Addis Ababa University

School of Commerce

Department of Business Administration and

Information System

Assessing the Role of Reward and Incentive in Enhancing Employee's Performance in the case of Bunna International Bank S.c

A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for Masters of Art in Human Resource Management Specialization Area

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Declaration

I, the undersigned, declare that this study is my original work and has not been presented for a degree in any other university, and that all the sources of material used for the study have been dully acknowledged.

Declared by;

Name _________________________

Signature _______________________

Date ___________________________

Confirmed by advisor;

Name ___________________________

Signature _______________________

Date_____________________________

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By

Netsanet Assefa

Approved by the Board of Examiners:

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Advisor **Signature**

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List of Abbreviations

ACCA	**Association of Chartered Certified Accountant**
AMO	**Ability, Motivation, Opportunity**
ANOVA	**Analysis of Variance**
BIB	**Bunna International Bank**
CEO	**Chief Executive Officer**
HRD	**Human Resource Development**
HRM	**Human Resource Management**
HPWS	**High performance Work system**
NCL	**National Commission of labor**
SD	**Standard Deviation**
SPSS	**Statistical Package for Social Science**

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Abstract.

The aim of this study was to examine the Role of incentive and reward system with respect to overall levels of employee's performance in Bunna International Bank. The research was descriptive in nature. Qualitative as well as quantitative research design has been adopted in this paper to achieve the objectives of this in which study. Role of incentive and reward system were taken as independent variables and performance as dependent variable for this study. Structured questionnaire was used to gauge the responses on a five level scale. Questionnaire was distributed to 219 sample respondents who work at different branch of Bunna International Bank in Addis Ababa. Non-probability sampling was employed to select area banks and in order to select sample respondents, simple random sampling was used. Data were analyzed by using different statistical techniques like descriptive statistics techniques, and regression analysis by using SPSS. The study confirmed that the role of incentive & reward system was important for employee performance in the case company but the importance of mixed reward system cannot be discriminated. It is also found out that basic salary was the most motivating factor in enhancing employees performance, Job security and career advancement were also found to be highly motivating factor in enhancing employees performance. This research can be helpful for the banking sector specifically to Bunna International Bank. They can design effective compensation package to motivate employees to perform better to make the bank highly competitive in banking industry.

Key words: Incentive, Reward and performance.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Banks give rewards to employees and reward system seeks not only to attract new employees to join the bank but also to keep existing employees and also motivate them to perform at high level. Basically, all types of rewards motivate employees to perform well by attracting with well-designed compensation package by banks.

Reward management is concerned with the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded. It is about the design, implementation and maintenance of reward systems (interrelated reward processes, practices and procedures) that aim to satisfy the needs of both the organization and its stakeholders and to operate fairly, equitably and consistently. These systems will include arrangements for assessing the value of jobs through job evaluation and market pricing, the design and management of grade and pay structures, performance management processes, schemes for rewarding and recognizing people according to their individual performance or contribution and/or team or organizational performance, and the provision of employee benefits.

In discussing rewards and incentives a number of questions need to be answered (A) How do rewards and incentives affect performance, loyalty and commitment? (B)What are the different types of rewards? (C) Which rewards and incentives system are more effective than others? (D)How do employees perceive rewards and incentives? (E) What should organizations do to effectively reward and incentivize employees?

Being a major element in the banking industry, it is necessary for any public and private banks to provide incentives to motivate their employees. Such incentives are significant factor in encouraging employees and increasing their enthusiasm at work which results in improving the general performance and increasing productivity. Incentives, also, help in attaining job satisfaction which increases the interaction between the employee and the organization.

Malik Muhammad et al (2011) concluded that reward system is a very important tool that all banks can use to strait employees motivation in different ways. In other words, banks give rewards to employees; and reward system seeks not only to attract new employees to join the bank but also to keep existing employees and also motivate them to perform at high level. Basically, all types of rewards motivate employees to perform well by attracting with well-designed compensation package by banks.

Dewhurst et al (2010) described that there are other means to reward employees and they do not just focus on financial compensation (rewards). Some of these include the praised that employees are able to acquire from their managers, the opportunity to take an important projects or tasks and leadership attention. However, Ekaterin Galanou et al (2011) found that these days, one of the manager’s tasks is to create an environment which motivates employees to perform satisfactorily and to be a profitable asset, so that they can foster the organizations growth.

Bunna International Bank (BIB), was licensed in January 2009G.C as a private commercial bank started its operation with a Paid up capital of 169 million birr and with an employees of 119 to provide banking services to the society (Bunna International Bank 2015 annual report). The human resource records showed that the total number of employees including those at the head office was 747 in 2015. From its inception the bank has been profitable. Currently, the bank have a total of 125 branches among which 63 branches are in Addis Ababa and the rest 62 branches are out of Addis Ababa the bank created a permanent job opportunity for about 1095 employees out of which 729 are male and the rest 366 are female employees (from HR record) and out sourced some non-clerical position such as security guard, janitor and messenger etc to those employment agencies in recruiting and hiring process; about 1114 employees are working in the bank from those agencies(from an interview of HR senior staff). Concerning the salary structure from its inception only by the year 2013 salary structure adjustment are made including the benefit packages and by the year 2015 and 2016 only salary structures adjustment are made based on the base-payment made in other banks for the same job or by assessing market rate of pay for the same job in the industry.

Concerning the reward system the bank has target profit at corporate level for the fiscal year based on the attainment of the target profit or base on the total performance of the bank at corporate level and there will be a maximum of four steps salary increment and minimum of three step salary increment for each employees (from an interview of HR staffs).

Beside to these there are about 18 pay grades (job grade) with in the salary structure, each jobs are graded according to the relative value of job within the bank .The pay grade does not include for the position of President and Vice-president of the bank. Gross Profit of the Bank at the end of the year 2015 , after deducting provision and depreciation, stood at Birr 181.9 million, above the target set for the fiscal year by Birr 6.5 million (3.7%) and it is well above the same period last year by Birr 74.2 million (69%) (Bunna International Bank 2015 annual report).

Therefore, the present study aims to assess the role of reward and incentive in enhancing the performance of the employees of Bunna International Bank.

1.2. Statement of the problem

According to Board (2007), incentives and rewards factors are the most favored factors for the employee's motivation. Board (2007), stated that tangible incentives are effective in increasing performance for work assignment that not completed before and encourage effectively thinking which assist both quality and quantity in achieving goals. La Belle (2005) suggested that different individuals have different perceptions of rewards. For instance; some employees consider being recognized by their leader as more rewarding than financial incentives. Hume (2000,P.74) a poorly designed reward system is likely to manifest itself in the recruitment of poor quality staff, undesirable level of employee performance, motivation , and high level of employee turnover.

Furthermore, usually the incentives and the reward system are designed by the top management based on their perceptions without consulting the employee at the lower level. In this case, the incentives and the reward system may not be able to achieve the employees satisfaction and such system will not be able to change employees attitude and behavior toward the organization as they feel that their contribution to the organization are not well recognized.

Among these feature some of them are reflected in Bunna International Bank (BIB). During the year 2016 from the staffing manager informal speech most of the employees left the organization in search of better pay and join other banks that pay better. It also hard to recruit qualified candidate and to retain those professional is very rare, undesirable level of employee performance all those problems are because of the reward system is not comparable with other similar bank in the banking industry. Some employees are not rewarded based on their performance that may discourage or demotivate the existing employees in attaining higher level of performance as per the planned profit at corporate level. Such lack of employee's motivation was due to the problem in the reward system of the bank. However the management could not make any further analysis on what is wrong in the bank reward in enhancing employee's performance. The main purpose of this study was to assess the role of reward and incentive system in enhancing employees' performance at Bunna International Bank in a high and tough competition in the banking industry of Ethiopia to attain higher level of performance.

1.3. Research questions

This study intended to answer the following research questions

1. What are the incentives & reward system currently Bunna International Bank provides to its employees?
2. What is the Effect of incentive & reward on the performance of employees?
3. How does the incentive & reward system influence its higher performance of Bunna International Bank?

1.4. Objective of the study

1.4.1.General objective

To assess the role of reward and incentive in enhancing the employees performance on the employees of Bunna International Bank.

1.4.2. Specific objective

1. To investigate the type's incentive &reward given to the employees of Bunna International Bank S.c.
2. To exmaine the role of incentive & reward in higher performance of employees.
3. To analyze the role of incentive & reward system in the higher level of performance of the employees of Bunna International Bank S.c.

1.5. Significance of the Study

This study aimed to provide insight and recommendation on reward and incentive system of Bunna International Bank S.c.

The study was to clearly identify what types of reward and incentive mechanisms to be used in enhancing employees' performance for the attainment of short term & long term organizational goal.

The study also increases the profitability of the bank by increasing the performance of employees. It will help for other researcher to make further study in reward & incentive system. Indirectly the study recommendations are beneficial to the employees of Bunna International Bank.

1.6. SCOPE OF THE STUDY

The study was limited to Bunna International Bank Addis Ababa branches. The reasons for this were: Ethiopia is too large for the researcher to travel all over the country. Addis Ababa is one of the largest and commercial cities in Ethiopia and has a heterogeneous population which ensures a wide spread of potential respondents to the study. Motivation of managerial and professional employees only; and the study excluded those manual or custodial and semi-professional employees, the sample size is limited.

1.7. LIMITATION OF THE STUDY

Accessibility to all records necessary for the research was a limiting factor. By use of questionnaires to collect data, the researcher was compelled to assist those respondents who would not read and understand the questions asked in the questionnaires on their own hence consumption of more time in data collection**.** Lack of time for the employees of Bunna International Bank has been one of the major limitations in the collection of data, in addition to this respondents are not taking enough time in reading and understanding each questions to respond properly. The cost and time required to conduct the study will be lower that is why the study is be limited to the restricted geographic area. The other limitation is they do have the doubt in the confidentiality of their response and some of the employees did not fill & return the questioners it is about 67 employees in number or 30% of the employees did not return the questioner from the total of 219 questioners .

1.8. Definition of Terms

Rewards system: are a fundamental function of human resource management as they deal with the assessment of job values the design and management of payments, performance management, contingent pay, employee benefit and pension and the management of rewards procedures (Ekaterini Galanouet.al. 2010).

Incentive: Anything that can attract an employee's attention and motivate them to work can be called as incentive. An incentive aims at improving the overall performance of an organization. Incentives can be classified as direct and indirect compensation. They can be prepared as individual plans, group plans and organizational plans (Armstrong 2010).

Employee's motivation-according to Pinder (1998) employee motivation may be regarded as a set of internal and external forces that initiate work- related behavior, and determine its form, direction, intensity and duration.

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).

1.9. ORGANIZATION OF THE STUDY

As far as the structure overview is concerned, this paper supposed to be organized as follows: the first chapter covers the introduction, background of the study and also outlines the study objectives. The second chapter analysis review of related literature on reward and incentive system so as to show all academic links researchers have found. The third chapter was focus on methodology. In this chapter, adopted method of data collection, study design, sampling technique and data analysis and interpretation will be clearly explained. The fourth chapter is about data presentation, analysis and interpretation. Analyzing data involves sorting data type and summarizing using figures & tables. Appropriate interpretation reward and incentive system practices of this specific bank. Finally, there was be a conclusion which will provide a short review of the thesis and some suggestion will be forwarded.

CHAPTER TWO: LITERATURE REVIEW

2.1. Theoretical literature review

2.1.1. Reward and Incentive system

(Ekaterini Galanouet.al. 2010)Throughout the management literature, practitioners as well as theorists have underlined the important of reward system. Rewards system are a fundamental function of human resource management as they deal with the assessment of job values the design and management of payments, performance management, contingent pay, employee benefit and pension and the management of rewards procedures .

Pitts (1995) stated that reward is the benefits that arise from performing a task, rendering a service or discharging a responsibility. Pitts (1995) also specified that pay is the most significant and motivating benefit that is received in return for performing a task or service. It is pay that motivates individuals to go out and seek work. Pay is also one of the few ways to set a mutually acceptance common value to the individual work contribution .Pay also can be a powerful de-motivator, if employees are not satisfied with the reward package, it will be hard for the company to recruit and retain good individuals.

Torrington et al (2009) emphasized that advocates of the expectancy theory believe that employees will change their behavior by working harder to prioritizing their actions if they know that by doing so they will be rewarded with something of value to them. Hence incentives are a great way to reward effort and behaviors which the organizations wish to encourage. If the incentive is paid in return for behavior that contribution to the organizations goals, it will in the long run enhance organizational effectiveness and productivity and hence generates a positive outcome for both employer and employee. Pitts (1995) underlined that the principle reward for performing work is pay, many employees however offer also reward packages of which wages and salaries are only a part of .The packages typically include: bonuses, pension schemes, health insurance, allocated cars, beneficial loans, subsidized meals, profit sharing, share options and much more. Torrington (2009) recommended that there are various things to think about before making decisions about what kind of payment system is most appropriate for an organization. Managers should start by asking what objectives they are seeking to achieve. These are likely to include the following.

I. To minimize expenditure on wages and salaries over the long term. II. To attract and retain staff of the desired caliber, experience and qualifications. III. To motivate the workforce so as to maximize organizational performance. IV. To direct effort and enthusiasm in specific directions and to encourage particular types of employee behavior. V. To underpin and facilitate the management of organizational change.

According to Armstrong (2006), reward system consist of: policies that provide guidelines on approach to managing rewards practices that provide financial and non- financial rewards processes concentrated with evaluating the relative size of the jobs (job evaluation) and assessing individual performance (performance management) procedure to operate in order to maintain the system and to ensure that it operates efficiently flexibly provides value for money.

Torrington et al (2009) showed that there is one payments system that can achieve all the above mentioned features for all employees in an organization. Managers are required to weigh up the advantages and disadvantages of each payment system and decide to put the emphasis on.

Armstrong (2010) stated that there is a strong body of opinion, at least in academic circles, that financial rewards are bad because they don't work and indeed are harmful while non-financial rewards are good, at least when they provide intrinsic motivation. But the critics cited mainly referring to financial incentives. They do not appear to recognize that incentives are not the same as rewards. They can be distinguished as follows: Rewards offer tangible recognition to people for their achievements and contribution. Financial rewards consist of job-based pay, which provides base pay related to the value of the job, and person-based pay, which provides rewards that recognize the individual's contribution, competence or skill. Rewards can also be non-financial, for example recognition. If rewards are worth having and attainable and people know how they can attain them, they can act as motivators. Incentives are intended to encourage people to work harder and achieve more. They are supposed to provide direct motivation: 'Do this and we will make it worth your while.' Incentives are generally financial but they can take the form of non-financial rewards such as promotion or a particularly interesting assignment.

Armstrong (2010) stated that if this distinction is not made it may be assumed that financial rewards only exist to provide an incentive. They may do this or, as the naysayers contend, they may not. But financial rewards can act as rewards in the sense referred to above and may be justified because they are a form of tangible recognition – they are a means of informing people that they have done well, and accord with the reasonable belief that people who do better should be valued more and rewarded accordingly.

Armstrong (2010) Of course the opponents of financial rewards say that there are better ways of recognizing people than throwing money at them. They emphasize the power of intrinsic rewards, assert that extrinsic rewards erode intrinsic interest, claim that money is not so important to people as the supporters of financial rewards believe and suggest that job satisfaction is not dominated by feelings about pay. These are followed by a review of the research evidence on the effectiveness of financial incentives, which leads to final sections in which conclusions are reached on the case for or against financial rewards, and the factors that lead to success in the contingent pay schemes that are devised to provide such rewards are analyzed.

2.1.2. THE DISTINCTION BETWEEN INCENTIVES AND REWARDS

Armstrong and Murlis (2004) stated that when developing contingent pay policies and processes it is necessary to be clear about the extent to which a scheme is designed to provide an incentive or a reward. Incentives are forward looking while rewards are retrospective. Financial incentives aim to motivate people to achieve their objectives, improve their performance or enhance their competence or skills by focusing on specific targets and priorities. Financial rewards provide financial recognition to people for their achievements in the shape of attaining or exceeding their performance targets or reaching certain levels of competence or skill.

