College of Business and Economics

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Assessment of Reward Management Practice in the Ethiopian Financial Sector

A Thesis Submitted to the Department of Management in Partial Fulfillment of the Requirements for the Degree of Master in Business Administration.

By

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DECLARATION

I hereby declare that this work entitled "assessment of strategies and practice of reward management in Ethiopian financial sector" is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment has been made in the text.

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This Thesis has been submitted for examination with my approval as a University advisor.

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This is to certify that the thesis prepared by Aster Seifu entitled: “Assessment of strategies and practice of reward management in Ethiopian financial sector)” and submitted in partial fulfillment of the requirements for the degree of Master of Business Administration in Management complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Abstract

The study was conducted with the aim of assessing strategies and practice of reward management in the Ethiopian financial sector. Primary data was collected using a 4item likert scaled questionnaire from purposively selected 20 head office of banks and insurance industries 265 expected sample size having a response rate of (97.8%). Data was tested in cronbach's alpha analysis and it fulfills reliability. The questionnaires were analyzed using descriptive statistics and T-test with the support of statistical software program namely Statistical Package for Social Science (SPSS version 24) for analyses and summarization purposes. The findings based on three different constructs (strategy, alignment, system) revealed that existence of some gaps in reward strategy implementation, its alignment with organizational business strategy and gap of controlling and monitoring reward system. It also investigated that Ownership and type as demographic factor that has significant influence on reward management system. Sector should have bridge implementation gap of reward strategy by building the capacity of the employees in the area, fulfilling required resource for implementation before designing, enhancing employee recognition attitude as a principle of the sector. To come up with effective Reward management system, financial sectors should have to control each progress and gather feedback; plan accordingly of a system and to customized their reward management system with employees' different needs.

Chapter One

1. Introduction

1.1 Background of the Study

Financial sector is one of the most important and significant businesses all over the world and it plays a very essential role in strengthening the entire financial structure of the economy. It also contributes towards the development of overall economy of a country (Mikander, 2010) one of the major concerns of financial institutions in this competitive environment is motivating employees and enhancing their job involvement in order to get the desired results. The best way for the financial institutions, to achieve such objectives is through employee promotion, recognition, pay, bonuses and appreciations (marry, 2013)

As of today, it is widely recognized that employees' motivation and engagement depends on the perceived feeling of being fairly rewarded for one's skills, knowledge and contribution (Relliy, 2009). It is therefore important for a company to find out what motivates its employees so that it can plan a suitable reward system and gain better results. The right combination of immaterial and material rewards can boost up the employees' work motivation and enhance their commitment to the company (Mikander, 2010). Rewarding people concerned with the design, implementation and maintenance of rewards systems that are geared to the improvement of organizational, team and individual performance. It concerned with the formulation and implementation of strategies and policies in order to reward people fairly, equitably and consistently in accordance with their value to the organization (Armistrong, 2009). Reward management system consists of both extrinsic and intrinsic rewards; where former involves financial rewards (salary, bonus etc.) and the later includes non-financial rewards like recognition, security, title, promotion,, appreciation, praise, decision making involvement, flexible working hours, workplace comfort ability, feedback, work design, social rights etc. (Wood, 2009).

Since the 1980's reward management became an organized organizational practice that involves balancing the employer-employee relation by providing monetary and nonmonetary reward to employees for their time and effort started to gain importance (Brian, 2015).The reward management is today a key component of human resource (HR) systems whose primary purpose is to establish practices that would contribute to companies' competitive advantage

(Ronald, 2006). HR and reward functions are thus being challenged to take an increasingly strategic role in helping their businesses navigate through ongoing economic uncertainty by ensuring that labor costs are managed and that maximum return on investment is delivered (Torrington, 2008)

Organizations in this dynamic globalized world are continuously trying to develop and motivate their employees to help achieve enhanced performance with various Human Resource applications and practices. Reward management system is the highly used practice for the enterprises to achieve the desired goals (Brian, 2015). According to (Armistrong, 2009), Reward management system helps the organizations to attract, capture, retain and motivate employees with high potential and in return get high levels of performance.

Similarly, Most of the organizations rely on employment retention by the reward system which has been on-going research since long time argues that for most people, work is the primary source of income and financial security and an important indicator of status within the organization as well as society. The principles of employee’s reward programs include; satisfying the actual or perceived personal needs of the employees, convince the employees that the organization for which they work cares for their needs, provide a tax efficient mechanism in remuneration, meet the legal requirements of the nation, is consistent with both the strategic plans and reward management objective of the organization and the cost of benefits is calculable and provision is made of sound financing (Lyria, 2014)

However Scholars argue that the design of reward systems is one of the most complex and sensitive areas faced by organizations (Matsson, 2013). The existence and inherent challenges of reward systems is an ongoing and heated debate. Poorly designed or corrupted reward systems continuously attracts public attention through scandals concerning complex bonus systems and rewards given to employees, often without a direct linkage to a certain performance. During the worldwide financial crisis in 2008 and the recession that followed, The American International Group (AIG) stated an example of how a reward systems can be misused, leading to heated public debates on the misusage of rewards. AIG created a worldwide controversy when it was revealed that the company had distributed large bonuses to its employees shortly after the US government had bailed out the company in order to avoid bankruptcy (Mikander, 2010)

The challenges of creating a suitable reward system are versatile, since there are almost infinite ways of designing a reward system. There are many different aspects to consider in terms of the design and usage of a reward system, some of them being how individuals should be rewarded, for what and how much, how a reward system can be designed to support long-term goals and how goal congruence can be assured the most efficient way (Ronald, 2006)

Within the Ethiopian financial sector, usually three sub-sectors are distinguished, namely banking, insurance and securities. Ethiopian banking industry is suffering with high labor turnover and has high flow of employees from one bank to another bank to facilitate their life style by comparing their bank pay scale and benefit package with other banks. In addition, some employees look on other competent organizations, specifically private companies with in an expectation of better HRM practices particularly reward management practice, nice work environment and high satisfaction from the job. The same is also true for insurance companies, even though reward management practice exist in the companies, the criteria that used to reward employee is not adequate, reliable and valid criteria and there is high rate of turnover in the insurance companies (Gebrehiwot, 2008)

1.2 Statement of the problem

Nowadays, human resources are seen as the primary source of any institution competitive advantage. It has been identified that close attention should be given to how individuals can be best motivated through such means as promotion, recognition, pay, bonuses and appreciations for organization to sustain as a competent (Brian, 2015)

The way people are treated increasingly determines whether an institution will prosper or even survive. No matter how sophisticated and modern the business activities of the organization may become, it will be extremely difficult to sustain its growth and effectiveness unless there are strategies that attracts and retains skilled manpower. The reward management philosophy recognizes that if 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). Rewarding people and recognizing their effort as per value they create help to attract and retain the people having high quality in the competency which is always the first and foremost need of the organization (CIPD, 2015)

Previous research has shown that for employees, whose performance is rewarded when they go "above and beyond", 90% are satisfied with their job, 88% are satisfied with the organization and just 12% consider leaving the organization. Amongst employees who say that their performance is not rewarded, 40% are satisfied with their jobs and 30% are satisfied with their organization, and 70% seriously consider leaving (Brian, 2015) Organizations could benefit from implementing a total rewards programs that focuses on both formal rewards and informal recognition because the minimum an employee looks for when entering into the organization is fair pay, sufficient working condition and fair treatment (Taylor, 2005)

The overall objective of reward management practices is to reward people fairly, equitably and consistently in accordance with their value to the organization and their achievement of the organization's strategic goals to ensure weather the contribution of people to the organization is recognized by either financial and non-financial means or not (Armistrong, 2007). Effective recognition for their effort enhances employee motivation and increases employee productivity ,enhances discretionary efforts, a higher degree of motivation, minimizes employee turnover ratio and employee absenteeism and leads to higher degree of employee retention, all of which contribute to improved organizational (Hareghewein, 2014)

However the reality of reward or making it work is much more difficult and it requires a lot of effort and careful handling on the part of top Managers and line managers with the determined encouragement and guidance of HR. Because what matters to the employee performance is not only developing reward philosophies and strategies, but also the effective practices emanating from it and the messages it conveys to them as consequence (Roberts, 2005).

Furthermore organizations are considering investing on employees of the organization not as an asset building but as incurring cost and they try to minimize the cost of rewarding employees of the organization (Mikander, 2010). But In addition to being the single greatest operating cost for many organizations, reward has been advocated as a tool for enhancing organizational performance and sustained competitiveness due to high impact of reward management on overall firm performance (Mphil, 2014)

Similarly review of existing studies in Ethiopian financial sector revealed that even though reward management practice exist in the organization, the criteria that used to reward employee is not adequate, reliable and valid criteria and there is high rate of turnover in the organization (Hareghewein, 2014)Also much is not known about what is happening within companies in various sectors regarding reward management practices.

Moreover recognition of employee's contribution to the organization is a very important aspect and it shows the employees how much they are valued within the organization. Organizations need to ensure that they are providing effective recognition and feedback systems, which not just help the employee would reach their potential but also help the organization as they will be able to get the potential out of the employee which will help in the reputation and value of the organization (marry, 2013)

To inspire and guide employees to perform in alignment with the interest of the organization, managers should pay great attention to examine how and which rewards that perceives as motivating (Pink, 2011). All individuals have different personal drivers, and hence behave differently. Consequently, the organization should carefully consider which factors and elements that should be included in the reward system to enhance desirable employee motivation.

Therefore, the purpose of this study was to assess reward management practice in the Ethiopian financial sectors and shows the practice gaps that exist in the sector. The study was also assessed the alignment of reward management strategy with the business strategy of a financial sector and linkage of reward management with other elements of human resource management functions.

1.3 Research questions

On the way of bridging those gaps raised in the problem statement the researcher will pose the following research question;

- What is the nature of reward management strategy of Ethiopian financial sector?
- Does the reward management strategies of the institution aligned with business strategy and other HR functions of the sector?
- What is the nature of reward management system in Ethiopian financial sector?

1.4 Objective of the Study

1.4.1 General objective

The general objective of this study is to assess reward management practice in Ethiopian financial sector.

1.4.2 Specific objectives

Under the scope of general objective this study will tries to achieve the following specific objective:

- To assess nature of reward management strategy in Ethiopian financial sector
- To assess the alignment of reward management practice with the sectors business strategy and other HR functions.
- To assess nature of reward management system of the sector.

1.5 Operational definition

The working definition for the term:

- **Reward management system** in this study is planning, control, evaluation, of reward process pay reviews, and the allocation of responsibility and communicating to employees.
- **Reward strategy** is a declaration of intent which defines what the organization wants to do in the longer term to develop and implement reward policies, practices and processes
- **Alignment** in this research means that business and reward strategies are in line with each other and reward system is complementary with other HR functions.

1.6 Significance of the Study

It is expected that the findings of this study will highlight the ways in which reward management can be beneficial to the organizations. This study will also increase the body of knowledge especially human resource scholars as they will be able to perceive what strategies of reward management practice organizations can adopt to retain employees of the organization. In addition it will enable sector understand how organizations can come up with reward management strategies that will motivate employees to remain with the organization and improve performance. What the findings of this research study could do would be to influence the sector to consider an appropriate and effective approach to reward that would result in a way of motivating employees. Furthermore, this study was putted a brick for further development and improvement in this area and it helps as an input for the next researchers who need to go deep on the subject.

1.7 Scope of the study

This study only deals with the assessment of reward management practices in the Ethiopian financial sector. Researcher only focus on reward management, hence, other HRM actives like recruitment, selection, training and development, performance management etc. which may have a great contribution have not been considered. On the other hand the study required a determinant time and voluntary response from target group and the researcher did his best to attain the optimum result. The study was conducted only in Ethiopian financial sector and the time scope of the study was 2009 E.C.

1.8 Organization of the paper

The study has five chapters. Chapter one provides background of the study, problem statement, research question, the aims and objectives, as well as the limitations and benefits of the study. It provides brief insight into the research study. Chapter two provides definitions of the most important concepts. This chapter provides an insight into these concepts by focusing on previous research in this area and presents reviewed literature relevant to this study. Chapter three describes the research design utilized. Specifically, the chapter describes the sample of the study, the measuring instrument used, the procedure followed to gather the data, and the statistical techniques used to analyze the data. Chapter four describes reports on the results of the empirical analysis. The chapter proceeds with an analysis of the descriptive statistics on the variables under consideration. Chapter five describes the results of the study in greater detail and where appropriate, existing literature is integrated into the discussion. The implications for future research are addressed and the chapter concludes with recommendations.

Chapter two

2. Review of related literature

2.1 Introduction

This chapter reviews the theoretical and empirical findings around reward management practice. The whole part of chapter is structured in to eleven sections (introduction, definition and concept , types of reward, philosophies of reward, grade and pay structure, purpose of reward, total reward management, integration of reward management with other HRM functions, challenges of reward management practice, conceptual frame work and summary).

2.2 concept and definition of reward management

People do what they do to satisfy some need. Before they do anything, they look for a reward or pay-off. The reward may be money or promotion, but more likely it will be some pay-off-a smile, acceptance by a peer, a kind word of recognition etc. (Relliy, 2009). Broadly, Employees reward management comprises of organizations practices, policies and processes to grant the rewards to its employees as per their competency, skill abilities and their value in the market. It is not only about pay and employees benefits but also related to non-financial rewards such as recognition, learning and development opportunities and increased job responsibilities in the equal proportion**.** Reward management aims to reward people as per value they create, goals attainment with employees values, help to attract and retain the people having high quality in the competency which is always the first and foremost need of the organizations**.** The reward management can be achieved by developing and implementing strategies, policies, processes and practices with the help of principles such as reward philosophy, justice in distributive manner, fairness, equity, consistency and transparency etc**.** The elements of reward management systems include business strategies, reward strategies and policy, basic pay, contingent pay, employee benefits, allowances, job evaluation, market rate analysis, grade and pay structures, performance management, non-financial rewards and total rewards etc. (Armistrong, 2006) mentioned that reward management is to formulate and implement the strategies and policies to reward people in fair and equal manner and according to the value, the employees have towards their organizations. It helps the organizations in achieving goals (Armistrong, 2009) referred that "The reward management deals with the strategies, polices and processes required to ensure that the contribution of people to the organization is recognized by both financial and non-financial means". Reward is about the design, implementation and maintenance of various systems such as reward processes, practices and procedures to meet the need of both organization as well as stake holders. The Basic objective for the same is to reward people fairly, equitably and consistently after taking into account their values to the organization in order to achieve organizational goals. The reward management has been developed over the decades from un-realistic expectations to search for new realism, focus on business driven, for making alignment of rewards with strategies in business strategies, initiating initiatives, to make focus on financial rewards and incentives to the total rewards, employees engagement and organizational commitments and many more as per need from time to time (Rosen, 2006).

