

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**SCHOOL OF COMMERCE**



**THE EFFECT OF VARIABLE PAY SCHEME ON  
EMPLOYEE  
ENGAGEMENT - THE CASE OF ETHIO TELECOM**

A research Project Submitted in Partial Fulfillment for  
the Requirements of Master's Degree in Business  
Leadership

**By Tesgera Kebede**

Research Project Advisor: Abraraw Chanie (PhD)

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**APPROVAL**  
**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**SCHOOL OF COMMERCE**  
**MA PROGRAM**

**THE EFFECTS OF VARIABLE PAY SCHEME ON EMPLOYEE  
ENGAGEMENT**

(The case of ethio telecom)

**BY:**

**TESGERA KEBEDE**

**Approved by: Board of Examiners**

<b>Abraraw Chanie (PhD)</b>	.....	.....
<b>Advisor</b>	<b>Signature</b>	<b>Date</b>

----- (PhD)	.....	.....
<b>Internal Examiner</b>	<b>Signature</b>	<b>Date</b>

..... (PhD).....	.....	.....
<b>External Examiner</b>	<b>Signature</b>	<b>Date</b>

### **Declaration**

I, **Tesgera Kebede**, MA student in Business Leadership (MBL), hereby declare that the research project titled, “The Effect of Variable Pay Scheme on Employee Engagement: the case of ethio telecom” is my original work under the guidance and supervision of the research project Advisor Dr. Abraraw Chanie. I further confirm that this paper has never been submitted to any other university for any degree. All source materials used in this research has been dully recognized and acknowledged.

Name: Tesgera Kebede

Signature: \_\_\_\_\_

Date : \_\_\_\_\_

Place: Addis Ababa, Ethiopia

## Certificate

Mr. **Tesgera Kebede**, has conducted the research project titled: “The Effect of Variable Pay Scheme on Employee Engagement: the case of ethio telecom” under my supervision and guidance. I therefore certify that this project is his original & genuine work.

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Place: Addis Ababa, Ethiopia

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## Table of Contents

Declaration .....	ii
Certificate .....	iii
Acknowledgement.....	iv
List of Tables and Figures.....	vii
Acronyms .....	viii
Abstract .....	ix
CHAPTER ONE.....	1
1. INTRODUCTION .....	1
1.1 Background of the study .....	1
1.2 Background of the Company.....	3
1.3 Statement of the problem .....	4
1.4 Research Questions .....	6
1.5 Research Objectives .....	6
1.5.1 General objective.....	6
1.5.2 Specific Objectives .....	6
1.6 Hypothesis of the study .....	7
1.7 Significance of the Study .....	7
1.8 Scope of the study .....	7
1.9 Limitation of the study .....	8
1.10 Operational Definition of Key terms.....	8
1.11 Organization of the Study .....	8
CHAPTER TWO .....	9
2. REVIEW OF RELATED LITERATURE.....	9
2.1 Theoretical Literature Review.....	9
2.1.1 Employee Engagement .....	9
2.1.2 Definition of Employee Engagement.....	10
2.1.3 Measurement of Employee Engagement .....	11
2.1.4 Characteristics of Engaged Employees.....	12
2.1.5 Variable Pay Scheme .....	13
2.1.6 Companywide end year Bonus .....	14

2.1.7	Elements of Effective Variable Pay Scheme .....	15
2.2	Empirical Review .....	16
2.3	Conceptual Framework .....	18
CHAPTER THREE	.....	19
3.	RESEARCH METHODOLOGY.....	19
3.1	Research Approach .....	19
3.2	Research Design.....	19
3.3	Population, Sample Size and Sampling Techniques .....	19
3.3.1	Target Population.....	19
3.3.2	Sample Size and Sampling Technique.....	20
3.4	Types and Sources of Data.....	21
3.5	Instruments of data collection .....	21
3.6	Validity and Reliability .....	21
3.7	Ethical consideration .....	22
3.8	Methods of Data Analysis .....	22
CHAPTER FOUR	.....	24
4.	DATA ANALYSIS AND PRESENTATION .....	24
4.1	Demographic Characteristics of the Respondents.....	24
4.2	Descriptive analysis of Variables.....	25
4.3	Descriptive analysis of Employee Engagement Dimensions.....	26
4.4.	Descriptive analysis of Variable Pay Scheme Effectiveness. ....	26
4.5	Correlation Analysis.....	27
4.6	Normality Test.....	28
4.7	Multicollinearity Test.....	29
CHAPTER FIVE	.....	32
5.	SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION .....	32
5.1	Summary of Major Findings .....	32
5.2	Conclusions .....	33
5.3	Recommendations .....	34
Reference	.....	i
Appendix	.....	iii

## List of Tables and Figures

### List of Tables

Table 3.1 proportionate stratified sampling from a given population .....	20
Table 3.2 – Reliability Test .....	22
Table 4.1. Demographic characteristics of the respondents .....	24
Table 4.2. Descriptive analysis of independent variables .....	25
Table 4.3. Descriptive analysis of Engagement Dimensions .....	26
Table 4.4. Effectiveness of Variable pay scheme analysis.....	26
Table 4.5 Correlation Analysis .....	28
Table 4.6. Multicollinearity Test.....	29
Table 4.7. Model Summary .....	29
Table 4.8. Model summary, ANOVA .....	30
Table 4.9 Coefficients of Regression Model .....	31

### List of Figures

Figure 2.1. Measurements of Employee Engagement .....	12
Figure 2.2. Conceptual Framework .....	18
Figure: 4.1. Normality Test .....	29

## **Acronyms**

ANOVA Analysis of variance

EPOTTM Ethiopian Postal, Telegraph and Telecommunication Minister

ERP Enterprise Resources Planning

ETC Ethiopian Telecommunications Corporation

ETA Ethiopian Telecommunication Agency

KPIs Key Performance Indicators

SPSS Statistical Package for Social Science Students

UWES Utrecht Work Engagement Scale

## **Abstract**

*Employee engagement is considered as one of the most powerful drivers of a company's competitive advantage and high performance. Numerous factors including variable pay scheme affect employee engagement. This study focused on investigating the effects of variable pay scheme on employee engagement in ethio telecom and the effectiveness of the scheme against the common elements defined by scholars. The variable pay scheme covered under the study were individual variable pay and companywide annual bonus.*

*The study applied correlational research approach to investigate the relationship among components of variable pay scheme and employee engagement taking a sample of 347 respondents drawn from a target population of 2638 employees of ethio telecom. Primary data was collected through closed ended structured questionnaire and analyzed using descriptive and inferential statistics.*

*Findings of the study revealed that there is a positive relationship between variable pay scheme and employee engagement. Further, the study shown that variable pay scheme moderately affects employee engagement. The variable pay scheme of the company is found effective.*

**Keywords:** Variable Pay; Employee Engagement; Effectiveness.

# CHAPTER ONE

## 1. INTRODUCTION

This chapter includes background of the study that gives highlight about the research work, background of the organization and the statement of the problem that the study tried to tackle. The research questions and hypothesis, objective of the study, significance of the study as well as scope and limitation of the study are also presented here. Finally, operational definitions and organization of the paper are presented under the chapter.

### 1.1 Background of the study

Organizations of these days face dynamic and continuously changing environments where they are required to look for approaches with specific end goal to pick up a forceful advantage to outperform their competitors. Employees are a key resource that may be strategically positioned for an organization to attain competitive advantage. Organizations always make their efforts to acquire, develop, and retain talented and skilled employees able to afford competitive advantages. Retaining talented staff has become more important than it is used to be, and it became among the most concerns of organizations strategies about competitive advantages and organizational effectiveness (Juhdi, Pa'wan, & Hansaram, 2013). Among financial, economic and human resources, human resources is the most vital that can provide a company's competitive edge as compared to others.

The survival of organizations depends on maximizing profits from existing capabilities, while recognizing and adjusting to the fact that what may work today may not necessarily work in the future (Kortmann, Gelhard, Zimmermann, & Piller, 2014). Studies have shown that, organizations sustain competitive advantage via the management of scarce and valuable human resources (Khan, 2010). To make or maintain their companies' profitability, leaders of companies need to work hard to engage employees (Kortmann et al., 2014).

