



**Addis Ababa University**  
**College of Business and Economics School of Commerce**  
**Department of Human Resource Management**

**The Effect of Compensation on Employees' Performance:  
Empirical evidence from Amhara Bank S.C.**

**Prepared By: Bethlehem Tujuba GSE/8394/14**

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Recourse Management**

**Advisor: - Bantie Workie (PhD)**

**Addis Ababa University School of Commerce**

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## DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted at any university for a degree.

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## ABSTRACT

*This study investigated the effect of compensation on employee performance at the Amhara Bank S.C. Head Office. The research employed a quantitative approach, utilizing a design that combined descriptive and explanatory components. The sample frame consisted of all employees at the bank's head office, with a sample of 210 participants selected through stratified random sampling. The data was collected using a structured questionnaire with a 5-point Likert scale, covering various aspects of compensation, including direct financial, indirect financial, extrinsic, and intrinsic rewards. Descriptive statistics were used to summarize the data, while inferential statistics, such as correlation and multiple linear regression analysis, were employed to examine the relationships between the compensation factors and employee performance. The regression findings revealed that all predictor variables - direct financial, indirect financial, extrinsic, and intrinsic rewards - had a statistically significant ( $p < 0.001$ ) positive impact on employee performance. These predictors collectively explain 84.4% of the variance in the dependent variable, employee performance. The regression analysis further revealed the relative importance of each factor, with extrinsic rewards ( $\beta = 0.276$ ) having the strongest influence, followed by direct financial compensation ( $\beta = 0.251$ ), intrinsic rewards ( $\beta = 0.242$ ), and indirect financial compensation ( $\beta = 0.233$ ). These results emphasize the multifaceted nature of effective compensation strategies and their profound influence on driving employee performance at the Amhara Bank S.C. Head Quarters. The bank should improve the compensation and reward system to address the diverse needs and preferences of the bank's workforce, through leveraging these key drivers of employee performance to achieve sustained organizational success.*

**Key words:** Amhara Bank, direct financial compensation, indirect financial compensation, extrinsic reward, intrinsic reward and employee performance.

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# CHAPTER ONE

## INTRODUCTION AND BACKGROUND

### 1.1 Introduction

The aim of this chapter is to provide an introduction and background to the proposed research study. The chapter presents background of the study, statement of the problem, research questions, objectives of the study, significance of the study, scope of the study, limitation, operational definition of terms and organization of the study.

### 1.2 Background of the study

Organizations require high-achieving personnel to fulfill their objectives, provide the goods and services they specialize in, and ultimately gain a competitive advantage. The success of an organization depends on its employees' contributions to achieving its short-, medium-, and long-term goals and objectives. For this reason, it is critical that employees receive fair compensation and benefits, both financially and non-financially. One of the most important factors affecting employee performance is the organization's compensation and reward structure. Salary increment is a motivator for workers to perform to the best of their abilities and is linked to a number of beneficial organizational outcomes, such as higher output, lower absenteeism, and employee turnover. According to (Liben 2017) one policy that firms may implement to improve employee performance and, in turn, boost productivity is offering competitive compensation. Employee motivation and compensation are critical in today's competitive workplace if a firm is to succeed.

A detailed examination of employee performance in many organizations today indicates that, as a result of their constantly evolving requirements, many employees are dissatisfied with the organization's current compensation plan. The majority of workers with strong education and work experience are dissatisfied with their jobs and pay scales, which makes poor performance inevitable (Abebe2019).According to Fatmah et al.,(2020) performance is determined by one's drive and capacity for finishing projects. It is necessary for someone to possess a particular level of aptitude and willingness. Without a clear understanding of what has to be done and how to

achieve it, a person's willingness and abilities are insufficient to accomplish a task. Performance is a real behavior that each and every person exhibits as an accomplishment at work that is brought about by their roles and institutions. Employee performance is the amount and quality of work that an employee completes in the course of performing the responsibilities assigned to him.

According to (Vogireddy2020) paying employees fairly has a positive impact on both the performance of the firm and the employees themselves. Pay is a crucial component of human resource management that enhances corporate effectiveness and employee motivation. The effects of benefits and pay on worker productivity and organizational efficacy vary depending on the performance management and compensation policies in place at a given business. When compensation and incentives are increased, most employees usually react positively and become more productive. (Vogireddy 2020).

There are two type of rewards. Direct and Indirect. The term "direct compensation" describes financial rewards that are given to staff members in exchange for the services they render for the company. Basic pay, housing allowance, conveyance, leave travel allowance, medical reimbursements, special allowances, bonuses, provident fund, etc. are some of the financial benefits. They are given at a set time on a regular basis (Vogireddy 2020).Non-monetary compensations given to employees as payment for their services to the company are referred to as indirect compensation. They consist of holiday homes, retirement benefits, hospitalization, insurance, overtime policy, car policy, and leave travel assistance limits(Vogireddy 2020).

This study's primary goal is to evaluate the impact of compensation on employee performance in order to determine which aspects of the bank's current compensation scheme affect employees' performance. Data is gathered via questionnaires given to 210 staff members of Amhara Bank S.C. Head Office who work in various departments and at different job grade levels.

### **1.3 Background of the organization**

As a recent addition to the nation's banking sector, Amhara Bank S.C. is a service-oriented commercial entity whose success is largely dependent on the work output of its personnel. Thus,

this study will evaluate how Amhara Bank S.C. employees' performance is affected by compensation. With the help of more than 191,000 shareholders, Amhara Bank is a privately held firm that formally opened for business on June 18, 2022, with birr 4 billion 8 hundred million in paid-up capital and birr 7 billion 9 hundred million in authorized capital. The bank's broad ownership reflects its capacity to collaborate to create a profitable business venture and commercial bank service. By offering a wide range of accessible, dependable, and creative financial and non-financial solutions using state of the art technology by qualified and morally upright professionals in a socially conscious manner with a client-focused culture, the bank hopes to become a leading and game-changing bank in Africa.

## 1.4 Statement of the problem

Companies must find ways to outperform their competitors in the highly competitive and uncertain business climate to become successful. This can be done by increasing their performance. In an organization, human resources are thought to be the most significant resource that influences work performance. The caliber of an organization's human resources plays a major role in establishing its competitive edge. To do this, the business needs to be able to identify the factors that drive workers to reach their full potential and deliver quality work in order to meet organizational objectives (Armstrong, 2010).

For instance, a salary increase is considered to be crucial for ensuring employees satisfaction in the context of monetary rewards (URT,2010). In order to motivate people to put maximum efforts, it is essential that their compensation and reward should satisfy their various needs.It is important to remember that financial incentives frequently drive employee motivation, and that an employee's pay has a significant impact on how productive they are inside the company. It has been suggested that motivation is essential for long-term productivity. An employee's motivation is determined by how much work they put into the tasks or activities related to their job. Employees are primarily motivated by money (Idrees, et al.,2015).

Numerous studies on reward systems and employee performance have been carried out in different parts of the globe. These include the cement industry in Pakistan (Quresh, Zaman, and Shah,2010), the manufacturing sector in Nigeria (Sajuyigbe, Bosede, and Adeyemi, 2013), commercial banks in Bangladesh (Aktar, Sachu & Ali,2012), and universities in Malaysia (Jalaini et al., 2013). These research showed that in the modern workplace, employees are driven to perform better by both extrinsic (financial) and intrinsic (non-financial) rewards, and that managers should not ignore any of the two types of reward systems when trying to inspire their staff to perform better. When a person joins an organization, they bring with them a collection of needs, wants, and expectations that combine to create a hope that they believe their salary will satisfy. Better performance can be encouraged by an effective compensation and reward system, but ineffective systems can cause demotivation, which in turn results in low performance. Therefore, in order to keep skilled workers and gain a long-term competitive advantage, businesses must create a planned compensation and reward structure for their workforce.

Thus, the goal of this study is to investigate how employee performance at Amhara Bank is affected by compensation with various dimensions. This study aims to analyze and investigate the effect of compensation on employee performance at Amhara Bank. Additionally, it seeks to understand the employees' point of view towards compensation whether it affects employee's performance level or not. Recently, many employees of the Bank are discussing informally about the Bank's ignorance to act according to its policy to periodically analyze the market to have a periodic cost of living adjustment. Consequently, Amhara Bank is losing its talented employees these days in search of more salary and better job positions.

Therefore, the finding of this study will have a significant importance to the Bank to review its compensation and reward schemes as it is a newly joining Bank in the industry.

### **1.5 Research questions**

The goal of this study is to examine the current compensation and reward system in Amhara Bank and try to find out the effect of compensation on employees' performance. Given this, the study attempts to address the following research questions.

1. What is the effect of direct compensation on the performance of employees at Amhara Bank S.C.?
2. How does indirect compensation impact the performance of employees at Amhara Bank S.C.?
3. To what extent does extrinsic rewards influence the performance of employees at Amhara Bank S.C.?
4. What is the relationship between intrinsic rewards and the performance of employees at Amhara Bank S.C.?

## **1.6 Objective of the study**

### **1.6.1 General Objective**

The general objective of this thesis is to analyze the effect of compensation on the performance of employees at Amhara Bank S.C.

### **1.6.2 Specific Objectives**

1. To examine the effect of direct compensation on employees' performance at Amhara Bank S.C.
2. To investigate the impact of indirect compensation on employees' performance at Amhara Bank S.C.
3. To examine the influence of extrinsic rewards on employees' performance at Amhara Bank S.C.
4. To determine the effect of intrinsic rewards and employees' performance at Amhara Bank S.C.

## **1.7 Significance of the study**

The findings of this research will provide valuable information for the bank on the effectiveness of their current compensation practices in influencing employee performance. The study will help the bank identify specific aspects of compensation, such as direct, indirect, extrinsic, and intrinsic rewards, that have the greatest impact on employee performance. This information can enable the bank to optimize its compensation strategies, leading to improved employee motivation, retention, and overall organizational performance.

The study will contribute to the existing body of theoretical knowledge on the relationship between compensation and employee performance, particularly in the context of the banking sector in Ethiopia. The research will provide empirical evidence on the relative importance of different components of compensation in influencing employee performance, which can enhance the theoretical understanding of this relationship. Additionally, the findings of this study can serve as a reference for future studies on similar topics in the banking sector or other industries in Ethiopia.

## 1.8 Scope of the study

Geographically, the research was conducted within the context of Amhara Bank S.C., a commercial bank headquartered in Addis Ababa, Ethiopia. The research encompasses various departments and job levels within the bank, offering a holistic understanding of how different compensation elements influence the performance of the workforce. Conceptually, the study will investigate the effect of various components of compensation on employee performance, including direct compensation, indirect compensation, extrinsic rewards, and intrinsic rewards.

## 1.9 Limitations of the study

The study was subject to certain limitations that were acknowledged. Firstly, the willingness of the management of Amhara Bank S.C. to provide the necessary documents and data posed a challenge. The bank's management was unwilling to share the relevant information, hindering the researcher's ability to access the data required for a comprehensive analysis of the compensation-performance relationship.

The researcher was unable to address the city and outlying branches of Amhara Bank S.C. in the study. This limitation resulted in a narrower scope of the investigation, as the research primarily focused on the bank's headquarters in Addis Ababa, potentially overlooking any regional variations or differences in compensation practices and their impact on employee performance. Expanding the study to include the bank's other branches would have provided a more holistic understanding of the subject matter, but the time constraint prevented the researcher from doing so.

## 1.10 Operational definition of terms

**Compensation:** refers to the total compensation that employees receive for their work be employee performance, which will be measured using data from. According to (Belcourt 1999), compensation for employees consists of commissions, bonuses, incentives, and wages and salaries.

**Salary:** is a set sum of money that an employer gives to a worker as payment for labor completed (Idrees, Xinping, Shafi, Hua & Nazeer 2015).

**Direct financial compensation:** comprises the pay that an employee receives in salary, wages, commissions, and bonuses.

**Indirect financial compensation:** is a type of payment to an employee that doesn't involve directly paying a wage or salary. Like offering health insurance and fringe benefits in general.

**Reward:** is something that is presented to someone in appreciation of their work for the organization; it can be monetary or non-monetary (Armstrong, 2009).

**A reward system:** A reward system is made up of the interconnected procedures and practices that work together to guarantee that reward administration is done efficiently for the good of the company and its employees (Armstrong, 2010).

**Employee Performance:** is anticipated of a worker with relation to job-related activities and the quality of those activities' execution. One dependent variable in this study will be the research questions and various testing instruments (Ann & Jerry 2009).

**Motivation:** is the readiness, initiative, or desire to take action that is dependent on the task at hand or the capacity to meet certain demands in exchange (Armstrong 2010).

### **1.11 Organization of the study**

There are five chapters in this research. The study's background, problem statement, aims, research questions, significance, scope, limitations, and definition of words, are all discussed in the first chapter, which serves as an introduction. The second chapter is a review of the literature that summarizes the perspectives of many academics regarding remuneration and how it relates to worker motivation and output. The research design, data source and collecting method, sampling strategy and size, data analysis approach, validity and reliability, and ethical considerations is all be covered in the third chapter on research methodology. The analysis and interpretation of data is covered in the fourth chapter. The study's primary findings, a conclusion, and a recommendation based on those findings is presented in the fifth and final chapter.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Introduction**

The aim of this chapter is to provide a comprehensive review of the relevant literature related to the research current topic. The literatures review on how employee performance is affected by compensation is covered under this chapter. The impact of compensation on employee performance, as well as the relationship between compensation and performance, is also the subject of this chapter.

#### **2.2. Theoretical literature review**

Resources are used to complete tasks in any organization: money, machines, materials, and most significantly, people. Workers utilize these resources to produce work; without them, other resources would be inert, meaningless, and unable to provide any output. As a result, people are an organization's most valuable resource and ought to be given top priority (Ojeleye & Okoro, 2016). Companies require high-achieving personnel to fulfill their objectives, provide the goods and services they specialize in, and ultimately gain a competitive edge. Additionally, performance matters to the person. Feelings of pride and mastery can arise from completing tasks and performing at a high level. Poor performance and failing to meet the objectives could be interpreted as disappointing or even as a personal failure. High achievers within an organization tend to get promoted more quickly and have greater career chances than low performers, while there may be exceptions (VanScotter, Motowidlo, & Cross, 2000; Sonnentag & Frese, 2001).

