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THE EFFECT OF REWARD SYSTEM ON PERCEIVED EMPLOYEE PERFORMANCE: THE CASE STUDY OF NATIONAL BANK OF ETHIOPIA.

**A THESIS SUBMITTED TO THE ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE DEGREE OF MASTERS OF ARTS IN
HUMAN RESOURCE MANAGEMENT (MAHRM).**

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DECLARATION

I, ERMIAS BERHAN BERHANU, declare that the research project entitled *Effect of Reward System on Employee's Perceived Performance in case of National Bank of Ethiopia* is my original work that is done under the guidance and advice of my advisor, **Worku Mekonen** (PhD).

This research project is done as partial fulfillment for Masters of Arts Degree in Human Resource Management (MAHRM)

This research has not been done before and all sources of materials used for the study have been appropriately acknowledged.

ERMIAS BERHAN BERHANU

CERTIFICATION

This is to certify that ERMIAS BERHAN BERHANU has done the study on the topic, *Effect of Reward System on Employee's Perceived Performance in case of National Bank of Ethiopia*. This study is authentic and has not been done before by any other researcher on the same topic.

Advisor's name _____

Signature _____

Addis Ababa University School of Commerce Graduate Program

**The effect of Reward System on Employees Perceived Performance: The Case Study of
National Bank of Ethiopia**

By: Ermias Berhan

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Abstract

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The research study achieved its aims of defining and assessing the effect of reward system on perceived employee performance in national bank of Ethiopia, Addis Ababa-Ethiopia. The purpose is to examine the effect of reward systems on the dimensions of employees' perceived performance. This study also attempted to investigate what types of reward system financial or non-financial contribute to the employee better performance. Both qualitative and quantitative research methods were applied. In order to select the respondents from the total population of 950, stratified sampling method was applied. The sample size determination comes with 258 samples to be taken in to the study. . Survey data collected from respondents analyzed using descriptive, correlation and regression analysis. The findings of the study indicated that there was a significant relationship between reward system and employee performance in general and financial and non-financial rewards in particular. The financial reward component base pay positively and significantly influenced employees' working performance ($r=0.264$, $p<0.01$) While from non-financial dimension, career development highly correlated ($r=0.559$, $p< 0.01$). In addition, the findings of the study revealed that financial rewards ($r=0.333$, $p<0.01$) strongly affect employees' perceived performance than non-financial rewards ($r=0.253$, $P<0.01$). Finally, it is the recommendations of the research study that reward systems have an impact on employees' performance ($r=0.516$, $.p<0.01$) and the researcher observed that there was a significant difference in its effect due to demographic factors.

Key words: Financial rewards, Non-financial rewards, base pay, performance based bonus benefit, recognition, career development, working condition and employees' perceived performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Nowadays, business organizations operate in a complex and changing environment that greatly influences their growth and profitability. The constant changes occurring in the world, especially with regards to technology and innovation enforce companies to reassess the manner in which they communicate to both their employees and their customers. To cope with these changing environment organizations need to use their resource effectively. Their resource may be available in human and non-human aspect. Undoubtedly, the most important factor is human in organizations (Armstrong 2005).

One of the main management strategies of the organizations is to invest in employees. Organizations are seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications because the survival and competitive advantage of any organization depends on the quality of human resources (Armstrong 2005).

Moreover, in this competitive environment organizations are highly realizing that they have to establish an equitable balance between the employee's contribution to the organization and the organization's contribution to the employee. Establishing this balance is one of the main reasons to reward employees and achieve high organizational performance through them.

Employees are valuable resource of any organization. Employee's productivity and performance has been main concern of organizations. Rewarding employees for productivity is the focus of business organization. The ability to attract and retain competent workforce, as well as keep those highly motivated has however become a great challenge. Employers now require their employee's to do more with less, while employees on their part, are asking for more incentives. This requires that organizations should device a system that will strike a balance, if they want to continue to have increased organizational performance (Losey 2005).

In the real world, it is very important to reward high performance levels because it motivates and controls the performance. Indeed, reward strategies should include non-financial and financial rewards. It helps any organization to attract, maintain and inspire skillful competent and capable employees to make the organization prosperous. Although some benefits are provided in financial forms, such as salary and competitive pay, there are a lot of non-financial benefits which firms can provide to its employees. Therefore, for a manager, it is necessary to know what really inspires employees to perform the given task (Taylor & Francis 2005).

According to Lawle (2000, p.21) “Employee rewards system refers to programs by different organizations to reward performance and motivate employees on individual or group level”. So reward systems in any organization are a fundamental tool and play an important role as far as employee motivation and performance was concerned.

Cowherd & Levine (1992) pointed out that reward systems have a critical role in determining the organization’s ability to attract high potential employees and to retain high performing employees to achieve greater levels of quality and performance and in designing a reward system, the organization should specify group or organizational goals to be achieved and specific behaviors or performance that will attract rewards.

On the other hand, Nelson (1997) explains there are other means to reward employees that do not just focus on financial compensation. Some of these include the praise that employees are able to acquire from their managers, the opportunity to take on important projects or tasks, and even leadership attention.

This is largely due to the fact that the well-rewarded employee feels that he/she is being valued by the company that he/she is working for. They are also encouraged to work harder and better if they are aware that their well-being is taken seriously by their employers, and that their career and self-development are also being hone and taken care of by their company. Thus, it is a constant and continuous challenge for companies to really work on understanding what factors contribute to improve performance levels of their employees. Aside from working on satisfying their customers, it is crucial that companies also work on identifying the reward practices or motivators that boost the performance of their workforce.

From different literatures reviewed for the purpose of this study there are variations what type of reward can help to perform their jobbing. These differences happen due to factors like: type of industry/sector, demographic variables, level of development of the country. Therefore the paper tries to find out possible relationships that exist between reward and employee performance.

1.2 Back Ground of the Organization

The National Bank of Ethiopia was established in 1963 by proclamation 206 of 1963 and began operation in January 1964. Prior to this proclamation, the Bank used to carry out dual activities, i.e. commercial banking and central banking. The proclamation raised administrative autonomy and juridical personality. Following the proclamation the National Bank of Ethiopia was entrusted with the following responsibilities

- To regulate the supply, availability and cost of money and credit.
- To manage and administer the country's international reserves.
- To license and supervise banks and hold commercial banks reserves and lend money to them.
- To supervise loans of commercial banks and regulate interest rates.
- To issue paper money and coins.
- To act as an agent of the Government.
- To fix and control the foreign exchange rates.

However, monetary and banking proclamation No. 99 of 1976 came into force on September 1976 to shape the Bank's role adoring to the socialist economic principle that the country adopted. Hence the Bank was allowed to participate actively in national planning, specifically financial planning, in cooperation with the concerned state organs. The Bank's supervisory area was also increased to include other financial institutions such as insurance institutions, credit cooperatives and investment-oriented banks. Moreover the proclamation introduced the new Ethiopian currency called 'birr' in place of the former Ethiopia Dollar that eased to be legal tender thereafter.

The proclamation was in force till the new proclamation issued in 1994 to reorganize the Bank according to the market-based economic policy so that it could foster monetary stability, a sound financial system and such other credit and exchange conditions as are conducive to the balanced growth of the economy of the country.

The vision, mission and goals of the National Bank of Ethiopia has emanated from the overall vision of the government which is "to see a country, wherein democracy and good governance are prevailed upon the mutual consent and involvement of its people, wherein social justice is reigned, and wherein poverty reduced and income of the citizens reach to a middle economic level (<http://www.nbe.gov.et>)

1.3 Statement of the Problem

Studies (Ayesha, Aslam, Amna Ghaffar, Tahleel Talha and Hina Mushtaq, 2015) have shown that the reward process is a major control or influence mechanism available to organizations. Reward is one of the most important elements which motivate employees to contribute their best effort, to generate innovative ideas that lead to better business functionality and further improve company performance both financially and non-financially. Philip's (2014) finding concludes that reward systems in any organization are a vital tool and play an important role as far as employee performance was concerned.

The way organizations managed their reward determined or influenced the attitudes of employees towards work, as well as their performance. He also theorizes that employee's rewards policy in any organization controls the behavior and pattern of work hence a major driving force towards organizational development.

On the other hand, researchers (Nnaji & Nnadozie 2015) do not agree on predictable influence on individual behavior. They assert that employee performance is not only subjected to reward process. Some environmental factors may help to boost or demolish determined result.

Roberts (2005) descriptively affirmed that a proper understanding of the effect of reward process on employee performance helps to enhance organizational performance.

According to Ronald & Cary (2005) any organization in general needs employees who are capable to perform their duty. The National banks in particular needs employees who can perform well. For without them customer satisfaction as well as basic function of the bank would also be affected. To use employees' full capacity and to get jobs done, national banks first and foremost must care of their employees. Whatsoever the authority and the power given to the national bank, what so ever the regulation and the policy framed, it is difficult to be productive unless the employees perform and execute the given policy.

In case of National Bank of Ethiopia (hereafter NBE) the exit interview which compiled by Human Resource planning and development team from (2013-2016) on average indicated that, the major reasons for leaving NBE were the problem of reward System. The report Points out on average. Lack of reasonable reward (54.14%), to start their own business (22.8%), lack of good governance (4.4%), and health related problems (6%) to attend further education abroad (2%) other reasons (10.66%). From the report it can be implied that the reward issue is the main reason to leave. The Studies by (Payam, Ali, Seyed & Mahmood, 2013) justify that the management of rewards process should be helpful to the firm to realize its goals by keeping the people's needs, and by developing their performance.

From researcher's preliminary study, even though there are different financial and non-financial rewards including fuel allowance, medical coverage, representing allowance, annual bounces, insurance benefit, emergency loan, subsidized cafeteria) in NBE, there is no any empirical evidence how this reward practices affect employee performance in particular and bank performance in general.

From informal interviews with employees, all reward practice is said to be not enough with the increase in cost of living. In addition, they reveal that design of different financial and non-financial reward systems are not fitting with their personal goal or interest. This may affect their performance adversely. Because Philip (2014) found out that employees performance is dependent on the way they are treated in the organization and the extent to which organizational strategy fits with employees interest. So this research is aimed at investigating the effects of reward practice on employee performance in NBE using cross-sectional regression.

1.4 Research Questions

The main emphasis of the research is to investigate the effects of reward system (independent Variable) on employees' performance (dependent variable) as per the questions listed below

1. To what extent do reward practice related to employee performance in NBE?
2. To what extent do non-financial rewards affect employee performance?
3. To what extent do financial rewards affect employee performance?
4. Which of the two types of rewards (financial and non-financial) has high effect on employees work performance in NBE?
5. To what extent do demographic factors moderate reward system on employee performance in NBE?

1.5 Research Objective

The focus of this study is to determine the effect control variables on employee performance at National Bank of Ethiopia. Moreover, the study reaches the following specific objectives

1. Investigate the level of effect of reward system on employee's performance in NBE.
2. Investigate the effect of financial reward on employee performance in NBE.
3. Investigate the effect of non-financial reward on employee performance in NBE.
4. Determine if there is any difference in the level of performance due to financial and non-financial rewards in NBE.
5. Determine the effect of reward system on employee performance due demographic factors in NBE employees.

1.6 Research Hypothesis

The formulated research hypotheses are

- ✓ H 1 : Reward system significantly affect employee's performance
- ✓ H 2 : Financial rewards significantly affect employee's performance
- ✓ H 3 . Non-financial rewards significantly affect employee's performance
- ✓ H 4 Financial and non-financial reward affect employee performance differently
- ✓ H 5 : Demographic factors moderate the relationship between reward and employee

1.7 Scope /Delimitation of the Study

To make this research manageable, the scope of the study is limited to employees of the National Bank of Ethiopia with a working experience of one or more years. In addition, study only confined to reward system particularly financial and non-financial rewards. Financial rewards focus only salary/base pay, performance based cash bonuses and benefits while none financial rewards focus work condition/autonomy, Recognition and career development.

In case of demographic factor only age, gender, income level and marital status will take in to account. Besides, the study covers only permanent employee without part timer or contract workers, researchers and top managers.

Lastly, for the sack of quality and specialization and to cope with the available time and resource constraints, this study focuses only the reward system practices of NBE

1.8 Limitation of the Study

The study focus on NBE employees to study the effect reward system on performance. This will limit the generalizability of the findings to other banks. In addition, shortage of time, skill on research and few employees refusal to fill the questioner is other potential limitation of the study.

