



**ST.MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**EMPLOYEES PERCEPTION ON PERFORMACE BASED  
COMPENSATION IN THE CASE OF MOENCO S.C THE CASE OF**

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**BY**

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**ID: SGS/0013/2008**

MAY, 2018  
ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF  
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**ST.MARY'S UNIVERSITY SCHOOL OF  
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## **DECLARATION**

I, declare that this research is my own work, and all sources of materials used for the thesis have been duly acknowledged. I further confirm that this thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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## **CONFIRMATION**

This thesis has been submitted to St. Mary's University College, School of  
Graduate Studies for examination with my approval as a university advisor.

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Advisor

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Signature & Date

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## **LIST OF ABBREVIATIONS/ACRONYMS**

HR: Human Resource

HRM: Human Resource Management

PBC: Performance Based Compensation

MOENCO: Motor and Engineering Co.

HRD: Human Resource Development

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## ***Abstract***

*Performance based compensation is the most commonly used method in measuring productivity and more and more institutions are increasingly using this method as it attempts to link compensation with performance. The objective of this research was to explore how the employees of MOENCO perceive the Performance Based Compensation system. In conducting the study, the required data was obtained through structured questionnaires and interview. Random sampling technique was employed using Yamane's (1967) formula from the target population of 513. In the analysis part descriptive statistics was performed. The findings of the study shows that in MOENCO majority of the employees have low level of perception towards the existing performance based compensation system. Therefore, it is recommended that, the organization should have to design and implement performance based compensation system in the best possible ways; there is the need to develop a good feedback system, appropriate and adequately filing, discussing evaluation, design ways to communicate evaluation results, review evaluation, participatory evaluation rating system and have to design procedure to make aware of every employee about the appeal process. In doing so, human resource department should play a vital role in the overall process of performance based compensation system. Finally, it is forwarded that further research has to be done in more completed and comprehensive way.*

**Key words:** *Perception, Performance, Compensation, employee motivation, performance management,*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

In the recent years, the Human Resource Development (HRD) practices are a vital research area, that play a vital role in the performance of organizations; be it either public or private ones. Qureshi, (2010) suggests that in the current labor market, success is less dependent on capital and more on innovation, speed and acceptability.

In the eyes of an organization employees are viewed as assets whose value is enhanced by development. For this reason, companies will engage in practice of Human Resource Management to capitalize on those assets. Human Resources Management (HRM) is all about managing employees strategically who contribute to the achievement of the strategic objective of the organization individually or collectively. Assuming that the employees of an organization are individuals with own mental maps and perceptions, own goals and personalities they cannot be perceived as a whole, HRM holds that the organization should be able to employ both individual and group psychology in order to commit employees to the achievement of organizational goals (Armstrong 2006).

Ensuring employees are committed to their work and ensuring they deliver the best output by working to their full potential to help the organization reach the goal is a herculean task for a manager (Maduka& Okafor, 2014). There is plenty of evidence to show that in the midst of competitive labor market, retaining a productive employee is a huge task as the hunt is always there to find and snatch from one organization to the other. An employee with a vision for growth requires to be shown clear path on his chances of progression in the organization apart from the economic benefits they will be availing during the process.

Unavailability of skilled employee results in lack of knowledge, skills and experience which will have a deep impact on the organization economically (Omollo, Oloko, 2015).

Employees are valuable resource of an organization. Labor productivity now a days has been concern of organizations. It is usually accepted that employees discover valuable source of competitive edge for firms. As Guest (1997) argues, ‘The distinctive feature of HRM is its assumption that improved performance is achieved through the people in an organization. Therefore, appropriate HR policies and processes are introduced; it can also be assumed that HRM will make a substantial roll on firm performance. (Armstrong 2011).