In order for a business to operate effectively, the employer must have a positive impact on employee performance, comprehend the many aspects of remuneration and reward as motivators, and guide employee behavior toward accomplishing organizational goals. Although employees possess knowledge, skills, attitude, experience, and qualifications, employers have access to compensation, benefits, and incentives (Ax et al., 2006). The banking industry is one of the service industries in Ethiopia that is expanding the fastest, and the theory of human resource management is expanding daily. Banks are essential to a nation's economic growth. These days, compensation and reward are a key component of employee performance in Ethiopian banks. An

adequate compensation and reward structure aids management in retaining a skilled and productive personnel within the company. Knowing they will receive recognition from their business inspires and motivates them. In order for an organization to succeed in the business world of today, it needs motivated workforce members. Offering employees a fair compensation and benefits is one approach to encourage them to perform better. Depending on how the company treats its employees, workers are willing to put in the effort and advance with the business. For any compensation and reward system to be effective, it must motivate employees to offer their utmost to the company.

### **2.2.1 Herzberg's two factor model**

According to (Murlis 2007), after 200 engineers and accountants shared experiences of unusually satisfying or unusually dissatisfying work occurrences, Herzberg's two element model of motivation was created. Herzberg's two-factor motivation model According to him, money is a so-called "hygiene factor" that, if it isn't there in sufficient quantities, can be a source of dissatisfaction rather than a source of satisfaction or motivation. Additionally, Herzberg explained that salary had a long-term, multi-month impact on unfavorable feelings but a mostly short-term impact on favorable feelings, making it a "hygiene factor," or a factor that prevents rather than promotes health. According to (Michael Armstrong 2008), Herzberg's two-factor model theory pointed, the elements causing motivation and job satisfaction are different from the elements causing job dissatisfaction. It is sometimes called the motivation–hygiene theory. There are two categories of elements. The first is made up of intrinsic job-satisfiers or motivators, such as growth, responsibility, achievement, acknowledgment, and the work itself.

The second group consists of what Herzberg refers to as the extrinsic to the job "dissatisfaction avoidance" or "hygiene" aspects, which include money, status, security, personal relationships, business policy and administration, and personal interactions. . Although they can't satisfy, they can lead to dissatisfaction if preventive measures aren't implemented. Along with this, he pointed out that the long-lasting satisfaction that comes from the work itself would probably make any satisfaction stemming from income rises temporary.

Therefore, one of the main findings of the study is that, aside from the short term, pay is not a motivator, even though unfair payment practices can cause demotivation. The difference

between intrinsic and extrinsic motivators is highlighted by Herzberg's two-factor model, and there is some merit to his claim that pay increases do not result in sustained satisfaction.

However, criticism has been leveled at his study and results. – first because, the initial research is said to be defective and to have failed to substantiate the claim that pay is not an motivator, and secondly due to the lack of an attempt to measure the connection between performance and satisfaction. As David Guest has written: 'Many managers' knowledge of motivation has not advanced beyond Herzberg and his generation. This is unfortunate. Their theories are now over thirty years old. Extensive research has shown that as general theories of motivation the theories of Herzberg and Maslow are wrong. They have been replaced by more relevant approaches.'

### **2.3. The Concept of Compensation**

According to Snell and Bohlander (2010), employee compensation refers to all forms of remuneration and benefits that workers receive in exchange for carrying out their duties. Employee compensation, according to Dessler (2011), refers to all benefits or pay that employees receive as a result of their employment. These can include direct financial payments, such as wages, salaries, commissions, incentives, and bonuses, as well as indirect financial payments, such as insurance premiums. Similarly, Hasibuan (2008) characterizes compensation as any earnings earned by employees in the form of cash, direct or indirect commodities, or repayments made to the business. According to the definitions given above, compensation is a methodical process used to provide workers money and other advantages in return for their labor and services.

When an individual dedicates their time, ideas, and effort to the organization, the organization must reciprocate by paying them enough to support themselves and their family. Pay is significant because, in general, workers want a fair salary from their employer and anticipate being able to support their families and themselves both while they are employed and when they retire.

Employee welfare will be addressed and satisfaction is anticipated with balanced compensation, which boosts employees' organizational commitment to the company. According to Ivancevich

(2010), compensation is a component of human resources management that deals with all forms of rewards that people receive for carrying out organizational tasks. According to recent research, financial pay can play a direct or indirect role in an employee's job performance and job satisfaction inside an organization (Sopiah 2013).

Compensation is significant for employees as individuals since it indicates the extent of their contribution to the company, their family, and the community. The community views remuneration as fairness, with the employer considering qualifications over gender when setting salaries. For employees, remuneration is a reward for doing a good job and a return on investment in the company, but manager's view it as the largest expense (labor cost) and a means of pressuring staff to perform better.

Employers must have a positive impact on employee performance and comprehend the many aspects of compensation as motivators that influence employees' behavior and help the organization achieve its goals in order to effectively oversee compensation. Excessive compensation keeps workers happy, which in turn fosters loyalty, dedication, and job satisfaction. Pay is the incentive that employees receive for their work or contributions to the company.

A recent research study aims to investigate the influence of compensation on job performance and then provide a model that depicts the correlation between the two. This model suggests that employee compensation should be taken into consideration, which would lead to improved work performance (qureshi, &sajjad2015).

According to (Akter and Moazzam 2016), compensation includes all monetary gains as well as material services and perks that employees receive as a condition of their job. It is comprised of the employee's wages and salary as well as commissions, bonuses, and incentive payments. (Salisu et al. 2015) used stratified random sampling procedures to choose a sample of 265 respondents for their study on the impact of salary on job satisfaction among public sector construction workers in Nigeria. A procedure called confirmatory factor analysis was used to

analyze the data. According to the study, compensation has a favorable effect on workers' job happiness, which in turn encourages quality work.

### **2.3.1 Components of Employee Compensation**

#### ***2.3.1.1 Direct Financial Compensation***

The term "direct compensation" describes financial rewards that are given to staff members in exchange for the services they do for the company. The financial perks include a base pay, an allowance for housing rent, transportation, a leave of absence travel allowance, medical reimbursements, bonuses, commissions, and so on. They are administered at a set time on a regular basis.

Direct financial compensation is sometimes limited to the direct monetary benefits that employees receive on a weekly, biweekly, or monthly basis in exchange for their labor on behalf of a particular organization. When direct monetary compensation is appropriately prioritized within the organization, worker productivity will increase. It may even take the form of stock bonuses, where employees are granted the opportunity to own shares in the company they work for. At the end of each year, they must have the opportunity to earn a portion of the equity on their dividends.

- **Salaries and Wages:** Salaries and wages have been defined differently, usually to highlight the distinctions between the two concepts. Surbhi (2015) described wages as the hourly payment made to laborers for the quantity of work completed in a workday, whereas salary is a fixed sum paid to employees on a regular basis based on their performance and productivity. He further argued that although people who are paid are typically said to be working in "white collar office jobs," which indicate that they are highly educated, skilled, employed by a company, and hold a respectable position in society, people who are paid are generally said to be working in "blue collar labor jobs," which indicate that they are working in an unskilled or semi-skilled job and are paid on a daily basis. Getting paid in the form of a salary is one of a person's goals when working for an organization. Were paid enough to cover basic expenses like rent, food, and

clothing. According to Kangunnudin (2007), every company's decision on the employee's salary must be practical in order for the lowest income to cover their basic necessities. Pay is the primary source of direct cash rewards for employees, therefore it's no surprise that salaries are given a lot of weight when it comes to labor rewards. A fair compensation structure can help a company recruit talent, boost productivity, and lower employee turnover rates. Compensation is one of the most crucial aspects of business, as most individuals choose to pursue it (Adibah, 2019).

- **Bonuses and Incentives:** According to Investopedia (2016), a bonus is extra money awarded to a worker on top of their base pay. A bonus may be given as compensation for devoted work or meeting predetermined targets established by the organization. Bonus pay, according to Heathfield (2016), is remuneration that is given in addition to the base income or hourly rate of pay. The employment offer letter, the employee personnel file, or a contract all include the base pay figure. Employers may choose to set a fixed sum for bonus compensation in contracts, or they may choose to distribute bonuses at random as long as the business can afford to pay them. According to Bardot (2014), a bonus is a payment that is retroactive, typically discretionary, or at the very least not anticipated from the employee(s).

It is decided whether to pay it to an individual, a group, or all employees based on standards established by management to honor prior accomplishments, like hitting a particular profit target or significant organizational milestones, or in a completely optional manner, with the definition of an incentive being a plan that looks ahead. Employees enrolled in the plan receive payment only upon completion of predetermined, clearly expressed objectives. By offering an incentive to work toward the goals, the incentive scheme seeks to change behavior in order to achieve the objectives. She went on to say that incentives might be given in the form of cash or non-financial rewards, such as trips or gifts (particularly for sales). The payout or award is paid under the incentive plan only if the predetermined, upfront goals are met. It is not discretionary.

According to Romanoff (2008), an incentive is a material or intangible reward intended to persuade an individual or group of people to act in a particular manner. A bonus, on the other

hand, is a one-time payment given at the conclusion of the performance period, usually a year, to recognize exceptional work or achievement. He emphasized further that incentives are not the same as bonuses in that they specify what has to be done as well as what the employee would get in return for doing it. Incentives therefore have a stronger effect on motivation and behavior.

#### **2.1.2.1.2 Indirect Financial Compensation**

According to (Dessler 2011), indirect compensation comprises both non-financial and financial incentives that employees receive in exchange for staying with the company. Non-monetary perks offered and given to staff members as payment for the services they render to the company are referred to as indirect reimbursement. They include the following: vacation homes, retirement benefits, hospitalization, insurance, overtime and leave policies, car policies, and hospitalization allowances. The purpose of these indirect types of compensation is to uphold or enhance the standard of living for workers. Subsidized benefits like paid time off for illness, retirement programs, and shopping discounts are examples of indirect financial rewards. Benefits are sometimes referred to as indirect compensation, according to Gomez et al. (2012), because they give employees and their families' security by being provided in the form of a plan rather than cash in exchange for better performance. In addition to the many forms of monetary compensation, workers may also get worker benefits or indirect compensation. They also embrace annual holidays and other events that don't seem to be strictly compensatory. The main uses for it are by organizations to aid in recruiting, impact the likelihood that employees will return to work for them, influence retention or increase commitment, boost employee morale, reduce absences typically, and increase worker productivity.

#### **2.1.2.1.3 Compensation Strategy and Compensation system**

Moghimi et al. (2017) state that a pay plan should be able to guarantee several things, including employeeretention, satisfaction, and performance and development.

Overall results indicated that there are strong positive relationships between incentive allowances, bonuses, fringe perks, and pay. In summary, there is a co-bonding between these variables, which surely take into account performance as a relationship between the benefit and pay plans, employee satisfaction, and turnover rate. As per Moghimi et al. (2017), a compensation plan ought to guarantee the retention of staff members, their contentment, and their enhancement and productivity. Overall results indicated that incentive allowances, bonuses, fringe perks, and pay have significant positive relationships. To put it succinctly, these factors are co-bonded and surely take into account performance as a relationship between the compensation benefit plans, employee satisfaction, and turnover rate. As per Moghimi et al. (2017), a compensation plan ought to guarantee the retention of staff members, their contentment, and their enhancement and productivity. Overall results indicated that incentive allowances, bonuses, fringe perks, and pay have significant positive relationships. To put it succinctly, these factors are co-bonded and surely take into account performance as a relationship between the compensation benefit plans, employee satisfaction, and turnover rate.

Employees may receive direct compensation in the form of cash benefits or indirect compensation in the form of non-cash advantages like time off or perks. Compensation is the total of all benefits and allowances given to employees in exchange for their work, not only their income. High organizational productivity can result from well-managed remuneration packages.

### **2.1.3 The Concept of Reward**

Rewards include all the monetary, non-monetary, and psychological compensation that an organization gives someone in exchange for their participation, according to Bratton and Gold (2003). Workplace rewards are a measure of the advantages employees receive and are thought to be a predictor of job satisfaction and commitment (Malhotra, Budhwar, and Prowse, 2007).

According to Gross and Friedman (2004), rewards can be divided into three categories: careers (training and development, career progression), benefits (health issues, work/life balance, and other advantages), and remuneration (base pay, short- and long-term incentives). Typically, a reward consists of something useful, like cash. Rewards have a wide range of uses in businesses. They help to improve employment terms, retain quality staff, and lower turnover. The main objective is to boost employees' motivation to work for one's organization in order to

raise productivity. Bonuses and pay increases are common "rewards" that most people accept, but they are not the only kind. Within the organization, human resources can be protected and used to their full potential by motivating them through a variety of techniques, including working conditions, the influence of leaders, training and development, learning cultures, organizational reputation, and rewards.

Each and every organization requires a comprehensive reward and recognition program that covers four key areas. They are admiration, acknowledgment, rewards, and remuneration; the entrepreneur (2003). Extrinsic and intrinsic rewards are the two categories of rewards. In actuality, extrinsic rewards are material benefits that management gives to staff members. They could take many different forms, including as bonuses, wage increases, promotions, and corresponding perks.

Extrinsic benefits are those that come from sources outside of the actual effort, according to Thomas (2009). This implies that other individuals, specifically the management, have the power to decide on the amount and whether or not they are approved. Conversely, verbal rewards like compliments and positive feedback are sources of intrinsic rewards since they promote higher performance and work satisfaction. Employees that are intrinsically driven enthusiastically engage in their work for internal motivations. This is the result of true happiness and contentment. Jansen (2011). The conversation and examples above also highlight the reality that intrinsic rewards—such as receiving greater respect or recognition—are mostly of a qualitative character and are therefore difficult to measure. In contrast, extrinsic rewards tend to be more quantifiable.

