**ADDIS ABABA UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

# *Assessment of Reward and Compensation Management Practices at Ethiopian Electric Power Corporation Training Institution and Head Quarter*

**By: Gebremedhin Bahita**

**June 2014**

**Addis Ababa**

# ADDIS ABABA UNIVERSITY

## SCHOOL OF GRADUATE STUDIES

# *Assessment of Reward and Compensation Management Practices at Ethiopian Electric Power Corporation Training Institution and Head Quarter*

**By: Gebremedhin Bahita**

**A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Masters of Arts in Management of Vocational Education**

**June 2014**

**Addis Ababa**

# Addis Ababa University

## School of Graduate Studies

***Assessment of Reward and Compensation Management Practices at Ethiopian Electric Power Corporation Training Institution and Head Quarter***

**By: Gebremedhin Bahita**

**Approval of Board of Examiners**

| | |
|---|---|
| ______________________________ | ______________ |
| Chairman, Department Graduate Committee | Signature |
| ______________________________ | ______________ |
| Advisor | Signature |
| ______________________________ | ______________ |
| Internal Examiner | Signature |
| ______________________________ | ______________ |
| External Examiner | Signature |

ACKNOWLEDGEMENTS

First and for most I would like to thank Addis Ababa university institution for giving me a chance to improve my knowledge and attitude by offering master classes and my company EEPCO. I am also very much grateful to Dr. Worku Mekonnen, my advisor, without whom this thesis would not have been the way it is now. He has been forwarding his priceless comments all through the preparation of this study. So, thank you for all your help Dr. Worku.

In addition, I would like to extend my heartfelt gratitude to my friend Hagos Teklu for his valuable comments and helpful research materials he has provided me with throughout my research preparation.

Furthermore, I would also like to send my gratitude to all respondents that took the time to participate in this thesis and for openly answering my questions. Without them this thesis would not have seen the light of day. I would also like to thank my friends and foremost my family for supporting me in my work and also for their patience.

# TABLE OF CONTENTS

# LIST OF TABLES

# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| **BOD** | Board of Directors |
| **EELPA** | Ethiopian Electric Light and Power Authority |
| **EEPCO** | Ethiopian Electric Power Corporation |
| **ERC** | Employee Reward and Compensation |
| **GWH** | Gaga -Watt -Hours |
| **HR** | Human Resource |
| **HRM** | Human Resource Management |
| **TVET** | Technical Vocational Educational Training |

# ABSTRACT

*In the general terms, this study was about reward and compensation systems within the EEPCO Headquarter and its training institution located in Kotebe Yeka district. As reward and compensation is a steering instrument in maintaining the organizational efficiency and productivity as well as takes the lion's share in motivating the employees to act in the best interest of the organization, the purpose of this study was to identify how the selected company (EEPCO) works on the issue. It is also aimed at finding out the extent to which the institution gives focus on rewarding and compensating its employees in order to encourage them and thus assist it to reach its goals and visions as one national organization working on huge and giant projects. An attempt of identifying the procedures and basis of bonuses and related benefits within the selected institution is also made by this researcher. This attempt includes pointing out whether the rewarding systems available in the institution- bonuses and salary increments- offered to the employees are based on performances or just in a collective basis regardless of performances. As a result, the research question, which is based on the purpose of the study, is 'What kind of ways and systems does EEPCO use to reward its employees so as to motivate them to work in its best interest?'*

*To address the research question, the researcher has conducted interviews with the employees of the institution both at the head quarter and the training institution. In addition, the researcher has distributed 50 questionnaires to the employees in both offices. Not only that but also, the researcher has tried his level best to analyze documents that are related to reward and compensation. All in all, the researcher has found out that though the selected company (EEPCO) has a habit of rewarding and motivating its employees to let them work to its best interest, the rewarding systems are not based on performance. They are instead bonuses and salary increments which are given to all employees once annually. The performances of the employees are not considered in these processes. It is just based on the salary scale, which is not advisable according to the theoretical frameworks this researcher used. This is also something that the respondents witnessed. The conclusion is, therefore, the rewarding systems which EEPCO uses do not motivate its employees to be competitive and work to the best interest of the company given that the rewarding systems do not take competitiveness and performance into account.*

## CHAPTER ONE

# 1. Introduction

## 1.1 Background of the Study

Organizations are established with the aim of effectively utilizing various available human and non-human resources to achieve certain objective. Among these resources in human, which is commonly seen as the most valuable asset an organization could use to earn competitive advantage and achieve its objective, hence the need for human resources management to ensure optimum productivity and organizational continuous existence(Armstrong, 2005 )

Human resource has been tagged the most valued asset of any organization. Its strategic approach emphasized a “tight fit” between individual needs, rights, ambitions, and goals within the organization which make compensation system central in the affairs of emerging students, scholars and HRM practitioners in the world over. The emergence of human resource management posed great threat to the conventional personnel management and industrial relation because it evolved from the core approach or organization relationship. It is an asset that should be invested upon so as to provide long-term commitment and high performance in an organization. As organization strives to achieve one or more objectives through exhaustive utilization of human capital, so also, the employee aim toward achieving individual purpose (objective) while, working for the organization.

Reward system is the instrument used to increase employees’ productivity. It seeks to attract and retain suitable employees, encourages good management – employee relationship and commitment and minimizes tension and conflict as it deals with all forms of final returns, tangible service and mechanism for good relationship. Furthermore, the major case of industrial conflict is based on the fact that employees feel their benefit are denied or about to be denied thus the importance of compensation system is to provide a good platform for equity and fairness. This provides a challenging environment and increase productivity of employees. The compensation system ensures that both intrinsic and extrinsic needs of employee at all levels are adequately provided for compensation develops organizational integrity, policy, procedures and practices capable of improving organizational productivity. Reward and compensation is concerned with employees and organization performance development through which better result can be achieved by understanding and managing reward and compensation within an agreed framework, planned goals, and standard and competency requirements (Armstrong, 2005).

The study examines the impact of reward and compensation, system on organizational productivity, the base of good reward and compensation structure, employee's expectation at different levels and how the compensation structure is based on performance of individual(s) or job requirement of employees. The researcher therefore tends to draw attention of Board of Directors (BOD) and management of organization to the need for effective and efficient reward and compensation system capable of improving employees' performance and enhance organizational productivity more specifically in EEPCO.

## 1.2. Background of the Organization

Electric power was introduced to Ethiopian in the late 19$^{th}$ century, during the era of Minilik. The first generator was said given to Minilik around the year 1898 to light the palace. In addition to the use of generators, Minilik got constructed the first hydro power plant on Akaki River in the Year 1912 in order to supply power to small factories that had been limited to small factories and the palace was extended to public places and major roads in the vicinity of the palace.

However, the effort of the government to extend the power supply to the public was hindered by the Italian invasion of Ethiopia in the Years 1936. During this temporary occupation, the Italian company called Coneil overtook the generation and destitution electric power. The company installed generators at different places and extended the power supply to the major towns. After the Italian were driven out from Ethiopia in Year 1941, an organization called enemy property Administration was established and took over along with other activities the generation and distribution of power to the public (EEPCO. Training needs assessment study: unpublished)

In the year 1948, an organization that had been vested with the power to administer the enemy property was evolved to an organization called Shewa electric power capacity, managed to increase the power supply not only in the Shewa but also the administrative regions. In the light of its function, its name was changed to "Ethiopian Electric Light and Power" in the year 1955. Soon after establishment, the supervision and management of the organization was vested in the board of Directors appointed by the government.

After eight months of its establishment, the Ethiopian Electric Light and Power was transformed to “the Ethiopian Electric Light and Power Authority” (charter of the Ethiopian Electric Light and Power). The newly established Authority was to engaged in the business of production, transmitting, distributing and selling of electric energy to the public of Ethiopia and carry on any other lawful business incidental of appropriate the interest of the authority or to enhance the value of its properties. At the time of its establishment, the capital of the authority was ten million Ethiopian dollars each. It was also determined that the board of directors appointed by the government shall exercise all the power of authority In addition to this, it was also determined that the head office of the Authority would be in Addis Ababa, with branch offices at different places as necessary. At that time the annals electricity production capacity of the Authority was 35 GWH while the number of customers was 12,500. In light of Socio Economic development of the country the Authority continued to increase the scope of its operation in order to accommodate new changes. After being in operation for about 55 years in this manner major changes in the objective and structural set up of the organization took place relative to the change in the socio economic condition of the country. In this regard one of the major changes in the economic sector was the transformation of the of the centralized command economy to the free market driven economy in the year 1987 (EEPCO. Training needs assessment study: unpublished)

In order to accommodate the new change in the environment, the Ethiopian Electric Power & Power Corporation by reorganizing its functions on the basis of the principle of commercialization and decentralization. Accordingly, the Ethiopian Electric Power Corporation as public enterprise was established for indefinite duration by regulation No 18/1997, and conferred with the powers and duties of the previous Ethiopian Electric light and power Authority. The purpose of the corporation is to engage in the business of producing, transmitting, distributing and selling electrical energy (in accordance with economic and social development policies and priorities of the government) and to carry on any other related activities that would enables it achieve its purpose. At the time of establishment, the Authorized capital of the corporation was1 billion birr of which 2.67 Billion birr was paid up in cash and kind. It was determined by the establishment regulation that the corporation shall have its head office in Addis Ababa and may have branch offices elsewhere, as may be necessary. Currently, the annual Electric production capacity of the corporation is about 4980 GWH and the number of customers is about 1.9 million. Although the corporation has been increasing the number of customers by more than 15% annually, but this does not mean that the corporation has meet the demand for electric power (Public relation of EEPCO, at www.eepco.gov.et).

## 1.3 Statement of the Problem

Electric power was introduced for the first time to Ethiopian in the late 19th century, during the Minilik Era. In light of its function it was called "Ethiopian Electric Light and Power" in 1955. After eight months of its establishment, the Ethiopian Electric Light and Power was transformed to the "Ethiopian Electric Light and Power Authority-EELPA". The purpose of EELPA was to engage in the business of production, transmitting, distributing and selling of electric energy to the public in Ethiopia and carry on any other lawful business incidental or appropriate here to which helps directly or indirectly to promote the interests of the authority.

Human resources are very important elements in achieving organizational goals and objectives. Therefore, proper utilization of human resources needs to be the focus of any organization. To achieve this, HR plans, polices, and procedures should be developed and implemented based on organizational culture and contexts. It is also required to have a continuous assessment and evaluation of actions so that corrective actions are made as per the approved plan.

When it comes to EEPCO, it has its own HR plan. It is named in the organization as "staff plan". The staff plan performs various activities of HRM functions. But, it has got its own limitations. According to EEPCO, Training Assessment study (2006) unpublished the limitations are mentioned as follows:-

- The methodology to prepare HR plan is not scientific. Because it doesn't use forecasting techniques like ratio –trend analysis, work study technique, Delphi technique and flow models. Rather it mainly uses managerial judgment technique. And there is no control and evaluation of HR program.
- There has been no HR succession plan at all in the corporation.

The corporation has been implementing different change initiatives in the various aspects of HRM functions. If we take performance evaluation as an example, its schemes are available in the corporation. But it has not been implemented properly.