2.1.3. REWARD SCHEMES FOR EMPLOYEES AND MANAGEMENT

A major part of performance management involves managing employees and managers, as their performance will have a major effect on the performance of the organization as a whole.

2.1.4. MEANING OF REWARD MANAGEMENT

According to Armstrong (2010), Reward management is concerned with the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded. It is about the design, implementation and maintenance of reward systems (interrelated reward processes, practices and procedures) that aim to satisfy the needs of both the organization and its stakeholders and to operate fairly, equitably and consistently. These systems will include arrangements for assessing the value of jobs through job evaluation and market pricing, the design and management of grade and pay structures, performance management processes, schemes for rewarding and recognizing people according to their individual performance or contribution and/or team or organizational performance, and the provision of employee benefits.

Armstrong and Murlis (2004) Define Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization. It deals with the design, implementation and maintenance of reward processes and practices that are geared to the improvement of organizational, team and individual performance.

Armstrong and Murlis (2004) Reward system refers to all the monetary, non-monetary and psychological payments that an organization provides for its employees in exchange for the work they perform. Rewards schemes may include extrinsic and intrinsic rewards. Extrinsic rewards are items such as financial payments and working conditions that the employees receive as part of the job. Intrinsic rewards relate to satisfaction that is derived from actually performing the job such as personal fulfillment and a sense of contributing something to society a (broad definition of reward schemes is provided by Bratton). Many people who work for charities, for example, work for much lower salaries than they might achieve if they worked for commercial organizations. In doing so, they are exchanging extrinsic rewards for the intrinsic reward of doing something that they believe is good for society.

2.1.5. REWARD SYSTEMS

Reward management is considered to be the most rapidly developing area of human resource management. In order to conceptualize the reward systems, it is necessary to commence from the Harvard model of human resource management, According to Sparrow and Hiltrop (1994) which emanate from the Harvard business school. This model is called “Soft Variant” because it emphasizes in the human aspect of human resource management.

Beer et al (1984) suggested that the model comprises of four key policies: reward systems, designed to attract, retain and motivate employees. Human resource flow, akin to the human resource development set of policies employee improvement in decision making and work system designed in order to produce the best outcomes. Therefore, it is obvious that reward systems are a fundamental function of human resource management as they deal with the assessment of job values, the design and management of payments, performance management, contingent pay, employees’ benefits and pensions and the management of reward procedures. Moreover, Armstrong and Murlis (1998) deduced that reward policies should take in to account of organizational goals, values and strategies. Another important point that Armstrong and Murlis (1998) mention that reward systems also include the development of organizational cultures as they are led by organizational requirements and can increase the motivation and commitment of employees us their philosophy must recognize the vital role of the workforce also respect their needs.

White and Drucker (2000) asserted that the reward systems are comprised of two main elements: financial and non-financial rewards. The financial rewards include rewards strategies such as Merit-pay, market based pay, and profit rated pay, while non-financial rewards focus on the needs of people for recognition, achievement, responsibility and personal growth.

Thorpe and Homan (2000) emphasized that one of the most fundamental debates in the field of reward management, concerns the extent to which employees are motivated by money. If the organization rewards certain kind of employee behavior, good or bad, that is the company will get more of.

Every existing company has some form of reward system, whether it is outspoken or not, it exists People correspond positively to praise, and praise in the right moment creates loyalty and affinity.

Kaplan and Atkinson (1998) asserted that rewards come in two different types it can either be in the form of incentive motivation or personal growth motivation, the former kind of reward that comes from within the individual, a feeling, being proud over something, feeling content and happy by something that you have done. On the other hand, the latter is the type of reward that is brought to you by another person or an organization. Furthermore, extrinsic reward can be monetary or non-monetary. The monetary is usually a variable compensation, separated from the salary. It is received as a consequence for extraordinary performance or as an encouragement and it can be either individual based or group based.

According to Jaghult (2005), the conditions to obtain this reward should be set in advance and the performance needs to be measurable. Ax, et al (2005) suggested that there exists a variety of purposes of reward system; one very common is to motivate employees to perform better, but also for keeping the employees.

Merchant (2007) concluded that for a reward system to be ideally motivational the reward should satisfy a number of criteria: have values, be large enough to have impacts is understandable, be timely, the effect should be durable and finally the rewards should be cost efficient.

2.1.6. AIMS OF REWARD MANAGEMENT

Purposes of Reward System Merchant (2007) and Svensson (2001) indicated that a reward system puts together employees' natural self-interests with the organization objectives and provides three types of management control benefits, that is, informational, motivational and personnel related. Firstly, rewards should catch the employees' attention and at the same time it works as a reminder for the person in charge of what results should be completed indifferent working areas. Organizations use reward systems to emphasize on which parameters their employees should exert the extra effort on by including them in their reward program.

Merchant (2007) assured that this is a good way to emphasize and convince the employees of which performance areas that are important and create goal congruence within the organization and signals how the employees should direct their efforts. To motivate is the second control benefit. People sometimes need an incentive to perform tasks well and work hard. The last but not least we have the personal related control benefit. Organizations give rewards for many different reasons example, to improve recruitment and retention by offering a compensation package that is competitive on the market.

Merchant (2007) showed that reward systems refer primarily to things that employed value. It is important to bear in mind that a reward system can contain both positive and negative rewards, the negative rewards, often seen as punishments usually manifest themselves through an absence of positive rewards. Examples of positive rewards would be autonomy, power, salary increases, bonuses and some negative rewards should be interference in job from superiors, zero salary increase and no promotion.

Armstrong (2010) in the words of Ghoshal and Bartlett (1995) the overall aim of reward management should be to 'add value to people'. It is not just about attaching value to them. More specifically, the aims are to: support the achievement of business goals through high performance; A. Develop and support the organization's culture; B. Define what is important in terms of behaviors and outcomes; C. Reward people according to the value they create; D. Reward people according to what the organization values; E. Align reward practices with employee needs; F. Help to attract and retain the high-quality people the organization needs; G. Win the engagement of people.

2.1.6.1. ACHIEVING THE AIMS IN GENERAL

Armstrong (2010) The overall approach to achieving reward aims is based on a philosophy and takes into account factors related to distributive and procedural justice, fairness, equity, consistency and transparency. It is also concerned with achieving strategic alignment and cultural/contextual fit, developing a high-performance culture and segmentation.

A. Distributive justice

As defined by Leventhal (1980), 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 as identified by Tyler and Bies (1990) are: The viewpoint of employees is given proper consideration. Personal bias towards employees is suppressed. The criteria for decisions are applied consistently to all employees. Employees are provided with early feedback about the outcome of decisions. 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. It also conforms to the 'felt-fair' principle formulated by Eliot Jaques (1961). This states that pay systems will be fair if they are felt to be fair. The assumptions underpinning the theory are that: There is an unrecognized standard of fair payment for any level of work. Unconscious knowledge of the standard is shared among the population at work. Pay must match the level of work and the capacity of the individual to do it. People should not receive less pay than they deserve by comparison with their fellow workers.

This felt-fair principle has passed into the common language of those involved in reward management. It is sometimes used as the final arbiter of how a job should be graded (the so-called 'felt-fair' test), possibly overriding the conclusions reached by an analytical job evaluation exercise. Such tests are in danger of simply reproducing existing prejudices about relative job values.

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.

Account should be taken of good practice elsewhere, but this should not be regarded as best practice (ie universally applicable).

I. Performance and reward

Armstrong.(2010)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. 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.

2.1.7. TYPES OF REWARD SYSTEM

1. Monetary Reward System

Merchant (2007) stated that people value money and therefore making money an important form of reward. Monetary reward systems can be classified in to three main categories, performance based salary increases, short term incentive plans and long term incentive plans. The latter two rewards are common on managerial levels and are often linked to performance during a specific time period. Samuelsson (1999) identified that the first one is often considered to be the greatest motivational factor for all employees of the organizations. Merchant (2007) described that each and every organization gives salary increase to employees' at all organizational levels. This is normally a small portion of an employees' salary, but has a significant value due to long- term perspective. Short term incentives in some form are however commonly used in organizations. A cash bonus is usually based on performance measured on a time period of one year or less. Why a company primarily uses a variable pay is to differentiate it among the employees, so that the most successful employees will be rewarded. By recognizing the employee's contributions to the company it makes it easier for the organization to encourage excellent performance. The employee's appreciate the possibility of receiving a reward for their performance. Using a variable pay can also be an advantage for the company in terms of risk sharing. This means that the expense for compensation varies more with company performance when the total compensation is partly variable, making the cost lowers when no profit is made and when there is a profit this can be shared with the employees. Merchant (2007) indicated that rewards based on performance measures overtime periods larger than one year are long-term incentive rewards. By using, a company can reward employees for their outstanding work performance to maximize the firm's long term value. This also works to attract and retain key talented persons. According to Samuelsson (1999) types of these can be stock option programs, restricted stock plans or by a reward that is put in a 'bonus bank' that change according to result and runs over several years. Kaplan and Atkinson (1998) specified that a stock option program is usually when a person is allowed to buy stocks in the future, but for today's price .This is an attractive way of rewarding a manager because the manager would want the value of the stock to increase and thus work harder on the long- term goals and commitments instead of focusing on short-term profits.

Another advantage with this type of reward is, since the manager does not yet own the stock, he or she will still be taking risks with higher payoffs than they might had if they already owned them. There does, however, exist one great disadvantage with the stock option program, a manager does not have enough control over the value. Too many external and non-responsive factors influence the value, making it less appealing as an incentive.

A very popular type of long term incentive is some form of a restricted stock plan. This reward is shares given as a bonus to employee; however, they can only be sold after certain time period. After for instance one year, the employee will be able to sell one fifth of the shares, after two years he or she will be able to sell two-fifth and after three-fifths etc. This is a way to retain competence within the company, not to motivate employees, since if they choose to end their employment before the fifth year; they will lose the remaining parts. Some firms take this even further by withdrawing the shares you already received.

2. Non-Monetary Reward System

Jaghult (2005) postulated that be given a thank you from your manager or to receive gratitude from your co-workers are both examples of non-monetary rewards. According to Armstrong (1993) monetary rewards are often accused of being too short-termed and not creating a long-term commitment which is normally what you want from your employees. To achieve long lasting motivation for the employees the organization must pay attention to both the financial and the non-financial motivators, in order to provide the best mix.

3. Individual Based Vs. Group Based Reward

Zemke et al (1999) Suggested that for a group reward to provide a direct incentive effect, the employee to whom the rewards are promised has to believe that they can influence the performance on which the rewards are based on a significant extent. According to Merchant (2007) achieving something as part of a group usually strengthens the ties between co-workers. However, if someone has been part of the group usually strengthens the ties between co-workers. However, if someone has been part of the group without contributing the same way as the rest usually creates greater dissatisfaction among the rest and teaches employees that they get rewards without input.

In many projects and companies it is not possible to carry out a task by yourself but the task-Completing-process is a process through the company, engaging many different people. In these cases a group-based reward is preferable since everyone has "Pulled their weight" although it is hard to see the individual impact. Individual-based rewards often lead to sub-optimization.

Jaghult (2005) proposed that when introducing an individual-based reward system, employees tend to concentrate on their own performance instead of the company's performance as a whole. As King Co-workers and managers for help is suddenly something you think twice about, as you might need to share a future reward if you do. This leads to tasks fulfilled with an okay result, instead of a better result that might had sprung from collaboration with co-workers more competent to tasks or parts of the tasks, hence sub-optimization. However, an individual-based reward creates the greatest motivation and larger incentives for the individual. Jaghult (2005) identified that increasing the responsibility for an employee usually tends to also increase motivation. This is mainly due to increased responsibility makes the employee feel more appreciated and skillful when in a group, people learn from each other, creating more and more positive actions, and also gets more effective.

Rewarding, a group using a monetary reward, often creates an intrinsic reward for a group members, as they feel satisfied belonging to a group that has performed something extraordinary. Samuelsson (1999) suggested that there is also a possibility to combine these two kinds of reward. Kaplan and Atkinson (1998) expressed that this can be done by basing the total reward on group performance and the individual shares of this reward on individual performance.

4.The Total Reward System

Armstrong and Brown (2006) identified that total reward describes a reward strategy that brings components such as learning and development together with aspects of the work environment, into the benefit package. In the total reward system both tangible and intangible rewards are considered valuable. Tangible rewards arise from transactions between the employer and the employee and include rewards such as pay, personal bonuses and other benefits. On the other hand, intangible rewards have to do with learning, development and work experiences .Example of these types of rewards are opportunity to develop, recognition from the employer and colleagues, personal achievement and social life.

The aim of total reward is to maximize the positive impact that a wide range of rewards can have on motivation, job engagement and organizational commitments.

Armstrong and Brown (2006) also suggested that the purpose of total reward is to create a cluster where all the different reward process are connected, complementary and mutually reinforcing each other .In order to achieve internal consistency ,the total reward strategies are horizontally integrated with human resource activities and vertically integrated with business strategies.

The benefits of total reward system are described by Armstrong and Brown, 2006:

I. Greater impact

When different types of rewards are combined, they will have a deep and long lasting effect on the motivation, commitment and engagement of employees.

II. Enhancing the employment relationship

Total reward appeals more to employees due to the fact that it makes the maximum use of rational as well as transactional rewards.

III. Enhancing cost effectiveness

Because total reward communicates effectively the value of the whole reward package, it minimizes the undervaluing of the true costs of the packages.

IV. Flexibility to meet individual needs

Due to the variety of rewards, the total reward is able to answer the individual needs of the employees and hence bind them more strongly to the organization.

V. Winning the war for talent

Because rational reward processes are more difficult to replace than individual pay Practices, the organization the ability to attract and retain talented employees by Differentiating their recruitment process and hence becoming "a great place to work."

2.1.8.OBJECTIVES OF A REWARD SCHEME

(http://www.accaglobal.com) What do organizations hope to achieve from a reward scheme? The following are among the most important objectives:

1. To support the goals of the organization by aligning the goals of employees with these.
2. To ensure that the organization is able to recruit and retain sufficient number of employees with the right skills.
3. To comply with legal regulations.
4. To be ethical.
5. To be affordable and easy to administer.

1. ALIGNING THE GOALS OF THE ORGANIZATION AND EMPLOYEES

The reward scheme should support the organization's goals. At the strategic level, the reward scheme must be consistent with the strategy of the organization. If a strategy of differentiation is chosen, for example, staff may receive more generous benefits, and these may be linked to achieving certain skills or achieving pre-determined targets. In an organization that has a strategy of cost leadership, a simple reward scheme offering fairly low wages may be appropriate as less skilled staff are required, new staff are easy to recruit and need little training, so there is less incentive to offer generous rewards.

The US supermarket group Walmart competes on low cost. It recruits employees with low skills, and pays low wages. It discourages staff from working overtime, as it wishes to avoid paying overtime rates.

2. TO RECRUIT AND RETAIN SUFFICIENT EMPLOYEES WITH THE RIGHT SKILLS

If rewards offered are not competitive, it will be difficult to recruit staff since potential employees can obtain better rewards from competitors. Existing staff may also be tempted to leave the organization if they are aware that their reward system is uncompetitive.

High staff turnover can lead to higher costs of recruitment and training of new staff. Losing existing employees may also mean that some of the organization's accumulated knowledge is lost forever. For many knowledge-based organizations, the human capital may be one of the most valuable assets they have. High technology companies such as Microsoft are companies that trade on knowledge, so offer competitive remuneration to key staff.

3. COMPLYING WITH LEGAL REGULATIONS

Rewards should comply with legal regulations. Typically, employment laws include areas such as minimum pay, and equal pay legislation to ensure that no groups are prejudiced against. There have been high profile cases of female investment bankers winning legal cases against their employers because their bonuses were far less than those paid to male colleagues.