Employee engagement is the key focus of both business entrepreneurs and academic researchers and is a scorching issue of modern business environment (Samuel, M. & Maureen, J., K., 2014).

Employee engagement is a critical source for employees' high performance both in manufacturing and services companies (Boss, 2014; Kwenin, Muathe, and Nzulwa, 2013; Reilly, 2014; McMullen, 2013; Trus, Shantz, Soane, Alfes, Delbridge, 2013) as cited in Mariza, 2016).

Employee engagement is arguably the most critical metric for organizations in the 21<sup>st</sup> Century. Other key measures such as customer satisfaction, innovation, profitability, productivity, loyalty, and quality that reflect and drive organizational performance are products of engaged employees (Abhijit and Debalina, 2010). According to Abhijit and Debalina (2010), a well-functioning organization is the result of its healthy, committed, and motivated employees, that can be termed as 'engaged employees'. Engagement involves loyalty, faith and pride in the organization, a willingness to advocate for an organization and a sense of personal responsibility. Engaged employees understand the ambitions of the company, feel a connection to it, and deliver on the individual and functional contributions they can make (Heineken, 2012).

Managers want to improve employee engagement on grounds that it leads to superior performance, reduces staff turnover, and improve the wellbeing of employees (Marcey & Schneider, 2008; Hakanen et al., 2008). Kahn, (1992) suggested that employee engagement leads to quality of work, growth, and productivity. The more individuals are engaged in their work, the greater will be investment of effort and attention to task activities.

A study by Saks and Rotman (2006) revealed that recognition and rewards are significant antecedents of employee engagement. They noticed that when employees receive rewards and recognition from their organization, they will feel obliged to respond with higher levels of engagement. Kahn (1990) observed that employee's level of engagement is a function of their perceptions of the benefits they receive. Therefore, irrespective of the quantity or type of reward, it is the employee's perception of the same that determines his/her content and thereby one's engagement in the job. It becomes essential for management to present acceptable standards of remuneration and recognition for their employees if they wish to achieve a high level of employee engagement.

In other study, it was reported that while a lack of rewards and recognitions can lead to burnout, appropriate recognition and reward was found to be important for employee's engagement (Maslach et al, 2001). Thus, it is not surprising that organizations of all sizes and types have invested substantially in policies and practices that foster engagement and commitment in their

workforces (Vance,2006). To create an environment for employee satisfaction and engagement, it is vital to know which factor most affect employee engagement and spend time, money, and energy on programs, processes, and factors that will have a positive impact on employee engagement (Samuel, M. & Maureen, J., K., 2014).

Ethio telecom, a sole state-owned telecom service provider in Ethiopia, designed variable pay scheme to motivate and engage employees and enhance customer satisfaction. The scheme specifically individual variable pay was in place for the last two years.

## **1.2 Background of the Company**

The telecommunication services introduction in Ethiopiaback dated to 1894.The service was first organized under the Ethiopian Postal, Telegraph and Telecommunication Minister (EPOTTM). The name and structure of the organization had been changed at different time to cope with the dynamism of the industry, customer demand, the political ideology as well as economic reforms of the regimes.The Imperial Board of Telecommunications of Ethiopia, which became the Ethiopian Telecommunications Authority in 1981, was placed in charge of both the operation and regulation of telecommunication services in the wake of the market reforms. In 1996, the Government established a separate regulatory body, the Ethiopian Telecommunication Agency (ETA) by Proclamation 49/1996, and during the same year, by regulation 10/1996, the Council of Ministers set up the Ethiopian Telecommunications Corporation (ETC).

The organization has got its current name the so called ethio telecom on December 2, 2010. The company is a sole state-owned telecom service provider in Ethiopia so far. Currently, the Ethiopian government is working to partially privatize ethio telecom and liberalize the industry to other telecom operators.

Following this, ethio telecom has designed and put in place 3 years strategy with the aspiration to be a preferred telecom operator and the mission “To provide world-class, modern and high-quality telecom services for all citizens equitably and to transform the multifaceted development of the country to the highest level”. To accomplish its mission and envisage its vision the organization is structured in to 21 divisions at corporate level, and 6 Zonal offices in Addis Ababa, 17 Regional offices out of Addis Ababathroughout the country. The company has above 34k employees out of which 50% of them are indefinite term while the rest 50% are definite term

employees as per the January 2021 ERP system report of the company. According to the company's 2020/2021 first half performance report, its customers reached 50.7 million out of which 96% of them are mobile service customers with the 95% population, 85.5% geographical and 50% tele density telecom coverage over the country.

The company has designed and implemented individual variable pay scheme to enhance customer satisfaction through motivated and engaged employee who are working on activities that directly have an impact on customer satisfaction and the company's strategic objectives since February 2019. Besides, ethio telecom provide companywide annual bonus differentiated by individual performance up on outstanding achievement. Both are incentives provided as performance-based pay. Individual variable pay scheme 100% depends on an individual monthly target achievement for each identified KPIs while annual bonus is discretionary and depends on the company's annual target achievement as well as individual performance achievement. Individual variable pay is paid on a monthly base whereas the annual bonus is paid once at the end of the year.

### **1.3 Statement of the problem**

Globalization, pressure for speed, innovation, and growing competition for talented workforces have compelled organizations to review their employee relations strategies" (Joo& McLean, 2006). Companies are beginning to experience a severe talent shortage, sparking an extreme war for talent. In addition to looking at satisfaction and commitment levels through job design, training, and compensation, links among the human dynamics of emotion, management practices, enthusiasm, and satisfaction for work (i.e., employee engagement) is beginning to appear (Fleming & Asplund, 2007).

When employees are satisfied, and engaged with their work, they are more creative and innovative and offer improvements that allow companies to evolve positively over time with changes in market conditions (Samuel & Maureen, 2014). Engaged employees also bring substantial benefits to organization such as lowering employee's turnover, increasing organizational commitment, raising productivity and performance and increase customer satisfaction (Rasheed, Khan, & Ramzan, 2013; Vance, 2006).

Surveys indicate that only few employees between 17 to 29 percent are highly engaged on their work (Robins & Judge, 2013). Now a days, engagement has become a critical concern of most organizations. Reinforcing this argument, in a recent study conducted by Harvard business review analytic services, it was reported that only 24 percent of employees were highly engaged in the studied organizations. Less than 30 percent of all employees feel engaged in their jobs, according to a 2008 Employee Engagement Report.

Employee engagement is at a great danger if it is not supportable in an organization and ultimately lead to exhaustion of employees when employees cannot stand with the time and efforts pay for being engaged (Marcey et al, 2009).

Though employee engagement is so important, the related literature showed that the academic circles still have different ideas regarding employee engagement theory. The study on the relationship between different ways of compensation and employee engagement remains blank (Zhijian,2013).

Variable pay is used among other things to align rewards to objectives(Cotton 2013: 4), and as a strategy used by human resources managers to “attract and retain suitable employees, as well as facilitating them to improve their performance through motivation” (Njanja et al. 2013: 41).

Burritt et al. argue that variable pay can promote the application, effort and efficiency of the workers when the work can be clearly measured (Burritt et al. 1920: 17), prevent waste (Burritt et al.1920:53) and promote stability of labor by increasing variable pay rewards as employee seniority increases(Burritt et al. 1920: 63), industrial peace by making the “interests of employer and employee identical” through incentivizing all to increase company profit(Burritt et al.1920: 81).

The telecom industry operates in a strong and ongoing dynamic environment. In such environment, strategy to attract and retain talented and experienced workforce is indispensable to sustain and gain competitive advantage. Merely acquiring and retaining talented and experienced workforces without being able to motivate and engage them is not a means for success.

Ethio telecom, currently a sole telecom service provider in Ethiopia, is preparing itself for the forthcoming competitive environment. The company put in place variable pay scheme in the work units who has first point contact with customers to motivate and engage them to stretch and

attain or excel their target since February 2019 despite end year bonus was there for a long time as an incentive. However, no formal assessment is conducted to examine whether the incentives - both the recently introduced variable pay scheme and the already in place annual bonus - have impact on employee engagement or not by the company internally. Likewise, to the best of the researcher's knowledge, empirical studies that show the relationship between variable pay scheme and employee engagement in ethio telecom do not exist. Besides, assessment has not been conducted on the effectiveness of the variable pay scheme of the company.