- The purpose of performance evaluation is not for salary administration, retention/termination, rotation, and layoffs. But it is only for transfer and promotion activities.
- The approaches for performance appraisal applied in the corporation are mainly behavioral/qualitative. It is for individual employee's performance evaluation. But, organizational and work unit performances measurements use both quantitative and qualitative approaches.
- Among the elements of high performance work system, reward and modern information systems are not available. In addition there is no employee participation in the variety of corporate and work unit undertakings. (EEPCO. Training Assessment study, 2006): unpublished

According to EEPCO, Training Assessment study (2006): unpublished concerning reward and compensation, the following programs are not implemented in the corporation**.**

- There is no payment by results in the corporation, but every employee has been entitled to get salary increment and bonus without his/her performance or results.
- There is no tangible system to implement non-monetary benefits like comfortable working conditions, recognition and job sharing.
- There is *"Performance reward and corrective action Procedure"* for the corporation. But it has not been implemented as per the policy.

EEPCO has got its own in-company training institution. In company training is an activity tailor made for the adjustment of the employee's performance to meet the specific needs of a company. This can be done by using internal experts or by hiring an external trainer like a trainer from a TVET institution. In-company training activities are carried out with two different approaches. One is planned formal training, mainly for a new comer or job upgrading: the other informal on the job training. This has to be done as soon as a skill gap is realized. The responsible person for that is the supervisor or team leader.

But, when we have a look at the various in-company trainings for EEPCO, a lot of gaps can be observed. According to EEPCO, Training Assessment study (2006) unpublished, some of the limitations are as follows:

- Lack of a clear business model for EEPCO.
- Lack of a manpower projection from EEPCO beyond the time covered by its strategic plan.
- Absence of a corporate policy regarding the optimal mix of professional personnel holding different academic qualifications (Msc, Bsc/BA, Diploma etc).

The aim of this research is therefore, to assess and evaluate the performance appraisal of employees related to reward and compensation in Ethiopian Electric Power Corporation (EEPCO) head offices well as its training institution. The research was conducted to answer the following basic questions:

1) How is the reward system of the organization (EEPCO) institution training designed?
2) Do you think salary increase, bonus and other reward and compensation in EEPCO made based on the performance evaluation system?
3) What is the impact of the reward and compensation measuring mechanism put in place for both the employees and the corporation?
4) What is the impact of the in-company training to the employees regarding their reward and compensation from employment to separation?

## 1.4 Objectives of the Study

The general objective of this study is assessments of the current system of reward and compensation evaluation in Ethiopian Electric Power Corporation (EEPCO). To identify the Reward and compensation techniques and criteria employed within EEPCO headquarter and the training institution in Kotebe and to what extent it is appropriate to measure performance of employees. The specific objectives are;

1. To investigate the major purposes of the current system of Reward and compensation evaluation of the institution as well as their degree of effectiveness;
2. To identify the Rewarded involved, and how skillful and competent they are;
3. To investigate how often Reward and compensation is conducted and how adequate it is;

4. To assess processes that the Reward and compensation involves and favorably/ unfavorably employees react to the system;
5. To analyze how reward and compensation really works within the selected work units& how favorably or unfavorably its employees react to the system;

## 1.5 Significance of the Study

The output of this research is to assess (evaluate) the employees and trainers reward and compensation and provide adequate and important insight to maintain the existing reward and compensation system or to design a new one based on the suggestion and recommendation forwarded by the researcher. Furthermore, the study may help to detect the main problem for the efficiency and effectiveness of reward and compensation technique adopted here in EEPCO if any. It also brings the employees vision to have more emphasis and perform their duty to increase efficiency and effectiveness of the corporation.

## 1.6 Scope of the Study

In the general terms, this study tries to identify how reward and compensations are offered in the case of EEPCO headquarter located in piazza- Arada district of Addis Ababa and its training institution located in Kotebe, in Yeka district.

A total of 50 employees both from the head quarter, which includes employees both from technical and administrative sections, as well as employees in the training institution are included in the study. The study tries to touch upon how the institution encourages its employees. In doing so, the researcher tries to see the reward and compensation systems within the institution by considering the collective agreement of the institution and the working procedures in the institution's Human Resource Department.

The timeframe that the study covers is also from 2013/2014 fiscal year up to the current one. Through inclusive data collected from randomly selected employees both from permanent and temporary workers of the institution, the study tries to assess the up to date reward and compensation systems the institution applies.

Moreover, the researcher tries to set clear & precise inquires. In doing so, he tries to investigate the problems within the concerned topic. Besides, the researcher exhaustively uses his effort and time to acquire enough, genuine & relevant data.

## 1.7 Limitation of the Study

- ✓ Because of the limited time and resources, only standardized questionnaire, interview and observations were used to get responses. According to this response the researcher tries to work hard for the validity of the research.
- ✓ As our company implement transformation programs there were uncontrollable field works that kept from my study of the research fully time. But I try to work my best when I have free times even on the field work.
- ✓ Sampling restriction are also another serious problem that underweight the researcher's conclusions. But I try to include group discussions to improve the weighting decision.

## 1.8 Organization of the study

The organization of the study is organized in five chapters. That is introduction, review of related literature, methodology, result analysis and discussions as well as summary, conclusion and recommendation.

# CHAPER TWO

# 2. REVIEW OF RELATED LITERATURE

This chapter of the study tries to touch upon the theoretical framework of reward and compensation according to the available literature in the specific area.

## 2.1 What is Reward Management

Reward management deals with the strategies, policies and processes required to ensure that the contribution of people to the organization is recognized by both financial and non-financial means. It is about the design, implementation and maintenance of reward systems (reward processes, practices and procedures), which aim to meet the needs of both the organization and its stakeholders. The overall objective is to reward people fairly, equitably and consistently in accordance with their value to the organization in order to further the achievement of the organization's strategic goals (Armstrong &Stephens, 2005).

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

## 2.2 The Aims of Reward Management

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

The aims of reward management are achieved by developing and implementing strategies, policies, processes and practices that are founded on a philosophy, operate in accordance with the principles of distributive and natural justice, function fairly, equitably, consistently and transparently, are aligned to the business strategy, fit the context and culture of the organization, are fit for purpose and help to develop a high-performance culture.

### 2.2.1 Reward Philosophy

Reward management is based on a well-articulated philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. The philosophy recognizes that, if human resource management (HRM) is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution (i.e. the return on investment they generate). The philosophy of reward management also recognizes that it must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy (Armstrong &Stephens, 2005).

Reward management adopts a 'total reward' approach, which emphasizes the importance of considering all aspects of reward as a coherent whole that is linked to other HR initiatives designed to achieve the motivation, commitment, engagement and development of employees. This requires the integration of reward strategies with other HRM strategies, including talent management and human resource development. Reward management is an integral part of an HRM approach to managing people within the organization like EEPCO.

### 2.2.2 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.

Distributive justice perceptions are those related to the felt-fairness of locative decision-making outcomes (as opposed to decisional processes). Clearly, reward outcomes are especially pertinent to distributive felt-fairness and, in particular, to feelings of reward injustice and dissatisfaction. As we shall see, employee cognitions here are likely to be informed by both absolute and relative considerations. Theories developed to explain distributive justice perceptions tend to highlight both considerations. The ‘norm of contribution’ – also known as the ‘equity norm’ – proposes that rewards should be commensurate with the effort or contribution made. To this, however, must be added the norm of relative or comparative worth. This asserts that for an employee to regard her rewards as fair she must see them as being proportional to the rewards received by some comparison group or individual. Importantly, the comparator individual may be another person altogether or an imagined past or future self. The stronger the perception that the rewards allocated are unfair in either absolute or relative terms, the greater the potential for breach of the psychological contract (Shields, 2007).

### 2.2.3 Procedural Justice

Procedural justice refers to the ways in which managerial decisions are made and reward policies are put into practice. There is nothing to indicate that either assessors or assesses have received prior training in system content, nor that system purpose has been communicated to stakeholders in advance. As such, none have received adequate notice of assessment procedures. Given the system’s evaluative intent, the application of a single ranking system to individuals performing in different job categories is unfair as well as in valid. Uniform ranking of this type also assumes reliable assessment across different assessors and job categories yet, as we have seen, this instrument is riddled with potential for inter-rater inconsistency and hence for unreliability and felt-unfairness. For those liable to be retrenched, the absence of adequate notice and opportunity to improve is a violation of due process (Shields, 2007).
According Tyler and Bies, (1998) the five factors that affect perceptions of procedural justice are:

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

### 2.2.4 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, J. (1998). 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 and 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, possibly overriding the conclusions reached by an analytical job evaluation exercise (the so-called ‘felt-fair test’). Such tests are in danger of simply reproducing existing prejudices about relative job values.

### 2.2.5 Equity

Equit**y** is a theory that attempts to explain relational satisfaction in terms of perceptions of fair/unfair distributions of resources within interpersonal relationships. Considered one of the justice theories, equity theory was first developed in 1963 by John Stacey Adams, a workplace and behavioral psychologist, who asserted that employees seek to maintain equity between the inputs that they bring to a job and the outcomes that they receive from it against the perceived inputs and outcomes of others (Adams, 1965). The belief is that people value fair treatment which causes them to be motivated to keep the fairness maintained within the relationships of their co-workers and the organization. The structure of equity in the workplace is based on the ratio of inputs to outcomes. Inputs are the contributions made by the employee for the organization.

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.

### 2.2.6 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.

The problem with rating scales is that it is difficult to ensure that a consistent approach is adopted by managers to rating throughout an organization. There is plenty of room for subjective and biased judgments and this creates difficulties when rating decisions are converted into contingent pay decisions. Performance-related pay schemes have often failed because the people affected do not trust their managers to be fair. According Armstrong .M and Stephens .T, (2005), the approaches that can be adapted to achieving consistency are forced distribution, ranking systems, training, calibration (peer reviews) and monitoring.

### 2.2.7 Transparency

Transparency, as used in science, engineering, business, the humanities and in a social context more generally, implies openness, communication, and accountability. Transparency is operating in such a way that it is easy for others to see what actions are performed. It has been defined simply as "the perceived quality of intentionally shared information from a sender". For example, a cashier making change after a point of sale transaction by offering a record of the items purchased (e.g., a receipt) as well as counting out the customer's change on the counter demonstrates transparency (encyclopedia).

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.

### 2.2.8 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 (Henderson and Venkatraman, 1999).

### 2.2.9 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). Account should be taken of good practice elsewhere, but this should not be regarded as best practice, i.e. universally applicable. Best fit is more important than best practice.

### 2.2.10 Fit for Purpose

The formulation of reward strategy and the design of the reward system should be based on an understanding of the objectives of reward management and should be developed to achieve that purpose.

### 2.2.11 Developing a High-Performance Culture

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

According to Armstrong & Stephens, (2005) Lloyds TSB has produced the following definition of what they mean by a high-performance organization:

- 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
- A high-performance culture can be developed by taking into account characteristics such as those listed above and applying an integrated set of processes, of which reward is an important part. Besides reward, the processes will include those concerned with resourcing and talent management (ensuring that the organization has the high-performing people it needs), learning and development, performance management, the enhancement of the working environment (for example, work design and work/ life balance) and communication.

## 2.3 The Reward System

The approaches to achieving the aims of reward management as described above are incorporated in the reward system of an organization. This consists of: (Armstrong &Stephens, 2005, 8)

1, Reward strategies, which set out what the organization intends to do in the longer term to develop and implement reward policies, practices, processes and procedures that will further the achievement of its business goals. For example, an organization may have a strategy to maintain competitive rates of pay.