### ***2.1.3.1 Extrinsic Rewards***

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character and are therefore difficult to measure. In contrast, extrinsic rewards tend to be more quantifiable.

- **Bonuses:** Bonuses, which are often given out once a year, encourage workers to engage in all activities and make an effort throughout the year in order to surpass satisfactory appraisal standards and raise their chances of receiving several lump sum payments. Organizations differ in how they handle bonuses. While some guarantee fixed bonuses that do away with the element of asymmetric information, others handle bonuses based on performance, which is subjective and can lead to bias that could deter employees and cause setbacks. Managers must therefore use extra caution and objectivity.
- **Salary raise:** is attained via employees' diligent labor and effort, the acquisition of new skills or academic credentials, and as a thank you for their work (yearly raises) in an organization. Because it encourages workers to advance their knowledge and abilities, this kind of compensation is advantageous since it increases performance and production, which benefits the company. Long-term satisfaction is provided to employees by this kind of award. However, managers must also treat all workers equally and fairly, preventing the risk of adverse selection—in which some workers may be treated better than others.
- **Gifts:** are seen as short term. Primarily given as a thank-you gift for reaching an organization's target objective or making an accomplishment. Any worker would value a material gift that increases their sense of self-worth since it shows them that management values and recognizes them. This kind of compensation essentially shows the worker exactly where they should be going and encourages them to keep up or step up their efforts in order to reach greater goals and returns.
- **Promotion:** Very comparable to the earlier kind of award. Employee satisfaction over the long term is often impacted by promotions. This can be accomplished by giving the worker a promotion to a higher position and a title that carries more accountability and responsibility as a result of the worker's actions, conduct, and length of service with a particular company. Redundancy and regularity are the primary reasons why this kind of incentive is essential. With this kind of reward, the employee is encouraged to put in all

of his work in order to win the management's trust and be granted authority and delegative. Adverse selection is the problem with promotions, and managers need to be fair and reasonable while giving their staff promotions.

### **2.1.3.2 Intrinsic Rewards**

Intrinsic rewards drive from the task content itself and include things like engaging and demanding work, autonomy and accountability, diversity, creativity, and opportunity to participate in decision-making. They also include opportunities to apply one's skills and abilities and receiving adequate feedback regarding the efficacy of one's efforts. Since they meet a specific need for employees, these are considered intrinsic rewards. An employee is motivated when his intrinsic elements or motivators are met by an intrinsic reward.

According to Nelson (2004), the most effective intrinsic reward for improving an employee's performance is praise and acknowledgment. According to Jensen et al. (2007), intrinsic reward can be used as a strategy to encourage workers to meet expectations. Thomas (2009) defines intrinsic rewards as the psychological benefits that workers receive from carrying out meaningful work to the best of their abilities. According to Thomas (2009), intrinsic incentives can also take the shape of social recognition, praise, and sincere gratitude. They are also classified as non-formal, non-monetary, and non-cash rewards. He notes that giving someone acknowledgment in front of their peers for desired behavior or even achievement is what he means by recognition. Contrarily, appreciation focuses on expressing thanks to an employee for their actions. Employees are able to assess their own performance and well-being with the use of such rewards (Sarvadi, 2010). Intrinsic rewards are psychological benefits that employees directly perceive, according to Edirisooriyaa (2014). According to him, intrinsic rewards encourage workers to apply their skills, knowledge, and inventiveness to help their companies function at their best. A 2016 article published in the *European Journal of Business and Management* (Vol. 8, No. 25) states that Dr. Haz, Muhammad E., and Rizwan M., Muhammad E., Dr. Hazoor M., & Ms. NosheenKhan (2016), the following are considered extrinsic rewards:

- **Information / feedback:** Another important kind of compensation that good and successful managers never overlook. Positive (stay on course) or negative (point employees in the right direction) assistance is provided by this kind of award to staff members. Additionally, this strengthens and enriches the bond between managers and staff.
  
- **Recognition:** is expressing verbal gratitude for a worker's performance. This kind of incentive could be something informal like a "pat on the back" or something official like a meeting, but it always serves to improve the self-esteem and pleasure of the employee and encourages them to make further contributions.
  
- **Trust/empowerment:** In order to enhance any relationship between living people, trust is a necessary component in every community or organization. To successfully finish tasks, this kind of reliance is necessary. Occurs in empowerment as well when bosses assign workers assignments. This gives an employee more weight in areas where his choices and deeds are evident. Thus, organizations that subscribe to the notion that two minds are better than one may gain from this award. While extrinsic rewards concentrate on an employee's performance and actions in order to achieve a certain goal, intrinsic rewards help an employee feel more valued within the company. Finding a balance between employees' intrinsic satisfaction and their extrinsic performance is the main challenge. Additionally, the award must take the employee's personality into account. For example, a sports lover would be overjoyed to receive tickets for the upcoming major game. On the other hand, if a mother spends all of her time with her kids, they might not be put to good use and end up being wasted. The management must also decide whether to award a team, an individual, or the entire organization.

### **2.1.3.3 Reward System**

All organizational elements—people, procedures, guidelines, and decision-making activities—are included in the incentive system, which determines how much money and benefits to give employees in exchange for their contributions to the company (Puwanenthiren, 2011). It contains

agreements in the form of processes, practices, structures, and procedures which will deliver appropriate types and amounts of compensation, benefits, and other forms of reward. It is advanced within the organization's reward philosophy, strategies, and policies. All staff members must have faith in the system used to provide rewards. Workers desire that benefits be distributed in a fair and equitable manner (Danish & Usman 2010). Each employee should be given the proper financial and nonfinancial recognition for their individual contributions as well as the overall value of their position to the company, according to an effective rewards and pay system. (Ermias, 2017). The overarching purpose is to advance the accomplishment of the organization's strategic goals by compensating employees in a fair, equitable, and consistent manner based on their worth to the company (Armstrong & Stephens 2005).

#### ***2.1.3.4 The Concept of Total Reward***

When considering total compensation, it is easier to understand the full effect of awards on employee performance. Total reward definitions typically include not only traditional, quantifiable components like salary, variable pay, and benefits, but also more ethereal, non-cash components like opportunities for learning and development, career advancement, the intrinsic motivation that comes from the work itself, and the organization's provision of a high-quality working environment Thompson (2002 cited by Armstrong, 2009). The total reward idea, as proposed by Armstrong and Murlis (2004), highlights the significance of viewing rewards in their entirety as a cohesive and integrated whole. Base pay, remuneration based on performance, competence, or contribution, employee perks, and non-financial rewards—such as intrinsic rewards from the workplace and the labor itself—are all components of total reward. These components are interconnected. One or two reward processes or levers working in isolation are not relied upon in a complete reward approach, which is holistic. All of the ways that people can be satisfied and rewarded for their labor are considered. The objective is to provide a value proposition and optimize the aggregate effect of multiple reward programs on commitment, engagement, and motivation at work.

#### ***2.1.3.4 Reward and performance***

According to Armstrong (2008), incentives are essential for raising employee performance in a company. He goes on to say that it's a way to improve outcomes through performance management and understanding within a set of predetermined standards, competency criteria,

and planned goals. Africa has seen a number of research on the subject of incentive and how it impacts worker performance. Danso et al. (2013) conducted study on the impact of incentive systems on workers' performance at Ghana Commercial Bank and discovered that one issue facing many banks in the west African region is the misuse of reward systems. Similarly, Nyandema et al. (2014) investigated how intrinsic reward affected employees' motivation as well as how extrinsic reward affected employees' motivation. They came to the conclusion that both intrinsic and extrinsic reward systems had an impact on employees' motivation and career development in Kenyan companies. Additional research is included in the same submissions as (Bello & Adebajo, 2014; Jesca, 2014; Murphy, 2015).

Rewards can be used to raise performance by establishing goals based on the tasks assigned, such as hitting specific sales targets. An incentive to exceed targets can be offered to employees, incentivizing them to strive for even greater success (Perry et al., 2006). Empathy and appreciation have been shown to cause people to perform better, according to research. To encourage exceptional performance, a percentage of the retained earnings or the year-end profit may occasionally be distributed.

This is an additional approach that a business may use as a motivator to raise performance. In meetings or in the organization's newsletter, praise might be expressed. An employee's performance is much improved when managers take the time to meet with and commend those who have performed well (Torrington & Hall, 2006). The idea behind offering employees several forms of remuneration is that motivated workers are more happy when their needs—financial and non-financial—are met, which leads to better work output. Employees will be convinced to leave the company if this isn't done (Azasu, 2017). While some employees are content with extrinsic rewards like salaries, bonuses, and incentives given to staff members in order to improve their performance, others prefer receiving intrinsic rewards like recognition and praise for specific work accomplishments (Sajuyigbe, Bosede, and Adeyemi, 2013). It follows that exposing workers to different pay plans encourages them and, as a result, leads to better performance.

#### **2.1.4 The Role of Money**

Various authors have expressed differing opinions regarding the function of money as a reward or compensation. Armstrong (2012) states that critics of the value of monetary incentives frequently argue that material wealth is not as significant as the general public believes. The degree to which this viewpoint is accurate has long been a topic of intense discussion. Numerous investigations and analyses have been conducted, yielding varying conclusions supporting and refuting the idea that compensation is not a significant role in employee motivation.

According to Luthans (2002), who holds a strong opinion on money, money has long been seen as a reward and, for certain people, is more significant than any other benefit their organization may provide. He continues by arguing that the value of money varies widely depending on the individual and the sector, but that one thing is certain: money is a significant reward. According to Luthans (2002), money is a powerful motivator that can propel workers to higher performance levels mostly because of its capacity to provide them with other demands, such as achievement and recognition, status and respect, freedom and control, and power. Most writers from less developed nations tend to concur that the primary incentive for individuals to work is money, and that many people would not work without it.

#### **2.1.5 Employee Performance**

According to Wilkinson and Redman (2013), organizations are experiencing a metamorphosis in order to thrive in the marketplace and adapt to the changing needs of the environment. Talent, skill, knowledge, and experience of personnel as well as their capacity to use resources to accomplish organizational goals are key factors in an organization's ability to remain in business. Employee performance refers to how well workers contribute to the accomplishment of company goals. Workers are expected to perform to a reasonable standard, and managers monitor, assess, and review worker performance in order to meet the organization's goals (Armstrong, 2009). The accomplishment of a given activity judged against predefined or acknowledged standards of accuracy, completeness, cost, and speed is known as performance.

Organizations are systems that function at three different levels: departmental (business process), organizational, and individual. Every level needs to be evaluated in light of its objectives, layout, and management techniques. This procedure provides a long-term strategy that helps managers,

staff members, and company executives create a shared vision for the organization's future (Gilleyetal, 2009).

According to Dar, Akmal, Akram, and Khan (2011), job performance is defined as an individual's ability to successfully do a work allocated to them, within the usual restrictions of making acceptable use of the resources available. Because it may be used to gauge how well a business is supporting its employees' achievement, measuring employee performance is a crucial activity (Said, 2008). Nevertheless, a lot of businesses choose to overlook employee satisfaction in favor of only pleasing their clients. In actuality, staff pleasure can lead to customer satisfaction. Ahmad (2011) asserts that contented workers consistently do more work, which facilitates meeting consumer needs. Additionally, an employee's motivation may have an impact on their performance. For example, when workers are motivated and content with their pay, they will give their all at work, which will raise performance levels considerably (Shahzadi et al., 2014).

The performance of the executives and staff will determine a number of expectations held by the organizations. Thus, it is common for employees to strive to meet these requirements. They occasionally have a tendency to depend on their managers or employers. As a result, workers should get strategic compensation based on their demonstrated commitment to carrying out their duties in an artistic manner (Anitha, 2014). Employees felt, however, that the type of job, the compensation plan, and the prospects for advancement within the company all had a significant impact on their performance. Thus, it is imperative for firms to prioritize their equitable promotion and compensation policies, since they have the power to inspire people to deliver consistent performance. According to Boamah (2014), workplace culture, pay, work evaluations, and manager-employee relationships all have a big impact on how well employees perform.

#### *2.1.5.1 Employee Compensation and Performance*

According to Milkovich et al. (2002), compensation encompasses all monetary gains, benefits, and services that employees receive as a part of their employment arrangements. Pay is related to the entitlement that a worker has as a result of their contributions to the company. A motivated

employee, according to Murty and Hudiwinarsih (2012), will be enthusiastic and driven about the tasks that the company assigns, whereas a lowly motivated employee will frequently show signs of discomfort and dissatisfaction with his or her work, which will negatively impact performance and prevent the company from achieving its objectives.

Accordingly, it may be claimed that managing employee remuneration well will have an impact on their performance (Grabara, 2013). However, ineffective compensation management will lead to employee demotivation, which will eventually impact their diminishing performance. Based on Maslow's 1943 theory of motivation, the argument is made. In general, Maslow's theory of motivation states that a person's motivation for their needs is stratified and hierarchical. A person will go to the next level, which is ultimate self-actualization, once their basic requirements have been met.

It is considered that compensation consists of the company's efforts to provide fundamental needs for its workers, including housing, health care, and safety amenities. It is anticipated that addressing these fundamental wants will boost worker motivation by enabling them to fulfill more complex needs like self-actualization, rewards, and social needs. In this instance, meeting these fundamental demands will motivate staff members to continue raising their game. These arguments suggest that employee performance may be impacted by remuneration provisions.

#### *2.1.5.2 The Relationship between Reward and Employee Performance*

According to Shin-Rong and Chin-Wei (2012), there is a noteworthy correlation between employee reward and organizational success. For instance, Mayson and Barret (2006) discovered a connection between business performance and growth and a company's capacity to draw in, encourage, and keep workers by providing competitive pay and suitable incentives. Conversely, Inés and Pedro (2011) discovered that the success of the sales organization and the performance of individual salespeople are significantly impacted by the salespeople's reward system.