In order to develop competitive advantage in today's global economy, the reward management program of the organization must support strategic plans and actions of the organization. As a part of human resource strategies organizations thus develop reward strategies whose primary intent is to support fulfillment of business strategy (Torrington, 2008). Reward strategy clarifies what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals. Reward strategy thus determines reward systems but also the direction in which reward management innovations and developments should go to support the business strategy, how they should be integrated, the priority that should be given to initiatives and the pace at which they should be implemented (Relliy, 2009).Although reward strategies cover similar aspects of reward, they will be treated differently in accordance with variations between organizations in their contexts, business strategies and cultures (Armistrong, 2009). Reward strategy should bring the organization to the achievement of organization's strategic objectives, established by organizational vision, mission and business strategy.

The way people are treated increasingly determines whether an institution will prosper or even survive. No matter how sophisticated and modern the business activities of the organization may become, it will be extremely difficult to sustain its growth and effectiveness unless there are strategies that attracts and retains skilled manpower. The reward management philosophy recognizes that if 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). Rewarding people and recognizing their effort as per value they create help to attract and retain the people having high quality in the competency which is always the first and foremost need of the organization (CIPD, 2015).

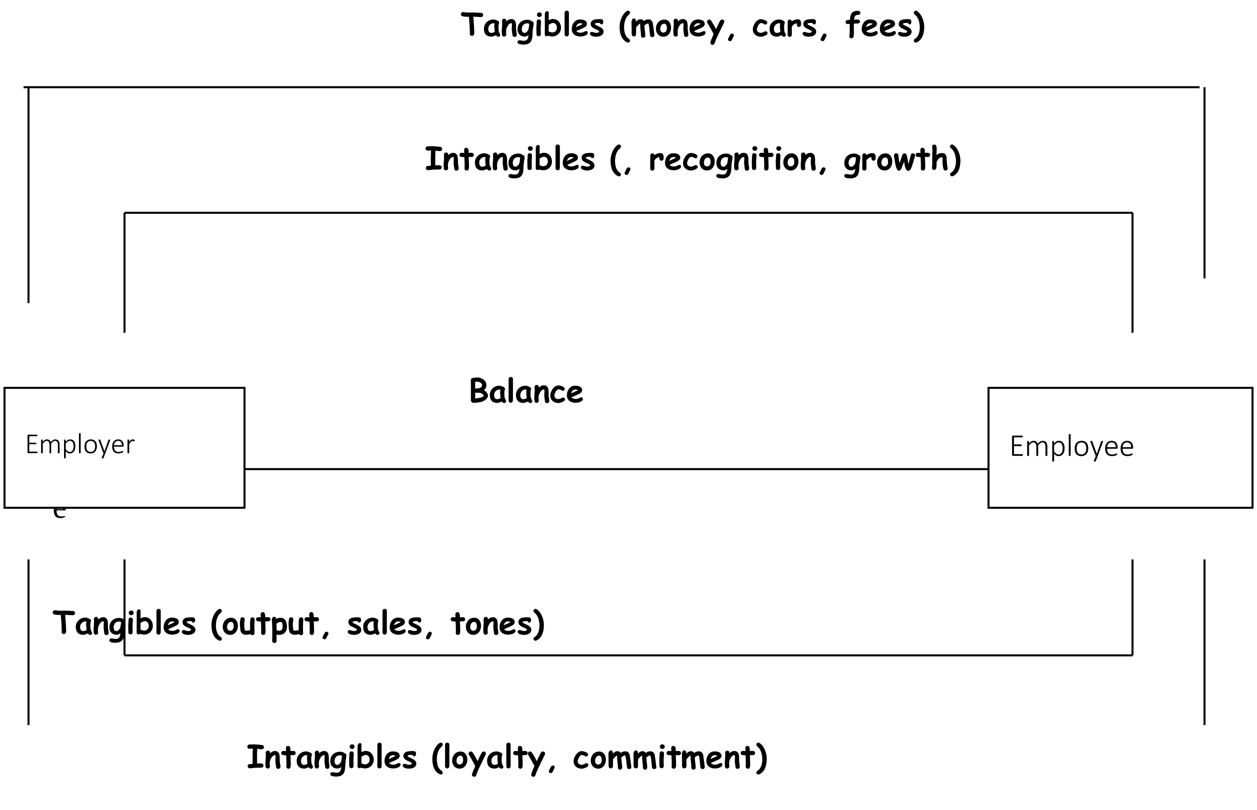


Figure 1: how Reward management forms the employment relationship.
Source: literature review

Reward management forms the employment relationship .Thus if an HR Manager is to succeed in successfully managing the employment relationship he/she will have to do well in Reward Management otherwise there will be an imbalance in the employment relationship such as strikes and lockouts. (Amare, 2015)

In theoretical term**,** Reward management is concerned with the formulation and implementation of strategies and policies in order to reward people fairly, equitably and consistently in accordance with their value to the organization. Rewarding people involves reward management processes concerned with the design, implementation and maintenance of reward systems that are geared to the improvement of organizational, team and individual performance (Aktar, 2012). Extrinsic reward is the value of all cash payments (total earnings) and benefits received by Employees and Intrinsic Rewards do not involve any direct payments and often arise from the work itself, for example, achievement, autonomy, recognition, scope to use and develop skills, training, career development opportunities and high quality leadership. (Torrington, 2008).

2.3 The theory Basis of Reward management

2.3.1 from management theory perspective

- Since the 1980's reward management became an organized organizational practice that involves balancing the employer-employee relation by providing monetary and nonmonetary reward to employees for their time and effort started to gain importance
- As at the end of the 19th century, when factory production became pervasive and large scale organizations raised, people have been looking for ways to motivate employees and improve productivity. Classical (1850-1930) approach made a significant contribution to management theories development but attention was focused on jobs and machines and did not focus the social and psychological satisfaction of employees. That means the approach conceders employee as economic being so do their work for Maximum remuneration and reward (conceder's extrinsic reward as a driver of employee motivation). This perspective had three primary thrusts Taylor‟ Scientific Management, Fayal's Administrative Management and Weber's Bureaucratic management Scientific management focused on employees within organizations and on "one best way to perform a task; that is, it investigates how a task situation can be structured to get the highest production from workers. Administrative theory focused on the total organization and on way to make it more efficient. Bureaucratic management focused on eliminating managerial inconsistencies that means it emphasized the position rather than person and organization continues even when individual leave. (Anders, 2010)
- Under classical approach, attention was focused on jobs and machines. After some time workers resisted this approach as it did not provide the social and psychological satisfaction. Therefore, attention shifted towards the human side of management. Neoclassical theory

(1930-1960) has made significant contribution to an understanding of human behavior at work and in organization. It has generated awareness of the overwhelming role of human factor in industry. This approach has given new ideas and techniques for better understanding of human behavior. Contributors to this approach recognize an organization as a social system subject to the sentiments and cultural patterns of the member of the organization, group dynamics, leadership, motivation; participation, job environmental, etc. constitute the core of the neoclassical theory. This approach changed the view that employees are tools and furthered the belief that employees are valuable resources and the manager should have to respect the social aspect of employee's activities in the organization and to recognize it. The approach conceder employee as social being so do their work for Attainment of organizational goal (conceder's intrinsic reward as a driver of employee motivation) (Thenmozh, 2010).

- Henry L. Gantt (1861-1919), was interested in increasing worker efficiency. Gantt attributed unsatisfactory or ineffective tasks and piece rates (incentive pay for each product piece an individual produces) primarily to the fact that these tasks rate were set according to what had been done by workers in the past or on some body's opinion of what workers could do (Thenmozh, 2010).

2.3.2 From Motivation Theory Perspective

All people have different needs which make them to behave and act in a certain way. Regarding different needs people possess, five classifications made by Abraham Maslow gives as structured tool to explain peoples need and its relation with organizations reward strategy in hierarchic way. The lower parts (physiological and safety needs) can be satisfied through monetary rewards such as salary, health insurance, employment security, and company cars. The organization can fulfill the middle part need of the pyramid (Need of belongingness) and the last two parts need of the hierarchy (need of self-esteem and self-actualization) to employees through nonmonetary rewards like facilitating good affinity with coworkers and supervisors, by forming a team work environment, by delivering development opportunity chance to employees to prove themselves, accepting and valuing employee efforts, respecting and acknowledging employees etc. (Thenmozh, 2010).

- The two-factor theory divides job-related factors into hygiene factors and motivators. Hygiene factors are those led by work but not involve work itself while motivators are those carry out relevant work-related behaviors, and motivation will not be significant unless both of the two kinds of factors are present. For instance, sometimes several elements of total reward strategy must be synchronously provided by organizations to meet the employees' needs so as to produce motivation bringing back more behalf (Anders, 2010).
- Focused on the ways in which workers decide which specific behaviors to perform and how much effort to exert, Expectancy Theory predicts one's level of motivation depends on the attractiveness of the rewards sought and the Probability of obtaining those rewards. If employees perceive that they may get valued rewards from the organization, they tend to put greater effort into work. Expectancy Theory includes three dimensions, say, expectancy, instrumentality and valence, the level of all of which must be high if desired behaviors are looked forward to in employees' work. It's certain that the staff want their needs satisfied, however, they also would like to be treated fairly by the organization.
- Adams' Equity Theory concentrates on the concept of fairness in the workplace. Employees are probable to compare the inputs they devote to the work with the outputs they receive from the organization. The equity theory of motivation assumes a balance of employee inputs and outputs as compared to others. Once they feel they get less outputs than inputs, which means there isn't a balance, employees are tend to be unsatisfied and not motivated. Thus, when total reward strategy is brought to bear it must assure the employees realize the justice of the corporation, for example the procedural justice of performance management. (Anders, 2010)
- Nowadays, organization apply reward management system to reward people fairly, equitably and consistently in accordance with their value to the organization and their achievement of the organization's strategic goals to ensure weather the contribution of people to the organization is recognized by both financial and non-financial means or not (Tornikoski, 2011).

Past	Future
Pay, Fixed, Uniform	Total Rewards, Varied
Individual Performance/Service	Contribution, skills and knowledge
Design: best practice	Process : best fit
Inform (Maybe)	Communicate and involve
Top Down: Incentive	Bottom Up: Engagement
Guesswork/Faith	Evaluated Effectiveness

Table 2.1: Reward management a summary of the shift

Source: (Tornikoski, 2011)

2.4 Reward management as a system

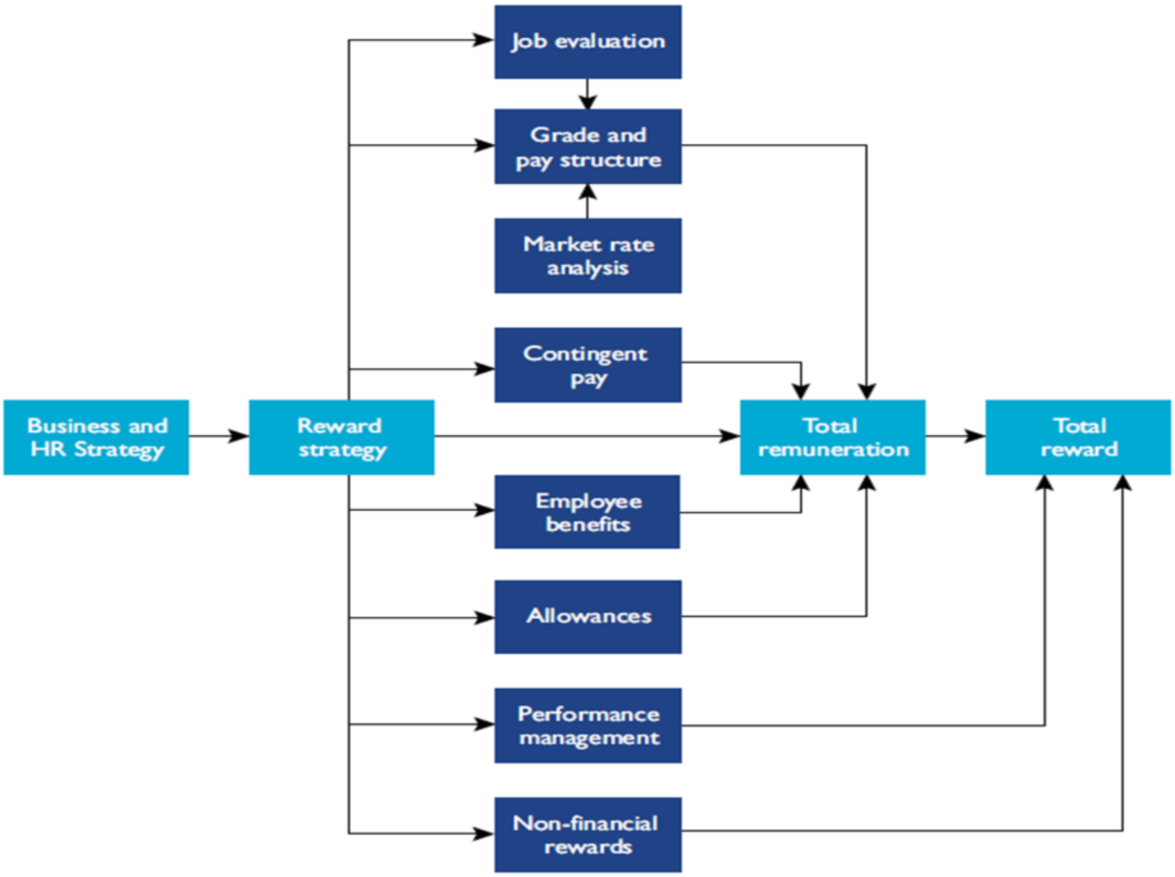
According to (Armistrong, 2009), Reward management involves the management of complex systems and it consist a number of interrelated processes and activities which combine to ensure that reward management is carried out effectively to the benefits of the organization and the people who work there. Reward management system involves control, evaluation, pay reviews, procedures, and the allocation of responsibility and communicating to employees.

The implementation of reward policies and procedures should be monitored and controlled to ensure that value for money is obtained. Control is easier if the grade and pay structure is well defined and clear guidelines exist on how it and the benefits arrangements should be managed. Control should be based on forecasts, budgets and costing.

The effectiveness of reward policies and practices should be monitored and evaluated against the requirements of the organization. Evaluation should compare outcomes with the objectives set for the new practice (this is why setting objectives for reward initiatives is so important).

