

**THE EFFECT REWARD MANAGEMENT PRACTICES  
ON EMPLOYEE ENGAGEMENT  
A CASE STUDY ON VARNERO CONSTRUCTION**



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**DECLARATION**

I hereby assert that this thesis entitled “**The Effect of Reward management practices on Employee Engagement: The Case of Geom. Luigi Varneri Construction PLC**” is my own original work that has not been presented for a degree in any other university and that all sources of material have duly acknowledged.

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**STATEMENT OF APPROVAL**

This is to certify that **Meron Michael** has completed a thesis entitled “**The Effect of Reward management practices on Employee Engagement: The Case of Geom. Luigi Varnero Construction PLC**” with my advice and follow up. I also approve that her work is appropriate enough to be submitted as a partial fulfillment of the degree in Masters of Human Resource Management.

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## **Abstract**

*Employee engagement has become a heavily discussed topic in recent years and it's not difficult to see why. It is necessary for high business return because highly engaged employees will put their proper efforts in organizations and organizations will grow with the passage of time. One way that has been lauded for enhancing employee engagement is the use of rewards. Therefore, this research examined the effect of reward management practices on employee engagement in the case of Varnero Construction. These specific reward management practices are compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunity. The purpose of this survey primarily essential for organization to have engaged employees for high business return and better chance of meeting the overall objectives and goals In order to fulfill the research purpose, quantitative study was adopted. 333 questionnaires were distributed and 272 completed usable questionnaires for response rate of 8.17% returned. Stratified sampling method was used and employees were selected from each stratum with a simple random sampling technique. Subsequent to this SPSS was used to perform the required test of descriptive statistics, Pearson correlation and multiple regression analysis. The result revealed strong agreement of respondents to the effect of reward management practices on employee engagement. Finally, from the findings it is concluded that reward management practices have a positive and significant effect on employee engagement. Furthermore, it is also resulted that the effect of the two components namely: Performance feedback and recognition and Development and career opportunity on employee engagement was stronger as compared to the other three components. It indicated that integrated reward management approach has more significant relationship with engagement. Therefore, it is sound to recommend the organization to implement a total reward approach instead of standalone one The study will enrich the current literature of reward management practices and employee engagement.*

# CHAPTER ONE

## INTRODUCTION

### **1.1. Background of the Study**

The concept of employee engagement has been generating a lot of interest in both research and practice in recent times Mackey et al. (2008). Employee engagement is the most critical metrics for an organization. New research reveals a strong relationship between how employees view their total rewards package and their overall engagement level.

Khan (1990) suggested that engagement involves the harnessing of organizational members' to their work roles; in engagement people employ and express themselves physically, cognitively, and emotionally during role performances.

Employee engagement is defined as an employee with high morale, high level of commitment, and enthusiasm; who is more loyal to the organization and is more directed towards work; Scott and Mc Mullen (2010) define employee engagement as employee's involvement, job satisfaction and commitment to the organization.

Strategic compensation theory proposes that when rewards are linked to activities, attributes and work outcomes and supports the organization's strategic direction it will foster the achievement of strategic goals and lead to increased employee engagement exhibiting knowledge or skill development, flexibility, commitment, retention and productivity. Employees' will be more likely to engage themselves at work to the extent they perceive a greater amount of rewards and recognition for their role performances Scott and Mc Mullen (2010).

A broad range of models, theories and frameworks have been invoked to understand and explain the importance, emergence and maintenance of employee engagement and employee well-being. The JD-R model, the most widely cited and used theoretical model in the engagement literature; shows how job resources (e.g. reward, autonomy, feedback, support) & personal resource(e.g. self-efficacy, optimism, & resilience) directly influence work engagement, which in turn

influences outcomes such as commitment, in-role performance, extra-role performance, creativity & financial outcomes.(Armstrong 2010).

The research evidence linking employee engagement with performance and other important organization outcomes which generated a widespread belief amongst senior executives and HR practitioners that improving and sustaining high levels of employee engagement is good for business. However, the very important question is how an organization enhances its employee engagement practically needs answers through empirically tested evidence. (Attridge 2009)

Armstrong et al. (2010) identified that reward and its constituent has positive relationship with employee turnover, commitment and performance. But the effect of reward on employee engagement has not yet widely empirically tested by using quantitative data especially in the context of our country construction sector.

Geom. Luigi Varnero Construction (Varnero Construction) is a privately owned general construction category GC-1 company established and operating in Ethiopia for more than 50 years, the company has gained deep knowledge of the market and experience in every field of construction; civil works, roads, bridges, airports, dams, airfields, real estate, building and infrastructure.

Varnero's primary vision is to become a leading construction company in Ethiopia and worldwide by getting the certification of ISO (International Standard Organization). Reliability and quality assurance is the base of its long story of immaculate performance. The organization's mission is to deliver the best construction services that satisfy the requirements and expectation of the customers, the regulatory and statutory body as well as other stakeholders.

Achieving organization mission and vision and gaining competitive advantage over competitors' can only be achieved through an engaged and committed workforce. After all, employees are implementers of organization programs towards achieving its objectives (Peter, 2005). Varnero recruit employees train its talent and do its best to keep hold of it.

## **1.2.Statement of the Problem**

In order for companies to maintain their competitive advantage, organizations must place great emphasis on the management of human capital. An engaged workforce cannot only lead to competitive advantage but it creates a positive atmosphere within the organization.

As an employee of Varnero construction, the researcher's personal observation testifies that most of the issues in management meeting are about employees' job disengagement, high turnover rate and low commitment in the working atmosphere. Related to this issue the data gathered from the Human Resource Department regarding the percentage of employee turnover rate the report shows increase of employee turnover rate over the past five years and the exit interviews also shows that many employees complained that the reward management practice of the company had not been satisfying their needs. As a result those who were demotivated had been shifting to other construction companies and became its own competitors. In addition to that, there is high absenteeism among current employees; employee performance appraisal report also reveals decline on level of commitment and deepening disengagement. There is prevalent of informal group's discussion regarding reward system of the organization and there is no room for equitable balance between both monetary and non-monetary rewards. If this problem is not taken care by applying effective reward systems, the quality of the company's services may decline which might be a cause for its low market share in the future and further other repercussions.

Varnero Construction as a well known Construction Company in Ethiopia for its immaculate performance, reliability, quality assurance, meeting deadlines and has to create highly engaged, creative and talented employees. Creating such a working culture and engaged employees lead the company to have a competitive advantage over its competitors and achieve its vision. Failure to have engaged employees can lead the company loses its professional and talented employees and ruins the long standing work culture of reliability and immaculate performance.

To the best of the researcher's knowledge, empirical studies that show the relationship between reward management practices and employee engagement in Varnero Construction do not exist. Filling this research gap makes this study unique.

### **1.3. Research Questions**

This research was seeking an answer to the following questions:

1. What is the effect of compensation/pay on employee engagement?
2. What is the effect of benefit on employee engagement?
3. What is the effect of performance feedback and recognition on employee engagement?
4. What is the effect of work life balance on employee engagement?
5. What is the effect of development and career opportunity on employee engagement?

### **1.4. Objective of the study**

#### **1.4.1. General Objective**

The study has a general objective of exploring the effect of specific reward management practices on employee engagement in Geom. Luigi Varnero Construction (Varnero).

#### **1.4.2. Specific Objectives**

Given the general object, the study had the following specific objectives:

- To explore the effect of compensation/pay on employee engagement
- To explore the effect of benefit on employee engagement
- To explore the effect of performance feedback and recognition on employee engagement
- To explore the effect of work life balance on employee engagement
- To explore the effect of development and career opportunity on employee engagement

### **1.5. Hypotheses**

Employee engagement requires a whole organization approach that taps into its specific strategic need. There is no single driver Mori (2008). Further, the study of “The Institute of Employment Studies” (2004) and CIPD (2007) underlined that the key driver for engagement are importance of the nature of the work and the resources available to do the job, career and development opportunities, the work environment and the rewards and benefits offered. Particularly rewards, benefits, performance feedback and recognition, work life balance and development & career

opportunity are the constituent of total reward which have greater impact on employee engagement.

The WorldatWork, (2010), total reward model shows that the casual relationship between total reward and organizational performance linked by employee engagement which comprised compensation, benefit, work-life balance, performance feedback and recognition, career and development that increase employee engagement which in turn improves organizational performance.

Based on the review of the related literature the following hypotheses (H) has been formulated for the study.

**Hypothesis 1:** Compensation/pay has positive and significant effect on employee engagement.

**Hypothesis 2:** Benefit has positive and significant effect on employee engagement.

**Hypothesis 3:** Performance feedback and recognition has positive and significant effect on employee engagement.

**Hypothesis 4:** Work life balance has positive and significant effect on employee engagement.

**Hypothesis 5:** Development and career opportunity has positive and significant effect on employee engagement.

**Null Hypothesis 0:** Reward management practices (*Compensation/pay, Benefit, Performance feedback and recognition, Work life balance, Development and career opportunity*) have positive and significant effect on Employee Engagement.

## **1.6. Research Variables**

**The independent variable is:** Reward management practices (compensation, benefit, performance and recognition, work life balance and development and career opportunity). Items in the independent variables were scored along a five point scale ranging from (1) strongly disagree to (5) strongly agree (Likert 1961).

**The dependent variable is:** Employee engagement (Vigor, dedication and absorption). The dependent variables were scored along seven point likert scale from (0) never to (6) always. (Schaufeli,2002). Scales used in previous research were employed to measure the independent and dependent variables of the study.

In this research, engagement was selected as a focal dependent variable for the following reasons:

First, employee engagement is closely connected to business results. Employee engagement is necessary for high business return because highly engaged employees will put their proper efforts in organizations and organizations will grow with the passage of time.

Second, an engaged workforce is the only true competitive advantage. It is almost impossible to copy and, without it, execution of most corporate initiatives becomes difficult, if not impossible.

### **1.7. Operational definition of terms**

**Reward** - reward refers to all the monetary, non-monetary and psychological payments that an organization provides for its employees in exchange for the work they perform. It includes extrinsic and intrinsic rewards.

#### **Components of Reward**

The components of variables of rewards are defined in the following manner according to the Worldatwork model retrieved from ([www.worldatwork.org/totalrewards](http://www.worldatwork.org/totalrewards))

**Compensation/pay** – Financial pay provided by an employer to an employee for services rendered (i.e. time, effort and skill) that includes both fixed and variable pay tied to levels of performance.

**Benefit** – Programs an employer uses to supplement the cash compensation that employees receive which are; health, income protection, transportation, housing, savings and retirement programs provide security for employee and their families.

**Work life balance** – A specific set of organizational practices, policies and programs that provides elastic work practices, telecommuting and philosophy that actively supports efforts to help employees achieve success at both work and home.

**Performance and feedback** – The alignment of organization, team and individual efforts toward the achievement of business goals and organization success. It includes establishing expectations, skill demonstration, assessment, feedback and continuous improvement.



**Recognition** – Acknowledges or gives special attention of employee actions, efforts, behavior or performance. It meets an intrinsic psychological need for appreciation of one's efforts and can support business strategy by reinforcing certain behaviors (e.g., extraordinary accomplishments) that contribute to organizational success. Whether formal or informal, recognition programs acknowledge employee contributions immediately after the fact, usually without predetermined goals or performance levels that the employee is expected to achieve. Awards can be cash or noncash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.)

**Development** – A set of learning experiences designed to enhance employees' applied skills and competencies. Development engages employees to perform better engages leaders to advance their organizations' people strategies.

**Career Opportunities** – Involve the plan for employees to advance their career goals which may include advancement into a more responsible position in an organization. The company supports career opportunities internally so that talented employees are deployed in positions that enable them to deliver their greatest value to the organization.

**Employee Engagement** - A positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption Maslach et al (2001)

**Vigor** - refers to high levels of energy and mental resilience while working, the willingness to invest effort in one's work, and persistence even in the face of difficulties.

**Dedication** – being strongly involved in one's work, and experiencing a sense of significance, enthusiasm, inspiration, pride, and challenge.

**Absorption** – being fully concentrated and happily engrossed in one's work, whereby time passes quickly and one has difficulties with detaching oneself from work.

**Competitive Advantage** = is the favorable position an organization seeks in order to be more profitable than its competitors. It is a superiority gained by organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities.

### **1.8. Significance of the Study**

The significance of this study occurs in many ways. First, it studied the effect of reward management practices on employee engagement in Varnero because this particular type of study had not been previously conducted by the company. Therefore, this research has contributed in

helping Varnero identify its gaps in reward management practices and employee engagement and fill those gaps by the valuable suggestions and recommendations given in light of literatures and research findings. The researcher also gained deep knowledge and understanding of theories and concepts of the two variables.

### **1.9. Scope of the Study**

The purpose of this research is to investigate the factors that have significant effect on employee engagement. The research is limited to the employees of Varnero Construction that are present in Addis Ababa. Regardless of the multifarious characteristics of employee engagement, the research is limited to reward management practices

### **1.10. Limitation of the Study**

To conduct this study, there were limitations encountered by the researcher. To mention some of these drawback, lack of cooperation from employees, respondents were not dedicated enough to respond the questionnaires, rather they leave the question not answered. In addition, some respondent were reluctant and reserved to convey their idea freely, on what they really believe in.

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

This research consists of five chapters. Chapter one is an introduction to the proposed research, background of the organization, statement of the problem associated with research questions, objective of the study, significance of the study, scope of the study, limitation of the study, definition of terms followed by the second chapter of related literature to the subject under study. Further, the third chapter deals with research methodology. While the fourth chapter is concerned with data analysis, results and discussion, the last chapter will discuss the findings from the data collected and outline how it relates back to the literature review, summarize major findings, conclude and recommend. It will also discuss considerations for future research. At the end of the thesis document, references and a set of appendices are included that contain the questionnaires of the survey forms used to collect primary data for this work and other supplementary documents of the study.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2. Introduction**

The existing research suggests that the reward management practice of the organization can lead to higher measures of employee engagement in their direct reports. As previously suggested, there is a significant body of literature that implies the relationship of reward management practice to employee engagement. Some of these researches (Scott *et al.*, 2010; Lo *et al.*, 2009) have demonstrated positive relationships between reward and employee attitudes, motivation, involvement, productivity & performance; all of which can affect to employee engagement level.

