CBE is a motivating to buy the property that satisfies my need in the market	381	3.27	1.435
Valid N (listwise)	381		

(Source: Researcher's Survey)

From the above table 11, we can see that the highest mean score of $M=3.92$; $SD=1.094$ was for the medical benefits of CBE are easily accessible & offer satisfactory health care services for its employee. Furthermore, fuel allowance, bonus scheme and mortgage loan offered by the company relatively have a high mean value of $M=3.73$; $SD=1.101$, $M=3.65$; $SD=1.165$, &

M=3.27; SD=1.1435 respectively. This showed benefit packages such as fuel, bonus scheme and mortgage loan are encouraging for the employees. However, housing allowance with the lowest mean M=1.48; SD=0.716 has dissatisfied the employees followed by the salary of the employee has not considered the current market as the mean value is M=1.81; SD=0.936 and the employee do not agree with the overtime payments of the company as M=1.88; SD=1.004. More importantly, Commercial Bank of Ethiopia employees are not satisfied with their current salary scale (the mean is M=2.22; SD=1.089) and they do not believe the annual salary increment and adjustment is fair and reasonable (M=2.16; SD=1.094) which made them their employer's salary scale is barely competent compared to other companies (M=2.55; SD=1.261). Therefore, employees of CBE are highly satisfied with the benefit packages of the company particularly on fuel allowance, cash bonus and mortgage loan. However, they are not satisfied with the housing allowance, over time payment and salary scale of the company.

Since the Mean (M) values of the above variables ranges from a positive lowest mean value to a highest mean values of (M=3.92 and 1.48) respectively there is a positive relationship among the variables and employee performance. An increase in one variable (independent variable) will increase weakly or strongly the employee performance (dependent variable) depending the mean values of the independent variable. For instance, in the above table, if there is an increase of medical benefits (M=3.92) available, there is an increase in employee performance. Therefore, there is a strong relationship between medical benefits and employee performance.

4.3.2. Analysis of Non-financial reward

Table 12: Descriptive Statistics non-financial

	N	Mean	Std. Deviation
There are best opportunities for career	381	3.12	1.236
Staff development has helped me to do my task	381	2.90	1.211
I'm empowered to give decisions in my work place	381	2.90	1.157
I'm free from pressure & criticism	381	2.71	1.171
The bank recognizes on time for employees who deserves recognition	381	2.74	1.058
There is fair and equitable promotion and growth	381	2.65	1.106
I'm happy that CBE invests on human capital to upgrade	381	3.40	1.095
My organization has safe work environment	381	3.44	1.154
I'm happy with the culture of my work place and social life	381	3.94	.963
A good sprit of team work	381	3.94	1.006
There is clear rules and procedures	381	3.87	1.177
When employees face problems, the MGT fixes	381	2.65	1.057
I am always interested doing my job	381	3.95	.969
Valid N (listwise)	381		

(Source: Researcher's Survey)

Unlike the financial reward, the non-financial compensation and reward system of CBE was relatively having a high mean value. The minimum mean value for the non-financial variables were $M=2.65$ while the maximum mean $M=3.95$ which shows employees of CBE are relatively satisfied on the non-financial compensation program. The table also shows the employees interested doing their job and their team spirit is high ($M=3.95$ & 3.94). However, the respondents doubted the fairness of the growth and promotion ($M=2.65$; $SD=1.106$). In addition to this, we can see that the management's responsiveness towards the employees problem is

average (M=2.65; SD=1.057). Overall, the minimum and maximum means were (M=2.65 & 3.95) which is moderate and strong respectively which means if there is a moderate and high increase in the independent variables, there will be a moderate and strong relationship between the independent and employee performance respectively. Likewise an increase in one variables of the independent variable will increase the dependent variables positively.