Considering this, this study was initiated to examine the effect of variable pay scheme on employee engagement and the effectiveness of the variable pay scheme in ethio telecom by inquiring three major research questions.

#### **1.4 Research Questions**

The research will try to answer the following basic research questions:

1. Is there a relationship between individual variable pay and employee engagement?
2. Is there a relationship between companywide annual bonus and employee engagement?
3. Are the variable pay schemes effective in ethio telecom?

#### **1.5 Research Objectives**

##### **1.5.1 General objective**

The overall objective of the research is to assess the effect of variable pay schemes on employee engagement in ethio telecom specific to employees working in Addis Ababa at head quarter and zones.

##### **1.5.2 Specific Objectives**

1. To examine the effect of individual variable pay on employee engagement.
2. To investigate the effect of companywide annual bonus pay on employee engagement.
3. To assess the effectiveness of variable pay schemes in ethio telecom against the common conceptual standards and practices.

## **1.6 Hypothesis of the study**

H01: There is positive relationship between individual variable pay and employee engagement in ethio telecom.

H02: There is positive relationship between companywide annual bonus pay and employee engagement in ethio telecom.

H03: The variable pay scheme design and practice of ethio telecom is in line with the common standards and practices.

## **1.7 Significance of the Study**

The findings of the study will help the researcher to have broader understanding as to how variable pay and bonus scheme affect employee engagement. It will also serve as a base for further researchers to be conducted in the area. The study tried to fill the gap observed in the absence of research conducted on the effect of variable pay and bonus scheme on employee engagement.

Moreover, the findings and recommendations of the study will help ethio telecom to design effective variable pay and bonus scheme that enhance employee engagement which in turn contributes to the success of the company.

## **1.8 Scope of the study**

In general, the study is limited to finding out the effect of individual variable pay and companywide bonus on employee engagement though there are other incentives that have an impact on employee engagement.

Conceptually, different researchers have followed different constructs to find out what determinants measure employee engagement. This study used the most used measurement of engagement, the one associated with the definition of engagement as a “positive, fulfilling, work related state of mind” (Schaufeli et al, 2002) and known as ‘Utrecht Work Engagement Scale(UWES)’ which is characterized by vigor, dedication, and absorption.

Geographically, the study is delimited to employees working in Addis Ababa at Head Quarter customer service division - contact center section, Customer Experience and Quality Management, Finance, Human Resources, Legal, Information System, International Business,

and Supply chain divisions and sales forces who are working under sales centers operating at TPO, South, Central and West Addis Ababa Zones due to cost and time constraints.

### **1.9 Limitation of the study**

The limitation of the study was its concentration only on variable pay and bonus scheme though there were other possible variables that has effect on employee engagement in the company. The researcher used close ended structured questionnaire to minimize the possibility of researcher bias and collect the required data and feedback from the respondents within a short period of time in a manageable and an easier manner.

### **1.10 Operational Definition of Key terms**

**Employee Engagement:** is employees' satisfaction with their work and pride in their employer, the extent to which people enjoy and believe in what they do for work and the perception that their employer values what they bring to the table (Vance, 2010).

**Base Pay:** is the fixed rate of compensation an employee receives for performing the standard duties and tasks of a job (Williams and Grimaldi (1999: 73)

**Variable Pay:** is defined strictly as pay which does not become a permanent part of base pay (Armstrong, 1999). Variable pay plans is the size of the award varies between individuals and from performance period to performance period based on levels of achievement against pre-established company and individual performance targets (Williams and Grimaldi (1999: 73)

### **1.11 Organization of the Study**

This research project is organized in to five chapters. The first chapter is the introductory part. It covers background of the study, statement of the problem, objective of the research, the significance and scope of the study. The second chapter covers literature review, and the third chapter describes the research methodology while the fourth chapter discusses the interpretation and the research findings. Finally, summary of major findings, conclusion and recommendation are included in the fifth chapter of the paper.

## **CHAPTER TWO**

### **2. REVIEW OF RELATED LITERATURE**

#### **2.1 Theoretical Literature Review**

##### **2.1.1 Employee Engagement**

Employee engagement is one of the tools that assist every organization to strive to gain competitive advantage over the competitors. People is considered as the most valuable asset as if properly managed and engaged and is one factor that cannot be duplicated or imitated by the competitors (Anitha, 2013). Employee engagement is the most powerful factor to measure a company's strength (Bamruk, 2004).

Recently Employee engagement has generated a great deal of interest as a widely used term both in organizations and consulting firms (Macey & Schneider, 2008) because they often display a deep, positive emotional connection with their work and are likely to display attentiveness and mental absorption in their work (Saks, 2006). Many organizations notice that employee engagement is important; However, the issue of how to increase the level of employee engagement is not warranted (Wang & Chia-Chun,2003).

Organizational productivity is determined by employees' efforts and engagement (Musgrove, Ellinger, & Ellinger, 2014). The continuity of an organization is affected by employee engagement, which is a factor on the financial performance of the organization (Bersin, 2014). In contrast, improved employee productivity had a positive effect on organizational financial performance.

Interpersonal behaviors affect productivity;consequently, organizational leaders have begun to monitor how different interpersonal behaviors influence productivity (Bauknecht& Holwerda, 2013). Negative interpersonal behaviors lower employee engagement and have negative effects on productivity. Bersin (2014) found that only 13% of worldwide employees are fully engaged at work. In addition, twice as many are so disengaged that this negative behavior is spread to other employees (Bersin, 2014).

### **2.1.2 Definition of Employee Engagement**

Employee engagement is a popular term both in industry as well as in academia (Schaufeli & Bakker, 2010). Although no widely accepted definition of employee engagement, it has been defined differently by different researchers as well as human resources practitioners and scholars. Each definition reflects the author's specific conceptual of the construct (Brad Shuck, 2011).

While there remains some disagreement among scholars and practitioners about how best to define and measure work engagement (Bakker et al., 2011), engagement is most often defined within the academic domain as "a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption" (Schaufeli et al., 2002). Vigor refers to a high level of energy and mental resilience at work even when the individual is faced with difficulties. Dedication refers to the involvement, enthusiasm, inspiration, challenge, and pride attached to work. Absorption refers to an employee's focus and that he/she is happily occupied in work (Schaufeli & Bakker, 2010).

In the recent study, engagement is used to describe the extent to which employees are involved with, committed to, enthusiastic, and passionate about their work (Macey & Schneider, 2008). Bakker and Xanthopoulou (2009) argue that vigor is the most influential component of engagement compared to absorption and dedication, and that it is strongly associated with engagement outcomes.

More broadly, Kahn (1990, 2010) described engagement as the harnessing of people's selves to their work, such that they fully invest their physical, cognitive, and emotional resources in their work roles. According to Kahn (1990), the cognitive aspect of employee engagement denotes employees' belief about the organization, its leaders and working conditions. The emotional aspect concerns whether employees have positive or negative attitudes toward the organization and its leaders whereas the physical aspect of employee engagement concerns the physical energies exerted by employees to accomplish their tasks. Thus, according to Kahn (1990), engagement represent an employee's psychological and physical presence whenever they are given a role in an organization.

Schaufeli (2014) argued that despite having slightly different perspectives there are core commonalities between the Kahn (1990) and the Schaufeliet al. (2002) conceptualizations and measures of engagement. Schaufeli noted that both share similar physical-energetic (vigor), emotional (dedication), and cognitive (absorption) components. Although it is unlikely there will ever be universal agreement about a single definition and measure of engagement, energy, involvement, and willingness to contribute to the success of an organization are core to the construct (Bakker et al., 2011).

According to Saks (2006) employee engagement is a heightened connection between employees and their work, their organization, or the people they work for or with. Schaufeli, et al. (2006) further asserted that work engagement is a persistent, pervasive, and positive affective-cognitive state of mind.