Also the benefits of employee engagement have been well documented in the existing management literature. The possible consequences of work engagement pertain to positive *attitudes* towards work and towards the organization, such as job satisfaction, organizational commitment, and low turnover intention, but also to positive organizational behavior such as, personal initiative and learning motivation (Demerouti *et al.*, 2001; Salanova *et al.*, 2000; Schaufeli & Bakker, *in press*; Schaufeli, Taris & Van Rhenen, 2003), extra-role behavior and proactive behavior (Salanova *et al.*, 2003). Furthermore, there are some indications that engagement is positively related to health, that is, to low levels of depression and distress (Schaufeli, Taris & Van Rhenen, 2003) and psychosomatic complaints (Demerouti *et al.*, 2001).

#### **2.1. Meaning and Definition of Reward**

Employee ‘reward’ ‘compensation’, or ‘remuneration’ are terms that may be used interchangeably in literature and may be defined as, all forms of financial returns & tangible services and benefits employees receive (Milkovich and Newman, 2004). Work under an employment relationship is undertaken in return for pay (Rubery and Grimshaw, 2003). But the nature of this ‘exchange relationship’ as noted by Steers and Porter (1987) emphasis in the original implies more than an economic transaction. Employee reward may be perceived as an ‘effort bargain’ between parties to the employment relationship, needs to be continuously renewed on both sides. (Behrend, 1957; Baldamus, 1961).

Reward refers to all the monetary, non-monetary and psychological payments that an organization provides for its employees in exchange for the work they perform. It includes extrinsic and intrinsic rewards Bratton (2007).

Extrinsic rewards are items such as financial payments and working conditions that the employee receives as part of the job. Intrinsic rewards relate to satisfaction that is derived from actually performing the job such as personal fulfillment, and a sense of contribution something to society. Intrinsic reward may be further subdivided on the one hand, environmental rewards may be manifested in the physical surroundings in which work is performed, combined with other factors, such as the values displayed in the workplace by organizational leaders and work supervisors, and perceptions of their leadership quality. (Kessler 2001).

On the other hand, development-oriented rewards that tend to be more individually directed may be offered to recognize employee aspirations to receive learning and development opportunities, and to gain acknowledgement of outstanding work and build feelings of accomplishment, wherever possible consolidated tangibly through career advancement. (Mikovich & Newman, 2004).

It is argued that extending the features of employee reward beyond those specified in the economic contract may help to secure employees' discretionary effort and engagement (Wright, 2005). This 'intrinsic' or 'psychological' contract in work relationships Levinson et al (1962) features are in commentary of advocating attention to the total reward proposition.

### **2.1.1. Total Rewards – The modern reward management**

Total Reward begins with total remuneration, the subset of total Rewards, which compromises all the elements of rewards that can be valued in dollar terms. And it is a plan for allocating rewards resources in a manner that directs the business to the successful execution of its objectives (Manas & Graham, 2002). Total reward is the term that has been adopted to describe a reward strategy that brings additional components such as learning and development, together with aspects of the working environment, into the benefits package. (Armstrong & Brown, 2001) Worldatwork, the Total Rewards Association of U.S., defines total rewards as all of the tools available to the employer that may be used to attract, motivate and retain employees. It also

indicates that total rewards include everything the employee perceives to be of value resulting from the employment relationship (Worldatwork, 2006).

It goes beyond standard remuneration by embracing the company culture, and is aimed at giving all employees a voice in the operation, with the employer in return receiving an engaged employee performance. In other words, total reward provides a broader view to treat everything what an enterprise can offer to its staff and everything what the employees can promise to their companies, which embodies the fundamental change of management thinking model of company high-level superintendents.

In recent years, total reward has been becoming a more and more popular facet which has caught many scholars' attention. As a part of human resources management practice, total reward has also been introduced into varieties of enterprises to improve their competitiveness so that they will have the abilities to survive in the global marketing warfare.

Now, total reward is an advanced model of human resources management which microscopically accelerates enterprise development and macroscopically boosts the advancement of social economic environment. Compared with traditional rewards system, total reward much more deeply reflects in what ways enterprises can attract, motivate and retain talents, in what ways employee performances which accord with corporate goal will appear and in what ways the excellent employees should be motivated and praised.

Total reward is a holistic view of reward that looks at the overall reward system in order to determine how its elements should be integrated so that they provide mutual support in contributing to the overall effectiveness of the system. Reliance is not placed on one or two reward mechanisms operating in isolation; instead, account is taken of every way in which people can be rewarded and obtain satisfaction through their work. The whole is greater than the sum of its parts. The aim is to maximize the combined impact of a wide range of reward initiatives on motivation, commitment & job engagement,(Thompson 2002)

### 2.1.2. The Elements of Total Rewards

The concept of total rewards combines the impact of the two major categories of reward as defined by MacDuffie (1995).

Transactional rewards: tangible (financial) rewards arising from transactions between the employer and employees concerning pay and benefits. These are all extrinsic.

Relational rewards: intangible (non-financial) rewards concerned with the work environment (quality of working life, the work itself, work-life balance), recognition, performance recognition is extrinsic, performance management is mainly extrinsic & learning & development is primarily intrinsic so far as it provide opportunities for growth.

The WorldatWork model recognizes that total rewards operate in the context of overall business strategy, organizational culture and HR strategy. Indeed, a company's exceptional culture or external brand value may be considered a critical component of the total employment value proposition. The backdrop of the WorldatWork model is a globe, representing the external influences on a business, such as, legal/regulatory issues, cultural influences and practices and completion. This model is shown below

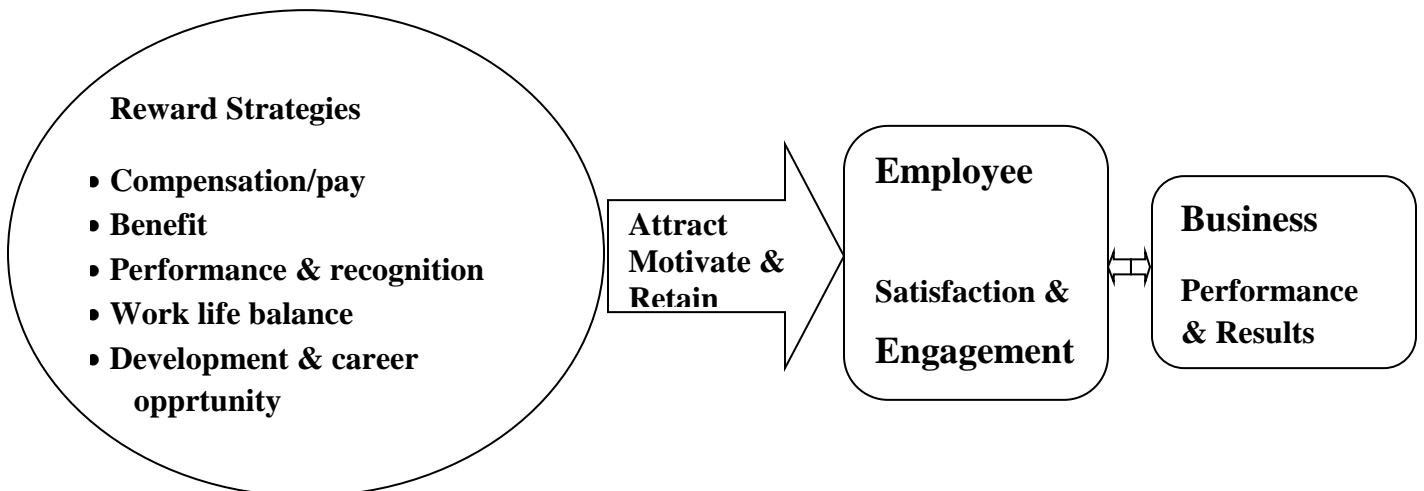


Figure 1 - World at work of total reward and engagement (Source; Armstrong, 2010)

### **2.1.3. Reward Management**

Reward management is defined as the combined actions an employer may take to specify at what levels employee reward will be offered, based on what criteria and data, how the offer will be regulated over time, and how both the intended links between organizational goals and values should be understood and acted on by the parties to the employment relationship, shields, 2007).

Further Reward management is concerned with the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded. It is about the design, implementation and maintenance of reward systems (interrelated reward processes, practices and procedures) that aim to satisfy the needs of both the organization and its stakeholders and to operate fairly, equitably and consistently, (Armstrong 2007).

It should be emphasized that reward management is not just about financial rewards, pay and employee benefit. It is equally concerned with non-financial rewards such as recognition, learning and development opportunities and increased job responsibility.

### **2.1.4. Reward management and employees**

Reward management is concerned with people; especially the employees who are rewarded for their efforts, skills and contribution but also the directors, managers and reward specialists who plan, manage and administrate rewards. This is in accordance with the view expressed by Schneider (1987) that, organizations are the people in them, and people make the place. His point was that, attraction to an organization, selection by it and attrition from it yield particular kinds of persons in an organization. These employees determine organizational behavior.

### **2.1.5. Approach to reward management**

According to Armstrong (2010), the following are different approach to reward management practice:-

#### **A) Stakeholder approach**

The purpose of human resource management is to meet the needs of all the stakeholders in the business – employees, customers, and suppliers and the public at large as well as management and shareholders. Reward management shares that purpose. In doing so, it can make a significant contribution to meeting the varied needs of stakeholders successfully. It is accordingly concerned with improving business performance, shaping the behavior of employees and developing a climate of trust and employee engagement. And reward management can best do this if it is evidence based.

#### **B) Integrated reward management**

Integrated reward management is an approach to reward management that provides for reward policies and practices to be treated as a coherent whole in which the parts contribute in conjunction with one another to ensure that the contribution people make to achieving organizational, departmental and team goals is recognized and rewarded. It consists of a related set of activities that impinge and impact on all aspects of the business and the HRM practices within it. As White (2005) points out, in an integrated approach each individual element of reward supports the other to reinforce organizational objectives. Integration takes three forms:

**Strategic integration:** the vertical integration of reward strategy with business strategy.

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

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



### **C) Strategic reward management**

Strategic reward can be described as an attitude of mind to be convinced of the virtue of systematically deciding what must be done and to believe in the need to plan ahead and make the plans happen. In the words of Brown (2001) strategic reward is ultimately a way of thinking that you can apply to any reward issue arising in your organization, to see how you can create value. Its aim is to create reward processes which are based on beliefs about what the organization values and wants to achieve through engagement. It does this by aligning reward practices with both business goals and employee values. Strategic reward focuses on methods of achieving vertical, horizontal and internal integration.

### **D) Evidence-based reward management**

It is the management of reward systems on the basis of fact rather than opinion, on understanding rather than assumptions, on grounded theory rather than dogma. This is in line with the view of the logical positivists Ayer (1959) that it is necessary to seek ‘analytical truths’ and that the fundamental question to ask when examining beliefs is: ‘How do you know what you think you know?’ it is also in accord with Quine’s (1970) opinion that beliefs can only be expressed in statements that ‘face the tribunal of experience’. Importantly, evidence-based reward management also makes use of the information obtained from the detailed evaluation of the effectiveness and impact of existing reward practices and from systematic benchmarking. It is concerned with establishing what constitutes good practice, although it does not assume that good practice is necessarily ‘best practice.’ What works well elsewhere will not necessarily work as well within the organization. In general, best fit is more important than best practice.

#### **2.1.6. Aims of reward management**

In the words of Ghoshal and Bartlett (1995) the overall aim of reward management should be to add value to people. It is not just about attaching value to them. More specifically, the aims are to:

- Support the achievement of business goals through high performance;
- Develop and support the organizations’ culture;
- Define what is important in terms of behaviors and outcomes
- Reward people according to what the organization values and rewarding them according to the value they create;

- Align reward practices with employee needs; reward people according to the value they create;
- Help to attract and retain the high-quality people the organization needs;
- Win the engagement of people.

The overall approach to achieving reward aims is based on a philosophy and takes into account factors related to distributive and procedural justice, fairness, equity, consistency and transparency. It is also concerned with achieving strategic alignment and cultural/contextual fit, developing a high-performance culture that expressed through employee engagement and segmentation.

### **Reward Philosophy**

As noted by Armstrong (2010) reward management is based on a well-articulated philosophy and set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. The philosophy recognizes that if 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.

### **Distributive Justice**

As defined by Leventhal (1980), distributive justice refers to how rewards are provided to people. They will feel that they have been treated justly if they believe that the rewards have been distributed in accordance with the value of their contribution, that they receive what was promised to them and that they get what they need.

### **Procedural Justice**

Procedural justice refers to the ways in which managerial decisions are made and reward policies are put into practice. The five factors that affect perceptions of procedural justice as identified by Tyler et al, (1990) are:

- The viewpoint of employees is given proper consideration.
- Personal bias towards employees is suppressed.

- The criteria for decisions are applied consistently to all employees.
- Employees are provided with early feedback about the outcome of decisions.
- Employees are provided with adequate explanations of why decisions have been made.

### **Fairness**

A fair reward system is one that operates in accordance with the principles of distributive and procedural justice. It also conforms to the 'felt-fair' principle formulated by Jaques (1961). This states that pay systems will be fair if they are felt to be fair. The assumptions underpinning the theory are that:

- There is an unrecognized standard of fair payment for any level of work.
- Unconscious knowledge of the standard is shared among the population at work.
- Pay must match the level of work and the capacity of the individual to do it.
- People should not receive less pay than they deserve by comparison with their fellow workers.