As a result, many businesses nowadays are looking for novel compensation schemes that are closely related to enhancing organizational performance in order to remain competitive in the

global business climate (Denis and Michel 2011). Numerous studies demonstrate the beneficial connection between employee performance and rewards. The most common method used by businesses in human resources to assess and compensate employees' work is performance-based reward (Collins and Clark, 2003). It appears that rewards based on performance have a more favorable impact on worker and company performance.

Fast-growing companies offered stock options and monetary incentives as part of their employee benefits packages. By doing this, businesses were able to inspire excellent performance from their workforce, give workers a sense of ownership in the company, which is important for attracting and keeping top talent, and transfer some of the business risk to the workers. According to Cho et al. (2005), incentive programs should take the lead in raising performance rates. Effective and efficient workers may be restricted if they lack performance motivation. According to Mendonca (2002), the expectation theory—which holds that there is a high correlation between an employee's performance and the reward they receive—is the foundation of reward and compensation systems. This idea encourages people to perform well. According to Guest (2002), one of the most important factors in encouraging workers to meet expectations is incentive. The compensation may take the kind of money, acknowledgment, and/or praise, or both. Group performance-related programs offer out monetary rewards to a team or group of workers when they meet predetermined goals. All of these programs aim to improve business performance by coordinating employees' interests with their firms' financial results. Chin-Ju (2009).

#### *2.1.5.2.1 Extrinsic Rewards and Employee Performance*

Extrinsic rewards have a good effect on employees' performance within the firm, according to a wealth of literature. Bard (2006), however, points out that care must be taken when using extrinsic rewards to encourage staff members. He believes that people in lower level positions within the company are more susceptible to extrinsic motivational variables than people in higher level positions. He argues that the need for intrinsic rewards with a financial component stems from the fact that people in lower level positions typically earn less than those in higher level positions. In fact, it may result in a raise in base pay, which would make the worker happier

and more efficient.

Three primary areas comprise the financial or monetary component of reward systems, according to Merchant (2007).

These consist of: performance-based compensation increases that companies give to their staff members at the end of each set time frame. It is anticipated that when an employee gains experience and longevity, their competences would grow over time. Consequently, provisions are provided for a little pay raise following specific time periods. According to Merchant (2007), it's known as a performance-based compensation increase. Short-term incentive schemes are an additional one. The majority of managerial level employees receive this financial incentive, which is determined by performance over a brief period of time—typically less than a year. The long-term incentive plans are the final one. It's an award that is determined by performance metrics for more than one year. Utilizing the plan, an organization can enhance the long-term worth of the business by rewarding staff members for exceptional work performance. Additionally, it aids in luring and keeping talented individuals within the company (Merchant, 2007). According to Siti-Nabiha, Thum, and Sardana (2012), a reward—particularly a pay reward—is typically anything of value, like cash. It fulfills a variety of functions inside the company. It helps to improve employment agreements, retain quality workers, and lower the rate of employee turnover.

Enhancing employees' willingness to work and perform at their best is the main objective in order to raise the organization's output and productivity. According to Emeka, Amaka, and Ejim (2017), all extrinsic variables increase employee motivation, which in turn favorably improves their ability to perform towards the achievement of organizational goals and objectives.

#### **2.1.5.2.2 Intrinsic Rewards and Employee Performance**

According to Fred L. (2011), there is growing evidence that contingently administered recognition can be a potent reinforce to boost employee performance, even though money gets the most attention as a reinforce and incentive motivator—in fact, practicing managers even equate it with reward systems. According to Ali and Ahmad (2009), some of the intrinsic rewards that increase employees' commitment and performance to the company are non-financial rewards including achievement, accomplishment sentiments, recognition, job satisfaction, and

appreciation. According to them, intrinsic rewards are essential for fostering and maintaining employee commitment to high performance inside a business. As to Hassan's (2011) findings, intrinsic rewards serve to satisfy an employee's intrinsic factors or motivation, so inspiring them to perform better. From his perspective, one of the most potent intrinsic motivators is being commended for a job well done. This is due to the fact that when employees receive such acknowledgment, they always feel like they belong and that their efforts are highly valued by the company they work for (Sajuyigbe et al, 2013).

According to Irshad (2016), intrinsic incentives come from achieving one's objectives or doing a task well; they are inherent in the job itself. He emphasizes that they work better with people who make more money. According to Ryan (2013), employee recognition in a company is a non-cash incentive that elicits a positive internal sense of fulfillment and provides a sense of community, all of which encourage exceptional performance from the employee. According to Jenson (2007), there is evidence to suggest that providing recognition is a more effective way to encourage specific employee classes to perform better. According to him, it results in job satisfaction, which everyone agrees is a prerequisite for dedication and, as a result, improves performance inside the company.

## **2.4. Empirical Review**

Numerous research papers have examined the impact of remuneration and incentive schemes on worker productivity across various global regions.

According to (Akter and Moazzam 2016), performance-based compensation is the single best indicator of job performance. According to Abdullah's (2014) analysis of variables influencing staff performance at the Fairmont Norfolk hotel, compensation, innovation, training, and development all have a favorable effect on workers' job performance. According to his study, compensation has a favorable effect on workers' performance at the company.

Ngowi (2014) states that studies have looked at how employee performance is affected by pay increases, training, corporate culture, organizational structure, and reward programs. According to the report, 72% of respondents said that poor pay and inadequate training are obstacles to Stanbic Bank employees' ability to execute their jobs well.

According to Danish & Usman (2010), the ideal company might be one that meets both non-financial and financial goals. Additionally, they looked into the impact of financial incentives on worker performance. The study's findings also demonstrated that increased performance was best predicted by job rewards, and job commitment was best predicted by a combination of investment quantity, rewards, and cost values.

Abdul Hameed (2014) studied how employee performance in Pakistan's banking industry was affected by pay. To gather information on the various aspects of pay, including salary, incentives, indirect compensation, and employee performance, a questionnaire was created. The information was gathered from several Pakistani banks. SPSS 17.0 was used to analyze the gathered data. The results showed that compensation improves worker performance.

A study by Sheila and Josephat (2015) attempted to determine how employee performance at the Nakuru County Government was impacted by pay and rewards. The method of stratified random sampling was applied. Questionnaires and interview schedules with a mix of open-ended and closed-ended questions were used to gather primary data. The results showed a significant correlation between employee performance in the Nakuru county administration and compensation and rewards.

Munir, Lodhi, Sabir, and Khan (2016) conducted an investigation into the effects of both intrinsic and extrinsic rewards on employee performance, specifically focusing on courier enterprises located in Faisalabad City. It was intended for the study to be a descriptive survey. The findings indicate a robust correlation between the two forms of rewards and worker productivity. The study comes to the conclusion that awards, both internal and external, have a favorable impact on workers' productivity within the company. In a different study, Bello and Adebayo (2014) used a subset of public secondary schools as the study area to look at the relationship between the reward system and worker performance in Lagos State.

Using a sample of 200 individuals, the study used a descriptive survey approach and discovered a substantial correlation between in-service training, job allowances, and wage packages for employees. The study comes to the conclusion that better pay, benefits for housing, health, hazards, transfers, and teacher participation in decision-making, as well as setting teacher

salaries commensurate with other professions, will improve the performance of teachers in Lagos State's secondary schools.

Aktar, Sachu, and Ali (2012) investigated how employee performance was affected by extrinsic rewards (base pay and performance bonus) and intrinsic rewards (recognition, learning opportunities, difficult work and career development). The study was conducted in twelve commercial banks in Bangladesh. The study discovered that every component of intrinsic and extrinsic reward had a highly significant impact on workers' performance. On the other hand, a weak and insignificant correlation was found between salary, bonus, and organization performance in Yasmeeen, Farooq, and Asghar's (2013) study on the effect of rewards on employee performance in Pakistan. However, it was discovered that employee performance and promotion had a moderate to strong association

The aforementioned studies' conclusions highlighted the significance of pay and rewards for both employee performance and the accomplishment of organizational goals.

## **2.5. Conceptual Framework**

The conceptual framework presented below postulates that various components of compensation, both direct and indirect, as well as extrinsic and intrinsic rewards, can have a significant influence on the performance of employees at Amhara Bank S.C. The researcher hypothesize that the level and structure of direct compensation can have a direct impact on the motivation and productivity of employees, ultimately affecting their overall performance within the organization. Complementing direct compensation, the framework also examines the role of indirect compensation. The indirect rewards can contribute to employee satisfaction, job security, and overall well-being, potentially influencing their engagement and commitment, which may translate into improved performance. Additionally, the conceptual framework considers the influence of extrinsic rewards. This external motivator can provide employees with a sense of accomplishment, career advancement opportunities, and job stability, potentially enhancing their performance. The framework also explores the impact of intrinsic rewards, which are inherent to the work itself and which can enhance a sense of fulfillment and self-actualization among employees, potentially leading to increased job performance. The graphical illustration of the conceptual framework of the study is given in Figure 1.

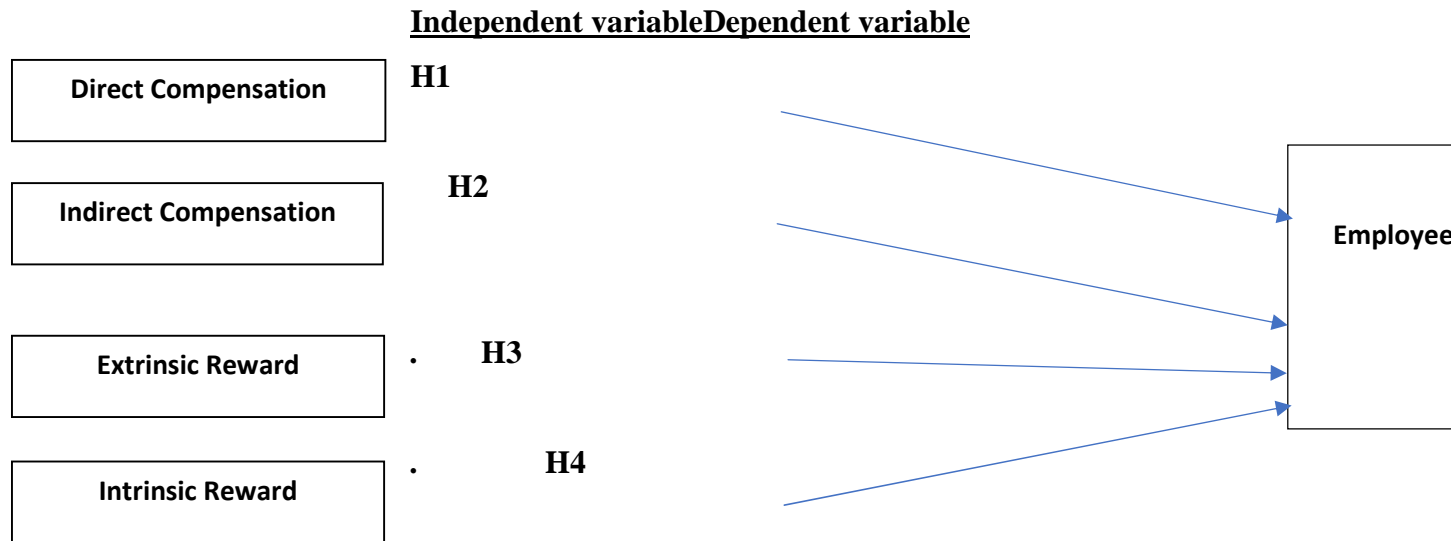


Figure 1: Conceptual Framework developed by the researcher

## 2.6. Hypotheses Testing

Four hypotheses were selected for the study after a thorough examination of the literature. Table 1 below presents the findings and the four hypotheses that were developed.

Table 1: Hypotheses test result.

Hypothesis	Statistical values	Result
H <sub>1</sub> : Employees' performance at Amhara Bank is affected by direct compensation system of the Bank.	( $r = 0.251$ , $p < 0.001$ ).	Supported.
H <sub>2</sub> : Employees' performance at Amhara Bank is affected by indirect compensation system of the Bank.	( $r = 0.233$ , $p < 0.001$ ).	Supported.
H <sub>3</sub> : Employees performance at Amhara Bank is	( $r = 0.276$ , $p <$	Supported.

affected by extrinsic reward system of the Bank.	0.001).	
H <sub>4</sub> : Employees performance at Amhara Bank is affected by intrinsic reward system of the Bank.	( = 0.242, p < 0.001)	Supported.

## **Chapter Three**

### **3. Research Methodology**

#### **3.1 Introduction**

The aim of this chapter is to outline the research methodology employed in the study to investigate the effect of compensation on employees' performance at Amhara Bank. The research aim of this paper is to assess the relationship between compensation and performance and find the answers for the research problems stated through the use of questioners or data collection methods that was deployed during the course of this research. This chapter also tries to define the study type, research design, and methods that are used in the study. The chapter primarily cover the research design, study population, sample size and sampling strategies, data collection source and method, instrumentation, validity and reliability tests, and data analysis and management.

#### **3.2 Research approach**

The study utilized a quantitative research approach to investigate the relationship between compensation and employee performance at Amhara Bank S.C. This involved the collection and analysis of numerical data gathered through survey questionnaires administered to the bank's employees.

#### **3.3. Research Design**

This study employed both descriptive and explanatory components to investigate the relationship between compensation and employee performance in the study area. A research design, according to (Kothari 2004) is the conceptual framework that guides the conduct of research and serves as a guide for data collecting, measurement and analysis. The study's mixed research design, encompassing both descriptive and explanatory components, was essential to achieve its objectives. The descriptive element was crucial in providing a detailed account of the compensation practices and the prevailing motivation conditions within Amhara Bank S.C. The study then investigated the explanatory aspect to identify the relationships between the compensation components and their impact on employee performance.

### 3.4 Study Population

The target population for this study consisted of all employees working at the bank's city and outlying branches and head office locations.