4.3.3. Analysis of Employee Performance

Table 13: Descriptive Statistics Employee Performance

	N	Mean	Std. Deviation
I enjoy my tasks and the division of work approach	381	3.39	1.188
I am always committed to the mission and vision	381	4.00	.923
I love my work	381	4.02	.978
I cooperate well with my colleagues in office	381	4.13	.775
My Performance level has effect on my salary	381	2.25	1.125
I am given a chance to apply my own methods	381	2.45	1.229
I am given an opportunity to improve my performance through learning more skills	381	3.47	1.130
Employees with higher education qualification perform better than lower qualification	381	2.43	1.204
I feel my Performance contributes for the growth of my organization	381	4.14	.902
Valid N (listwise)	381		

(Source: Researcher's Survey)

As we can see from the above table 13, the minimum mean value ranges from M=2.25 to 2.45 while the maximum mean ranges from M=3.39 to 4.14. We can see that the performance of the employee weakly affected their salary (M=2.25; SD=1.125). The employee have a moderate chance of applying their own methods (M=2.45; SD=1.229) and education qualification

moderately affected their performance ($M=2.43$; $SD=1.204$). Therefore, when we look at the aggregate result, the employees of CBE's are a high performer. The employees love their work, committed to the mission and vision of the organization and contributes for the growth of the organization since it has a high mean value of ($M=4.02$, 4.00 and 4.14) respectively. This shows that there is a strong positive relationship between the independent variables and the dependent variable that is employee performance.

Statistics

Table 14: Employee Performance

N	Valid	381
	Missing	0
Mean		3.36

Commercial Bank of Ethiopia's employee performance's grand mean is ($M=3.36$). The employees' performance level has reached about 67.2%. Therefore, CBE's employees' performance level is relatively high.

4.4. Analysis of coefficient correlation of Financial & Non-financial and Employee Performance

Table 15: Correlations

		Basic Pay	Benefit Packages	Staff Development	Recognition	Working Condition	Employee Performance
Basic Pay	Pearson Correlation	1	.453**	.406**	.330**	.323**	.233**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	381	381	381	381	381	381
Benefit Packages	Pearson Correlation	.453**	1	.321**	.219**	.390**	.224**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	381	381	381	381	381	381
Staff Development	Pearson Correlation	.406**	.321**	1	.368**	.319**	.381**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	381	381	381	381	381	381
Recognition	Pearson Correlation	.330**	.219**	.368**	1	.241**	.314**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	381	381	381	381	381	381
Working Condition	Pearson Correlation	.323**	.390**	.319**	.241**	1	.412**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	381	381	381	381	381	381
Employee Performance	Pearson Correlation	.233**	.224**	.381**	.314**	.412**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	381	381	381	381	381	381

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

(Source: Researcher's Survey)

According to the above correlation table 15, there is a weak but statistically significant relationship between basic pay and employee performance in CBE ($r = 0.233, p < 0.01$). It also showed there was weak but statistically significant relationship between benefit packages and employee performance in CBE ($r = 0.224, p < 0.01$). The table also showed there was a moderate and, statistically significant positive relationship between recognition and employee performance in CBE ($r = 0.314, p < 0.01$) in CBE. There is relatively moderate and statistically positive relationship between staff development and working condition with employee performance in CBE ($r=0.381$ & $r=0.412, p < 0.01$) respectively.

4.5. Regression Analysis of the result

Regression and correlation are closely related. Both techniques involve the relationship between two variables, and they both utilize the same set of paired scores taken from the same subjects. However, whereas correlation is concerned with the magnitude and direction of the relationship, regression focuses on using the relationship for prediction. In terms of prediction, if two variables were correlated perfectly, then knowing the value of one score permits a perfect prediction of the score on the second variable. Generally, whenever two variables are significantly correlated, the researcher may use the score on one variable to predict the score on the second (Robert Ho, 2006). Since from the correlation analysis we found that the financial and non-financial have significant relationship with employee performance though it is weak and moderate relationship in CBE. Then, to find out how significantly it affects the employee performance a regression analysis was conducted