### **Equity**

Equity is achieved when people are rewarded appropriately in relation to others within the organization. Equitable reward processes ensure that relativities between jobs are measured as objectively as possible and that equal pay is provided for work of equal value.

### **Consistency**

A consistent approach to reward management means that decisions on pay do not vary arbitrarily without due cause between different people or at different times. They do not deviate irrationally from what would generally be regarded as fair and equitable.

### **Transparency**

Transparency exists when people understand how reward processes function and how they are affected by them. The reasons for pay decisions are explained at the time they are made. Employees have a voice in the development of reward policies and practices.

## **Strategic alignment**

The strategic alignment of reward practices ensures that reward initiatives are planned by reference to the requirements of the business strategy and are designed to support the achievement of employees and the organization's culture (its values and behavioral norms).

## **Contextual and culture fit**

The design of reward processes should be governed by the context (the characteristics of the organization, its business strategy and the type of employees) and the organization's culture (its values and behavioral norms). The design will be affected by the political and social factors present in the organization. Account should be taken of good elsewhere, but this should not be regarded as best practice.

## **Performance and reward**

Reward strategies, policies and practices focus on performance and contribute to the achievement of a high-performance culture. This is one in which people are aware of the need to perform well and behave accordingly in order to meet or exceed expectations. Employees will be engaged with their jobs and the organization and be prepared to exercise productive discretionary effort in getting their work done. Such a culture embraces a number of interrelated processes that together make an impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth, profits and ultimately, in profit making firms, the delivery of increased shareholder value.

## **Segmentation**

Different segments of the workforce, and individuals at different stages in their career, will be motivated by different combinations of rewards. A total rewards package should be tailored to meet these different needs. Organizations may consider segmenting their package for different types of jobs, or to reflect the different types and levels of contribution people make, or to respond to different needs.

## **Reward system**

A reward system consists of the interrelated processes and practices that combine to ensure that reward management is carried out effectively to the benefit of the organization and the people

who work there. It operates in accordance with the principles of systems theory, which as Kahn (1966) wrote, 'is basically concerned with problems of relationship, of structure and of interdependence'. It has the characteristics of an open system as described by Miller and Rice (1967), who stated that organizations should be treated as such in that they are continually dependent upon and influenced by their environments.

#### **2.1.7. Significance of total reward**

The basic premise of total rewards is that there is more to rewarding people than throwing money at them. As Giancola (2008) notes, 'It is effective because it focuses on the big picture.' For O'Neal (1998), a total rewards strategy is critical to addressing the issues created by recruitment and retention, employee engagement as well as providing a means of influencing behavior. It can help create a work experience that meets the needs of employees and encourages them to contribute extra effort, by developing a deal that addresses a broad range of issues and by spending reward dollars where they will be most effective in addressing workers' shifting values.

#### **2.1.8. Reward management Practices**

Most organizations use different types of rewards. The most common types include basic pay, Job design, incentives and benefits, development opportunities and performance based pay. According to Cox (2002) money is important because of the things it can buy and it also symbolizes an employee's worth. An organizations reward practice is important because if managed effectively, money can improve motivation and performance. While pay and benefits alone are not sufficient conditions for high satisfaction, it is an indispensable measurement in job satisfaction evaluation. One (2007) argues that for most people, work is the primary source of income and financial security and an important indicator of status within the organization as well as society.

According to Schuster and Zingheim (1992) reward Systems are critical parts of any organization's design. How well they fit with the rest of the systems in an organization has an important impact on how effective the organization is and on the quality of life that people experience in the organization. Over the past decade, some new reward systems practices have become popular in order to align reward systems with the important changes that are occurring in the way organizations are designed and managed.

Michael Armstrong (2006). Job evaluation provides the basis for achieving equitable pay and is essential as a means of dealing with equal pay for work of equal value issues. The reward system

will consist of policies that will provide guidelines on approaches to manage rewards. Processes concerned with evaluating relative size of jobs (job evaluation) and assessing individual performance (performance management). Procedures operated in order to maintain the system and to ensure that it operates efficiently and provides value.

### **2.1.9. Reward Strategy**

Reward strategy is a business-focused description of what the organization wants to do about reward in the next few years and how it intends to do it. It is a declaration of intent which establishes priorities for developing and acting on reward plans that can be aligned to business and human resource strategies and to the needs of people in the organization. Brown and Armstrong (2006) believe that reward strategy is ultimately a way of thinking that you can apply to any reward issues arising in your organization to see how you can create value from it. The aim is to support the corporate and human resource strategies and align reward policies and processes to organizational and individual needs. It provides a sense of purpose and direction and a framework for reward planning. In the words of Rosabeth Kanter (1999) business strategies exist to elicit the present actions for the future and to become 'action vehicles' integrating and institutionalizing mechanisms for change. It also provide the organization with a sense of purpose and direction in delivering reward programs that support the achievement of business goals and meet the needs of stakeholders.

Reward strategy constitutes a framework for developing and putting into effect reward policies, practices and processes that ensure that people are rewarded for doing the things that increase the likelihood of the organizations business goals being achieved. All reward strategies are different just as all organizations are different. It often has to be a balancing act, because of potentially conflicting goals. For example it may be necessary to reconcile the competing claims of being externally competitive and internally equitable paying a specialist more money to reflect market rate pressure may disrupt internal relativities. The Chartered Institute of personnel and development (CIPD), (2005) annual reward management survey of 477 organizations revealed that 45 percent of employees have developed, or are in the process of developing a written reward strategy, aligned to their business and human resource strategies. The survey showed that as firms grow they take, or are forced to take a more strategic approach to their reward practices and processes. Just under one- fifth, (17 %) of organizations with fewer than 50 staff had a reward strategy compared with 62% of employers with 5000 workers or more.

#### **2.1.10. Reward Policies**

Reward policy underpins reward practices. The policy defines the key elements of the total reward available for employees. The policy also defines the organizations orientation towards the labor market clearly stating how the organization wishes to benchmark itself versus the competition. The task of developing a strategic reward framework for organizations is usually challenging but necessary to survive in the competitive market place. The process however cannot be copied from the organization but needs to be designed, developed and grown within the unique environment of the organization Wilson (2003). A well designed incentive program rewards measurable changes in behavior that contribute to clearly defined goals. Reward management policy is concerned with formulation and implementation of strategies that aim to reward staff fairly, equitably and consistently. The policy also defines the maintenance requirements necessary to ensure that reward management remains relevant and properly aligned to overall organization goals. Reward strategy sets out what the organization intends to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals.

Employees should be aware of the relationship between how they perform and the reward they get. Organizations should apply performance management programs which assist in planning employee's performance programs, monitor performance by effecting proper measuring tools.

Reward should be used as a way of strengthening good behaviors among employees as well as productivity. Hence reward should focus on reinforcing good behaviors. Employees could be awarded for working overtime, taking initiatives, reliability, exceptional attendance, and outstanding feedback and meeting deadlines.

#### **2.1.11. Job Evaluation**

Job evaluation is of fundamental importance in reward management. It is a systematic process for defining the relative worth or size of jobs within an organization in order to establish internal relativities and provide the basis for designing an equitable grade structure and managing pay relativities. Michael Armstrong (2006). Job evaluation provides the basis for achieving equitable pay and is essential as a means of dealing with equal pay for work of equal value issues. In the 1990s and 1980s job evaluation fell into dispute because it was alleged to be bureaucratic, time

consuming and irrelevant in a market economy where market rates dictate internal rates of pay and relativities. However as the e-reward 2003 survey of job evaluation showed, job evaluation is still practiced widely and its use is extending, not least because of the pressures to achieve equal pay.

Job evaluation can be analytical or non-analytical. According to Michael Armstrong (2006), analytical job evaluation is the process of making decisions about the value or size of jobs, which are based on an analysis of the level at which various defined factors are present in a job in order to establish relative job value. The set of factors used in a scheme is called the factor plan, which defines all of the factors used and the levels within each factor. The two main types of analytical job evaluation schemes are point factor schemes and analytical matching. On the other hand, non-analytical job evaluation compares whole jobs to place them in a grade or rank order. They are not analyzed by reference to their elements or factors. The main non-analytical schemes are: job classification; job ranking, paired comparison ranking, internal benchmarking, and market pricing.

Job evaluation should be emphasized, it is best seen as a procedural aid to pay determination that has to be maintained, rather than as a one off system to be installed and then insulated from individual and group pressures. It provides a flexible, disciplined, participative device for the management of the fairness of pay under what are usually changing circumstances. Hence the paradox noted by Clark Kerr (1950), the more exact, consistent and rigid a description and evaluation plan is, the less its survival value under collective bargaining. The more self executing the plan is, the more it is self defeating Kerr (1977). It could be claimed that every time a decision is made on what a job should be paid, requires a form of job evaluation. Job evaluation is therefore unavoidable but it should not be an intuitive, subjective and potentially biased process. The issue is how best to carry it out analytically, fairly, systematically, consistently, transparently and so far possible, objectively without being bureaucratic, inflexible or resource intensive.

#### **2.1.12. Salary Survey**

It is an analysis of the finding of what the others are paying so that one can correctly price their jobs in relation to their competitors Gary Dessler (2008). According to Herderson (2006) every employer conducts at least a telephone, newspaper or Internet salary survey. Employers use those surveys in order to determine the price of the benchmark jobs also based on a formal or



informal survey of what comparable firms are paying for similar jobs. Survey also collects data on benefits, life insurance, sick leave and vacations to provide a basis for decisions regarding employee benefits. Salary survey can be formal or informal. Internet survey can be good for checking specific issues such as when a bank want to confirm the salary at which to advertise a newly opened teller's job or if some banks are paying tellers an incentive Nicholas Wade (2003). According to Martocchio (2002) he states that some large employers can afford to send out their formal surveys to collect compensation information from other employers. Most of these ask about things like number of employees, overtime policies, starting salaries and paid vacation.

Andrew Ritcher (1998) in his research found out that many employers use survey published by consulting firms, professional association or government agencies. The 2% or so annual area wage survey provides salary data for clerical and manual occupation ranging from secretary to messenger. Area wage survey also provides data on weekly work schedule, paid holiday and vacation, health insurance and pension plans.

## **2.2. Employee engagement**

In the academic literature, employee engagement was first conceptualized by Kahn (1990) as “the harnessing of organization members’ selves to their work roles; in engagement, people employee and express themselves physically, cognitively, and emotionally during role performance”. According to Kahn (1990), the engaged employees are physically involved in the tasks, whether alone or with others, conditions and display their thinking and feeling, their beliefs and values in their ways of working and service. Engagement is not only about physical energies of involving or accomplish he tasks, but also about the psychological aspects of how people’s experiences of themselves & their work contexts. So the definition of employee engagement includes both employees’ psychology about their work and workplace and the resulted employee’s behaviors in the workplace.

Similar to Kahn (1990), many other academic literatures about employee engagement refers to engagement as a psychological state. Maslach, Schaufeli and Leiter (2001) suggested that engaged employees have high levels of energy and the willingness to invest effort in their job without fatigue (Vigor); engaged employees feel enthusiasm and significance by involving in their work and feel proud and inspired (Dedication); engaged employees who completely

immersed in their work and feel pleasant (absorption). Later, Hallberg and Schaufeli (2006) define it as “being charged with energy and fully dedicated to one’s work”.

In one of the researches on employee engagement of CIPD (the Chartered Institute of Personnel and Development) which is the largest Chartered HR and development professional body in the world, the employee engagement was defined as “being focused in what you do (thinking), feeling good about yourself in your role and the organization (feeling), and acting in a way that demonstrates commitment to the organization and objectives (acting)” (CIPD, 2011).

### **2.3. Engagement and Rewards**

The concept of engagement was defined by Gallup (2009) as : ‘The individual’s involvement and satisfaction with as well as enthusiasm for work’. Sparrow (2009) noted that a number of other well-know applied research and consultancy organizations have defined engagement similar lines, often emphasizing the importance of discretionary effort as the key outcome or distinguishing feature of an engaged employee. An academic definition based on research by Maslach et al (2001) referred to engagement as: ‘A positive, fulfilling, work-related state of mind that is characterized by vigour, dedication, and absorption’.

The Institute for Employment Studies (IES) and (Robinson et al, 2004) defined employee engagement as follows: Engagement is a positive attitude held by the employee towards the organization and its values. An engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization. The organization must work to nurture, maintain and grow engagement, which requires a two-way relation ship between employer and employee.



Figure 1 : The IES model of engagement, Source: Robinson, 2010

Other definitions place more emphasis on job engagement as distinct from organizational engagement or commitment. An engaged employee was defined by Bevan et al (1997) as someone who is aware of business context, and works closely with colleagues to improve performance within the job for the benefit of the organization. Watson et al, (2001) defined engaged performance as a result that is achieved by stimulating employees' enthusiasm for their work and directing it towards organizational success. This result can only be achieved when employers offer an implied contract to their employees that elicit specific positive behaviors aligned with the organization's goals.'

To understand what really causes engagement, and what it causes in turn, we need to embed the idea in a well-founded theory. The one that is considered most appropriate is social exchange theory, which sees feelings of loyalty, commitment, discretionary effort as all being forms of social reciprocation by employees to a good employer. This work separates out job engagement from organizational engagement. (Sparrow 2009).

#### **2.4. Importance of employee engagement**

Employee engagement is important to employers because a considerable amount of research indicates that high levels of engagement that result in behaviours such as maximizing discretionary effort, taking initiative, wanting to develop, or aligning actions with organizational needs deliver a range of organizational benefits. As Board et al. (2006) noted higher productivity / performance: engaged employees perform 20 percent better than the average, lower staff turnover, (87 percent less likely to leave), better attendance and engaged employees have lower sick leave levels CIPD (2007) and improved safety. (Vance 2006).