### 3.5. Sampling Frame and Sampling Technique

The sample frame consists of the 496 employees of the Amhara Bank S.C. Head Quarters. This represents the entire population of employees at the bank's head office location, which will serve as the focus of the study. The stratified random sampling method was employed to ensure a representative sample of employees from various job categories within the head office of Amhara Bank S.C. Stratification was based on the job category within the head office. Employees were divided into distinct strata according to their job roles. The sample size was then proportionally allocated to each job category, reflecting the distribution of employees across these categories in the total population. Within each stratum, participants were selected randomly to ensure that every employee had an equal chance of being included in the sample. The proportional to size allocation of the sample is shown in the table below.

Table 2: Proportional Allocation of the Sample Size to Job Category within the Bank

<b>Job category</b>	<b>Sample frame</b>	<b>Sample</b>
Junior	269	114
Officer	173	73
Senior Officers	33	14
Relationship Manager	12	5
Division Manager	9	4
Total	496	210

### 3.6. Sample size

According to (Leedy2005) sample should be so carefully chosen that through it the researcher is able to see all the characteristics of the total population in the same relationship that they would be seen where the researcher, in fact, to examine the total population. Unless the sampling procedure is carefully planned, the conclusion that the researcher draws from the data are likely to be distorted or biased. According to Taro Yamane (1973), the sample size was determined as

follows; to represent the entire population or universe: 496, which is the total number of employees handled at the 95% confidence level of Amhara Bank S.C. Head Office staff.

It was calculated as follows:

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

$$n = \frac{496}{1 + (385)(0.05)^2}$$

$$n = 221$$

Where, n=Sample size, N= Population, e= standard error

### **3.7 Method of Data Collections**

The primary data was gathered through a questionnaire. The study depends on primary data, which was collected through the survey method by using a questionnaire that was developed based on a literature review.

### **3.8 The Research Instrument**

The questionnaire comprised statements related to different forms of compensation (direct, indirect, intrinsic, and extrinsic) and employee performance (Abebe, 2019). Participants were asked to indicate their level of agreement with each statement on a five-point Likert scale, with options ranging from "Strongly Disagree" to "Strongly Agree.". The questionnaire was distributed to the selected participants, ensuring anonymity and confidentiality to encourage honest and accurate responses. Data collection was conducted over a specified period, with follow-up reminders sent to participants to maximize response rates.

### **3.9. Method of Data analysis**

In the data analysis phase, a comprehensive approach was adopted, incorporating both descriptive and inferential statistical methods using the statistical software SPSS 26 and MS excel 2016. Descriptive statistics was employed to summarize and present key features of the quantitative data collected through the structured questionnaire with a 5-scale Likert scale. This was including measures such as mean, standard deviation, and frequency distributions, providing a clear overview of the central tendencies and variations in the dataset.

Additionally, inferential statistics was utilized to draw conclusions and make inferences about the larger population based on the sample data. This may involve techniques such as correlation analysis and regression analysis. Multiple linear regression analysis was employed to further explore the relationships between multiple independent variables and the dependent variable.

### **3.10. Ethical Consideration**

Several ethical considerations were taken into account to ensure the well-being and rights of the participants. Informed consent was obtained from all participants, clearly explaining the purpose of the study, their voluntary participation, and the confidentiality of their responses. Participants were assured that their involvement was voluntary, and they could withdraw from the study at any time without consequences. Confidentiality of participant information was strictly maintained to protect their privacy, with data anonymized and stored securely. Additionally, the study adhered to ethical guidelines regarding data collection, analysis, and reporting to ensure the integrity and credibility of the research findings.

## CHAPTER FOUR

# DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

### 4.1 Introduction

The aim of this chapter is to analyze collected data rigorously, present findings clearly, interpret results, and discuss the results within existing literature to draw meaningful conclusions. This chapter covers the following topics: testing statistical hypotheses, descriptive statistical analysis, data presentation, and data cleaning procedures that are necessary to prepare the dataset for statistical analysis. The steps required to test the four hypotheses using the multiple regression method are covered in this chapter.

### 4.2. Data Screening and Cleaning

Data from Head Office staff members of Amhara Bank S.C. was gathered via a self-administered survey. Participants were asked to return the questionnaire within two weeks of time. Subsequently, 210 questionnaires were returned out of 221 distributed. Every questionnaire that was gathered was examined to ensure that every question had a participant's response in a format that could be used for analysis.

After the self-administered survey questionnaires were gathered data were entered into SPSS. It was confirmed that every variable in the data cleaning procedure had code values between 1 and 5, matching the scales with the questionnaire. A frequency table was employed to summarize the minimum and maximum values for each variable associated with the 210 cases.

### 4.3 Reliability test

Cooper and Schindler (2003) stated that a measure is reliable if it yields consistent results. Measurement-wise, reliability is the extent to which the measurements are error-free, ensuring consistency in the outcomes (Fuchs and Diamantopoulos, 2009). In a similar vein (2014) offered a succinct definition of reliability as “the consistency or dependability of a measuring technique.” In general, it is thought that reliability tests enhance the assessment of data quality. In this study, the internal consistency of the items was examined using the Cronbach alpha

coefficient. If the Cronbach alpha is 0.70 or above, the measuring scale is deemed reliable, according to Nunnally (1978) and Churchill (1979).

The reliability test revealed that, the Cronbach's alpha value of the measures used in the study is 0.829. Therefore, the data is reliable for further analysis and drawing generalizations as it is greater than the threshold value of 0.70. -The overall reliability test summary is presented below in Table 2.

Table 3: Reliability test

<b>Reliability Statistics</b>		
	Cronbach's Alpha	N of Items
Direct Financial Compensation	0.840	6
Indirect Financial Compensation	0.711	7
Extrinsic Reward	0.73	8
Intrinsic Reward	0.904	7
Employees Performance	0.76	10

#### 4.4 Correlation Analysis

By determining the direction and degree of association between two or more variables, correlation analysis can be used to analyze the relationship between variables. The strength of the association between two variables exhibits the following pattern, according to Mooi and Sarstedt (2011).

Table 4: Measurement for the Strength of Correlation Coefficient

Pearson coefficient	Value
0.80-1.00	Very strong
0.60-0.79	Strong
0.40-0.59	Moderate
0.20-0.39	Weak

0.00-0.19

Very weak

---

Table 4 below shows the Pearson correlation between the study's variables.

Table 5: Correlation Analysis Results

		Employee performance	Direct Financial Compensation	Indirect Financial Compensation	Extrinsic Reward	Intrinsic Reward
Employee performance	Pearson Correlation	1	.829**	.831**	.859**	.851**
	Sig. (2-tailed)		.000	.000	.000	.000
Direct Financial Compensation	Pearson Correlation	.829**	1	.739**	.794**	.774**
	Sig. (2-tailed)	.000		.000	.000	.000
Indirect Financial Compensation	Pearson Correlation	.831**	.739**	1	.792**	.801**
	Sig. (2-tailed)	.000	.000		.000	.000
Extrinsic Reward	Pearson Correlation	.859**	.794**	.792**	1	.825**
	Sig. (2-tailed)	.000	.000	.000		.000
Intrinsic Reward	Pearson Correlation	.851**	.774**	.801**	.825**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	210	210	210	210	210

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

The correlation analysis presented above shows the relationship between various factors and employee performance at the Amhara Bank S.C. Head Quarters. The results show that employee performance is strongly and positively correlated with direct financial compensation and rewards

( $r = 0.829$ ,  $p < 0.01$ ), indicating that as direct financial incentives and rewards increase, employee performance tends to improve in a significant manner. Similarly, there is a strong positive correlation between employee performance and indirect financial compensation and rewards ( $r = 0.831$ ,  $p < 0.01$ ), suggesting that benefits and allowances also play an important role in driving performance.

The analysis further reveals a strong positive correlation between employee performance and extrinsic rewards and recognition ( $r = 0.859$ ,  $p < 0.01$ ). This suggests that factors such as recognition, career advancement opportunities, and other extrinsic rewards are closely linked to higher levels of employee performance. Additionally, the results demonstrate a strong positive correlation between employee performance and intrinsic rewards ( $r = 0.851$ ,  $p < 0.01$ ). This implies that factors such as job satisfaction, a sense of accomplishment, and other intrinsic motivational elements are also significant predictors of employee performance.

#### 4.5. Descriptive Analysis

In this section the measuring items, independent and dependent variables, and description of the findings are all included along with a descriptive statistical summary.

##### 4.5.1 Demographic Information of the Respondents

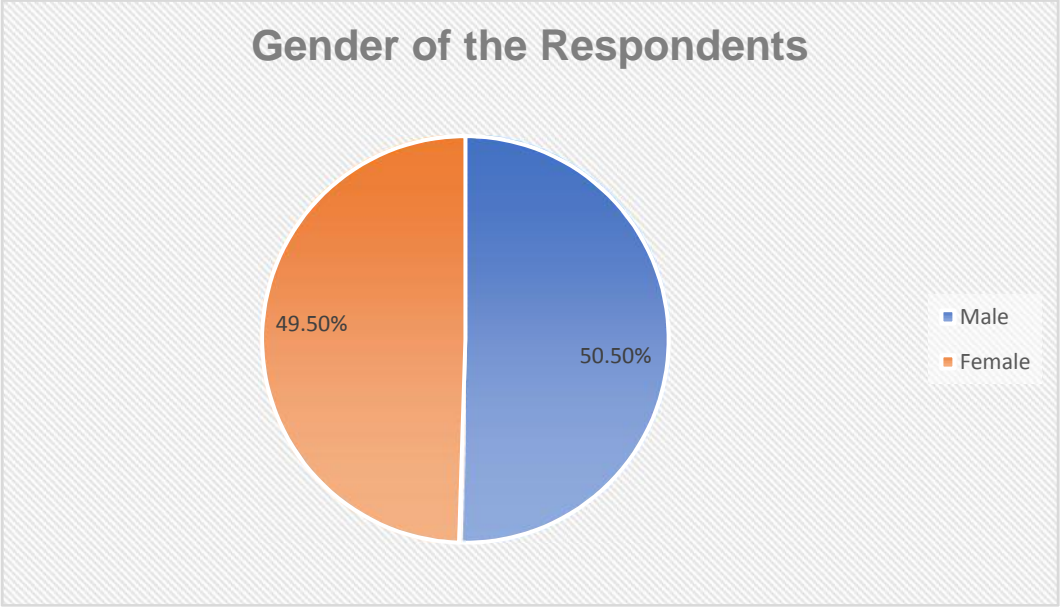
In this part the respondent's profile such as respondent's age, gender, marital status, education, job position and monthly gross salary is shown. Table 5., below shows the age composition of the respondents.

Table 6: Age of respondents

Age		
	Frequency	Percent
20-30	91	43.3
30-40	88	41.9
40-50	26	12.4
>50	5	2.4
Total	210	100.0

As presented above in Table 4.2. 43.3% of the respondents are below 30 years of age, 41.9% of the respondents age fall between 30-40 years, 12.4% of the respondent's age is between 40-50 and only 5% of the respondents are above 50 years of age

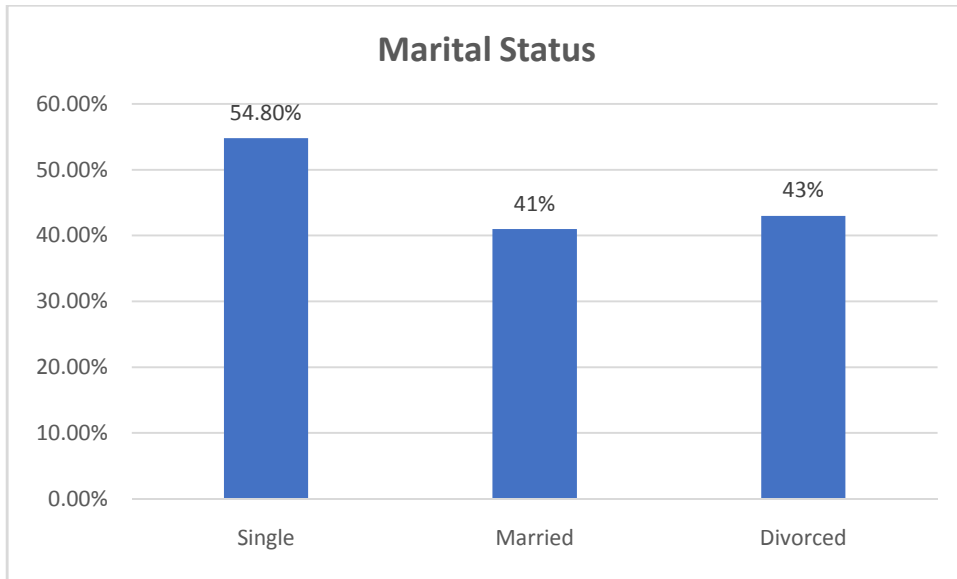
Gender mix of the respondent's is shown below in Figure 2.



*Figure 2: Gender of the Respondents*

As indicated above in Figure. 50.5% of the respondents are male while 49.5% are female respondents. This shows that there is a fair distribution of male and female respondents.

Marital status of the respondents is presented in Figure 3 below



*Figure 3: Marital Status of the Respondents*

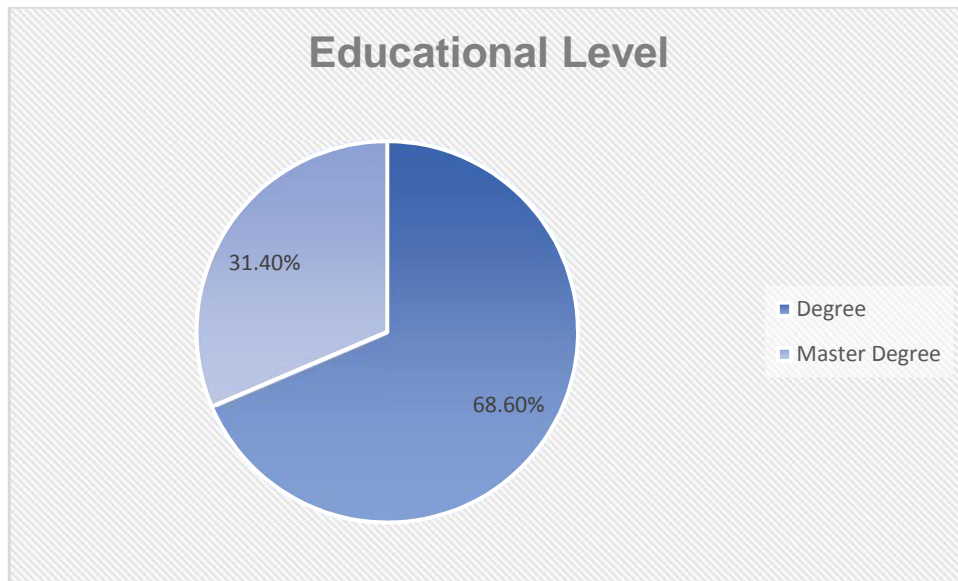
In Figure 3 above, 54.8% of the respondents are single, 41% are married and 4.3% are divorced. In this study most of the Bank’s employees are found to be single (unmarried).