1.9 Operational Definition of key Terms

- **Human resources** are the people who make up the workforce of an organization or business sector, or economy. "Human capital" is sometimes used synonymously with "human resources", although human capital typically refers to a more narrow view (i.e., the knowledge the individuals embody and economic growth).
- **A rewards system** is a planned and structured approach to reward one or more persons who act in a desirable way
- **Financial rewards** are monetary incentives that an employee earns as a result of good performance
- **Non-financial reward:** programs structured to motivate positive behavior change through means other than money.
- **Performance:** The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

Employee's performance is defined as whether a person executes their job duties and responsibilities well.

1.10 Significance of the Study

Firstly, the findings of this research are expected to help any concerned body/ stakeholders at different levels by creating and developing awareness on the relationship between reward system and employee performance.

- **For Manger of the Bank:** They use it to design a reward system which has high positive effect on employee's performance. And to avoid useless reward practice from their organization
- **For Policy Maker:** it will be use full to formulate reward and compensation policy. By considering different situational and demographic factors.
- **For Academician:** The study is expected to be a stepping stone for further research on the area.

1.11 Organization of the Study

The paper is organized in five chapters i.e. the first chapter includes an introduction section which consists of background of the study, statement of the problem, objectives, hypothesis, significance, scope, limitation of the study and ethical considerations. Chapter two include: review of related literature which has theoretical and empirical review part. Chapter Three: presents research design and methodology the researcher employed to investigate the problem under study. Furthermore, data from respondents also presented, analyzed, interpreted and discussed in the fourth chapter. The last section of the thesis contains summary of results, concluding remarks and recommendations used for the bank.

CHAPTER TWO

LITERATURE REVIEW

2. Theoretical Literature Review

2.1 The Concept of Reward Management

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

The strategic aim of reward management is to develop and implement the reward policies, processes and practices required to support the achievement of the organization's business goals.

The main objectives of rewards are to attract and retain employees, to motivate employees to achieve high levels of performance, and to elicit and reinforce desired behavior of the employees (Gerhart & Milkovich 1990).

The main objectives of rewards are to attract and retain employees, to motivate employees to achieve high levels of performance, and to elicit and reinforce desired behavior of the employees
Reward management is not just about pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, learning and development opportunities and increased job responsibility.

2.1.1 Reward Management Philosophy

Reward management philosophy advocate that, if human resource management (HRM) is about investing in human capital from which a reasonable return is required, then, it is proper to reward people differentially according to their contribution. The philosophy of reward management also recognizes that it must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve.

Reward strategies and the processes that are required to implement them have to flow from the business strategy (Armstrong 2007).

According to Gerhart & Milkovich (1990) reward strategy should be assessed from the aspect of its objective, alignment with the business strategy, competitiveness both internally and externally, its contribution, and transparency and openness. To be effective, the reward system needs to be based on sound reward management principles.

Armstrong (2007) mentioned some basic points that enable organizations to develop effective reward management program. Some of these are to:

- Align reward strategies with the business strategy, align reward policies with the culture of the organization and use them to underpin that culture and, as required, help to change it, value employees according to their competence, skill and contribution.
- Ensure that reward processes are transparent and that employees are treated as stake holders.
- Adopt an integrative approach which ensures that no innovations take place and no practices are changed without considering how they relate to other aspects of human resource management so that they can become mutually supportive.
- Provide line managers with their authority and skills needed to use rewards to help achieve their goals, but ensure that they are given the training, guidance and continuing support required to develop and use these skills well.

The organization's reward policies and practices need to express what the organization values and is prepared to pay for- they are driven by the need to reward the right things to convey the right message about what is important.

Reward management is based on a well-articulated philosophy a set of beliefs and guiding principles that are consistent with the values of the organization which help to enact them. The philosophy recognizes that, if human resource management (HRM) is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution (i.e. value added).

The philosophy of reward management also recognizes that it must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy.

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

2.1.2 Concept of Reward System

Reward management system contains the organization’s policies, processes and practices for rewarding its employees in accordance with their contribution, abilities and artifice. It is progressed within the organization’s reward philosophy, strategies and policies, and includes agreements in the form of processes, practices, structures and procedures which will provide appropriate types and levels of pay, benefits and other forms of reward.

Employee performance management depends on good systems that offer both financial and non-financial rewards (non-monetary rewards). Many employees seek other employment. Many are also seeking more balance in their life. Many are disengaged from their workplace. Rewards and remuneration must be scrutinized. Employee motivation and performance are critical. Non-monetary rewards can be as important as monetary rewards. Employees at all levels need to have confidence in the salary administration system. Employees want the rewards to be shared fairly and equitably (Danish & Usman 2010).

A good rewards and remuneration system ensures that each person receives appropriate financial and nonfinancial recognition to account for the personal contribution they are making and the overall value of their position to the organization.

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

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

2.1.3 The Aims of Reward System

Armstrong & Stephens (2005) remark that the aims of reward management are to reward people according to the value they create, align reward practices with business goals and with employee values and needs, reward the right things to convey the right message about what is important in terms of behaviors and outcomes, help to attract and retain the high-quality people the organization needs, motivate people and obtain their engagement and commitment and develop a high-performance culture.

The aims of reward system are achieved by developing and implementing strategies, policies, processes and practices that are founded on a philosophy, operate in accordance with the principles of distributive and natural justice, function fairly, equitably, consistently and transparently, are aligned to the business strategy, fit the context and culture of the organization are fit for purpose and help to develop a high-performance culture of employees from the employment environment and the work itself, are linked together (Armstrong & Murlis 2004).

Losey (2005) summarizes total reward approach as holistic; reliance is not placed on one or two reward mechanisms or levers operating in isolation. Account is taken of all the ways in which people can be rewarded and obtain satisfaction through their work. The aim is to offer a value proposition and maximize the combined impact of a wide range of reward initiatives on motivation, commitment and job engagement. The rewards systems are comprised of two main

elements: financial and non-financial rewards. The financial rewards include rewards strategies such as merit-pay, market-based pay, profit-related pay, while non-financial rewards focus on the needs of people for recognition, achievement, responsibility and personal growth.

According to Lawler (2000) one of the most fundamental debates in the field of rewards management, concerns the extent to which employees are motivated by money. At that point there is an extensive discussion about whether or not money is a motivator and can influence the levels of job satisfaction.

2.1.4 The Concept of Total Reward

According to Armstrong and Murlis (2004), total reward concept emphasizes the importance of considering all aspects of reward as an integrated and coherent whole. Each of the elements of total reward, namely base pay, pay contingent on performance, competence or contribution, employee benefits and non-financial rewards, which include intrinsic rewards from the employment environment and the work itself, are linked together. A total reward approach is holistic; reliance is not placed on one or two reward mechanisms or levers operating in isolation. Account is taken of all the ways in which people can be rewarded and obtain satisfaction through their work. The aim is to offer a value proposition and maximize the combined impact of a wide range of reward initiatives on motivation, commitment and job engagement. As O'Neal (1998) has explained „Total reward embraces everything that employees“ value in the employment relationship.“

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

According to Thorpe and Homan (2000), one of the most fundamental debates in the field of rewards management, concerns the extent to which employees are motivated by money. At that point there is an extensive discussion about whether or not money is a motivator and can influence the levels of job satisfaction.

2.1.5 Elements of Reward System

2.1.5.1 Reward strategy and policy

The reward strategy flows from an analysis of the business drivers. The reward strategy will define longer-term intentions in such areas as pay structures, contingent pay, employee benefits, and steps to increase performance and adopting a total reward approach (Armstrong 2007).

2.1.5.2 Financial Rewards

Financial rewards are monetary incentives that an employee earns as a result of good performance. These rewards are aligned with organizational goals. When an employee helps an organization in the achievement of its goals, a reward often follows. All financial rewards are extrinsic.

Financial rewards consist of the value of all cash payments such as base pay, contingent pay and allowances. And the starting point of the reward system is the business strategy of the organization. This identifies the business drivers and sets out the business goals. The drivers are unique to any organization but will often include items such as high performance (Armstrong 2007).

2.1.5.3 Base or Basic Pay

The base rate is the amount of pay (the fixed salary or wage) that constitutes the rate for the job. It may be varied according to the grade of the job or, for shop floor workers, the level of skill required. Base pay will be influenced by internal and external relativities. The internal relativities may be measured by some form of job evaluation. External relativities (going rates) are assessed by tracking market rates. Alternatively, levels of pay may be agreed through collective bargaining with trade unions or by reaching individual agreements.

Base pay may be expressed as an annual, weekly or hourly rate. This is sometimes referred to as a time rate system of payment. Contingent pay or allowances as described later may be added to base pay. The rate may be adjusted to reflect increases in the cost of living or market rates by the organization unilaterally or by agreement with a trade union (Armstrong 2007).

2.1.5.4 Contingent Pay

Additional financial rewards may be provided that are related to performance, competence, contribution, skill or experience. These are referred to as „contingent pay“. Contingent payments may be added to base pay, i.e. „consolidated“. If such payments are not consolidated (i.e. paid as cash bonuses) they are described as „variable pay“ (Losey 2005).

2.1.5.5 Representation Allowances

Allowances are paid in addition to basic pay for special circumstances or features of employment. They may be determined unilaterally by the organization but they are often the subject of negotiation. The main types of allowances are location allowances, overtime payments, shift payments, working conditions allowances and stand-by or call-out allowances made to those who have to be available to come into work when required (Losey 2005).

2.1.5.6 Non-Financial Rewards

Non-financial rewards do not involve any direct payments and often arise from the work itself, for example achievement, autonomy, recognition, scope to use and develop skills, training, career development opportunities and high-quality leaders (Nelson 1997)

2.1.5.7 Employee benefits

Employee benefits include pensions, sick pay, insurance cover, company cars and a number of other „perks“. They consist of elements of remuneration additional to the various forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual holidays (Nelson 1997)

2.1.6 Employee Performance

Employee performance is originally what an employee does or does not do. Performance of employees could include: quantity of output, quality of output, timeliness of output, presence at work, cooperativeness

To perform is to take a complex series of actions that integrate skills and knowledge to produce a valuable result. A performer can be an individual or a group of people engaging in a collaborative effort Sinha (2001) stated that employees' performance is depending on the willingness and also the openness of the employees itself on doing their job. He also stated that by having this willingness and openness of the employees in doing their job, it could increase the employees' productivity which also leads to the performance.

Stup (2003) also explained that to have a standard performance, employers have to get the employees task to be done on track as to achieve the organization goal or target. By having the work or job done on track, employers could be able to monitor their employees and help them to improve their performance.

Furthermore, a reward system should be implemented based on the performance of the employees. This is to motivate the employees in order to perform more on their task.

There are several factors that being described by Stup (2003) towards the success of the employees' performance. The factors are such as physical work environment, equipment, meaningful work, performance expectation, and feedback on performance, reward for good or bad system, standard operating procedures, knowledge, skills and attitudes.

Franco et al (2002) defined performance that relies on internal motivation but presence of internal factors such as necessary skills, intellectual capacity and resources to do the job clearly have an impact. As a consequence employers are supposed to provide appropriate working conditions in order to make sure the performance of employees meet the required standards.

2.1.6.1 Theory of Employee Performance

2.1.6.2 The Goal Setting Theory

It suggests that the individual goals established by an employee play an important role in motivating employee performance. It helps employees to keep following their goals. If goals are not achieved, they either improve their performance or modify the goals and make them more realistic. In case the performance improves it will result in achievement of the performance management system aims (Guest 2002).

The goal-setting theory had been proposed by Edwin Locke in the year 1968. This theory suggests that the individual goals established by an employee play an important role in motivating him for superior performance. Skills required include the ability to engage employees in mutual goal setting clarify role expectations and provide regular performance feedback. Time and energy will also need to be given to providing relevant performance incentives, managing processes, providing adequate resources and workplace training. It also advice that in order to drive the organization to peak performance managers and supervisors must put out front the human face of their organization. Principle here is the human-to-human interaction through providing individualized support and encouragement to each and every employee (Salaman et al, 2005).