## **2.5. Factors affecting employee engagement**

Research cited by IDS (2007) has identified two key elements that have to be present if genuine engagement in its broadest sense is to exist. The first is the rational aspect, which relates to employees' understanding of their role, where it fits in the wider organization and how it aligns with business objectives. The second is the emotional aspect, which has to do with how people tell about the organization, whether their work given them a sense of personal accomplishment and how they relate to their managers.

Above all reward elements like compensation/pay, benefits, promotion or career opportunities, learning and development, recognition and feedback and job design, the quality of life provided by the working environment and the quality of leadership which are the components of total reward management have positive effect on employee engagement.

### **The JD-R Model**

The most popular model which used in analyzing the antecedents of employee engagement is job demands-resources model (JD-R model). Job demands and job resources are two categories of psychosocial work characteristics. Job demands refer to those aspects of job that require sustained physical and / or psychological effort and are therefore associated with certain physiological effort and are therefore associated with certain physiological and . or psychological costs (Mauno et al., 2007). Job resources refer to those aspects of a job that are functional in achieving work goal and will stimulate personal growth, learning and development while reduce job demands and the associated physiological and psychological costs (ibid). Job demands may lead to fatigue, burnout and health problems of an employee. Job resources may foster either extrinsic or intrinsic motivation at work that is positively related to work-related engagement and commitment.

## **2.6. Consequences of employee engagement**

The driving force behind the popularity of employee engagement is that it has positive consequences for organizations. There is a general belief that there is a connection between employee engagement and business results (Harter et al., 2002). Kahn (1992) proposed that engagement leads to both individual outcomes (i.e. quality of people's work and their own

experiences of doing that work), as well as organizational-level outcomes (i.e. the growth and productivity of organizations).

### **2.6.1. The consequences of employee engagement at the individual level**

Many researchers have been conducted for studying the positive outcomes of employee engagement. Engaged employees experience activated positive affect such as feeling inspired and enthusiastic. It has been verified that such active and positive feelings that result from engagement promote employees' proactivity at work especially when employees perceive the situation as important and have control or influence over that situation. Engaged employees will behave more proficiently and adaptively due to their positive affect especially in the team and organization or in a highly dynamic and ambiguous situation (Bindl & Parker, 2011). Engaged employees also exhibit innovative behaviors. They will proactively involve the creation of a new product, service, idea, procedure, or process (Woodman, Sawyer & Griffing, 1993). While defining employee engagement Khan (1990) referred to the employees' positive working behaviors. He proposed that engaged employees are willing to make effort in their job and engaged employees will display their feeling, thinking and values and beliefs that are in accordance with organization's value and ambition in their way of working. More than their working behaviors, disengagement has been found to be more associated with health issues, such as depressive symptoms and physical problems, which may affect employee well-being (Hallber & Schaufeli, 2006). Disengaged employees are sleepwalking through their workday; they pass the working time without energy or passion. They do not work with their managers and co-workers productively. Some employees who are actively disengaged are busy acting their unhappiness other than just being unhappy, they undermine what their engaged co-workers have accomplished (Sundaray, 2011).

### **2.6.2. The consequences of employee engagement at the organization level**

Engaged employees will contribute to organizational effectiveness because they are involved and see the intrinsic value in the work they do, they understand organization's strategy and the connection between their job and organization's strategies and goals and they are empowered to make decisions (Schaufeli 2006). A conclusive compelling relationship between engagement and profitability through higher productivity, sales, customer's satisfaction, and employee retention was established (Hewitt Associates, 2005). Many research results have shown a statistical relationship between engagement and productivity, profitability, employee retention, safety, and

customer satisfaction (Coffman & Buckingham 2002). Employee engagement predicts employee outcomes, organizational success, and financial performance (Bates, 2004; Harter et al., 2002). Engaged employees will have less intention to leave, they will actively advocate the organizational cultural and its external image, they will drive high customer satisfaction (Harter, Schmidt & Hayes, 2002). A critical link between employee engagement, customer loyalty, business growth and profitability has been found by Gallup (2004). It is critical to drive employee engagement not only for retaining employees, but also for better organizational performances (Greenbers, 2004). On the contrary, disengaged employees cost companies in lost productivity and they destroy customer relationships with remarkable facility, every day (Fleming, Coffman & Harter, 2005).

### **2.6.3. Enhancing Engagement**

Financial incentives may increase engagement for some people in the short run, but the greatest impact on engagement is made by non-financial rewards, especially when they generate intrinsic motivation through the work itself and the work environment, and when they are provided by line managers.

Intrinsic motivation depends on the way in which work or jobs are designed. Three characteristics have been distinguished by Lawler (1969) as being required in jobs if they are to be intrinsically motivating:

- Feedback: Individuals must receive meaningful feedback about their performance, preferably by evaluating their own performance and defining the feedback. This implies that they should ideally work on a complete product/process/service or a significant part of it that can be seen as a whole.
- Use of abilities: the job must be perceived by individuals as requiring them to use abilities they value in order to perform the job effectively.
- Self control (autonomy): individuals must feel that they have a high degree of self control over setting their own goals and over defining the paths to these goals.

### **The work environment**

A Strategy for increasing engagement through the work environment will be generally concerned with developing a culture that encourages positive attitudes to work, promoting interest and

excitement in the jobs people do and reducing stress. Lands (2006) believes that staff who are enjoying themselves, who are being supported and developed and who feel fulfilled and respected at work will provide the best service to customers. The thinking behind the company's wish to inspire staff is straightforward: Employees' willingness to do that little bit extra arises from their sense of pride in what the organization stands for : quality, service and value. It makes the difference between a good experience for customers and a poor one. (Armstrong 2007)

The strategy also needs to consider particular aspects of the work environment, especially communications, Involvement, work-life balance and working condition. It can include the formulation and application of 'talent relationship management' policies that are concerned with building effective relationships with people in their roles, treating individual employees fairly, recognizing their value, giving them a voice and providing opportunities for growth.

### **Line managers**

Line managers play a vital and immediate part in increasing levels of engagement through leadership. They need help to understand what they are expected to do and develop the skills they need. This help can be given through blended learning programmes, which may include formal training (especially for potential managers of those in their first leadership role), e-learning, coaching and mentoring.

Performance management can provide line managers with a useful framework in which they can deploy their skills in improving performance through increased engagement. This applies particularly to the performance management activities of role definition, performance improvement planning, joint involvement in monitoring performance and feedback.

#### **2.6.4. Developing Engagement Policies through Reward**

Reilly and Brown (2008) Contend that appropriate reward practices and processes, both financial and non – financial and managed in combination, can help to build and improve employee engagement and that badly designed or executed rewards can hinder it.

Their model based on research into how reward policies influence performance through engagement is shown in figure 3 below.

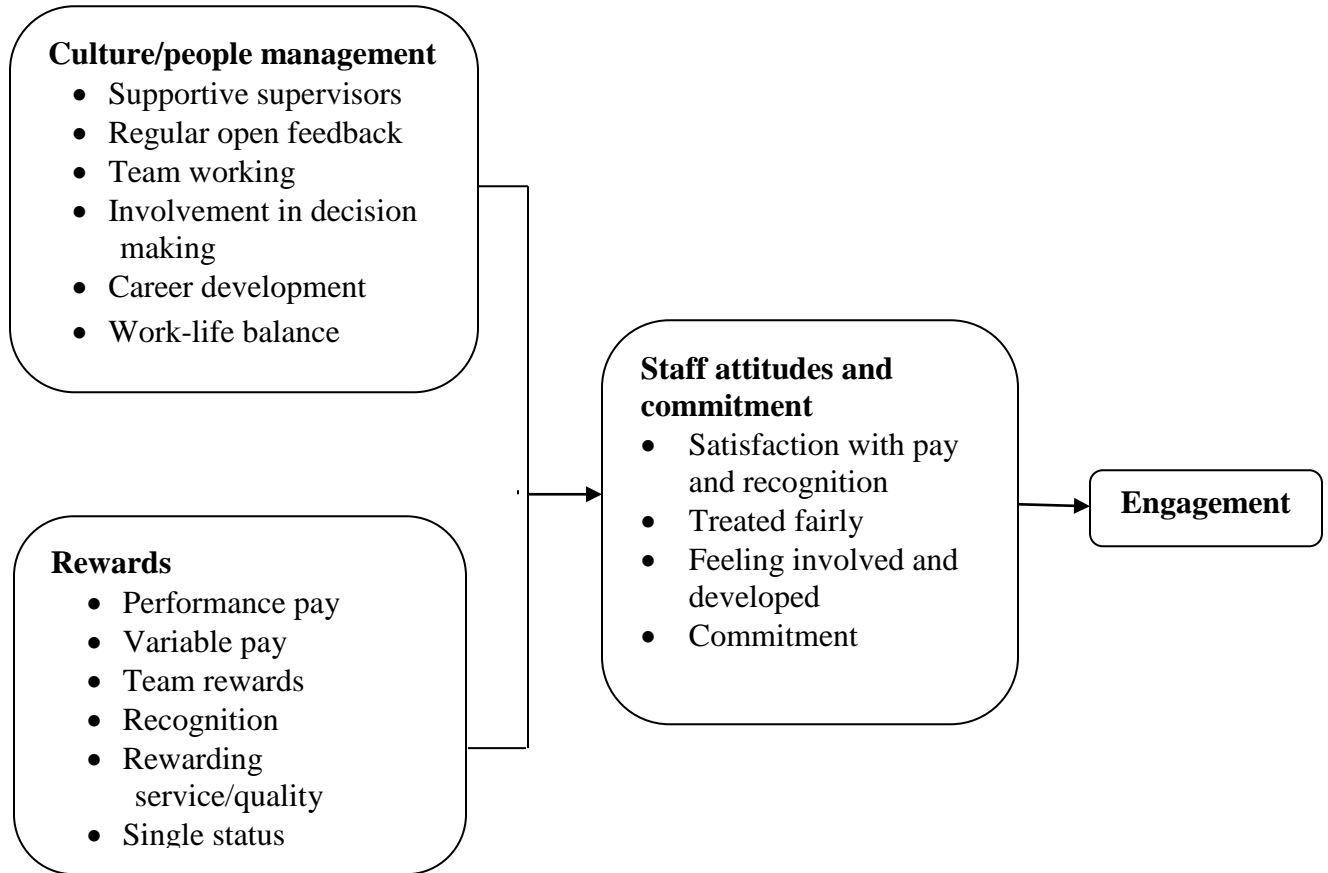


Figure 3: Engagement and reward model (Source, Armstrong, 2007)

## **2.7. Empirical review**

There are many individual and organizational factors that determine whether employees become engaged, and to what extent they become engaged.

Lazear (2000) showed a positive relation between employee engagement and rewards and firm performance. By other point of view, Lazear (2000) also described that introduction of monetary rewards could gain extra efforts of the employee to that extent where the marginal value added is equal to the marginal cost paid for that additional work. This shows that financial incentives are some types of paid value to employees in return for their extra efforts. Lazear (1986) also positively suggests that by adding financial rewards to the compensation of employee for the sake of motivation can attract more geared workers to the organization.



Thomas (2009) Intrinsic rewards have gained significant importance in recent years. They mention managerial support and their contribution to raise the level of intrinsic motivation in employees by contributing in intrinsic rewards, as building blocks. They state that, intrinsic rewards are based on the positive feelings that employees get from their work engagement. According to Thomas (2009), these intrinsic rewards reinforce the self management efforts and motivate employees to be engaged with work. An Implementation of intrinsic reward creates positive feelings and experiences among employees and management.

Shives and Scott (2003) suggested the gain sharing approach to discuss the impact of rewards on employee motivation and engagement towards the organization. Through gain sharing approach, organizational effectiveness can be enhanced to great levels. Through gain sharing approach financial bonuses can enhance the productivity of employees and employees should be rewarded with financial incentives for extra efforts. This approach mainly focuses to decrease the costs for a portion of that reduction should be converted into bonuses to employees to motivate them. On the other hand, profit sharing is different from daily basis productivity gain. Profit sharing bonuses are annually paid bonuses and most of the employees often believe, managers will forget their promises and would not pay these bonuses (Burton Kelli, 2012).

Saks (2006) conducted a study to examine the employee engagement role in service sector employees in eight different European countries. They focused on four economic sectors, retail trade, finance & banking, telecoms, and public hospitals. They observed country wise differences in the matter of employee engagement. The engagement of employees is based on job demands and job resources, for example job autonomy and social support. Social support includes different types of motivational factors like job enrichments, job empowerment and monetary and non-monetary rewards. They also proposed that engagement of employees towards organization can be achieved by implementing and creating a socially supportive environment.

Whereas the job demand negatively relates to the work engagement. They represent the work engagement as the outcome of job demand and job resources. Advocating the engagement issues, Frank et al. (2004) showed a strong link between the employee engagement and the organizational performance. He mentioned employee engagement as a human resource practice

which has a strong impact by engaging workers on the organizational productivity. Frank et al. (2004) demonstrated the positive relation between the engagement of employees and the satisfaction of employees. In the results of his study, Frank et al. (2004) explains that engaged employees are also very effective for the financial performance of the organization.