Although there are numerous definitions of engagement, overall, it is defined in terms of organizational commitment, particularly affective commitment (i.e., the emotional attachment to the organization), continuance commitment (i.e., the desire to stay with the organization), and extra role behavior (i.e., discretionary behavior that promotes the effective functioning of the organization) (Schaufeli & Bakker, 2010).

### **2.1.3 Measurement of Employee Engagement**

To measure work engagement, Schaufeli, Bakker and Salanova (2006) introduced the nine-item Utrecht Work Engagement Scale. The UWES Questionnaire includes 7 response options whereby 0=never to 6=always much deeper than simply an incentive program. If one wants to change people's behavior, then it becomes necessary to understand as how they view their life, to make engagement program effective for the company.

Figure 2.1. Measurements of Employee Engagement

<b>VIGOR</b>	<b>Dedication</b>	<b>ABSORPTION</b>
<ol style="list-style-type: none"><li>1. At my work I feel like bursting with energy.</li><li>2. At my job I feel strong and vigorous.</li><li>3. When I get up in the morning, I feel like going to work.</li><li>4. I can continue to work for long periods of time.</li><li>5. At my job, I am mentally resilient.</li><li>6. At my job, I always perseverer, even when things do not go well.</li></ol>	<ol style="list-style-type: none"><li>1. I find the work that I do meaningful and purposeful.</li><li>2. I am enthusiastic about my job .</li><li>3. My job inspires me.</li><li>4. I am proud of the work that I do.</li><li>5. My job is challenging enough.</li></ol>	<ol style="list-style-type: none"><li>1. Time flies when I am at work.</li><li>2. When I work, I forget everything around me.</li><li>3. I feel happy when I work intensively.</li><li>4. I am immersed in my work.</li><li>5. I get carried away when I work.</li><li>6. It is difficult to detach myself.</li></ol>

Summary of Schaufeli B. W. & Bakker, B. A. (2003): Occupational Health Psychology Unit. Utrecht University

#### **2.1.4 Characteristics of Engaged Employees**

According to William Kahn (1990) engaged employee is:

1. Physically conative – devotes all his/her energy to work, remains at work until all his/her task is completed, able to go extra mile for his/her employer.
2. Cognitively focus on heavy performance at work, respectively devotes all his/her attention to his/her work.
3. Emotionally interconnected to his/her work.
4. Works beyond his/her duties, takes new tasks on his/her own initiative, and strongly cares about the success of the company.

According to Richman (2006) an engaged employee:

- is vital, energized, and work hard to help the company succeed.
- uses his/her skills, experience, and abilities to satisfy customers.
- is action-oriented and knows acceptable level of risk.
- believes he/she has a stake in the company.

Highly engaged employees believe that they can positively affect the quality of their organization's products or services. Those engaged employees work with passion and feel a strong connection to their company.

Engaged employees demonstrate attributes such as loyalty, trust, and commitment to the organization. Engaged employees are more creative and innovative and offer improvements that allow companies to evolve positively over time with changes in market conditions (Samuel & Maureen,2014).

### **2.1.5 Variable PayScheme**

Compensation and Benefit are unavoidable antecedent related to employee engagement. They contain both financial and non-financial benefits like rewards and remuneration and other incentives. These benefits which the employee receive from their organizations make them more effective and do their works effectively and use the ways that save money and effort due to their high satisfaction and commitment (Anitha, 2014). According to Social Exchange Theory (SET), good rewards and remunerations make employees feel forced to act with higher level of engagement. The staff want to be remunerated and appreciated for the eminent work they achieve specifically when the salary and other incentives are related to productivity (Andrew and Sofian, 2011).

Nazir, Khan, Shah, and Zaman (2013) observed that reward is very vital factor that has big contribution towards enhancing the employee job satisfaction and commitment. Organizations are continuously improving their reward system for retaining employee and becoming more productive.

Incentives, rewards, and recognitions are the prime factors that impacts employee motivation. Zakaria et al., (2011) contend that, employees who are well motivated serve as the competitive advantage for any company since their performance leads an organization to accomplishment of its goals.

Variable pay scheme is a new word for incentive plans. The schemes allow employers to give bonuses based upon individual, team, and/or organizational goals. While in the past, these plans were more discretionary, today's more strategic variable pay plans have specific performance

metrics and objectives so that employees understand what their earning potential can be. Variable pay scheme is a win-win concept for both employees and employers as they have many benefits for both employees and employers.

Compensation gurus agree that base pay should be based upon a position's current market value, but individuals should be rewarded in additional compensation that is based upon performance (Barry, 2016).

Employees need to be encouraged to 'go above and beyond' standard job-task descriptions by showing support, distributing fair and consistent reward that consider the changing needs of employees, and ensuring that they understand that the incentive system can be to their advantage if they engage in discretionary service behaviors (Payne and Weber, 2006).

According to Abosch (2003) cited in PaelSuff and Peter Alley (2004), variable pay scheme allows the organization to shift increased compensation from the fixed cost to the variable cost category paying out only when the money is there to allow the layout. Variable pay schemes are based on the notion of that people will work harder for more money. Yet long ago, McGreoger (1960), pointed out that the practical logic of incentive is that people want money, and they will work harder to get more of it.

According to a UNDP report (2006), Reward and incentive systems are therefore fundamental in developing capacities and translating developed capacities into better motivation and engagements.

H0: There is negative relationship between individual variable pay and employee engagement.

H1: There is positive relationship between individual variable pay and employee engagement.

### **2.1.6 Companywide end year Bonus**

A year-end bonus can be a powerful tool to remind employees that their hard work and commitment, and the company's overall growth and success are closely intertwined. And according to a new Robert Half survey, 54% of employees expect a year-end bonus (Robert Half, 2020 Blog).

Discretionary bonuses are often paid as an annual reward to employees following a successful year. Employees feel rewarded and valued by the organization. Non-discretionary bonuses are paid on an agreed schedule based on a defined target achievement of the employee/s.

Besides, presenting employees with a financial reward - whether it is to acknowledge individual, departmental, or companywide success - can help boost retention and talent acquisition. It can also help as a motivational tool for driving team productivity and engagement in the year ahead (Robert Half, 2020 Blog).

H0: There is negative relationship between companywide annual bonus and employee engagement.

H1: There is positive relationship between companywide annual bonus and employee engagement.

### **2.1.7 Elements of Effective Variable Pay Scheme**

There are common elements that are critical for effectiveness of variable pay plans despite variable pay plans can differ dramatically from one organization to another (Barry,2016). These includes:

- ✓ **Clarity:** Variable pay plans should be formal and clear to all employees in compliance with an organization's compensation philosophy.
- ✓ **Communication:** plans should be clearly communicated as the openness and transparency of compensation will reap many benefits through employee performance and loyalty.
- ✓ **Differentiation:** Differentiation of compensation potential between high performers and average employees is critical for the effectiveness of variable pay schemes.
- ✓ **Measurable and Relevant Metrics:** Measurability and Relevancy of performance metrics to the organization and its overall objectives determines the effectiveness of the variable pay plan.KPIs set to measure the performance of the employee should be relevant with their job and measurable.
- ✓ **Controllable Metrics:** Plans need to align with employee authority and control over the metrics for which they are being evaluated.
- ✓ **Fairness:** Plans should be fair to all employees to avoid seeming discriminatory.

An incentive plan can improve engagement, but only if it is designed properly and reflects a coherent and compelling compensation philosophy (Gibson, 2019).

H0: The variable pay scheme of ethio telecom is ineffective compared to the characteristics of effective variable pay scheme criteria.

H1: The variable pay scheme of ethio telecom is effective compared to the characteristics of effective variable pay scheme criteria.

## **2.2 Empirical Review**

The study recently conducted by Samuel & Maureen, (2014) on Determinants of Employee Engagement in the Banking Industry in Kenya, Case of Cooperative Bank achieved a response rate of 50% correlation tests and revealed that there is a strong positive correlation between remuneration package and employee engagement with coefficients of 0.780 at a 0.01 significance level. According to the regression analysis result of the study an increase in remuneration packages by one unit would increase employee engagement by 0.389 units.