4.5.1. Regression Analysis of Financial Reward on Employee Performance

Table 16 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.248 ^a	.062	.059	.486

a. Predictors: (Constant), Financial Reward

A measure of the strength of the computed equation is R-square, sometimes called the coefficient of determination. R-square is simply the square of the multiple correlation coefficients R in the Model Summary (See table 16 above), and represents the proportion of variance accounted for in the dependent variable (employee performance) by the predictor variable (financial reward). As we can see from the above table, the correlation coefficients are 0.248, and the R-square is 0.62. Thus, the predictor variables of the financial reward have shown 6.2% of the variance in the dependent variable (employee performance). Therefore, The Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.059, an indication that there was variation of 5.9 % on employee performance due to changes in financial rewards at 95% confidence level. Hence, 24.8 % of employee performance explained by financial rewards.

Table 17 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.877	1	5.877	24.912	.000 ^b
	Residual	89.404	379	.236		
	Total	95.281	380			

a. Dependent Variable: Employee Performance

b. Predictors: (Constant), Financial Reward

The ANOVA table above, presented results from the test of the null hypothesis that R-square is zero. An R-square of zero indicates no linear relationship between the predictor and dependent variable. The ANOVA table showed that the computed F statistic is 24.912, with an observed significance level of less than 0.001. Thus, the null hypothesis financial compensation and rewards have no significant relationship with employee performance is rejected.

Table 18 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.744	.126		21.703	.000
	Financial Reward	.215	.043	.248	4.991	.000

a. Dependent Variable: Employee Performance

The Coefficients Table above shows that the standardized Beta coefficient between the predictor variable financial reward and the dependent variable employee performance. The Beta coefficient is positive and statistically significant at the 0.001 level. Thus, the more the company offers the financial reward, the better performance of the employee, Beta = 0.248, t = 4.991, p < .001. Since the predictor value is one, the standardized Beta Coefficient (0.248) is the same as the multiple R coefficients. Therefore, A unit increase in the financial reward will increase performance by 0.215 other things remain constant.

4.5.2. Regression Analysis of Non-financial and Employee Performance

Table: 19 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.483 ^a	.233	.231	.439

a. Predictors: (Constant), Non-Financial Reward

As we can see from the above Table 19, the correlation coefficients are 0.483, and the R-square is 0.233. Thus, the predictor variables of the non-financial reward have shown 23.3% of the variance in the dependent variable of employee performance. From the findings in the above table the value of adjusted R squared was 0.231, an indication that there was variation of 23.1% on employee performance due to changes in financial rewards at 95% confidence level. Therefore, 48.3% of employee performance explained by non-financial rewards.

4.5.3. Regression Analysis of Financial and Non-financial Compensation and Rewards with Employee Performance

Table 20 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.484 ^a	.234	.230	.439

a. Predictors: (Constant), Nonfinancial Reward, Financial Reward

From the above table, it showed that offering both the financial and non-financial rewards (total rewards) explained 23% variance in the dependent variable. Performance explained 48.4% by total rewards. Therefore, the null hypothesis total rewards have no impact on employee performance rejected.

Table 21 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.111	.133		15.827	.000
Financial Reward	.027	.044	.031	.604	.000
Non-Financial Reward	.370	.040	.469	9.221	.000

a. Dependent Variable: Employee Performance

(Source: Researcher's Survey)

From the above regression table, it was found that holding financial and non-financial rewards to a constant zero, employee performance will be 2.11, a unit increase in financial rewards will increase employee performance by 0.027. Likewise, an increase in non-financial rewards will lead to increase in employee performance at Commercial Bank of Ethiopia by 0.370 other things remain constant.

4.6. Hypothesis Testing

Testing the hypothesis formulated based on the above statistics of employee performance using the correlation Table 22 above, it can be generalized as follow:

H1: Financial compensation and reward have a significant relationship with employee performance

There was a weak and statistically significant relationship between financial compensation and reward with employee performance ($r = 0.248$, $p < 0.01$). Although it showed a weak strength, but it has a positive relationship. It means that if there is an increase in compensation and reward, then employee performance also increase weakly. So, there is direct relationship. Therefore, the null hypothesis financial compensation and rewards have no significant relationship with employee performance was rejected and the alternative hypothesis was accepted.