The above mentioned literature provided strong grounds for the hypothesis of the study and from the above discussion, it is very much evident that reward management practices have positive effect on employee engagement; which, in turn, affects the firm's performance. Thus hypotheses are formulated as follows:

**Hypothesis 1:** Compensation/pay has positive and significant effect on employee engagement.

**Hypothesis 2:** Benefit has positive and significant effect on employee engagement.

**Hypothesis 3:** Performance feedback and recognition has positive and significant effect on employee engagement.

**Hypothesis 4:** Work life balance has positive and significant effect on employee engagement.

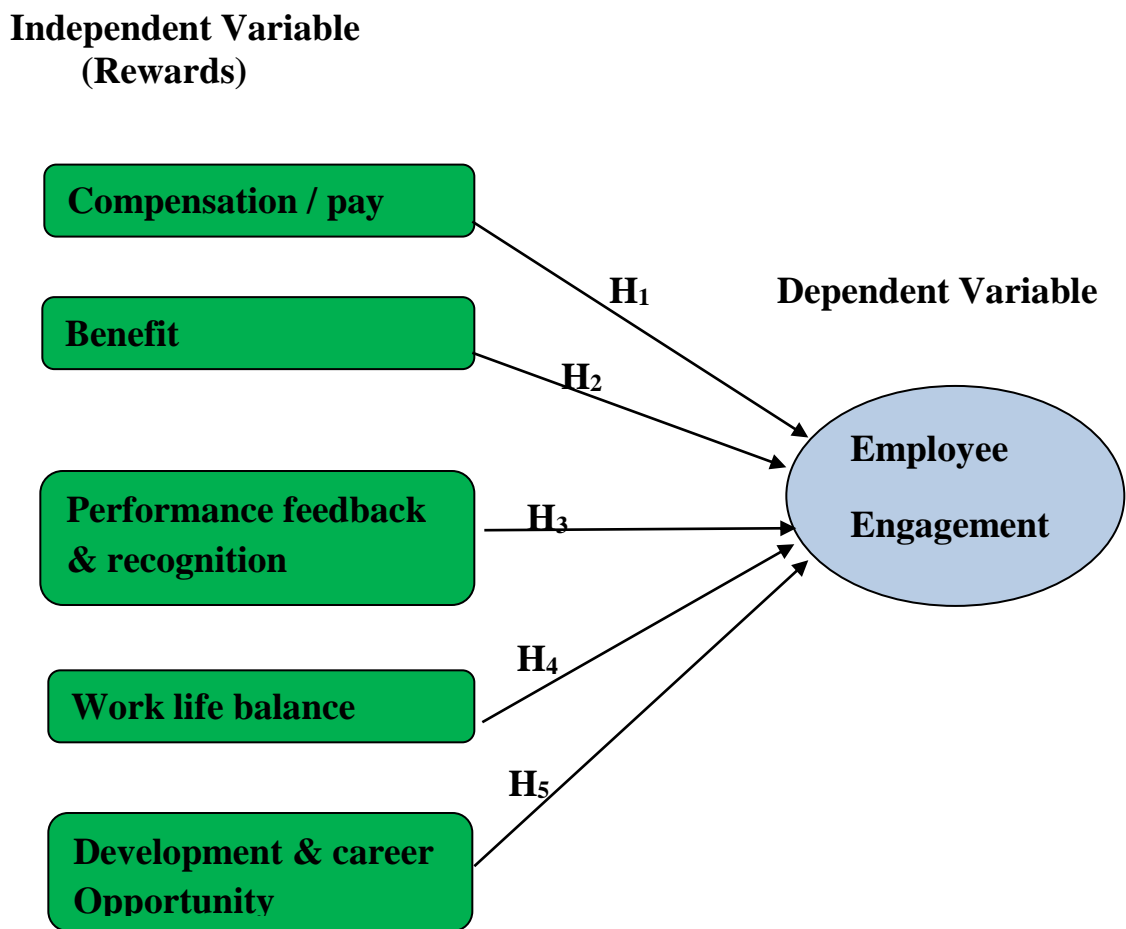
**Hypothesis 5:** Development and career opportunity has positive and significant effect on employee engagement.

## **2.8. Conceptual Framework of the Research**

**Reward management:** The aggregate of financial and non-Financial rewards that any employer offers are thus to attract, retain and elicit reciprocal performance of its employees which are the ultimate outcome of good reward management practice. This aggregate has been described as the “new pay” or total reward Zingheim, (1992). The exact description of its components has evolved over time. Worldat Work (2000), cited in Armstrong ,(2007) first defined total reward as “...consisting of compensation, benefits and work experience, with the latter component including acknowledgement, balance of work and personal life, culture, learning and development as well as the work environment”. The revised definition now consists of five components: Compensation, benefits, work-life, performance and recognition, development and career opportunities (Towers and Perrin ,2001).

**Employee Engagement:** A positive attitude held by the employee towards the organization and its values. An engaged employee is aware of business context, and work with colleagues to improve performance within job the benefit of the organization. Robinson et al (2004). Other approach sees work engagement as “a positive, work related state of mind that is characterized by vigor, dedication, and absorption” . (Schafeli et al ., 2002)

The conceptual model of worldatwork(2007) and Robinson et al, (2004) shows the effect of the elements of reward management practice Compensation, benefits, work-life, performance and recognition, development and career opportunities on employee engagement. Based on the model of worldatwork & Robinson the following model for the purpose of this study was adopted.



**Figure 4:** Adopted from Robinson (2004) & Worldatwork’s (2010)

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Research design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari 2004). A quantitative approach is one in which the investigator primarily uses postpositive claims for developing knowledge (i.e., cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories). This research endeavor substantially applies the quantitative technique by way of testing the effect of reward management practices on employee engagement that is stipulated in the conceptual framework. It is also known that the quantitative technique is easy to use and generalize with.

#### **3.2 Research Methodology**

Descriptive research allows investigation the issue of study Human resource through looking into the problem by exploring different view of the different set of respondents, as well as exploring different literatures related with the study. As such the research method make possible the presentation of facts that concern the nature and status of the situation, as it exists at the time of the study as well as describing the present conditions, events or systems based on the impression or reaction of the respondents of the research.

#### **3.3 Study Area**

The study is conducted at Varnero Construction. The sample is drawn from the population from the Head office, 3 workshops, logistics, real estate and 8 projects under construction that are located in Addis Ababa. Varnero has got a total population of 2,130 employees throughout the Head office, logistics, real estate and 10 various projects in Ethiopia. The population in Addis Ababa is 1,550.

Therefore, the study population are employees of Varnero Construction working in the 8 projects: Ethiopian Airlines New Cargo Terminal Project, Eurocable warehouse Project, Ministry of Finance Project, Mega Tower Project, Grand Palace Renovation Project, Meles Zenawi Foundation Project, St.Joseph School Project, Debrezeit Air force Project, 3 Workshops: Kalitti

Garage, Nefas Silk Wood work shop and Kalitti Terminal, Lebu real estate, Logistics office and Head office.

The fact that the company has got uniform reward management practices throughout its projects in the country makes it reasonable to generalize about the entire company.

### **3.4 Sampling Method**

Simple random sampling was used for selecting the sample respondents. This methodology is used to enable a possibility that every employee has a random chance of being selected. With randomization, a representative sample from a population provides the ability to generalize to a population (Kazdin, 1992). This substantially randomized approach has been applied as the variables under consideration were believed to be uniformly prevalent. This is to mean that no one is said to be particularly affected or particularly unaffected by the variables under discussion.

Accordingly, based on the above population the sample size is determined by the following formula:

$$n = \left( \frac{\frac{p(1-p)}{Z^2} + \frac{p(1-p)}{N}}{R} \right)$$

Where;

n = sample size required

N = number of people in the population = 1,550

P = estimated variance in population as decimal = 0.3 for 70-30 variation with population with moderate variance

A = precision desired expressed as a decimal of 0.05 for 5%

Z = based on confidence level = 1.96 for 95% confidence level

R = estimated response rate = 0.8 /80%/

Based on the calculation under the sampling procedure, A total of 333 questionnaires were distributed from which 272 were returned, indicating a response rate of 81.7%.

### **3.5 Data Collection Procedure**

An employee self-completion questionnaire was employed in this study. This study identified 5 components of reward management practice that have an effect on the level of employee engagement. These were compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunity. Employee engagement was the outcome examined.

The questionnaire was designed to allow the researcher to collect the relevant information to test the proposed model. 40 questions were incorporated into the questionnaire for the purpose of this study. A copy of the original questionnaire is provided in Appendix A. Eight questions were used to obtain demographic information on gender, age, marital status, educational attainment, current position, work experience and salary level. The remaining 32 questions measured the dependent variable Engagement and the independent variable Reward.

The instruments has 3 parts PART I collects demographic questions, PART II is about Reward survey questionnaire which is adopted from Armstrong's reward survey questionnaire and PART III, that measures the underlying dimension of work engagement is adopted from Utrecht Work Engagement Scale. The research tried to examine the relationship between reward management practices and employee engagement. The research found a positive relationship between reward management practices and employee engagement. The research questionnaire was adopted with no changes of the content. Its validity and reliability has been checked and found to be both reliable and valid in the study done in over ten countries over the world. Thus, values of Cronbach's alpha exceed the value of .70 that is traditionally used as a rule of thumb. Due to the fact that the instruments has been validated across many cultures, researchers (e.g., Storm & Rothmann, 2003) have acknowledged that it can be used as an unbiased instrument to assess work engagement and reward scales because the model has proven cross-national validity.

The questionnaires were administered personally on a drop-and-pick up later basis from selected samples. The respondents were guided on how to respond to the questions and be assured of confidentiality of all the information they gave. They were then be given the questionnaires to fill and return within a week.

### **3.6 Measurement Constructs**

The Employee Questionnaire was designed to examine the dependent variable employee engagement. The independent variable is reward management practices (ie. Compensation/pay, benefit, performance and recognition, work life balance and development & career opportunity) The questionnaire adopted is basically used by various researchers and have been acknowledged for its reliability and validity.

As can be referred in the appendices section each independent variable was assessed using a minimum of five items to a maximum of eight items. The items for independent variable were scored along a five point scale ranging from (1) strongly disagree to (5) strongly agree (Likert 1961). Whereas the dependent variable Engagement was scored along seven point likert scale from (0) never to (6) always. The scale consists of three main dimensions: which are vigor, dedication and absorption. However, employee engagement is measured as a composite variable rather than three separate dimensions.

### **3.7 Measures of Reliability**

Reliability refers to the degree to which measures are free from random error and therefore yield consistent results (Zikmund 1997). The scales of the 6 factorized variables were checked for reliability using Cronbach's Alpha using SPSS version 20. The results of the test are shown below. The questionnaire that has previously been tested for reliability is used. Validity refers the extent to which a measurement instrument actually measures what it intends to measure. The questionnaire has been tested for its validity by the subject matter experts.

#### **Reliability statistics**

**Table 1: Reliability statistics table**

Cronbach's Alpha	N of items
.858	32

An alpha of 0.70 or above is considered to be reliable as suggested by many researchers (Davis 1996). The Cronbach alpha value of the questionnaire is 0.858 which shows it is reliable and gives consistent results.

Content validity has been assured in a manner already described in *Measurement of Constructs* section above.

### **3.8 Data Analysis**

The Statistical Package for the Social Sciences (SPSS for Windows Version 20) was used to analyze the quantitative data. Initially, all items were reversed coded from “1” to “5” and “0” to “6” respectively.

Frequency tables were used to summarize the respondents profile in the form of frequency and percentages whereas the descriptive analysis such as mean and standard deviations of employees’ answers to reward management practices and employee engagement scales were calculated in order to determine the relationship between reward management practices and employee engagement.

The descriptive part of the research has been handled by summarizing the data using frequency percentage distribution, mean, standard deviation, and some correlation. It was needed to determine the effect of reward management practices on employee engagement.

Correlations were made to measure the strength and directions of the variables. The correlation analysis supported in determining both the form and degree of the relationship between reward management practices and employee engagement.

Regression analysis is used to investigate the relationship between the dependent variable (DV) and several Independent variables (IVs) and test the hypothesis of the study. It is used to test the hypothesis of the study and to measure statistical significance of the effect each independent (predictor) variables on dependent (constant) variable. Adjusted R square value is used to measure the percentage variable explained by the independent variable.



### **3.9 Data collection instruments**

Data collection tool is employee for the study in questionnaire. An employee self-completion questionnaire is the instrument employed in the study. The questionnaire that has previously been tested before for reliability is used.

### **3.10 Ethical Consideration**

There are certain ethical procedures that have been followed by the researcher: The first is asking the explicit consent from respondents. All participation in this research was voluntary and participants of the study were given a full description of the study before deciding to participate. The research also insured that the respondents were aware of the objective of the research and their contribution to its completion. The survey was kept anonymous keeping the informants confidential.

There were also ethical measures that have been followed in the data analysis. To ensure the integrity of data the researcher checked the accuracy of encoding of the survey responses. This was carried out to ensure that the statistics generated from the study are truthful and verifiable. Last, all of the data that is analyzed was reported in this study.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

The primary focus of this study was to examine the effect of reward management practices on employee engagement based on the data which was obtained from sample respondents and by using questionnaire as data collection instrument. Closed ended questionnaire was used and second sources such as written documents were referred. And the data were described, analyzed and synthesized in tables, percentages, frequency distribution, regression and correlation. This chapter presents the descriptive and inferential analyses undertaken by using the software Statistical Package for Social Sciences (SPSS version 20) and discusses the results of the study. Several key findings emerged that shed light on reward management practices and its association with employee engagement. The data and its immediate interpretation are presented as follows:

#### **4.1. Descriptive statistics**

##### **4.1.1 Demographic characteristics of the participants**

There were a total sample of 272 employees who participated in this study from 8 projects under construction, the head office, 3 workshops, logistics and real estate.

A total of 333 questionnaires were dispatched to respondents that work in 14 offices and projects located in Addis Ababa. The questionnaires returned are 272 with a response rate of 81.7%. This rate of response is above 80% and it is representative enough justifying the generalizability of the findings drawn from the information such a large number of respondents provided. Table 2 presents the summary of the demographic data results.