Employee performance is a major multidimensional construct aimed to achieve results and has a strong link with planned goals of an organization (Abbas and Yaqoob, 2009). Performance is the key multi character factor intended to attain outcomes which has a major connection with planned objectives of the organization (Sabir et al. 2012).

Employees „goals achievement in this theory is by creating of work environment attractive, comfortable, satisfactory and motivating to employees so as to give them a sense of pride and purpose in what they do. How working environment is designed and occupied affects not only how people feel, but also their work performance, commitment to their employer, and the creation of new knowledge in the organization (Taiwo, 2009)

2.1.6.3 The Expectance Theory

It is based on the hypothesis that employees adjust their behavior in the organization on the basis of anticipated satisfaction of valued goals set by them. The employees modify their behavior in such a way which is most likely to lead them to attain these goals. The theory underlies the concept of performance management as it is believed that performance is influenced by the expectations concerning future events (Guest 2002).

The most widely accepted explanations of motivation have been propounded by Victor Vroom. His theory is commonly known as expectancy theory. The theory argues that the strength of a tendency to act in a specific way depends on the strength of an expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual to make this simple. Expectancy theory says that an employee can be motivated to perform better when there is a belief that the better performance will lead to good performance appraisal and shall result into realization of personal goal in form of some reward future events. The theory focuses on three things efforts and performance relationship, performance and reward relationship, rewards and personal goal relationship (Salaman et al, 2005).

This theory is based on the hypothesis that individuals adjust their behavior in the organization on the basis of anticipated satisfaction of valued goals set by them. In order for employees to perform in this theory is by making sure each employee's workplace goals and values are aligned with the organization's mission and vision is important for creating and maintaining a high level of motivation. That can lead to higher productivity, improve employee performance, reduce the chances of low employee morale, encourage teamwork and instill a positive attitude during challenging times.

According to Shields (2007) indicator of high level performances are:

Quality increases: results or products are more effective in meeting or exceeding the expectations of stakeholder's

Cost decreases: amount of effort or financial resources to produce a result goes down; amount of waste goes down.

Capability increases: ability to tackle more challenging performances or projects increases.

Capacity increases: ability to generate more output increases.

Knowledge increases: depth and breadth of knowledge increases.

Skills increase: abilities to set goals persist; maintain a positive outlook, etc. increase in breadth of application and in effectiveness.

Identity and motivation increases: individuals develop more sense of who they are as professionals; organizations develop their essence.

2.1.7 Pay System and Employee Performance

According to (Abdul H., 2014 Pay System) are basic rate systems, where the worker receives a fixed rate per hour/week/month with no additional payment. There are systems related in whole or part to individual or group performance or profit. There are systems based in part on the worker gaining and using additional skills or competencies. Pay systems provide the bases on which an organization rewards workers for their individual contribution, skill and performance. Pay structures are different - they are used to determine specific pay rates for particular jobs, usually based on the nature of the job, its content and requirements. A pay structure provides the framework within which the organization places the pay rates for its various jobs or groups of jobs. Pay systems fall into two main categories: those where pay does not vary in relation to achievements or performance, (basic rate systems), and those where pay, or part pay, does vary in relation to results/profits/performance (Beer & Cannon, 2004).

There are also systems where pay, and any enhancement, is related to the gaining of extra skills or competencies. These systems can provide opportunities for greater job satisfaction - allowing workers to carry out a wider range of work, or work at a higher level. Basic rate systems are the easiest to operate, and apply to many workers in the organization. The worker receives a fixed rate per hour, week or month. Substantial numbers of workers however, have part (though generally not all) of their pay based on incentive, or variable, systems. Their earnings can therefore vary according to their own performance, that of their team or group, or perhaps that of the enterprise as a whole. Relativities and pay differentials between individuals or groups of workers are, of course, also of fundamental importance. These are generally determined by the wage or salary structure of the organization, rather than by the pay system, but they may be affected by changes in the pay system. The selection of an organization's pay system is often

determined by negotiations between management and worker representatives. In theory these negotiations can be kept quite separate from negotiations over payment structures and levels or amounts of pay; but in practice negotiations often embrace all pay-related issues.

Why have different types of pay systems?

- ❖ Basic rate schemes, while clear, may not offer incentives for increased or improved performance or quality, nor for recruitment and retention of workers
 - ❖ Incentive schemes may be individual or group based, short or long term
Productivity or efficiency gains may be required if a scheme is to be 'self-financing'
 - ❖ Organizations may use a combination of systems to meet their particular requirements
- **Basic rate schemes**

Basic rate schemes tend to be job-based (i.e. the rate for the job). A grading structure may be developed through a job evaluation scheme which is used to put jobs into an appropriate grade or band in the organization. Pay increases may then depend on moving up a scale, skill development, promotion to another grade, or a general uprating of pay levels.

➤ **Incentive schemes**

According to ((Beer & Cannon, 2004) Incentive schemes may be short- or long-term. Schemes based on individual performance, such as weekly or monthly production bonuses or commission on sales, generally offer a short-term incentive. Longer-term schemes such as profit sharing and share option schemes may not provide as much incentive to individual workers as schemes based on personal performance. They can, however, help to generate in workers a long-term interest in the success of the organization. Pay is not the only factor that might produce enhanced performance. As well as the job-related factors mentioned earlier, additional payments, non-contributory pension schemes, and non-cash benefits such as cars, life insurance, and assistance towards child care (eg workplace nurseries/crèches) may all play a part. Nevertheless, the prospect of higher pay for increased output/quality often provides an incentive and many schemes are introduced in the clear expectation that performance will thereby be improved. Increases in pay are often linked to productivity or 'self-financing' pay schemes, especially where organizations have no 'new' money to put into the pay rates. In such systems the results of

increases in productivity and efficiency can be shared between the employer and workers to their mutual benefit

There is an increasing trend for organizations to build a quality factor into incentive scheme calculations, offering additional payments for reductions in waste, better quality goods or services and increased customer satisfaction.

Productivity and efficiency schemes can be based on individual, group or organization performance dependent upon the needs of the organization and the availability of suitable performance measures. Organizations often use a combination of systems to provide greater flexibility in the pay package to address particular needs. For instance they may have a basic rate for the job, with a top-up increase that is self-financing, and an element for individual performance.

2.1.8 Recognition and Employee Performance

According to Fred L. (2011), although money receives the most attention as a reinforce and incentive motivator, and is even equated with reward systems by practicing managers, there is increasing evidence that contingently administered recognition can be a powerful reinforce to increase employee performance.

Recognition is the identification or acknowledgement given for something or it can be defined as communication between management and employees which rewards them for reaching specific goals or producing high quality results in the workplace. Recognizing or honoring employees for high level of service is meant to encourage repeat actions, through reinforcing the behavior to see repeated.

Recognition considered as one of the most powerful motivators. The recognition processes in an organization can be integrated with financial rewards through performance management and pay-for performance schemes. The importance of recognition can be defined as a key part of the value set of the organization and this would be reinforced by education, training and performance management.

According to (Beer & Cannon, 2004.), examples of contingent rewards are appreciation, recognition and rewards for good work. Employee dissatisfaction may result if an employee perceives that their efforts are not recognized or that their rewards are not equitable tied to their

performance or tailored to their needs (Robbins 1993). Contingent rewards support the reinforcement theory of motivation, in terms of which performance-relevant behaviors will increase in frequency if rewarded (Beer & Cannon, 2004).

Danis and Usman (2010) found that there are different dimensions of work motivation and satisfaction that are significantly correlated and reward and recognition greater impact on performance of the employees.

In addition, Employees participation in the decision making process will made them more courageous and enthusiastic towards working in the organization on the other side the periodically salary increments, allowances, bonuses, fringe benefits and other compensations on regular and specific periods keeps their morale high and makes them more motivated to accomplish the given task.

As a reward for employee performance, recognition is defined as acknowledgement, approval and genuine appreciation (not phony praise). This recognition can be set up on a formal basis (e.g., employee of the month or million dollars in sales round table) or informally used by a supervisor/team leader in managing individual employee or team behavior. It can be administered on a public (staff meeting, newsletter, or banquet) or on a one-on-one private level, verbally or written. There is a fine line between recognition as defined here and other positive reinforces or rewards such as money and feedback. For example, providing a merit increase in pay or a bonus and feedback about performance can be considered forms of recognition. However, this paper focuses on nonfinancial recognition and does not necessarily contain information about performance, although some formal recognition programs may involve prizes, dinners or plaques that cost money and both formal and informal recognition may sometimes include information about performance. The broad appeal of recognition is that most practicing managers believe it applies to everyone (top to bottom in the organization), no one gets too much of it (no satiation principle here), it is available to everyone to use, and it doesn't cost anything.

To demonstrate these claims, simply ask yourself, are you or anyone you know suffering from too much recognition? Besides this common-sense appeal of recognition as a powerful, but still not wisely used, positive reinforce for employee performance, there is also considerable theory and research supporting its effectiveness.

2.1.8.1 The Use of Recognition in Classic Behavioral Management

Under classic behavioral management based on reinforcement theory (Kakama T.F. (1995) recognition is classified as a natural reinforce (as opposed to a contrived reinforce such as money) (Lawler E., 1990). Recognition is treated as universally applicable and, if provided on a contingent basis in managing employee behavior, can be a very powerful reinforce to improve performance.

For example, under the Lawler E., (1990) organizational behavior modification (O.B. Mod.) approach, after the critical employee performance behaviors are identified, measured and functionally analyzed, then the intervention step can contingently apply recognition to strengthen and accelerate the identified behaviors with resulting performance improvement.

In a manufacturing setting, an identified performance behavior might be productive use of idle time during preventative maintenance. The contingent recognition might be the supervisor saying to a worker, “I noticed that you helped out Richard while your equipment was being serviced by the maintenance guys.” In this example, it is important to note that the recognition did not include a “gushy” thank you or phony praise for doing what this worker was supposed to be doing, but instead the worker simply “knew that his supervisor knew” that he had gone out of his way to help out a fellow worker. Because of this supervisor’s recognition, the worker will tend to repeat this helping behavior in the future. In other words, instead of receiving no consequence for this helping behavior (which will lead to extinction) or a punishing consequence of having to work harder (which will lead to a decrease), the supervisor providing contingent recognition as a positive reinforce will strengthen the worker’s behavior and enhance the productivity of the unit.

In a service setting such as a bank, an identified performance behavior of tellers might be providing customers” information about various products that the bank offers.

As in the manufacturing example above, upon observing this behavior the supervisor would provide contingent recognition by saying something like, “I overheard your explanation to Mr. Smith about how to obtain, use, and the advantages of a debit card.

I’ll bet we will be adding him to our debit card business.” The recognition is a positive reinforce for the service behavior leading to increased performance.

A large number of studies over the years have verified that recognition is indeed a powerful positive reinforce for employee behaviors leading to performance improvement in both manufacturing (e.g., Lawler E., 1990)

Interestingly, the use of monetary reinforcement as the intervention had about the same impact as the recognition in the service applications, but when the recognition was combined with performance feedback, it had about the same impact as the money in manufacturing and about twice the impact as the money in service applications (30% vs. 14%).

2.1.8.2 A Social Cognitive Explanation of Recognition

The research and application of recognition in classic behavioral management is based on reinforcement theory. This reinforcement approach assumes the causal agents of employee behaviors are found in the functional relationship between the environmental antecedents and consequences and the behavior they effect (Lekha P., & Dr. R. Magesh, 2016). However, Nelson B., (1997) have argued that reinforcement theory falls short of providing the needed conceptual process-oriented analysis as to the nature and operating processes of outcome determinants such as recognition.

Social cognitive theory (Nelson B., 1997) is emerging as a richer, more comprehensive explanation of organizational behavior in general (Redman T. & Wilkinson A., 2005) and incentive motivators such as recognition in particular (Redman T. & Wilkinson A., 2005) Starting with Bandura's (1999) premise that human agency is grounded in social systems, the social cognitive explanation of recognition as an incentive motivator for employee performance would have three dimensions: (1) its outcome utility; (2) its informative content; and (3) the mechanisms through which it operates to control employee behavior (Redman T. & Wilkinson A., 2005). An analysis of recognition along these three lines can lead to a more comprehensive, additive understanding than is provided by reinforcement theory alone.