H2: Non-financial compensation and rewards have a significant relationship with performance.

There was moderate and significant relationship between non-financial and employee performance in CBE ($r = 0.483$, $p < 0.01$). The non-financial compensation and rewards and employee performance has a positive relationship which means if there is an increase in the non-financial compensation and rewards, then employee performance also increase moderately. Therefore, this hypothesis was accepted & the null hypothesis was rejected.

H3: Financial compensation and rewards are a more motivating factor to increase the employee performance than non-financial

Since the financial rewards relationship with the employee performance was weak ($r=0.248$, $P < 0.01$) and less than the non-financial ($r=0.483$) which is moderate, then, the non-financial rewards were a more motivating factor than the financial one in the case company. Therefore, the null

hypothesis of this was rejected & the alternative was accepted.

H4: Total reward system has an impact on employee performance

From the above discussions, both financial and non-financial rewards have weak and moderate significant relationship with employee performance respectively. Therefore, employee performance is affected by total rewards since the values are positive in both cases. Hence, the null hypothesis total reward system has no impact on employee performance was rejected and the alternative hypothesis was accepted. The Significance level has been shown in the regression part of this study.

Table 22: Summary of Hypothesis

Hypothesis		Result
H1	Financial compensation & rewards have significant r/ship with employee performance	Accepted
H2	Non-financial compensation & rewards have significant r/ship with employee performance	Accepted
H3	Financial compensation & rewards a more motivating factor to increase employee performance than no-financial	Rejected
H4	Total rewards have an impact on employee performance	Accepted

(Source: Researcher’s Survey)

Chapter Five

Summary of Major Findings, Conclusions and Recommendations

This is the last chapter which summarizes the major findings of the study. Commercial Bank of Ethiopia offers various compensation and rewards to its employee. The major findings of the research was summarized and concluded here below.

5.1. Summary of the Major Findings

Financial compensation and reward of CBE such as fuel allowance, bonus scheme, mortgage loan and medical benefits offered by the company relatively have a high mean value. Therefore, employees of CBE are highly satisfied with the benefit packages of the company particularly on fuel allowance, cash bonus and mortgage loan. However, the employees are not satisfied with the salary scale of the organization, over time payment and housing allowance indicating the employees are dissatisfied.

The non-financial compensation and reward system of CBE relatively have a high mean value compared to the financial which showed employees of CBE are satisfied on the non-financial compensation program of CBE.

Overall performance of employees in commercial Bank of Ethiopia was high and the performance of the employee is weakly affected by their salary. The employees of CBE love their work, committed to the mission and vision of the organization and contributed for the growth of the organization. Therefore, when we look at the aggregate result, the employees of CBE's were a good performer.

The Chi-Square test indicated that there was no significant relationship between performance of the employee with age group, salary and employee type (whether professional or administrative). However, the test has showed that education qualification, work experience and marital status has significant relationship with the performance of employee.

The correlation analysis explained that there was a weak but statistically positive significant relationship between basic pay and benefit packages with employee performance in CBE. It also showed that recognition, staff development and working condition have a moderate positive

relationship with employee performance in CBE. The correlation analysis also showed a weak and statistically significant relationship between financial compensation and reward with employee performance. It means that if there was an increase in compensation and reward in CBE, employee performance also increases. There was a moderate and significant relationship between non-financial and employee performance in CBE. The non-financial compensation and rewards and employee performance has direct relationship which means if there was an increase in the non-financial compensation and rewards, then employee performance also increase moderately. Financial rewards relationship with the employee performance was weak and was lower than the non-financial. Hence, non-financial rewards were a more motivating factor than the financial one in the case company. Employee performance of CBE was significantly affected by total rewards the mean values are positive in both cases.

The regression analysis conducted indicated that the financial and non-financial rewards have a significant effect on employee performance. The variables of the financial rewards have shown a 6.20% variance in the dependent variable which is employee performance in CBE. In addition, the non-financial compensation and reward affected employee performance by 23.3%.