**Table 2: Participant’s Demographic Characteristics**

	<b>Bio data</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>	Male	213	78.3
	Female	59	21.7
<b>Age</b>	26 – 30	75	27.6
	31 – 35	67	24.6
	36 – 40	45	16.5
	41 – 45	33	12.1
	46 – 50	26	9.6
	Over 50	26	9.6
<b>Marital status</b>	Single	97	36.4
	Married	173	63.6
	Divorced	0	0
<b>Experience</b>	1 – 5 years	107	39.3
	6 – 10 years	30	11.0
	11 – 15 years	49	18.0
	16 – 20 years	31	11.4
	21 -25 years	26	9.6
	Above 25	29	10.7
<b>Education</b>	High school & below	77	28.3
	Certificate & Diploma	115	42.3
	Degree	66	24.3
	Masters	10	3.7
<b>Salary level</b>	2,001-4,500	96	35.3
	4,501 – 7,500	65	23.9
	7,501 – 9,500	42	15.4
	9,501 – 11,500	22	8
	Above 11,500	43	15.8

Source : Suvery questionnaire.

There were a total sample of 272 respondents who participated in this study from 8 projects, head office, logistics and 3 warehouses. As the summary of the demographic data result in the previous table reveals two third of the respondents (78.3%) were male. More than half of the respondents age group was between 26 to 35 years (52.2%) followed by those 36 to 40 years old (16.5%) whereas the others fall in the range of age 41 and above (31.3%).

Regarding work experience, 39.3% of the staff have worked from 1 to 5 years followed by 11 to 15 years (18%), 6 to 10 years (11%), 16 to 20 years (11.4%), 21 to 25 years (9.6%) and above 25 years (10.7%). From the total participants, most of the respondents were married (63.6%). Education levels of the respondents shows that 42.3% have certificate and diploma, 28% have completed high school having no diploma or certificate, 24.3% having a Bachelor's degree, and 3.7% falling in the range of Master's degree to having some Post Masters degree credits and Doctorate degree.

The salary level data shows that 35.3% of the respondents get a monthly salary range between 2,001 to 4,500 followed by 4,501 birr to 7,500 (23.9%), above 11,500 birr (15.8%), 7,501 to 9,500 birr (15.4%) and 9,501 to 11,500 birr (8%).

#### **4.1.2 Mean and standard deviation of Reward management practice and Employee Engagement**

The descriptive statistics was used as a way to examine the mean, standard deviation and other information which are not apparent in the raw data. It was needed to determine the effect of reward management practices on employee engagement.

**Table 3:** Mean and Standard deviation of Reward management practices and Employee engagement

<b>Variables</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>N</b>
Engagement	3.9937	1.00968	272
Compensation/pay	3.5347	.99195	272
Benefit	2.8158	.95844	272
Performance feedback and recognition	2.5993	1.13729	272
Work life balance	2.7175	1.02839	272
Development and career opportunity	2.8058	1.01241	272

The means and standard deviations of the variables of the study are shown in Table 3. It describes the mean or the average response of the respondents about the degree of their level of *work engagement* was 3.99 on a 7-point scale. As the mean result of work engagement barely crosses the point of average it indicates that the engagement level of employees is very low than expected it is not in a promising shape. As UWES suggests it is better for the company to have a mean of engagement level to be 5 or above on a 7-point scale.

The mean response of their degree of agreement with the *compensation/pay* was 3.53 on a 5-point scale. This shows all in all the respondents nearly satisfied with the level of compensation/pay they receive. *Benefit* was 2.81 on a 5-point scale. This shows all in all the respondents nearly (thought “disagree” to “neither agree not disagree”) dissatisfied about the level of benefit they received. Likewise, the mean response of their degree of agreement with the *Performance feedback and recognition* was 2.59; *Work life balance* was 2.71 and *Development and career opportunity* 2.80 on a 5-point scale. This shows all in all the respondents nearly (thought “disagree” to “neither agree not disagree”) not satisfied about the level of the above three components of reward.

Even though the mean value of the items under compensation naked that most of the respondents fall on the right side of the midpoint (3.53); benefit, performance and recognition, work life balance and development and career opportunity score the lowest points. The numbers on the above three components of reward barely cross the point of neutrality demonstrating that employees of Varnero Construction are not satisfied with the reward they receive. Employee engagement itself is not in a promising shape being valued about 3.99 out of 6.

It has been discussed at length in the literature part that disengagement hugely erodes commitment and willingness to stay, increase absenteeism and accident incidents, and create more turnover within the company by eroding talent and wasting investments on people. It has also been argued that such factors as compensation/pay, benefit, performance and recognition, work life balance and development and career opportunity have positive effect on employee engagement.

In other words, the fact that lower level rating (around the “neutral” or “disagree”) on both the independent variables and dependent variable imply that they really do have strong relationship. Thus, it can very well be argued that Varnero Construction has to institutionalized a system where it could assure reward management practices: compensation/pay, benefit, development and career opportunity, performance and recognition and work life balance that are instrumental to enhance employee engagement, reducing turnover, minimizing absenteeism and disengagement which in turn, is crucial for organization effectiveness, excellence and the wellbeing of the organization.

## **4.2 Inferential statistics**

A Bivariate correlation and multiple regression analysis were conducted to test all the hypotheses of this study. A simple bivariate correlation helps to know the degree of relationship between the dependent variable and independent variables while multiple regression was applied to predict the dependent variable from the independent variables.

### **4.2.1 Correlation Analysis**

Correlation analysis is normally used to describe the strength and direction of the linear relationship between two variables. It is used to find the relationship between two variables; the study is investigating the effect of reward management practices on employee engagement. The strength of relationship between variables is obtained through Pearson correlation coefficient( $r$ ).

The value of Pearson correlation coefficient (r) normally varies between -1 to +1. The sign indicates whether there is a positive correlation (as one variable increase, other also increase) or negative correlation (as one variable increase, other decrease). The strength of relationship is indicated by the size of the absolute value (ignoring the sign). +1 or -1 shows a perfect correlation, it also indicates that the value of one variable can be determined exactly by knowing the value on the other variable. If a scatter plot is form for this perfect correlation it will be a straight line. Similarly a correlation of 0 shows that there is no relationship between two variables, it also indicates that knowing the value of one variable provides no assistance in predicting the value of other variable. A scatter plot would show a circle of points, with no pattern evidence (Pallant. 2005, p121). In the next part correlation between reward management practices and employee will be calculated with the help of Pearson correlation coefficient.

**Table 4 Correlation Results of Study variables.**

		Correlations					
		Compensation	Benefit	Performance	Worklife	Development	Engagement
Compensation	Pearson Correlation	1	.235**	.191**	-.237**	.103	.261**
	Sig. (2-tailed)		.000	.002	.000	.091	.000
	N	272	272	272	272	272	272
Benefit	Pearson Correlation	.235**	1	.292**	-.115	.199**	.306**
	Sig. (2-tailed)	.000		.000	.058	.001	.000
	N	272	272	272	272	272	272
Performance	Pearson Correlation	.191**	.292**	1	.075	.394**	.365**
	Sig. (2-tailed)	.002	.000		.217	.000	.000
	N	272	272	272	272	272	272
Worklife	Pearson Correlation	-.237**	-.115	.075	1	.062	.140*
	Sig. (2-tailed)	.000	.058	.217		.309	.021
	N	272	272	272	272	272	272
Development	Pearson Correlation	.103	.199**	.394**	.062	1	.329**
	Sig. (2-tailed)	.091	.001	.000	.309		.000
	N	272	272	272	272	272	272
Engagement	Pearson Correlation	.261**	.306**	.365**	.140*	.329**	1
	Sig. (2-tailed)	.000	.000	.000	.021	.000	
	N	272	272	272	272	272	272

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

\* . Correlation is significant at the 0.05 level (2-tailed).

As can be seen in the above table, the inter-correlations among the variables were found to be in the hypothesized direction. Moderate significant correlations were observed between employee engagement and compensation/pay ( $r=.261, p<.01$ ) and employee engagement and Benefit ( $r=-.306, p<.01$ ), employee engagement and Performance feedback and recognition ( $r=.365, P<.01$ ), and employee engagement and development and career opportunity ( $r=.329, P<.01$ ) indicating that the more employees have received competitive rewards, the more their work engagement would be. However, work life balance ( $r=.140, P<.05$ ) have weak but significant effect on employee engagement.

### **4.3. Interpretation of output from correlation table**

There are five different aspects of the correlation table that should be consider while interpreting the results, it is explained below

#### **4.3.1 Information about the sample**

The important aspect of correlation table is the N (number of cases). The final questionnaires for Reward management practices and Employee Engagement we got after performing the required normality test for data were 272, which is also shown in correlation table. There was no missing value therefore when we get confirm about our sample size then correlation analysis were performed.

#### **4.3.2. Determining the direction of the relationship**

The positive and negative sign in front of correlation coefficient (r) value shows the direction of the relationship between variables. The value of correlation coefficient (r) is positive in all cases, showing positive relationship between all components Reward management practices and Employee Engagement.

#### **4.3.3 Determining the strength of the relationship**

As mentioned earlier the strength of the relationship is shown by correlation coefficient value. Different authors suggest various interpretations of the magnitude of relation; however, Cohen's (1988) guidelines was used in this research since it is used by many researchers;

$r = .10$  to  $.29$  or  $r = -.10$  to  $-.29$  Weak relationship

$r = .30$  to  $.49$  or  $r = -.30$  to  $-.49$  Moderate relationship

$r = .50$  to  $1.0$  or  $r = -.50$  to  $-1.0$  Strong relationship



Thus, correlation analysis for the dependent and independent variables was done by taking into account the above assumption before simply entering the data to regression analysis. It is logical to check for the significance of the relation between variables before measuring their casual relation with regression analysis.

As correlation coefficient (r) value for Performance feedback and recognition and Employee engagement ( $r=.365$ ,  $P<0.001$ ,  $N=272$ ), Development and career opportunity and Employee engagement ( $r=.329$ ,  $P<0.001$ ,  $N=272$ ), Benefit and Employee engagement is large ( $r=.306$ ,  $P<0.001$ ,  $N=272$ ), is between .30 to .49 it shows the above three have moderate effect on employee engagement. The correlation coefficient (r) value for Compensation/pay and Employee Engagement ( $r =0.261$ ,  $P=<0.001$ ,  $N= 110$ ) and Work life balance ( $r=.140$ ,  $P<0.001$ ,  $N=272$ ), is between .1 to .29 therefore, showing positive but weak relationship it was not as strong as the above three.

#### **4.3.4 Assessing the significance level**

Significance level is strongly influenced by the size of sample (Pallant, 2005, p.127). As the significance level except for the Work life balance, Compensation/pay, Benefit, Performance feedback and recognition and Development and career opportunity is less than .001 and sample size is also large, therefore it also confirms that reward have a positive and moderate effect on Employee Engagement.

Concluding remarks of the test: From the results of correlation table shows that reward management practices have a moderate positive effect on Employee engagement. Performance feedback and recognition shows more strong effect on Employee Engagement as compared to compensation, benefit and development.

## **4.4 Normality test**

### **4.4.1 Multicollinearity**

Before running the regression analysis the occurrence of potential chances of multicollinearity was addressed. The variance inflation factor (VIF) and tolerance of independent variables was utilized to verify that there is no multicollinearity in the model. The cut point for VIF is less than 5 and tolerance value of each independent variable is greater than 0.2 as stated in (Bola et al 2001). Kat sikea etal. 2005 as cited in (Suthupan 2010: 110) also explain that the normal cutoff for multicollinearity is at VIF <10 or tolerance value >0.10. The result of this method of assessing the potential multicollinearity is summarized in the below table of the multiple regression output.

**Table 5 Multicollinearity statistics**

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
1 Compensation	.876	1.142
Benefit	.864	1.157
Performance	.774	1.291
Work life	.917	1.091
Development	.834	1.199

Consequently, it is confirmed that there is no chance of occurrence of multicollinearity in the model because the values of VIF for the independent variables is less than the cut point stated above and the tolerance values for each independent variable is greater than the cutoff point stated.

#### **4.4.2 Skewness & Kurtosis**

Skewness and Kurtosis values greater than 1 and less than -1 are considered being abnormally distributed (Ganst et al. 2008).

**Table 6 Skewness & Kurtosis**

	Descriptive Statistics				
	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Compensation/pay	272	.693	.148	.400	.294
Benefit	272	.285	.148	.588	.294
Performance & recognition	272	.115	.148	.297	.294
Work life	272	.199	.148	.705	.294
Development	272	.074	.148	.416	.294
Engagement	272	.111	.148	.065	.294
Valid N (listwise)	272				

The results of Skewness & kurtosis of the above table shows that all results were below 1 and greater than -1 indicating that the data is normally distributed for these elements.

#### **4.5 Multiple Regression Analysis**

Multiple regression analysis is used to explore the relationship between one dependant variable and a number of independent variables or predictors (Pallant, 2005). Multiple regression also tells that how much of the variance in the dependent variable can be explained by independent variables. It also determines the statistical significance of the results, both in terms of model and the individual independent variables (Pallant, 2005). One of the purposes of this study is to examine the effect of reward management practices on employee engagement. I am using multiple regressions because I want to find out the effect of the independent variable Reward management practices (compensation/pay, benefit, performance feedback and recognition, work life balance, development and career opportunity) on dependent variable (Employee Engagement). Multiple regressions allow using the independent variables as a predictor for dependant variable. Therefore it is appropriate for this kind of study. The regression model of the study is:

$$Y = a + B_1X_1 + B_2X_2 + B_3X_3 + \dots + B_nX_n + u$$

Y= Dependent variable (Employee Engagement)

a= constant

B= Regression Coefficient

X= independents (Compensation, performance, work life, benefit, development)

U= Residual factor

In this research study the dependent (outcome) variable in employee engagement and there are five independent variables (predictors) namely: compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunity.

Therefore, based on the result in the regression table no. 7 and in accordance to the above general equation the estimated regression model of the study is presented below.

$$\begin{aligned} \text{Employee engagement} = & 1.255 + 0.210\text{compensation/pay} + 0.199\text{benefit} + 0.163\text{peformance} \\ & \text{feedback and recognition} + 0.182\text{work life balance} + 0.186\text{development} \\ & \text{and career opportunity} + 0.876 \end{aligned}$$

### **Reward management practices and Employee Engagement**

The hypotheses of the study infer that reward management practices have significant effect on employee engagement as shown below.