Nabi, (2017) multiple studies in different countries and across industries show that employees who are passionate about their jobs and the organizations in which they work are in the minority. Development Dimensions International’s (DDI) own research reveals that only 19 % of employees are highly engaged within their organization. The number of employees experiencing retention difficulties has climbed from 69% in last year’s survey to 78% in this year’s survey. Private sector businesses claim to be struggling more to hold on to employees than any of the other sectors (83%). Not only is that, but also in the field of recruitment, a high proportion of these organizations still experiencing difficulties (84%).

In connection with this, a research was conducted on the employees of motor industries in Ethiopia that is targeted on three selected companies called Raise Engineering; AMCE, and the company that this study is conducted on.

The findings of the study was that: the employees understand their incentive pay is determined by PRP, they perceive level of PRP affects their motivation on work, they have positive feelings of fairness of PRP with minor limitations, they perceive PRP does not influence their work related behavior and their perception to PRP is reflected in their positive work related behaviors.

It is clear from the above analysis that most organizations understand very little about the way employees perceive the advantages and disadvantages of performance based compensation and its overall output over employee’s attitude over the company. Accordingly, the purpose of this research was to make additional research on the existing study and to explore the overall perception of employees on compensation based on their performance evaluation result, and its subsequent impact on employee behavior.

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

Performance based compensation motivates employee for a better performance and to be hard worker and also helps to identifying the strengths and weaknesses of employees in their performance of their day to day activity as it sets work standards, and measure actual performance and then gives feedback to employee regarding performance. Milkovich, (1998). Employees consider compensation as earnings for services rendered. They also see it as a sign of their individual worth in terms of abilities and skills, as well as the education and training they have extended. This potential to affect employees' work behavior and attitudes and thereafter, the productivity and success of the organization is another reason why majority of employees think that compensation decisions can become a basis of competitive advantage (Milkovich, 1998).

There is also a perception that employees tend to be more productive if they are incentivized and that more pay results in better performance while poor performance has been associated with lower reward (Chang, 2003). These arguments are a testament to the uncertainty about the real effectiveness of Performance-based compensation as a universal solution for improving individual and organizational performance (Langbein, 2010). Wisdom and Patzig (1987) suggested that past attitudes and experiences tend to present obstacles for merit system managers in that, if organizations created a standard of favoritism with regard to incentives without regard to performance differences, then employees inherit a legacy of uncertainty and mistrust in pay performance programs.

However, the existing study have illustrated the perception of employees on PBC is more of positive, the researcher indicated his conclusion based on the semi structured interview with only ten automotive industry employees that is composed of the three selected companies, it means the researcher took only four employees responded proportionally from MOENCO employees. Moreover, the researcher didn't use questioner during his study, since the population size is estimated more than one thousands of the three companies, he supposed to use a standard sampling technique and distribute structured questioner.

There is, therefore, a great need for additional research in order to fill this research gap on how employees perceive the PBC scheme in general and to discuss how the performance of employees is measure. This is to guarantee that employees have a work environment with the characteristics of work known to be linked to job satisfaction, motivation and good outcomes.

The main assumption of this research is that for the Performance Based Compensation Scheme to be effective, employee performance should be aligned to organizational achievements.

The researcher believes that PBC enhances the effectiveness, accountability and consistency in managing and measuring performance in the organization, and to the HRM as they develop more ways on how to motivate employees through implementing competitive performance based compensation schemes and hence performance improvement and increase, it also made significant contribution to all other companies either in the industry or other organizations enabling them to emphasize on the need for performance based compensation schemes.Hence, the study will investigate and show how PBC influences on the performance of employees at MOENCO in general.

### **1.3. Basic Research Questions**

- I. How is Performance Based Compensation designed and implemented?
- II. How employees performance measure?
- III. What are the employees over all perception on PBC?

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

#### ***1.4.1. The General Objective of the study***

To explore how the employees of MOENCO perceive the Performance Based Compensation system.

#### ***1.4.2. The specific objectives:***

1. To assess is the designing and implementing system of PBC convenient to the employees in the company
2. To assess how supervisors evaluate the employees performance
3. To assess the employees attitude on the PBC system in general.