The education level of the respondents is presented below in Table 4.3.

	Frequency	Percent
1-5	100	47.6
5-10	53	25.2
10-15	28	13.3
>15	29	13.8
Total	210	100.0

Table 4.3 shows that 47.6% of the respondents have a working experience less than 5 years, 25.2% of the respondents have a working experience less than 10 years, 13.3% of the respondents working experience falls between 10 to 15 years, while the remaining 13.8 respondents have more than 15 years of work experience. It is seen here that majority of the Bank’s employees work experience is less than 5 years.

Figure 4. below shows the educational background of the respondents.



*Figure 4: Educational status of the Respondents*

Figure 4. shows that 68.6% of the respondents are degree holders while the remaining 31.4 respondents are Masters Graduates.

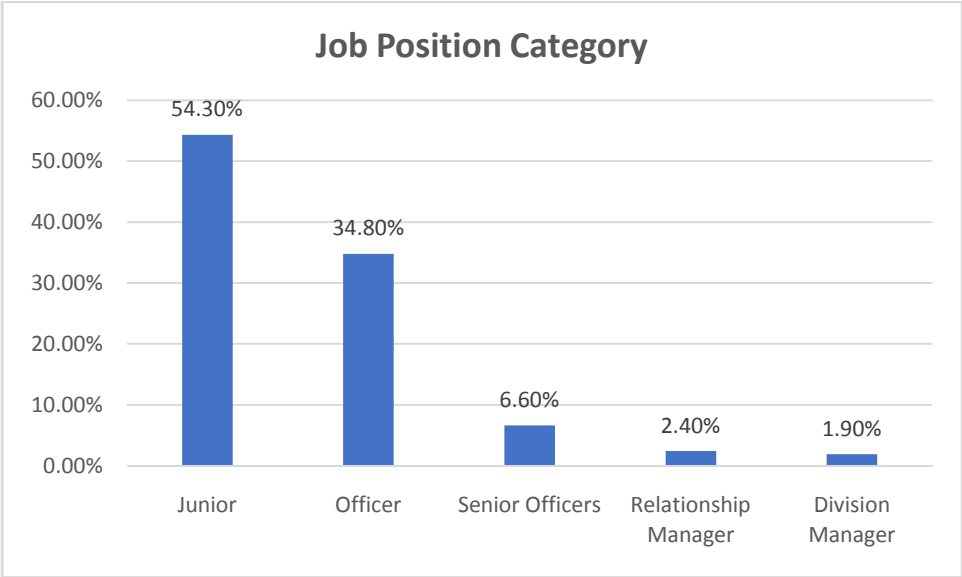
Monthly Gross Salary of respondents is presented below in Table 6.

**Table 7: Salary of the Respondents**

<b>Monthly Gross Salary of Respondents</b>		
	Frequency	Percent
10,000-15,000	100	47.6
15,001-21,000	75	35.7
21,001-28,000	23	11.0
>28,000	12	5.7
Total	210	100.0

As presented in Table 6. above 47.6% of the respondents monthly gross salary fall between 10,000-15,000, 35.7% of the respondents monthly gross salary is between 15,001-21,000, 11% of the respondents monthly gross salary fall between 21,001-28,000, while the remaining 5.7% of the respondents monthly gross salary is greater than 28,000.

Figure 5. below shows Job Position composition of the Respondents



*Figure 5: Job Position composition of the Respondents*

Figure above shows 54.3% of the respondent’s job title is Junior Officers, 34.8% of the respondents are Officers, 6.7% of the respondents are Senior Officers, 2.4% of the respondents are Relationship Manager, while the remaining 1.9% of the respondents were Division Manager. This distribution occurs because senior personnel’s of the Bank were not willing to answer the survey questions due to work loads.

## 4.5.2 Descriptive Analysis of the variables of the study

### 4.5.2.1 Descriptive Analysis of Direct Financial Compensation

The percentage of agreement and disagreement for the direct financial compensation measurement items is presented in the following Table7.

Table 8: Descriptive Analysis of Direct Financial Compensation

Item	%SD	%D	% Disagree	%N	%A	%SA	%Agree
I get a good salary in comparison to other banks	11	31.9	42.9	8.6	28.6	20	48.6
For my contribution my salary is satisfactory	21.9	28.1	50	5.7	21	23.3	44.3
The bank's financial features, such as payments, bonuses, and allowances, are satisfactory	26.7	22.9	49.6	5.7	26.7	18.1	44.8
I am satisfied with the amount of salary I receive	28.6	19.5	48.1	6.7	19	26.2	45.2
My salary influences my performance	15.2	30	45.2	2.9	24.3	27.6	51.9
Low salary may lead you to shift job	14.8	32.4	47.2	3.3	18.6	31	49.6
<b>Mean =3.052</b>							
<b>SD =1.501</b>							

As shown above regarding the comparison of salaries with other banks, 42.9% of employees strongly disagree or disagree that they get a good salary in comparison. Similarly, 50% of employees are either strongly dissatisfied or dissatisfied with the salary they receive in relation to their contribution to the organization. The financial features of the bank, such as payments, bonuses, and allowances, are also a source of dissatisfaction for employees, with 49.6% expressing overall disagreement with the adequacy of these benefits. When it comes to the overall satisfaction with the salary amount, 48.1% of employees are either strongly dissatisfied or dissatisfied. However, a relatively higher proportion of employees (51.9%) agree or strongly agree that their salary influences their performance. Additionally, the survey results indicate that

low salaries may lead to job shifts, with 49.6% of employees strongly agreeing or agreeing that they would not consider shifting jobs due to low pay.

These findings suggest that the Amhara Bank S.C. Head Quarters may need to re-evaluate its compensation structure and policies to address the concerns and dissatisfaction expressed by a significant portion of its employees.

#### 4.4.2.2. Descriptive Analysis of Indirect Financial Compensation

The percentage report regarding the indirect financial compensation measurement items is presented in the following Table 8.

Table 9: Descriptive Analysis of Indirect Financial Compensation

Item	%SD	%D	% Disagree	%N	%A	%SA	%Agree
The bank offers retirement plans, health insurance, savings plans, and security insurance benefits	25.2	19.5	44.7	13.3	26.7	15.2	41.9
There is a mortgage loan scheme for employees of the bank	1.4	28.1	29.5	6.2	46.2	18.1	64.3
The bank offers attractive mortgage loan policies	11.9	27.6	39.5	3.8	43.3	13.3	56.6
Provision of attractive mortgage loan scheme will aid in keeping top performers	11.4	26.7	38.1	1	29.5	31.4	60.9
The benefit package is satisfactory and meets the needs of every employee	13.8	35.7	49.5	0	39.5	11	50.5
The banks benefit packages in contrast to those of other banks	14.3	36.7	51		37.1	11.9	49
I am satisfied with the benefits I get	17.6	33.3	50.9	0.5	33.8	14.8	48.6
<b>Mean = 3.127</b>							
<b>SD =1.340</b>							

Concerning the retirement plans, health insurance, savings plans, and security insurance benefits, 44.7% of employees express overall disagreement with the adequacy of these benefits. However, a slightly higher proportion of employees (41.9%) agree or strongly agree that the bank offers these benefits. The survey findings indicate that the bank's mortgage loan scheme is relatively more favorable among the employees. A majority of 64.3% of employees agree or strongly agree that the bank offers an attractive mortgage loan scheme for its employees. Similarly, 56.6% of employees express overall agreement with the bank's mortgage loan policies. Furthermore, 60.9% of employees agree or strongly agree that the provision of an attractive mortgage loan scheme would aid in retaining top performers within the organization. When it comes to the overall satisfaction with the benefit package, the results are mixed. While 49.5% of employees express overall dissatisfaction with the benefit package and its ability to meet the needs of every employee, a slightly higher proportion of 50.5% agree or strongly agree that the benefit package is satisfactory. Similarly, 51% of employees express overall disagreement that the bank's benefit packages are competitive compared to other banks, while 49% agree or strongly agree that the bank's benefit packages are satisfactory.

These findings suggest that the bank's mortgage loan scheme and related policies are perceived positively by the employees, while the other benefit offerings, such as retirement plans and insurance, may require further review and improvement to meet the needs and expectations of the workforce. According to (Dessler 2011), indirect compensation comprises both non-financial and financial incentives these payments are a significant portion of each employee's remuneration. In this study the highest mean values shown under the above table 4.6 shows that the Bank not only offers a mortgage loan scheme but also offers an attractive mortgage loan scheme which will aid in retaining top performers. It also shows as the benefit package is satisfactory it meets the needs of employees. Three items show lower mean scores less than 3 regarding the banks offer with retirement plans, health insurance and other related indirect compensation benefits.

#### 4.4.2.3. Descriptive Analysis of Extrinsic Reward

Employees' Perception regarding the extrinsic motivator in the study bank is presented as follows:

Table 10: Descriptive Analysis of Extrinsic Reward

Item	%SD	%D	% Disagree	%N	%A	%SA	%Agree
There are sufficient financial rewards like salary increment, bonus, incentives and gifts in the bank	21.9	28.6	50.5	10.5	24.8	14.3	39.1
High performers will get additional pay for their performance	0	14.8	14.8	31	28.1	26.2	54.3
Salary increments are made based on employee performance	11.9	37.6	49.5	11	9	30.5	39.5
Salary increment made for high performers will motivate others to perform better	7.1	17.6	24.7	12.4	33.3	29.5	62.8
The bank's bonus payment is performance based	26.7	42.9	69.6	10	18.6	1.9	20.5
The bonus plan encourages to perform better	32.9	36.7	69.6	8.6	19	2.9	21.9
If I perform well, I am certain that amount of bonus will increase	7.1	19	26.1	18.6	33.3	21.9	55.2
The bank has a clear and fair promotion procedure	10.5	17.6	28.1	19	28.6	24.3	52.9
<b>Mean = 3.059</b>							
<b>SD = 1.248</b>							

As indicated in the table 9. above, about the overall financial rewards, such as salary increments, bonuses, incentives, and gifts, 50.5% of employees express overall disagreement that there are sufficient such rewards in the bank. In terms of the relationship between performance and pay a majority (54.3%) of employees agree or strongly agree that high performers will receive additional pay for their performance. Additionally, 39.5% of employees agree or strongly agree that salary increments are made based on employee performance. A total of 62.8% of employees agree or strongly agree that salary increments for high performers will motivate others to perform better, indicating that the employees perceive a link between performance and rewards.

However, the findings regarding the bank's bonus payment system are less favorable. A substantial 69.6% of employees express overall disagreement that the bonus payment is performance-based and that the bonus plan encourages better performance. Only 20.5% and 21.9% of employees, respectively, agree or strongly agree with these statements. Despite this, a majority of 55.2% of employees agree or strongly agree that if they perform well, they are certain that the amount of their bonus will increase. Regarding the promotion procedures, 52.9% of employees express overall agreement that the bank has a clear and fair promotion process, suggesting that the employees perceive the promotion system to be relatively transparent and equitable. These findings indicate that the bank's performance-based rewards and incentives, particularly in terms of salary increments and promotions, are viewed more positively by the employees. However, the bonus payment system appears to be an area that requires further attention and potential improvement to align with employee perceptions of fairness and performance-based rewards.

#### 4.4.2.4. Descriptive Analysis of Intrinsic Reward

The responses regarding the intrinsic reward measurement items are presented in the following table 10.

Table 11: Descriptive Analysis of Intrinsic Reward

Item	%SD	%D	% Disagree	%N	%A	%SA	%Agree
I receive positive recognition for what I perform better	16.7	14.3	31	19.5	28.1	21.4	49.5
The recognition I get due to my performance is visible to others	15.7	19.5	35.2	15.2	26.2	23.3	49.5
Recognition motivates me to increases my performance	14.3	23.8	38.1	12.9	26.2	22.9	49.1
There is clear career development opportunity in the company	14.3	23.8	38.1	12.9	26.2	22.9	49.1
Usually, the company fills vacant position in the form of internal vacancy	11.4	14.3	25.7	30.5	33.8	10	43.8
The company provides adequate training to develop employees future career	23.8	26.7	50.5	20	16.7	12.9	29.6
Proper implementation of career development opportunities will increase employees' performance for succession	26.7	23.8	50.5	19	15.2	15.2	30.4
<b>Mean =3.084</b>							
<b>SD = 1.333</b>							

As shown above, the survey results also provide findings about the employees' perceptions of the recognition and career development opportunities offered by the Amhara Bank S.C. Regarding the positive recognition for better performance, 49.5% of employees agree or strongly agree that they receive such recognition. A similar proportion (49.5%) also agree or strongly agree that the

recognition they receive for their performance is visible to others. Additionally, 49.1% of employees agree or strongly agree that recognition motivates them to increase their performance, indicating that the recognition system is perceived as an effective tool for enhancing employee motivation and engagement. When it comes to career development opportunities about 49.1% of employees agree or strongly agree that there are clear career development opportunities in the company, while 38.1% express overall disagreement with this statement.