4. ETHICS AND REWARD SCHEMES

In recent decades there has been a move away from fixed remuneration systems towards reward systems where at least parts of an employee's rewards are based on performance of the individual and the business as a whole. Some writers claim that this is unethical for two reasons. Firstly such systems tend to place increased business risk onto employees. Secondly, such systems undermine collective bargaining systems, and reduce the power of unions. This leads to a situation where employees as a collective have less bargaining power.

The size of total remunerations paid to directors of large public companies has also become a hot political issue, with a perception that the gap between top earners and average earners is becoming larger.

In the US, the average directors of S&P 500 companies earn 200 times more than the average household income in the US. Defenders of such large differences in pay point out that this difference has actually declined in recent years; in the year 2000, directors of S&P 500 companies earned 350 times the average household income. According to some research, such high packages are justified as they do reflect the performance of those directors.

5. AFFORDABLE AND EASY TO ADMINISTER

It is an obvious fact that there is an inherent conflict of interest in the relationship between employer and employee. The employee's rewards represent a cost to the employer, which the employer wants to minimize. Clearly whatever reward scheme is in place, it must be affordable to the employer.

2.1.9.TYPES OF REWARD SCHEME

Base pay or basic pay is the minimum amount that an employee receives for working for an organization. For example, the employee may be paid $10 per hour for a minimum of 40 hours per week. The employee will therefore earn at least $400 per week. This will be paid regardless of how many of those 40 hours the employee is actually working. A fixed annual salary is another example of basic pay (http://www.accaglobal.com).

Basic pay may be supplemented by other types of remuneration. A blue collar worker may be paid overtime for example if he works more than 40 hours per week, and a manager may receive some form of performance pay in addition to the base pay. Basic pay is likely to address the lower levels of Maslow's hierarchy of needs (http://www.accaglobal.com).

Performance-related pay is a generic term for reward systems where payments are made based on the performance, either of the individual (individual performance-related pay) or team of employees(group performance-related schemes) (http://www.accaglobal.com).

In recent decades there has been a move toward performance-related pay schemes in many organizations.

This has lead to a situation where a higher portion of the employees pay is dependent on performance. This rationale for performance-related pay is that it motivates employees to work harder, and rewards those who make a greater contribution to the organization's goals.

This should lead to efficiency savings. There are many types of performance-related pay, and the most popular ones are described below (http://www.accaglobal.com):

1. Piecework schemes

Under Piecework schemes, a price is paid for each unit of output. Piecework schemes are the oldest form of performance pay, and were used for example in the textile industries in Great Britain during the industrial revolution. Piecework schemes are appropriate where output can be measured easily in units. They are typically used for paying freelance, creative people. Freelance writers for example are often paid based on the number of words. The benefit of piecework schemes is their inherent fairness. The higher the output, the more the employee (or subcontractor) receives. From the employer's perspective, the employer does not have to pay for idle time or inefficiencies. From the employee's perspective, such schemes mean that the employee bears commercial risk if demand for their product falls. A further disadvantage of piecework schemes is that the payment is not based on the quality of output. However, some sort of quality control is likely, and if the quality is not of a required standard, the employee or subcontractor will not be paid.

2. Individual performance-related pay schemes

Individual performance-related pay schemes are where the employee receives either a bonus, or an increase in base pay on meeting previously agreed objectives or based on assessment by their manager, or both. They are typically used for middle managers in private sector organizations and for professional staff.

The advocates of individual performance-related pay schemes claim that they are an obvious way to align to objectives of middle managers with the goals of the organization. If performance targets set are based on the goals of the organization, then it appears obvious that making part of the rewards of employees' contingent on achieving those targets will mean that employees are motivated to achieve the goals of the organization.

Individual performance-related schemes also have the advantage over group schemes that the employee has control over her rewards, as they do not depend on the effort (or lack of) of other members of the team.

Critics of such schemes point out that the link between rewards and motivation is far from clear, as discussed above.

It is also argued that performance- related schemes lead a situation of tunnel vision whereby if something is not measured, and then rewarded, it won't get done.

Individual reward schemes may lead to a lack of teamwork and may lead to variances in pay among individuals, which can lead to ill feeling.

An example of an individual performance-related pay scheme is one that is operated by a UK bank. Under the scheme, a bonus pool is allocated to each region based on the performance of that region. From this pool, individual awards are made based on assessment of performance, taking into account the rating on a five-point scale. Those with scores of 1 to 3 qualify for a discretionary bonus. The assessment depends on how much new business the individuals have brought in, or how much efficiency savings they have generated. The rewards are usually paid in cash; although for senior employees receive a portion as deferred stock.

3. Group-related performance-related pay schemes

Group-related performance-related schemes are similar to individual, in that rewards are paid based on the achievement of targets. However the targets are set for a group of employees, such as a particular department, or branch of a company, rather than for an individual. Since the rewards apply to a group, they are likely to be based on a pre-determined quantitative formula, rather than on assessment of staff. A bonus pool is calculated based on the performance of the team, and this is shared among the members of the team. Bonuses may be paid up at the end of the year, or may be deferred, and paid at a later date, as this may encourage staff and managers to take a longer term view, rather than simply focusing on the current year's bonus.

The advantage claimed for group schemes is that they encourage teamwork. The disadvantage is that the lazier members of the team benefit from the hard work of the more dedicated.

Hope and Fraser give the example of a scheme operated by Svenska Handelsbanken, where each year, a portion of the banks' profits are paid to a profit sharing pool for employees, provided that certain conditions are made. The main conditions are that the Handelsbanken group must have a higher return on shareholder's equity than the average of its peer group. The upper limit of the amount paid into the scheme is 25% of the total dividends paid to shareholders. Employees do not actually receive anything from the pool until they reach the age of 60, at which point they receive a payout based on the number of years that they have worked for the bank.

The CEO of Handlesbanken claimed that employees are not motivated by financial targets, but by the challenge of beating the competition. The reward scheme is designed to be a dividend on their intellectual capital.

4. Knowledge contingent pay

Knowledge contingent pay is where an employee will receive a pay rise or a bonus, or both, for work-related learning. An ACCA candidate, for example, may receive a higher salary once he has passed all the knowledge level papers and an even higher salary after passing all of his exams.

5. Commissions

Commissions are a form of remuneration normally used for sales staff. The staff may receive a low basic pay, but will then receive commission, based on a percentage of the amount of their sales.

The advantages of commission are that they should motivate sales staff to achieve higher sales, as their rewards depend on it, and they mean that the large part of the salesman's salary becomes variable. If sales are low, the organization will have to pay less.

The disadvantage of commission is that it may lead to dysfunctional behavior. Sales staff may indulge in window dressing, for example to meet this year's sales target, by selling on a 'sale and return basis' in the final month of the year, with the inherent understanding that the goods will be returned in the following month of next year. They may also lead to short terms', where sales staff 'never put the customer above the sales target' to quote Hope and Fraser.

6. Profit-related pay

Profit-related pay is a type of group performance-related pay scheme where a part of the employee's remuneration is linked to the profits of the organization. If the company's profits hit a pre-determined threshold, a bonus will be paid to all members of the scheme. Typically the bonus will be a percentage of the basic pay. The bonus may be paid during the year in question; for example, quarterly, or it may be deferred until some later date, such as the retirement of the staff.

Advocates of profit-related pay argue that it motivates employees to become more interested in the overall profitability and therefore become more motivated to ‘do their bit’ to improve it. It may also encourage loyalty in cases where staff may lose their bonus if leaving the organization means that they lose the right to it.

The obvious disadvantage with profit-related pay is that it does not match the primary objective of commercial organizations, which is to maximize the wealth of the shareholders. Managers may be motivated to increase profits by taking short-term actions that will harm the business in the long run, for example, or destroy wealth by investing in projects that increase the profits of the organization, but produce a return that is below the cost of capital of the organization.

Profit-related pay might not be a motivator for junior employees, who may fail to see the link between their effort and the overall profits of the organization.

7. Stock option plans

Stock option plans have become very popular since the 1990s, when greater emphasis started to be given to shareholder value. Under stock option plans, staff receives the right to buy shares in their company at a certain date in the future, at a price agreed today.

For example, Alpha Co is listed on the stock exchange of Homeland. Today, shares in Alpha Co are trading at $100 each. The company has just awarded the CEO of Alpha Co the option to buy 1 million shares for $100 each in exactly ten years’ time. These options have no intrinsic value at the granting date.

If the share price rises to say $200 in 10 years’ time, the CEO could exercise his options, buying 1 million shares at a price of $100 each. Since the shares would be worth $200 each by then the CEO would make a gain of $100 per share, or $100m in total. Stock option plans are most appropriate for the senior management of organizations as they are the people who have the most influence over its share price. The rational for using stock option plans is that they align the objectives of the directors with the objectives of shareholders. If the share price rises, the senior management benefit because their options increase in value. Thus senior managers will start to think like investors.

The big weakness of stock option plans is that share prices may depend on external factors as much as on the performance of the directors. During the bull markets of the 1990s and 2000s, many companies share prices rose simply because the market rose.
Another weakness is risk misalignment. Share options reward managers if the share price goes up. If the share price falls, however, there is no difference in reward between the share price remaining the same ($100) and falling to ($1) – so managers may be motivated to take extreme risks where the exercise price may not be met.

What shareholders really want is the performance of their company to be better than the market. One solution to this is to use an indexed exercise price, where the price at which the director can buy the shares is equal to the current market price, plus the increase in the stock market index between the date that the options are issued, and the exercise date. This means that the share option reflects the controllability principle more closely, as directors would not be rewarded for rises in the stock market in general.

2.1.10. PENSION SCHEMES

(http://www.accaglobal.com)Defined benefit pension schemes used to be a popular form of reward. Under such schemes, the employee pays a pension to former employees based on their final salary, and the number of years that the employee worked for the organization. A typical example is that the former employee receives 1/60ths of their final salary for every year of service.
An employee who works for 40 years for the same organization would therefore receive a pension equal to 40/60ths of their final salary from the date of retirement to the date of death.

Defined benefit schemes leave organizations with an uncertain, often large liability, and for this reason, many organizations have now discontinued such schemes.
Defined contribution schemes are another form of pension scheme where the employer pays a certain percentage of the employee's salary into an account for the employee in a pension 'pot.' The employee may also have the option of making additional voluntary contributions into this pension pot. The pension pot is then invested, and the employee receives whatever is in their account on retirement.

In some countries, employees may be required to use what is in the pot to buy an annuity, which pays them a fixed income for the rest of their lives.

Many countries offer tax incentives for such pension schemes, such as allowing employees to reduce their taxable income by the value of contributions made to the schemes.

2.1.11. BENEFITS IN KIND

(http://www.accaglobal.com) Benefits in kind (or indirect pay) are paid to employees in addition to their base salary and performance-related pay. Benefits in kind include items such as health insurance and meal vouchers. They are usually provided to more junior staff in order to provide additional incentives at a lower cost. They are often used as a form of recognition, so the employee of the month for example will be given a benefit rather than a cash payment.

The advantage of benefits in kind is that greater flexibility can be given in designing a reward scheme for an individual.

'Cafeteria' schemes have also become popular, whereby employees are told that they may select benefits from a menu up to a certain value. The advantage of this is that employees will select the benefits that they value most. Benefits from which the employees can choose typically include such items as health insurance, holiday vouchers, company cars or sports vouchers.

Cafeteria schemes may be difficult to administer. Staff may also find them complex to understand, as they will have to select a number of benefits that have a value that is within the agreed limit.

2.1.11.1. ESTABLISHING THE LEVEL OF BENEFITS

How much employees should be paid? Two factors need to be taken into account here. First competitiveness and second internal equity.

As already mentioned above, unless the level of pay is competitive, it will be difficult to recruit and retain the right number of skilled employees. If it is too much, the cost to the organization will be too high. Here the organization will compare its pay levels with competitors. Such information may be available from job adverts in newspapers or on the Internet, or from recruitment consultants.

Internal equity relates to the pay differentials within the organization itself. Staff will become de-motivated if they feel that the remuneration system is ‘unfair’ and that other people are being paid more generously. Job evaluation techniques are used that try to determine the value of a specific job to the organization. Based on this, the level of rewards for that particular position will be determine (http://www.accaglobal.com).

2.1.12. THE ROLE OF APPRAISAL IN REWARD SYSTEMS

Many of the performance-related reward schemes depend on the performance of the employees. As such, the employees’ performance has to be assessed. This usually takes place during the appraisal process. Staff will be assessed on a regular basis, for example twice a year. During the appraisal, targets will be set for the next period, and rewards agreed if the targets are met.

To conclusion a good reward system aims to motivate employees to work harder, and align their goals with those of the organization they work for. The current trend towards performance-related reward systems is designed to lead to greater rewards and motivation for those who contribute the most. However, designing such reward systems is complex, as they aim to influence human behavior (http://www.accaglobal.com).

2.2. EFFECTIVE REWARD MANAGEMENT

Armstrong (2010) the criteria for judging the effectiveness of a reward management system are the extent to which it:

Is fit for purpose – the contribution it makes to achieving organizational objectives and recognizing the needs and wants of stakeholders; **Is appropriate** – fits the culture and context of the organization; Is designed in accord with what is generally regarded as good practice in the particular context of the organization, subject to the requirement that it must be appropriate; **Functions in line with well-defined guiding principles**, which include the need to achieve fairness, equity, consistency and transparency in operating the reward system; Includes processes for valuing and grading jobs and rewarding people according to their performance or contribution that are properly conceived and function well; Makes a significant impact on performance through performance management or contributions to high-performance working; **Has produced an attractive employee-value proposition**; Provides rewards that attract and retain people and enlist their engagement; Maintains competitive and equitable rates of pay; Incorporates successfully a total rewards approach; Manages reward processes carefully and obtains value for money; Provides for the evaluation of reward processes and taking corrective action as necessary; communicates to all concerned how the reward system operates and how it affects them; Provides for the devolution of a reasonable degree of authority to line managers to make reward decisions, taking steps to ensure that they have the skills and support required and that their decisions are in line with reward policy guidelines.

2.3. INCENTIVES

The term ’incentive’ is not peculiar to economics alone, it is a general term used in many spheres of life. However, in economics, it is a very important word. In fact you can never study economics successfully without understanding what incentives are. One American economist says that economics in its entirety is a study of people’s response to incentives.

Whether that statement is accurate or not is subject to one’s point of view, but what comes out clearly is the fact that incentives are truly central to the study of economics.

A dictionary definition of an incentive is ‘something that motivates you to do something’. In economics one can say that an incentive is a benefit, reward, or cost that motivates an economic action. Human beings do things deliberately and purposefully, and, naturally, people expect to benefit from their own decisions and actions.

Before someone decides to produce something and sell it to people, they should have taken time to think and decide that doing this will help them earn something. Likewise, before a consumer buys anything, they know (or at least they think) that they are going to benefit from the product. In strict sense, it is more than just the usual concepts or trade and economics, it is about human nature. No one does something for no reason. Not when they have to spend time and resources in doing so.

2.3.1. Incentives: Meaning & Definition

According to Smriti Chand Human Resource Development anything that can attract an employee’s attention and motivate them to work can be called as incentive. An incentive aims at improving the overall performance of an organization. Incentives can be classified as direct and indirect compensation. They can be prepared as individual plans, group plans and organizational plans.

Definition given by the different scholars& NCL (National Commission of Labor) taken from internate

1. According to Milton L. Rock, incentives are defined as ‘variable rewards granted according to variations in the achievement of specific results’.

2. According to K. N. Subramaniam, ‘incentive is system of payment emphasizing the point of motivation, that is, the imparting of incentives to workers for higher production and productivity’.

3. The National Commission of Labor defines incentive as follows: ‘wage incentives are extra financial motivation.

They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present and targeted results’.