2, Reward policies, which set guidelines for decision making and action. For example, an organization may have a policy that sets the levels of pay in the organization compared with median market rates.

3, Reward practices, which consist of the grade and pay structures, techniques such as job evaluation, and schemes such as contingent pay used to implement reward strategy and policy. For example, the policy on pay levels will lead to the practice of collecting and analyzing market rate data, and making pay adjustments that reflect market rates of increase.

4, Reward processes, which consist of the ways in which policies are implemented and practices carried out, for example the way in which the outcomes of surveys are applied and how managers manage the pay adjustment and review process.

5, Reward procedures, which are operated in order to maintain the system and to ensure that it operates efficiently and flexibly and provides value for money. For example, a procedure will be used for conducting the annual pay review

### 2.3.1 Elements of a Reward System

The reward system is allocation of compensation and benefits to employees that follow the standards, rules and procedures established according to the second edition of Law Dictionary, (2002).

**A, Business strategy**

The starting point of the reward system is the business strategy of the organization. This identifies the business drivers and sets out the business goals. The drivers are unique to any organization but will often include items such as high performance, profitability, productivity, innovation, customer service, quality, price/cost leadership and the need to satisfy stakeholders – investors, shareholders, and employees and, in local authorities, elected representatives.

**B, Reward strategy and policy**

The reward strategy flows from an analysis of the business drivers. The question is: 'How can these are supported by reward in order to achieve the goals of the business?' The reward strategy will define longer-term intentions in such areas as pay structures, contingent pay, employee benefits, and steps to increase engagement and commitment and adopting a total reward approach.

### C, Reward management and people

Reward management is concerned with people – especially the employees who are rewarded for their efforts, skills and contribution but also the directors, managers and reward specialists who plan, manage and administrate rewards. This is in accordance with the view expressed by Schneider (1987):

*Organizations are the people in them… people make the place.* His point was that:

> *Attraction to an organization, selection by it, and attrition from it yields particular kinds of persons in an organization. These people determine organizational behavior…Positive job attitudes for workers in an organization can be expected when the natural inclinations of the persons there are allowed to be reflected in their behaviors by the kinds of processes and structures that have evolved there.*

### 2.3.2 Essentials of Reward Management

In conjunction with one another to ensure that the contribution people make to achieving organizational, departmental and team goals is recognized and rewarded. It consists of a related set of activities that impinge and impact on all aspects of the business and the HRM practices within it. As White, (2005) points out, in an integrated approach 'each individual element of reward supports the other to reinforce organizational objectives.'

As mentioned by Armstrong .M, (2005, 2007, and 2010) integration takes three forms:

1, Strategic integration: the vertical integration of reward strategy with business strategy.

2, HRM integration: the horizontal integration of reward strategies with other HR strategies, especially those concerned with high performance, engagement, talent management and learning and development.

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

The integrated approach adopted by Aegon UK is: (MICHAEL R. 2008, 15)

1, Reward: market driven, with overall performance dictating rate of progress of salaries within broad band's rather than existing grades.

2, Recruitment: competency based, with multi-assessment processes as the basic approach.

3, Performance management: not linked to pay, concentrated on personal development, objective setting and competency development.

4, Training and development: targeted on key competencies and emphasizing self-development.

## 2.4 Managing Employee Performance and Reward

With the firm's celebrated high-commitment work culture and its focus on a high-skill, high-quality competitive strategy (Beer & Cannon, 2004: 5–7).

Yet it was not to be. There were unintended consequences aplenty; the company was badly burned and continued to lose market share. Most of the plans impaired employee satisfaction and morale while failing to show a positive return on investment. In some plants, the competition for cash set team against team in a destructive cycle of talent hoarding, while peer evaluation caused a breakdown in intra-team relationships. Even those initiatives that appeared to have enhanced performance proved far more costly than anticipated. All but a few of the new pay plans were abandoned within a few short years. At H-P's San Diego site, employees even organized a party to celebrate the demise of management's experiment with skill pay and team incentives (Beer & Cannon 2004: 6–9).

So why did these seemingly laudable initiatives founder? Was it more a case of the wrong ideas full stop, the wrong ideas for the time and context, too much change too soon, naive optimism – faddism even – on the part of the management innovators, or just a case of good ideas badly applied? Some commentators (e.g. Kohn 1993a & b) argue that all incentive schemes that is, reward plans that seek to elicit greater work contribution by promising higher rewards for higher contribution – are doomed to failure because they are based on supposedly invalid assumptions about the true wellsprings of employee motivation and effort. In essence, their argument is that once incentives come into play, employees are all too easily distracted from their real work responsibilities by the pursuit of rewards themselves. Others like Beer and Cannon (2004), suggest that small-group financial incentive plans of the type applied at the H-P plants were incompatible with the company's once-prized high-commitment, high-trust culture, and that other means, such as expanded training and development programs, would have been a better choice for enhancing workforce capability and contribution. Still others contend that the problem lay not in the plans themselves but in the way they were conceived and applied. Heneman, Kochan and Locke (commentaries in Beer & Cannon 2004: 33–4, 35–7, 41–3) note that most of the plans were badly designed, were poorly communicated to line employees, team leaders and supervisors, were conceived and applied with minimal employee consultation, involvement and training, and were subject to arbitrary changes to team performance standards. Locke (in Beer & Cannon2004: 41) is particularly critical of the attempt to combine performance incentives and skill-based pay, which, he suggests, sent conflicting signals to Managing employee performance and reward.

The descriptive approach, which is typical of much of the mainstream academic literature on human resource management, is evidence-based in nature and grounded in a 'positivist' epistemology. On this basis, human resource management is a phenomenon worthy of empirical inquiry – for its own sake. So, a researcher might wish to discover why and how a certain management 'problem' arises; or she may wish to establish why certain reward practices are more effective in certain types of organization than others, and perhaps to identify the main predictor variables and mediating variables of pay plan effectiveness. Descriptive research of this sort is one of the mainstays of academic journal publishing, and it also plays an important part in the generation of management theory and models and, to a lesser extent, in giving rise to new management practices.

In general, and in contrast to the unitarism typical of most purely prescriptive orientations, a descriptive approach is apt to acknowledge the legitimacy of a multi-stakeholder or 'pluralist' perspective on organizational life and, in particular, to see employees as having interests that are distinct from, yet overlapping with, those of the organization and its managers. As such, the descriptive view is also likely to be open-minded about the possibility of mutual gains arising from people management practices. Two exemplars of the descriptive positivist approach are University of London academic David Guest (1997, 1999, 2001, and 2002) and University of Wisconsin academic Barry Gerhart (Gerhart & Rynes 2003; Rynes & Gerhart 2000). While both Guest and Gerhart do express strong views about appropriate and inappropriate human resource practices, their prescriptions are grounded firmly in solid research evidence.

A critical approach, by contrast, is one that eschews any supportive association with management purpose; rather it focuses, first, on analyzing and critiquing the intentions and impact of management actions on employees and their families and, second, on exploring how employees respond individually and collectively. The critical approach is also premised on the assumption that the relationship between employee and employer is inherently antagonistic and unequal.

Beyond this, however, we encounter a significant complication, since there are actually two distinct variants of the critical approach. One, the critical structuralize (or critical–realist) approach, tends to focus on the role of 'material' factors in reproducing inequalities in the employment relationship, on the indeterminacy of the relationship itself, and on the ways in which employees accommodate themselves.

### 2.4.1 What is 'Performance'?

The trite response is that it depends on who you ask. A critical post-structuralize may say that performance is whatever the dominant management discourse says that it is. To a pluralist, the answer will depend on the stakeholder concerned: a shareholder is likely to equate it with share price improvement and annual dividend payments, a manager on a Profit share plan may nominate annual net profit, a production manager may suggest labor productivity, and a customer might suggest product quality or cost-attractiveness, while to a production line employee performance may Performance management purpose.

In the past, it was not at all uncommon for performance management to be thought of as a once-a-year event in which the supervisor passed summary judgment on the performance of each of her subordinates, filled out an appraisal form, informed each subordinate of the outcome, and then consigned the record of performance to the corporate archive. Uncharitable commentators sometimes describe this as the empty ritual of once-a-year 'tick-and flick' performance appraisal. Management thinker W. Edwards Deming, the pioneer of total quality management, even decried performance appraisals as one of modern management's most 'deadly diseases' (Deming, 1996).

According to Deming, (1996) traditional appraisal 'nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, and nourishes rivalry and politics'. Deming labeled performance appraisal a lottery, with individual ratings emanating largely from random factors outside individual control (cited in Carson, Cardy & Dobbins 1991). Other critics argue that, by focusing on short-term, individual performance and by reinforcing top-down management, performance appraisal *per se* is too narrow and non-strategic to provide a comprehensive approach to performance management (Bach, 1999; Beer, 1981; Flannery, Hofrichter & Platten 1996; Lawler 2000).

Today, it is far more common for organizations to regard performance management as a continuous, future-oriented and participative system; as an ongoing cycle of criteria setting, monitoring, informal feedback from supervisors and peers, formal multisource assessment, diagnosis and review, action-planning and developmental resourcing (Bach 1999; Williams 2002).

### 2.4.2 Basic Requirements for Effective Performance Management

According to Armstrong .M, (2005, 2007& 2010) irrespective of specific purpose, what are the main requirements for the effectiveness of a performance management system? Again, in prescriptive in, the four key requirements are:

(1) Validity,

(2) Reliability,

(3) Cost effectiveness and,

(4) felt-fairness.

1**, Validity**

Validity relates, first, to the criteria by which employee ‘performance’ is defined or ‘constructed’ in terms of desired standards and, second, to how accurately the performance measures or ‘indicators’ applied to these standards reflect or predict actual performance. The more valid the performance construct and the measures associated with it, the more closely and comprehensively these will relate to what employees are actually required to do in their role. In other words, validity has to do with whether the standards set and the measures used are relevant to the specific work role involved, whether they measure enough of the right things, and whether the measures or indicators themselves accurately reflect or capture what is achieved in relation to desired standards (Drenth, 1998: 68–9; Klein 1996).

In relation to performance measurement, validity can be disaggregated into three dimensions: like construct validity (= role relevance of performance standards), content validity (= role representativeness of performance standards) and criterion-related validity (= the accuracy of performance measures or indicators used in reflecting and/or predicting the desired performance standards) (Ronald J. & Cary L., 2005).

### 2.4.3 Purpose of Reward Management

What is it that organizations hope to obtain by offering rewards to their employees; that is, what should a system of reward management seek to do? In essence (and again in prescriptive mode) a reward system maintained by a work organization is likely to have three primary objectives: like to attract the right people at the right time for the right jobs, tasks or roles, to retain the best people by recognizing and rewarding their contribution and to motivate employees to contribute to the best of their capability (Ronald J. & Cary L., 2005).

Notice here the strong linkage between the reward and staffing functions (Regarding the staff attraction and retention objectives) and between there ward and performance management functions (regarding motivation).According to Redman T. and Wilkinson A., (2006) a well-formulated and administered reward system is likely to have a number of important secondary objectives. In particular, it should seek to be:

- Need-fulfilling: the rewards should be of value to employees in satisfying relevant human needs
- Felt-fair, particularly in terms of offering rewards commensurate with contribution
- Legal: it should comply with relevant legal requirements regarding employee rights and entitlements, including, of course, all mandatory benefits and minimum standards
- Affordable: the rewards allocated, and any associated on-costs, should be within the organization's financial means
- Cost-effective: there should be an appropriate 'return on investment' from total reward outlays
- Strategically aligned: as with performance management, reward management should support the organization's corporate and business objectives.