H1: Compensation/pay has positive and significant effect on employee engagement.

H2: Benefit has positive and significant effect on employee engagement.

H3: Performance feedback and recognition has positive and significant effect on employee engagement.

H4: Work life balance has positive and significant effect on employee engagement.

H5: Development and career opportunity has positive and significant effect on employee engagement.

Null Hypothesis 0: Reward management practices (*Compensation/pay, Benefit, Performance feedback and recognition, Work life balance, Development and career opportunity*) have positive and significant effect on Employee Engagement.

**Table 7: Coefficient table for regression model**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std.Error	Beta		
1 (Constant)	1.255	.315		3.988	.000
Compensation	.210	.057	.206	3.677	.000
Benefit	.199	.060	.189	3.335	.001
Performance	.163	.053	.183	3.068	.002
Work life	.182	.054	.185	3.370	.001
Development	.186	.271	.186	3.236	.001

a. Dependent Variable: Engagement

In order to find the contribution of each independent variable to dependant variable included in the model it has to be noticed that the value of standardized coefficient (Beta). The greater value of beta and less value of significance level ( $p < .05$ ) of each independent variable will show the strongest contribution to dependant variable (Pallant, 2005).

As it is shown in the above table the regression result shows that compensation/pay is a significant predictor of engagement (Beta=.206,  $p < 0.01$ ), benefit (Beta=.189,  $p < .01$ ), performance feedback and recognition (Beta=.182,  $p < .01$ ), work life balance (Beta=.183,  $p < .01$ ), development and career development (Beta=.185,  $p < .01$ ). Thus, we accept all the five alternate hypotheses that compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunities have significant effect is accepted.

The largest beta coefficient compensation/pay is .206 at significance level 0.000 ( $p < .05$ ), meaning that compensation/pay makes the strongest effect on employee engagement as compared to benefit, performance, work life balance and development.

**Table 8: Summary of regression model**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.515 <sup>a</sup>	.265	.252	.87344

a. Predictors: (Constant), Development, Worklife, Benefit, Compensation, Performance

The strength of relationship between one dependant variable and one or more independent variables is determined by coefficient of determination  $r^2$  (also called regression coefficient). The regression coefficient varies between -1 and +1. -1 represents complete negative relationship while +1 represents perfect relationship (Saunders, 2012).

The value of the adjusted r square (regression coefficient) is .252 (.252x100=25.2 percent) indicating that how much of the variance in the dependent variable (Employee Engagement) is explained by the model. This also means that the model explains 25.2% variation in employee engagement.

The model summary reveals that the proportion of the variation in employee engagement is explained by the five reward management practices jointly is 25.2 % and the remaining 74.8% of the variance is explained by other variables. The F-statistic of 19.226 at 5 and 266 degree of freedom further shows that the independent variable (compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunity) considered in this study can moderately explain the variation of dependent variable (employee engagement) at 0.000 (99%) confidence levels.

Therefore, as summarized in the table pay/rewards has moderate effect on employee engagement as compared with the other four. The ANOVA table indicates that the model of the study is significant and valid. Furthermore, the coefficients table indicated that pay/reward has significant effect on employee engagement as compared to benefit, performance, work life balance and development.

## 4.6 ANOVA

ANOVA analysis is normally used to compare the mean scores of more than two groups or variables. It is also called analysis of variance because it compares the variance between groups (Pallant, 2005, p.214). The F ratio or F statistic represents the variance. If the F ratio is large and probability is less than 0.05 then it is termed statistically significant (Saunders, 2012). A significant F test indicates that we can reject the null hypothesis and accept alternate hypothesis, stating that the population means are equal (Pallant, 2005, p.214). We will use ANOVA to check the acceptance or rejection of hypotheses of the study.

**Table9:** ANOVA table for Reward management practices & Employee Engagement

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	73.338	5	14.668	19.226	.000 <sup>b</sup>
	Residual	202.931	266	.763		
	Total	276.269	271			

a. Dependent Variable: Engagement

b. Predictors: (Constant), Development, Work life, Benefit, Compensation, Performance

From the above ANOVA table it can be seen that F ratio is 19.226 and the significance level is less than 0.05. The decision rule is that we reject the null hypothesis (H<sub>0</sub>) if the significance level is less than 0.05 or 5% and accept the alternate hypothesis (H<sub>1</sub>). The moderate value of F ratio and less value of significance level [F = 19.226 p<.0005.] indicates that we have to reject the null hypothesis and accept alternate hypothesis i.e. Reward management practices have moderate significant effect on employee engagement.

Concluding remarks of the test: From the ANOVA test as performed above, it is concluded that the alternate hypotheses of the study are accepted. Hence proved that, there is moderate positive relationship between Reward management practices and Employee Engagement.

**Table 10: Summary of hypotheses result**

<i>Hypothesis</i>	<b>Method used</b>	<b>Results</b>
H <sub>1</sub> : Compensation/pay have significant effect on employee engagement	Correlation & Regression	Accept : (B=0.206, p<0.05) 95% confidence
H <sub>2</sub> : Benefit have significant effect on employee engagement	Correlation & Regression	Accept : (B=0.186, p<0.05) 95% confidence
H <sub>3</sub> : Performance feedback and recognition have significant effect on employee engagement	Correlation & Regression	Accept : (B=0.182, p<0.05) 95% confidence
H <sub>4</sub> : Work life balance have significant effect on employee engagement	Correlation & Regression	Accept : (B=0.183, p<0.05) 95% confidence
H <sub>5</sub> : Development and career opportunity have significant effect on employee engagement	Correlation & Regression	Accept : (B=0.185, p<0.05) 95% confidence

## **4.7 Summary of Analysis**

### **4.7.1 Reward management practices and Employee Engagement**

In order to answer the research question and meet the research purpose, first it was found that reward management practices have positive and significant effect on employee engagement. The results of Pearson correlation conformed that reward management practices have moderate positive effect on employee engagement. The hypothesis was tested using ANOVA test, the results of the test confirmed the acceptance of the hypothesis i.e. ***“Reward management practices have positive and significant effect on employee engagement”***. Furthermore, regression analysis was used to find out the effect of reward management practices on employee engagement. The results also confirmed that reward management practices have positive significant effect on employee engagement.

The research result suggests moderate positive effect of reward management practices on employee engagement. Therefore, if rewards for the employees are increased, it will also increase their engagement level. This is also confirmed by the effect of rewards on employee



engagement results. Lowering employee rewards will also lower their engagement level. Therefore, the results proved that if the engagement level of employees becomes lower, management has to provide or increase rewards.

The finding of the study is similar to the model of total reward study of WorlDatWork (2010) clearly depicting that there is a significant positive relationship between reward and its constituents (compensation/pay, benefit, development and career opportunity, performance feedback and recognition and work life balance) and employee engagement which in turn boost organizational performance through encouraging employee involvement and commitment.

The result of the study is also consistent with the JD-R model which is the most widely cited and widely used theoretical model in the literature of engagement showing how job resources (e.g. reward, feedback, autonomy and support) and personal resources (e.g. self-efficacy, optimism, resilience) directly influence work engagement, which in turn influences outcomes such as commitment, in-role performance, extra-role performance, creativity and financial outcomes which are in one way or another the expression of employee engagement.

It has been discussed at length in the literature part that disengagement hugely erodes commitment and willingness to stay, increase absenteeism and accident incidents, and create more turnover within the company by eroding talent and wasting investments on people. It has also been argued, that such factors as compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunity have positive and significant effect on employee engagement.

Therefore, it can very well be argued that Varnero Construction has to institutionalized a system where it could assure reward management practices: compensation/pay, benefit, development and career opportunity, performance and recognition and work life balance that are instrumental to enhance employee engagement, reducing turnover, minimizing absenteeism and disengagement which in turn, is crucial for organization effectiveness, excellence and the wellbeing of the organization.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

By investigating the relationship between reward management practices and employee engagement, and also by quantitatively testing the effect of variables such as compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunity on employee engagement, obtained from the targeted organization the following summary of major findings, conclusion and recommendations have been made.

#### **5.1 Summary of major findings**

The sample consisted majority male respondents (n=213 or 78.3%) than female (n=59 or 21.7%). The majority of the work force (n=142 or 52.2%) are participating in the study ranging between the age category of 26-35 years old and majority of them are married and diploma holder (n=173 or 63.6%). Besides, served their organization from 1 to 5 years (n=107 or 39.3%).

Descriptive statistics were used to indicate the mean values for compensation, benefit, performance and recognition, work life balance, development and career opportunity and engagement. The mean results shows that respondents are more satisfied with Compensation/pay (mean=3.53), and not satisfied with the level of Reward (mean=2.81), Performance feedback and recognition (mean=2.59), work life balance (mean=2.71), development and career opportunity (mean=2.80), and Engagement (mean=3.99). The results indicate that except for compensation/pay employees are not satisfied with the level of benefit, performance and feedback, work life and development provided. The lowest mean are observed at Performance feedback and recognition (mean =2.59). This result shows that employees are not satisfied with the level of rewards provided by the company.

Depending on the result of inferential statistics, except for work life balance, the other variables Performance feedback and recognition ( $r=.365$ ,  $P<0.001$ ), Development and career opportunity ( $r=.329$ ,  $P<0.001$ ), Benefit ( $r=.306$ ,  $P<0.001$ ), Compensation/pay ( $r=.261$ ,  $P<0.001$ ) have moderate and significant effect on employee engagement. Whereas, Work life balance ( $r=.140$ ,  $P>.001$ ) have weak and insignificant effect on employee engagement. It has been found out that

performance feedback and recognition followed by development and career opportunity have a strongest and significant effect on employee engagement.

The results of the multiple regression analysis regressing reward management practices against employee engagement, as dependent variable significantly explain the variance in employee engagement. Therefore, the model summary reveals that with F-statistics of 19.226 at 5 and 266 degree of freedom at 99% confidence level. In relation to this, about 25.2% of the employee engagement is explained by reward management practices at 99% confidence level.

In general, the result of this research implies that reward was found to have a positive and significant effect on employee engagement. There is a statistically moderate significant relationship between reward and engagement, i.e, the decrease or increase of reward for employees has direct relationship with employee engagement.

## **5.2 Conclusions**

The objective of this study is to measure the effects of rewards management practices on employee engagement. The study is based on the objective that employees are engaged deeply with organization on the basis of rewards and rewards have a positive impact on the employee's engagement. Reward management practices that have an effect on employee engagement was explored in this study including, compensation/pay, benefit, performance feedback and recognition, work life balance and development and career opportunities. Based on the data collected and the analysis made, the researcher would draw the following conclusions:

The descriptive statistical analysis showed that the effect of reward management practices on employee engagement is significant. The responses of the employees reveal not so satisfied by the way reward management practices are carried out as demonstrated by average and less than average ratings on variable relationship to such reward management factors as compensation/pay, benefit, performance feedback and recognition, work life balance as well as development and career opportunity. Also the employee engagement scale is not really adequate as it narrowly crossed the point of neutrality.

Inferential statistics supported the proposed hypothesis and rejected the null hypothesis. So, it is concluded that the reward management practices have greater effect on employee engagement and employee engagement will provide rational grounds for increased organizational performance.

Performance feedback and recognition stands out to have the most powerful effect on employee engagement followed by development and career opportunity. However, the effect of work life balance on employee engagement was found weak and insignificant.

It can further be concluded from the major findings of this study that, measuring and managing the performance of the employees against objectively defined targets and providing appropriate feedback and recognition positively affects employee engagement since; their casual relationship was statistically significant. This implies that, promoting a clear vision of the future, being seen to respond to feedback and demonstrating a genuine commitment to the employee's well-being is all important action.

This result is supported and consistent with some past researches done on reward. Thus, consistent with the previous study and theory, reward plays an important role in winning the employee engagement. Furthermore, employee dissatisfaction that arise from the absence of good pay will definitely lead to disengagement. As a result the business performance may decrease.

Generally, it can be concluded that reward management practice has significant positive effect on employee engagement. Moreover, it has more direct significant effect on employees work engagement when tailored as a total reward than stand alone.

### **5.3 Recommendations**

Based on the major findings that have been discussed so far the following points are recommended for practical application to enhance the level of employee engagement in Varnero Construction:

Employees of Varnero Construction are not satisfied with the overall reward management practice as well as their engagement level is very low. It is evidenced that reward management

practices have positive and significant effect on employee engagement. On the basis of this finding management should focus on these reward factors to yield highly satisfied employees, so as the company can exploit the potential of employees and which is an indispensable factor to sustain the human capital.

Compared to the five components of reward Performance feedback and recognition and Development and career opportunity were considered more important by Varnero employees. Therefore, management of the company is required to concentrate more on these factors for employee engagement. This study proved that reward management practices have greater effect on employee engagement. Any changes in reward will produce changes in employee engagement; therefore, management of the company should consider these factors while working to increase employee engagement.

Varnero should benefit from developing tools for managers so they can effectively reward employees beyond the confines of compensation and benefits and develop and reinforce communications around total rewards. Focus on the ways in which managers can use career development, organization and job design, non-financial recognition programs and organizational work climate to reward employees in different roles and different stages of their careers.

Managers should enhance two-way communication, ensure that employees have all the resources they need to do their job, give appropriate training to increase their knowledge and skill, establish reward mechanisms in which good job is rewarded through various financial and non-financial incentives, build a distinctive corporate culture that encourages hard work and keeps success stories alive, develop a strong performance management system which holds managers and employees accountable for the behavior they bring to the workplace, place focus on top-performing employees to reduce their turnover and maintain or increase business performance

Varnero Construction having group of professionals that belong to the most active and energetic age group may help the organization to achieve its goals. The organization should try its best to keep them satisfied by providing reasonable amount of reward, this possibly decrease the

propensity of its employees' shift in other similar industries and becomes its own competitors. Because, employees are strategic assets and they are not payroll cost and retaining them helps the organization to achieve its competitive advantages.