In response to movements in the cost of living or market rates, pay negotiations with trade unions, individual reviews that determine the pay progression of individuals in relation to their performance or contribution, or individual reviews. They are one of the most visible aspects of reward management (the other is job grading) and are an important means of implementing the organization's reward policies and demonstrating to employees how these policies operate. Employees expect pay reviews will maintain the purchasing power of their pay by compensating for increases in the cost of living. They will want their levels of pay to be competitive with what they could earn outside. They will also want to be rewarded fairly and equitably for the contribution they make.

Reward procedures deal with grading jobs, fixing rates of pay and handling appeals. The procedures for grading jobs set out how job evaluation should be used to grade a new job or re-grade an existing one. A point-factor evaluation scheme that has defined grades may be used for all new jobs and to deal with requests for re-grading. The procedure should indicate how much freedom line managers and HR have to pay above the minimum rate for the job. The freedom may be limited to, say, 10 percent above the minimum or two or three pay points on an incremental scale. More scope is sometimes allowed to respond to market rate pressures or to attract particularly well-qualified staff by paying up to the reference point or target salary in a pay range, subject to HR approval and bearing in mind the need to provide scope for contingent pay increases. If recruitment supplements or premiums are used, the rules for offering them to candidates must be clearly defined. It is customary to include the right to appeal against grading as part of a job evaluation procedure. Appeals against pay decisions are usually made through the organization's grievance procedure. (Roberts, 2005).



ıre 46.1 The reward management system: elements and interrelationships
(Source: Armstrong, 2007)

Figure 2: the reward management system elements and interrelationships

Job evaluation

Job evaluation is a systematic process for defining the relative worth or size of jobs within an organization in order to establish internal relativities and provide the basis for designing an equitable grade structure, grading jobs in the structure and managing relativities. It does not determine the level of pay directly. It is based on the analysis of jobs or roles which leads to the production of job descriptions or role profiles.

Market rate analysis

Market rate analysis is the process of identifying the rates of pay in the labor market for comparable jobs to inform decisions on levels of pay within the organization. A policy decision may be made on how internal rates of pay should compare with external rates an organization's market stance.

Grade and pay structures

Jobs may be placed in a graded structure according to their relative size. Pay levels in the structure are influenced by market rates. The pay structure may consist of pay ranges attached to grades which provide scope for pay progression based on performance, competence, contribution or service. Alternatively, ‘spot rates’ or ‘individual job grades’ structure may be used for all or some jobs in which no provision is made for pay progression in a job.

Contingent pay

Additional financial rewards may be provided that are related to performance, competence, contribution, skill or service in the grade. These are referred to as ‘contingent pay’. Contingent payments may be added to base pay, i.e. ‘consolidated’. If such payments are not consolidated (i.e. paid as cash bonuses) they are described as ‘variable pay’.

Employee benefits

Employee benefits include pensions, sick pay, insurance cover, company cars and a number of other ‘perks’. They comprise elements of remuneration additional to the various forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual holidays.

Allowance

Allowances are paid in addition to basic pay for special circumstances or features of employment (overtime, shifts or working unsocial hours). They may be determined unilaterally by the organization but they are often the subject of negotiation. The main types of allowances are: Location allowances, Overtime payments, Shift payments, working conditions allowances (paid where the work is unpleasant).

Performance management

Performance management processes define individual performance and contribution expectations, assess performance against those expectations provide for regular constructive feedback and result in agreed plans for performance improvement, learning and personal development. They are a means of providing non-financial motivation and may also inform contingent pay decisions.

Non-financial rewards

Rewards which do not involve any direct payments and often arise from the work itself, for example, achievement, autonomy, recognition, scope to use and develop skills, training, career development opportunities and high quality leadership.

2.4.1The total reward system

Total reward describes a reward strategy that brings components such as learning and development together with aspects of the work environment, into the benefits package .In the total reward system both tangible and intangible rewards are considered valuable. Tangible rewards arise from transactions between the employer and employee and include rewards such as pay, personal bonuses and other benefits. Intangible rewards have to do with learning, development and work experience. Examples of these types of rewards are opportunity to develop, recognition from the employer and colleagues, personal achievement and social life. The aim of total reward is to maximize the positive impact that a wide range of rewards can have on motivation, job engagement and organizational commitments. The components of the total rearward can be described as in the following figure. The purpose of total reward is to create a cluster where all the different reward processes are connected, complementary and mutually reinforcing each other. In order to achieve internal consistency, the total reward strategies are horizontally integrated with human resource activities and vertically integrated with business strategies. *(Armstrong 2006).*

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

- Greater impact – when different types of rewards are combined, they will have a deep and long-lasting effect on the motivation, commitment and engagement of employees.
- Enhancing the employment relationship – total reward appeals more to employees due to the fact that it makes the maximum use of relational as well as transactional rewards.
- Enhancing cost-effectiveness – because total reward communicates effectively the value of the whole reward package, it minimizes the undervaluing of the true costs of the packages.
- Flexibility to meet individual needs – due to the variety of rewards, the total reward is able to answer the individual needs of the employees and hence bind them more strongly to the organization.
- Winning the war for talent – because relational reward processes are more difficult to replace than individual pay practices, total reward gives the organization the ability to

attract and retain talented employees by differentiating their recruitment process and hence becoming “a great place to work.”

2.5. Types of Rewards as classified by different Authors

Rewards can be classified in to two broad categories: extrinsic and intrinsic (Relliy, 2009).They define extrinsic rewards as “rewards external to the job, such as pay, promotion, or fringe benefits” and intrinsic rewards as “those that are part of the job itself, such as the responsibility, challenge, and feedback characteristics of the job”.

(Rouse, 2010) , *also* classify rewards as follows:

- Direct financial reward- Is a type of reward obtained from salaries, bonuses and sales commission.
- Indirect financial reward- is a type of reward that includes all financial benefits that are not part of direct reward, like health care benefits.
- Non-financial reward- is a type of reward that an employee gets from enjoying the type of job he is handling and/or from his work environment like being satisfied about his relationship with her/his work mates and supervisors and from liking the condition of his work circumstances.

Similarly, (Torrington, 2008) states two types of rewards-Monetary and non-monitory.

- Monetary Rewards: are rewards including base pay as well as other additional monetary incentives paid for extra performance over and above initially set requirements. This reward type includes most of the employee benefit schemes, which although not viewed as monetary nevertheless cost the origination cash and save money to the recipient. Included in this category are benefits like sick leave, vacation time, and educational and insurance programs.
- Non-monetary rewards; are any incentive programs aimed at rewarding increased productivity other than monetary remuneration. These include among other things, the opportunity to express creativity and initiative; the opportunity for public recognition, the freedom to establish one’s own work schedule etc.

2.6 Reward Management strategy

Reward strategy sets out what the organization intends to do in the longer term to develop and Implement reward policies, practices and processes which will further the achievement of its

Business goals. A reward strategy must seek to address an organization's bottom line. Its purpose must therefore be to support the corporate strategy and address organizational needs. It's a pathway in other words, which links the needs of the business and-the staff with the reward policies and practices in the organization, communicating and explaining those practices in the process. (Severin, 2013) Thus a typical reward strategy should house a linear appearance as follows:

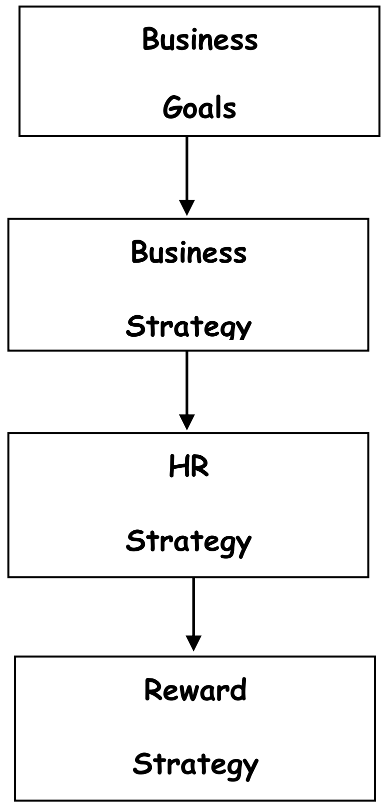


Figure 3: relation of reward strategy with business and HR strategy

Source: literature review

Reward strategy is a declaration of intent which defines what the organization wants to do in the longer term to develop and implement reward policies, practices and processes which will further the achievement of its business goals and meet the needs of its stakeholders. It provides sense of purpose and direction and a framework for developing reward policies, practices and process. It is based on an understanding of the needs of the organization and its employees and how they can best be satisfied. It is also concerned with developing the values of the organization on how people should be rewarded and formulating guiding principles which will ensure that these values are enacted (Armistrong, 2007).

Reward strategy is underpinned by a reward philosophy which expresses what the organization

Believes should be the basis upon which people are valued and rewarded. Reward philosophies are often articulated as guiding principles.

2.6.1. The content of reward strategy

According to (Armistrong, 2007),Reward strategy may be a broad-brush affair simply indicating the general direction in which it is thought reward management should go. Additionally or alternatively, reward strategy may set out a list of specific intentions dealing with particular aspects of reward management.

- ✓ Broad-brush reward strategy:-

A broad-brush reward strategy may commit the organization to the pursuit of a total rewards policy. The basic aim might be to achieve an appropriate balance between financial and nonfinancial rewards. A further aim could be to use other approaches to the development of the employment relationship and the work environment which will enhance commitment and engagement and provide more opportunities for the contribution of people to be valued and recognized. Examples of other broad strategic aims include: introducing a more integrated approach to reward management – encouraging continuous personal development and spelling out career opportunities; developing a more flexible approach to reward which includes the reduction of artificial barriers as a result of over-emphasis on grading and promotion; generally rewarding people according to their contribution; supporting the development of a performance culture and building levels of competence; and clarifying what behaviors will be rewarded and why.

- ✓ Specific reward initiatives:-

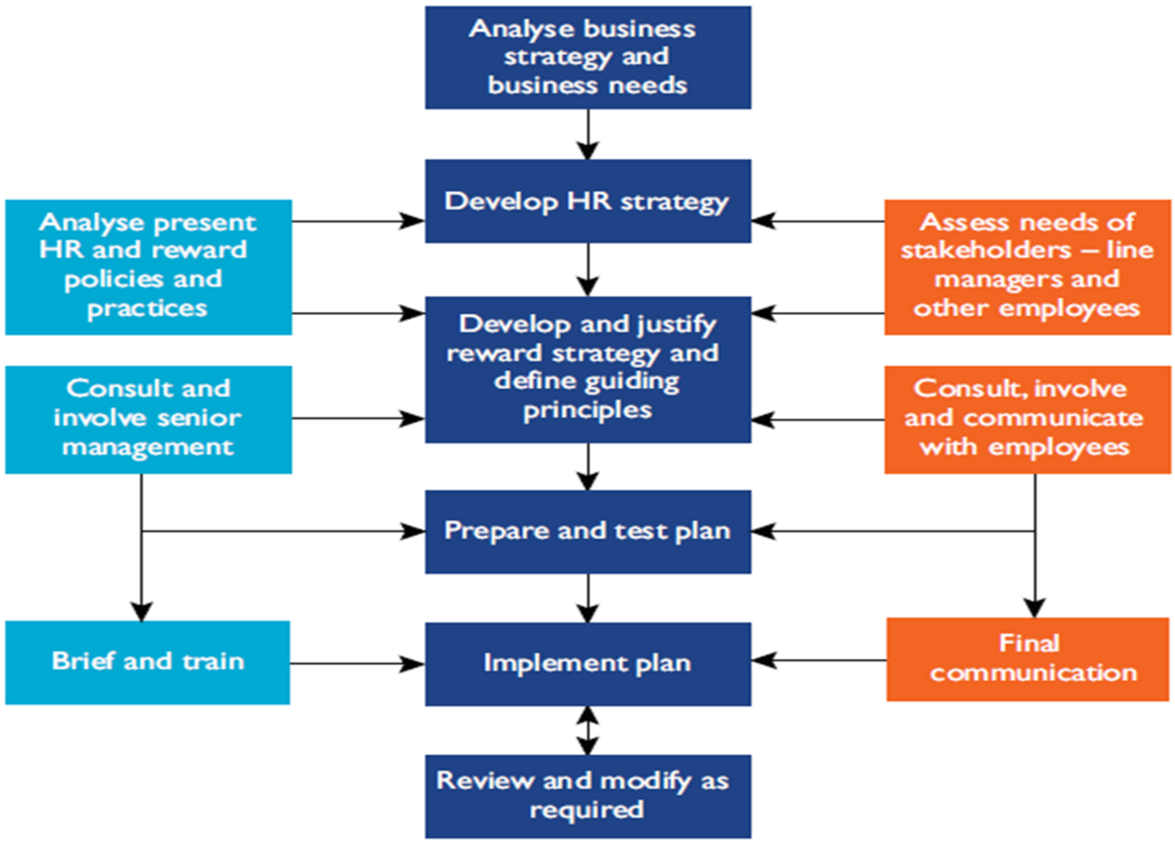
Reward strategy may set out a list of specific intentions dealing with particular aspects of reward management. The selection of reward initiatives and the priorities attached to them will be based on an analysis of the present circumstances of the organization and an assessment of the needs of the business and its employees. Examples of possible specific reward initiatives, one or more of which might feature in a reward strategy can be the replacement of present methods of contingent pay with a pay for contribution scheme; the introduction of a new grade and pay structure, e.g. a broad-graded or career family structure; the replacement of an existing decayed job evaluation scheme with a computerized scheme which more clearly reflects organizational values; the improvement of performance management processes so that they provide better support for the development of a performance culture and more clearly identify development needs; the introduction of a formal recognition scheme; the development of a flexible benefits system; the conduct of equal pay reviews with the objective of ensuring that work of equal value is paid equally; communication programs designed to inform every one of the reward policies and practices of the organization; and training, coaching and guidance programs designed to increase line management capability.

2.6.2. Developing reward strategy and its Components

The formulation of reward strategy can be described as a process for developing and defining sense of direction. (Wood, 2009) The main phases are:

- The diagnosis phase, when reward goals are agreed, current policies and practices assessed against them, options for improvement considered and any changes agreed.
- The detailed design phase when improvements and changes are detailed and any changes tested (pilot testing is important).
- The final testing and preparation phase. The implementation phase, followed by ongoing review and modification. ,has suggested that effective reward strategies have three components

They have to have: clearly defined goals and a well-defined link to business objectives. Recognize the value of everyone who is making an effective contribution, not just the exceptional performers. Allow a reasonable degree of flexibility in the operation of reward processes and in the choice of benefits by employees. Devolve more responsibility for reward decisions to line managers. There have to be well-designed pay and reward programs, tailored to the needs of the organization and its people, and consistent and integrated with one another. Perhaps most important and most neglected, there needs to be effective and supportive HR and reward processes in place. According to (Armstrong, 2009) a logical step-by-step model for developing reward strategy is illustrated in the following Figure.