2.1.8.3 Outcomes Utility of Recognition.

Bandura (1986) argues that recognition derives its outcome utility from its predictive value; not just from the social reactions themselves as reinforcement theory would suggest. Recognition (acknowledgement and approval) precedes and can lead to desired employee outcomes such as a promotion, a raise or an assignment to a prestigious, desired project. In other words, recognition may have considerable outcome utility and incentive value for future employee behavior. Also, it should be noted that recognition given by those who have the power and resources to make desired outcomes a reality for the recipient, will have stronger effects than those recognition givers who do not have such power or resources.

For instance, recognition from the boss may have a stronger effect than recognition from an outside vendor. However, recognition givers who have considerable respect and credibility (e.g., an admired peer or mentor) may lead to desirable outcomes such as being included in the in-group and thus also have considerable impact. As (Lekha P., & Dr. R. Magesh, 2016) points out, “it is difficult to conceive of a society populated with people who are completely unmoved by the respect, approval, and reproof of others” (p. 235).

Taken to the workplace, recognition having a positive impact on performance can draw from this outcome utility explanation from social cognitive theory. Specifically, this social cognitive approach predicts that employees will engage in behaviors leading to performance improvement that receive recognition (especially from those that can provide desired outcomes, either material or social).

2.1.8.4 Informative Content of Recognition.

Compared to performance feedback, recognition as defined here has relatively less informative content as suggested by social cognitive theory. Yet, because the guideline for providing effective recognition insists on specifics, there is informative content value in what is being expressed. In other words, instead of a generic phrase such as “good job,” the recognition giver provides detailed information (e.g., “I know that you stayed late last night to finish the graphs that I gave you at the last minute. They made my presentation a great success in the meeting this morning.”) This detailed form of recognition not only conveys acknowledgement and genuine

appreciation, but also information for reinforcing behavior that can lead to improved performance.

Standardized phrases such as “good job” have no such informative content that can lead to performance improvement; it becomes an “empty reward,” not a positive reinforce detailing how to improve performance.

2.1.8.5 Recognition as a Regulatory Mechanism.

The outcome utility value and informative content of recognition suggest a richer explanation and predictive properties. The third dimension of a social cognitive explanation of recognition would be its role as a regulatory mechanism for human action.

It has been argued (Hulin, C. and Smith, P. (1964) that the basic human capability of forethought (Lekha P., & Dr. R. Magesh, 2016) is the means to cognitively operationalize recognition as an incentive motivator. This forethought regulatory mechanism for recognition is explained as follows:

“Based on the recognition received and, thus, the perceived prediction of desired consequences to come, people will self-regulate their future behaviors by forethought. By using forethought, employees may plan courses of action for the near future, anticipate the likely consequences of their future actions, and set performance goals for themselves. Thus, people first anticipate certain outcomes based on recognition received, and then through forethought, they initiate and guide their actions in an anticipatory fashion (Hulin, C. and Smith, P. (1964)

What this means is that forethought is the regulatory mechanism that permits perceived future desired outcomes based on the recognition to be transferred into current and future employee behaviors that lead to performance improvement. Once again these refinements and extensions offered by social cognitive theory are compatible with the power of recognition as a way to improve employee performance.

2.1.10 Working Condition and Employee Performance

Lekha P., & Dr. R. Magesh, (2016) defines working environment as an entirety which comprises the totality of forces, actions and other influential factors that are currently and, or potentially contending with the employee's activities and performance. Working environment is the sum of the interrelationship that exists within the employees and the environment in which the employees work Lekha P., & Dr. R. Magesh, (2016) defines working environment is a composite of three major sub-environments: the technical environment, the human environment and the organizational environment. Technical environment refers to tools, equipment, technological infrastructure and other physical or technical elements. The technical environment creates elements that enable employees perform their respective responsibilities and activities. The human environment refers to peers, others with whom employees relates, team and work groups, interactional issues, the leadership and management. This environment is designed in such a way that encourages informal interaction in the work place so that the opportunity to share knowledge and exchange ideas could be enhanced. This is a basis to attain maximum productivity. Organizational environment include systems, procedures, practices, values and philosophies.

Management has control over organizational environment. Measurement system where people are rewarded on quantity, hence workers will have little interest in helping those workers who are trying to improve quality. Thus, issues of organizational environment influence employee's productivity.

Working Condition covers a broad range of topics and issues, from working time (hours of work, rest periods, and work schedules) to remuneration, as well as the physical conditions and mental demands that exist in the workplace.

The conditions under which a job is performed can be different - from those completely comfortable to those very difficult and dangerous to employees' life and health. Difficult working conditions can be influenced by: (1) external factors that include climate - meteorological conditions, temperature, humidity, drafts, lighting in the workplace, noise and interference, gases, radiation, dust, smoke and other harmful factors; (2) subjective factors that

include gender and age of the worker, fatigue, monotony, unfavorable posture during work, etc.; (3) factors related to the organization of production such as duration of the work shift, work schedule, working time, work pace, excessive strain etc.(Lekha P., & Dr. R. Magesh, 2016)

Working conditions are relevant to the environment impact, such as the space for operating and resting, criticality of the job, the degree of required technology and skill; equipments situation and so on. Working conditions are hygiene factors to prevent dissatisfaction (Herzberg 1993).

Locke (1976) finds that working conditions, which are compatible with the individual's physical needs and work goals, are positively associated with job satisfaction

2.1.10.1 Working Environment Factors that Affect Employees Performance

An attractive and supportive working environment provide conditions that enable employees to perform effectively, making best use of their knowledge, skills and competences and the available resources in order to provide high-quality of organization service. Basing on this study the factors are explained below.

➤ Supervisor Support

A supervisor is also known as a person with an experience leader, a person who can solve problem and also the role model at the first level of organizational management (Adair, 1988; Nijman, 2004). Therefore, as an experience leader, the supervisors had always being involved in conducting a training program.

The training program that is being conducted are such as establishing the objectives, selecting the trainer, developing a lesson plans, selecting the program method and techniques that is being used, preparing the materials, scheduling the program and also conduct a training needs analysis (Adair, 1988; Elangovan & Karakowsky 1999). Rabey, (2007) stated that, a supervisor could be a trainer to the employees, as the trainer will assist the employees in getting their job done by guiding employees on the operational process especially when it comes to a new operational procedure. A supervisor support could lead to the employees' performance but there is a case that the supervisor had failed in supporting their employees. For example, the miscommunication between employees and the supervisor in term of delivering the information or process on the job

to the employees (Harris et. al., 2000).

In order to gain the employees performance, both party in between the employees and supervisor needs to play their part which is to commit with the relationship. If full commitment is given, it will leads to positive result to the performance from the employees (Blau, 1964).

➤ **Job Aid**

Redman T. & Wilkinson A., (2005) stated that, the purpose of job aid is to direct and guide as to enlighten the employees performance. Job aid also helps in order to support the employees performance. An example of a military performance had been reviewed by (Duncan 1985) regarding the military reliance on job aids between 1958 and 1972 which is significant and positive contribution toward the military performance. He also stated that based on the results of military analysis, job aid saved money without jeopardizing employees work performance. There are three ways to increase performance based on the job aid (Cavanaugh, 2004). The first way is through the external support which means that the employees need to take leave from work and look for the source as for their reference to their job. The second way is through the extrinsic support. An extrinsic support means that the job aid is being given within the system itself. As for the third way, it is called the intrinsic support. An intrinsic support is an insider or software that is being used as for the efficiency of workflow.

➤ **Physical Work Environment**

Physical working environment can result a person to fit or misfit to the environment of the workplace. A physical work environment can also be known as an ergonomic workplace. Researches on the workplace environment need to be done in order to get an ergonomic workplace for every each of the employees.

By having this ergonomic physical workplace at their workplace, it will help employees from not getting the nerve injury (Cooper & Dewe, 2004).

Furthermore, McCoy and Evans (2005) stated that the elements of working environment need to be proper so that the employees would not be stressed while getting their job done. In their

article, they also stated that the physical element plays an important role in developing the network and relationship at workplace. Result of the employees' performance can be increased from five to ten percent depending on the improvement of the physical workplace design at their workplace (Brill, 1992).

Further, Amir (2010) mentions elements that related to the working environment. There are two main elements which are the office layout plan and also the office comfort. Amir (2010) also stated that a physical workplace is an area in an organization that is being arranged so that the goal of the organization could be achieved.

➤ **Performance Feedback**

Performance feedback is an information exchange and conflict resolution process between the employee and supervisor. This consists of both positive feedback on what the employee is doing right as well as feedback on what requires improvement. Managers and supervisors will need to be comfortable with working with the whole range of workplace factors that influence employee performance. While the supervisor gives his/her feedback and requirements, the employee enables to give his/her feedback regarding his/her requirements. Although this process is formal, it could be managed informally by gaining closer relations for two sides (Chandrasekar, 2011)

➤ **Workplace Incentives**

The organization determines what motivates its employees and sets up formal and informal structures for rewarding employees behaving in the way required. Rewards may consist of a mix of internal rewards, such as challenging assignments, and external rewards, such as higher compensation and peer recognition (Chandrasekar, 2011). Performance of professional employees is poor not only due to working environment factors but also due to lack of human resource management aspect such as recognition of employees who performs well, poor working condition, absence of performance appraisal system and poor feedback on performance outcome. Therefore significant changes in promotions, compensation and benefits helps in keeping employees satisfied and in turn increases production.

2.1.11 Career Development and Employee Performance

The term career in the context of the workplace can be seen most simply as the sequence of work experiences an employee may have over time. Work experiences may involve moving from one job to another, but also the changing nature of work within a single job and the experience of working on different projects. Career mobility in organizations are very often sideways rather than upwards, and may cross-departmental, geographical or functional boundaries (Price, 2009)

Career development is the lifelong process of managing progression in learning and work. The quality of this process significantly determines the nature and quality of individuals, lives: the kind of people they become, the sense of purpose they have, the income at their disposal. It also determines the social and economic contribution they make to the communities and societies of which they are part.

Career development holds out the possibility of growing critical skills within the organization, which are often not available on the external labor market; of improved deployment of people in jobs where their talents are well used; of an improved ability to attract good people and possibly retain them; and of improved flexibility in the workforce and therefore the ability to respond to business change.

By attending employees as people, the nature of the employment relationship shifts to one of higher engagement and higher performance. “Talent management” is high on the agenda of large organizations and tends to focus on very senior people and those with the potential for such roles. Career development is embraced more enthusiastically here, and individuals often receive considerable personal career attention (Robbins, et al., 2009: 457).

Career advancement normally entails a clearly marked path of progression through the ranks of an organization. It is based on merit without regard for race, gender, age or ethnicity.

Deserving cases become eligible for advancement. When employees get to know that each one of them has an equal chance of succeeding, it becomes easy for them to put in their best.

Smit et al, (2007: 399) agree and note that the prospect of career advancement might in itself motivate employees to work hard. Mullins, (2007) also confirm that employees aspire to progress steadily in organizations for which they work.

Under common belief, career advancement would involve the existence of alternative career paths based on the individual employee's and organizational needs. As (Redman T. (2004) point out lack of advancement, for any reason may damage a manager's chance to ascending the ranks within an organization.

Career advancement is significant to this study and employees involved as it presents them with the opportunity for long term success, higher pay, job security and job satisfaction. A commitment to career advancement will enable steps toward achieving a better motivated workforce and a high performing organization. It also presents employees with opportunities to further their education and undergo training, thus strengthening employees' skill sets to receive consideration for a promotion and advance their career.

According to Armstrong (2001) career development is of great importance to both the individual employee and the organization. This is so because there is interaction between the organization for which he/she works and the development of the organization through the employees' career. An employee develops his/her career through a continuous acquisition of managerial or professional skills and experience which may bring about rewards and promotion. Graham and Bennett (1995) agree with this and contend that career development involves higher status and responsibilities which can take place in one organization or through movement between organizations or a combination of both. Employees could move from one institution to another not necessarily in the same career, but probably from one field to another or from one level to another.

In today's competitive market, successful businesses regardless of size need employees who have the necessary knowledge and skills to make an effective contribution as drivers towards achieving a competitive edge. Therefore, vision of a competent, confident, loyal and valued workforce delivering high quality, person-centered services is rightly ambitious. Armstrong (2001) agrees and points out, that today's dynamic environment requires continuous professional and managerial development. Stakeholders should put in place, if not already available, a range

of structures and processes to support the development of the workforce we need now and for the future. Pareek and Rao (1992) concur and argue that training and development of employees should be seen as an investment, not a cost; and that bad performance, ignorance and low commitment to duty are very costly barriers in business. It is pointed out that the key to high levels of performance lies in having employees who are willing to work, are well managed, well led, well-motivated and are always re-skilling. Career development covers an employee's working life. It starts with, for example staff orientation, on-job training, experience, short courses, professional courses, post graduate degrees or diplomas.