Regarding the company's approach to filling vacant positions, 43.8% of employees agree or strongly agree that the company typically fills these positions through internal promotions or transfers. However, the employees' perceptions of the company's efforts in providing adequate training for future career development are less favorable. A majority of 50.5% of employees express overall disagreement that the company provides adequate training to develop employees' future careers. Similarly, 50.5% of employees also express overall disagreement that the proper implementation of career development opportunities will increase employee performance and support succession planning.

#### ***4.4.2.5. Descriptive Analysis of Employees Performance***

The mean value of employees' performance measurement items is presented in the following table.

**Table 12: Descriptive Analysis of Employees Performance**

<b>Item</b>	<b>%SD</b>	<b>%D</b>	<b>% Disagree</b>	<b>%N</b>	<b>%A</b>	<b>%SA</b>	<b>%Agree</b>
My salary and reward have an impact on my performance	14.8	34.3	49.1	8.6	23.8	18.6	42.4
The Bank has a system to reward and recognize top performers	19	31.4	50.4	0	28.6	21	49.6
I put rewards as a base to perform my best capacities	23.3	27.1	50.4	17.1	24.3	8.1	32.4
The level of your performance is affected by the kind of reward you receive	21.4	29.5	50.9	14.8	17.1	17.1	34.2

If you were offered greater financial incentives, you would perform better	27.1	22.9	50	16.2	17.1	16.7	33.8
Performance is affected by promotion	23.3	29	52.3	14.8	16.7	16.2	32.9
I am highly satisfied regarding my job accomplishment	22.9	24.8	47.7	16.2	20.5	15.7	36.2
Performance level and the amount of compensation and reward go hand in hand	14.8	21.9	36.7	26.7	21.9	14.8	36.7
Direct reward like salary and bonus motivates me to perform better	15.7	20.5	36.2	16.2	24.8	22.9	47.7
Indirect reward like medical insurance and paid leave motivates me to perform better	14.8	21.9	36.7	26.7	21.9	14.8	36.7
<b>Mean =2.890</b>							
<b>SD =1.378</b>							

When asked about the impact of salary and rewards on their job performance, 49.1% of employees express overall disagreement that their salary and rewards have an impact on their performance. This suggests that a significant proportion of employees do not perceive a strong link between their compensation and their work output. However, 42.4% expressed their overall agreement. Also, 49.6% of employees agree or strongly agree that the bank has a system to reward and recognize top performers, indicating that the employees are aware of the bank's efforts in this area. Concerning the role of rewards as a motivator, the results are more mixed. While 50.4% of employees express overall disagreement that they put rewards as a base to perform at their best, 32.4% agree or strongly agree with this statement. Similarly, 50.9% of employees express overall disagreement that the level of their performance is affected by the kind of reward they receive, while 34.2% agree or strongly agree with this notion. Regarding the impact of financial incentives on performance, 50% of employees express overall disagreement that they would perform better if offered greater financial incentives, while 33.8% agree or strongly agree with this statement. The survey results also show that 52.3% of employees express overall disagreement that their performance is affected by promotion, while 32.9% agree or strongly agree with this. When it comes to job satisfaction, 47.7% of employees express overall

dissatisfaction with their job accomplishments, while 36.2% are satisfied or highly satisfied. The survey results indicate that the employees perceive a more direct relationship between compensation and performance. For instance, 47.7% of employees agree or strongly agree that direct rewards like salary and bonuses motivate them to perform better, while 36.7% agree or strongly agree that the performance level and the amount of compensation and reward go hand in hand.

These findings suggest that the employees' perceptions of the link between compensation, rewards, and their performance are somewhat mixed. While a significant proportion of employees do not perceive a strong connection, there is also a recognition of the bank's efforts in rewarding top performers and the potential for direct financial incentives to drive better performance.

#### **4.6 Multiple Regression Analysis**

Relationships between a number of independent variables and a single dependent variable can be examined using regression analysis. Few other methods can offer the insights that regression analysis can. Regression analysis, according to Field (2009), can be used to examine the relative intensity of the effects of several independent variables on a dependent variable as well as determine whether independent variables and dependent variables have a meaningful relationship. Regression analysis also makes predictions possible.

Testing a number of statistical presumptions is necessary before performing a multiple regression, such as:

##### **4.6.1. Normality test**

According to Meyer et al. (2005), estimations of the population parameter for statistical inferences would be more accurate and stable the greater the sample size employed in the investigation. According to the central limit theorem, as long as the sample size is 30 or more; the sampling distribution would tend to be normal irrespective of the population distribution. By using the central limit theorem, the study's sample size was sufficient to meet the normalcy criteria (field, 2009). Skewness and kurtosis values are displayed in the following table to verify that the data distribution is normal.

Table 13: Skewness and Kurtosis values

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Direct Financial Compensation	210	.042	.168	-.654	.334
Indirect Financial Compensation	210	-.046	.168	-1.480	.334
Extrinsic Reward	210	.101	.168	-1.421	.334
Intrinsic Reward	210	-.134	.168	-1.604	.334
Employees Performance	210	-.038	.168	-1.819	.334
Valid N (listwise)	210				

When the allowable level of skewness and kurtosis is broken, Kline (2011) states that a skewness and kurtosis level with absolute values greater than 3 is considered excessive and indicates an issue that should be fixed before conducting any inferential statistical analysis. Since the absolute values of the skewness and kurtosis test result is less than three, the data is assumed to be normally distributed so that generalization can be drawn to the larger population based on the sample data. Table 13 above displays the skewness and kurtosis values of the study's variables.

The histogram graphic shown below in Figure 6. aids in demonstrating the normalcy of the data in addition to skewness and kurtosis.

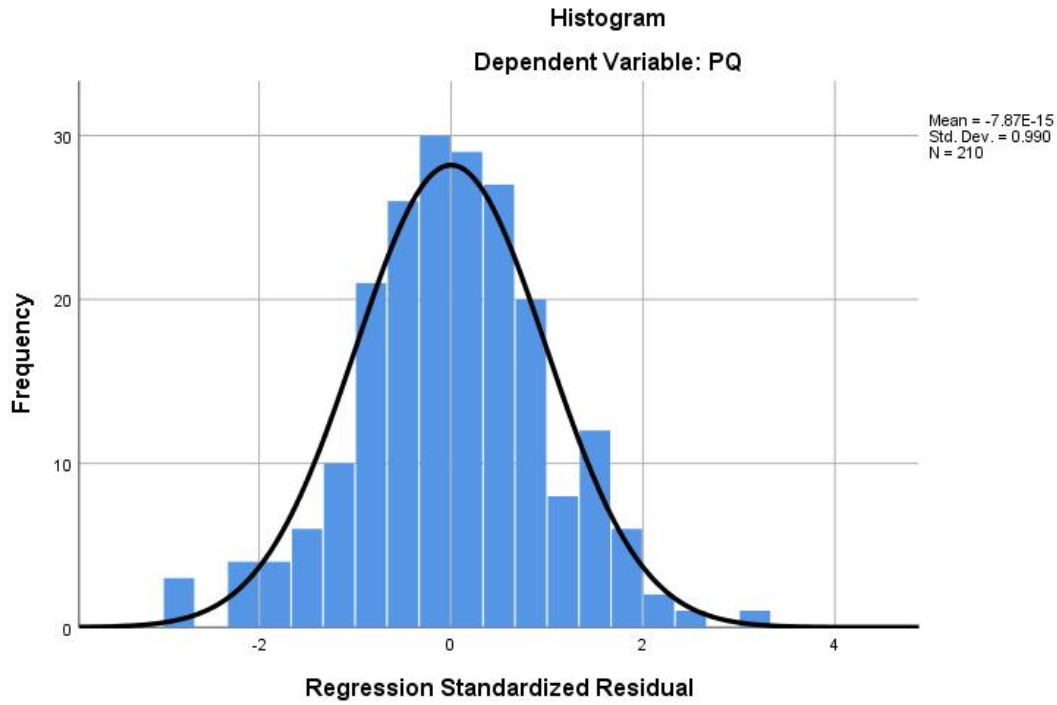


Figure 6: Normality test

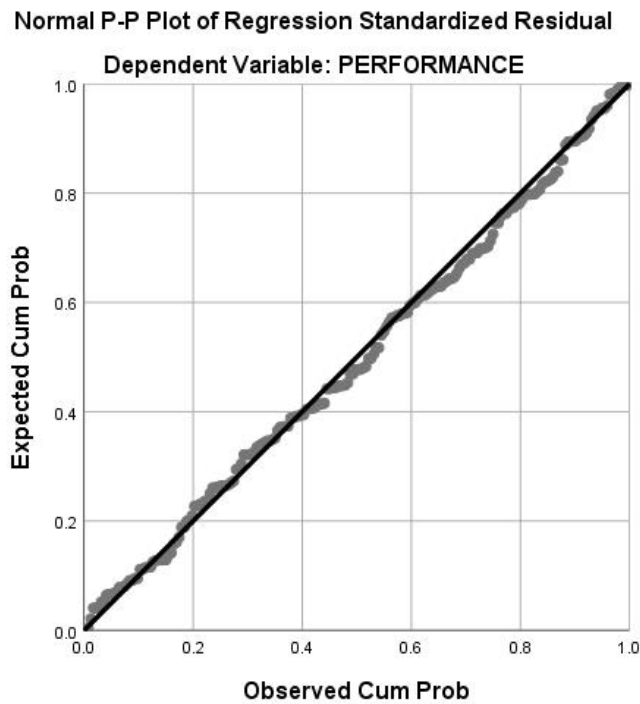


Figure 7: Normality P-P plot

As the majority of the data are concentrated in the center of the chart, as indicated by the histogram, the distribution of the data can be considered normal.

#### 4.6.2 Test of Multicollinearity

In a regression model, multicollinearity occurs when two or more predictors have a high correlation with one another. A multicollinearity issue will be seen if the independent variables have a high degree of correlation with one another. Regression coefficients in multiple regression analysis lose reliability as the degree of correlation between the independent variables rises. In this case, our estimate should be based on only one set of the independent variable (Field, 2009). In order to determine whether multicollinearity was an issue, tolerance and the variance inflation factor (VIF) were employed. The tolerance and VIF level of the independent variables are shown in Table 14 below.

*Table 14: Multicollinearity test*

Model		Collinearity Statistics	
		Tolerance	VIF
1	Direct Financial Compensation	.315	3.171
	Indirect Financial Compensation	.295	3.391
	Extrinsic Reward	.237	4.228
	Intrinsic Reward	.243	4.109

a. Dependent Variable: Employees Performance

Field (2009) states that when the VIF is less than 5 and the tolerance value is larger than 0.20, the independent variables are considered free of multicollinearity problems. As stated above in Table 14, since the tolerance values of all the four independent variables are greater than 0.20 and the variance inflation factor (VIF) is less than 5, there is no multicollinearity problem.

### 4.6.3. Multiple Regression Results

The model summary, ANOVA, and coefficients that illustrate the strength of the correlation between each of the four independent factors and the model's dependent variable, employee performance, are presented in this section. Below is the model summary in Table 15.

Table 15: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919	.844	.841	.26860

- a. Predictors: (Constant), Intrinsic Reward, Direct Financial Compensation, Indirect Financial Compensation, Extrinsic Reward
- b. Dependent variable: Employee Performance

The multiple regression model summary showed that 84.4% of employees' performance at the bank is explained by compensation and 15.6% of employees' performance is explained by other factors not captured in the model.

The ANOVA tables to evaluate the model's overall fit are shown in the following table.

Table 16: ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	80.247	4	20.062	278.079	.000
	Residual	14.790	205	.072		
	Total	95.037	209			

- a. Dependent Variable: Employees Performance
- b. Predictors: (Constant), Intrinsic Reward, Direct Financial Compensation, Indirect Financial Compensation, Extrinsic Reward.

The coefficients of each independent variable and their matching level of significance in predicting employee performance are displayed in Table 17.

Table 17: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.212	.093		2.286	.023
	Direct Financial Compensation	.254	.050	.251	5.106	.000
	Indirect Financial Compensation	.191	.042	.233	4.585	.000
	Extrinsic Reward	.229	.047	.276	4.875	.000
	Intrinsic Reward	.158	.036	.242	4.338	.000

a. Dependent Variable: Employees Performance

The statistical values of the multiple regression analysis showed that the results are statistically significant.

The results show that all four independent variables have a statistically significant ( $p < 0.001$ ) positive impact on employee performance. Specifically, the regression coefficients indicate that direct financial compensation, has a significant impact on the employee performance ( $\beta = 0.251$ ,  $p < 0.001$ ). This suggests that direct financial incentives and rewards, such as salaries and bonuses, are an important driver of employee performance. Similarly, Indirect Financial Compensation leads to increased employee performance, keeping other variables constant ( $\beta = 0.233$ ,  $p < 0.001$ ). This highlights the significance of indirect financial rewards, such as benefits and allowances, in influencing employee performance. The regression analysis further reveals that Extrinsic Reward significantly affect employee performance, holding other variables constant ( $\beta = 0.276$ ,  $p < 0.001$ ). This suggests that factors such as recognition, career advancement opportunities, and other extrinsic rewards are important determinants of employee performance. Similarly, Intrinsic Reward leads increased employee performance as shown in the regression coefficients table ( $\beta = 0.242$ ,  $p < 0.001$ ). This indicates the significance of intrinsic rewards, such as job satisfaction and a sense of accomplishment, in driving employee performance.

## 4.8. Discussion

The current findings on the factors influencing employee performance at the Amhara Bank appear to be mainly consistent with the reports of previous studies.

Regarding direct financial compensations, the current study aligns with the findings of Saira Yousaf et al. (2014) and Wael S. Zaraket and Farouk Saber (2017), which highlight the importance of various financial incentives, such as pay bonuses, fringe benefits, and performance-based rewards, in motivating employees. The current results indicating the strongest positive impact of financial incentives on employee performance are in line with these previous studies. The study findings were also supported by findings of many other scholars. For example, research by Luthans (2002), money has long been seen as a reward, and for certain people, it means more than anything else that their organization can provide. He continues by stating that while the value of money varies greatly depending on the individual and the industry, one thing is certain: money is a valuable reward. According to Luthans (2002), money is a powerful motivator that can drive workers to higher performance levels primarily because of its capacity to provide other demands, such as achievement and recognition, status and respect, freedom and control, and power.