Taken together, this is a particularly exacting set of objectives, and it is most unlikely that any organization will be willing or able to achieve all of them simultaneously. Clearly the ill-fated H-P reward experiment of the mid-1990s (see the Introduction) fell well short of several of these objectives; not the least being motivation, felt-fairness, cost-effectiveness and strategic alignment. There is also considerable potential for conflict between the objectives themselves. For instance, one of the greatest challenges lies in reconciling the need for reward fairness with the objective of cost-effectiveness.

Which is of greater importance? Dissatisfaction arising from perceptions of reward inequity can certainly lead to increased employee turnover and reduced motivation, but the costs and benefits of being a low payer will vary depending on the type of organization involved. While some organizations may suffer serious performance impairment, others may be able to absorb these consequences and still meet their objectives. Tensions may also arise the fundamentals that we need to consider: ‘motivation’, ‘job satisfaction’ and ‘organizational commitment’ (Redman T. and Wilkinson A., 2006)

## A, Motivation

Motivation is the wellspring of task behavior or effort, and it refers to the strength of a person’s willingness to perform allotted work tasks – to undertake work effort. To motivate means to energize the individual to deliver work effort and task behavior. The term itself derives from the Latin word *movere*, meaning ‘to move’ (Steers & Porter 1991: 5–6). However, motivation is not a homogeneous or indivisible phenomenon. It can be broken down into various elements. When we study motivation, then, we are really concerned with three related aspects of task behavior:

1, the direction of that behavior: why people take certain actions rather than others; e. g. emphasizing product quantity over quality

2, the intensity of that behavior: why the actions taken involve either a lot of effort, or a little

3, the duration of that behavior: why some actions are more sustained and enduring than others (Kanfer1998).

What moves one individual to deliver solid and sustained work effort may have little motivational effect on other employees, or may have more behavioral impact in some work contexts and climates than in others. In fact, it is this very variety of possibilities that makes motivation such an absorbing field of academic study and management practice. Second, as our discussion so far suggests, motivation is by no means the only important work attitude. Its significance needs to be understood in context, not in isolation (Kanfer1998).

## B, Job satisfaction as Reward

Job satisfaction refers to the overall positive or negative attitude that employees hold towards the job and the job context. In other words, how contented or discontented are employees with the totality of their job assignment? In this sense, job satisfaction is also an affective state – that is, an emotional condition – as well as an attitude. As a holistic summative feeling about the job, it covers both the job content – or factors 'intrinsic' to the job – and the job context – or factors surrounding or associated with the job, such as work relationships, work culture and human resource practices, including those to do with performance and reward management. As such, job satisfaction can be said to subsume attitudes and affective states to do with more specific aspects of the job, such as satisfaction or dissatisfaction with performance management procedures and outcomes, reward determination processes and outcomes (i.e. reward satisfaction), career development opportunities and the like. As we shall see later in this chapter, job satisfaction also has a close but complex association with other affective states, particularly perceptions of organizational justice and injustice (Losey M., Meisinger S., and Ulrich D., 2005).

## C, Merit bonuses

The main alternative means of linking pay outcomes to individual performance assessment is the merit bonus approach, also known as the 'lump sum' method. A bonus is a payment made quite separately from base pay.

Merit bonuses do not become annuities and, to be retained, they must be re-earned.
The critical difference between this approach and traditional merit increments is that the payments made are conditional rather than cumulative. In short, they avoid the annuity problem. This may be one of the reasons for the increasing popularity of the merit bonus alternative (Lawler1990: 82; Schuster & Zingheim 1996: 144–7).

## 1. The Effectiveness of Merit Pay

What evidence is there that merit pay does improve individual performance? Even advocates like Heneman, (1990) concede that while the link to such instrumental outcomes as employee satisfaction, motivation and performance is positive, the performance effect is, at best, modest. Drawing together the results of twenty-two studies that examined the influence of merit pay plans on employee satisfaction, motivation and performance, Heneman (1990:243) found that 'the relationship between merit pay and performance does not appear to be particularly strong'. He found that merit pay plans are more likely to influence employee attitudes than outcomes and that somewhat more favorable outcomes were attained in the private sector than in the public sector. In a meta-analysis of research covering forty-two merit pay plans, Heneman (1992) identified ten studies that claimed to address the relationship between merit pay and performance. Heneman noted that five of these studies reported a statistically significant correlation, whereas the remaining studies reported non-significant associations. Even where outcomes were significantly positive, the magnitude of the relationship between pay and performance was not large. From this, Heneman (1992: 258) concluded: 'The results to date on the relationship between merit pay and subsequent motivation and performance are not encouraging.'

## 2. Best fit with Merit Pay

In general terms, then, where might it be appropriate to use assessment based merit pay? Merit increments based on supervisory appraisal would be especially applicable to traditionally managed and mechanistically structured organizations where the work is closely supervised and individualized, where work performance is focused more on behavior than results, where it is possible to identify a valid set of task behavior, and where the base pay structure consists of narrow job grades. Where results are readily quantifiable, however, it may be more appropriate to use results-based reward plans, such as goal-based bonuses, in such organizations. Merit bonuses-based on multisource assessment may be a better fit in organizations with an analyzer strategy and managed along high-involvement lines, especially in helping to recognize and reward behavior relating to quality and customer focus. In such organizations, merit bonuses would be quite compatible with broad grades and skill-based base pay progression. However, care would also need to be taken here to ensure that individual rewards do not undermine teamwork and cooperation. Merit bonuses could also be applied in high-involvement organizations with prospector business strategies, where the emphasis is on risk-taking, creativity, innovation and timeliness, rather than on behavioral compliance, although such organizations will be more inclined to look to results-based incentives (Kanfer, 1998).

## 2.5. Recognition Awards

As noted in previously, one of the chief shortcomings of merit pay as a means of recognizing and rewarding individual performance is its formalistic basis and once-a-year payment regimen. To address these problems, in recent times many organizations that are committed to rewarding individual performance have opted for a range of more flexible and timely practices known generically as ‘recognition awards’. This chapter considers the rationale of such plans and the variety of recognition practices, especially the competing claims of cash and non-cash plans. We then canvass the arguments for and against such plans, and conclude by considering the situations to which special recognition plans may be best suited as well as least appropriate.

### 2.5.1. The Logic of Recognition Plans

Recognition award exponent Donald Hay (1998: 1) notes: ‘The primary goal of a recognition program is to express appreciation for the efforts and achievements of employees. Recognition can be as simple and informal as a verbal or written thank you or as sophisticated and formal as an organization-wide nomination process.’ A key attraction of recognition awards is that they represent a flexible, low-cost and potentially effective alternative to regular merit increments or bonuses, and it is no accident that recognition awards have raised to prominence during the era of shrinking merit pay budgets. Hay (1998: 1) suggests that while recognition can be

#### A. Cash recognition

The simplest and one of the most widely applied forms of cash recognition plan is the discretionary bonus. Discretionary bonuses are irregular lump sum awards for outstanding performance made at the discretion of the supervisor and/or senior management. Payment is kept completely separate from base pay, and the size of the payment is not tied in any arithmetic way to a performance measurement formula. Such payments can be used as a substitute for base pay increments, so that total pay itself can actually fall if performance is deemed by management to be substandard. The attraction of this approach is that it avoids bureaucratic procedures, across-the-board payouts and mechanistic formulas, and maximizes management discretion about the frequency and amount of reward for meritorious performance (Donald Hay (1998).

A growing number of organizations regard irregular bonuses of this type as a means of making individual performance pay more flexible and targeted. While lump sum bonuses were once confined almost exclusively to senior management and sales staff whose performance could be easily quantified, they are now spreading to non-managerial employees.

Discretionary lump sum payments, being highly visible, can communicate strong performance message. They are often spent in different ways from smaller, if more regular merit increments. For example, a lump sum bonus may be used to take a holiday or to purchase a piece of valuable furniture or a new stereo, and may therefore have a more enduring effect on motivation than smaller but more frequent cash increments that become lost in base pay (Donald Hay (1998) .

According to Donald Hay, (1998) discretionary bonuses have a number of advantages for organizations:

- The reward is payable immediately so there may be a clear and instant animus reinforcement effect.
- The organization is not committed to making payouts on a regular basis.
- The payment does not become an annuity.
- Lump sum rewards are highly visible.
- Additional rewards can be given to those at the top of their pay range without inflating future base pay costs.
- They are simple and easy to administer.

**B. Non-cash recognition**

The reward systems of many Western firms now incorporate relatively sophisticated, low-cost incentives in the form of non-cash recognition plans. Leading exponents like Bob Nelson (1994, 1996, and 1997) and Jerry McAdams (1996, 1999) argue that cash has lost much of its cachet as a motivational device, particularly when it takes the form of traditional appraisal-based merit increments. They suggest that organizations are looking increasingly to other, more imaginative and enduring ways to recognize and reinforce individual and team performance. Recognition of a non-monetary type is said to provide instant reinforcement, increase the flexibility and spontaneity of the reward system, and enable ‘high-visibility’ recognition of desired behavior and results. Non-cash rewards for high performance are also said to have a longer ‘shelf life’ than cash; that is, they have enduring ‘trophy value’. A further potential advantage of such rewards is that they can be readily applied to work teams as well as to individuals.

# CHAPETR THREE

# METHODOLOGY

Methodology refers to the material and method of study that is the variables (materials) over which the study data to be collected, data analysis, sampling and interpretation. As mentioned in the scope of the study sub chapter, this study focuses on Reward and compensation of employees in EEPCO head office as well as its training department.

## 3.1 Research Design

A research design is detailed outline of how an investigation will take place. A research design will typically include how data is to be collected, what instruments will be employed, how the instruments will be used and the intended means for analyzing data collected. According this definition this research design is both Qualitative and quantitative research design.

When see the quantitative research it is the systematic scientific investigation used to measure the feelings and thoughts of people, and actions of the way and why things are done. Everything that is measurable can be used to gather quantitative data. Structured questionnaires and interviews are the qualitative method that I used. The unstructured group discussion and different materials that I used in this research is qualitative research design.

## 3.2 Source of Data

The study was conducted by gathering data from both primary and secondary sources. It was also conducted through distributing questionnaires for 50 employees both from the administrative and at the lower levels of the two offices, headquarter and the Training Institution of EEPCO. Unstructured interview as well as focus group discussions with concerned and involved personnel in reward and compensation ;such as supervisors, that the researcher believed he would easily get unbiased information, were also among the methodologies the researcher preferred to use to point out how the reward and compensation procedures look like in EEPCO. In this regard, the both the discussions and feedbacks were more or less free and fruitful. These discussions which were open and free (observing the facial expressions and listening to the tones of the employees while talking about the reward and compensation within their institution was just a plus to the researcher to realize the attitudes of the employees well). Generally speaking, all these opportunities during the information collection process have has enabled the researcher to collect more information not only about the attitudes and impressions of rewarded and compensates, but also what EEPCO is exactly doing on the ground to reward and compensate its employees against its documented Performa about the issue. The secondary data sources were also obtained from the five year rewarding and compensation document bulleting of the corporation, books, journals policy procedures as well as labor law and labor union agreement documents as mentioned earlier.