2.3.2.Types of incentives (according to HRD specialist):

Incentives can be classified into three categories:

1. **Financial incentives**:

Some extra cash is offered for extra efficiency. For example, profit sharing plan and group incentive plans.

2. **Non-financial incentives**:

When rewards or prizes are provided by the organization to motivate the employees it is known as non-financial incentives.

3. **Monetary and non-monetary incentives**:

Many times, employees are rewarded with monetary and non-monetary incentives that include promotion, seniority, recognition for merits, or even designation as permanent employee.

2.3.3.Types of incentives (according to economics and to others perspective)

Incentives can be grouped into four main categories, or types. These types of incentives apply both to economics and to other spheres of life.

A. Financial incentives

Perhaps in the modern times, financial incentives are more dominant. Before you get to business, you know that it is always about profit. Employment is all about salary and remuneration.

It is true that sometimes people do voluntary jobs for some reasons other than financial ones. But ultimately, the main reason why human beings do business or work at all in modern days is money. It is this type of incentive that informs the idea of product promotions, where people are told that if they buy a certain product; they stand a chance of winning a certain amount of money.

B. Moral incentives

Moral incentives motivate people to do things on the basis of right and wrong. People are encouraged to do certain action because morally, it is the right thing to do. Aspects of morality today are quite diverse, varying broadly from one society to the next, and it is practically impossible to define morals of society in general. Moral incentives therefore generally appeal to an individual's own conscience.

C. Natural incentives

"What will happen if I do this?" We often ask ourselves. Humans are naturally curious creatures, and we do many things for no reason other than to find out what the consequences are.

D. Coercive incentives

Coercive investments emphasize on the consequences of not doing something, rather than the benefit of doing it. A good example is blackmail. You are warned to do something or risk being beaten up, or being reported to your seniors. That is a coercive incentive.

2.3.4. ADVANTAGES &DISADVANTAGES OF INCENTIVE PLAN (according to HRD specialist)

A. Advantages of incentive Plan:

1. Incentive plans motivate workers for higher efficiency and productivity.
2. It can improve the work-flow and work methods.
3. Incentive plans make employees hardworking and innovative.
4. When employees are dedicated, supervision costs can be reduced.
5. The National Commission on Labor says that under our conditions, wage incentives are the cheapest, quickest, and sure means of increasing productivity.
6. Incentive plans help establish positive response in an organization.
7. It helps workers improve their standard of living.
8. The other benefits offered by incentive plans are reduced turnover, reduced absenteeism, and reduced lost time.

B. Disadvantages of Incentive Plan:

1. Incentive plans can lead to disputes among workers, since some earn more than others.
2. Hunger for money among the workers forces them to overwork, which may affect their health.
3. Some workers may involve in malpractices in order to earn more money.
4. For enhanced incentives, they may sacrifice quality.
5. It also leads to corruption by falsifying the production records.
6. Incentive plans can create tensions among different personnel.

In short, it is argued that incentive payment cannot be strong and influential motivators.

The most recent supporter is Kohn (1993) who claim that incentive schemes cannot cause long-term improvements in individual productivity because pay is, in fact, a poor motivator. He believes that individual incentive can have negative effect on individual motivation and firm performance.

As Herzeberg mentioned in 1968, pay is “hygiene factor” for motivation .It can cause dissatisfaction but it cannot motivate satisfy. Payments are effective tool of management control and this is extremely important for the managers. Another argument against incentive schemes are that they create short-term individual gain and that can cause sharp competition between members of the same team, instead of cooperation. Furthermore, Kohn (1993) criticizes those payments as they discourage innovative thinking and creativity as people are focused to certain tasks.

2.4. PERFORMANCE MANAGEMENT

Armstrong. (2010) 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.

Organizations exist to meet the needs of their stakeholders. They do this in five ways: first by delivering high-quality goods and services, second by acting ethically (exercising social responsibility) with regard to their employees and the public at large, third by rewarding their employees equitably according to their contribution, fourth, in the private sector, rewarding shareholders by increasing the value of their holdings, as long as this is consistent with the requirement to meet the needs of other stakeholders, and fifth, ensuring that the organization has the capability required to guarantee continuing success.

2.4.1. The meaning of performance

According to (Armstrong 2010) defines performance ‘The accomplishment, execution, carrying out, working out of anything ordered or undertaken.’ This refers to outputs/outcomes (accomplishment) but also states that performance is about doing the work as well as about the results achieved.

Performance is indeed often regarded as simply the outcomes achieved: a record of a person’s accomplishments. Kane (1996) argues that performance ‘is something that the person leaves behind and that exists apart from the purpose’. Bernardin et al (1995) believe that: ‘Performance should be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction, and economic contributions.’

Borman and Motowidlo (1993) put forward the notion of contextual performance, which covers non-job specific behaviors such as cooperation, dedication, enthusiasm and persistence and is differentiated from task performance covering job-specific behaviors. As Fletcher (2001) mentions, contextual performance deals with attributes that go beyond task competence and that foster behaviors that enhance the climate and effectiveness of the organization.

Performance could therefore be regarded as behavior – the way in which organizations, teams and individuals get work done. Campbell (1990) states that: ‘Performance is behavior and should be distinguished from the outcomes because they can be contaminated by systems factors.’

A more comprehensive view of performance is achieved if it is defined as embracing both behavior and outcomes. This was well put by Brumbach (1988) as follows: ‘Performance means both behaviors and results. Behaviors emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviors are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.’

Performance is a complicated notion. As Bates and Holton (1995) emphasize, 'Performance is a multi-dimensional construct.' It has been pointed out by Campbell et al (1993) that the components of performance are: 1) job-specific task proficiency, 2) non-job-specific proficiency (eg organizational citizenship behavior), 3) written and oral communication proficiency, 4) demonstration of effort, 5) maintenance of personal discipline, 6) facilitation of peer and team performance, 7) supervision/leadership, and 8) management/administration.

This concept of performance leads to the conclusion that when managing the performance of teams and individuals a number of factors have to be considered, including both inputs (behavior) and outputs (results).

2.4.2. Influences on individual performance

Armstrong (2010) Vroom (1964) suggested that performance is a function of ability and motivation as depicted in the formula: Performance = *f* (Ability x Motivation). The effects of ability and motivation on performance are not additive but multiplicative. People need both ability and motivation to perform well and if either ability or motivation is zero there will be no effective performance.

A formula for performance was originated by Blumberg and Pringle (1982). Their equation was: Performance = Individual Attributes × Work Effort × Organizational Support. By including organizational support in the formula they brought in the organizational context as a factor affecting performance.

Research carried out by Bailey et al (2001) in 45 establishments focused on another factor affecting performance – the opportunity to participate. They noted that 'organizing the work process so that non-managerial employees have the opportunity to contribute discretionary effort is the central feature of a high-performance work system.' (This was one of the earlier uses of the term discretionary effort.)

The 'AMO' formula put forward by Boxall and Purcell (2003) is a combination of the Vroom's and Bailey, Berg and Sandy's ideas This model posits that performance is a function of Ability + Motivation + Opportunity to Participate (note that the relationship is additive not multiplicative).

A. The work system

All these formulas are concerned with individual performance, but this is influenced by systems as well as person factors. These include the support people get from the organization and the leadership and support they get from their managers, and other contextual factors outside the control of individuals. Jones (1995) makes the radical proposal that the aim should be to 'manage context not performance' and goes on to explain that:

In this equation, the role of management focuses on clear, coherent support for employees by providing information about organization goals, resources, technology, structure, and policy, thus creating a context that has multiplicative impact on the employees, their individual attributes (competency to perform), and their work effort (willingness to perform). In short, managing context is entirely about helping people understand; it is about turning on the lights.

It was emphasized by Deming (1986) that differences in performance are largely due to systems variations. Coens and Jenkins (2002) were even more adamant.

They wrote: An organizational system is composed of the people who do the work but far more than that. It also includes the organization's methods, structure, support, materials, equip- ment, customers, work culture, internal and external environments (such as markets, the community, governments), and the interaction of these components. Each part of the system has its own purpose but at the same time is dependent on the other parts… Because of the interdependency of the parts, improvement strategies aimed at the parts, such as appraisal, do little or nothing to improve the system.

B. Leadership

Leadership as provided by line managers is a key factor in improving performance. The consulting firm Hay McBer, as reported by Goleman (2000), found in a study of 3,871 executives, selected from a database of more than 20,000 executives worldwide, that leadership had a direct impact on organizational climate, and that climate in turn accounted for nearly one- third of the financial results of organizations.

Research by Northouse (2006) into 167 US firms in 13 industries established that over a 20-year period, leadership accounted for more variations in performance than any other variable.

Leadership can be defined as the process of getting people to do their best to achieve a desired result. This is the job of line managers, who play a crucial role in providing non-financial rewards (positive feedback, recognition, opportunity to develop and scope to exercise responsibility). They also, of course, have considerable influence on financial reward decisions – pay reviews and fixing rates of pay. Importantly, it is they who are largely responsible for operating the performance management system, job design and on-the-job coaching and development. All these activities impact directly on the performance of their teams and the individuals in them.

C. Taking action

All these activities are concerned with developing a high-performance culture, as discussed. Such a culture depends on adopting the right approach to improving organizational, team and individual performance and getting the work system and leadership right. This is the responsibility of senior leaders but they can benefit from the advice, guidance and support of HR in developing performance and reward systems.

2.4.3. How does reward effect on performance?

(Armstrong 2010) 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.

Examine in more detail the concept of a high-performance culture, the features of a high-performance work system, and the impact of reward on individual and organizational performance which deal with approaches to developing organizational, team and individual performance.

2.4.3.1. High-performance cultures

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. 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.

1. Characteristics of a high-performance culture.

The following characteristics of a high-performance culture were defined by Lloyds TSB (source: e-reward, 2003b): People know what's expected of them – they are clear about their goals and accountabilities. They have the skills and competencies to achieve their goals. High performance is recognized and rewarded accordingly. People feel that their job is worth doing, and that there's a strong fit between the job and their capabilities. Managers act as supportive leaders and coaches, providing regular feedback, Performance reviews and development. A pool of talent ensures a continuous supply of high performers in key roles. There's a climate of trust and teamwork, aimed at delivering a distinctive service to the customer. Another important characteristic is the encouragement of discretionary behavior.

Discretionary behavior takes place when employees exercise an element of choice about the amount of effort, care, innovation and productive conduct they display and how they do their job. On the basis of their longitudinal research Purcell et al (2003) suggested that the following conditions were required to achieve this: Discretionary behavior is more likely to occur when individuals have commitment to their organization and/or when they feel motivated to do so and/or when they gain high levels of job satisfaction.

Commitment, motivation and job satisfaction, either together or separately, will be higher when people positively experience the application of HR policies concerned with creating an able workforce, motivating valued behaviors and providing opportunities to participate. This positive experience will be higher if the wide range of HR policies necessary to develop ability, motivation and opportunity are both in place and mutually reinforcing. The way HR and reward policies and practices are implemented by front-line managers and the way top-level-espoused values and organizational cultures are enacted by them will enhance or weaken the effect of HR policies in triggering discretionary behavior by influencing attitudes. The experience of success seen in performance outcomes helps reinforce positive attitudes.

2. Developing a high-performance culture

The above prescriptions by John Purcell and his colleagues for encouraging discretionary behavior can be applied to the development of a high-performance culture. They are mainly concerned with general HR policies and approaches to managing people. Overall, there are three development approaches that can be adopted: A) the implementation of high-performance working through a high-performance work system, B) the use of rewards, and C) the use of systematic methods of managing performance, including performance management systems.

A. **High-performance work systems**

A high-performance work system (HPWS) is described by Becker and Huselid (1998) as: ‘An internally consistent and coherent HRM system that is focused on solving operational problems and implementing the firm’s competitive strategy’. They suggest that such a system ‘is the key to the acquisition, motivation and development of the underlying intellectual assets that can be a source of sustained competitive advantage’. This is because it has the following characteristics: It links the firm’s selection and promotion decisions to validated competency models; it is the basis for developing strategies that provide timely and effective support for the skills demanded to implant the firm’s strategies; It enacts compensation and performance management policies that attract, retain and motivate high-performance employees.

High-performance work systems provide the means for creating a performance culture. They embody ways of thinking about performance in organizations and how it can be improved. They are concerned with developing and implementing bundles of complementary practices that as an integrated whole will make a much more powerful impact on performance than if they were dealt with as separate entities.

Becker, Huselid and Ulrich (2001) have stated that the aim of such systems is to develop a 'high-performance perspective in which HR and other executives view HR as a system embedded within the larger system of the firm's strategy implementation'. As Nadler (1989) commented, they are deliberately introduced in order to improve organizational, financial and operational performance.

Nadler and Gerstein (1992) have characterized an HPWS as a way of thinking about organizations. It can play an important role in strategic human resource management by helping to achieve a 'fit' between information, technology, people and work.

In their seminal work Manufacturing Advantage: Why high-performance work systems pay off, Appelbaum et al (2000) stated that high-performance work systems facilitate employee involvement, skill enhancement and motivation. An HPWS is 'generally associated with work- shop practices that raise the levels of trust within workplaces and increase workers' intrinsic reward from work, and thereby enhance organizational commitment'. They define high performance as a way of organizing work so that front-line workers participate in decisions that have a real impact on their jobs and the wider organization.

It is sometimes believed that high-performance work systems are just about HR policies and initiatives. But as Godard (2004) suggested, they are based on both alternative work practices and high-commitment employment practices. He called this the high-performance paradigm and described it as follows.

Alternative work practices that have been identified include: 1) alternative job design practices, including work teams (autonomous or non-autonomous), job enrichment, job rotation and related reforms; and 2) formal participatory practices, including quality circles or problem-solving groups, town hall meetings, team briefings and joint steering committees.

Of these practices, work teams and quality circles can be considered as most central to the high-performance paradigm. High-commitment employment practices that have been identified include: 1) sophisticated selection and training, emphasizing values and human relations skills as well as knowledge skills; 2) behavior-based appraisal and advancement criteria; 3) single status policies; 4) contingent pay systems, especially pay-for-knowledge, group bonuses, and profit sharing; 5) job security; 6) above-market pay and benefits; 7) grievance systems; and others.

High-performance work systems are also known as high-performance work practices (Sung and Ashton, 2005). Thompson and Heron (2005) referred to them as high-performance work organizations that 'invest in the skills and abilities of employees, design work in ways that enable employee collaboration in problem-solving, and provide incentives to motivate workers to use their discretionary effort'. The terms high-performance system, high-commitment system and high-involvement system sometimes seem to be used interchangeably. There is indeed much common ground between the practices included in them although, following Godard (2004), there may be more emphasis in a high-performance work system on alternative work practices. Sung and Ashton (2005) noted that:

"In some cases high-performance work practices are called 'high commitment practices' (Walton, 1985) or 'high involvement management' (Lawler, 1986). More recently they have been termed 'high-performance organizations' (Lawler et al, 1998; Ashton and Sung, 2002) or 'high-involvement' work practices (Wood et al, 2001). Whilst these studies are referring to the same general phenomena the use of different 'labels' has undoubtedly added to the confusion."

The term high-performance work system (HPWS) is the one most commonly used in both academic and practitioner circles and it is therefore adopted in this chapter. But it is recognized that high commitment and high involvement are both important factors in the pursuit of high performance. The notions incorporated in these practices therefore need to be incorporated in any programmer for improving organizational capability wherever they add to the basic concepts of a high-performance work system.