5.2. Conclusions of the Study

Based on the findings of this research, the following major conclusions were drawn based on the results obtained. .

Commercial Bank of Ethiopia's employees' performance was found to be a good performer. Financial compensation and rewards that CBE offering was not adequate for the employees and the non-financial compensation and rewards offered by CBE were very encouraging for the employees. . Based on this study, Commercial Bank of Ethiopia developed effective non-financial compensation and rewards. However, the financial rewards of CBE were not effective to improve the employees' performance.

There was a total reward approach in Commercial Bank of Ethiopia. However, the extent and the benefit packages attached to the total rewards are not satisfactory for the employees. An increase in financial and non-financial reward rewards will also increase employee performance in Commercial Bank of Ethiopia.

There was statistically positive significant relationship between basic pay, benefit packages, recognition, staff development and working condition with employee performance in CBE. Moreover, Both financial and non-financial rewards have significant relationship with employee performance in Commercial Bank of Ethiopia. However, the significance level of the financial compensation and reward on employee performance is weak and statistically significant positive relationship.

5.3. Recommendations

Employees are the most valuable asset for every organization because it is the employees who make the organization to fall and rise. Therefore, organizations need to cope up with needs of the employee so as to motivate them by designing effective compensation and rewards. If employees' needs are not fulfilled and dissatisfied by the rewards of their employers, they will look other opportunities for better job. This is a burden for organization since employee turnover increases the cost of hiring, training new staffs.

Commercial Bank of Ethiopia needs to consider current financial compensation and reward system as the study indicated employees satisfaction is below average. This hugely affects employee performance. CBE is the biggest bank in Ethiopia in financial strength, market share stretched across the country. However, the study indicated that the compensation and reward compared to other companies are an average. This implies there are other companies offering better benefit packages even having the least market share in the country. Therefore, CBE has to design effective compensation and reward system to improve employee performance even by making the employees to that of employee engagement level.

CBE has to develop other forms of benefits like insurance payment, extra cash payment other than bonus based on performance, and cost of service like subsidized cafeteria and so on. Unlike pay for performance, most benefits are available to workers as long as they are employed by the organization regardless of their performance. Therefore, CBE should link the compensation and rewards system with the employees' performance to create fairness.

Managers should use feedback mechanisms from the employees and other stakeholder to adopt which motivational measures to use. Managers should employ both the intrinsic and extrinsic motivations in order to get the best results from their employee.

Commercial Bank of Ethiopia should ensure the provision of good welfare packages with a good policy system that will encourage and promote employees performance. The pay should continue to be competitive with the banking industry standards and efforts should be made to offer even better pay to avoid losing the developed human forces.

5.4. Research Limitations and Areas of Future Research

Like all other research studies, this study has its own limitations which need to be studied in the future. The first limitation is the geographic sample limited to Addis Ababa areas. The result might be different outside the city of Addis Ababa where life living costs are lower than Addis Ababa which is the future works of other researchers. Secondly, sample branches were taken from big branches called Grade IV only. Since the salary and benefits of the administrative staffs, not professional staffs, are different from each grades; the salary and benefits increase from Grade I to Grade IV. This might have affected the result of the research. Therefore, future works will need to take samples from the whole Grades to show the effect.

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APPENDIXES



SEEK WISDOM, ELEVATE YOUR INTELLECT AND SERVE HUMANITY !



School of Commerce
Department of Human Resource Management
(Graduate Program)

SURVEY QUESTIONNAIRE TO BE FILLED BY EMPLOYEES OF CBE

Dear Employees of Commercial Bank of Ethiopia,

This survey questionnaire aims to study “the Role of Effective Compensation and Reward System on Employee Performance” in your organization (CBE). It is purely conducted for academic purpose. The responses to this questionnaire will be kept strictly confidential and is subject to ethical rules of research at Addis Ababa University. Therefore, I kindly request you to fill the questionnaire honestly and neatly assuring that the data will be used solely for the intended academic purpose only. Your response is very crucial to gather data for this study.