2.1.11.1 Career Advancement

Career advancement normally entails a clearly marked path of progression through the ranks of an organization. It is based on merit without regard for race, gender, age or ethnicity. Deserving cases become eligible for advancement. When employees get to know that each one of them has an equal chance of making it to the top, it becomes easy for them to put in their best.

Smith, P. C. (1955) agrees and notes that the prospect of career advancement might in it motivate employees to work hard. Smith, P. C., Kendall, L. M. and Hulin, C. L. (1969), also confirm that employees aspire to progress steadily in organizations for which they work.

2.1.12 Reward System, Demographic Factor and Employee Performance

Changes in demography are one of the factors that affect work performance but only few studies try to investigate the relationship between demographic factors and employee performance. A very few researchers have shown that various demographic characteristics of employees (such as age, gender, marital status and income) have relevance to their level of job satisfaction as well as performance.

2.1.12.1 Gender and Employee Performance

One difficulty encountered by investigators of sex differences and performance among workers in organizational settings is the difficulty of comparing the performance of men and women carrying out exactly the same job owing to gender segregation in the allocation of work tasks (Rydstedt & Evans, 1998).

Men and women differ significantly in their characteristics. Although sex refers to the biological differences between male and females, the list of actual differences is potentially long. Obviously, males and females differ automatically. As a rule, males are more physically active than females. Females tend to be more verbal than males. Men value independence and achievement, women value intimacy and attachment. While men are action oriented “they take care of the business”, while women are people oriented they take care of others.

In many countries of the world, these differences cause government labor regulating agencies to regulate the employment of women. For example the employment of women on night work or underground is severely limited in the US. Hence, some of these restrictions among others mean that other things being equal, an employer who is faced with the choice of hiring either a male or a female for a job would choose the male. It is therefore not so much a matter of “gender discrimination” as some writers have argued but one of economic logic.

To a high degree, the job market is still segregated by gender. The world of “men’s work” and “women’s work” are as different as east and west; they are vastly unequal in power, pay and prestige. This has made comparison of performance between the two genders to come late. Schuler, R.S. (1975) believes that women were as able as men if given similar exposure. Although according to Smith, P. C. (1955) men were seen as more powerful than women and viewed good performance as a male characteristic.

In a similar way Smith, P. & Hulin C. L. (1969), studied the relationship between gender and job performance among brokerage firm equity analysts. The study found significant gender-based differences in performance on various dimension. Although it added that women are significantly more likely than men to be designated as All-Stars, which indicates that, they outperform men in other aspects of job performance.

Ismail B. (2013) concluded that males, who consider themselves underpaid, to be less performer as well as less satisfied. He used a comparison income variable measured as the difference among difference income level (pay grade structure). He found that the higher an individual's income relative to the low earners, the higher the job performed. Moreover he concludes that rents or temporary wage differentials have a positive but small effect on employee performance.

2.1.12.2 Reward, Age and Employee Performance

According to Beer & Cannon (2004) old employees more concerned with health, mentoring others, job security and place a higher value on leisure activities. In addition, they have low job demand, job variety and feedback, lowered motivation drive when it comes to performing new tasks. They are less motivated by training prospects, reduced concern for career advancement and forming new relationship. Generally, relatively older worker are less motivated, flexible, cost more and able to learn. This ultimately affects their performance.

Donald M. (2013) suggests performance may decline in jobs where certain skills are needed (e.g., psychomotor skills) and performance may decline where executive functions are needed (e.g., monitoring information). Moreover, learning may decline. But years of work experience and wisdom likely compensates for these possible declines. Learning appears to be a bit slower initially for older workers but then catches up. He also elaborate that age is less important than individual skill. There is more variability in work performance within age groups than between age groups.

On the other hand, Ismail B. (2013) argues those relatively older employees are full of cognitive skills, fluid intelligence or working memory, abstract reasoning, attention, processing novel information, broad educational or accumulated knowledge ("Wisdom") decrease cost of training and supervision. Besides, he pointed out that Age more closely related to non-financial reward (promotions and the work itself) rather than financial reward (paid in cash).

This determinate factor for better performance increases through middle-age and beyond. And it is important to note that there is strong evidence that work is generally good for physical and mental health and well-being for people of all age groups but effects of ageing on health and employability is only with little evidence that chronological age is a strong determinant of health,

cognitive or physical abilities, sickness absence, work-related injuries or productivity. Seem to be evidence of age-related declines; these do not generally have an adverse effect on performance or productivity.

2.1.12.3 Reward, Marital Status and Job Performance

Some studies have found that women who held both work and family roles reported better physical, mental health and consequently better job performance than was reported by women who stayed at home or single. Traditional conceptions of marriage as entailing greater social responsibilities outside the workplace for women as noted by Hoobler, Wayne & Lemmon (2009) may promote perceptions of married women as less suitable for employment compared to single women. (Smith, P. C., Kendall., 1969).

Due to the assumption that women are less likely to be relied upon as the primary breadwinner for a married couple, people might expect married female employees to be less dedicated to their jobs compared to their single counterparts (who must provide their own income), whereas people might expect male employees to be more motivated in their jobs if married

A study by Seung M & Mustafa K (2002) remark that married male officers receives higher supervisor evaluation scores and promote at higher rates than single male officers. Moreover, the analysis of the effects of marital status shows that married officers achieved better performance than single officers.

Researchers Lekha P., & Magesh(2016) pointed out that employees who are married are treated less suitable for the employment especially the female employees when compared to male employees, but in general both male and female employees faces difference in their performance even they are married, unmarried , divorced. They also states situations that face when a single after marriage. He/she starts managing both family and work life. Even in many industries married women are not preferred much as single women.

There is also another study by (Heilman M.,1980) that shows the ultimate necessity and concentration to run a family financially and with secured job makes a married male motivated to earn even more profit and on- job- productivity. And house hold women experiences low level of participation in financially helping a family since they concentrates more on bearing and

raising their children. This can be found reverse in situation where both male and female acts as a bread-winner of a family, where both have to concentrate on running their family as well as in raising their children. Whereas an unmarried male or female employee can spend enough time and space, as well as can experience and enjoy both financially and secured job to run their life, because they are concentrated only towards their job and hence other distracting factors are not observed much in case of unmarried employees so this shows that the performance level of unmarried and married employees may differ in many aspects.

Finally he concludes both married and unmarried employees are treated and given same level of work pressure that is to be done. The only place where the performance of a marital status of an employee differs depends on one's capability in handling the situations and the distracting factors which an employee faces in workplace and family life.

2.2 Empirical Literature Review

In this part, the researcher reviews journalized articles from 1990s up to the present. Relatively old publications were only revised as bird's eye view but recent articles (2013-2016) were reviewed deeply. It is done chronologically.

There were a number of scholars who conducted research studies on an employee performance in the workplace. According to most of these theorists, such performance can actually be predicted, explained and influenced. One of these scholars is Nelson (1997) who established different reward way and relates with employee satisfaction and employee performance. The better satisfied employee expected to perform well.

Danish & Usman (2010) suggested that a firm that fulfills both financial and non-financial rewards could be the best one. Moreover, they investigated the influence of financial motivators on the performance of employee. And the study results showed that better performance was best foreseen by the job reward; and job commitment was best forecasted by a combination of cost values, rewards, and the amount of investment.

Indeed, the financial and non-financial rewards motivate the employees; and this motivation leads to realize a higher performance level

According to Gerhart & Milkovich (1990) claims that reward system should be carried out by the simplification of the connection between the given reward and the additional performance. Moreover, they suggested that to achieve positive effect, reward practices have to be performance-dependent. Indeed, managers who attempt to run a fair rewarding system seem to be more prosperous in performance rather than those who reward in an unfair manner.

The important relationships between employee performance and pay satisfaction have been well established in studies by Heneman, Kochan & Locke (1995). They showed that monetary compensation is one of the most significant variables in explaining better employee performance and job satisfaction. In addition, Hofrichter & Platten (1996) found financial rewards to have a significant impact on employee performance. According to Artz (2008) suggests overall, fringe benefits play a significant role in determining employee performance.

A research by (Pinar Güngör, 2011) focuses on the relationship between the reward management system applications and employee performance of bank employees on global banks in Istanbul. He concludes that employee performance effectiveness is determined on reward systems. In addition (Madhuri K., 2014) remark that perceived level of rewards and motivation has significant relationship among the private sector employees and the monetary rewards have a significant effect on employee motivation than the non-monetary rewards.

Puwanenthiren P. (2011) assert that there is positive relationship between the rewards and employee motivation that is (+0.7550). Moreover, he splits the result between the intrinsic reward system that is (and0.5831) and extrinsic reward system (0.7280). Lastly he concludes that there is a considerable positive relationship between the total reward system and the employee motivation of the Bank.

Tausif (2012) conducted a study on the influence of non-financial rewards on employee in educational sector of Pakistan. Structured questionnaire were employed to collect the data from the selected respondents. The researcher developed two competing hypothesis on the relationship between non-financial rewards and employee performance. In the study t test, regression and correlation to test hypothesis, whether non-financial rewards have positive relationship with employee job satisfaction or negative relationship with job satisfaction. The independent variable promotion, job enrichment and autonomy and its influence on dependent variable employee performance were his areas of study.

The findings of the study reveals that employee performance is positively and considerably associated with non-financial rewards such as promotion, job enrichment and task autonomy.

A study conducted by Payam, Ali, Seyed, & Mahmood (2013) attempts to review various variables in term of relationships between rewards, job satisfaction, and employee performance. In the study, two types of reward were identified, and they were financial reward and non-financial reward. The finding showed that reward can affect job satisfaction and thereby employee performance. Finally the study proposes a new framework based on mediating role of job satisfaction.

Abdul Hameed (2014) conducted a research on impact of compensation on employee performance in the banking sector of Pakistani. A questionnaire was designed to collect the data on the factors related to compensation like salary, rewards, indirect compensation and employee performance. The data was collected from different banks of Pakistan. The data collected were analyzed in SPSS 17.0 Version. Findings were Compensation has positive impact on employee performance. It is proved from correlation analysis that all the independent variables have weak or moderate positive relationship to each other. Regression analysis shows that all the independent variables have insignificant and positive impact on employee performance. Descriptive analysis also reveals that all the independent variables have positive impact on employee performance.

A study conducted by Sheila & Josephat (2015) with objective of finding the influence of compensation and reward on performance of employees at Nakuru county government. Stratified random sampling technique was used. Primary data was collected using questionnaires and interview schedules with a combination of open and closed questions. The findings indicated that there was a strong relationship compensation and reward on employee performance in the county government of Nakuru.

Nnaji & Nnadozie (2015) find out the Effect of Rewards on Employee Performance in selected bank Organizations in Awka Metropolis. The main objective of this study is to determine whether a relationship exists between rewards system and employee performance. More specifically, the study intends to address the relationship between intrinsic (non-financial) and extrinsic (financial) rewards on employee performance.

Findings: The empirical results indicated the presence of a relationship between rewards and employee performance and that there is a significant difference on the effects of intrinsic and extrinsic rewards on employee performance. More over a study by Ayesha Aslam, Amna Ghaffar, Tahleel Talha and Hina Mushtaq (2015) examine the effect of reward and Compensation system on the performance of employees. The first variable was compensation. Second was incentive. The finding shows that the most significant variable in the research is reward and compensation. It shows a great effect on the performance of employees. It boosts up the efficiency of employees. On the contrary the variables motivation and incentives contribute least to the employee performance.

Nazir, Quan, Akhtar, Shafi and Nadia (2015) conduct a study about the financial rewards climate and its impact on employee performance in the retail organizations. From the analysis, it was found that financial rewards like rates of pay and fringe benefits affect employee performance but it was not the only factor. The job itself and the amount of work expected were the major influence up on those which were considered as low performers. Nazir et al (2015) concluded that the management must pay attention to study specific indicators of financial rewards which can improve the satisfaction of their employees and improve their performance.