3. Components of a High performance Work system (HPWS)

There is no generally accepted definition of an HPWS and there is no standard list of the features or components of such a system. Appelbaum and Batt (1994) identified six models: American lean production, American team production, German diversified quality production, Italian flexible specialization, Japanese lean production and Swedish socio-technical systems. These systems vary in the degree of autonomy they give the workforce, the nature of the supporting human resource practices, and the extent to which the gains from the systems are shared. In spite of this problem of definition, an attempt to define the basic components of an HPWS was made by Shih et al (2005) as follows: Job infrastructure: workplace arrangements that equip workers with the proper abilities to do their jobs provide them with the means to do their jobs, and give them the motivation to do their jobs. These practices must be combined to produce their proper effects. Training programs to enhance employee skills: investment in increasing employee skills, knowledge and ability. Information sharing and worker involvement mechanisms: to understand the available alternatives and make correct decisions. Compensation and promotion opportunities that provide motivation: to encourage skilled employees to engage in effective discretionary decision making in a variety of environmental contingencies.

A high-performance work system has to be based on a high-performance strategy that sets out intentions and plans for how a high-performance culture can be created and maintained. The strategy has to be aligned to the context of the organization and to its business strategy. The approach to developing an HPWS is based on an understanding of what the goals and performance drivers of the business are, what work arrangements are appropriate to the attainment of those goals and how people can contribute to their achievement. This leads to an assessment of what type of performance culture is required and what approach to reward is appropriate for the different segments of the workforce.

The development program me requires strong leadership from the top. Stakeholders – line managers, team leaders, employees and their representatives – should be involved as much as possible through surveys, focus groups and workshops.

A high-performance work system is the basis for developing a performance culture and provides the framework for managing performance. This is sometimes assumed to be simply concerned with managing individual performance through performance management systems.

2.4.3.2. Effect of reward on individual performance

Extrinsic rewards can be used as motivators to improve performance, although they are not necessarily effective in this role. They can also convey the message that performance is important and help to focus on specific aspects of performance that need to be improved.

According to (Armstrong, 2010) there is plenty of evidence, as quoted in, that in the right circumstances incentives can make a considerable impact on performance (a total of 190 studies covered individually or in meta- analyses). Although, as mentioned it is generally accepted that while extrinsic rewards can have an immediate and, in the right circumstances, a powerful effect on motivation and performance, intrinsic rewards can have a deeper and longer lasting effect.

People can be motivated to achieve certain goals and will be satisfied if they achieve these goals through improved performance. They may be even more satisfied if they are then rewarded by extrinsic recognition or an intrinsic sense of achievement. This suggests that performance improvements can be achieved by giving people the opportunity to perform through job and work-system design and leadership, ensuring that they have the knowledge and skill required to perform, and rewarding them by financial or non-financial means when they do perform (Armstrong, 2010).

2.4.3.3. Effect of reward on organizational performance

The assumption is that improvements in organizational performance will follow improvements in individual performance. This sounds reasonable but it is difficult to prove, although some research has attempted to do this.

The findings of the research conducted by Allen and Helms (2001) were that reward practices were significant predictors of performance and explained nearly 41 per cent of the variance in organizational performance.

A relatively small number of reward practices explained the bulk of variability in organizational performance; these were: employee share option plans (ESOPs), individual-based performance systems, regular expressions of appreciation, and customer-satisfaction monitoring tied to rewards. Team-based pay, flexible benefits and increased job autonomy were not significant predictors of firm performance.

A study by Brown et al (2003) explored the relationship between pay policy as indicated by pay levels and pay structure on organizational performance in 333 general hospitals in the State of California.

The findings were: Pay -level practices and pay structures interact to affect resource efficiency, patient care outcomes and financial performance. Higher pay levels are associated with greater efficiency. There are diminishing returns for pay's effects on employee performance. No single theory can fully explain how compensation relates to organizational performance, but the results show support for efficiency theory (the belief that high levels of pay will contribute to increases in productivity). Higher wages can compensate for the negative effects of inequitable pay systems.

Data on pay satisfaction and organizational level outcomes was collected by Curral et al (2005) from 6,394 public school teachers and 117 public school districts. The findings were that pay satisfaction was positively related to school district level academic performance and negatively related to intention to quit.

Research carried out by McAdams and Hawks (1994) supported the premise that performance reward plans are instrumental in performance improvements, often with calculable returns. Just under half of the companies in the study were able to attach a financial value to their plans. For these organizations, the value of the performance improvement translated into a 134 per cent net return on what was paid out to employees (excluding the costs associated with training, communications and consulting).

2.5. Empirical Evidences

Various related studies are conducted by different researchers in different parts of the world. However, there are limited numbers of studies conducted in Ethiopia on the Impact of rewards on performance.

Another research conducted by Berhan, A. (2007), this study examines the impact of intrinsic, extrinsic, and equity factors of work on employee's organizational commitment a case study in two selected private colleges in Addis Ababa. Questionnaire was used to collect primary data and different records of the institution reviewed for collection of secondary data.

Random sampling method used to select respondents. The collected data analyzed by using SPSS. The finding shows that instructors in private colleges were satisfied with intrinsic factors of work such as opportunity for achievement, challenging work, responsibility. On the other hand, instructors are generally dissatisfied with extrinsic content of work such as salary, fringe benefits, incentives, job security, and post-employment security. Moreover, there is also structural inequity. Consequently, employees were not committed to their organization which implies the availability of high turnover and lower performance.

Extensive research has been conducted on the factors that affect motivation, job satisfaction and job performance. Wyatt's 2005 Survey of Canadian Strategic Rewards and pay practices found that employers are seeking to adopt reward strategies that provide a competitive advantage by attracting top talent and engaging employees in a way that drives business results.

The survey found that 77% of organizations have either adopted a total rewards system or plan to do so. While employers seem satisfied with their performance and reward efforts, the Western Wyatt Work Canada 2005/2006 study shows that only 24% of employees believe that excellent performance is rewarded at their company (Canadian employers).

According to "people, performance and pay" study by the American productivity Centre, it generally takes 5% to 8% of an employee's salary to change behavior if the reward is cash, but only 4% of the employee's salary if the reward is non-cash. Thus the fewer dollars are money well spent. Stephenson (1995) motivation is more likely to occur when a reward is personalized and heartfelt.

2.5.1. RESEARCH FRAMEWORK

Based on the main objective of the study and the variables under consideration the researcher adopted the following conceptual framework by referring the relevant literatures.

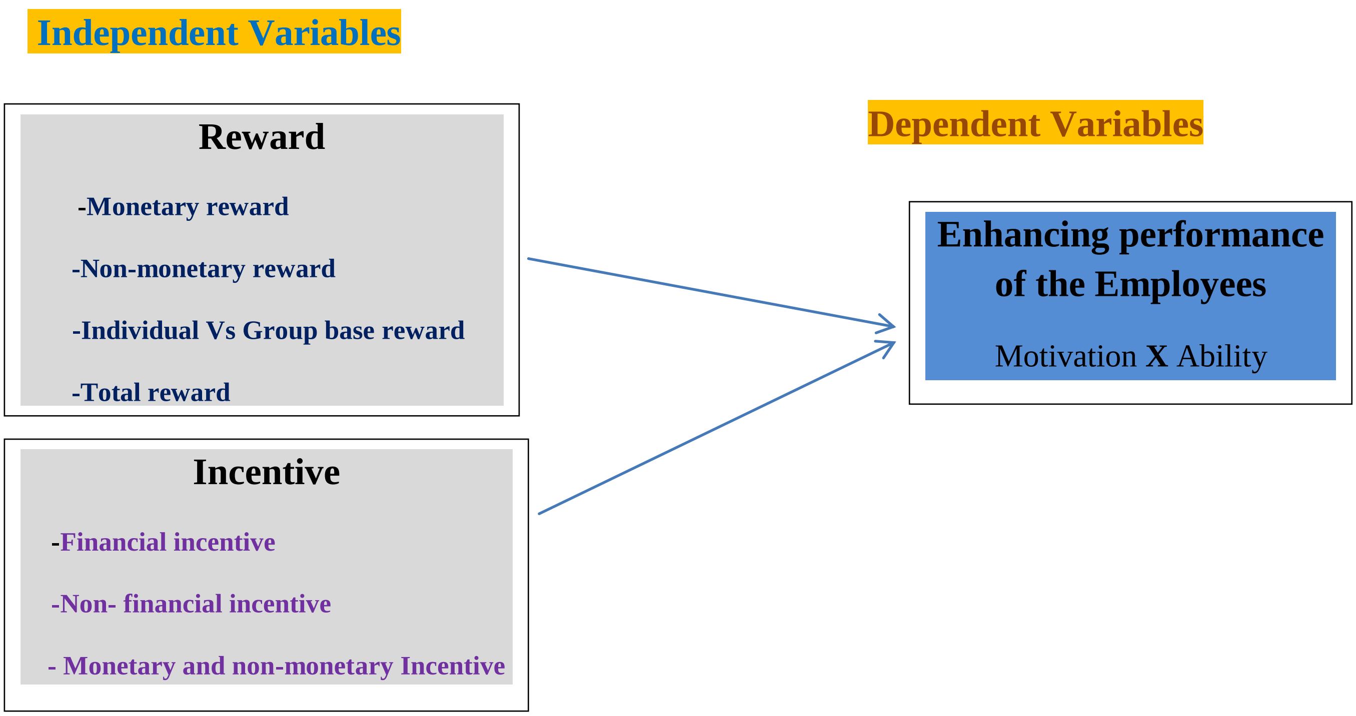


Fig. 2.1 Research framework of the study

Sources: (Armstrong 2010)

2.5.2. Dimensions (variables) of the study

This study is considered reward and incentive variables as independent variables and enhancement of employee's performance as dependent variable. According to Herzberg two factor theory and Mahaney and Lederer (2006) of motivation, employees motivational factors can categorized into two group namely intrinsic factors (intrinsic rewards) such as challenge, authority, achievement, responsibility, job satisfaction, personal growth and development and extrinsic factors (extrinsic rewards) such as salary, job security, subordinate-superior(s) relationship and work environment(Mahaney and Lederer 2006).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. RESEARCH APPROACH AND DESIGN

The research approach used for this study was mixed approach where greater priority was given to quantitative approach. The purpose of qualitative approach was to analysis open ended questions and assist in explaining interpreting the finding of quantitative study.

This descriptive study aimed at identifying the role incentive and rewards have significant factors in influencing the performance of employees at Bunna International Bank. A questionnaire was developed in order to obtain the information required. The research was descriptive, that was used to determine the adoption of incentive and reward system on the employee's performance.

3.2. POPULATION AND SAMPLE SIZE

According to the 2017 human resource record of Bunna International Bank out which the Bank has a total of 1095 employees: 729 men and 366 women in all the 125 branches and the number of employees in Addis Ababa were 600 in number.

The bank has 63 branches in Addis Ababa and 62 branches outside of Addis Ababa.

The sampling population was proposed on the employees Bunna International Bank to identify the perception of the employees on the 40 selected branches in Addis Ababa on the implementation of reward and incentive system on enhancement of the performance of the employees on all of the selected branches.

Out of the 1095 employees the researcher select 219 respondents of the employees among the 40 selected branches of Bunna International Bank with in Addis Ababa and the selection criteria is based on the operational experiences of the branch beside to this employees selection criteria is based on educational background ,working experience, job classification &working experience.

As stated by Singh (2006, p.6) "descriptive research method uses larger sample; it is suggested that one should select 10-20 percent of the accessible for the sample.''

Accordingly, this study was utilize the maximum of which is 20% of the population size therefore the study sample size of 219 employees is fair enough to represent the population.

3.3. DATA SOURCE AND TYPE

In order to get direct employees' view of the existing reward and incentive system of the bank, it is important to collect the data from them. Hence, employees of the bank have served as the main source of primary data.

Accordingly, demographic variable such as sex, age, educational background and the like were directly collected from employees through questionnaire. Beside to this the variable for the study is reward, incentive and performance will be collected through questionnaire.

Both primary and secondary source of data were used for this study .The primary data included the data that gathered through questionnaire. Secondary data includes books, journal documents of the bank and on-lion references which help the researcher build a compressive background of the study

3.4. DATA COLLECTION INSTRUMENTS OR PROCEDURE

Since this study followed both quantitative and qualitative approach, questionnaires & interview were adopted of reward and incentive system to collect information. This method is aims to determine the reward and incentive system in the enhancement of employee's performance at Bunna International Bank S.c.

Structured Questionnaire was used in order to reach wide range of respondents so that, acquire information to examine and explain the relationships between variables. Different motivational theories that have been presented on the literature review were used to develop the questionnaire. The questions were framed using Likert's scale of measurement ranging from strongly agree to strongly disagree (Strongly agree 5, Agree 4, Neutral 3, Disagree 2 and Strongly Disagree 1). The survey questionnaire had three sections; section one, to capture basic demographic information of respondent. Section two, to capture information on employee opinion on current on the role incentive & reward in enhancing employee's performance. Section three, questions employees' opinion on incentive and reward system.

The researcher conducted an interview with structured questions with HRM personnel of the company to seek insight on case company's reward & incentive system to support the data collected through questionnaire.

3.5. DATA ANALYSIS

SPSS ver. 20 software was used to analyze the data. After collected the data, it entered in this software and the outputs were analyzed based on descriptive statistics. A descriptive analysis were employed to present and interpret the data collected on various variables of factors affecting role of incentive and reward system in enhancing employee's performance at Bunna International Banks. Frequency tables and charts along with percentages was also be employing to analyze the responses of the employees on the implementation of incentive and reward system.

Here, the study were used to presented the information gathered in useful way like frequencies distribution for the descriptive statistics and multiple linear regression model to understand and examine the causal relationship of the variables.

3.6. ETHICAL CONSIDERATION

Respondents were assured the confidentiality and anonymity of their response and informed purpose and objectives of the study on the cover letter attached with each questionnaire. Which make the respondents feel secured and understand that responding the questionnaire won't cause any harm or threat on their job. Appropriate time was selected to distribute and collect questionnaire as well as to conduct interview. In order to increase respondents' rate and accuracy of responses busy office hours were not used. Participants' willingness was requested before delivering the questionnaire. All data have been treated in a way that respects and protects the confidentiality and anonymity of participants involved in the study. Materials used to collect data or as a data source have been acknowledged in appropriate manner.

Chapter Four: Data Analysis Presentation and Interpretation

This Chapter is divided in to two sections. The first section is the quantitative analysis which involves analysis of the biographical information of the respondents and descriptive and inferential statistics employed. The second section involves qualitative analysis of open ended questions.

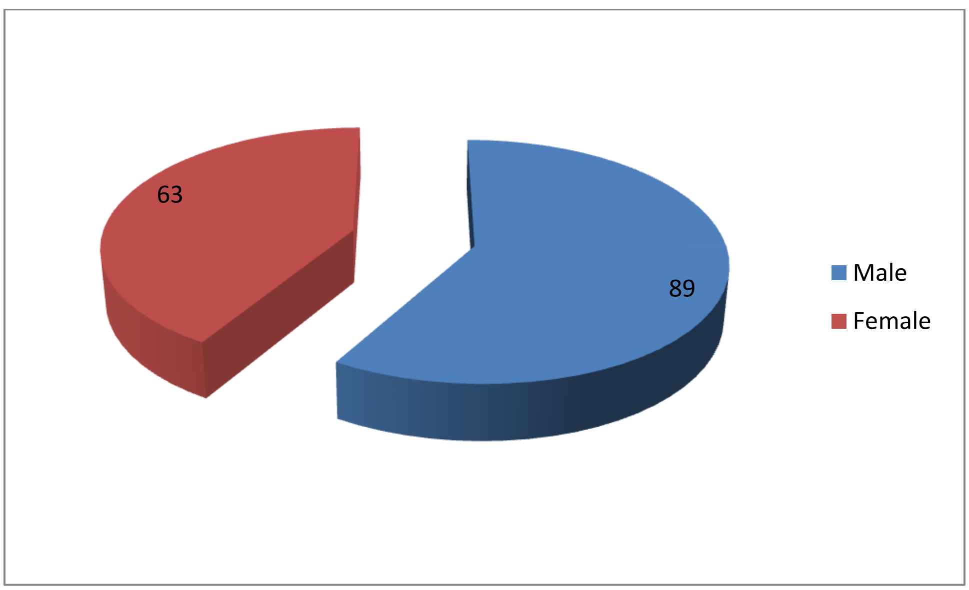
4.1. Quantitative analysis

4.1.1. Biographical information

The biographical information of 152 respondents who completed the questionnaire in the research is graphically illustrated. The study participants have different personal information. This Biographical information of the respondents was not used to understand their relationship with the dependent variable which is in enhancing level of employee's performance. Rather they are just used to understand the composition of the bank staffs as it is.