4 A model of the reward strategy development process

Figure 4: A model of reward strategy development process

Source: Armstrong, 2009

2.6.3. Implementing reward strategy

The aim of implementation is to make the reward strategy an operating reality by building the capacity of the organization to put into practice the proposals worked out in the development stage. As Armstrong and stress: 'It is always essential to design with implementation in mind'. Focus of strategy should be on implementation (marry, 2013). As explained by (Wood, 2009)'Implementation entails converting the strategic plan into action and then into results'. An effective reward strategy is a living process and it is an 'action vehicle'. Formulation is easy; implementation is hard. A pragmatic approach is required – what's good is what works.

Implementing reward strategy is much more about process than design – how it will be done rather than what will be done. The principles of procedural and distributive justice apply. People must feel that the procedures used to determine their grades, pay level and pay progression are fair, equitable, applied consistently and transparent. They must also feel that the awards distributed to them are just in terms of their contribution and value to the organization.

2.7. Purposes of the Reward

According to (Ronald, 2006) Reward could be done for the following purposes:-

- Reward people according to what the organization values and wants to pay for.
- Reward people for the value they create.
- Reward the right things to convey the right message about what is important in terms of behavior and outcomes.
- Develop a performance culture.
- Motivate people and obtain their commitment and engagement.
- Help to attract and retain the high quality people the organization needs.
- Develop a positive employment relationship and psychological contact.
- Align reward practices with both business goals and employee values.
- Operate fairly-People feel that they are treated justly in accordance with what is due to them because of their value to the organization.

2.8. Linking reward management to business strategy

Reward strategies can be linked with organizational strategies as vertical alignment (fit between the reward strategy and the business strategy) and horizontal alignment (fit between reward strategy and HR strategies and policies. Vertical alignment means that business and reward strategies are in line with each other and reward strategy is defined in a way which clearly explains how they will contribute to the achievement of the business plan. There are some problems in achieving vertical alignment for example, it may be Possible to establish the strategic goals of organization but it may be more difficult to identify reward strategies that are specifically related to them or it could be that business strategies are not clearly defined (Mphil, 2014). Horizontal alignment is achieved when the various HR strategies and Rewards strategies are coherent.

business strategy	Reward strategy
Achieving competitive advantage through innovation	Provide financial incentive and recognition for innovation
Achieving competitive advantage through quality	Link reward to quality performance
Achieving competitive advantage through low costs	Review all reward practices to ensure they provide value for money

Table 2.1: example of alignment of reward strategy with business strategy

Source: literature review

To find how reward creates value to the organization, it needs to view reward plans from a different perspective and understand the principles that make them work. These key principles are:

1. Reward plans need to be tailored to the specific needs and unique characteristics of the organization**.** It's always important to understand the best practices among organizations top competitors, but if the organization only mirrors other organizations, it will fail to create a competitive advantage. This requires developing the process and creating the alignment that suits the strategic requirements of the organization: process the approach (not the outcomes) to the programs and their implementation creating highly effective mechanisms for decision-making; and alignment the measures, performance requirements and rewards supporting the drivers of the business' strategy and the deeply held cultural values of the organization.

2. To effectively manage and maximize the organization employee's talent, reward plans need to be expanded and integrated with programs, tools and practices that impact the actions of people. This means that reward needs to be seen as part of an *integrated total rewards system* that includes what the organization is willing to offer and the individual perceives as rewarding in exchange for their contributions. This is achieved by having a well-stocked and finely tuned toolbox that includes employee benefits and services, recognition, responsibilities and development. In this way, reward is a critical component of what helps to shape the actions of people within an organization, and these actions in turn become a major determinant of the organization's success.

3. Rewards need to be meaningful to the individual and directly relate to the strategy and key drivers of the organization's success**.** Programs applied universally within an organization become important to some and irrelevant to others. To make rewards both meaningful and strategic, organizations need to "segment their internal market" at a macro level, in terms of different talent populations, and at a micro level, in terms of manager's understanding what motivates his or her staff members. This is the rewards version of "mass customization." Regarding this individualization, keep in mind that *the individual determines the value of any rewards, not the organization.* The individual ascribes value to rewards, and he or she often uses a frame of reference that is different from the organization or those that develop the programs. In order to enable the programs to be administratively supported, different programs may not be needed for each segment of the talent cadre, but the programs need to be sufficiently flexible so that the levels and types of rewards available and earned match the needs and motivational profiles of the individuals.

4. Rewards need to directly support the creation of magnetic cultures**.** This term suggests an environment that draws people in and gives them many good reasons for staying and contributing in an energized fashion. Magnetic cultures are characterized by employees who are proud of their workplace and their work product, enthusiastically recommending its products and services to others and their own organization as one of the best places to work in the community. Compensation and total reward systems that foster such environments must mix both extrinsic and intrinsic rewards effectively to meet the needs of the employees, who in turn take the initiative and apply their best efforts to build a successful organization.

2.9. Integration between Human Resource management function & Reward system

Most of the previous studies provide the evidence that there is a strong positive relationship between human resource management practices and organizational performance (Purcell, 2000). According to (Guest , 1997) mentioned in his study that training and development programs , as one of the vital human resource management practice, positively affects the quality of the workers knowledge, skills and capability and thus results in higher employee performance on job. This relation ultimately contributes to supreme organizational performance.

HR practices influence employees' behavior, and, if the intended behavior is achieved, productivity, quality, and delivery of high levels of customer service will improve and eventually organizational performance improves. Organization's performance measures, strategies and actions found complementary to each other and the alignment among them was an essential ingredient in the formula for organizational success, performance criterion.

According to (Armstrong, 2006) the role that HRM may play in organizations to remain competitive is based on three propositions:

1. That Human Resource practices particularly reward management practice can make a direct impact on employee's work behavior such as engagement, commitment, motivation, etc.
2. If employees have these characteristics, it is probable that organizational performance in terms of productivity, quality and the delivery of high levels of customer service will improve,
3. If such aspects of organizational performance improve, the financial results achieved by the organization will improve.

1. **Integration of reward management and performance management:** program that align reward – merit increases, bonuses, long- term incentives – to their performance have proven to be very effective in driving actual performance. Often called pay-for-performance, the concept is to build a culture of top performers by aligning goals, performance, and rewards across an entire organization. Motivating, rewarding, and retaining top performers is a key business objective for any company that seeks to successfully maintain or exceed growth expectations. Organizations focus on a performance-driven rewards system that rewards individual contributors directly proportionate to what they achieve and what they contribute to the bottom-line. The challenge lies in effectively aligning employee goals with organizational objectives, automating performance management processes, and linking them with complex reward policies or time-based incentive plans at an enterprise level. Several natively-integrated components are required to enable Pay for performance, including: 1. Performance Management: Automates and optimizes performance processes and aligns employee development and goals with corporate objectives. Performance Management enables organizations to plan employee efforts in support of organizational goals and strategic initiatives, and to evaluate outcomes, performance, and core competencies. 2. Reward Planning: Simplifies planning, modeling, budgeting, analysis, and execution of reward

policies. Reward Planning enables organizations to develop and apply consistent reward plans to all employees. 3. Incentive reward: Motivates employees and manages total financial rewards within an organization. Incentive reward streamlines incentive policy administration and provides long-term planning for both market- and performance- based plans, as well as variable pay flexibility for individuals, teams, sales, or executives. 4. Reporting and Auditing: Provides accessible and secure cross- functional compliance reports and audit trails of all transactions related to reward and performance. Reporting and Auditing aggregates key information to facilitate timely decision making. Performance can be separates to organizational performance and employees' performance. Employees' performance is known also as job performance. However: it seems that employees' performance is commonly objectively measured in organizations and it will appear that there are few alternative options (Otley, 1999). Performance in organizations is reliant on the performance of employees' and other sides such as the environment of the organization, The difference between organizational and employees' performance is apparent, Therefore, organizations that are doing well is one that is successfully attain objectives (Otley 1999), in other words, Effective implementing and developing appropriate strategy and employees' performance is the single result of an employees' work (Hunter, 1986).

According to (Ramlall, 2008) the good employee performance is required for organizations, since an organization's success reliant on the employee's creativity commitment and training. Moreover, Good employee's performance is important in stabilizing the organizational economy by improving living standards and higher salaries, an increase in goods accessible for consumption, Therefore: individual employee performance is important to society in general (Griffin et al, 1981).

According to (Pincus, 1986) the general performance is linked to efficiency or perception oriented terms, According to (Hunter, 1984) vital role in a high employees' performance is the skill of the employee himself then the employee must be capable to deliver good outcomes. Hunter also discuss that this is something the organization can know in front and they can select employees with the required skills or they can recruit those employees themselves. Absolutely the last is more time consuming, but can achieve superior results in the end. According to (Follmann, 1989) in most organizations, performance is measured by supervisory rating; however these data are not very valuable since they are highly subjective. According to (Bishop, 1989) the consistency of worker performance is greatest when conditions of work are stable, but in the work practice conditions never are stable. This makes it even harder to measure performances objectively. According to Perry and Porter (1982) the employees' performance will be measured despite the lack of availability of generally accepted criteria.

2. Integration of reward management and talent management

According to (Rosen, 2006) Reward can be a potent tool for retaining important contributors in the context of an integrated package of tangible and intangible rewards that operate within the framework of a reward philosophy that supports a winning business strategy. Reward systems can be employed to strengthen the organization's "talent value chain." This means employees of the organization can be:

- Super keepers**:** Creating a "magnetic culture" to attract, retain and energize people that represent the organization top talent. These are the 3% to 5% of the organization that consistently demonstrate superior accomplishments in a manner that reinforces the core values and desired culture of the organization. They consistently accomplish the desired "what" and "how" of success, and they help others do the same.

- Keepers**:** Maintaining an environment and reward programs that recognize those that make a continual difference to the organization. These individuals represent the 25% to 30% of the organization who have clearly demonstrated their leadership capabilities and exceed expectations for both job accountabilities and core competencies.
- Solid Citizens**:** Providing rewards that keep those who are the baseline contributors on even keel without requiring an undue investment and create an environment that motivates these individuals to move up the talent chain. These individuals are those 65% or so of the organization who meet expectations in terms of core competency requirements and job responsibilities and may be able to lead others.

• Misfits**:** Making the tough decisions regarding those 3% to 5% who do not appear to fit within the organization and clearly do not perform as expected or demonstrate essential competencies. The decisions will be either to engage them in special development, close supervision to improve Performance or reassign them to other work that should show an almost immediate improvement in performance.

(Schiehll,2000) while working on motivation, measurement and rewards to evaluate the performance found that an organization's performance measures, strategies and actions found complementary to each other and the alignment among them was an essential ingredient in the formula for organizational success, performance criterion. In their study to examine the use of appraisal and performance pay mechanisms to motivate public servants for raising the standard of public management concluded that security, pure monetary reward and also many other schemes such as incentives and mechanisms found important to the people. Many other initiatives could be very important as well also. The primary need for an employee found to reward them for the service to the organization but it was also essential that such reward practice secures work performance of a high quality which supports the overall business strategy of the organization. While conducting a study on one hundred employees of Central Bank of Nigeria, Abuja to find the relationship between extrinsic rewards and workers performance found that workers place great value on the different rewards given to them by their employers. The workers tended to express their displeasure through poor performance and non-commitment to their job when the Rewards were not given. Managers expected to match rewards with individuals and to direct individuals toward accomplishing company objectives. In their research to examine the relationship between rewards and employees performance in cement industry in the Pakistan found a direct relationship among extrinsic rewards, intrinsic rewards and the employees' performance. During the study on 30 fortune companies to examine the relative effect of various rewards on performance of knowledge workers concluded that receiving non-monetary rewards was a stronger predictor of intrinsic motivation manifested by longer work time in comparison to either group or individual monetary rewards. In their research to examine the relationship and causality between reward system and job performance in the health sector in Lagos State, Nigeria found that the quantum of employee's reward/remuneration represented a major determinant of a nation overall purchasing power and had a direct influence on micro economic variables like levels of saving, consumption and investments . Employees expect fairness grant of reward for work done and may become dissatisfied, reduce their input or seek change whenever they felt their inputs were not being rewarded fairly (Pierskalla , 2012).

3. Integration of reward management and learning and development

Human resource management as a business function plays an imperative role in helping business to responsively manage the work force. Core responsibilities that come under human resource department include recruitment, training, compensation and performance management .As mentioned by Hutchins that organizations have found it decisively important to invest in people through training to provide them skills that would make the organization successful. Training to be the significant HR role as it helps an organization in equipping its employees with skills and capabilities, necessary for the competitive achievement of organizational objectives. The authors further suggest that companies invest millions on training their staff as they have realized thatit's one of the major factors that can help businesses to sustain and survive profitably in the 21st century. Training is referred as a designed activity or set of activities to aid employees` learning of work associated skills, behaviors and attitudes. In simple terms, training is a process that involves information sharing to learn the skills and attitudes necessary to perform a particular task or group of tasks. According to Martin [5] that training is a systematic process that provides opportunity to learn basic and advanced skills and competencies to effectively perform a certain course of action. Transfer of training can be elucidated as the usage and implementation of newly learned skills and behaviors at the workplace. Notable researchers have studied to outline factors that influence the transfer of acquired knowledge. The model has outlined three important factors that can substantially influence training transfer and they are trainee characteristics, training design and intrinsic rewards (work environment). According to (Yamnill, 2011) rewards can be intrinsic as well as extrinsic and employees satisfactorily transfer learned skills at the workplace when they are adequately rewarded. According to American Society for Training and Development (ASTD) that US companies alone spend $125 billion dollars on training and development initiatives. The report also states that there are further investments made to push employees to transfer skills at the workplace. To what extent rewards effectively support and facilitate training transfer in the context of Pakistan has not been studied yet as per our knowledge.

(Armstrong, 2009) suggests that, reward is recognition of the contribution of people towards an organization by financial and nonfinancial means. In the business perspective it can also be viewed as a valuable entity given to an employee in the return of his/her service, efforts and organizational achievements. (Yamnill,2011) mention that rewards are intrinsic as well we extrinsic and employees satisfactorily transfer learned skills at the workplace when they are adequately rewarded.(Holton,2010) conducted a research to explore the effect and significance of 16 different factors that possess potential to influence the training transfer at the workplace through sampling 328 respondents from 6 companies and received 106 questionnaires back and the research found rewards to be a significant predictor of training transfer. The research also found that when employees are rewarded (financially or non-financially) for their enhanced performance after training, the workers feel that the organization recognizes their efforts and values their performance. (Noe et al.,2009) in their article explained that if an individual expects that he/she will gain equity in pay or through other rewards by attending a particular training then there are greater chances of the occurrence of learning and transfer on the job. So employee training transfer can be supported by organizations and supervisors through recognition, encouragement and rewards.