A study conducted by Erratul Shela Eshak, Nur Faithzah Jamian, Munirah Mohd Jidi & Norlida Zakirai (2016) explained factors that influence employees' performance in Islamic Religious Council. The objective of the study was to identify if there's any relationship between Intrinsic Reward and Employees Performance and to determine if there is any relationship between Extrinsic Reward and Employees Performance. The finding was there is positive and significant relationship between financial and non-financial reward with Employees' Performance. However, the findings also indicate that non-financial factors have more influence toward employees' performance on employees rather than financial reward factors.

A study by Irshad A. (2016) pointed out the impact of extrinsic rewards on employees' performance. Primary data was collected through spreading questionnaire among employees working in the banking industry. He concluded that Salary and working the conditions positively affect employee performance.

Isaack Korir, Dinah Kipkebut (2016) examines the effect of financial and non-financial rewards on organizational performance and employee commitment of employees in Universities in Nakuru County. Results indicated that there was a moderate significant positive relationship between financial rewards and affective performance ($r = 0.344$, $p < 0.000$) and a weak significant positive relationship between financial rewards and normative commitment ($r = 0.249$, $p < 0.008$). The study found that financial reward management practices collectively have significant effect on organizational performance and commitment.

2.3 Theoretical Frame Work

The independent variables are financial rewards, non-financial reward, gender, and age and income level difference. The relationship between reward system (financial and non-financial) will explain both quantitatively and descriptively while the effect of demographic factor tested according to the hypothesis

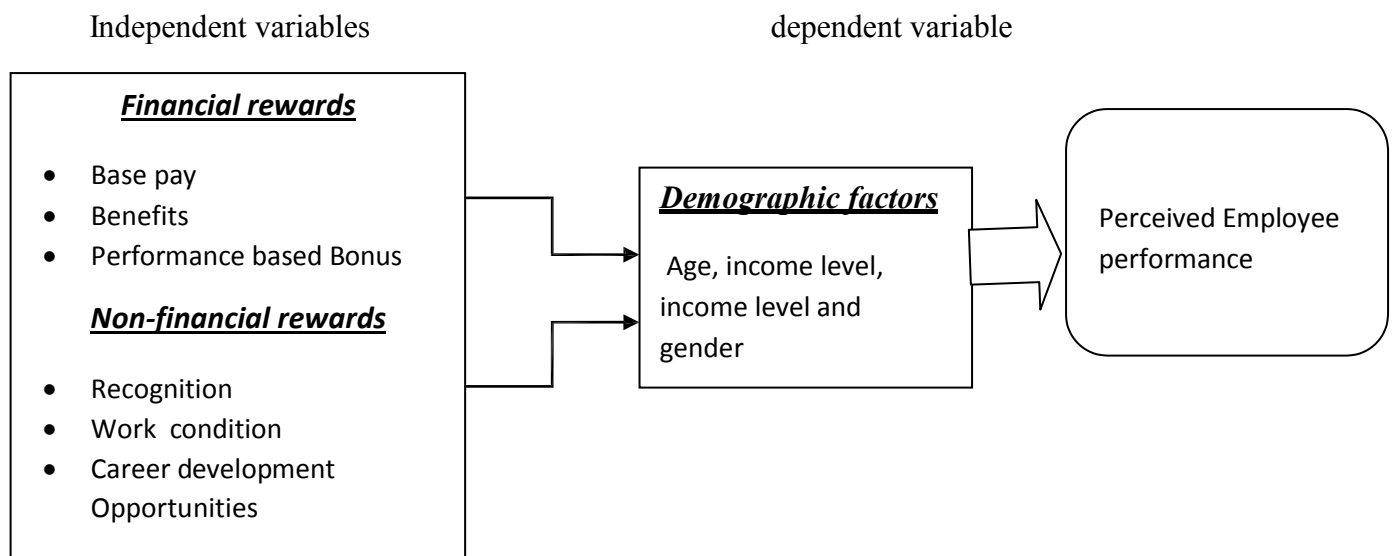


Fig 2.1 theoretical frame work

CHAPTER THREE

3. Research Methodology

3.1 Research Approach and Design

To accomplish the study, researcher applied mixed approach. Using of Quantitative and qualitative data where greater priority given to quantitative data. It involved the generation of data in quantitative form which subjected to rigorous quantitative analysis in a formal way. Participatory qualitative techniques employed in examining and investigating the research issue. The purpose of qualitative is to elaborate open ended questions and help in explaining and interpreting the finding of quantitative study.

Regarding research design, correlation research design is used in order to investigate the relationship between reward system and employee performance. The aim of the correlation is to determine the existence of significant relation between/among variables (Kothari 2004).

3.2 Source of Data

The researcher used cross sectional data. Cross-sectional data is a type of data collected by observing many subjects at the same point of time, or without regard to differences in time. Analysis of cross-sectional data usually consists of comparing the differences among the subjects (Kothari 2004).

Both primary and secondary sources of data are collected. The primary sources of data collected by interview and questioner from NBE employees. The secondary data gathered from recorded documents employees' performance appraisal cross sectional.

3.3 Reliability Statistics

Reliability refers to the consistency or dependability of a measurement technique, and it is concerned with the consistency or stability of the score obtained from a measure or assessment over time and across settings or conditions.

If the measurement is reliable, then there is less chance that the obtained score is due to random factors and measurement error (Kothari C. R., 2004).

The internal consistencies of items were measured using Cronbach's alpha technique. Kothari C. R., 2004), Cronbach Alpha is a measure for the internal consistencies of the items that together cover the specific factor.

Table 3.1 Reliability Test

Cronbach's Alpha	N of Items
.881	26

Cronbach's alpha reliability result of this study is 0.881. Using rule of thumb of Kothari C. R., 2004, the Cronbach's alpha value of the study is within acceptable level.

3.4 Tools for Data Collection and Analysis

The researcher used different data collecting instruments such as Questionnaires and Interviews. Because these instruments are believed to be suit to the data needed..

The researcher prepared questionnaires for workers in NBE. In addition, the researcher would also prepared structured and unstructured interviews for them. The some part of questioners involved a Likert Scale ranking (5-point likert scale) while some questioners involve open ended expala6tion about the overall reward system.

Likert Scale is a psychometric scale commonly involved in research that employs questionnaires. It is the most widely used approach to scaling responses in survey research. A Likert scale is the sum of responses on several Likert items. In likerst scale, 5 stand for strongly agree, 4 agree, 3 neutral, 2 disagree and 1 strongly disagrees. In case of ordinal, questioner, respondents will invite to level on the given alternatives (Wuensch, Karl L., 2005).

Ordinal data is a categorical statistical data type where the variables have natural, ordered categories and the distances between the categories is known.

These data exist on an ordinal scale. Finally rating type questions will provide to employee like first, second and third (Agresti A., 2013).

To analysis the data Statically Package for Social science (SPSS) and STATA which is statistical software package will be applicable accordingly. SPSS is a widely used program for statistical analysis in social science Statistics included in the base software.

- ❖ Descriptive statistics: cross tabulation, frequencies, descriptive, explore, descriptive ratio statistics
- ❖ Bivariate statistics: means, t-test, ANOVAs, correlation (bivariate, partial, distances), nonparametric tests
- ❖ Prediction for numerical outcomes: linear regression stata's capabilities include data management, statistical analysis, graphics, simulations, regression, and custom programming (Perry R. H., 2004)

In addition, the data which collect from sample subjected to statistical analysis such as descriptive and inferential statistics. Descriptive statistics concerned with summarizing and describing a body of data. Inferential statistics is the process of reaching generalizations about the population of examining the sample. In inertial statics liner regression, Partial regression and multiple regressions takes place (Salvatore & Reaggle 2002)

Accordingly, the researcher used descriptive statistical analysis tools such as mean and frequency tables to summarize the data.

Inferential statistical analysis tools such as Karl Pearson's coefficient of correlation and Regression analysis including multiple regressions is used. By using Pearson Product Moment Correlation Coefficient the researcher identified the magnitude, direction and strength of relationship between the variables.

Pearson's correlation coefficient is the covariance of the two variables divided by the product of their standard deviations. The form of the definition involves a "product moment", that is, the

mean (the first moment about the origin) of the product of the mean-adjusted random variables; hence the modifier product-moment in the name.

It is a measure of the linear correlation between two variables X and Y. It has a value between +1 and -1, where 1 is total positive linear correlation, 0 is no linear correlation, and -1 is total negative linear correlation. It is widely used in the sciences. It was developed by Karl Pearson from a related idea introduced by Francis Galton in the 1880s (Karl P., 1895).

3.5 Sample Size Determination and Sampling Techniques

The targeted population of the research is diversified in terms of age, income level, gender and marital status. In order to address the heterogeneity multiple stage stratified sampling method is applied. According to Kothari (2004), stratified sampling method is applied if a population from which a sample is to be drawn does not constitute a homogeneous group. Stratified random sampling is a method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. These subsets of the strata are then pooled to form a random sample (Kothari 2004).

In the bank, the strata's are different functional departments. The departments are monetary stability, financial stability and corporate service department.

Each department has their own sub department. In this case, the researcher will use multiple stage sampling techniques. At the end, simple random sampling technique will be applicable.

To determine the sample size the following sample size determination formula of Laurencin P.Calmorin will be applicable. From the total population 950 employee 258 employees will select. That is 27%. The researcher determines 99% confidence ($z=2.58$ from Z score table) with 1% acceptable error ($e=0.01$), P maximum largest proportion which is conventionally 50% of the population (0.5).

$$n = \frac{N * Z^2 * p * (1-p)}{e^2}$$

Where

n is the sample size,

N is the population size,

P is largest possible proportion

e is acceptable sampling error

Z is confidence level

There for the sample size is $n = \frac{950(2.58)^2 + (0.01)^2 (1-0.5)}{0.01^2} = 258$

3.6 Model Specification

To identify the existence and magnitude of correlation the researcher will use cross-sectional data regression. Such model captures observations at a time. The resulting estimator or parameter can be expressed by a regression formula (Gujarati 1995).

The dependent variable is employee performance while the independent variables are base pay, benefits, performance based bonus, recognition, work condition and career advancement.

$$E_p = f(x_1, x_2, x_3, x_4, x_5, x_6)$$

$$E_p = \beta_0 + \beta_{1x_1} + \beta_{2x_2} + \beta_3 + \beta_{4x} + \beta_{5x_5} + \beta_{6x_6} + \dots \quad (1)$$

Where

E_p =employee performance which is the dependent variable

β_0 =average performance

X1 = base pay, X2= benefits, X3=performance based bonus, X4=recognition

X5=work condition, X6= career advancement

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ are coefficients of each independent variable

= error term or residual or unexplained variable.

3.7 Ethical Considerations

During data collection, respondents informed as to why the data would be collected. They informed about the objectives and methods of the study. The privacy of respondent kept safe. Moreover, respondents expected to provide their response voluntarily. Finally, any work of scholar would acknowledge at bibliography part.

CHAPTER FOUR

4. Results and Discussion

This chapter covers the analysis and interpretation of the various data collected through the use of questionnaires and interview as per objectives of the study. The crucial emphasis of the research was to study the effects of base pay, benefit, performance based bonus, recognition, career development and working conditions on employee performance. Primary data was collected from the employees of the bank using questionnaire and secondary data was collected through reviewing, journals, articles, books and the banks HR policy, procedure, annual reports and exit interview.

The collected data were described and analyzed using statistical tools: Descriptive and inferential statistics including linear regressions with the help of SPSS. The total number of employees at NBE is nine hundred fifty (950). The sample of 250 employees was taken and fifty (250) questionnaires were printed and distributed to respondents/employees for the purpose of collecting data. The total number of questions was 26 and below is the analysis of the collected data.

4.1 Demographic Data

The demographic information of respondent gathered for the studies were gender, age, marital status, working experience and monthly gross salary

4.1.1 Gender of Respondents

The study involved gender distribution of respondents in order to answer the questionnaires provided as shown on the table. The following table depicts that respondents of male and female answered the questionnaires distributed. Out of 207 respondents 134 (64.7%) were male while 73 (35.3%) were females. This indicates that majority of the NBE are male. This implies that the male population of the bank has the chance to be represented in every matter.