The gender of the respondent that participates in the research is illustrated as follow.

Figure 4.1 genders of the respondents

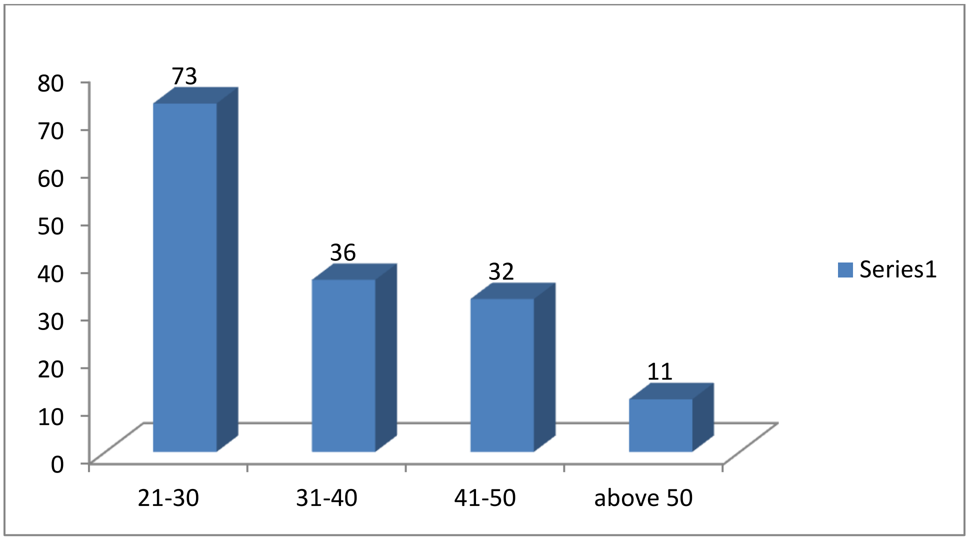


Source: Survey Questionnaires

Figure 4.1 depicts the gender of respondents. As it can be seen, the majority of the respondents (58.6% n=89) were male, while female comprised (41.4% n=63) of the respondents

The Age distribution of respondents that participated in the research is illustrated in figure 4.2

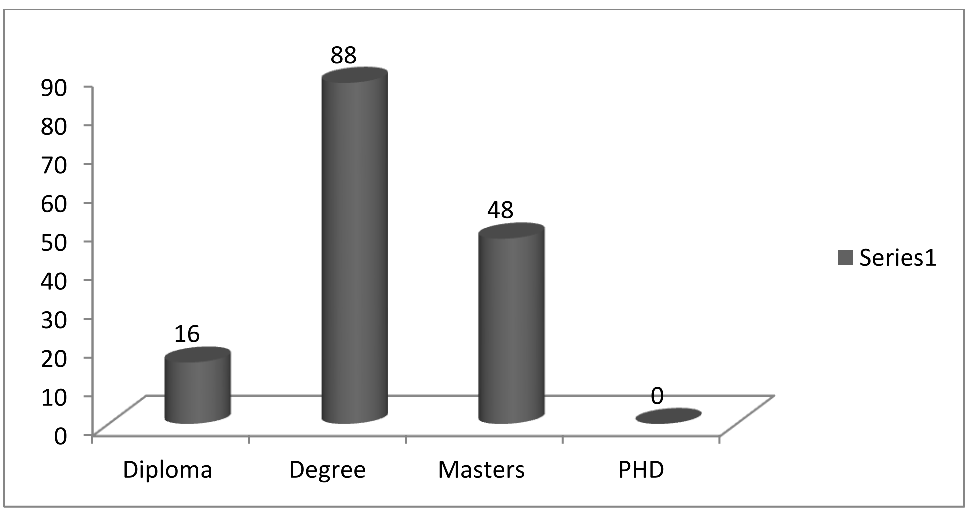
Figure 4.2 Age distribution of the respondents



Source: Survey Questionnaires

The majority of the respondents (48% n=73) were in the age group 21-30 years, while 23.7% (n=36) are in the age group of 31-40 years. Another 32 respondents (21.1%) falls in the age group of 41-50 years, and a further 7.2% (n=11) of the respondents are in the age group of above 50.

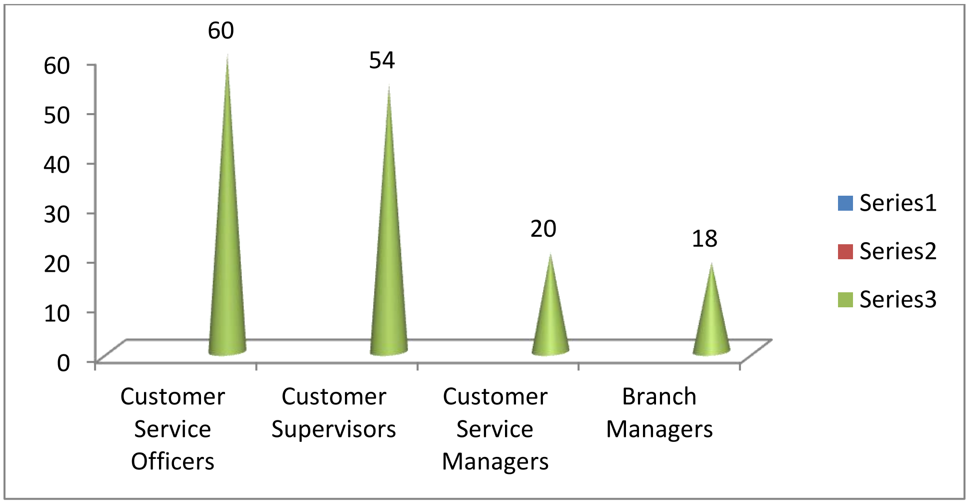
Figure 4.3 Educational levels of the respondents



Source: Survey Questionnaires

Figure 4.3 illustrate that 10.5% (n=16) of the respondents have diploma holder. While the majority (57.9% n=88) of the respondents BA/BSC Degree holders. 31.6% (n=48) have there Master's Degree. However none of the respondents have PHD Degree.

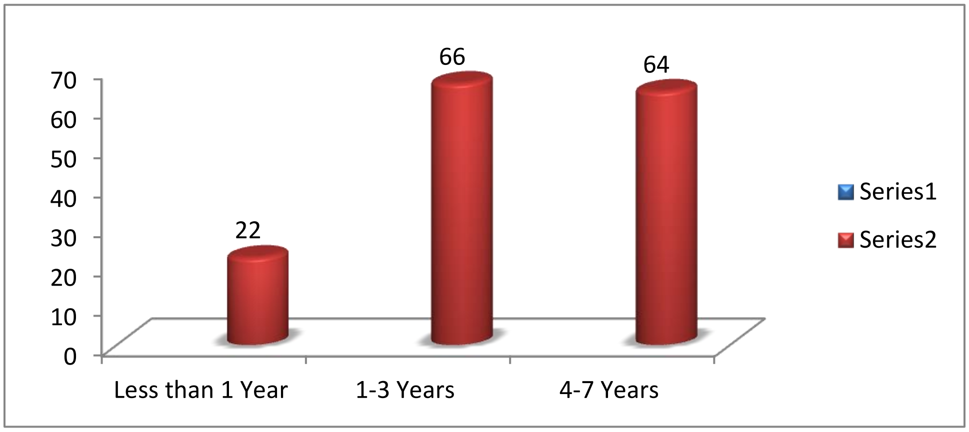
Figure 4.4 Job Classification of the respondents



Source: Survey Questionnaires

As it can be seen from Figure 4.4, Most of the respondents (39.5% n=60) are Customer service Officers. 35.5% (n=54) of the respondents are Customers service Supervisors, while 13.2% (n=20) are Customer Service Managers. Whereas11.8% (n=18) Branch Managers.

Figure 4.5 Length of service year of the respondents



Source: Survey Questionnaires

With regards to length of service years of the respondents the majority (43.4% n=66) has 1-3 Years of Experience. The Second biggest group of the respondents has 42.1% (n=64) 4-7 Years of experience. Only 22 respondents (14.5%) have less than 1 Years of Experiences.

From the above figures, we can see the number of respondent who is properly filled the questioners and can be categorized based on biographical information

4.1.2. RELIABILITY ANALYSIS

The reliability of the questionnaires is tested by Cranach's alpha measurement in SPSS. The result was summarized as follows.

Table 4.1: Reliability Statistics

Types of questionnaires	Bank	Cranach's Alpha	Number of items
Incentive system	BIB	.858	11
Reward system	BIB	.815	17
Performance	BIB	.888	6

Source: SPSS ver.20 Cronbach alpha reliability analysis.

As indicated in table 4.1 Bunna International Bank reliability of incentive system type of questionnaires on employees is 0.858, the reliability of reward system type of questionnaires is 0.815, and for performance types of questionnaires is .888 respectively. Since a Cranach's alpha value exceeds 0.80 the items shows good reliability and a strong internal consistency.

Table 4.2 Regarding the role of INCENTIVE in enhancing the performance of the employees

Statement		Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Total
I believe the bank incentive system motivates the employees	Frequency	1	6	27	97	21	152
	%	.7	3.9	17.8	63.8	13.8	100
I believe the bank incentive system is forward looking	Frequency	-	3	26	111	12	152
	%	-	2.0	17.7	73.0	7.9	100
The bank incentive system is relative to the challenge of job	Frequency	-	1	52	80	19	152
	%	-	.7	34.2	52.6	12.5	100
The bank incentive mechanism based on the relative value of the job(based on the importance within the organization)	Frequency	-	3	28	88	33	152
	%	-	2.0	18.4	57.9	21.7	100
I have incentivized in terms money	Frequency	-	-	3	64	85	152
	%	-	-	2.0	42.1	55.9	100
I have incentivized in non-monetary terms	Frequency	-	61	36	32	23	152
	%	-	40.1	23.7	21.1	15.1	100
The Bank incentive system may lead to higher performance	Frequency	-	8	12	71	61	152
	%	-	5.3	7.9	46.7	40.1	100
The Bank incentivized in accordance with the work load	Frequency	-	31	48	56	17	152
	%	-	20.4	31.6	36.8	11.2	100

I expect to promote to the higher position	Frequency	-	39	52	49	12	152
	%	-	25.7	34.2	32.2	7.9	100
The Bank have uniform criteria for incentivizing employees	Frequency	-	60	61	17	14	152
	%	-	39.5	40.1	11.2	9.2	100
I believe that the Bank incentive system align to the short-term objective.	Frequency	-	7	64	63	18	152
	%	-	4.6	42.1	41.4	11.8	100

Sources: Survey Questionnaires, 2017

Tables 4.2 summarize the frequencies and percentages of Bunna International Bank employees' opinions towards **Incentives variables** measured on 5 point likert scale from strongly agree to strongly disagree.

The data reveals that significant portion of the respondents that is 118(77.6%) strongly agreed and agreed to the statement "**they believe that the bank incentive system motivates the employees"**, about 27(17.8%) respondents were neutral opinions to this statement and the rest 7(4.6%) respondents were strongly disagreed and disagreed with the statement the "they believe that the bank incentive system motivates the employees".

Regarding **their believe the bank incentive system is forward looking** dimension, 123(80.9%) respondents strongly agreed and agreed that their believe the bank incentive system is forward looking, whereas, only 3(2%) respondents disagreed that incentive system is forward looking, From the total 152 respondents 26(17.7%) respondents were not sure that incentive system is forward looking.

In terms of incentive system is relative to the challenge of job dimension, about 99(75.1%) respondents of employees Bunna international bank strongly agreed and agreed to the statement **"The bank incentive system is relative to the challenge of job"**, concomitantly, 1(.7 %) respondent disagreed to this statement, the rest 52(34.5%) respondents are neutral opinion to the statement "The bank incentive system is relative to the challenge of job".

Table 4.2 also indicated that majority the respondents 121(79.6%) respondents strongly agreed and agreed with the statement "**The bank incentive mechanism based on the relative value of the job (based on the importance within the organization)**", however, only 3(2.0%) of them disagreed with the statement “The bank incentive mechanism based on the relative value of the job(based on the importance within the organization)”, the rest 28(18.4.2%) respondents were neutral opinion with the statement “The bank incentive mechanism based on the relative value of the job(based on the importance within the organization).

The other item in the variable **employees of the bank are incentivized in terms money**, 149(98%) respondents strongly agreed and agreed that the bank incentive system is in monetary terms, 3(2%) respondents perceived indifferent opinions with the statement “I have incentivized in terms money”, while, none of them strongly disagreed and disagreed with the statement “I have incentivized in terms money”.

Table 4.2 also **I have incentivized in non-monetary terms** 55(36.2%) respondents strongly agreed and agreed to the statement “I have incentivized in non-monetary terms” ,however, 61(40.1%) of them disagreed to this statement, the remaining 36(23.7%) respondents were a neutral opinion to the statement “I have incentivized in non-monetary terms”.

In terms of the **Bank incentive system may lead to higher performance** dimension, significant portion of the respondents 132 (86.8%) strongly agreed and agreed to the statement “The Bank incentive system may lead to higher performance”, the rest 12(7.9%) respondents were neutral and 8(5.3%) respondents disagreed to this statement respectively.

In terms of the Bank incentive system is in accordance with the work load dimension, significant portion of the respondents 73 (48 %) strongly agreed and agreed to the statement **“The Bank incentivized in accordance with the work load”**, 48(31.8%) respondents were neutral and the rest 31(20.4%) of respondent perceived disagreed to this statement respectively.

In terms of promotion to the higher position dimension , 61(40.1%) respondents of Bunna international bank strongly agreed and agreed to the statement “**I expect to promote to the higher position ”**,concomitantly, 39(25.7%) respondents disagreed to this statement , the rest 52(34.2%)respondents are neutral opinion to the statement “I expect to promote to the higher position” .

In terms of the Bank have uniform criteria for incentivizing employees dimension , about 31(20.4%) respondents of Bunna international bank strongly agreed and agreed to the statement “**The Bank have uniform criteria for incentivizing employees**” ,concomitantly, 60(39.5%)

respondents disagreed to this statement, the rest 61(40.1%) respondents are neutral opinion to the statement “The Bank have uniform criteria for incentivizing employees”.

Finally, regarding align to the short-term objective attainment dimension, significant portions of Bunna international bank respondents 81(53.2%) perceived positively (strongly agreed and agreed) to the statement **“I believe that the Bank incentive system align to the short-term objective.”**, however, only 7(4.6%) respondents were perceived negatively disagreed to this statement, the rest ,64(42.1%) respondents were a neutral opinions to the statement “I believe that the Bank incentive system align to the short-term objective.”.