Adel Ali Yassin Alzyoud, (2018) conducted a study in Bahrain on the influence of human resource management practices on employee work engagement the case of printing company. Reward and recognition practices was selected as one of the independent variables. According to the study it is found that rewards and recognitions and work engagement are positively correlated with coefficient of correlation  $r = 0.56$ . Furthermore, standardized coefficient and T values of the study also depicted that there is positive and significant impact of employee rewards and recognitions on work engagement ( $\beta = 0.36$ ;  $t = 4.82$ ).

The study conducted by Yohannes, (2016) on the role of selected human resource practices on employee engagement the case of commercial bank of Ethiopia revealed that reward and recognition least impacted employee engagement 26.4% compared to other considered HR practices such as Communication (42%), Development (36.5%) and Extended Employee Care (27.9%). This implies that reward and recognition have positive influence on employee engagement though the impact is low relative to other HR practices.

Dow Scott and Tom McMullen (2010) discovered that base pay and benefits had the overall weakest relationship with the organization's ability to foster high levels of employee motivation

compared to incentives, intangible rewards, and quality of leadership on engagement. From this it can be concluded that incentives have positive relationship and significant impact on employee engagement.

Hasibuan (2013) argues that motivation aims to direct and drive the power and potential of employees to work hard and enthusiastic in achieving optimal work in order to realize the goals that have been determined and that it is a means of incentive. The existence of incentives that provide pay based on work performance will enhance employee motivation and engagement.

The research by Lee (2015) proves that financial incentives have a significant effect on the performance of medical personnel, which is undoubtedly the result of an increase in motivation based on given financial incentives.

The results of research conducted by Wasito (2014) explains that the influence of material incentives on motivation has a significant influence, where the higher the incentive given by the company, the higher the motivation and engagement of its employee.

Material incentives are one of the company's financial compensations beyond the basic salary that employees receive on their performance. The Company believes that the system of compensation in general and the material incentive system in particular affects the motivation of employees in doing their work. Further research conducted by (Permatasari, 2011; Handrian, 2015), resulted in similar conclusions in the influence of incentives on employee motivation and engagement.

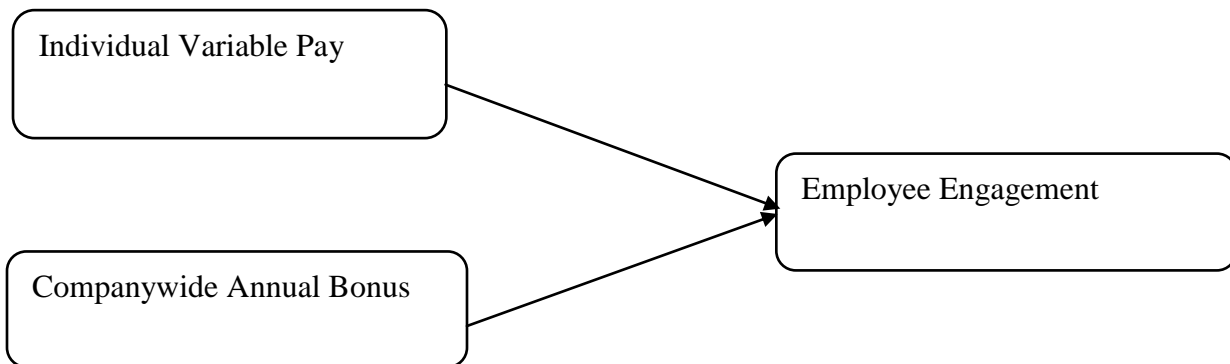
The finding of research conducted by Scott and McMullen, 2010 revealed that employee understanding on compensation strategy, programs, and policies - assuming compensation is based on common notions of fairness - provide a foundation for engaging employees.

According to Scott and McMullen (2010), base pay and benefits had the overall weakest relationship with the organization's ability to foster high levels of employee engagement and motivation compared to incentives, intangible rewards, and quality of leadership on engagement. This indicates that there is positive relationship between incentives (variable pays) and employee engagement.

All the above studies indicate that the field of employee engagement is being understood better now than ever before and organizations are looking towards research-based solutions to improve their employee engagement.

Scholars have not yet reached on an agreement regarding the relationship between individual fixed rewards and employee engagement. According to Kim & Oh (2002), Reis (1991, pp.123-131) and Song Renxiu (2008), individual fixed rewards have a positive impact on employee engagement; whereas Kochanski & Ledford (2003), James (2002), Medcof & Rumpel (2007) and Wang Ran (2007) state that individual fixed rewards does not have significant impact on employee engagement, which has been recognized by most of the scholars, as it complies with the basic principles of the two-factor theory. As for individual variable rewards, all the above-mentioned scholars agreed that it has significant positive impact on employee engagement.

### 2.3 Conceptual Framework



**Figure 2.2. Conceptual Framework**

Source: own developed

## **CHAPER THREE**

### **3. RESEARCH METHODOLOGY**

This chapter outlines more concisely the research framework and methodology, methods and instruments employed to conduct this research. The research plan includes description of the study area, research approach, research design, sampling, data source, instrument design, reliability and validly test and the data analysis techniques used in this study.

#### **3.1 ResearchApproach**

The researcher used quantitative as well as qualitative approach to find out the relationship among dependent variable (Employee Engagement) and independent variables (Individual variable pay and Companywide annual bonus). To this effect, Structured questionnaire developed by Schaufeliet al, (2002) - nine item Utrecht Work Engagement Scale has been applied. Moreover, the common criteria of effective variable pay identified by scholars and reviewed in the literature are used to measure the effectiveness of the ethio telecom variable pay scheme.

#### **3.2 Research Design**

The research examines the effect of ethio telecom's variable pay scheme on employee engagement. Thus, correlational research approach has been followed to investigate the relationship among components of variable pay scheme and employee engagement in ethio telecom. Thus, standard close ended questionnaire has been designed and distributed. Regarding statistical method, both descriptive and inferential statistics have been used. The data has been analyzed using SPSS software version 24.

#### **3.3 Population, Sample Size and Sampling Techniques**

##### **3.3.1 Target Population**

The study was particularly interested to identify the Effect of Variable Pay Scheme on Employee Engagement in the case of ethio telecom. Thus, the target population of the research study was indefinite term employees of ethio telecom working in Addis Ababa at Head quarter under Customer Services, Customer Experience and Quality Management, Finance, Human Resources,

Legal, Information System, International Business, Sales, and Supply Chain Divisions and Sales forces working under Central Addis Ababa Zone, South Addis Ababa Zone, and West Addis Ababa Zone. The total population of the study working under a fore mentioned work units and locations is about 2638 indefinite term employees according to the company's ERP system report of January 2021.

### 3.3.2 Sample Size and Sampling Technique

From the total population of 2638 employees, a sample of 347 employees has been taken using Slovin's (1960) sample size calculating formula depicted below.

$$n = \frac{N}{1 + N(e)^2} \quad \text{Where } n = \text{sample size}$$

$$n = \frac{3314}{1 + 3314(.05)^2} \quad e = \text{sample error (equivalent to 0.05)}$$

$$n = \frac{3314}{9.285} \quad N = \text{total population}$$

$$n = 347$$

Regarding the sampling technique, taking the above sample size, stratified sampling is used since, the population consists strata of samples from different divisions and then proportionate sampling technique is used to determine samples from each strata or group.

**Table 3.1 – proportionate stratified sampling from a given population.**

Ser No.	Division	Number of employee	Sampling Fraction	No. of samples
1	Customer Experience & Quality Management	71	13.15%	9
2	Finance	152	13.15%	20
3	Human Resources	151	13.15%	20
4	International Business Operations	121	13.15%	16
5	Legal Division	48	13.15%	6
6	Supply Chain	332	13.15%	44
7	Central Addis Ababa	113	13.15%	15
8	Customer Services	1803	13.15%	149
9	Information System	167	13.15%	22
10	Sales	84	13.15%	11
11	South Addis Ababa	117	13.15%	15
12	West Addis Ababa	155	13.15%	20
<b>Total</b>		<b>2638</b>	<b>13.15%</b>	<b>347</b>

Source: Report Extracted from Ethio Telecom ERP system January 2021

### **3.4 Types and Sources of Data**

Both primary and secondary data are used for the study. The primary data was collected directly from the selected respondent through structured questionnaire while the secondary data has been found from the company's policies, procedures, and related documents.