The recent corporate trends in the business sectors have strongly suggested that training alone is not enough. Businesses have learned that an integrated formula of relevant objectives, rewards and incentives offerings motivate employees to use new skills learned. So aligning desired behaviors with the incentives is critical for training transfer. The review also outlines that managers can conveniently communicate goals and aligns performance through using a reward system. (Xiao,2010) conducted a research on training of female workers in four electronic manufacturing companies where the research found that verbal recognition and praise in addition to tangible reward also motivate training transfer. The research also explored that management ideology and practices are also critical for the maximization of training outcomes.

2.10. The Significance of effective Reward management to HR and overall Business

The purpose of rewarding, as we all understand, is to tell employees that their contributions are valuable to the organization. It matters to employees because they feel validated, important and respected. Studies show that there is a statistically significant relationship between reward and recognition and motivation and satisfaction respectively. The analysis of employee comments across participating organizations in the “Best Companies to Work For in India Study - 2011,” to an open ended question asking, “What will make your Organization a better place to work,” showed that salary and promotion were some of the key themes that employees wanted their organizations to improve upon. Studies by other researchers have also revealed that if rewards or Recognition offered to employees were to be altered, there would be a corresponding change in work motivation and satisfaction. (Osthuizen, 2001) has stated that it is a critical function of managers to motivate the employees successfully and influence their behavior to achieve greater organizational efficiency. (Flynn, 1998) has argued that rewards and recognition programs maintain high spirits among employees boosts their morale and creates a linkage between performance and motivation of the employees. A 2005 Watson Wyatt Worldwide study has found that companies with an effective recognition program realized a median return to shareholders that is nearly double that of companies without such programs. A study conducted by the Society for Incentive and Travel Executives has found that properly constructed rewards and incentive programs can boost employee performance by up to 44%. Another study has estimated that employees who are extremely negative or actively disengaged cost the U.S. economy between $250 and $300 billion every year, simply in lost productivity. Rath and Clifton have found that 9 out of 10 people report being more productive when they are around positive people, who are more inclined to appreciate and recognize. According to Andrew (2004), commitment of all employees is based on rewards and recognition. Lawler (2003) has stated that prosperity and survival of organizations is determined by how their human resources are treated. Most organizations studied have shown to have made significant progress by implementing a well-balanced rewards and recognition program for employees. (Deeprose, 1994) has stated that the motivation of employees and their productivity can be enhanced through providing them effective recognition, which ultimately results in improved performance of organizations.

According to (Broad, 2007), tangible incentives are effective in increasing performance for tasks not done before, to encourage “thinking smarter”, and to support both quality and quantity of goals to be achieved. Incentives, rewards and recognition are the prime factors that impact employee motivation. Motivation also has a direct effect on the innovation in an organization. This presupposes that organizations provide recognition not only for achievements but also for efforts.

2.10.1 Significance of reward management to HR

A wide range of HRM strategies can be successfully implemented with the aid of appropriate Reward Management strategies.

- Retention strategy- through a total reward strategy that would discourage turnover.
- Talent attraction (recruitment) – in terms of attracting good talent, organization first surveys the market and sets its pay structures slightly above the going market rate.
- Performance management- as an incentive for those who meet performance targets.
- Training and Development- a T&D strategy can work much more efficiently with a supportive skills based reward strategy.

2.10.2 Significance of Reward management to Business

If an enterprise is as good as the people who work in it then Reward management becomes central in that it can determine the goodness of the people who work in the form of motivation and commitment. They show to the organization (unsatisfactory rewards = low commitment). This explains why the organizations with well to do Reward systems enjoy better results in terms of productivity and general performance then those with poor ones such as the civil service.

2.11. Factors that affect an organization’s Reward policy and Strategy

According to (Qikker, 2013) and (McCormick, 2015) major factors are**:**

1. Affordability – what an organization can afford to pay. The argument here is that an organization cannot borrow to reward employees but should reward from the value created by the employees themselves. However in any case an organization has to afford to pay above legal minimums.

2. Legislation- legislation sets the minimum base pay (minimum fixed pay rate), which becomes the starting point in calculating for all of an organization's policies.
3. Trade Unions/workers committees – depending on the power of a union, pay levels are determined through collective bargaining. The most powerful ones will strike higher levels.
4. External job value – the market value of the job e.g. what is the market value of an HR Manager or CEO?
5. Internal job value – the value or perceived value of a job compared to the other jobs which the organization will determine the reward for that job e.g. HR manager compared to Finance manager.
6. Value of the person – employees holding similar jobs can be paid differently depending on the value to the organization performance.
7. The economy–A depressed economy increases the supply of labor, which in turn reduces its price and hence affects reward policy strategy.

In addition to these factors, reward is affected by many factors like labor market factors, collective bargaining, government legislation & top management philosophy regarding pay benefits (world at work, 2008). Managers may not do what HR expects them to design reward system and if they compelled to- they may be half-hearted about it. This carelessness by managers puts tremendous burden on HR and Reward Specialists.

Actions to solve the challenges of reward system are:-

• Developing technology for specifying desirable behaviors

• Using evaluation procedures that recognize multidimensional nature of performance

• Training supervisors to use performance appraisal system appropriately and to understand potential sources of bias.

• Training managers to establish appropriate contingencies between rewards and performance.

• Administering the reward system consistently across employees

2.12. Summary of related literature

- Human resources are the most vital resources for every organization. Pay has a significant impact on employee behavior, performance and effectiveness in organizations. Reward management can be defined as all the employers‟ available tools that may be used to attract, retain, motivates and satisfy employees. Reward includes direct cash payments, indirect payments in the form of employee benefits & incentives to motivate employees to strive for higher level of productivity.
- Reward can take financial or none financial form.
- Reward strategy defines what the organization intends to do in the longer term to develop and implement reward policies and process that will further the achievement of its business goals. It establishes priorities for developing reward plan that can be aligned to business and human resources strategies. According to Brown in Armstrong (2008), reward strategy is ultimately a way of thinking that you can apply to any reward Issue arising in your organization, to see how you can create value from it.
- Total reward describes a reward strategy that brings components such as learning and development together with aspects of the work environment, into the benefits package.
- Reward management has clear relationship with employee motivation, attitude, satisfaction, retention and performance
- Reward management is affected by many factors like labor market factors, collective bargaining, government legislation & top management philosophy regarding pay benefits .
- If an enterprise is as good as the people who work in it then Reward management becomes central in that it can determine the goodness of the people who work in the form of motivation and commitment. They show to the organization (unsatisfactory rewards = low commitment). This explains why the organizations with well to do Reward systems enjoy better results in terms of productivity and general performance then those with poor ones such as the civil service.
- A wide range of HRM strategies can be successfully implemented with the aid of appropriate Reward Management strategies. Retention strategy- through a total reward strategy that would discourage turnover. Talent attraction (recruitment) – in terms of

attracting good talent; organization first surveys the market and sets its pay structures slightly above the going market rate. Performance management- as an incentive for those who meet performance targets. Training and Development- a T&D strategy can work much more efficiently with a supportive skills based reward strategy.

- Actions to solve the challenges of reward system are:- Developing technology for specifying desirable behaviors, Using evaluation procedures that recognize multidimensional nature of performance, Training supervisors to use performance appraisal system appropriately and to understand potential sources of bias, Training managers to establish appropriate contingencies between rewards and performance, Administering the reward system consistently across employees.

2.13. Conceptual frame work

Based on the theoretical perspective and the empirical results the conceptual framework for the reward management practice variables are described in the following figure.

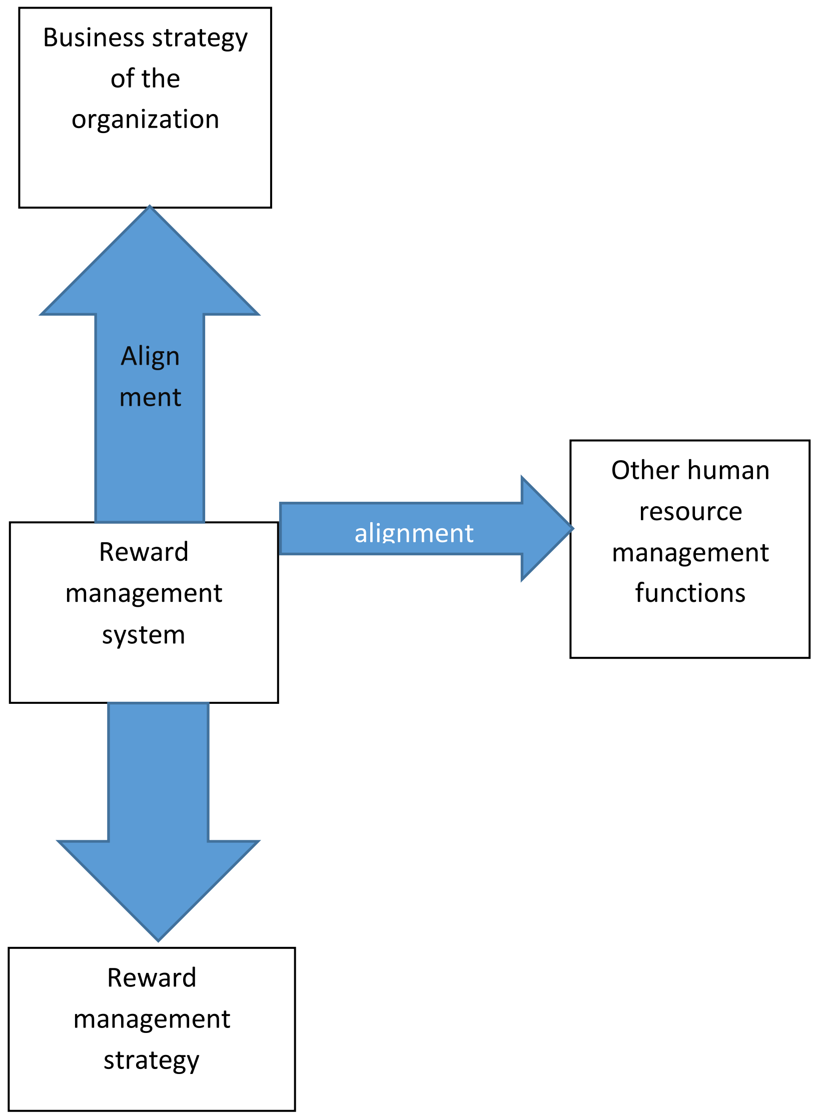


Figure 4: conceptual framework for strategy and practice of reward management

Source: literature review

Chapter three

3. Research design and methodology

3.1 Introduction

The previous chapter reviewed the literature and main concept related to the reward management, nature, philosophy, strategy, system and provides conceptual frame work for the study. This chapter presented the research design and methods used to conduct the study and the data collection methods applied to answer research questions. It highlights the overall methodological considerations used in gathering, analyzing and interpreting the data. It includes type of research and design, description of the study area, Population and sample size determination, Sampling method and procedure, Data Type and Source, Data Collection Instrument and Procedure, Data processing and analysis.

3.2 Description of the study area

Within the financial services sector, usually three sub-sectors are distinguished, namely banking, Insurance and securities. In Ethiopia, like in many developing countries, micro-finance constitutes a separate sub-sector of financial services. The sector is at a fairly infant stage of development. As in most developing countries, financial services are dominated by the banking industry, which holds approximately 80% of total financial sector assets, with insurance and micro-finance sectors accounting for 10% each. (Gebrehiwot, 2008)

The current structure of the Ethiopian financial services sector cannot be understood without a brief view on its history. Most notably, all banks and insurance companies were nationalized by the Derg regime in 1975. The then existing insurance companies were all merged into a single insurer. Likewise, only four public banks with specific sector approaches remained. It was in 1994 that the financial services sector was liberalized by allowing private domestic investment in banks and insurance companies. This has spurred the establishment of private banks and insurance companies, a process which is still going on today and continuous growth of the sector. (Gebrehiwot, 2008)

3.2.1 The Ethiopian Banking Sector

The Ethiopian banking sector today consists of 18 banks that are operational, of which two are state-owned and 16 private. The banking sector has been rapidly growing. Total deposits held by Ethiopian banks more than doubled, from ETB 23.1 billion in 2001 to ETB 53.9 billion by the end of 2006/07. This corresponds to an average annual growth rate of 13.9% over the period. Relative to GDP, total deposits reached a peak of 46.6% in 2006/07. The development of private banks in deposit mobilization was especially dynamic – their deposits increased 33.5% per year on average, compared to an annual deposit increase of 9.4% in public banks. In absolute terms, public and private banks mobilized deposits of approximately ETB 10 billion over the five year period. Despite the dynamic performance of private banks, however, the public banks still have a dominant position, holding about 70.6% of total deposits at end of June 2007. The market share of public banks in total outstanding loans is still higher than that of private banks although it has dropped continually, from 95% in 1998 to 67% in 2006/07. (Gebrehiwot, 2008)

3.2.2 The Ethiopian Insurance Sector

At present, there are 17 insurance companies in operation, of which one, the Ethiopian Insurance Corporation (EIC) is state-owned while the rest are private. Nevertheless, compared to banking, the dominance of state-owned insurance firms, as measured by capital or the number of branches, is more limited. EIC's share is approximately 41% of the total capitalization and 25% of the branch network, with the largest private competitors having shares of approximately 11% of capital and 12% of the branch network. In terms of total assets, the share of private insurance companies has steadily grown over the past years and reached 49% in 2006. The Ethiopian insurance market essentially consists of non-life business. Although the share of life insurance in gross premium has grown steadily over the past ten years, it still remains at 5.4% (June 2006). Private insurers first introduced life insurance in 1999. The lower importance of life insurance business for the private insurance industry may be explained by the long-term nature of the business (which requires a higher degree of customer confidence in the supplier), and also by the fact that only some of the private insurance companies offer life insurance. The insurance market has increased on average by more than 10% per year since 2001. The share of private insurers in operational business (measured by premium and claims) has been slightly higher than 50%

throughout the period. In sum, the development of the insurance sector since 1994 in many ways resembles that of the banking sector, with the establishment of several new private insurance companies in addition to the state-owned EIC which continues to be the largest player. The range of insurance products offered is limited indicating that the sector is still at an early stage of development. Contrary to the banking sector, however, competition is stiff in the insurance industry. (Gebrehiwot, 2008)

3.3 Research approaches and design

Research approaches are plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation**.** There are two methods that provide in the research approach such as Quantitative and Qualitative, where one of them is not better than the others, all of this depends on how the researcher want to do a research of study(Ghauri and Kjell , 2005). To achieve the abovementioned objectives, the study were adopted a quantitative research approach, where it can be use of a questionnaire provided predominantly descriptive and qualified data. Quantitative method involves analysis of data and information that are descriptive and qualified in nature (Sekaran, 2003). Rationale for using this approach was qualitative research has demerits of easily influenced by the personal idea and biases of the researcher, difficulties of assessing maintaining and demonstrating of data and time consuming nature of collecting and analysis of data. Quantitative data obtained through the questionnaires was analyzed descriptively in terms of frequencies, mean, standard deviation and percentile values and the results were presented in tables and chart.