Table 4.3 Regarding the role of REWARD system in enhancing the performance of the employees

Statement		Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Total
The bank reward system enhance employees performance	Frequency	-	1	20	71	60	152
	%	-	.7	13.2	46.7	39.5	100
The bank reward system focus on past achievement	Frequency	-	10	25	62	55	152
	%	-	6.6	16.4	40.8	36.2	100
Reward system is based on financial term	Frequency	-	-	48	62	42	152
	%	-	-	31.6	40.8	27.6	100
It is related to the relative value of the job with in the bank	Frequency	-	3	26	92	31	152
	%	-	2.0	17.1	60.5	20.4	100
Reward system related to the contribution of the employees to the bank	Frequency	-	-	44	90	18	152
	%	-	-	28.9	59.2	11.8	100
Recognition individual contribution to the bank	Frequency	-	-	38	56	58	152
	%	-	-	25	36.8	38.2	100
The reward system can motivate& retain the existing employees	Frequency	-	-	15	63	74	152
	%	-	-	9.9	41.4	48.7	100
The Bank reward system is competence base	Frequency	-	-	31	73	48	152
	%	-	-	20.4	48.0	31.6	100
The Criteria is Fair	Frequency	-	7	79	54	12	152

enough for rewarding an employees	%	-	4.6	52.0	35.5	7.9	100
Uniform criteria of the reward system with in the bank	Frequency	3	26	77	43	3	152
	%	2.0	17.1	50.7	28.3	2.0	100
The reward system is aligned with the bank policies and strategy	Frequency	-	-	6	87	59	152
	%	-	-	3.9	57.2	38.8	100
Reward system is intrinsic/Internal to the employees/	Frequency	-	47	56	45	4	152
	%	-	30.9	36.8	29.6	2.6	100
Reward system is extrinsic/External to the employees/	Frequency	-	-	2	115	35	152
	%	-	-	1.3	75.7	23.0	100
There is Greater role of appraisal in reward systems	Frequency	-	2	66	66	18	152
	%	-	1.3	43.4	43.4	11.8	100
Do you agree the bank reward system recruit and retain sufficient amount of employees with the right skills	Frequency	-	-	6	102	44	152
	%	-	-	3.9	67.1	28.9	100
The Reward system is comply with legal regulations/employment laws/	Frequency	-	-	5	120	27	152
	%	-	-	3.3	78.9	17.8	100
The bank is Consistent in reward system	Frequency	-	6	76	50	20	152
	%	-	3.9	50.0	32.9	13.2	100

Sources: Survey Questionnaires, 2017

Table 4.3 presents the frequencies and percentages of Bunna international bank employee's perceptions towards the factors of reward system.

In table 4.3, 131(86.2%) respondents in Bunna international bank agreed and strongly agreed (perceived positively) to the statement **“The bank’s reward system enhance employees performance”**, while, only 1(.7%) respondent disagreed (perceived negatively) to this statement, besides, 20(13.2%) respondents were not sure to the same statement.

In terms of wheather **the bank’s reward system focus on past achievement**, 117(77%) respondents agreed and strongly agreed that the bank’s reward system focus on past achievement, however, 10(6.6%) respondents felt disagreed that their bank’s reward system focus on past achievement, however, the rest 25(16.4%) respondents were indifferent that The bank’s reward system focus on past achievement.

Likewise, in table 4.3, while, 104(68.4%) respondents strongly agreed and fairly agreed with the statement **“Reward system is based on financial term**”, none of the respondents strongly disagreed and fairly disagreed with the statement “Reward system is based on financial term”. The employees who are neutral opinions with the statement “Reward system is based on financial term” counts 48(31.8%).

As can be seen from table 4.3, most of 123(80.9%) respondents strongly agreed and agreed (perceived positively) with the statement **“It is related to the relative value of the job within the bank”**, while; only 3(2%) respondents disagreed (perceived negatively) with the statement “It is related to the relative value of the job within the bank”. The respondents who are neutral with the statement “It is related to the relative value of the job within the bank” constitute 26(17.1%).

In terms of Reward system related to the contribution of the employees to the bank dimension, 108(71%) strongly agreed and fairly agreed (responded positively) to the statement **“Reward system related to the contribution of the employees to the bank”** ,whereas , none of the respondents who are strongly disagreed and fairly disagreed(perceived negatively) and44(28.9%) the respondents who neutral with the statement “Reward system related to the contribution of the employees to the bank” respectively.

As can be also shown in table 4.3, 114(75%) respondents fairly agreed and strongly agreed with the statement **“Recognition individual contribution to the bank”**, on the other hand, none the respondents fairly disagreed and strongly disagreed, 38(25%) respondents have a neutral opinion with the statement “Recognition individual contribution to the bank” respectively.

Regarding the **reward system can motivate& retain the existing employees**, 137(90.1%) respondents strongly agreed and fairly agreed with the statement “The reward system can motivate& retain the existing employees”, while, none of the respondents strongly disagreed and fairly disagreed with this statement. 15(9.9%) respondents have a neutral opinion with the statement “The reward system can motivate& retain the existing employees” respectively.

In terms of the dimension **The Bank reward system is competence base**, 121(79.6%) respondents strongly agreed and agreed to the statement “The Bank reward system is competence base”, while, none respondents strongly disagreed and disagreed(perceived negatively) to this statement , the remaining 31(20.4%) respondents indifferent to the statement “The Bank reward system is competence base ”.

In terms of the **Criteria is Fair enough for rewarding an employee’s** 66(43.1%) respondents strongly agreed and agreed to the statement “The Criteria is Fair enough for rewarding an employee’s”, while, about 7(4.6%) respondents disagreed(perceived negatively) to this statement , the remaining 79(52%) respondents indifferent to the statement “The Criteria is Fair enough for rewarding an employee’s”.

In terms of the **Uniform criteria of the reward system** within the bank 46 (30.3%) respondents strongly agreed and agreed to the statement “Uniform criteria of the reward system within the bank”, while, about 29(19.1%) respondents are strongly disagree and disagreed (perceived negatively) to this statement, the remaining 77(50.7%) respondents indifferent to the statement “Uniform criteria of the reward system within the bank”.

In terms of the **reward system is aligned with the bank policies and strategy** 146 (96%) respondents strongly agreed and agreed to the statement “The reward system is aligned with the bank policies and strategy”, while, none of the respondents are strongly disagree and disagreed (perceived negatively) to this statement, the remaining 6(3.9%) respondents indifferent to the statement “The reward system is aligned with the bank policies and strategy”.

In terms of **Reward system is intrinsic/Internal to the employees**/ 49 (32.2%) respondents strongly agreed and agreed to the statement “Reward system is intrinsic/Internal to the employees/”, while, 47(30.9%) of the respondents are disagreed (perceived negatively) to this statement, the remaining 56(36.8%) respondents indifferent to the statement “Reward system is intrinsic/Internal to the employees/”.

In terms of **Reward system is extrinsic/External to the employees/** 150 (98.7%) respondents strongly agreed and agreed to the statement “Reward system is extrinsic/External to the employees/”, while, none of the respondents are strongly disagree and disagreed (perceived negatively) to this statement, the remaining 2(1.3%) respondents indifferent to the statement “Reward system is extrinsic/External to the employees/”.

In terms of the **role of appraisal in reward systems /** 84 (55.2%) respondents strongly agreed and agreed to the statement “There is Greater role of appraisal in reward systems”, while, 2(1.3%) of the respondents are disagreed (perceived negatively) to this statement, the remaining 66(43.4%) respondents indifferent to the statement “There is Greater role of appraisal in reward systems”.

In the dimension of“ **the bank reward system recruit and retain sufficient amount of employees with the right skills** / 146 (96%) respondents strongly agreed and agreed to the statement “Do you agree the bank reward system recruit and retain sufficient amount of employees with the right skills”, while, none of the respondents are strongly disagree and disagreed (perceived negatively) to this statement, the remaining 6(3.9%) respondents indifferent to the statement “Do you agree the bank reward system recruit and retain sufficient amount of employees with the right skills”.

In the dimension of “**The Reward system is comply with legal regulations/employment laws/**147 (96%) respondents strongly agreed and agreed to the statement “The Reward system is comply with legal regulations/employment laws/”, while, none of the respondents are strongly disagree and disagreed (perceived negatively) to this statement, the remaining 5(3.3%) respondents indifferent to the statement “The Reward system is comply with legal regulations/employment laws/”.

Finally, in terms of the bank is **Consistent in reward system**, from the total respondents, about 70(46.1%) respondents strongly agreed and agreed with the bank is Consistent in reward system, about 6(3.9%) respondents are disagreed with the bank is Consistent in reward system, while, the rest 76(50%) respondents were indifferent opinion with the bank is Consistent in reward system respectively.

Table 4.4 Perception of employee's on PERFORMANCE evaluation system of the bank

Statement		Strongly disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Total
There is periodic employees performance evaluation program in the company	Frequency	-	-	10	78	64	152
	%	-	-	6.6	51.3	42.1	100
Job related content are fairly included in the employees performance	Frequency	-	8	30	98	16	152
	%	-	5.3	19.7	64.5	10.5	100
I believe the performance evaluation report reflect my true performance	Frequency	-	12	52	77	11	152
	%	-	7.9	34.2	50.7	7.2	100
Company employees performance evaluation system is dependable	Frequency	-	6	58	37	51	152
	%	-	3.9	38.2	24.3	33.6	100
There are clear standards to be called high performer	Frequency	-	13	63	46	30	152
	%	-	8.6	41.4	30.3	19.7	100
Even if someone gets the highest performance evaluation score, s/he is not entitled for additional pay	Frequency	-	2	19	79	52	152
	%	-	1.3	12.5	52.0	34.2	100

Sources: Survey Questionnaires, 2017

In table 4.4 The frequencies (percentages) of 142(93.4%) goes to respondents who are agreed and strongly agreed with the statement "**There is periodic employees performance evaluation program in the company"**, frequencies (percentages) of 10(6.6%) of the respondents who are a neutral opinion with the statement "There is periodic employees performance evaluation program in the company", whereas, none of the respondents who are strongly disagreed and disagreed (responded negatively) with the statement "There is periodic employees performance evaluation program in the company" .

In terms of **Job related content are fairly included in the employees performance**, the majority 114(75%) respondents were agreed and strongly agreed with the statement "Job related content are fairly included in the employees performance".8(5.3%) respondents were disagreed with the statement "Job related content are fairly included in the employees performance" and 30(19.7%) respondents were a neutral opinion to this statement.

In terms of **Employees believe the performance evaluation report reflect employees true performance**, them majority 88(57.9%) respondents were agreed and strongly agreed with the statement "I believe the performance evaluation report reflect my true performance".12(7.9%) respondents were disagreed with the statement "I believe the performance evaluation report reflect my true performance" and 52(34.2%) respondents were a neutral opinion to this statement.

In the dimension of **Company employees performance evaluation system is dependable**, the majority 88(57.9%) respondents were agreed and strongly agreed with the statement "Company employees performance evaluation system is dependable". 6(3.9%) respondents were disagreed with the statement "Company employees performance evaluation system is dependable" and 58(38.2%) respondents were a neutral opinion to this statement.

In terms of **There are clear standards to be called high performer**, the majority 76(50%) respondents were agreed and strongly agreed with the statement "There are clear standards to be called high performer". 13(8.6%) respondents were disagreed with the statement "There are clear standards to be called high performer" and 63(41.4%) respondents were a neutral opinion to this statement.

Finally, in terms of **someone gets the highest performance evaluation score, s/he is not entitled for additional pay**, from the total respondents, about 131(86.2%) respondents strongly agreed and agreed with the bank even if someone gets the highest performance evaluation score, s/he is not entitled for additional pay, about 2(1.3%) respondents are disagreed with even if someone gets the highest performance evaluation score, s/he is not entitled for additional pay , while, the rest 19(12.5%) respondents were indifferent opinion with Even if someone gets the highest performance evaluation score, s/he is not entitled for additional pay.

4.2. Descriptive statistics

In this section descriptive statistics in the form of mean and standard deviation for the various components of the **incentive system**, **Reward system** and **performance** is computed.

Table 4.5 Descriptive statistics for the component of the incentive system

Variable	Mean	Standard deviation
I believe the bank incentive system motivates the employees	3.86	.719
I believe the bank incentive system is forward looking	3.87	.560
The bank incentive system is relative to the challenge of job	3.77	.667
The bank incentive mechanism based on the relative value of the job (based on the importance within the organization).	3.99	.695
I have incentivized in terms money.	4.54	.538
I have incentivized in non-monetary terms.	3.11	1.101
The Bank incentive system may lead to higher performance.	4.22	.805
The Bank incentivized in accordance with the work load.	3.39	.935
I expect to promote to the higher position	3.22	.922
The Bank has uniform criteria for incentivizing employees.	2.90	.933
I believe that the Bank incentive system align to the short-term objective.	3.61	.756

Source: SPSS ver.20 Descriptive statistics

Table 4.5 show that the mean and standard deviation component of incentive systems are given by respondents. The results show that the level of incentive system among 152 respondents is 4.54 with and .538 standard deviation. Based on the fact that a median of 4 indicative the average level of financial incentive on this scale, it is concluded that respondents are moderately incentivized in terms of money. The result also show that the bank incentive system may lead to higher performance (Mean =4.22, SD=.805) followed by

the incentive system based on the relative value of the job within the bank (Mean= 3.99, SD=.695), incentive system is forward looking (Mean=3.87, SD= .560), bank incentive system motivates the employees (Mean=3.86,SD= .719), incentive system is relative to the challenge of job (Mean =3.77, SD= .667), incentive system align to the short-term objective (Mean=3.61,SD=.756), the Bank incentivized in accordance with the work load (Mean=3.39,SD=.935), promote to the higher position(Mean =3.22, SD=.922),incentivized in non-monetary terms(Mean=3.11,SD= 1.101), and uniform criteria for incentivizing employees(Mean= 2.90, SD=.933). The low standard deviation indicates that the mean is representative of the rate given by the majority of the respondents.

Table 4.6 Descriptive statistics for the component of the Reward system

Variable	Mean	Standard deviation
The bank's reward system enhances employee's performance.	4.25	.702
The bank's reward system focuses on past achievement.	4.07	.889
Reward system is based on financial term.	3.96	.771
It is related to the relative value of the job with in the bank.	3.99	.676
Reward system related to the contribution of the employees to the bank.	3.83	.617
Recognition individual contribution to the bank	4.13	.786
The reward system can motivate& retain the existing employees.	4.39	.662
The Bank reward system is competence base pay.	4.11	.715
The Criteria is Fair enough for rewarding employees.	3.47	.709
Uniform criteria of the reward system with in the bank.	3.11	.777
The reward system is aligned with the bank policies and strategy.	4.35	.555
Reward system is intrinsic/Internal to the employees/.	3.04	.845
Reward system is extrinsic/External to the employees/.	4.22	.445
There is Greater role of appraisal in reward systems.	3.66	.701
Do you agree the bank reward system recruit and retain sufficient amount of employees with the right skills.	4.25	.518
The Reward system is comply with legal regulations/employment laws/	4.14	.437
The bank is Consistent in reward system	3.55	.770

Table 4.6 show that the mean and standard deviation component of reward systems are given by respondents. The result also show that the reward system can motivate& retain the existing

employees (Mean =4.39, SD=.662) followed by The reward system is aligned with the bank policies and strategy (Mean= 4.35, SD=.555), The bank's reward system enhances employee's performance(Mean=4.25, SD=.702), the bank reward system recruit and retain sufficient amount of employees with the right skills (Mean=4.25,SD= .518), Reward system is extrinsic /External to the employees (Mean =4.22, SD= .445), The Reward system is comply with legal regulations/employment laws/ (Mean=4.14,SD=.437), Recognition individual contribution to the bank (Mean=4.13,SD=.786), the Bank reward system is competence base pay (Mean =4.11, SD=.715),The bank's reward system focuses on past achievement (Mean=4.07,SD= .889), It is related to the relative value of the job within the bank (Mean= 3.99, SD=.676), Reward system is based on financial term(Mean=3.96, SD=.771),Reward system related to the contribution of the employees to the bank(Mean=3.83, SD=.617),There is Greater role of appraisal in reward systems(Mean=3.66,SD=.701),The bank is Consistent in reward system(Mean =3.55, SD=.770), The Criteria is Fair enough for rewarding employees(Mean =3.47,SD=.709),Uniform criteria of the reward system within the bank(Mean=3.11,SD=.777)and Reward system is intrinsic/Internal to the employees/(Mean= 3.04,SD=.845). The low standard deviation indicates that the mean is representative of the rate given by the majority of the respondents.