### 3.3 Sample and Sampling Techniques

For this study, the sample size was determined by using the probabilistic sampling; specifically simple random sampling technique was used. This is because the researcher believes it minimizes biasness. It also contains30 employees (14%) from 215 employees are the training institution whereas the rest 20 employees (11%) from 186 employees are the head office. With regard to the selection, the researcher has used random sampling method.

### 3.4 Instrument of Data Collection

The data was collected over the systems& procedures of reward and compensation details. In the sampling, identification of those that are made to be part of the sample population was made. These include their job descriptions (whether they are from the administration or the lower level). Through the sampling, the study has also tried to identify if there are differences among the sample population with regard to the systems and procedures of reward and compensation and its overall contribution to the motivation & improvement of employees. Owing the nature of this study topic, the study was mainly depending on the data from the documentary evidences.

### 3.5 Procedure of Data Collection

In conducting the study, therefore, the researcher has used questionnaire and interview methods to collect data from primary sources such as the employees themselves and the human resource department. In this case, the feeling and attitudes of the employees as well as their beliefs about what should be done within the institution in order to enhance the reward and compensation issues are also part of the data collection parts in the questionnaire and interviews.

In addition, the researcher has also tried to analyze documented materials such as collective agreements of the EEPCO so as to point out how the institution handles the reward and compensation issues. The institution's policy of rewarding and compensating, the country's labor law, as well as the labor union agreements EEPCO sighed are also used by the researcher as an input to the study. The researcher uses documents of the last five years' rewarding and compensation within EEPCO.

### 3.6 Data Analysis Methods

The collected data, which is based on the theoretical framework the researcher used, was analyzed using the basic data processing procedures such as: editing, coding & classifications and thereby making it ready for analysis through percentage frequencies, tabulation & descriptive statistics.

The major questions are identified and summarized and most responses were organized in a well formatted table. Then after, percentage, interview, discussions and secondary sources was calculated and the result of the analysis was discussed, interpreted and summarized in the form of findings. The data analysis was undertaken through the analysis of the questionnaire and interviews. In addition, the researcher used documents that show how the institution (EEPCO) works with reward and compensations. These are documents related to bonus and other related rewarding systems within EEPCO. A bit deeper analysis of related documents of the last two consecutive two years was used by the researcher. In this case, the fact that the researcher is an employee of the institution has also contributed to the privileged access to the documents so that more dependence on the documents as equal to that of the responses collected from the 50 randomly selected respondents is also applied in this regard.

# CHAPTER FOUR

## Data Presentation, Analysis and Interpretation

This chapter presents findings, interpretation and analysis of information collected from employees and trainees of Ethiopian Electric Power Corporation and its training institution. Fifty (50) questionnaires were distributed to these students and all of them were collected back. In the study, 18 institution trainer employees and 32 employees were participated.

In order to archive the objective of the study and tackle the key research questions the researcher has tried to conduct a detailed and technical investigations related to the study matter.

In doing so the researcher has must collected relevant & reliable data both from primary and secondary sources. And thus, the gathered data have been completed and analyses meaningfully. The analysis results in association with the interpretations are presented as follows.

- Tabular presentation of the questionnaire response obtained from the sample designed and distributed randomly for 50 respondents, all of them i.e. 50 (100%) appropriately filled and returned the questionnaire given to them. As a result, a discussion is held on the responses. In addition, the information collected from interview of three (3) HR managers is also discussed. It is also used as supporting documents combined with secondary data for discussion and recommendations.
- Analysis the characteristics of the sample population involved in the study. Hence, the respondents are discussed in term of sex, age, years of services and academic qualification and:
- Analysis of the studying light of the theoretical background stated in chapter two and finding of the following major variables are analyzed based on the responses obtained from the respondents.
    1. The purpose of employee Reward and Compensation.
    2. Criteria for employee Reward and Compensation.
    3. Pre-reward discussion.
    4. Frequency of Employee Reward and Compensation.
    5. Evaluators and their sources of employee Reward and Compensation.
    6. Post Reward discussions.

7. Managers' general perception and recommendation about reward.
8. Reward and Compensation process and employee reaction.
9. Level of satisfaction and their recommendation on current reward.
10. Response on the reward and compensation on the achievement of company and individual goal.
11. Satisfaction of organizational pay and level of motivation.

**Table 1: Respondent's characteristics by Sex. Age, Years of service and Academic qualification**

| Item/Descriptions | Frequency of Response and Percentage | |
|---|---|---|
| | **No** | **%** |
| A. Sex: | | |
| a) Male | 31 | 62 |
| b) Female | 19 | 38 |
| **Total** | **50** | **100** |
| B. Age: | | |
| a) 30 years and below | 32 | 64 |
| b) 31 - 40 years | 13 | 26 |
| c) 41 – 50 years | 3 | 6 |
| d) above 50 years | 2 | 4 |
| **Total** | **50** | **100** |
| C. Years of service at present Post: | | |
| a) 5 years and below | 13 | 26 |
| b) 6 – 15 years | 15 | 30 |
| c) 16 – 25 years | 8 | 16 |
| d) More than 25 years | 14 | 28 |
| **Total** | **50** | **100** |
| D. Academic qualification | | |
| a) 12th and blow | - | - |
| b) Certificate | 12 | 24 |
| c) Diploma | 18 | 36 |
| d) BA / BSC | 19 | 38 |
| e) MA/MSC | **1** | 2 |
| **Total** | **50** | **100** |

Based on the response obtained, as shown in Table 1, the characteristics of the respondents were examined in terms of sex, age, years of experience and academic qualification.Table1, Item A and B reveals sex and age distribution of the sample population of respondents, respectively. Respondents who accounted for 62% were male respondents and the remaining 38% are female. Regarding age, one can easily understand that the workforce population is largely dominated by the age group below 40 years that is 90% comprising of the total. On the other hand those above 41 years accounted for only 10%. This implies the company has youth employees, if this employees get properly HR handling it could be good asset for the company.

As indicated under item C of Table 1, the majority of the respondents 37(74%) of EEPCO employees have been working for over 5 years to 15 years while,44% of the total of respondents have served for over 15 years. This high experience enables the researcher to find out the right information about the reward and compensation systems being functional within the institution. It is also possible to generalize that such a relatively longer of service might have helped respondents to possess rich experience and a better understanding about the various issues and problems of reward and compensation in EEPCO. Item D of the above table reveals that 60% of employees are certificate and diploma holders while the rest 40% are BA degree holders. This implies the academic qualification of most employees is low, so the company must work on how to improve academic qualification of employees.

**Table 2: Purpose of Employee Reward and Compensation**

| Item/Descriptions | Frequency of response and rank order | |
|---|---|---|
| | F | R |
| A. What "should" be the primary purpose of ERC (Employee Reward & Compensation)? | | |
| a) to improve quality of work | 10 | 3 |
| b) to improve employee to their job | 8 | 4 |
| c) to improve employee competence | 5 | 5 |
| d) to reward outstandingly competent employees/trainees/ | 21 | 1 |
| e) to identify employee training needs | 4 | 6 |
| f) to decide on employee promotion | 16 | 2 |
| g) to decide on employee salary revision | 2 | 7 |
| h) to decide on employee transfer | - | - |
| B. The primary purpose of the current ERC is | | |
| a) to decide on employee promotion | 27 | 1 |
| b) to improve quality of work | 10 | 2 |
| c) to improve employee competence | 9 | 3 |
| d) to improve employee to their job | 4 | 4 |
| e) to decide on employee salary revision | 3 | 6 |
| f) to identify employee training needs | 4 | 4 |
| g) to reward outstandingly competent employees | 1 | 7 |
| h) to decide on employee transfer | 1 | 7 |

**<u>Note</u>**

**F** Frequency

**R** rank order

Table 2 Items A and B show the purpose of employee reward and compensation as reported by respondents. For them, eight possible purposes of employee reward and compensation were presented in the list. Thus, the table shows the frequency (f) of responses that each purpose received from respondents and the corresponding order (R).

The reward and compensation and its ultimate purpose is to direct the efforts of all employees towards the achievement of organizational objectives and goals. As it is mentioned in the literature, perhaps the most critical phase in the design of and system of reward and compensation is determine its purpose, and these purposes could be grouped in to two categories. Administrative and developmental purposes viewing in the light of this, respondents were asked to identify the purposes of a system of employee reward and compensation “should” primarily service as indicated in Table 2 item A 21 respondents respond to reward outstandingly competent employees/trainees/ as its priority. Ranked second and third 16 and 10 respectively respondents were respond to decide on employee promotion and to improve quality of work.

Furthermore, respondents were asked to indicate the purpose which the current system of employee reward and compensation in EEPCO is primarily serving, as reported in Table 2 item B 27 (46%) respondents agreed that the current system of employee reward and compensation has been serving to make personnel decisions an employee promotion as it first priority. Ranked second and third by 17% and 15% respondents were responding to the purposes of improving quality of work, and employees’ competence respectively. It would be, therefore, concluded that the current system of employee reward and compensation has been perceived by the respondents to be primarily administrative in purpose rather than developmental.

**Table 3: The Degree of Validity and Reliability of Reward and Compensation criteria, job relatedness and employee's level of satisfaction**

| Item/Descriptions | Frequency of Response and percentage | |
|---|---|---|
| | **No** | **%** |
| A. Do you think that the criteria of current ERC valid and reliable? | | |
| a) Yes | - | - |
| b) No | 50 | 100 |
| **Total** | **50** | **100** |
| B. Are you satisfied with criteria listed in the reward form? | | |
| a) Yes | 5 | 10 |
| b) No | 45 | 90 |
| **Total** | **50** | **100** |
| C. Do you believe that the criteria are job related? | | |
| a) Yes | 11 | 22 |
| b) No | 39 | 78 |
| **Total** | **50** | **100** |

Table 3: reveals that perception of respondents regarding the criteria of the current system of employee reward and compensation in within EEPCO is dominantly negative. Shown above are, therefore, the number of responses and the total percentages computed as per the report given by the study group. When more subjective criteria are used for employee, reward and compensation becomes less valid for decision making and career guidance. Moreover respondents are more effective if measure of an employee's reward in terms of how well specified job standards are met. To this end, the perception of respondents about the criteria of the current system of employee reward and compensation was considered in this study.

In Table 3 item A, all of respondents who account for 100% reported that the criteria or standards against which employee reward and compensation has been regarded as considerably high, to generate as accurate reward evidences as could be expected. Hence, Respondents would have perceived the reward and compensation criteria under use to be considerably competent to help in making objective personnel decisions and enhancing improvement of employee reward and compensation.

Are criteria being used in EEPCO job related? As revealed in Table 3: item c, 78% of the respondents reported that the criteria being used are not job related. It could, therefore, be suggested that there are items in the criteria, which are not directly related with the job. The respondents were also asked whether they are satisfied with the criteria or standards listed in the form. Respondents' level of satisfaction with performance criteria, as revealed in Table 3 item B, indicates that what respondents would have not expected the criteria to be and the contents of the current performance criteria haven't been compatible to significant degree. It would be, therefore, possible to conclude that employee reward and compensation in EEPCO has been evaluated with inappropriate criteria, which respondents perceived to be considerably not adequate to accomplish the tasks of employee reward and compensation.