The study was descriptive in nature because it was intended to describe the strategy and practice of reward management in the financial sector. Descriptive studies are designed to gain more information about the characteristics of topics of interest and most appropriate when very little research is available on the topic.

3.4 Level of analysis

Level of analysis is the distinct unit from which data have been gathered. It is the unit to which the data are assigned for hypothetical testing and statistical analysis and the major entity that the researcher is analyzing in the study. According to (Michael, 2003), there are three levels of analysis (individual level, group or organizational level and macro or national level of analysis). The analysis the researcher did in the study that determines what the level of analysis is. In this research the level of analysis the researcher was used was organizational level of analysis. The rationale for using organizational level of analysis was this level of analysis produces a more comprehensive and total picture of financial industry than does the individual or national level in terms of description. It offers accurate description of the phenomena under consideration. It presents complete and undistorted a picture of the phenomena. So the researcher was designed the questionnaire item which were distributed to the respondents in a manner that measures the variables at the organizational level.

3.5. Research Strategy

The research strategy undertaken in this study was following a quantitative approach. Willis argues that "most quantitative research falls into three broad categories: experimental, relationship research and survey research" (Willis, 2008). The quantitative approach of this study has been carried out through the use of survey/questionnaires. A survey is a method of collecting data in which people are asked to answer a number of questions (usually in the form of a questionnaire). Surveys attempt to gather information from an entire group or more usually a sample, which can then be used to make inferences, or generate policy or reveal unsuspected facts" (Swetnam, 2005). The purpose of survey research is to describe characteristics, attitudes, opinion or behavior as they currently exist in the target population. According to Leary (2004) the major advantages of questionnaires are that they can be administered to groups of people simultaneously, and they are less costly and less time-consuming than other measuring instruments. Hence, for this study survey research method has chosen where the questionnaire is used to collect the information.

3.6. Sampling design

3.6.1. Target population

All the items under consideration in any field of inquiry constitute a population. Sekeran (2001) defines a population as “the entire group of people, events, or thing of interest that the researcher wishes to investigate”.

This study aimed to assess and describe strategies and practice of reward management in Ethiopian financial sector. Currently, there are 18 banks found operating in Ethiopia of which 2 are government owned and the rests are private banks. There are also 18 insurance companies of which one is government owned and the rest are private owned (www.nbe.gov.et). The targets Respondents for this study have been HR officers of all banks and insurances that are found in Head offices.

3.6.2. Sample frame and sampling location

The sampling frame can be defined as set of source materials from which the sample is selected. The definition also encompasses the purpose of sampling frames, which is to provide a means for choosing the particular members of the target population that are to be includes in the survey (Anthony, 2003). In this study the sampling frame (source material) consisted of HR officers who are found in 10 banks and 10 insurances Head offices. However, sampling location is a place where a research is conducted or/and a place where information is acquired. In this research, sampling location was Addis Ababa area zone of the banks.

Sample frame

S. No	Name of Institute	Number of Senior HR Staff (at the head office)	S. No	Name of institute	Number of Senior HR Staff (at the head office)
1	Commercial Bank of Ethiopia	41	11	Ethiopian Insurance Corporation	6
2	Development Bank of Ethiopia	15	12	Nyala Insurance Company	5
3	Awash International Bank	32	13	United Insurance	3
4	Dashen Bank	15	14	NIB Insurance Company	4
5	Wegagen Bank	17	15	Awash Insurance Company	6
6	Nib International Bank	21	16	Africa Insurance	5
7	Abyssinia Bank	25	17	Nile Insurance Company	4
8	United Bank	26	18	Oromia Insurance Company	6
9	Cooperative Bank of Oromia	24	19	Abay Insurance Company	3
10	Oromia International Bank	10	20	Global insurance company	5
				total	273

Table: 3.1 sample frame work

Source: NBE annual report, 2015/2016

3.6.3 Sampling technique and sample size

The items so selected constitute what is technically called a sample. Sekeran (2001) defines a sample as a portion of the population that has attributes as the entire population. To conduct this research researcher employed purposive sampling technique. It was assumed that top ten insurance and banking industries as representative of the financial sector. The base for ranking is amount of capital that the industries hold as indicated by national bank of Ethiopia report of 2015/2016. The rationale behind for considering capital to select sample was by assuming rewarding employee as investment that produce return for the organization. If it consider as investment, the base for selecting sample industries should be the amount of available capital to invest from. Then to select the number of respondents from those industries the researcher was used purposive sampling technique which is based on the seniority of HR officers (including HR managers) since the researcher believe that they have better knowhow about the strategy and practice of reward management. There are 253 HR senior officers and 20 HR managers in the selected financial industries (see the table above) and the researcher was distributed questionnaires for all of them.

3.7 Research instrument design

Self-administered questionnaires are surveys in which the respondent takes the responsibility for reading and answering the questions without the presence of researcher (Zikmund, Babin, Carr & Griffin, 2010). For physical survey forms, respondents could return the questionnaires to researcher in personal once they complete the questionnaires. The questionnaires in the study were attached with brief explanation about the purpose of the study to enhance the respondents' understanding. This was believed to call for their interests to complete the survey with high commitment. The respondent's was assured that participation in the study was voluntary and anonymous.

The researcher used likert scale with four scale range: strongly disagree, disagree. Agree and strongly agree .the researcher omitted the range neutral from the scales for some reasons. Previous research suggests that when presented with a neutral response option, people will be more likely to select that option than report their actual opinion. Extremeness of participant responses to sensitive statements is affected by the availability of a neutral response option on a Likert Scale. The neutral response option is the biggest source of dispute surrounding the Likert scale. Originally offered in an effort to avoid false responses (Bishop, 1987), the neutral response option enabled people who were ignorant about or indifferent to a subject to select no opinion or neutral instead of being forced to choose a response that did not reflect their true beliefs (Johns, 2005; Krosnick et al., 2002). Three factors likely influence a participant's decision to falsely report via the neutral option: cognitive effort, ambivalence, and social desirability.

1. People have a tendency to avoid the cognitive effort required to pick a satisfactory answer when providing attitude reports (Krosnick et al., 2002). For each item on a questionnaire participants must interpret the question, recall related facts and memories, interpret the information to form an opinion, and then apply this opinion to the relevant Likert point (Johns, 2005).But Particularly when unmotivated, participants may choose a neutral option (Garland, 1991; Johns, 2005).
2. People also pick neutral options because of ambivalence. Bishop (1987) showed that people's responses in public opinion polls tend to gravitate towards neutral because they want to avoid the negative feelings associated with their conflicting feelings on an issue. Additionally, picking a neutral option allows people to avoid the cognitive effort needed to choose between their positive and negative feelings on an issue Social desirability is a third factor that influences the choice of a neutral option. Krosnick et al. (2002) suggested that participants choose a neutral option when they are reluctant to voice a socially undesirable opinion; however, has shown that people tend to be more honest on a self-report survey than with an interviewer when the topic pertains to issues such as racial attitudes.
3. The other reason is it is difficult to know the exact meaning of neutral response. The term "neutral "or "neither agree nor disagree" is vague and it has different meaning for different people. So the researcher removed the neutral option and used likert scale with four ranges to overcome the above problem.

3.8.Data Type, Sources and Method of Collection

To conduct this research quantitative data has been used from primary data sources. Primary data is first hand data collect to solve study problem on hand and collected by the researchers themselves. The primary data has been collected directly from study area through cloth- ended questioner to the target respondent.

3.9.Data processing and analysis

The researcher was recorded data in the data collection sheets (questionnaire and hand written data sheets) for double checking or clarification. The collected data was then entered into a database and organized by category. Quantitative data were processed, analyzed and organized in tables by using SPSS software of version 24 and Microsoft Excel. T-test and ANOVA test employed to identify whether there is significance difference exist in reward management practice of industries based demographic variables. The researcher employed Descriptive statistical test including, percentage, mean value, and standard deviations in order to analyses and assess reward management practice, to explain distribution and general characteristics of the studied area. The descriptive statistical results were presented by tables, graphs, frequency distributions and percentages for better understanding of results for the readers.

3.10. Validity and reliability of the instruments

Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. The basic question behind the concept of validity is whether an indicator measures what we say or believe it does. Validity takes issues of what different people understand words to mean, during the development of the indicator and its use. Content validity looks at the extent to which the questions in a survey, and the weights the results are given in a set of indicators, serve to cover in a balanced way the important facets of the notion the indicator is supposed to represent (Drost, 2013).To measure content validity of the instruments (questionnaires), the researcher gathered comment with five relevant people which are expert in conducting research and in the area of study.

Reliability is the consistency and stability of the measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects (Drost, 2013). In short, it is the repeatability of the measurement. A measure is considered reliable if a person's score on the same test given twice is similar. Prior to the data processing a pilot study was conducted to enable the reliability of this is empirically tested. Basically, pilot testing means finding out if the instrument and guiding methodology form will work in the "real world" by trying it out first on a few people .The purpose is to make sure that everyone in the sample not only understands the questions, but understands them in the same way. This way, too, the researcher can see if any questions make respondents feel uncomfortable. The researcher will also be able to find out how long it takes to complete the survey in real time. According to (Osman, 2015), a small scale Test of the methods and procedures to be used on a large scale 10–20% of the main sample size is a reasonable number for conducting a pilot study. At the pilot study time, the researcher was Administered the survey in the same way and under similar conditions as the researcher planned to do for actual data collection. At the time, the researcher paid attention to instances when respondents ask for Clarification, as an indication that questions or answers are too vague, difficult to understand and have more than one meaning. The researcher also employed cronbach's alpha test.

3.11. Ethical Consideration

Ethical clearance and permission obtained from the MBA program coordinating office of Addis Ababa University, Ethiopia. Permission is also granted from all the selected industries through formal letter. Participation in the study was on the voluntary basis and participants were asked for willingness before they are provided the questionnaire. The subjects are also assured that their responses used only for the purpose of the study. An attempt is made to first explain the objectives and significance of the study to the respondents. Name and other identifying information are not used in the study. The researcher safeguarded all information related to the participants. Their privacy, identity and confidentiality are maintained by assigning them code numbers instead of names (anonymity).

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter depicts data presentation, analysis, interpretation and discussion of the quantitative data collected through the use of questionnaires . As mentioned in methodology part of the study, a total of 273 questionnaires; 226 to 10 top bank 47 to 10 top insurance companies were distributed. A total of 265 questionnaires, 218 from banks 47 from were returned representing a response rate of 97%. Data obtained through questionnaires were analyzed and interpreted using descriptive statistics. Then major finding have been summarized and presented.

4.2 Data screening and testing

4.2.1 Questionnaire Pilot Testing

A pilot study was conducted prior to the beginning of the full study. The objective of the pilot study was to establish that the respondents understand the questions in the survey, to solicit Feedback for improvements to the instrument and also assesses the validity and reliability of the Questions (Saunders et al., 2009). The responses showed the general ease of completion of the questionnaire, and there were no comments or improvement suggestions from the respondents. Therefore, no further adjustments were needed.

4.2.2 Instrument Reliability

After all the measurement factors underlying the research constructs have been empirically derived and validated, the instrument is checked for reliability before proceeding to data collection .Hair et al, (2010), recommends a Cronbach’s Alpha value of 0.7 or above for consistency or reliability test. Table below displays the reliability estimates of each of the variables; they are all above 0.7, which satisfies the instrument was reliable.

Reliability Statistics

Construct		Cronbach's Alpha Based on Standardized Items	Cronbach's Alpha
Strategy	9	0.869	0.862
System	16	0.734	0.734
Alignment	13	0.799	0.781

Table 4.1 reliability statistics measurements

4.2.3. Validity testing

Validity refers to the extent to which an instrument measures what it is supposed to measure (Bryman and Bell, 2007). A measure's validity relies on the definitions of the variable which is used to design the measure. There are different types of validity such as content, external, construct (convergent and discriminant) validity. The questionnaire was evaluated by respondents and university lecturers and they responded that the contents included in the questionnaire were good and easy to understand implying that the instrument fulfills content or face validity. The questionnaire has adequate sample size to make inference about the population as a result it fulfills external validity or the study can generalize about the population based on the sample.

4.2.4 Testing for Non-Response Bias

As mentioned in methodology part of the study, a total of 273 questionnaires; 226 to 10 banks 47 to 10 insurance companies were distributed. A total of 267 questionnaires, 220 from banks 47 from were returned representing a response rate of 97.8%.

4.2.5 Missing Value Analysis

Missing data refers to a situation in which valid values on one or more variables are not available for analysis (Hair et al. 2010). Hair et al, (2010) reported that variables or cases ought to be omitted if they had 50% or more missing data. Therefore, the researcher omitted 2 cases. The number of responses was reduced from 267 to 265 usable questionnaires which are enough to proceed analysis part.

4.3 Demographic characteristic of the industry

The distinct unit from which data have been gathered and the specific entity that the researcher wants to know about is Ethiopian financial sector. The researcher was enclosed the main demographic characteristics or aspects of financial sector that vary from one institutions to other such as type , ownership ,level of HR department and number of HR officers in this section Since the analysis was made at firm level. The questionnaire included a segment on industry profiles, as assortments of demographic factors of the industry were likely to influence the degree of effectiveness of reward management practice of the industry.