Ahmad (2011) contends that satisfied workers produce more work, which eases client satisfaction. Furthermore, an employee's motivation may have an impact on their performance. For example, if workers are motivated and happy with their salary, they will give their all at work, which will raise their performance level considerably (Shahzadi et al., 2014).

Therefore, it can be concluded that employee performance will be impacted by the administration of appropriate compensation (Grabara, 2013). Poor compensation management, on the other side, will lead to employee demotivation, which will eventually impact their diminishing performance. Maslow's 1943 theory of motivation provides the foundation for the argument. One's motivation for his needs is hierarchical and stratified, as explained in general by

Maslow's theory of motivation. After meeting their most fundamental requirements, a person will go to the next stage, which is ultimate self-actualization.

The findings of this study regarding indirect compensation are consistent with the study by Tyilana (2005), which emphasized the positive role of non-financial incentives such as achievement, recognition, and the nature of work itself in influencing job satisfaction and performance.

Similarly, the current study's findings on the positive impact of extrinsic motivation factors are aligned with the perspectives presented by Cherry (2023) and Armstrong (2006). This external element has been identified as vital in shaping employee performance, which the current regression analysis has also highlighted. The current findings on the significance of intrinsic motivation factors also are consistent with the findings reported by Cherry (2023) and Armstrong (2006). These studies emphasize the role of internal factors in driving employee motivation, which the current analysis has supported.

## Chapter Five

### Summary, Conclusion, and Recommendation

#### 5.1. Introduction

The aim of this chapter is to provide a concise summary of the key findings of the study, draw conclusions based on the research objectives, and offer relevant recommendations. The chapter provides an overview of the key results, conclusions, and recommendations that came from the examination, discussion, and interpretation of the data collected.

#### 5.2 Summary of Findings

The survey results reveal several key issues regarding employee compensation at the Amhara Bank S.C. Head Quarters. While nearly half of the employees do not perceive a strong link between their compensation and work output, a notable proportion agree that the bank has a system to reward and recognize top performers. Opinions are divided on the role of rewards as a motivator, with roughly equal proportions of employees agreeing and disagreeing that rewards affect their performance. Similarly, the impact of financial incentives and promotions on performance is perceived differently, with half of the respondent's expressing disagreement and a third agreeing. When it comes to job satisfaction, nearly half of the employees are dissatisfied with their accomplishments.

A significant number of employees express dissatisfaction with their salaries compared to other banks, as well as in relation to their contributions to the organization. Employees also express concerns about the adequacy of the bank's financial benefits, such as payments, bonuses, and allowances. Overall, a substantial portion of employees are dissatisfied with their salary amounts. However, the findings also suggest that salary is an important factor influencing employee performance. Additionally, many employees indicate they would not consider leaving their jobs due to low pay. These findings indicate that the bank may need to review its compensation structure and policies to address the concerns raised by employees.

The study results show a mixed picture regarding the adequacy and competitiveness of the benefit offerings at the study bank. While a significant portion of employees express dissatisfaction with the bank's retirement plans, health insurance, savings plans, and security

insurance benefits, the findings indicate that the bank's mortgage loan scheme is relatively more favorable among the employees, with a majority agreeing that the bank offers an attractive mortgage loan program and related policies, and many believing that the provision of an attractive mortgage loan scheme would aid in retaining top talent within the organization. However, when it comes to the overall satisfaction with the benefit package, the results are divided, with nearly equal proportions of employees expressing satisfaction and dissatisfaction, and the employees also split on whether the bank's benefit packages are competitive compared to other banks, suggesting that the bank's mortgage loan scheme and related policies are perceived positively by the employees, while the other benefit offerings may require further review and improvement to meet the needs and expectations of the workforce.

According to the survey results, around half of the employees express dissatisfaction with the available financial rewards, such as salary increments, bonuses, incentives, and gifts, but a majority agree that high performers will receive additional pay, and many believe that salary increments are made based on performance, perceiving a link between performance and rewards. However, the findings regarding the bank's bonus payment system are less favorable, with a substantial proportion of employees disagreeing that the bonus is performance-based and that the bonus plan encourages better performance, although a majority still believe that their bonus amount will increase if they perform well. Positively, over half of the employees express agreement that the bank's promotion procedures are clear and fair, suggesting the promotion system is viewed as transparent and equitable, indicating that the performance-based rewards and incentives, particularly salary increments and promotions, are viewed more favorably, while the bonus payment system appears to be an area requiring further attention and potential improvement.

The results also show that approximately half of the employees agree that they receive positive recognition for better performance, and that this recognition is visible to others, indicating that the recognition system is perceived as an effective tool for enhancing employee motivation and engagement. Similarly, around half of the employees agree that there are clear career development opportunities within the company, though a significant proportion also express disagreement with this. Majority expressed disagreement that the company provides sufficient training or the proper implementation of career development opportunities.

### 5.3. Conclusion

The study employed a quantitative research approach using a deductive research paradigm where theories and models established in the literature were used to examine the extent to which employees' compensation and reward influence their performance at Amhara Bank S.C. The study used both descriptive and explanatory research designs to describe the state of employees' attitude towards their compensation and reward received and to examine its effect on their performance. 221 questionnaires were distributed to Head Office staff members of Amhara Bank S.C. but only 210 were returned and used for the statistical analysis. In order to compile the data and draw conclusions, both descriptive and inferential statistics were employed.

The findings of this research reveal a multifaceted picture regarding employee compensation, benefits, and career development opportunities. While a significant proportion of employees express dissatisfaction with various aspects of their compensation, such as salary levels, bonus payments, and financial rewards, there is also recognition that the bank has systems in place to recognize and reward top performers. On the other hand, the mortgage loan scheme viewed positively, but other benefits like retirement plans, health insurance, and savings plans receiving more negative feedback. The overall satisfaction with the benefit package is divided, suggesting the need for the bank to review and enhance its benefit offerings to better meet employee needs and expectations. Regarding career development and recognition, the survey results indicate that the bank's recognition system is viewed positively, but there are concerns about the adequacy of training and clear career progression opportunities. The promotion practices, on the other hand, are seen as relatively transparent and equitable by a majority of employees.

In conclusion, the study demonstrated that both financial and non-financial rewards play a key role in enhancing employee performance. Direct financial rewards, including salaries and bonuses, alongside indirect benefits such as healthcare and allowances, are proven to be significant motivators for employees. Moreover, the importance of extrinsic rewards, like

recognition and career growth opportunities, as well as intrinsic rewards, such as job satisfaction and personal achievement, are also significant factors affecting employee performance.

### **5.3. Recommendations**

This study was aimed at achieving the following specific objectives:

- 1. To examine the effect of direct compensation on employees' performance at Amhara Bank.**

**Findings:** The study found that direct compensation, such as base salary, bonuses, and incentives, had a significant positive effect on the performance of employees at Amhara Bank. Employees who received higher direct compensation tended to have better work outputs and overall performance.

**Recommendation:** It is recommended that Amhara Bank S.C. continue to offer competitive direct compensation packages to its employees. The bank should regularly review and adjust the direct compensation levels to ensure they are in line with industry standards and effectively motivate employees to perform at their best.

- 2. To investigate the impact of indirect compensation on employees' performance at Amhara Bank S.C.**

**Findings:** The study revealed that indirect compensation, including benefits, retirement plans, and work-life balance programs, had a moderate positive impact on employee performance at Amhara Bank. Employees who received better indirect compensation were more motivated and engaged, leading to improved performance.

**Recommendation:** Amhara Bank. should maintain and potentially enhance its indirect compensation offerings to employees. The bank should regularly assess the competitiveness of its benefits package and make adjustments to ensure it remains attractive and supportive of employee well-being and performance.

**3. To analyze the influence of extrinsic rewards on employees' performance at Amhara Bank S.C.**

**Findings:** The study found that extrinsic rewards, such as recognition, praise, and promotion opportunities, had a significant positive influence on the performance of employees at Amhara Bank S.C. Employees who received more extrinsic rewards tended to be more motivated and exhibited higher levels of performance.

**Recommendation:** Amhara Bank S.C. should continue to emphasize the use of extrinsic rewards to recognize and motivate its employees. The bank should develop a strong performance management system that effectively identifies and rewards high-performing employees, which can further enhance their motivation and performance.

**4. To determine the relationship between intrinsic rewards and employees' performance at Amhara Bank S.C.**

**Findings:** The study revealed a strong positive relationship between intrinsic rewards, such as job satisfaction, work autonomy, and personal growth opportunities, and the performance of employees at Amhara Bank S.C. Employees who experienced higher levels of intrinsic rewards tended to exhibit better performance and higher levels of engagement.

**Recommendation:** Amhara Bank S.C. should focus on creating a work environment that enhance intrinsic rewards for its employees. This can be achieved through initiatives such as job enrichment and providing opportunities for skill development.

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## **Annex 1: Research Questionnaire**

**Research Topic:** The Effect of Compensation on Employees' Performance: Empirical evidence from Amhara Bank S.C.

*Dear Participant,* I am a post graduate student of Masters in Human Resource Management (HRM) at Addis Ababa University, School of Commerce. Currently, I am undertaking a research for the title mentioned above as a partial fulfillment of the HRM program. You are one of the respondents selected to participate on this study, therefore you're genuine, frank and timely response is vital for the success of this research. The researcher wants to underline that the data collected will be kept *confidential and will only be used for academic purpose*. No respondent will be identified by his/her name.

This questionnaire has two parts involving the respondents profile and likert scale questions. I kindly request you to forward your genuine response for these questions in each parts of the questionnaire since your response determines this paper's result.

Thank you, in advance for your kind cooperation and timely response.

**BethlehemTujuba**

**Mob.0911760027, email:bettytujuba@gmail.com**

**PART I: General Information**

These are questions that are used to know individual respondents profile. Kindly put  $\surd$  mark on your choices.

- 1. Gender                     Male                     Female
- 2. Age                         20-30                     30-40                     40-50                     Above 50
- 3. Education Status       Certificate       Diploma       Degree       Masters       PHD
- 4. Marital Status         Single                     Married                     Divorced                     Widowed
- 5. Working experience    1-5                     5-10                     10-15                     above 15 years
- 6. Monthly gross salary  10,000-15,000       15,001-21,000       21,001-28,000  
 Above 28,000
- 7. Current position at the Bank \_\_\_\_\_

**PART II: LIKERT Scale Questions**

Please mark your responses to the following questions regarding, Salary, Motivation and Performance using a sing of ( $\surd$ ) in the appropriate answer box in accordance with the below code of definitions.

- 1. Strongly Disagree      2. Disagree                    3. Neutral                    4. Agree                    5. Strongly Agree

**A. Questions related to Compensation**

No.	Questions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
<b>I</b>	<b>General questions on the Bank’s compensation system</b>					
1	The Bank has a very good compensation plan					
2	I believe I have been fairly compensated for my work at the Bank					
3	The Bank's compensation scheme affects					

	how well employees perform.					
4	The application of compensation is consistent across departments.					
5	The application of compensation is comparable between similar job levels.					
<b>II</b>	<b>Direct Financial compensation</b>					
6	I get a good salary in comparison to other banks.					
7	For my contribution my salary is satisfactory					
8	The bank's financial features, such as payments, bonuses, and allowances, are satisfactory.					
9	I am satisfied with the amount of salary I receive					
10	My salary influence my performance					
11	Low salary may lead you to shift job					
<b>III</b>	<b>Indirect financial compensation</b>					
12	The bank offers retirement plans, health insurance, savings plans, and security insurance benefits.					
13	There is a mortgage loan scheme for employees of the bank					
14	The bank offers attractive mortgage loan policies					
15	Provision of attractive mortgage loan scheme will aid in keeping top performers					
16	The benefit package is satisfactory and meets the needs of every employee					
17	The bank's benefit packages in contrast to those of other banks					
18	I am satisfied with the benefits I get					

## B. Questions related to Reward

No.	Questions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
<b>I</b>	<b>General question on the Bank's reward system</b>					
19	The bank clearly communicates its reward package to all employees					
20	Both financial and non-financial reward types are incorporated in the bank's reward system					
21	The bank's reward package is competitive with other banks					
22	The bank's total reward package is capable to retain best performers					
23	The bank's reward system clearly differentiates between high performers and low performers					
24	Reward motivates me to increase my performance					
25	The selection system for reward is transparent					
26	For me, Financial reward is more important than nonfinancial reward					
<b>II</b>	<b>Extrinsic Reward</b>					
27	There are sufficient financial rewards like salary increment, bonus, incentives and gifts in the bank					
28	High performers will get additional pay					

	for their performance					
29	Salary increments are made based on employee performance.					
30	Salary increment made for high performers will motivate others to perform better					
31	The bank's bonus payment is performance based					
32	The bonus plan encourages to perform better					
33	If I perform well, I am certain that amount of bonus will increase					
34	The bank has a clear and fair promotion procedure					
<b>III</b>	<b>Intrinsic Reward</b>					
35	I receive positive recognition for what I perform better					
36	The recognition I get due to my performance is visible to others					
37	Recognition motivates me to increase my performance					
38	There is clear career development opportunity in the company					
39	Usually the company fills vacant position in the form of internal vacancy					
40	The company provides adequate training to develop employees future career					
41	Proper implementation of career development opportunities will increase employees' performance for succession					

**C. Questions related to performance**

No.	Questions	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
42	My salary and reward have an impact on my performance					
43	The Bank has a system to reward and recognize top performers					
44	I put rewards as a base to perform my best capacities					
45	The level of your performance is affected by the kind of reward you receive					
46	If you were offered greater financial incentives, you would perform better.					
47	Performance is affected by promotion					
48	I am highly satisfied regarding my job accomplishment					
49	Performance level and the amount of compensation and reward go hand in hand					
50	Direct reward like salary and bonus motivates me to perform better					
51	Indirect reward like medical insurance and paid leave motivates me to perform better					

**Thank you.**