Please read the instructions carefully and answer all questions and if you have any inquiry call the researcher, Begashaw Tsegaye, at Mobile NO. +2519-1036-4811 for more explanation.

NB: No need of writing your name and ID number on any of these pages.

Addis Ababa, Ethiopia

April, 2017.

Part 1: General Demographic Information

Please circle the alternative that most closely represents your personal information:

1. Gender: 1) Male 2) Female
2. Age: 1) Below 25 2) 26-35 3) 36-45 4) Above 46
3. Education level:
 1) Diploma 2) Degree 3) MA/MSc 4) PHD 5) Other
4. To which group your employment type belongs?
 1) Professional 2) Administrative
5. How long have you served in CBE? (Work experience in years)
 1) 1-5 2) 6-10 3) 11-15 4) 16-20 5) 21-25 6)
 above 26
6. Marital status: 1) Single 2) Married 3) Divorced 4) Widowed
7. In which of the following does your monthly salary range fall in?
 1) Below ETB 4,000 2) 4,001-6,000 3) 6,001-10,000
 4) 10,001-15,000 5) 15,001-25,000 6) Above 25,001

Part-2: Overall Employee Opinions

The following questions are prepared on a 5 five point Likert Scale. If the item indicated strongly matches with your response choose number 5 and if you completely disagree with the item choose number 1. This is to know how you feel about the compensation and reward system of CBE. Be honest and give a true picture of your feelings.

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

No	Items	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
8	I'm satisfied with the current salary scale of CBE for the job I'm doing now.					
9	CBE's salary is competitive compared to other companies in Ethiopia.					
10	My salary is based on the current market and is enough to satisfy my basic needs.					
11	Annual salary increment and adjustment is fair and reasonable.					
12	The bonus scheme of CBE is a motivating to increase employee performance.					
13	The overtime payment in CBE is reasonable & initiates for high performance.					
14	Medical benefits are easily accessible and offer satisfactory health care services.					
15	My fuel allowance fully covers my transportation expenses.					
16	Housing allowances covers my rent fully.					
17	Mortgage loan offered by CBE is a motivating to buy the property that satisfies my need in the market.					

18	There are best opportunities for career development in my organization.					
19	Staff development has helped me to do my task very effectively.					
20	I'm empowered to give decisions in my work place.					
21	I'm free from pressures & criticism from immediate supervisors/manager.					
22	The bank acknowledges and recognizes on time for employees who deserves formal recognition for their performance.					
23	There is fair & equitable promotion and growth opportunity in CBE.					
24	I'm happy that CBE invests on human capital to upgrade the employee's skill & knowledge.					
25	There is total reward approach in CBE to increase the employee performance.					
26	My organization has a safe work environment and job security.					
27	I'm happy with the culture of my workplace and social life.					
28	A good sprit of team work and helping each other is the best practice of my work place.					
29	There is clear rules and procedures for every aspects of my job.					
30	When employees face problems, the management fixes the issue on time.					
31	There are too much work overloads that bothers me.					
32	I am always interested doing my job effectively and efficiently.					

Part-3: Measures of Employee Performance

Here are items that help to measure employee performance. Please give them a rank based on a five point Likert Scale. Select No. 1 if you are strongly disagree with the statement and 5 if you are strongly agree with the statement.

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

No.	Items	Rank				
		1	2	3	4	5
33.	I enjoy my tasks and the division of work approach.					
34.	I am always committed to the mission and vision of my organization.					
35.	I love my work and I am motivated to complete the tasks that are assigned to me always.					
36.	I cooperate well with my colleagues in office.					
37.	My performance level has direct effect on my salary level.					
38.	I am given a chance to apply my own methods.					
39.	I am given an opportunity to improve my performance through learning more skills.					
40.	In my organization employees with higher educational qualifications perform better than those with lower qualification.					
41.	I feel my performance contributes for the growth of my organization.					

Thanks a lot for your timely frank responses and coordination!!!