**Table 4: Respondents' View Regarding Pre-Reward Discussion Arrangements**

| Item/Descriptions | Frequency of Response and Percentage | |
|---|---|---|
| | **No** | **%** |
| A. Do managers arrange pre-reward meeting? | | |
| a) Yes | - | - |
| b) No | 50 | 100 |
| **Total** | **50** | **100** |
| B. Are you allowed to participate in the Reward Process? | | |
| a) Yes | 1 | 2 |
| b) No | 49 | 98 |
| **Total** | **50** | **100** |

In fact, employee participation is regarded as essential for employee reward and compensation as we can understand from the table above. It has been when managers and employees would have common understanding about what to achieve through evaluation that employees, cooperative participation in the evaluation process can be encouraged. As shown in Table 4- item B.

however, almost all of respondents (98%) reported that there is no way for employees to participate in the reward process. Therefore, it could be concluded that EEPCO has been working with the reward system which is not clearly defined, specified and communicated to employees, and this might have ultimately affected person's expectation in evaluation, his/her reaction to evaluation, and behavior afterwards. Because of this gap former employee of the organization gets reward and compensation even they work in another organization.

**Table 5: Frequency of ERC, confidence on evaluators**

| Item/Descriptions | Frequency of response and percentage | |
|---|---|---|
| | No | % |
| A. How often does reward and compensation take place in EEPCO? | | |
| a) Once a year | 48 | 94 |
| b) Twice a year | - | - |
| c) Four times a year | - | - |
| d) More than four times | 2 | 6 |
| **Total** | **50** | **100** |
| B. Do you have trust and confidence in evaluators for reward | | |
| a) Yes | 3 | 8 |
| b) No | 47 | 92 |
| **Total** | **50** | **100** |

The objectivity of employee performance data would be significantly influenced by the frequency of employee reward and compensation. The theoretical background regarding employee reward and compensation confirms that the frequency of employee reward and compensation determines, among other things, the purpose underlying evaluation scheme. Moreover, it has been indicated that employee reward and compensation is designed either for developmental or administrative purpose. In light of this, employees asked to identify issues regarding frequency of employee reward and compensation and it would be entertained next.

As indicated in Table 5, item A, the majority of respondents 48 (94%) reported that employees' reward and compensation within the institution take place once a year in this regard. This enables us to draw a conclusion that the current system of employee reward and compensation in EEPCO would hardly be considered as a developmental in purpose since it would be very difficult to secure competitive work force or employees' reward and compensation with only once sessions.

In any healthy organization, the management or evaluator for promotion and transfer reward must have a trust and confidence on his employees. The respondents asked about if they have trust and confidence on their evaluator for any reward as shown in Table 5, item B, almost all 47 (92%) responded that they have no trust and confidence in evaluators. Based on the negative (NO) response on trust and confidence reported by respondents, the rank order of the major causes of employees' mistrust and loss of confidence in their evaluator have been listed and are elaborate below.

Did employees have trust and confidence and how about their designated evaluators? It has been depicted that respondents who accounted for 92% of the total reported that they had not trust and confidence in their evaluators for reward and compensation. What caused employees' mistrust and loss of confidence in evaluators? Based on the frequency of negative (No) responses recorded above the finding of this problem have been dealt with the major causes of employees, mistrust and the loss of confidence in their evaluators for the reward and compensation.

**Table 6: Employees' luck of trust and confidence system from their perception on reward**

| Sources | Frequency of response and rank order | |
|---|---|---|
| | F | R |
| A. Employees' luck of trust and confidence system from their perception on reward: | | |
| a) Maintain bias and favoritism | 12 | 1 |
| b) Don't see the value of appraisal | 8 | 2 |
| c) Don't have skills appraisal | 6 | 3 |
| d) Don't have adequate time to appraise | 3 | 4 |
| e) Are unwilling to appraise | 1 | 5 |

As reported by respondents, in Table 6, the practice of basis and favoritism by evaluators was ranked first. The literature on employee reward and compensation indicates that such problems with the evaluators stem mainly from absence, or if any, inadequacy of training and retraining programs for evaluators. The problem would have been minimized had been relevant pre-service and in-service training problems for evaluators to adequately acquaint themselves with the purpose, criteria, process and procedures of employee reward and compensation. It would be therefore, perceptible from the above findings that EEPCO and its training institution would have a challenging job to perform in providing orientation of training to all those involved in employee reward and compensation since, reward and compensation has to contribute to the improvement of employee and trainee performance.

According to the interview conducted with supervisors, the note taking practice on employees' daily performance (that is what is called critical incident technique) might have been useful for evaluators to avoid decency bias. But, supervisors, daily record would be very difficult to handle since it might not be employed consistently

**Table 7: Respondents' Opinion to Post Reward Situations**

| Item/Descriptions | Frequency of response and percentage | |
|---|---|---|
| | No | % |
| A. Managers and Employees hold post reward conference | | |
| a) Yes | 12 | 24 |
| b) No | 38 | 76 |
| **Total** | **50** | **100** |
| B. Timing of post reward conferences: | | |
| a) Immediately after appraisal | - | - |
| b) After appraisal | - | - |
| c) Whenever employees' request for them | - | - |
| d) Whenever managers feels it appropriate | 8 | 100 |
| **Total** | **8** | **100** |
| C. Managers point of discussion often focus on: | | |
| a) performance weakness | - | - |
| b) performance strength | - | - |
| c) both strength and weakness | 8 | 100 |
| **Total** | **8** | **100** |
| D. The advice, guide, or support of Managers often focus on: | | |
| a) How to improve weakness | 5 | 29 |
| b) How to maintain good performance | - | - |
| c) How to capitalize on strong performance | 12 | 71 |
| **Total** | **17** | **100** |

Post reward interview is an essential component of reward and compensation system designed to provide employees with feedback information to be used for improvement of future works. According to the performance reward and corrective action procedure policies of EEPCO and interview conducted with designated evaluators, for reward each employee has the right to know and discuss with the supervisor about the results of his/her performance. Informing evaluation results is helpful to employees because it helps not only to develop their strengths but also to take action on their weakness.

In this regard, employees were asked whether post reward conferences were held or not, as shown in Table 7 item A. As per the responses obtained, however, majority of respondents (76%) reported that no-post reward conference was held in EEPCO. It would be therefore, realized that most employees were deprived of feedback about their past weakness and strength. They had no opportunity to discuss with their managers and comment on how their performance was evaluated for the reward. They had no opportunity to identify the aspects of their performance on which their work were based.

As depicted in Table 7 item A, it was only 24% of respondents who reported that post reward discussions were held between managers and employees. Based on this response, the liming of post reward discussions and focus of discussions were examined.

In any good organization, results of rewarding along with suggestions for improvement should be communicated to employees as soon as feasible before anxiety and frustration in them. But this was a rare case in EEPCO. Since, such a practice was reported only (24 %) of respondents, as shown in Table 7 item B.

About eight of the respondents who accounted for 16% out of the total of respondents pointed out that post reward discussion were often held based on the good will evaluators to do so. In general the scheduling of post-reward conferences might be regarded as haphazard and uncoordinated since, in many cases, they were not held immediately and consistently after rewards, probably causing a feeling of anxiety and frustration on the part of employees.

As revealed in item C of the Table above, the discussion points on which managers often focus in post reward conferences were both performance weakness and strength of employee and this was confirmed by 16% out of all respondents existence such practice would, therefore, suggest that negative as well as positive performance comments and criticisms would have been well perceived by employees to be essentials for the improvement of their work.

Lastly, on good organization initiating necessary corrective actions is an important aspect in the managerial process. It includes guiding, counseling and couching the employee in order to ensure improved their work. In this regard, this study also tried to identify which areas of action programs were adopted by the organization understudy and it has been depicted in Table of item D. According to the response obtained, only 5 (10%) of respondents reported that the advice or guide of most evaluators often focus on how employees' performance weaknesses would be improved. Thus, it would be concluded that the emphasis of managers was more on remedial action program than on maintenance and developmental ones.

**Table 8: Respondents' Level of Satisfaction and their Recommendations forwards current employee reward and compensation (ERC)**

| Item/Descriptions | Frequency of Response and Percentage | |
|---|---|---|
| | No | % |
| A. How do you rate the reward system of your organization in improving employee work (performance)? | | |
| a) High | - | - |
| b) Moderate | 36 | 80 |
| c) Low | 14 | 20 |
| **Total** | **50** | **100** |
| B. The current system of ERC is: | | |
| a) Unnecessary ; thus, should be abandoned | - | - |
| b) Necessary ; but, should be revised | 50 | 100 |
| **Total** | **50** | **100** |

This section of analysis considers the opinion or perceptions of respondents about the overall system of employee reward and compensation operating in EEPCO. It also involves the recommendations that respondents would give on issues of "what should be done with the current system of employee reward and compensation"

In Table 8- item A, the level of satisfaction indicates majority of respondents 80% with the system of employee reward and compensation operating in EEPCO was moderate. This would indicate that the organization understudy would have been regarded as having little contribution to the improvement of employee works. In this case, the current system of employee reward and compensation in EEPCO would have been simply made to happen without receiving adequate acceptance and commitment would be dysfunctional to achieve the purpose designed. In addition, employees were requested to give recommendations on issues of what should be done with the current system of employee reward and compensation. It indicate in Table 8 item B that respondents who accounted for 100% believed that the system of employee reward and compensation currently operating in EEPCO should not be abandoned for good but for it to be operating effectively. In spite of their dissatisfaction with the system of employee reward and compensation, their experience would have been well perceived for the improvement of employee's performance. It would be therefore concluded that a system of employee reward and compensation which would be adequately designed and operated. Would receive acceptance and commitments of all those involved and this would be, of course, indispensable for those involved as well as for the system of employee reward and compensation to be effective.

**Table 9: Response' on achievement of Company and individual goals**

| Statements (items) | Strongly Disagree | Disagree | Agree | Strongly Agree | Total |
|---|---|---|---|---|---|
| A. Attaining the goal is likely result reward? | 5 | 25 | 18 | 2 | 50 |
| B. I participate fully in goal setting activities? | 42 | 5 | 3 | - | 50 |
| C. The goal is attainable individual and company? | 24 | 12 | 14 | - | 50 |
| D. Individual and company goals are consistent? | 43 | 7 | - | - | 50 |

According the literature the main purpose of reward and compensation is to motivate employee in order to increase employee performance to achieve the organizational objectives and goals. In Table 9 item 'A', the respondents asked about the attainability of the organizational goals, only 20 (40%) of them assume that the attainability is likely result reward. Around 30 (60%) of the respondents don't agree with the statement. Company and individual goals are important for the existence of any organization. But when we come to EEPCO, most of the respondents don't care about individual and company goals because of lack of know how about goals.

In Table 9 Item B the respondents were asked if they participate on goal settings and 94 % of the respondents said they don't participate on any goal settings and only 3 (6%) respondents and according the interview with the HR managers also were participate on goal settings. Company and individual goals are done by the employees. But when we see the case of EEPCO most of respondents doesn't participate on goal setting. This implies company goals are prepared by higher managements but there are no individual goals at all in the company.

Under item C of the same table, the respondents were asked if the organizational goal is attainable both at the individual and company levels. Out of the total of respondents, 36 (72%) of the respondents said it is not an attainable goal. This clearly shows how pessimistic the employees of EEPCO are when it comes to sharing the goals of the institution, which is something that emanates from the kind of reward and compensation systems their institution offers them.