As can be obtained from the finding some reward management practices namely work life balance have weak and insignificant effect on employee engagement, further research should be done to investigate what other factors affect the employee engagement level in Varnero Construction.

The management should be actively involved in sound decision and strive to accomplish that the existing reward policy of the company need continuous revision, revisiting and restructuring to ensure their fairness and competitiveness in the market.

Organization should motivate employees through rewards so that they will be engaged in their jobs, they can start working hard, be loyal and honest with their job responsibilities. The company should invest in their employees for successful operation. Otherwise, employees would be disengaged with their job, which cost them in sense of increased turnover.

In order to boost the level of employee work engagement Varnero should tailor a total reward management approach since it has more direct and significant casual relationship. Integrated reward management that provides reward policies and practices to be treated as a coherent whole is recommended.

#### **5.4. Future research**

Finally, future research should aim to investigate how other factors other than rewards impact on employee engagement.

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# APPENDIX

**Addis Ababa University**  
**School of Commerce**  
**Department of Human Resource Management**  
**Masters of Human Resource /MBA Program/**

**Dear participants,**

This questionnaire is designed to collect information about the practices of reward management and employee engagement. The information shall be used as a primary data in my case research which I am conducting as a partial requirement of my study at Addis Ababa University for completing my MBA in Human Resource Management. The research result is believed to address reward management practices in Varnero Construction and identify its major component that affects Varnero's employee engagement.

Therefore, your genuine, honest, and prompt response is a valuable input for the quality and successful completion of this study. So, I respectfully request your kind cooperation in answering the questions as clearly and frankly as possible. Finally, I would like to assure you that the information you provide will be used for academic research purpose only and all responses will be treated in strict confidentiality. Therefore,

**General Instructions :**

- There is no need of writing your name.
- Put  mark on the box with point which highly reflects your idea parallel to your choice.
- All information will be treated confidentially
- Your honest & unbiased response will greatly contribute for the research to achieve its objectives.

 **Thank you very much, for your sincere cooperation and timely response**

## Part – I

### Demographic Information

1. Gender

Male

Female

2. Age

26-30  31-35  36-40  41-45  46-50  over 50

3. Marital Status

Single

Married

Divorced

4. Educational attainment

High school graduate

Certificate

Diploma

Degree

Masters and above

Others, please specify \_\_\_\_\_

5. Your current Job position \_\_\_\_\_

6. Experience in Varenro

1-5

6-10

11-15

16-20

21-25

≥26

7. For how long have you been working on the same job position?

\_\_\_\_\_

8. Salary level

< 2000

2001-3500

3501-4500

4501-6500

6501-7500

7501-8500

8501-9500

9501-10500

10501-11500

>11501

## Part II Reward

Please answer the following statements by marking “√” sign under your choice of numbers describes your best answer.

1                      2                      3                      4                      5  
*Strongly Disagree*      *Disagree*      *Neutral*      *Agree*      *Strongly Agree*

No.	Pay/Compensation related questions	1	2	3	4	5
1	The rewards are given fairly					
2	The rewards match my work effort.					
3	I am satisfied with the reward system					
4	I am ready to increase my work efforts in order to gain more reward.					
5	Employees must work more in order to gain the Rewards					
6	The rewards have a positive effects on the work atmosphere.					
7	The rewards motivate me to perform well in my job.					
	<b>Benefits related questions</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
8	I am not satisfied with Varnero’s current benefit package					
9	The benefits we receive are better or as good as other similar organization offers.					

10	There is equity in benefits that i receive internally					
11	Varnero provide me with transport service or fuel Allowance					
12	There are benefits that Varnero do not provide and that must be provided.					
	<b>Performance and recognition</b>					
13	I get good feedback for my performance					
14	I get appreciation for my better Performance					
16	Varnero’s performance evaluation is objective & fair					
17	I am praised as long as I do good job					
18	The reward by Varnero has importance in recognition of my effort					
	<b>Work life balance</b>					
19	I like the people I work with					
20	There is too much fight at work					
21	I have flexible working time & Place					
22	My job is not difficult to meet my personal and professional life					
23	My supervisor promotes healthy work life balance					
24	My job is enjoyable					

25	Sometimes I feel my job is meaningless					
26	I feel a sense of pride in doing my job					
	<b>Development and career opportunities</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
27	There is really too little chance for promotion on on my job					
28	Those who do well on their job stand a fair chance of being of promoted					
29	People get ahead as fast here as they do in other places					
30	Workers are promoted in fair manner					
31	Varnero promotes worker to develop new skill					
32	I am happy with Varnero's chance for further education sponsorship					

### Part III Work Engagement

The following 17 statements are about how you feel at work. Please read each statement carefully and decide if you ever feel this way about your job. If you have never had this feeling, mark “√” sign under the column “0” (Zero). If you have had this feeling, indicate how often you feel it by marking “√” sign under the number that best describes how frequently you feel that way.

	Almost never	Rarely	Sometimes	Often	Very often	Always
0	1	2	3	4	5	6
Never	A few times a year or less	Once a month or less	A few times a month	Once a week	A few times a week	Every day

No.	Vigor	0	1	2	3	4	5	6
1	At my work, I feel that I am bursting with energy							
2	At my job, I feel strong and energetic							
3	When I get up in the morning, I feel like going to work							
4	I can continue working for very long periods at a time							
5	At my job, I am very resilient, mentally							
6	At my work I always persevere, even when things do not go well							
	<b>Dedication</b>							



7	I find the work that I do full of meaning and purpose								
8	I am enthusiastic about my job								
9	My job inspires me								
10	Am proud of the work that I do								
11	To me, my job is challenging								
	<b>Absorption</b>								
12	Time flies when I'm working								
13	When I am working, I forget everything else around								
14	I feel happy when I am working intensely								
15	I am immersed in my work								
16	I get carried away when I'm working								
17	It is difficult to detach myself from my job.								

## ANNEX – A

### Number of randomly distributed questionnaires to respondents

No	Location	No of Respondents
1	Head Office	18
2	Logistics Office	27
3	Kalitti Garage	10
4	Kalitti Terminal	18
5	Nefas Silk Wood Work	21
6	Ethiopian Airlines Cargo Terminal Project	75
7	Deberezeit Air force Project	36
8	Euro cable Project	40
9	Ministry of Finance Project	8
10	Mega Tower Project	20
11	Grand Palace Project	5
12	Meles Zenawi Foundation Project	35
13	St. Joseph Project	20
	Total	333

Source : survey questionnaire distributed

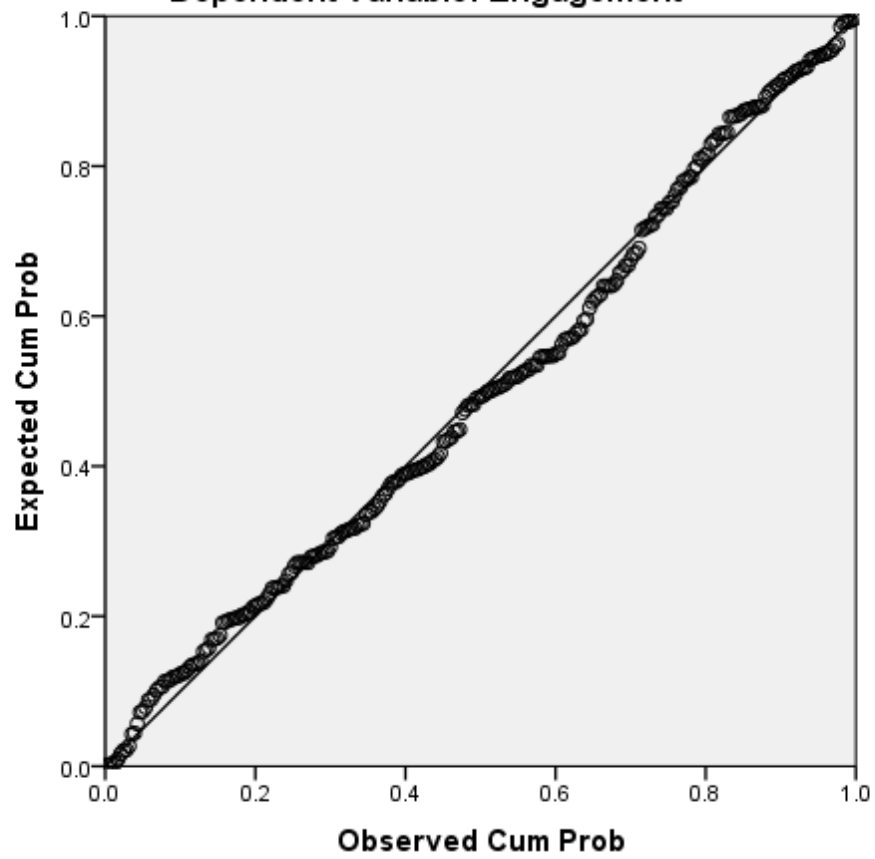
**Correlations**

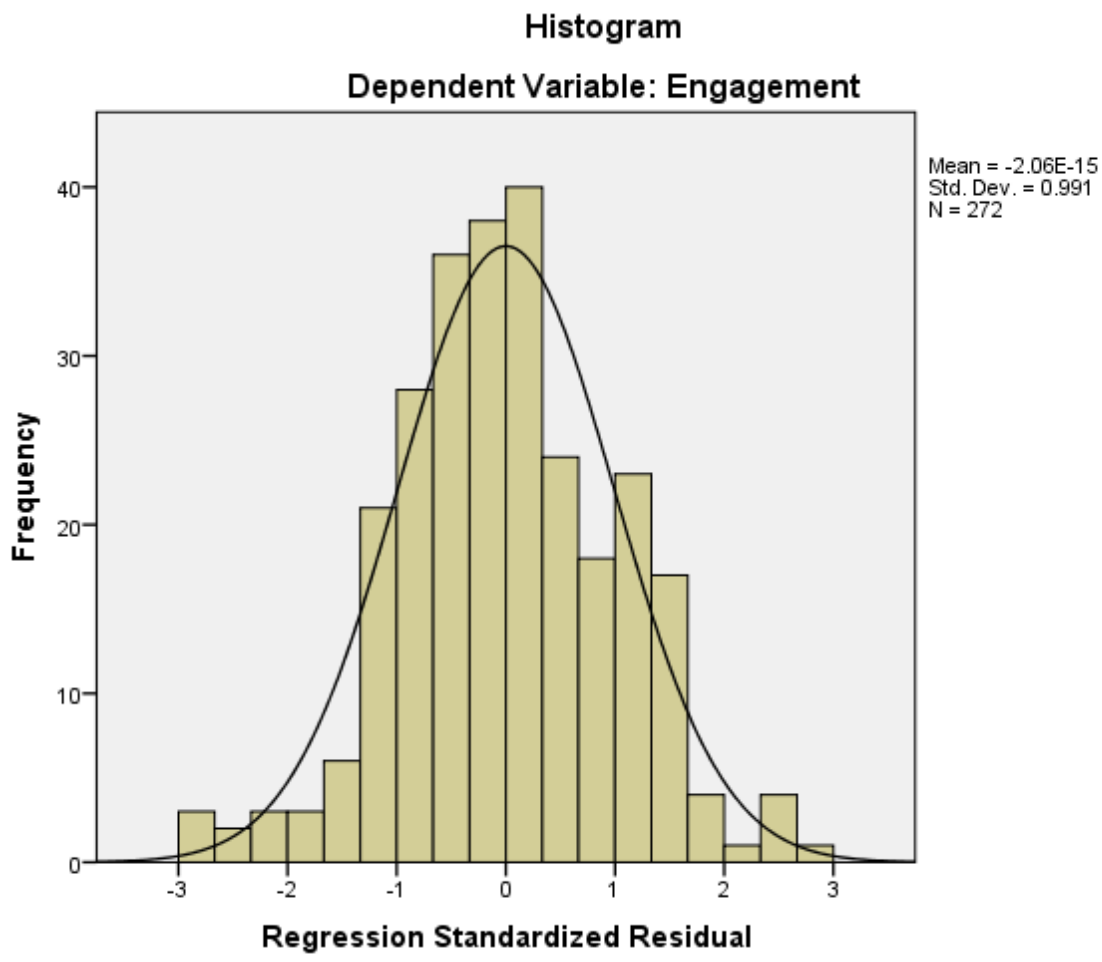
		Compensation	Benefit	Performance	Worklife	Development	Engagement
Compensation	Pearson Correlation	1	.235**	.191**	-.237**	.103	.261**
	Sig. (2-tailed)		.000	.002	.000	.091	.000
	N	272	272	272	272	272	272
Benefit	Pearson Correlation	.235**	1	.292**	-.115	.199**	.306**
	Sig. (2-tailed)	.000		.000	.058	.001	.000
	N	272	272	272	272	272	272
Performance	Pearson Correlation	.191**	.292**	1	.075	.394**	.365**
	Sig. (2-tailed)	.002	.000		.217	.000	.000
	N	272	272	272	272	272	272
Worklife	Pearson Correlation	-.237**	-.115	.075	1	.062	.140*
	Sig. (2-tailed)	.000	.058	.217		.309	.021
	N	272	272	272	272	272	272
Development	Pearson Correlation	.103	.199**	.394**	.062	1	.329**
	Sig. (2-tailed)	.091	.001	.000	.309		.000
	N	272	272	272	272	272	272
Engagement	Pearson Correlation	.261**	.306**	.365**	.140*	.329**	1
	Sig. (2-tailed)	.000	.000	.000	.021	.000	
	N	272	272	272	272	272	272

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

\* . Correlation is significant at the 0.05 level (2-tailed).

**Normal P-P Plot of Regression Standardized Residual**  
**Dependent Variable: Engagement**





### Scatterplot

Dependent Variable: Engagement