### **3.5 Instruments of data collection**

The primary data collection was collected through structured questionnaire. The questionnaire contains four main sections.

**Part 1** contains information regarding the respondent's demographic profile which include gender, age, educational level, years of service, and position category. **Part 2** of the questionnaire consists of structured seven-point Likert scale questions related to measuring level of employee engagement. **Part 3 & 4** consists of different statements with five-point Likert scale related to Variable Pay scheme -Individual Variable Pay and Companywide Annual Bonus-and effectiveness of variable pay scheme.

For this study, engagement was measured on the Utrecht Work Engagement Scale (UWES) developed by Schaufeli et al, (2002) and consisting of three subscales: vigor, dedication, and absorption. Previous psychometric studies have verified that the job engagement scale has reasonable construct validity and that the construct is distinct from burnout (Schaufeli et al., 2002). Other studies have established the (cross-national) validity, reliability, and stability of the construct (Schaufeli & Bakker 2004). Vigor and Absorption were assessed by six items whereas Dedication was measured by five items. These all items were rated on a 7-point Likert scale, ranging from (0) "never" to (7) "always me".

### **3.6 Validity and Reliability**

In this study, the researcher attempted to address the construct validity by clearly defining the construct of interest and developing valid measures that operationalize defined constructs. Moreover, related literature has been thoroughly reviewed and instruments used in previous research are exploited to address the issue of validity.

According to Saunders, et al. (2007), reliability refers to the extent to which data collection techniques or analysis procedures will yield consistent findings. Reliability of a scale is often assessed by test-retest reliability or by internal consistency. The first indicator, the test-retest, is assessed by administering the same scale of measure to the same respondents on two various occasions and computing the correlation between the two scores obtained. The second indicator, the internal consistency, is the degree to which the items constituting the scale are all measuring the same underlying attribute (Zikmund et al., 2010). The most commonly indicator used for computing the internal consistency is coefficient alpha (Pallant, 2011). Thus, in this study reliability were ensured by Cronbach's Alpha.

**Table 3.2 – Reliability Test.**

<b>Variables</b>	<b>Cronbach Alpha Coefficients</b>	<b>Number of Items</b>
Individual Variable Pay	<b>0.79</b>	<b>5</b>
Company Wide Bonus	<b>0.89</b>	<b>5</b>
VP Scheme Effectiveness	<b>0.84</b>	<b>7</b>

\*\* Cronbach's alpha (CA) lies within the range of 0.7 to 0.9 based on researchers' rule of thumb.

### **3.7 Ethical consideration**

The respondents were participated voluntarily and ethically. The respondents' privacy, the right not to provide data or not to participate at all have been respected. Apart from these, the data provided by the respondents have been kept confidential and used only for the purpose of the study. It was already stated that the objective of the study is for academic purpose and the data provided by the respondents will be kept confidential and carefully consumed only for the study.

### **3.8 Methods of Data Analysis**

The data collected through questionnaire were analyzed using statistical tools such as descriptive and inferential statistics. Descriptive statistics such as: arithmetic mean, frequencies, and standard deviation were used to describe the demographics of respondents and variables of the study.

Pearson correlation test was used to determine the nature and significance of the relationship between variable pay scheme and employee engagement. Multiple regression analysis was also conducted to determine the effect of variable pay scheme. Regression made based on the following model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Where, Y = dependent variable  $\beta$  = coefficient of independent variables

$\alpha$  = smoothing constant X1 & X2 = independent variables

e = error

## CHAPTER FOUR

### 4. DATA ANALYSIS AND PRESENTATION

The data collected through structured questionnaire is summarized, analyzed, and presented here. Out of 347 questionnaires distributed by the researcher, only 270 questionnaires were returned while the rest 83 were not returned. Besides, 2 questionnaires were invalid due to incompleteness. Finally, 268 questionnaires with the response rate of 77% were considered for the analysis.

#### 4.1 Demographic Characteristics of the Respondents

**Table 4.1. Demographic characteristics of the respondents**

Respondents Characteristics		Frequency	Percentage
Gender	Male	180	67%
	Female	88	33%
	Total	268	100%
Age	18-30	126	47%
	31-40	95	35%
	41-50	39	15%
	Above 50	8	3%
	Total	268	100%
Education Level	First Degree	156	58%
	Master's Degree	112	42%
	Total	268	100%
Years of service	Below 1 year	63	24%
	1-5	56	21%
	6-10	38	14%
	11-15	79	29%
	16-20	18	7%
	Above 20	14	5%
	Total	268	100%
Position Category	Management	64	24%
	Non-Management	204	76%
	Total	268	100%

Source: Survey result (2021)

As Table 4.1 reveals out of 268 respondents more than half of the respondents i.e., 180 (67%) were male and the rest 88(33%) were female. Thus, majority of the respondents are male and these shows that the higher proportion of the employees are male. Regarding age distribution the higher portion of respondents (47%) were in the age category of 18-30 years old followed by the age group of 31- 40 (35%) years old. The rest 15% and 8% were under the age category of 41-50 and above 50 years old, respectively. This shows that most of the respondents are young. When it comes to educational level of respondents, more than half of the respondents (58%) are First Degree holders whereas 42% of them are Master’s Degree holders.

The table also depicts that 24% of the respondents have less than 1 year, 21% of them have 1-5 years, 14% of the respondents have 6-10 years, 29% of them have 11-15 years, 7% of them have 16-20 years, and 5% of them have above 20 years of service in ethio telecom. Furthermore, majority of the respondents’ position category(76%) is non-management while only 24% of them are under management position category.

#### 4.2 Descriptive analysis of Variables

**Table 4.2. Descriptive analysis of independent variables**

Variable	N	Mean	Standard Deviation
Individual Variable Pay	268	3.43	1.05
Companywide Annual Bonus	268	3.25	1.11
Valid N (listwise)	268		

Source: own survey result (2021)

As depicted in Table 4.2 the mean value for individual variable pay is above an average nearest to agree level while the mean value of companywide bonus is also above an average but nearly moderate(neutral) level. This shows that most of the respondents are satisfied by the individual variable pay but moderate to the company wide bonus. Majority of the employees feel that individual variable pay is clearly linked to their performance, encouraged to work hard, and feel happy because of the variable pay.

### 4.3 Descriptive analysis of Employee Engagement Dimensions

**Table 4.3. Descriptive analysis of Engagement Dimensions**

<b>Dimensions of Engagement</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>
Vigor	268	4.84	1.21
Absorption	268	4.48	1.23
Dedication	268	4.74	1.23
Valid N (listwise)	268		

Source: own survey result (2021)

As indicated in Table 4.3 the mean value for vigor is nearly 5 - Often (once a week) and this means most of the employees are often feel energetic, strong, and vigorous, mentally resilient, like going to work and work for a long period of time. The mean value for absorption is almost above an average and in between 4(sometimes) and 5 (often). This reveals that most of the employees feel that the time flies when they are at work, immersed in their work and happy when they work intensively and difficulty to detach themselves from their work often, but this feeling is not very often and always.

As it can be seen from Table 4.3 the mean value of dedication is 4.74 nearest to 5(often). This shows that most of the employees are working on jobs that often challenges and inspires them. They are often proud of their job and feel proud of the work they do.

### 4.4. Descriptive analysis of Variable Pay Scheme Effectiveness.

**Table 4.4. Effectiveness of Variable pay scheme analysis.**

<b>Effectiveness Criteria</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>
Clarity	268	2.97	1.12
Communication	268	3.06	1.08
Differentiation	268	3.23	0.93
Measurability& Relevancy	268	3.51	0.93
Fairness	268	3.38	1.04
Controllability	268	3.32	1.06
Valid N (listwise)	268		

Source: own survey result (2021)

As indicated in Table 4.4, the mean value for clarity is 2.97 nearly 3 - moderate and this means the variable pay scheme of the company lacks clarity and majority of the employees have no clarity on the variable pay scheme of the company. Besides, it can be inferred from the result that there was little or no employees' involvement in the design of the variable pay scheme. The mean value for communication is 3.06 which is almost moderate and shows that the variable pay scheme is not well communicated to the employees. Likewise, the mean value for differentiation is above average but not by far whereas the mean value of measurability and relevancy is above average as indicated in Table 4.4. This shows that the scheme to some extent differentiates between the high performer and the average and the KPIs are measurable and relevant for the job of the employees, and objectives of the company.