At last the respondents were asked about the consistency of the individual and company goals, consistent, 100% of the respondents replay it is not consistent. Consistency setting and meeting goals create a positive energy and motivate the employees to keep going even when obstacles arise. Goals not only help the employees to continue to be motivated and that creates momentum. But when we see in the case of EEPCO this kind of consistency is upset.

**Table 10: Respondents Opinion about the Organizational Pay**

| Statements (items) | Strongly Disagree | Disagree | Agree | Strongly Agree | Total |
|---|---|---|---|---|---|
| A. The pay matches with my job and experience | 39 | 11 | - | - | 50 |
| B. The pay is equitable with what others get doing similar jobs in this organization? | 6 | 5 | 39 | - | 50 |
| C. The pay is fair compared with what I get for ding similar jobs in other organization? | 34 | 16 | - | - | 50 |

Having good payment is one of the mechanisms to motivate employees. In the case of EEPCO, the employees claim that it does not match as we can see from Table10 item 'A'. 100% of the respondents replied that the pay did not match with their job and experience.

In Table 10, item B the respondents asked if their pay is equitable with what others get doing similar jobs in their organization and 39 (78%) of the respondents replied that they have equitable payments but 22 % of the respondents replied they don't get equitable payments with similar jobs and experiences on their organization.

At last on Table 10, item C the respondents asked about is their pay fair compared with what they get for doing similar jobs in other organization; all of the respondents (100%) replied their payment is not fair compared to what they get for doing similar jobs in other organizations.

**Table 11: Response on impact of Reward and Compensation on Employee Motivation and Performance as well as Organizational Opportunities**

| Item/Descriptions | Frequency of response and percentage | |
|---|---|---|
| | **No** | **%** |
| A. What impact do the reward and compensation practices (factors) have on your level of motivation and performance? | | |
| a) High | **-** | **-** |
| b) Moderate | **25** | **50** |
| c) Low | **25** | **50** |
| d) No effect | **-** | **-** |
| **Total** | **50** | **100** |
| B. Have you ever get the following opportunities?? | | |
| a) Promotion | **14** | **26** |
| b) Salary increase | **20** | **37** |
| c) Training | **14** | **26** |
| d) Recognition | **6** | **11** |
| e) Other | **-** | **-** |
| f) none | **-** | **-** |
| **Total** | **54** | **100** |

This final section of analysis considers the opinion or perceptions of respondents about impact of current reward and compensation on employee motivation and performance as well as organizational opportunities. One could see on Table 11, item A that the impact that the current reward and compensation have on the employees level of motivation and performance, half of the respondents (50%) replied low whereas the rest of the respondents responded that the impact the reward have on the employee level of motivation and performance evaluates as moderate. When we see about the opportunities that are given by the organization on item B of Table10, 14 of the respondents replied that they get promotion while on the other hand; all of the respondents get salary increments annually whereas 14 of respondents get training and 6 of respondents get recognitions. From this information, we can find out an implication that witnesses the fact that most of respondents link the reward and compensation with one of the reward type that is money payments.

# CHAPTER FIVE

## Summary, Conclusion and Recommendations

This final chapter of the paper deals with the summary of the major findings of the study. Drown from these major findings of the study, conclusions are presented, and recommendations which the investigator assumes to be operational are also forwarded.

## 5.1 Summary

1. As perceived by 32 % of respondents, the primary purpose of ERC “Should” be to improve the quality of job and employees’ competence and to motivate employees to their jobs. These are all developmental in purposes of ERC. However, in identifying the primary purposes that the current of ERC “is” serving in EEPCO, managers placed the purpose of making decisions on employees’ salary increment as its first priority. This is one of the administrative purposes of a system of ERC;
2. All of respondents (100%) perceived that the criteria of the current system of ERC are not valid and reliable as well as not job related;
3. Responses from all of respondents (100%) revealed that no re-reward discussions were held between employees and managers, moreover, employee participations in reward and compensation process were reported by employees to be absent in EEPCO;
4. It was confirmed by majority of respondents (94%) that employee reward and compensation in EEPCO took place on an average of once a year;
5. Most Respondents (92%) perceived that there was no feeling of trust and confidence in the evaluation tasks of their managers’ practice of bias and favoritism. Moreover, manager’s lack of skills in ERC and their failures to see the value of evaluation were also regarded as having their own contributions for employees to develop such an adverse attitude towards their managers;
6. No regular post-reward conference was held in EEPCO according to the responses of most respondents (76%). In cases where post reward discussions were reported, they were often held based on the good will of managers, and were conducted infrequently;

7. As reported by a considerable few of respondents, discussions on post-reward conferences often focused on both performance weakness and strength of employees.
8. Majority respondents (80%) rated their level of satisfaction with the system of ERC currently operation in EEPCO as moderate. Nevertheless, all of respondents perceived the potential value of the system. But for it to function effectively, they recommended necessary revisions to be made on it;
9. More than half of the respondents believes attaining the goal of the organization is not likely as reward as well as they don't participate on goal settings and the goal is not attainable individually and companywide;
10. According to the 90% of the respondents, the organizational pay is not satisfactory payment and the payment also differs from one employee to other for the same job and education qualifications.

## 5.2 Conclusions

1. In their perception about the purposes that a system of ERC “should serve, employees placed administrative purposes in rank of priority, on the other hand, they found system of ERC operating in EEPCO to be primarily administration in purpose. It would be, therefore, realized that the current system of ERC has been operating to accomplish purpose contrary to what employees would have expected to be.;
2. The criteria against which employees’ reward and compensation has been measured were regarded to be considerably not adequate to generate accurate and objective performance evidence. As a result, most respondents are not satisfied with reward criteria under use. In this case, it would possible to conclude that the criteria were perceived to be considerably not competent to generate objective performance data;
3. Pre-reward discussions were reported to be non-existent in EEPCO. In this regard, ERC would have been simply made to happen in an unplanned and uncoordinated manner without providing employees with essential firsthand knowledge about the reward and compensation processes. It would be, therefore, evident that the employees would have been reluctant, or possibly resistant to cooperatively participate in subsequent processes of appraisal scheme, and ultimately, would have been encouraged undervaluing the system ERC;
4. It has been indicated that EEPCO applies infrequently reward which would not guarantee comprehensive employee performance data, employee might have developed a feeling of mistrust and loss of confidences in their appraisers and performance ratings by those managers;
5. Most employees did not have trust and confidence in their managers when we come to reward and compensation evaluation. This would probably be lack of the required knowledge and skills in reward evaluation, data collection and analysis, and conferencing on the side of managers. They might have heavily relied on their personnel impression in judging employee performance, and this in turn, would have encouraged managers to maintain basis and favoritism in employees. Above all, managers had no exposure to training and retraining programs. The ultimate consequence would,

therefore, have been employees' mistrust and loss of confidence in the competence of their managers and performance ratings for reward they might have produced;

6. It was found out that post reward conferences had been of ERC, which ignored post-reward discussions, would obviously be regarded as dysfunctional. In such scheme of ERC, employee would have been deprived of adequate feedback about their past performance of a forum to express their feeling and to comment on how and which aspect of their performance had been appreciated or rated for the reward, and of opportunities to jointly set specific performance targets which they would be expected to perform in the subsequent reward process;
7. Most managers proved to be lenient in rating the performance of employees for reward. High reward might have been regarded by managers as motivating factors for employees so as to improve performance by using it as a means of keeping employee-manager report healthy;
8. Most respondents have been to a great extent dissatisfied with the current system of ERC. This system would have been, therefore regarded by employees as having little contribution to improvement of employee competence. As a result, the system would have failed to win acceptance and commitment of employees, which ultimately might have caused the malfunction of system. However, in spite of their dissatisfaction with the current system of ERC, respondents recommended the continuity of system's operation but with necessary revisions to be undertaken in which employees would meaningfully participate. This would, therefore, suggest that appraises might have been optimistic in perceiving the value and inevitably of ERC to improve Employee performance. Hence it would be possible to conclude that employees would be cooperative and committed to the successful operation of the scheme of ERC if the purposes and criteria of the system, skill and competence of managers, and the reward and compensation system were systematically designed and operated in a way acceptable to them;
9. The organizational payment is not satisfactory for the respondents. EEPCO is back bone of the countries business, so the company must be led by competent managers and employees with good benefit and payment. Increasing some percentage of salary at the

end of each year may not be motivated the employee, it needs an incremental change on the base salary and led by good human resource managers;

10. Promotion, transfer and recognition must be on the base of the performance of the employee not by favoritism, family and friends;
11. EEPCOs direction regarding of the employee reward and compensation are very unfair and had many problems according the majority of the respondents.

## 5.3 Recommendations

1. The two conflicting purposes; administrative and developmental which the current system of ERC attempts to achieve simultaneously with a single evaluation form for reward and compensation, need to be separated because the criteria, managers and processes designed to one purpose would not equally serve the other;
2. The reward criteria of the current system of ERC need not to be encouraged in conformity to the purpose desired. It is not job related and it should not be forgotten that employees should meaningfully participate in the process of establishing criteria to win their acceptance;
3. A system of ERC should be conceived as an integral part of organizational programs of EEPCO. Hence, supervisors must endeavor to make ERC schemes more systematic and carefully planned. The systematization and planning of ERC schemes begin at the initial or preparatory steps in the evaluation process (pre-reward discussions). Since pre-reward meetings help to bring employees and managers to gather to discuss the purpose and criteria of the system of ERC, and to decide on the techniques, procedures, and approaches to be employed in the subsequent states of the evaluation process they form the outset develop in the mutual understanding, and a feeling of trust and confidence. Thus, supervisors should call for pre-reward meetings periodically and consistently if ERC were to succeed through cooperation and commitment of employees and managers;
4. To contribute to the successful operation of scheme of ERC and to secure valid and reliable data on employees' performance, it must be ensured that the evaluation scheme be undertaken as frequently as possible;
5. To make ERC scheme more objective acceptable to employees, and hence, helpful in improving employees' competence, multiple management approach in collecting comprehensive employee performance data needs to be introduced. For instance, peer, self-evaluation, and subordinate evaluation methods may provide additional performance data. These methods would help to avoid evaluation by personnel impression, and hence reduce to a greater extent personnel bias and favoritism in evaluation.
6. However that the introduction of these methods in a scheme of ERC need to be discussed and again acceptable from employees;

Most important and worth of recommendation to make scheme of ERC effective is the need for providing designated managers with adequate training. Short and long-term training and retraining programs need to be arranged for managers to acquire adequate knowledge and skill in a various areas like data collection for reward and analysis, conferencing and other relevant technique of ERC;

7. Post reward discussions between employees should be held consistently and immediately after evaluation before employees develop in them a feeling anxiety and trust ration. Managers in post-reward meetings should provide employees with specific performance feedback, should allow them to express their feelings freely, and should render them constructive suggestions, support, and advice to help them improve their performance;
8. Finally, a company's pay structure is the method of administering its pay philosophy. The two leading types of pay structures are the internal equity method, which uses a tightly constructed grid to ensure that each job is compensated according to the jobs above and below it in a hierarchy, and market pricing, where each job in an organization is tied to the prevailing market rate.

## References


Armstrong, M. (2005, 2007&2010).Improving performance through reward: 3RD Edition. London, Philadelphia and New Delhi: British Library Cataloguing in- publication data.