Table 4.7 Descriptive statistics for the component of performance evaluation system.

Variable	Mean	Standard deviation
There is periodic employees performance evaluation program in the company	4.36	.603
Job related content are fairly included in the employees performance	3.80	.691
I believe the performance evaluation report reflect my true performance	3.57	.742
Company employees performance evaluation system is dependable	3.88	.930
There are clear standards to be called high performer	3.61	.899
Even if someone gets the highest performance evaluation score, s/he is not entitled for additional pay	4.19	.698

The result shows that performance enhancement among 152 respondents 4.36 and 0.603 standard deviation. Based on the fact that a median of 4 is an indicative of the average level of performance evaluation on this scale, it can be concluded that respondents are believes that there is a periodic performance evaluation program in the bank. The result also show that even if someone gets the highest performance evaluation score, s/he is not entitled for additional pay (Mean=4.19, SD=.698),Company employees performance evaluation system is dependable (Mean=3.88,SD=.930), Job related content are fairly included in the employees performance (Mean=3.80,SD=.691),There are clear standards to be called high performer(Mean=3.61, SD=.899), believe the performance evaluation report reflect my true performance (Mean=3.57, SD=.742). The low standard deviation indicates that the mean is representative of the rate given by the majority of the respondents.

4.3. Regression Analysis on effects of Incentive and Rewards system on enhancement employee performance (Motivation).

The study used a multiple linear regression model and examined the effects and magnitudes of the independent variables on enhancing employee's performance. Before analyzing the data gathered by the questionnaires the researcher have checked the necessary assumptions. These assumptions must be fulfilled in order to undertake analysis by multiple regression models.

4.3.1. Results of Regression Analysis.

The regression analysis was performed based on data collected from employees of Bunna International Bank. It demonstrated the relationship between the independent variable incentive and reward on performance enhancement of employees at Bunna International Bank.

Table 4.8 Anova **ANOVA[a]**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	46.817	29	1.672	25.712	.000[b]
Residual	7.999	123	.065		
Total	54.816	152			

a. Dependent Variable: **performance**

b. Independent variable : **Incentive, Reward**

The result in the ANOVA table confirmed the significance of the overall model by p-value of 0.000 which is below the alpha level, i.e. 0.05, which means, the independent variables taken together have statistically significant relationship with the dependent variable under study.

Table 4.9 Model Summary

Model	R	R square	Adjusted R Square	Std. Error of The Estimate
1	.924[a]	.854	.821	.255

a. Predictors: (Constant), **Incentive, Reward**

b. Dependent Variable: **performance**

Source; SPSS Result, 2017

The other major result under the model summary table 4.9 above showed the R or coefficient of correlation of the model is 0.924 or 92.40% and adjusted R-Square or coefficient of determination of the model is 0.821 or 82.1%. The regression analysis was done using performance of employees as dependent variable, Incentive & Reward as independent variables.

Table 4.10 Regression Coefficient Result

Model		Unstandardized Coefficient		Standardized Coefficient	t	sig
		B	Std. error	Beta		
	(constant)	4.389	.580		7.573	.000
	Incentive	.204	.053	.226	3.828	.000
	Reward	.409	.082	.603	5.017	.000

a Dependent variable performance Source; **SPSS Result, 2017**

The above table 4.9 shows that, all the independent variable have statistically significant relationship with the dependent variable since their p-value is below the alpha level which is 0.05. Considering the standardized beta coefficient, the strongest predicator of the dependent variable (Performance) is Incentive with 0.226 value and reward with 0.603values. Both the incentive & reward have positive relationship with the performance.

Interpretation of Regression Analysis

The first thing that must be discussed here should be the overall fitness of the model; this fact has been confirmed by different types of statistical results.

The first way is the ANOVA test that produced a P-value of 0.000 which is below the alpha level, i.e. 0.05. This means both the independent variables have statistically significant relationship with that of the dependent variable, i.e. performance.

The R (Coefficient of Correlation) which is simply measures the degree of (linear) association between the dependent variable and the independent variables jointly. It only measures degree of association or co-variation between the two variables. (Gujarati, 2004). In this case the value of R which is 0.924 means, there is a very strong relationship between the independent variables as a whole and performance or this can also means that independent variables taken together and performance vary together 92.4% of the time.

The last one is by checking the adjusted R square (Coefficient of Determination), can be defined as the proportion of the total variation or dispersion in the performance (dependent variable) that explained by the variation in independent variables in the regression. (Gujarati, 2004) So with adjusted R Square value of 0.821, meaning, 82.1 % of the variation in performance is explained by the linear relationship with all the independent variables. The corollary of this is that only 25.1% of the variation in performance is unexplained by the relationship or these percentages of change in enhancement of performance accounts for other variables not mentioned under this study. Thus when adjusted R square is high it means that the independent variables play an important part in affecting the dependent variable.

All in all, the regression model developed under the study can be considered as a good fit or predictor of performance enhancement.

The individual effects of the independent variables can be explained by their respective beta coefficients. As per the regression result table performance and incentive have the strongest positive relationship. 1 unit increment in incentive can cause about 20.4% growth in performance.

The second independent variable under study was reward and according to the regression result, it has a positive relationship with performance and a 1 unit increment on this variable will cause about 40.9% increment on performance.

4.4. Qualitative analysis

This section involves analysis of open-ended question. These questions were included in order to get detailed explanation of what employees think of their working environment, the incentive and reward system of the bank and their suggestion on what the bank should do in order to improve the performance employees of Bunna International Bank S.c.

On the first question respondents were asked to explain which type of reward and incentive system makes successful on performance of the employees. According to the result the majority of the respondents enhance their performance when the reward systems are on monetary terms. They believe that money is the most significant reward they can have and they think that one means to fulfill their financial needs. Some of them are suggested that total reward are better than the other, they believe that a mix of monetary, non-monetary & group base reward better than the other that may enhance employees motivation that may increase the performance employees to attain corporate level profit target.

With regard to the incentive system only on financial terms and intended to motivate the employees but the respondents suggested that bank is using this to the new hired employees by adding 30% of their salary in order to motivate and attain higher level of performance, if the new hired employees are prior banking experience & there is possibility promoting to a position that he/she can successfully perform their job.

With to regard to which reward and incentive system make them unsuccessful most of the respondents believes reward system such as only monetary, non-monetary or group base reward are should make them unsuccessful, while incentive are used only to alleviate seasonal work load may not use to sustain corporate goal achievement.

On the last question respondents were asked their suggestion to improve performance of the employees. Almost all respondents mentioned the importance of recognizing employee's performance is wheather in monetary terms, non- monetary terms or group base reward should be mandatory based on the attainment of corporate goal.

In addition reward and incentivized to increase the performance of the employee's job rotation to reducing boring from doing the same job, and providing short term training and developing career of the employees educational opportunities should be given on continuous base.

From my interview of three senior human resource officer on how the incentive & reward system in enhancing employees performance almost all of the three respondents are only the reward system have a significant influence in employees performance but incentive have its own contribution whenever there is seasonal work load.

The other human resource officer says total reward system will have its own contribution on the performance enhancement .

CHAPTER FIVE: SUMMERY OF THE FINDINGS CONCLUSIONS AND RECOMMENDATION

In this chapter the researcher presented the summary of major findings, the conclusions and recommends some options for the reward and incentive system of Bunna International Bank concerned body(s) to improve the performance of status of employees.

5.1 SUMMARY OF MAJOR FINDINGS

The data reveals that majority of the respondents 89% were male, while, 63% respondents were female. It is also evident from the demographic distribution most of the respondents 73% were aged between 21-30 years old. As it also reveals from the demographic distribution majority of respondents 88% were degree holders. Furthermore, majority of the respondents 60% were customer service officers and 66% of the respondents were a service year between 1-3 years.

The findings of the study also shows that Bunna International Banks employees reward system more of extrinsic to the employees it is about 98.7% of the respondents agree and strongly agree to the statement reward system is extrinsic/External to the employees/.

On the other hand about 97% of the respondents believes that the incentive systems on monetary terms they have incentivized one or two months' of salary as a bonus for enhancing employees performance.

From the data it is evident that 86.2% employees of Bunna International Bank employees agreed and strongly agreed (responded positively) to the statement the bank reward system enhance employee's performance.

However, about 77.6% employees of Bunna International Bank employees agreed and strongly agreed (responded positively) to the statement of they believe the bank incentive system motivates the employees, in addition to this, Bunna International Banks employees incentive system in terms of monetary, the data reveals that about 97% of employees agreed and strongly agreed (responded positively) to the statement that they have incentivized in terms money.

It's about 96.7% of the respondent believes that the reward system can recruit and retain sufficient amount of employees and also reward system can comply with employment law.

5.2. CONCLUSIONS

A good reward system aims to motivate employees to work harder, and align their goals with those of the organization they work for. The current trend towards performance-related reward systems is designed to lead to greater rewards and motivation for those who contribute most. However, designing such reward systems is complex, as they aim to influence human behavior. This study has been undertaken to compare the effect of incentive and reward system on employees' performance in Bunna International Banks, it is evident that Bunna International Bank employees differ in many aspects to the response of incentive and reward system on their performance.

Therefore, based on the findings of the study and in light of the objective(s) the researcher concluded that Bunna International bank employees motivated more and enhance their performance by extrinsic reward more than the incentive they get in terms of money to motivated them to achieve short term objective of the bank , it is evident that 98% of Bunna International banks employees agreed and strongly agreed (responded positively) to the statement the extrinsic reward system motivate and enhance employees performance more, while, only 98 % of Bunna international bank employees agreed and strongly agreed to the bank incentive system have only interims of money. 96% Bunna International Bank employees agree and strongly agree to the reward system can recruit and retain sufficient amount employees.

79.6% employees of Bunna International Banks employees agreed and strongly agreed (responded positively) to the statement of the reward system is competency base, while, 43.4% employees of Bunna International Bank employees agreed and strongly agreed (responded positively) to statement of the criteria is fair enough for rewarding an employees.

Moreover 43.4 % agree and strongly agree to the statement about the uniformity of the criteria for rewarding an employee. while 96% of the employees the reward system is align with the bank policy and strategy, all incentive and reward variables are statistically significant which implies that both the incentive and reward variables have a strong or positive impact on employees motivations in Bunna International Bank S.c.

Finally, the researcher suggest that Bunna International Bank S.c concerned body focus on rewards system than the incentive to motivate employees better & to perform better in the competitive banking industry.

5.3. RECOMMENDATION

Based on the findings of the study, since all reward variables and all the incentive variables have statistically significant and/or have play significant role on employees' motivation in Bunna International Bank, the researcher forwards the following possibilities to bank concerned body(s) to better motivate employees to perform better in the competitive banking industry. The researcher suggest that Bunna International bank employees management give appropriate recognition to its employees ,for instances, say "thank you" when an employee's has put an extra effort to accomplish his/her task(s). Rewarding exceptional new performance also inspires colleagues to improve their contribution in the workplace. All these boil down to the point that employee recognition is certainly a vital element to motivate employees and perform better.

The researcher also suggests that, encourage staff becoming involved in committees and forums in order to help employees create a sense of belongingness and to perform better for organizational success. The researcher Comment that in order to grow and develop employees' abilities and in turn to motivate better Bunna International Bank followed appropriate training programs based on skill gap.

The researcher also suggests that Bunna International Banks fulfilling the basic necessities of life of employees and to motivated employees to perform better, Bunna International Bank incentive& reward planner design appropriate benefit packages. Generally, Bunna International Bank human resource management and the concerned body focus on reward elements to motivate employees to perform better in the competitive banking industry.

Future Research Agenda

The researcher suggested that since this study confined itself only in banking sector, it also possible to conduct research to the other service sector like a comparative study on the effect of incentive and reward system on employees' motivation to perform more in order to attain the bank corporate goal. Further study can be performing in insurance companies and other private commercial banks.

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Appendix I

Addis Ababa University

College of Business and Economics

School of commerce

Department of Business Administration and information system

Dear Respondents,

I am currently attending a Master's degree in Masters of Human resource management at Addis Ababa University School of Commerce.

I am conducting a thesis on the role of incentive and reward system in enhancing employee performance in Bunna International Bank S.c. The purpose of this study is to assess the role of incentive and reward in enhancing employee's performance. Therefore, your response is very crucial for the fulfillment of my study. I greatly appreciate your contribution and I can assure you that your responses are confidential and only used for academic purpose. If you are interested to send the result of the questionnaires and to give any comment or suggestion you may also use my email address: netsiassefa12@gmail.com.

I would like to assure that **the information you give will be kept confidential**

Thank you in advance for your cooperation!!!

Section one:

Biographical information (please put "X" mark for your response)

1. Gender

A. Male ☐

B. Female ☐

2. Age

A. Under 20 years ☐

B.21-30 years ☐

C. 31-40 years ☐

D. 41-50 years

E. Above 50 years

3. Level of Education

A. Diploma

B. Degree

C. M.A/M.SC

D. PHD

E. Other (please specify) ____________________________

4. Job Categories/Job Classification

A. Customer Service Officer

B. Customer Service Supervisor

C. Customer Service Manager

D. Branch Manager

E. Other (please specify)____________________________

5. How long have you served in Bunna International Bank?

A. Less than 1 year

B. 1-3 year

C. 4-7 year

Section Two:

Read each of the following questions and please mark your answers with a cross (X) according to the scale correspond to the following:

5. Strongly agree

4. Agree

3. Neither agrees nor disagrees

2. Disagree

1. Strongly Disagree

Regarding the role of INCENTIVE in enhancing the performance of the employees

No	Items	1	2	3	4	5
1	I believe the bank incentive system motivates the employee					
2	I believe the bank incentive system is forward looking					
3	The bank incentive system is relative to the challenge of job					
4	The bank incentive mechanism based on the relative value of the job(based on the importance within the organization)					
5	I have incentivized in terms money					
6	I have incentivized in non-monetary terms					
7	The Bank incentive system may lead to higher performance					
8	The Bank incentivized in accordance with the work load					
9	I expect to promote to the higher position					
10	The Bank have uniform criteria for incentivizing employees					
11	I believe that the Bank incentive system align to the short-term objective.					

Regarding the role of REWARD system in enhancing the performance of the employees

No	Item	1	2	3	4	5
1	The bank's reward system enhance employees performance					
2	The bank's reward system focus on past achievement					
3	Reward system is based on financial term					
4	It is related to the relative value of the job with in the bank					
5	Reward system related to the contribution of the employees to the bank					
6	Recognition individual contribution to the bank					
7	The reward system can motivate& retain the existing employees					
8	The Bank reward system is competence base pay					
9	The Criteria is Fair enough for rewarding an employees					
10	Uniform criteria of the reward system with in the bank					
11	The reward system is aligned with the bank policies and strategy					
12	Reward system is intrinsic/Internal to the employees/					
13	Reward system is extrinsic/External to the employees/					
14	There is Greater role of appraisal in reward systems					
15	Do you agree the bank reward system recruit and retain sufficient amount of employees with the right skills					
16	The Reward system is comply with legal regulations/employment laws/					
17	The bank is Consistent in reward system					

Perception of employee's on PERFORMANCE evaluation system of the bank

No	Item	5	4	3	2	1
1	There is periodic employees performance evaluation program in the company					
2	Job related content are fairly included in the employees performance					
3	I believe the performance evaluation report reflect my true performance					
4	Company employees performance evaluation system is dependable					
5	There are clear standards to be called high performer					
6	Even if someone gets the highest performance evaluation score, s/he is not entitled for additional pay					

Section Three: open-ended questions

1. Which type of reward and incentive system makes successful on performance of the employees? Why? Please explain.

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2. Which type of reward and incentive system makes them unsuccessful?

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3. Please explain the reason why the reward and incentive system make them unsuccessful?

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4. What do you think the bank should do to improve performance of the employees?