The mean values of fairness and controllability are also above average as indicated in the above table, but still nearest to moderate. This shows that significant number of employees feel that the scheme is unfair, and they have no control over the KPIs set for their job.

#### **4.5 Correlation Analysis**

Correlation analysis is used to determine the direction and strength of the linear relationships between independent and dependent variables. The Pearson Correlation Coefficient measures the strength and direction of relationships between the independent and dependent variables. Correlation coefficients take values between -1 and 1. -1 correlation coefficient shows that the correlation is negative, 0 means there is no correlation among the variables and 1 correlation coefficient shows that there is positive correlation between the variables.

According to Vijay Gupta (1999), level of correlation is strong for a correlation coefficient of greater than 0.5 in absolute terms (i.e., greater than 0.5 or less than -0.5). Correlation is moderate if the absolute value of the coefficient is greater than 0.2 but less than 0.5 and low if the absolute value of the coefficient is less than 0.2.

**Table 4.5 Correlation Analysis**

		Individual Variable Pay	Companywide Bonus	Employee Engagement
Individual Variable Pay	Pearson Correlation Sig.(2-tailed)	1 .000		.360**
	N	268	268	268
Companywide Bonus	Pearson Correlation		1	.404**
	N	268	268	268
Employee Engagement	Pearson Correlation	.360**	.404**	1
	N	268	268	268

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

Source: own survey (2021)

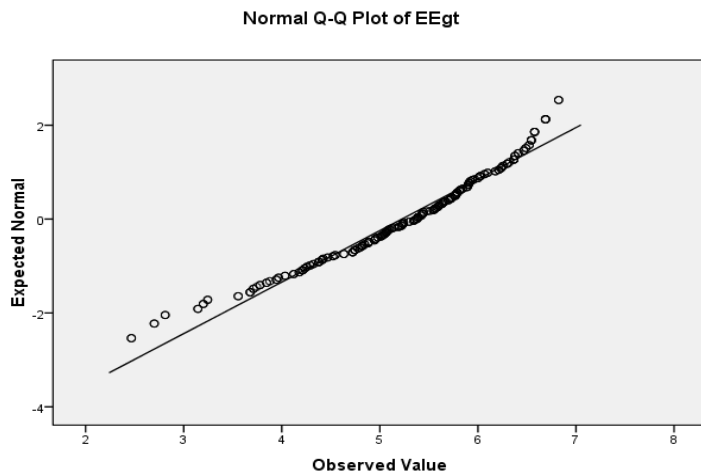
As shown in the above Table 4.5 the individual variable pay and companywide annual bonus are moderately significant and positively correlated with employee engagement with the coefficient of ( $r=.360$ ,  $p>0.01$ ) and ( $r=.404$ ,  $P>0.01$ ), respectively. This indicates that the increase or decrease of individual variable pay and companywide annual bonus will change employee engagement in the same direction.

#### **4.6 Normality Test**

Normal Probability Plot(NPP) and histogram of residuals were used for the test of normality of the disturbance term. A comparatively simple graphical device to study the shape of the probability density function of a random variable is the normal probability plot which makes use of normal probability plot, a special designed graph.

If the variable is from the normal population, the normal probability plot will be approximately a straight line (Gujarati,2009). Figure below shows that, the residuals are approximately normally distributed, because a straight line seems to fit the data reasonably well.

Figure: 4.1. Normality Test



#### 4.7 Multicollinearity Test

Table 4.6. Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.559	.230		15.445	.000		
	AvIVP	.216	.078	.190	2.758	.006	.649	1.542
	AvCBP	.285	.068	.288	4.172	.000	.649	1.542

a. Dependent Variable: Employee Engagement

As value of variance inflation factor (VIF) is between 1 and 10, it is observed that there is no multicollinearity problem. In addition, the coefficient of tolerance and correlation result also depict that there are no indicators of multicollinearity.

Table 4.7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.432 <sup>a</sup>	0.187	0.181	0.60644	2.079

- a. Predictors: (Constant), Companywide Annual Bonus, Individual Variable Pay
- b. Dependent Variable: Employee Engagement

Source: own survey (2021)

A measure of the strength of the computed equation is R-square, sometimes called the coefficient of determination. R-square is simply the square of the multiple correlation coefficients listed under R in the Model Summary table and represents the proportion of variance accounted for in the dependent variable (employee engagement) by the predictor variables (independent variables).

As shown in Table 4.6 individual variable pay and companywide annual bonus accounts for 18.7% (R Square, 0.187) of the variation in employee engagement.

**Table 4.8. Model Summary, ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.394	2	11.197	30.446	.000 <sup>b</sup>
	Residual	97.458	265	0.368		
	Total	119.852	267			

- a. Dependent Variable: Employee Engagement
- b. Predictors: (Constant), Companywide Annual Bonus, Individual Variable Pay

Source: own survey (2021)

ANOVA test was also conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model.

The results in Table 4.7 indicates that an F value of 30.446 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing a significant relationship. The implication is that each independent variable contributes significantly to changes in the dependent variable. This shows that the model works and thus accounts for significantly more variance in the dependent variable than would be expected by chance.

**Table 4.9 Coefficients of Regression Model**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.474	0.174		19.939	0.000	3.131	3.817
	Individual Variable pay	0.163	0.059	0.188	2.751	0.006	0.046	0.279
	Companywide annual bonus	0.214	0.050	0.295	4.312	0.000	0.116	0.312

a. Dependent Variable: Employee Engagement

Source: own survey (2021)

The regression analysis results indicate that an increase in individual variable pay by one unit increase employee engagement by 0.163 units while an increase in companywide annual bonus by one unit increase employee engagement by 0.214 units.

The beta coefficients are positive (the sign indicates the nature of the relationship). This shows that the independent variables and the dependent variable move in the same direction - an increase in the independent variables leads to an increase in the dependent variable. The regression model was hence summarized as:

$$Y = 3.474 + 0.163X_1 + 0.214X_2 + e.$$

Where: Y = employee engagement

X1 = Individual Variable Pay

X2 = Companywide Annual Bonus

e = standard error (0.05)

## CHAPTER FIVE

### 5. SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION

This chapter presents the summary of major findings drawn from the study, and conclusions made by the research based on the findings of the study and recommendations to be taken to enhance the employee engagement and strengthen the relationship between variable pay scheme and employee engagement.

#### 5.1 Summary of Major Findings

The study was conducted to assess the effects of variable pay scheme on employee engagement in the case of ethio telecom. In effect, all the required data were gathered through structured close ended questionnaires from the selected 268 employees of ethio telecom and the data was analyzed using the SPSS version 24. Descriptive and inferential data analysis tools were used to analyze data and determine the effects of the independent variables on the dependent variable of the study. Based on the results presented in the chapter four the following major findings are drawn by the researcher.

- ❖ According to the result of the study all the respondents' educational background is first degree, and above which means ethio telecom is organized with an educated workforce that enables the company to attain its objectives and realize its aspiration.
- ❖ Ethio telecom has workforces with different work experiences that helps the company in knowledge and experience sharing. The workforces being in different age group smooths successors preparation.
- ❖ The mean values for individual variable pay and companywide bonus are 3.43 and 3.25 respectively whereas the mean values for dimensions of engagement – vigor, absorption, and dedication are 4.84, 4.48, and 4.74, respectively.
- ❖ One of the objectives of the study was to assess the effectiveness of variable pay scheme against the most common criteria and the mean value for clarity of the scheme is 2.97, the mean value for communication about the scheme is 3.06, the mean for differentiation of the scheme between the higher performer and the average is 3.23, the mean value for

measurability and relevance of the scheme with the job of the employee is 3.51 and the mean value for the fairness and non-discriminatory of the scheme is 3.38 and the mean value for the controllability of the KPIs of the scheme by the employee is 3.32.