The figure below indicates that 218 (82.3%) of the respondents for the study were from bank and the remaining 47 (17.7%) were from insurance companies .Even though it seems majority of respondents were from banks and the researcher doesn’t gathered more data from insurance companies, the base of selecting respondent from each group is similar that is seniority of the HR officers

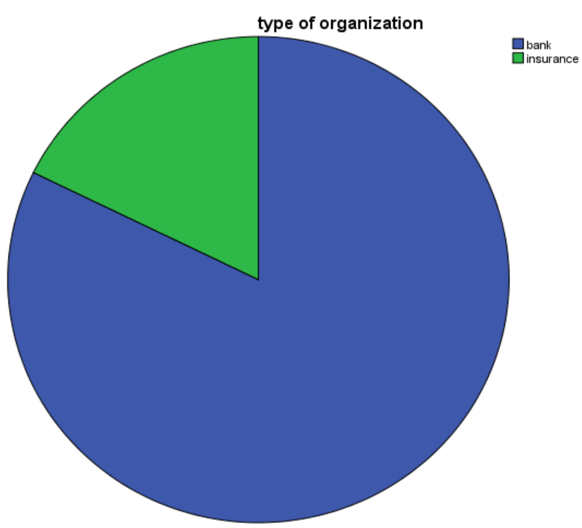


Figure 5: types of organization

The researcher took all HR senior officers from both banks and insurance companies. The number of HR officers in insurance companies is low that is why the respondents from insurance company are less in number. However it doesn't bias the conclusion because researcher was used averaged data.

NO	Variables		Number of firms	No respondents from the firm	Percentage
1	Type	Bank	10	218	82.26
		Insurance	10	47	17.74
	Total		20	265	100
2	Ownership	Private owned	17	206	77.7
		Government owned	3	59	22.3
	Total		20	265	100
3	Position of HR	V.P level	0	0	0
		Directorate level	3	85	68
		Department level	17	180	32
	Total		20	265	100
4	Year of establishment	Before 1985	3	59	22.26
		1986-1995	7	92	34.76
		1996-2005	7	96	36.23
		After 2005	3	18	6.75
	Total		20	265	100

Table: 4.2 demographic information's of industries

The researcher identified top 10 banks and top 10 insurance companies as sample group based on capital of banks reported by national bank of Ethiopia (2015/2016 report). Of which eight banks and nine insurance companies are private owned and two banks and one insurance company is public or government owned company as indicated in table above.Organizational hierarchy on the structure indicates power responsibility and emphasis level for the given function on the hierarchy .When you go from the bottom to the top of hierarchy it is believe that the function on that hierarchy has more power responsibility concern and emphasis .Organizational hierarchy on the structure indicates power responsibility and emphasis level for the given function on the hierarchy .When you go from the bottom to the top of hierarchy it is believe that the function on that hierarchy has more power responsibility concern and emphasis. As indicated on the above table in three organizations HR functions exits in directorate level and in the remaining 17 organization it exists in department level.

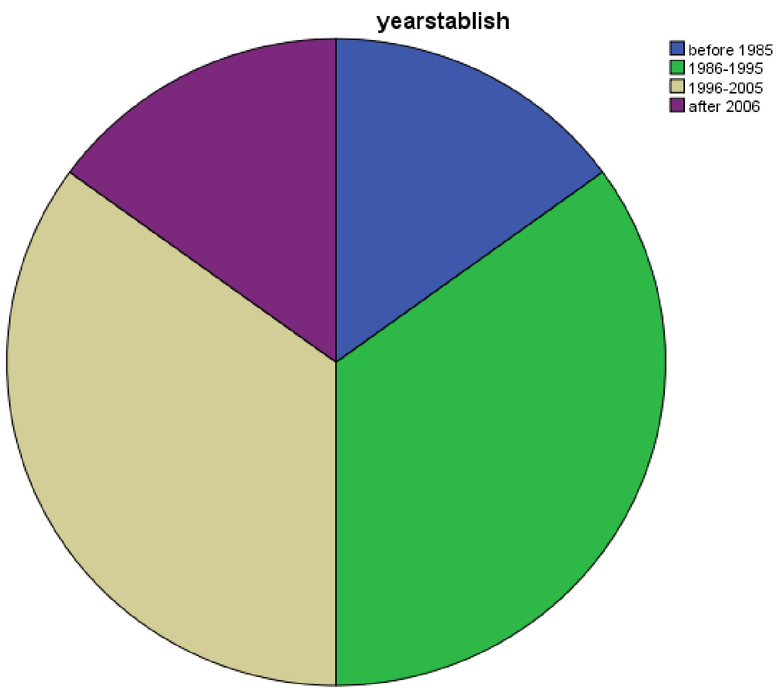


Figure 6: year of service of financial industries

The above pie chart indicates that most of financial industries (14 industries of the sample or about 72% of the sample) of Ethiopia established the time between 1985-1995 and 1996-2005 following the liberalization of Ethiopian financial industry in 1994.Two banks and one insurance company exist in Ethiopia before 1985 (all of them are government owned industries) and the remaining three financial industries from the sample emerged after 2005.

4.4 Nature of reward strategy

Reward strategy is declaration of intents which defines and sets out what the organization intends to do in the longer term to develop and implement reward policies, practices and processes which will further the achievement of its business goals. In this part of the study the researcher assessed two basic things in reward strategy .These are the process of formulation or development of reward strategy and the process of implementation to make the reward strategy an operating reality.There were two dimensions and nine items that inquired about reward strategy. Summated ret method was employed to measure reward strategy. The following table summarizes the average banks and insurance score for the data set.

Reward strategy dimensions	Mean	Std. Deviation
Designing	2.6362	0.46045
Implementing	2.4853	0.40091

Table 4:3 reward strategy dimensions

The above table indicates that mean score for designing dimension is 2.6362 and 2.4853 implementation dimension.one can see from it that even though financial sector develop reward strategy they are not giving more emphasis to make the reward strategy an operating reality.

4.5 Alignment of reward strategy with business strategy and other HR functions

Reward strategies should have be linked with organizational strategies as vertical alignment (fit between the reward strategy and the business strategy) and horizontal alignment (fit between reward strategy and HR strategies and policies. There were two dimensions and 12 items that inquired about alignment of reward strategy. These were alignment of reward strategy with organizational business strategy and with HR functions. The result shows on average reward strategy better aligned with other HR function (mean of 2.6362) than its alignment with the business strategy of the organizations (mean of 2.4853).this indicates that there is some gap in aligning reward strategy with the organizational strategy.

Alignment dimensions	Mean	Std. Deviation
Alignment with HR strategy	2.6362	0.46045
Alignment with business strategy	2.4853	0.40091

Table 4.4 alignment of reward strategies with business strategy and other HR functions

4.6 Nature of reward Management System

Reward management involves the management of complex systems and it consist a number of interrelated processes and activities which combine to ensure that reward management is carried out effectively to the benefits of the organization and the people who work there. Reward management system involves plan, control, evaluation, pay reviews, market ret analysis and pay structuring, job evaluation and grade structuring. The reward system assessment results are shown on the following table.

The following table shows the mean score for the four dimensions for effectiveness of reward system. The highest mean is scored by controlling and evaluations followed by market ret analysis. The least mean score is for planning.

Reward system effectiveness dimensions	Mean	Std. Deviation
Planning	2.5660	0.39223
Job evaluation and grade structuring	2.5925	0.50330
Market ret analysis and pay structuring	2.8025	0.67232
Controlling and evaluation	2.8754	0.50619

Table: 4.5 reward system effectiveness

According to the above table the controlling and evaluation dimension of reward system is carried out superior to the other three dimensions with a mean score of 2.8754. This indicates the financial sectors are performing at unsatisfactory level in reward management system controlling and monitoring.

The second dimension as per the rating of the respondents is market ret analysis and pay structuring with a mean score of 2.8025.The third dimension is job evaluation and grade structuring with 2.5925 mean score. The fourth dimension is planning with mean score 2.5660 and it is the least performed dimension. This indicates that the financial sector performing at unsatisfactory in planning how to invest on reward programs.

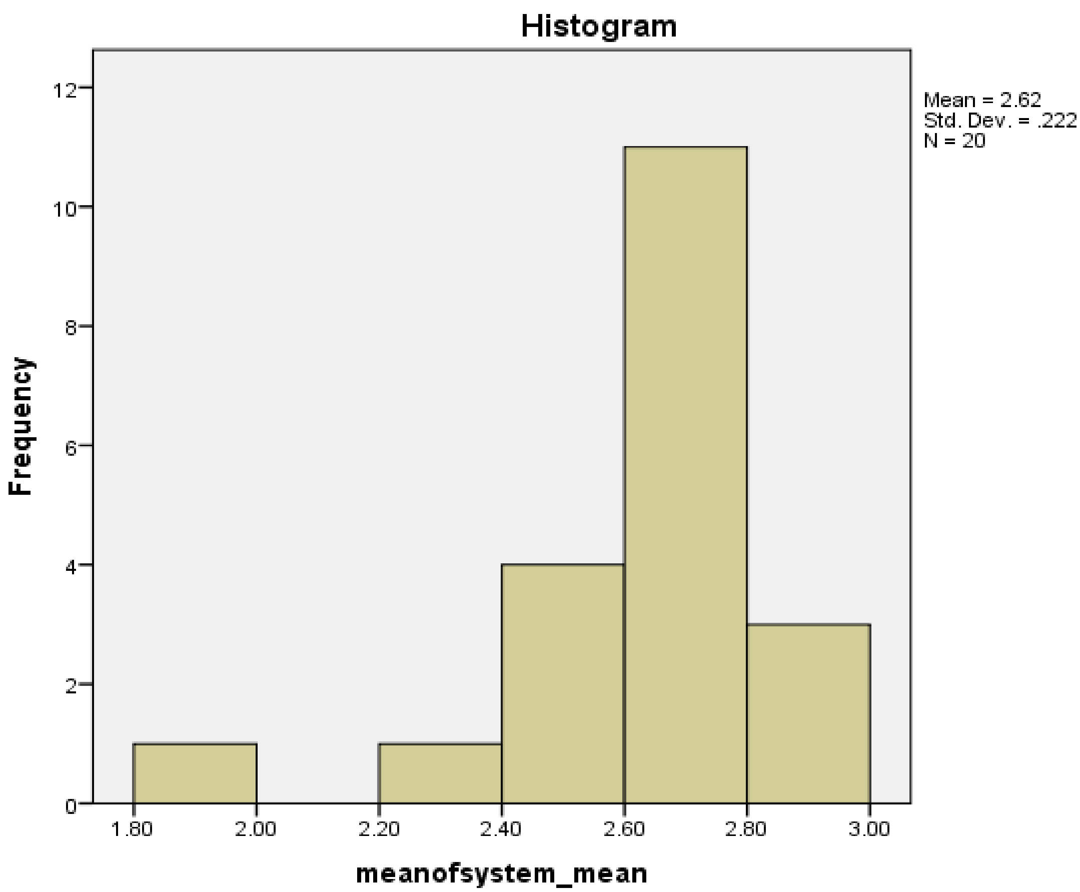


Figure 6: Reward management system

The figure show above portraits the mean assessment result of reward management system in general is 2.62 with standard deviation of 0.222 which indicates, financial sectors are good in practicing reward management as a system.

4.7. Assessing the relationship between demographic Variables and reward management practice

4.7.1. Relationship between Reward management practice and types of industries

A. Alignment and types of industries

The researcher conducted compare means analysis using t-test and this section covers results of compare means analysis to find out differences between two means (banking and insurance industry mean) and this part compares the mean score of two industries to investigate whether there is significant difference between the mean of banks performance and the mean of insurance companies .

Type of industry	Mean	Standard deviation	t-test	Df	Sig(2 tailed)
Banking industry	2.3988	0.17959	1.427	18	0.0171
Insurance industry	2.2881	0.16709			

Table 4.6 relationship between alignment and types of industries

On average alignment of reward management with business strategy and other HR function, banking industry (mean=2.3988, SD=0.17959) and insurance industry (mean=2.2881, SD=0.16709), P=0.0171<0.05 therefore there is statistically significance difference observed between banks and insurance companies. It indicates in this regard banking industry has better performing than insurance industry.

Average respondent mean score of banking industry (2.3988) higher than compare to average respondents of bank whose mean score is 2.2881. This indicates that on average banking industry has better practice of aligning there reward strategy with business strategy and other HR functions.

It also important to consider the dispersions of scores (responses) of this dimension between two groups. Interims of this dimension the standard deviation of banking industry is smaller than the standard deviation of insurance industry. This means the banking industry score clustered more closely around its mean compare to the distribution of the score of banking industry around its mean.

B. Reward Strategy and types of industries

Since the researcher aimed to explore variation of availability of effective reward strategy of banking industry and insurance industry of Ethiopia, again the researcher employed t-test. This test indicates whether there were significant differences in the mean scores on reward management system scores across the industry group.

Type of industry	Mean	Standard deviation	t-test	Df	Sig(2 tailed)
Banking industry	2.4567	0.23807	-0.209	18	0.837
Insurance industry	2.4793	0.24654			

Table: 4.7 Reward strategy and types of industries

The above table of t-test result indicates that P = (0.837)>0.05 that means there is no statistically significant difference between banks and insurances regarding reward strategy dimension.

C. Reward system and types of industries

Again for this section also t-test conducted to explore whether the reward management system in the Ethiopian Financial Sector vary based on the type of industry. The result indicated in the following table reveals there was no statistically significant difference in practice of reward system between banking and insurance industry since p=0.837>0.05

Type of industry	Mean	Standard deviation	t-test	Df	Sig(2 tailed)
Banking industry	2.5500	0.10751	1.450	18	0.164
Insurance industry	2.4652	0.15047			

Table: 4.8 Reward system and types of industry

4.7.2. Relationship between reward management practice and ownership of industries

constructs	Type of ownership	Mean	Standard deviation	t-test	Df	Sig(2 tailed)
strategy	Public	2.5078	0.22263	0.324	17	0.0450
	Private	2.4571	0.26178			
alignment	Public	2.2369	0.18181	1.041	2.789	0.380
	Private	2.3558	0.17987			
System	Public	2.4654	0.17405	4.88	17	0.0432
	Private	2.8077	0.11217			

Table: 4.9 Reward management practice and ownership of industries

As indicated in the above table there is statistically significant relationship between ownership of financial industries and performance of reward strategy (since p value, 0.0450 is less than 0.05) and it indicates public owned financial industries (mean=2.5078) better in the designing and implementation dimension of reward management practice than private owned financial industries (2.4571). But in managing reward as a system aspect private owned financial industries are better performing It (mean=2.8077) than public owned financial industries (mean=2.4654). Regarding alignment of reward management strategy with business strategy and other HR function there is no statistically significance relationship between alignment and ownership of financial industries (since p=0.380>0.05).