Armstrong, M. and Stephens, T. (2005).EMPLOYEE REWARD MANAGEMENT AND PRACTICE: first edition. Great Britain and United States: Kogan page Limited.

Armstrong, M.(2007).EMPLOYEE REWARD MANAGEMENT AND PRACTICE: 2nd edition. London and Philadelphia: British Library Cataloguing in- publication data.

Bach (1999). Motivation of Employees. UK: Beer cans unlimited and Marwick collector's guide.

Beer & Cannon (2004). Promise and Peril in implementing pay for performance. San Francisco: John Wiley and sons Inc.

Beer, M. (2009).High commitment, high performance: how to build a resilient organization for sustained advantage: San Francisco: Jossey- Bass

Cardy, R. L., and Dobbins, G.H. (1995). Human Resource, High technology, and a Quality organizational environment: research agendas. Journal of high technology management research 6, 261-279.

Cowherd, D. M. & Levine, D. I. (1992), 'Product quality and pay equity between lower-level employees and top management: An investigation of distributive justice theory', *Administrative Science Quarterly*, 37: 302–20.

Deming. (1996). Out of the Crisis. USA: MIT EAES Inc.

Drenth. (1998). Hand book of work and organizational psychology: personnel psychology. East Sussex, BN3 2FA, UK: Press Business and Economics ltd: a member of the Taylor & Francis group.

EEPCO, (2005) Labor Union agreement documents revised

EEPCO, (*2005): Performance Appraisal Procedure: unpublished*

EEPCO, (*2005): Performance Management Policy: unpublished*

EEPCO, (*2005: Performance reward and corrective action Procedure: unpublished*

EEPCO, Needs Assessment and Curriculum Design for Graduate College at the Ethiopian Electric Power Corporation: Training needs Assessment study: Unpublished.

Eliot, J. (1998).A Total System for Effective Managerial Organization and Managerial Leadership for the 21st Century. USA: Cason Hall and Co. Publishers.

Gerhart & Rynes. (2003). Compensation: Theory, Evidence and Strategic Implications. CA: SAGE publications.

Guest, D. (1997, 1999, 2001 & 2002). Guest's Model of Human Resource Management. UK: Human Resource Department.

Hay, D. (1998). The Economics of Market Dominance. UK, New York, USA: oxford publisher.

Henderson & Venkaframan. (1999). Strategic Alignment: Leveraging information technology for transforming organization. USA: IBM system Journal Vol. 38, Nos. 2 & 3

Heneman, Kochan and Locke. (1995). Human Resource Management Promise and Peril in Implementing Pay –for –Performance. California: Wiley periodicals Inc.

Hofrichter, K. and Platten, S.  (1996). People, Performance and Pay. UK: Simon and Schuster publications.

Hyman, R. & Brough, T., (1975), *Values and Industrial Relations: A Study in Fairness and Equity*, Blackwell, Oxford.

Kanfer, (1998). Organizational Behavior and human decision process. Washington Dc: John Wiley & son's Inc.

Kohn. (1993). Punished by Reward. Boston: Hough Mifflin.

Law Dictionary,(2002). Elements of Reward: 2$^{nd}$ Edition

Lawler, (1990). The New Pay: linking employee and Organizational Performance. USA: Josser-Bass Inc.

Lawler, E. (2000). Rewarding Excellence: pay strategies for the new economy. USA: Jossey bass Inc.

LOSEY, M.(2005).FUTURE OF HUMAN RESOURCE MANAGEMENT: Society for Human Resource Management Alexandria, Virginia USA: John Wiley and Sons, Inc.

Losey, M., Meisinger, S. and Ulrich, D. (2005). The Future of Human Resource Management: society for human resource management. Alexandria, Virginia USA: John Wiley & sons Inc.

Nelson, B. (1994, 1996 & 1997). 1001 Ways to Reward Employees. New York: workman publishing company Inc.

Redman, T. & Wilkinson, A. (2005). Contemporary Human Resource Management: text and case. Harlow, England, London, New york, Boston and San Francisco: Prentice hall

Ronald, J. and Cary, L. (2005).Reinventing Human Resource Management Challenges and New Directions. London and New York: Rutledge Taylor and Francis group.

Rynes & Gerhart. (2000). Compensation in Organization. Lake Arrowhed, CA, USA: Hawking books publications.

Schuster and Zingheim, (1996). Strategic Pay: aligning organizational strategies and pay system. USA: Jossey- Bass Inc.

Shields, J. (2007).MANAGING EMPLOYEE PERFORMANCE AND REWARD: Concepts, Practices, Strategies. CAMBRIDGE: CAMBRIDGE UNIVERSITY PRESS

Steers and Porter, (1991). Motivation and Work Behavior. Richmond, TX, USA:MC Graw- Hill.

Taylor, J.& Francis, L.(2005).Reinventing Human Resource Management: Challenges and New Directions. London and New York: Taylor and Francis e- library, 2004

**Electronic Sources**

- http:/WWW.EEPCO.gov.et

# Appendix

**Questionnaire to be filled by Employees of (EEPCO)**

**Dear Staff member/Respondents**

I, Gebremedhin Bahta a prospective graduate student at Addis Ababa University, have designed this questionnaire to collect data from employee's of EEPCO for conducting MA –in Management of Vocational Education thesis on the title Reward and Compensation management practice at Ethiopian Electric Power Corporation (EEPCO).

I kindly request you to spent your Precious time to fill the questionnaire as frank as and responsible as possible. I inform you that, the information you provide will be consumed for academic purpose only. It will be handled in a confidential manner and will not be used to identify you in any way. Therefore, you all are not expected to write your name.

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

GebremedhinBahta

Tel No. 0911 36 04 31

Email: Bahta19@gmail.com

**Thank you very much for your cooperation.**

## General Instructions

1. You are not required to write your name.

2. All questions are equally important for the completion of the study.

PART 1

Demographic Characteristics of Respondents

Instruction: please answer by making a tick ( ✔ ) in the box provided

1. Age group
   Below 30 ☐ 31-40 ☐ 41-50 ☐ above 50 ☐

2. Gender
   Male ☐ Female ☐

3. Marital Status
   Married ☐ Single ☐ Divorced ☐ Widowed ☐

4. Qualification
   Less than Diploma ☐ Diploma ☐ Advance Diploma ☐

   First Degree ☐ Second Degree ☐ PhD ☐

5. Years of service in EEPCO
   Less than 5 year ☐ 5 to10 years ☐ 10 to 20 years ☐

   More than 20 years ☐

6. Monthly Salary
   < 1, 500 ☐ 1, 500- 2, 500 ☐ 2, 501- 4, 000 ☐

   4,001-7, 000 ☐ 7, 001- 10, 000 ☐ Above 10, 000 ☐

**PART II**

Questions Related to Employee Reward and Compensation

1. Do you believe (think) that the criteria for reward and compensation are job related?

   Yes ☐ No ☐

2. Are you satisfied with criteria listed in employees Reward and compensation form?

   Yes ☐ No ☐

3. Do you allowed to participate in reward and compensation process

   Yes ☐ No ☐

4. Do management of the company and employees hold post-reward and compensation meetings to discuss employee's reward and compensation results?

   Yes ☐ No ☐

5. If Your answer for question no 4 is yes when do post reward and compensation meetings take place

   (Please tick as many as you think for question number 5 )

   A. Immediately after reward
   B. After many days of reward
   C. Whenever employees request for it
   D. When the management of the company feels it appropriate

6. Post reward and compensation discussion often focus on
   A. Performance weakness & the employee
   B. Performance strength of employed
   C. Both weakness and strength & employee

7. How often does reward and compensation conducted in your organization?
   A. Once a Year C. Four times a Year
   B. Twice a Year D. More than four times a Year

8. The advice or supports of managements often focus on:
   A. How Weakness of performance can be improved
   B. How acceptable level of performance can be maintained
   C. How Strength of performance can be capitalized

9. What ‘’ should’’ be the primary purpose of employee reward and compensation?
    A. To improve quality of work
    B. To motivate employee to their job
    C. To improve employee competence
    D. To reward out strongly competent employees
    E. To identify employee training needs and employee transfer
    F. To decide employee promotion and employee salary revision
10. The primary Purpose of the current employee reward and compensation is
    A. To decide on employee promotion
    B. To improve quality of work
    C. To improve employee competence
    D. To Motivate employee to their job
    E. To decide on employee salary revision
    F. To identity employee training needs
11. If you feel dissatisfied with the current reward scheme, what do you recommend?
    A. It is unnecessary, therefore abandon it
    B. It is necessary ,however, it should be revised
    C. Others if any (please specify) ______________________
12. Do you have trust and confidence in appraisers for reward?

    a) Yes ☐ b) No ☐

13. If your answer on question number 12 is ‘NO’ (Please tick as many as you think for question number 13)

    a) Maintain bias and favoritism

    b) Don’t see the value of appraisal

    c) Don’t have skills appraisal

    d) Don’t have adequate time to appraise

    e) Are unwilling to appraise

14. Do you think that employees rewarded base on his/her performance rather than his/her personality

Yes ☐ No ☐

A. If yes, please specify your reason____________________________

B. If No, specify your reason_________________________________

15. Do you think that the Criteria for reward and compensation valid and reliable?

Yes ☐ No ☐

A. If yes, specify your reason:________________________________

B. If No, specify your reason:________________________________

16. In general how do you rate the reward system of your organization in improving employee performance

A. High ☐ B. Moderate ☐ C. Low ☐

| | Question | Strongly disagree | Disa gree | Agree | Strongly Agree |
|---|---|---|---|---|---|
| 17 | **How does the following pints describe about your (individual) and company goals?** | | | | |
| A | Attaining the goal is likely result reward | | | | |
| B | I participate fully in goal setting activities | | | | |
| C | The goal is attainable individual and company | | | | |
| D | Individual and company goals are consistent | | | | |
| 18 | **How does each of the following points describe pour pay?** | | | | |
| A | The pay matches with my job and experience | | | | |
| B | The pay is equitable with what others get doing similar jobs in this organization | | | | |
| C | The pay is fair compared with what I get for ding similar jobs in other organization | | | | |

19. What impact do the reward and compensation practices (factors) have on your level of motivation and performance?

A. high B. medium C. Low D. No effect

20. Have you ever get the following opportunities? (Thick as many points as possible)

a. Promotion
b. Salary increase
c. Training
d. Recognition
e. Others
f. None

## Interview Questions for appraiser

## Dear Respondents:-

This questionnaire is for evaluation of reward and compensation of employees and your response will not be used other than research purpose. So, you are kindly requested to give response honestly.

Thank you in advance.

1. Do you think that employees have a procedure for pursuing their grievances and having them addressed objectively?
2. How for the system of reward and compensation of your organization enables to maintain and promote its employees?
3. Do you think that the current reward system in your organizations appreciated or abortive?
   - A. If appreciated why? And
   - B. If abortive why? And do you recommend some ways how it will be redesigned?
4. What are the main purposes of reward and compensation in your organization?
5. In what range do performance ratings of the majority of workers in your organization often fall?
6. What kind of evaluation criteria (form) do you use in your organization to reward and compensate your employees? And do you recommend some additional statement that included in the form?
7. Which reward and compensate technique do you use in organization?

# 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 duly acknowledged.**

**Declared by;**

**Name ________________________**

**Signature ______________________**

**Date __________________________**

**Confirmed by advisor;**

**Name __________________________**

**Sign ____________________________**

**Date ___________________________**