- ❖ The study demonstrates that companywide annual bonus has significant relationship with employee engagement relative to individual variable pay despite that both have positive relationship. Both individual variable pay and companywide annual bonus have moderate level effect on employee engagement.
- ❖ According to the research result companywide annual bonus has a distinctive highest contribution on employee engagement comparative to individual variable pay (Beta value=.0214).
- ❖ The variable pay scheme of the company is nearly effective as the result of the research reveals but it needs attention to improve the effectiveness of the scheme in all dimensions.

## **5.2 Conclusions**

The aim of this research project was to evaluate the effect of variable pay scheme on employee engagement and assess the effectiveness of the scheme in the case of ethio telecom. Accordingly, the result of the study revealed that there is a positive relationship between independent variables (individual variable pay, companywide annual bonus) and employee engagement. The result also indicated that variable pay scheme has moderate effect on employee engagement. The findings agree with the findings of many scholars that individual variable rewards have significant positive impact on employee engagement.

The mean values of the independent variables are above an average and reveals that majority of the employees are satisfied with the variable pay scheme of the company. However, this does not mean that the variable pay scheme of the company is perfect. It needs improvement and enhancement to more engage employees. The mean values of employee engagement dimensions are somewhat good. Majority of employees are engaged often but it is not very often and always.

In general, the result of the study revealed that there is a positive relationship between independent variables (individual variable pay, companywide annual bonus) and employee engagement. The result also indicated that variable pay scheme has moderate effect on

employee engagement. The findings agree with the findings of many scholars that individual variable rewards have significant positive impact on employee engagement.

Regression model analysis indicates that 18.7% of variance in employee engagement is explained by variable pay scheme while the remaining 81.3% of the variance can be explained by other variables that are not covered under this study.

Eventually, the result of the study revealed that the variable pay scheme of ethio telecom is effective when measured against the most common elements stated by Barry, 2016 except clarity of the scheme. The scheme lacks clarity as the mean value for the clarity is below an average (2.97).

### **5.3 Recommendations**

Based on the major findings and conclusions drawn from the study and stated here above, the following points are recommended by the researcher to more engage employees and enhance the effectiveness of the variable pay scheme now in place.

- ❖ The study revealed that variable pay scheme has positive relationship with employee engagement that in return affects the productivity of employees in particular and the success of the company in general. Thus, ethio telecom should realize that variable pay scheme has effect on employee engagement and reinforce the scheme involving the employee themselves.
- ❖ As stated in the company's variable pay scheme procedure, variable pay scheme has been designed with the purpose to push employees to go extra mile and excel their normal target and to enhance customer satisfaction. Thus, to be effective the company should create clear link between the variable pay scheme and employees performance, create clarity on the variable pay scheme, and thoroughly communicate the scheme.
- ❖ The study recommends that the company revisit the scheme in such a way that it significantly differentiates between high performer and the average employees so as to motivate the average employees for higher result.
- ❖ The study indicated that employees feel that the variable pay scheme is unfair and discriminatory and the KPIs set for their jobs are uncontrollable by them, hence the

company should change such feeling through proper communication or revision of KPIs with the involvement of employees.

- ❖ Finally, it is recommended that the company has to conduct further assessment and fill the gaps based on the assessment result and reinforce the scheme to more engage employees as engaged employees are loyal, honest, committed, more creative and innovative to the organization.

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## Appendix

### ADDIS ABABA UNIVERSITY SCHOOL OF COMMERCE OFFICE OF GRADUATE STUDY SURVEY QUESTIONNAIRE.

Dear Respondent,

The aim of the survey question is to gather data for the study to be conducted as part of a research project which shall be submitted in partial fulfillment of Masters of Art Degree in Business Leadership. The overall purpose of this study is to examine “the effects of variable pay scheme on employee engagement: the case of ethio telecom”.

Therefore, I kindly request you to fill this questionnaire genuinely and honestly promising that all information provided through this questionnaire is used solely for the intended academic purpose and to be treated with top confidentiality.

Please follow the instructions and answer all the questions. Do not hesitate to call on 0911523323 or mail via [tkmuleta@gmail.com](mailto:tkmuleta@gmail.com) if you have any doubt on the questions.

I would like to thank you in advance for your participation.

#### Part One: - Demographic and other profile

Please put tick mark (√) in the square that represent your personal situation. Only one item is required to mark per question.

1. Gender      Male                       Female
2. Age      18-30               31-40               41-50               Above 50
3. Highest educational level attained.  
Below Diploma       Diploma               First Degree               Master's Degree               Other
4. Years of service in ethio telecom  
Less than 1               1- 5               6 -10               11-20               Above 20
5. Position Category      Management               Non-Management

## Part Two: - Employee engagement level survey questions

Please put tick mark (√) in the box corresponding to the option that identifies your level of agreement on the true feeling you have on a seven-point scale where 7 is “always every day perform or feel” and 1 is “never do or feel”. 1= Never, 2= Almost never (A few times a year or less), 3= rarely (Once a month or less) 4= Sometimes (A few times a month) 5= Often (Once a week), 6= Very often (A few times a week), 7=Always (Everyday).

Ser No.	Parameter	1	2	3	4	5	6	7
1	At my work, I feel bursting with energy. (VI1)							
2	I find the work that I do full of meaning and purpose. (DE1)							
3	Time flies when I am working. (AB1)							
4	At my job, I feel strong and vigorous. (VI2)							
5	I am enthusiastic about my job. a (DE2)							
6	When I am working, I forget everything else around me. (AB2)							
7	My job inspires me. a (DE3).							
8	When I get up in the morning, I feel like going to work. a (VI3)							
9	I feel happy when I am working intensely. a (AB3)							
10	I am proud of the work that I do. (DE4)							
11	I am immersed in my work. (AB4)							
12	I can continue working for very long periods at a time. (VI4)							
13	To me, my job is challenging. (DE5)							
14	I get carried away when I am working. (AB5)							
15	At my job, I am very resilient, mentally. (VI5)							
16	It is difficult to detach myself from my job. (AB6)							
17	At my work, I always persevere, even when things do not go well. (VI6)							

Note: VI = Vigor scale; DE = Dedication scale; AB = Absorption scale. <sup>a</sup>. Shortened version (Utrecht Work Engagement Scale-9 [UWES-9]).

Source: Schaufeli and Bakker, (2003).

**Part Three: - Questions related to Variable Pay scheme**

Please put tick mark (√) in the box corresponding to the option that identifies your level of agreement (1=strongly disagree 2=disagree 3=neutral 4=agree 5=strongly agree)

<b>Factors</b>	<b>parameter</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Individual Variable Pay	There is a clear link between my performance and my bonuspay					
	I am satisfied with the bonus I get compared to my effort					
	I am encouraged to work harder because of the variable pay					
	My variable pay is fair in comparison with others					
	The variable pay make me feel happy and work intensely					
Company Wide Annual Bonus Pay	There is a clear link between my performance and my bonuspay					
	I am satisfied with the bonus I get compared to my effort					
	I am encouraged to work harder because of the bonus pay					
	My bonus pay is fair in comparison with others					
	In comparison with people doing similar jobs in other organizations, I feel my bonus is reasonable.					

**Part Four: - Questions related to Effectiveness of Variable Pay Scheme.**

Please put tick mark (√) in the box corresponding to the option that identifies your level of agreement (1=strongly disagree 2=disagree 3=neutral 4=agree 5=strongly agree)

<b>Factor</b>	<b>Parameter</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Clarity	I am clear with the variable pay scheme from the very beginning					
Communication	The variable pay scheme is communicated well by my company.					
	I feel that the plan is open and transparent					
Differentiation	I feel that the plan differentiates between the high performer and the average.					
Measurability& Relevancy	The set KPIs are measurable and relevant					
Fairness	I feel that the plan is fair and non-discriminatory among the employees eligible for the plan					
Controllability	I have control over all the KPIs set for my job					