4.1.2 Age of Respondents

In this study, age of the respondents was considered to be important in finding the effect of reward variables on employees' performance at National Bank of Ethiopia.

When we look at the age group of respondents, the larger number of employees is between the ages of 18-25 which adds to 97 respondents representing to 46.9% of the total respondents.

Second largest age groups which constitute 41.1% of the respondents are 26-30 years of age. The rest covers 12.1% of the population which accounts 36-40 and above.

From this result we can observe that the majority of employees (81.9%) of the bank are at the productive age group. In addition, there are no many senior employees in the bank.

Table 4.1 Summary Of Demographic Factors

Demographic Variables		Frequency	Percent	Valid Percent	Valid Percent
Employee Gender	Male	134	64.7	64.7	64.7
	Female	73	35.3	35.3	35.3
Employee age	18-25	97	46.9	46.9	46.9
	26-30	85	41.1	41.1	41.1
	31-35	18	8.7	8.7	8.7
	36-40 and above	7	3.4	3.4	3.4
Marital Status	Single	148	71.5	71.5	71.5
	Married	59	28.5	28.5	28.5
Income Level/Gross Monthly Salary	1000-3500	87	42	42	42
	3500-6000	39	18.8	18.8	18.8
	6000-10500	47	22.7	22.7	22.7
	>10501	27	16.4	16.4	16.4

Source: Developed for the research

4.1.3 Marital Status

With regard to respondents' marital status, 148(71.5%) are single, 59(28.5%) are married. Research conducted on this area consistently indicates that married employees are ready to accept responsibility and to perform more with compared to unmarried coworkers (Austrom et. al. 1988; Federico et. al. 1976; Garrison and Muchinsky 1977; Watson 1981).

The reason may be marriage imposes increased responsibilities that may make a steady job more valuable and important.

4.1.4 Gross Monthly Salary of Employees

From the above figure we can observe that the majority of the respondents are earning 1000-3500 birr per month which accounts for 42% of the sample. The second largest respondents of the study are between 6000-10500 salary groups which is 22.7 % of the sample. The rest 35.3% of the respondent salary are above 10500 birr. This implies that all salary group of the bank has been included and the researcher was not face difficulties to generalize its study for all salary groups.

4.1.5 Working Experience of Employees



Fig 4.1 Working Experience
Source: Developed for the research

With regard to service years of respondents in national bank of Ethiopia the majority of the respondents have a service years of 4-6 years (42 %) followed by above 1-3 years of service respondents with 37.2%. The last groups of the respondents are employees with above 11 years of experience.

As the majority of the employees worked for more than three years, the information obtained from the respondents can be trusted to conduct meaningful analysis. The existence of few senior employees indicate that the existence of high turnover in the bank.

4.2 Descriptive Analysis

In this section, the collected data was entered and reported using SPSS. The mean value of each performance factor with respect to respondents' category is analyzed and presented.

Table: 4.2 Mean Distribution of Control Variables

		Base/pay	Performan ce based	benefit	recognitio n	work conditi	career developm en t
N	Valid	207	207	207	207	207	207
	Missing	0	0	0	0	0	0
Mean		2.3652	2.7432	2.6461	2.9444	3.3309	2.8213
Std. Deviation		.67432	.86536	.92535	.71091	.64314	.88846

Source: developed for the research

The above table shows the means and standard deviations of reward variables such as base pay, Performance based bonus, employee benefits, recognition, working condition and career development rated by respondents.

Descriptively, the average or mean level of employee performance was ($M=2.81$, $SD=0.785$) on a five-point Likert Scale. This implies that, on the average, the employees of national bank of Ethiopia were not that much good performer in return for any kind of reward.

The result from this study shows that high mean result for working condition ($M=3.33$, $SD=.643$), moderate for other variables like career development ($M=2.82$, $SD=.88$) performance based bonus ($M=2.74$, $SD=.86$), recognition ($M=2.94$, $SD=.71$), benefit ($M=2.64$, $SD=.92$) to less mean scoring variables such as base pay ($M=2.365$, $SD=.67$). From the above table it is observed that financial rewards (base Pay, performance based bonus and Benefit) have a mean value of ($M=2, 58$, $SD, .636$) and non-financial rewards have ($M=3.03$, $SD=.56$).This implies that the majority of the employees were relatively perform better due to non-financial rewards.

4.3 The Relationship between Reward and Employee Performance

The Pearson's Product Movement Correlation Coefficient was computed to determine the relationships between payment, benefit, recognition, promotion, nature of job and working condition with job satisfaction. Correlation analysis is a useful way of exploiting relation (association) among variables. The value of the coefficient (r) ranges from -1 to +1. The value of coefficient of correlation (r) indicates both the strength and direction of the relationship. If $r = -1$ there is perfectly negative correlation between the variables. If $r = 0$ there is no relationship between the variables and if $r = +1$ there is perfectly positive relationship between the variables. For values of r between +1 and 0 or between 0 and -1, the different scholars have proposed different interpretations with slight difference. For this study diction rule given by Bartz (1999) was used. Bartz (1999) described the strength of association among variables as mentioned in following table

Table 4.3 Interpretation of R

Interpretation of r value of r	Description
0.80 or higher	Very high
0.6 to 0.8	Strong
0.4 to 0.6	Moderate
0.2 to 0.4	Low
0.2 or lower	Very low

Source: Bartz (1999)

Table 4.4 The Correlation Among Employee Performance and Independent Variables.

Pearson Correlation	base pay	Performance based bonus	benefit	recognition	work condition	career development	Employee performance
Base pay	1	.365**	.459**	.128	.236**	.085	.425**
Performance based bonus	.365**	1	.367**	.454**	.234**	.302**	.254**
benefit	.459**	.367**	1	.537**	.609**	.217**	.425**
recognition	.128	.454**	.537**	1	.397**	.319**	.130
work condition	.236**	.234**	.609**	.397**	1	.321**	.246**
career development	.085	.302**	.217**	.319**	.321**	1	.542**
Employee performance	.425**	.254**	.425**	.130	.246**	.542**	1

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

Significant correlation existed between career development and employee performance ($r=0.542$, $p<0.01$). This implies that increase or decrease in the adjustment of career development path is associated with similar change in employees' performance

Table 4.5 Model Summary Developed For The Research

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718 ^a	.515	.501	.70432
a. Predictors: (Constant), career development , base pay , recognition, work condition, bonus , benefit				

There was also significant relationship between base pay and employee performance ($r=0.425$, $p<0.01$). This implies that increase or decrease in payment or salary amount is associated with similar change in employees' performance quality. The correlation analysis indicates that there is a positive correlation exist between recognition and employee performance ($r=0.130$, $p <0.01$).

Performance based bonus has significant and positive relation with employee performance ($r=0.254$, $p<0.01$). From this correlation we can observe that designing performance based bonus system has positive impact on employees' performance. The correlation of employee benefit with performance has ($r=0.425$, $p<0.01$). It shows the existence of significant relation with dependent variable employee performance. In addition, there is also a significant relationship between work condition and employee performance ($r=0.246$, $p<0.01$).

4.4 Regressions Analysis

Multiple regression analysis applied to find out whether there was statistically significant relation surfaced between employee performance and the six dimension of employee performance control variables or not.

Moreover, it helped to devise a formula that shows the relation between the dependent variable that is employee performance and the independent variables (base pay/salary payment, benefit, and performance based bonus, recognition, working condition and career development).

Table 4.6 Multiple Regression Analysis and Mode summery

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	105.465	6	17.578	35.434	.000 ^a
	Residual	99.213	200	.496		
	Total	204.678	206			
a. Predictors: (Constant), career development, base pay average, recognition average, work condition , bonus, benefit						
b. Dependent Variable: employee performance						

Model of Regression Line

$$ep = f(x_1, x_2, x_3, x_4, x_5, x_6)$$

$$ep = \beta_0 + \beta_{1x_1} + \beta_{2x_2} + \beta_3 + \beta_{4x} + \beta_{5x_5} + \beta_{6x_6} + \dots \quad (1)$$

Where

e_p =employee performance which is the dependent variable

β_0 =average performance, X_1 = base pay, X_2 = benefits X_3 =performance based bonus X_4 =recognition, X_5 =work condition and X_6 = career advancement

$$ep = 0.49 + 0.264x_1 - 0.02x_2 + 0.402x_3 - 0.231x_4 - 0.123x_5 + 0.559x_6 + \dots \quad (2)$$

Table 4.7 Coefficients ^a

Model	Unstandardized Coefficients	Standardized Coefficients			
(Constant)	.491	.333	1.473	.142	
base pay average	.390	.087	.264	4.464	.000
Performance based bonus	-.023	.069	-.020	-.332	.740
Benefit	.433	.081	.402	5.322	.000
Recognition	-.324	.091	-.231	-3.564	.000
work condition	-.222	.100	-.143	-2.233	.027
Career development	.627	.061	.559	10.266	.000

a. Dependent Variable: employee performance Table 4.7

Source: Developed for the research

The model analysis includes the independent variables (base Pay/salary, Benefit, Performance based bonus, Recognition, career development, Working Condition) and dependent variable (employee performance). As indicated in the above model summary and ANOVA table, the linear combination of the independent variable was significantly related to the dependent variable, $R=.718$, adjusted $R\text{ square}=.502$, $F=35.43$ ($p=0.000$). An estimated 50.2% of total variation in the dependent variable, employee performance, is jointly explained by the predictors, i.e., base pay, benefit, bonus, recognition, career development and working condition where as 49.2 % is explained by other factors. Therefore the reward practice of the bank has equal determining power with other unexplained variables.

Hypothesis Testing

Based on the following multiple regression model the hypothesis of the study are tested and presented as follows

H1: Reward system significantly affects employee's performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.516 ^a	.267	.263	.85562

a. Predictors: (Constant), Reward system

b. Dependent Variable: employee performance

Table 4.8 Coefficient

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.177	.323		-.548	.584
	Reward system	.977	.113	.516	8.636	.000

source developed for the study

a. Dependent Variable: employee performance

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	54.600	1	54.600	74.580	.000 ^a
	Residual	150.079	205	.732		
	Total	204.678	206			

a. Predictors: (Constant), Reward system

b. Dependent Variable: employee performance

H1: There is positive and significant relationship between reward and employee performance.

The $P < 0.05$ and the Value of Beta value .516 which shows that 51.6%% variance in employee performance is determined duo to reward. Thus payment has positive and significant relation with job satisfaction. Therefore H1 is supported

Table 4.9 Multiple Analysis Result for H2

		B	Std. Error	Beta		
1	(Constant)	-.145	.338		-.429	.669
	Financial Reward	.522	.112	.333	4.668	.000
	None financial	.450	.127	.253	3.548	.000

a. Dependent Variable: employee performance

H2: Regressing the predictor financial rewards and non-financial rewards with dependent variable employee performance revealed the following results.

H2: Financial rewards significantly affect employee's performance

There is positive and significant relationship between financial reward and employee performance. The $P < 0.01$ and the Value of Beta value .333 which shows that 33.3% variance in employee performance is due to financial Payment. Thus payment has positive and significant relation with performance. Therefore H1 is supported.

H3: Non- financial rewards significantly affect employee's performance

There is positive and significant relationship between non-financial reward and employee performance. The $P < 0.01$ and the Value of Beta value .253 which shows that 25.3% variance in employee performance is due to non-financial Payment. Thus overall non-financial reward has positive and significant relation with performance. Therefore H3 is supported.

H4: Financial and non-financial rewards affect employee performance differently

To compute this, the researcher compares the coefficient of the regression analysis. (Beta of financial=.333, Beta of non-financial=.253).both financial and non-financial reward affect employee performance differently. Therefore H4 is supported

H5: Demographic factors moderate the relationship between reward and employee

To compute this hypothesis the researcher investigates Analysis of Variance (ANOVA) whether there are differences in employee performance based on demographic factors of the sample or not.

The independent T-Test – is used for testing the differences between the means of two independent groups. In this research, it is applied to test whether there were differences in employee performance based on gender, age, marital status and income.

Table 4.10: Employee marital status: Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Employee performance variances assumed	Equal	.845	.359	3.741	205	.000	.55686	.14885	.26339	.85033
	Equal			3.956	120.764	.000	.55686	.14075	.27821	.83551

Table 4.11: Independent Samples Test

Group single and married statics

	marital	N	Mean	Std. Deviation	Std. Error Mean
Employee performance	single	148	2.7264	.99972	.08218
	married	59	2.1695	.87769	.11427

To analyze the above table, the statistical significance of the mean employee for married is 2.17 and single is 2.72 in Levens table t-test was applied. From the table it can observe that there is significant difference in performance between married and single employees.