4.7.3. Relationship between reward management practice and HR position on the organizational structure

Organizational hierarchy on the structure indicates power responsibility and emphasis level for the given function on the hierarchy .When you go from the bottom to the top of hierarchy it is believe that the function on that hierarchy has more power responsibility concern and emphasis. The researcher conducted test on whether the position difference of HR function on the hierarchy may make any difference on the reward management practice. But the finding of the test revealed that there is no statistically significant difference of reward management practice between HR function at department level and at directorate level financial organization (since P=0.147>0.05,P=.0.679>0.05,P=0.548>0.05).

Construct	Position of HR	Mean	Standard deviation	t-test	Df	Sig(2 tailed)
Strategy	department	2.4028	0.23299	1.520	18	0.147
	directorate	2.5719	0.23556			
Alignment	department	2.3249	0.20790	0.375	17	0.679
	directorate	2.3579	0.13343			
System	department	2.4567	0.15066	2.030	17	0.548
	directorate	2.5769	0.04764			

Table 4.10: relationship between reward management practice and HR position on the organizational structure

4.7.4. Relationship between Year of service and reward management practices

A one way ANOVA test was conducted to see if there were any significant differences among the different categories of year of establishments of the industries and reward management practice of the industries. This section analysis the difference and presents the result.

A. **Reward strategy and year of services**

Year of establishment	Mean	Standard Deviation	Mean Square Between Groups	Df (Between Groups)	Mean Square Within Groups	DF (Within Groups)	F	Sig
Before 1985	2.9667	0.1155	0.944	3	0.043	16	7.703	0.003
1986-1995	2.3500	0.1625						
1996-2005	2.6176	0.2281						
After 2005	2.3543	0.3102						

Table 4.11 One way ANOVA Comparison of mean of reward strategy and year of service

A one-way between groups analysis of variance was conducted to explore whether the effectiveness of reward strategy in the Ethiopian Financial Sector vary based on the year of services of financial industries. Participants were divided into four groups according to year of service of their industry. The above table indicates that there was a statistically significant difference at the $p < 0.05$ level in effectiveness of reward strategy assessment scores for four groups $F(3,16) = 7.703$, $p < 0.05$ (since 0.03<0.05).

Descriptive statistic table shows that an oldest financial industries group has better practice in reward strategy design aspect (mean of 2.9667) than the other groups followed by 1996-2005 established financial industries group (mean of 2.6176). The recent financial industries group has least practices in reward strategy designing aspect when compared to other groups.

B. **Alignment and year of services**

Year of establishment	Mean	Standard Deviation	Mean Square Between Groups	Df (Between Groups)	Mean Square Within Groups	DF (Within Groups)	F	Sig
Before 1985	2.6667	0.1527	0.107	3	0.029	16	3.755	0.032
1986-1995	2.3946	0.2052						
1996-2005	2.2835	0.1583						
After 2005	2.4704	0.0625						

Table 4.12 One way ANOVA Comparison of mean of alignment and year of services

The above table indicates that there was a statistically significant difference at the $p < 0.05$ level in alignment of reward strategies with business strategies and other HR function scores for four groups $F(3,16) = 3.755$, $p < 0.05$ (since 0.032<0.05). Again in alignment regards also oldest financial industries group has better practice in aligning reward strategies with business and other HR functions (mean of 2.6667) than the other groups followed by the recent financial industries group (mean of 2.4704).The third and fourth were 1986-1995 and 1996-2005 group respectively.

C. **System and year of services**

Again for this section also a one was ANOVA test was conducted to see if there were any significant differences among the different categories year of services and reward system. As it can be seen from the table below the significance level is 0.967 (p = 0.967), which is above 0.05 and, therefore, there is no statistically significant difference among financial industries with different year of services when it comes to reward system.

Year of establishment	Mean	Standard Deviation	Mean Square Between Groups	Df (Between Groups)	Mean Square Within Groups	DF (Within Groups)	F	Sig
Before 1985	2.5216	0.2280	0.02	3	0.023	16	0.086	0.967
1986-1995	2.5099	0.1349						
1996-2005	2.5031	0.1617						
After 2005	2.5549	0.4949						

Table 4.13 One way ANOVA Comparison of mean of system and year of services

Chapter Five

Conclusion and recommendation

This chapter of the study presents conclusions, recommendations and direction for future researchers based on the results of the study.

5.1 conclusions

Reward management costs in most organizations are by far the largest item of expense .They can be 60 per cent and often much more in labor-intensive organizations so organizations must have to think about how they should be managed and invested in the longer term **(**Armstrong, 2009**).** This study aimed to assess strategies and practices of reward management in Ethiopian financial sector based on the questionnaire consisting of 265 purposively selected senior HR officers of top 10 banks and insurance companies (according to 2015/2016 report of national bank of Ethiopia based on their capital.)

All public owned financial industries and 17 private owned industries were included in the study. The result of demographic information also reveals that in three of selected sample organizations HR department exists in directorate level of the organization strategy and in 17 of selected organization HR department exists in departmental level. In addition sample industries, 3 financial industries were established before 1985, other 3 established after 2005 and the remaining 14 industries established between 1986 and 2005.

As promised in the research objective the first objective was to assess the nature of reward strategy of financial sector. The findings from the collected data show that there is gap in implementation of designed reward strategy. In alignment aspect also there gap in aligning reward strategy with business strategy of the sector. Even if the sector has good practice in processing reward management as a system, there is some problem in controlling and monitoring aspect of reward system.

The result of assessment of variation of reward practice based on demographic characteristics revealed that public owned financial industries better in the designing and implementation dimension of reward management practice than private owned financial industries but in managing reward as a system aspect private owned financial industries are better performing it than public owned financial industries. On average banking industry has better practice of aligning there reward strategy with business strategy and other HR functions than insurances. Oldest financial industries group has better practice in reward strategy design aspect than the other groups followed by 1996-2005 established financial industries group .The recent financial industries group has least practices in reward strategy designing aspect when compared to other groups. Again in alignment regards also oldest financial industries group has better practice in aligning reward strategies with business and other HR functions than the other groups followed by the recent financial industries group .The third and fourth were 1986-1995 and 1996-2005 group respectively.

5.2 Recommendation

It is always essential to design with implementation in mind Focus of strategy should be on implementation .Implementation entails converting the strategic plan into action and then into results. An effective reward strategy is a living process

- In financial sectors there is a problem in achieving alignment of reward strategy with firm's business strategy. The problem may be because of difficulty to identify rewards strategies that are specifically related to the business strategy or it may be because of business strategies are not clearly defined. To bridge this gap the organization should have to develop reward strategy that is coherent to the sectors business strategy and creating the alignment that suits the strategic requirements of the organization.

- Financial sectors can bridge implementation gap of reward strategy by building the capacity of the employees in the area, fulfilling required resource for implementation before designing, enhancing employee recognition attitude as a principle of the sector, increasing budget of reward by considering costs of reward as investment designing implementable strategies.
- To come up with effective Reward management system, financial sectors should have to control each progress and gather feedback, plan accordingly of a system and to customized their reward management system with employees different needs

- All individuals have different personal drivers, and hence behave differently. Consequently, to customize reward system to employee's different need, the organization should carefully consider which factors and elements that should be included in the reward system to enhance desirable employee motivation.
- For other researchers this study was putted a brick for further development and improvement in this area and it helps as an input for the next researchers who need to go deep on the subject.

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Appendix I
QUESTIONAIRE

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

MBA PROGRAM

Dear respondent,

This study is aimed to assess the strategies and practices of reward management in the Ethiopian Financial Sector particularly the banking and insurance industry. Below various statements related to reward management strategies and practices are listed. Please express how far these strategies and practices are prevailing in your organization by indicating your level of agreement/ disagreement on a four point scale. All information obtained in this survey will be gathered anonymously and the results are used for academic purpose only so please answer as honestly and accurately as possible.

Part one: general information about the organization

Please read each statement carefully and encircle your choice for the questions indicated in below.

1. State type of your organization
   A. Bank
   B. insurance
2. Indicate Ownership of your organization
   A. Private owned
   B. Government owned
3. Indicate the Position of human resource management department in the organization structure
   A. The department exists Vise president level
   B. The department exists In directorate level
   C. The department exists in Department level
4. Year of service

A. Before 1985 B. 1986-1995 C. 1996-2005 D. After 2005

Please indicate your levels of agreement/disagreement in each of the items below with regards to reward Management Strategies and Practices of your organization.

Please TICK sign (√) to your levels of agreement in each of the following items with regards to your organization.	Strongly disagree	Disagreed	agree	Strongly agree
Nature of reward management system	1	2	3	4
4. The organization has a plan how to manage and invest on reward				
5. The organization designs a plan of reward periodically.				
6. The organization develops guiding policies and principle to implement long term plan of reward practice.				
7. Our organization organizes communication programs to inform every employee about reward policies and practice of the organization.				
8. There is logically designed framework within which an organization's reward policies can be implemented.				
Job evaluation and grade structuring aspect				
9. Our organization determines grade structure for new jobs after job evaluation process.				
10. Periodically our organization conduct job evaluation process and re-grade an existing jobs.				
11. In our organization the levels of pay for jobs determined after job evaluation process.				
Pay structure aspect				
12. Our organization pay ranges attached to grade structure provides exact scope for pay progression				

based on performance				
13. In our organization pay for jobs design by reference to their Relative internal value.				
14. In our organization pay for jobs design by reference to relative labour market value of the jobs.				
Controlling and monitoring				
15. There is clear guidelines exist in our organization on how reward and the benefit arrangements should be managed.				
16. In our organization effectiveness and outcomes of reward policies always monitored against the requirements of the organization.				
17. In our organization effectiveness and outcomes of reward policies always monitored against the stated objective of the reward initiatives.				
18. To know and respond to payment change in labour market, periodically the organization conducts market rate analysis.				
19. In response to market analysis result our organization determines the pay progress for employees in relation to their performance.				
20. Our organization has effective procedure to appeal any disagreement that rise from employees on reward process and pay decisions.				
Nature of reward management strategy				
Designing aspect of the strategy				
21. Our institution has a documented reward strategy.				
22. Before designing the strategy Assessment has been made for the resources required to implement the strategy.				

23. Levels and types of rewards available in our organization and earned match the needs and motivational profiles of different employees in the organization.				
24. Our reward strategy considers the paying capacity of the organization so it is cost effective.				
25. Our reward strategy Allow a reasonable degree of freedom to HR managers to pay above the minimum rate for the job to respond market rate pressure.				
Implementation aspect				
26. Our reward strategy is Controllable, easy to manage and administer.				
27. The designed strategy is implementable and our organization is implementing it effectively.				
28. Our HR managers are capable of implementing and managing the strategy in practice.				
29. Our organization implements reward strategy in a manner that supports the company's corporate strategy and address organizational needs.				
Alignment of reward management strategy with business strategy				
30. Our reward strategy is coherent with business strategy of the organization.				
31. Reward management practices influence employees' behavior and initiates organizationally required behavior skill and values.				
32. Reward strategy of our organization is defined in a way which clearly explains how it will contribute to the achievement of the business plan of the organization.				
33. Reward strategy of our organization designed in a manner that Contributes to the achievement of the organizations business				

objective.				
34. Reward is provided to employee when they perform what the organization value and preferred to pay.				
Alignment of reward management system with other HRM function				
35. Our organization offers reward for employees based on performance appraisal result.				
36. The aim of performance appraisal of our organization is to effectively measure contribution of employee for organization and to reward employees as per value they create to the organization.				
37. Training and development strategy can work much more efficiently with a supportive skills based reward strategy.				
38. Our organization reward system includes Opportunity of learning as a component of non-financial reward.				
39. Our organization reward programs recognize the effort of those employees that makes a continual difference to the organization.				
40. Our organization reward system keeps those employees who are best contributors of the organizational success.				
41. Our organizations reward system helps to attract the high quality people from labor market that the organization needs.				

Appendix II

Statistics

Planning

N	Valid	20
	Missing	0
Mean		2.5660
Std. Deviation		.39223

Statistics

Designing

N	Valid	20
	Missing	0
Mean		2.6362
Std. Deviation		.46045

Statistics

JEGSM

N	Valid	20
	Missing	0
Mean		2.5925
Std. Deviation		.50330

Statistics

Implementation

N	Valid	20
	Missing	0
Mean		2.4528
Std. Deviation		.43098

Statistics

Pay and market ret

N	Valid	20
	Missing	0
Mean		2.8025
Std. Deviation		.67232

Statistics

Alignment with HR

N	Valid	20
	Missing	0
Mean		2.6362
Std. Deviation		.46045

Statistics

Controlling and evaluation

N	Valid	20
	Missing	5
Mean		2.8754
Std. Deviation		.50619

Alignment with business strategy

N	Valid	20
	Missing	0
Mean		2.5660
Std. Deviation		0.40091

Group Statistics

	Ownership of industries	N	Mean	Std. Deviation	Std. Error Mean
Strategy	1.00	3	2.5078	.22263	.12854
	2.00	17	2.4571	.25178	.06294

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Strategy	Equal variances assumed	2.309	.147	.324	17	.0450	.05072	.15636	-.27918	.38061
	Equal variances not assumed			.354	17	..0450	.05072	.14312	-.40049	.50193

Group Statistics

	Ownership of industries	N	Mean	Std. Deviation	Std. Error Mean
Alignment	1.00	3	2.2369	.18181	.10497
	2.00	17	2.3558	.17987	.04497

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
alignment	Equal variances assumed	.129	.724	-1.049	17	.309	-.11884	.11331	-.35790	.12022
	Equal variances not assumed			-1.041	2.789	.380	-.11884	.11419	-.49831	.26064

Group Statistics

	Ownership of industries	N	Mean	Std. Deviation	Std. Error Mean
system	1.00	3	2.4654	.17405	.10049
	2.00	17	2.8077	.11217	.03304

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
System	Equal variances assumed	.523	.479	-.488	17	.0432	-.04231	.08667	-.22517	.14055
	Equal variances not assumed			-.400	17	.0432	-.04231	.10578	-.42578	.34117

Group Statistics

	HR position	N	Mean	Std. Deviation	Std. Error Mean
Strategy	1.00	12	2.4028	.23299	.06726
	2.00	8	2.5719	.23556	.08903

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Strategy	Equal variances assumed	.088	.771	-1.520	17	.147	-.16913	.11124	-.40383	.06557
	Equal variances not assumed			-1.516	12.569	.154	-.16913	.11158	-.41103	.07277

Group Statistics

	HR position	N	Mean	Std. Deviation	Std. Error Mean
Alignment	1.00	12	2.3249	.20790	.06002
	2.00	8	2.3579	.13343	.05043

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	T	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Alignment	Equal variances assumed	3.049	.099	-.375	17	.712	-.03299	.08802	-.21869	.15272
	Equal variances not assumed			-.421	16.728	.679	-.03299	.07839	-.19858	.13261