Table 4.12 Gender: Independent Samples Test

Gender Group Statistics

employee gender	N	Mean	Std. Deviation	Std. Error Mean
Employee performance male	134	2.4030	.83052	.07175
female	73	2.8699	1.19396	.13974

The above table 4.8 analyzes that there is the statistical significance of the mean performance for male is 2.40 and female 2.66 in Levens table t-test was applied. From the table it can observe that there is significant difference in performance between male and female employees.

Table 4.13 Gender Independent Samples Test

		Levene's Test for		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Employee performance	Equal variances assumed	32.434	.000	-3.29	205	.001	-.46688	.14165	-.74616	-.18760
	Equal			-2.97	110.79	.004	-.46688	.15708	-.77816	-.15560

Table 4.14 Age Grouped Independent Test

	age	N	Mean	Std. Deviatio	Std. Error Mean
base pay average	18-25	97	2.4804	.73352	.07448
	26-30	85	2.4306	.53497	.05803
	31-35	18	1.8889	.40131	.09459
	36-40	7	1.2000	.00000	.00000
bonus	18-25	97	2.9381	.90693	.09208
	26-30	85	2.7314	.70621	.07660
	31-35	18	2.3889	.68837	.16225
	36-40	7	1.0952	.25198	.09524
benefit	18-25	97	2.8376	1.01937	.10350
	26-30	85	2.5647	.83198	.09024
	31-35	18	2.4444	.51131	.12052
	36-40	7	1.5000	.00000	.00000
recognition	18-25	97	3.1469	.83288	.08457
	26-30	85	2.7265	.58836	.06382
	31-35	18	2.8611	.12783	.03013
	36-40	7	3.0000	.00000	.00000
work condition	18-25	97	3.3866	.78064	.07926
	26-30	85	3.3824	.46546	.05049
	31-35	18	2.7222	.25565	.06026
	36-40	7	3.500	.00000	.00000
career development	18-25	97	3.1821	.75923	.07709
	26-30	85	2.6784	.81722	.08864
	31-35	18	2.2593	.68175	.16069
	36-40	7	1.0000	.00000	.00000

The above table reveals the level of employee performance in relation to their age group. by referring the table the researcher conclude that age can moderate employee performance in return for different reward packages. E.g. age group 35-40 prefers safe work condition to improve their performance (MD 3.5, SD, .0000)

Table 4.15 Summery income level and Employee Performance: Independent Samples Test

	Gross Monthly Salary	N	Mean	Std. Deviation	Std. Error Mean
base average pay	1000-3500	87	2.3954	.63684	.06828
	3500-6000	39	2.3538	.53205	.08520
	6000-10500	47	2.2766	.78746	.11486
	10500-13500	27	2.7407	.47007	.09047
bonus	1000-3500	87	3.0038	.91569	.09817
	3500-6000	39	2.3205	.83279	.13335
	6000-10500	47	2.5887	.54822	.07997
	10500-13500	27	3.2099	.32223	.06201
benefit	1000-3500	87	2.8592	1.03759	.11124
	3500-6000	39	1.9808	.27136	.04345
	6000-10500	47	2.5319	.52029	.07589
	10500-13500	27	3.4167	.90935	.17501
recognition	1000-3500	87	3.2529	.84090	.09015
	3500-6000	39	2.4936	.45699	.07318
	6000-10500	47	2.5479	.38883	.05672
	10500-13500	27	3.2778	.26251	.05052
work condition	1000-3500	87	3.4799	.80624	.08644
	3500-6000	39	2.9936	.46057	.07375
	6000-10500	47	3.1596	.29223	.04263
	10500-13500	27	3.5926	.53775	.10349
career development	1000-3500	87	3.2912	.73454	.07875
	3500-6000	39	2.3761	.54708	.08760
	1000-3500	87	3.2912	.73454	.07875
	3500-6000	39	2.3761	.54708	.08760

From Table 4.12 there is statistical significance of the mean of employee performance for different income level. Eg income level 1000-3500 had (MD= 3.47, SD= 0.8) .Levens table t-test was applied. From the table it can observe that there is significant difference in level employee performance in return for different reward packages.

Therefore, Hypothesis5: demographic factors moderate the relationship between reward and employee.H5 is supported. All mentioned demographic factors can moderate employee performance in relation to reward.

CHAPTER FIVE

5. Summary of Findings, Conclusion and Recommendation

5.1 Summary of Findings

The study aimed to investigate the effect of reward system on National bank of Ethiopian employees based on the questionnaire of randomly selected employee of 258. From the distributed 258 questionnaire 207 were returned and the response rate 80.2% which acceptable for data analysis and discussion of the study.

In the descriptive analysis most of the respondents are male which are 134 (64.7%), 88%

young's in category of (18- 30) and 71.8 % of the respondents are single in their marital status.

The result of the central tendency also shows that, the most determine factor of employee performance which scored low mean deviation was base pay/base salary (MD=2.3652, SD.67432) while the high mean deviation scored in work condition (MD= 3.3309, SD, .64314) followed by recognition (MD=2.9444, SD=.71091). From this the researcher inferred that relatively low score in base bay affects/determines employee performance.

The mean score of other control variables were performance based bonus (MD=2.7432, .SD=.86536), career development (MD=2.8213 SD=.88846) and benefit (MD=2.6461, SD=.92535) which implies that, even though there relatively conducive work condition and recognition procedure, the employees of national bank of Ethiopia perceiving low return in relation to what they perform.

Results from Pearson's Product Moment Correlation Coefficient and as per Bartz (1999) interpretation of r value were used to discuss the relationship between dependent variable (employee performance) and an independent variables base pay/salary, employee benefit, recognition, performance based bonus, career development and working conditions.

The relation between dependent and independent variable shows that there is statistically significant relationship exist between all variables of rewards and employee performance. Though both financial and non-financial reward has positive and significant relationship with performance, financial reward variables have high degree of relationship with performance of

employee's than non- financial reward variables in the study(financial reward ($r=0.471^{**}$) while non-financial reward($r=0.435^{**}$). The researcher infers that reward dimensions could determine employee performance of the bank.

The model summary of reward system in aggregate multiple regression analysis revealed that the R square value of .263, demonstrates that 26.3% of variation in employee performance explained by the reward system considered in this study.

The F-Statistic suggests that all the independent variables of employee performance together significantly predict the variation in job performance at 95% confidence level. All performance determinants, financial (pay performance based cash bonus and benefit) and non-financial (like recognition, career development and working condition) are statistically significant in determining the variation in performance at 99% confidence level.

Base Pay/salary in particular and financial reward in general is a major determinant for effective employee performance at national bank of Ethiopia. Based on the findings of this study recognition and work condition were not strict determinant of employee performance of the bank. Therefore adjustment in base pay/salary is major areas of concern for bank.

In relation to demographic factor, there is a significant multi way interaction. In case of marital status (single MD=2.7264, SD=0.99 and married=2.1695, SD=88). In addition, in terms of gender (male MD=2.4030, SD=8305female MD=2.87and SD=1.19). The researcher could infers that singles and females have better performance than their counters. (Refer table 4.9&4.10 for age and income level).

When we analyze the open ended and interviews question, items related to policy and

procedure more than 50% of the respondents are blaming on the implementation of existing policy and procedure thus the bank has poor implementation and execution of the reward system in clear and reasonable manner.

5.2 Conclusion

Based on the findings of the study related demographic data and research variable analysis, the following conclusion is drawn:

Reward system plays a vital role in motivating employees to perform their assigned job. Since money/financial reward is a main motivator in encouraging the employee's performance required in today's competitive business environment. The ability to attract, keep and motivate high-performance is becoming increasingly important in today's competitive organizational environments. The study also revealed that employee's will improve their performance if the all reward package problems identified and tackled by the management

Employees are valuable resource of any organization. The vision, mission and objectives set could not attain without full effort as well as participation of employees. According to the findings of the study many positions are occupied by male employees more than half of the employees are single, all sampled employees have first degree and significant numbers of employees have few service years of experience. From this, one can conclude that the distribution of resources in this organization inclined to males and most of the employees may need further on job training as well as cause of turn over that is inefficient reward package should be improved.

In general, the research study achieved its aims of defining and assessing the effects of reward system on employee performance in National bank of Ethiopian.

5.3 Recommendation

Taking into account the findings of this study, the researcher need to recommend the following points in relation to the effect of reward system on employees' performance at national bank of Ethiopian.

The bank should redesign its reward system in general and its salary scale and payment structure in particular based on the work load of employees, the inflation rate as well as market condition(industry scale). Because the highest influential factor for employee performance were financial reward in the bank. There must be an appropriate, clearly known and visible career path

as well as objective measurement of appraisal evaluation, promotion scheme policy and procedure which have to be fairly and equitably apply for all the employees.

The impact of demographic factors should be studied. The complexity, work over or under load position has to be known and should be related with reward packages. Ultimately, it improves banks performance. Based on employee's performance and nature of the job the bank should introduce job enlargement, job enrichment and job rotation to reduce the ambiguity in career path structure as well as avoiding unfair reward packages

The study reveals that, even though there are high productive age employees in the bank, indirectly it indicates that lack of skilled and experienced work force or may be the existence of high turnover in the bank. Therefore, the bank should study the existing working conditions and create conducive, exciting and attractive working atmosphere to motivate its staff and enhance their performance.

The bank should conduct a continuous appraisal measurement based on its vision and mission to know the existing level of performance by external or internal professionals and effectively implement the areas of improvement pointed by its employees. This will enhance the working relation and maximize the productivity of employee as well as the fairness of career path to reward them.

The findings of this study shows majority of employees are more concerned with financial rewards. Thus the bank should continually review and adjust the financial rewards given to its employees.

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Appendix
Addis Ababa University
School of Commerce
Department of Graduate Studies
MA Degree in Human Resource Management Program
A questionnaire to be filled by employees

Dear
Respondents,

I am a postgraduate student of the above mentioned institution. I am currently undertaking a research project on the effect of rewards system on employee performance in National Bank of Ethiopia. Please recall that you are selected as a possible participant because you are an employee of this organization. Your participation in the study is completely voluntary.

The research work is for academic purpose only. Any information obtained in connection with this study will remain strictly confidential.

The questionnaire will take approximately 15-20 minutes of your time. Your honest and true opinion will be valuable for this research. Thank you in advance for your assistance.

Ermias Berhan.

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No	Measures of Independent Variables (Reward System)	Strongly agree(5)	Agree(4)	Neutral(3)	Dis Agree (2)	Strongly dis agree(1)
	<i>A. base pay/salary</i>					
1.	My salary is sufficient in relation to what I perform.					
2.	Salary increments are made based on employee performance.					
3.	Salary increment made for high performer would encourage others to perform better.					
	B. Performance Based Bonus					
4.	The bank's bonus payment is performance based.					
5.	The bones plan encourages to perform better					
6.	If I perform well, I am certain that amount of bonus increase.					
	C. Benefits					
7.	I am satisfied with the benefits I receive					
8.	The benefits are as good as most other organizations offer.					
9.	The benefit package of the bank is equitable.					
	D. Recognition					
10.	I receive positive recognition for what I perform better					
11.	When I do a good job I receive a					

	recognition for that					
12.	I feel that my job receives enough attention from my company					
13.	Proper recognition of high performer will encourage low performer to work hard.					
14.	I receive positive recognition for what I perform better					
	E. Work Condition					
15.	I have freedom to try new methods of doing in my job					
16.	Company rules and procedures are conducive for work					
17.	There are high varieties of jobs in my work					
18.	I have reasonable work autonomy in my job					
	Career Development					
19.	The bank has a clear career Development procedure.					
20.	The bank applies performance based career development					
21.	With en my profession, there are Opportunities for more advancement					

Part III: open ended questions

1. How do you rate your working performance in the bank? (Low, good or excellent) Is it equivalent or not from what you rewarded? Please explain. _____

2. What do you suggest for the overall process of reward system in the bank? (Base *pay/salary*, benefits, recognition, promotion, over time payment and working condition) .

Thank you so much