## **1.5. Significance of the Study**

Findings will be useful to the HRM and other business and social institutions in forecasting and organization development by ensuring the total use of motivating and rewarding employees for the betterment of their organization. And it may serve as provoking resource that can inspire other researchers' interest to conduct research deeply in the area related to performance management systems on employee performance and compensation.

## **1.6. The Scope/ Delimitation of the study**

The study was conducted in Addis Ababa MOENCO, with both branches located at Hayat Hospital (head office) and Kality branch where the source of data and the study subject was found. The reason behind focusing on Addis Ababa branch is that including the whole staff of the company in the study is inconvenient in terms of time, place, and financing, more over the number of staffs in Addis Ababa branch are relatively hold the larger portion of the total employees of the company compared to the staffs found in other branches in the country. This study was emphasize on one independent variable\_ employees' perception on performance based compensation and four dependent variables salary increment, recognition, promotion and bonus.

## **1.7. Definitions of Terms:**

**Performance:** - Perform means "to carry out, accomplish or fulfill an action or Task"  
(Oxford concise dictionary 1999:1060).

**Compensation:** - something, typically money, awarded to someone in recognition of loss, suffering, or injury, the process of concealing or offsetting.

**Perception:** - our perception of something is the way that we think about it or the impression you have of it.

**Employee:** - is simply a person working for another person or a business firm for pay



## **1.8. Organization of the Study**

This study is consisted of the following chapters; Introduction, Literature Review, Methodology, Data Presentation & Analysis and Conclusion & Recommendations. In Introduction, detailed introduction was given to the scope of the study and also identify the problem which was treated under the research.

Under Literature Review, the following areas was discussed, Introduction, conceptual definition, Theoretical literature Review, Empirical literature review, and Under Methodology, Data Presentation & Analysis, it identified the methods that was used in analyzing performance based compensation system, research results presentation and analysis.

Data analysis part was divided in to two sections. First part is deal with respondent's participation, and the second part focuses on the questions given to respondent.

Under Conclusion and Recommendations, it was initiate final research findings and suggests recommendations for future enhancement of the organization.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **Introduction**

In this chapter the researcher was explore the existing literature authored by different writers. Literature review of theoretical and empirical nature was carry out to enable an understanding of the perception of employees on performance based compensation at MOENCO.

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

Performance management is a concept in the field of human resource management (HRM). “Performance management is a continuous process of identifying, measuring and developing the performance of employees and aligning performance with the strategic goals of the organization” (Aguinis, 2009). Performance management is many times mistaken as performance assessment but the latter is just a part of the former.

There is no single universally accepted model of performance management. Various experts have explained the concept in their own ways.

##### **2.1.1. Performance Management Systems (PMS)**

Aguinis (2009) defines performance management as “a continuous process of identifying, measuring, and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization”. However, performance management systems associated with performance-based incentive schemes may produce undesirable results as these schemes may increase the work effort, which employees may dislike (Green & Heywood, 2008). Green & Heywood further propose that the subjectivity of evaluation measures of performance might be tied to the company’s bottom line, which in turn may reduce employee job satisfaction. Furthermore, the subjectivity of performance evaluations practices impacts negatively on managerial motivation in the public sector in two ways:

- Subjectivity decreases perceived mission clarity, which is positively associated with motivation, and
- Subjectivity negatively affects trust in the superior (Van Rinsum & Verbeeten, 2012).

Van Rinsum & Verbeeten (2012) further point out that decentralization of the decision-making authority in public sector organizations requires a subjective system to deal with the trade-off between different dimensions of performance when they are assigned to a decision-making authority. Performance systems, which traditionally link employee performance to financial remuneration, are anticipated to have a desired effect on the perception of employees (Helm, 2007). It is critical for companies to pay attention to the instrumental and behavioral side of performance and that applying the strategic performance systems results in a performance-driven organization in which all employees work towards high achievement (De Waal, 2007).

### **2.1.2. Concept of Employee Performance**

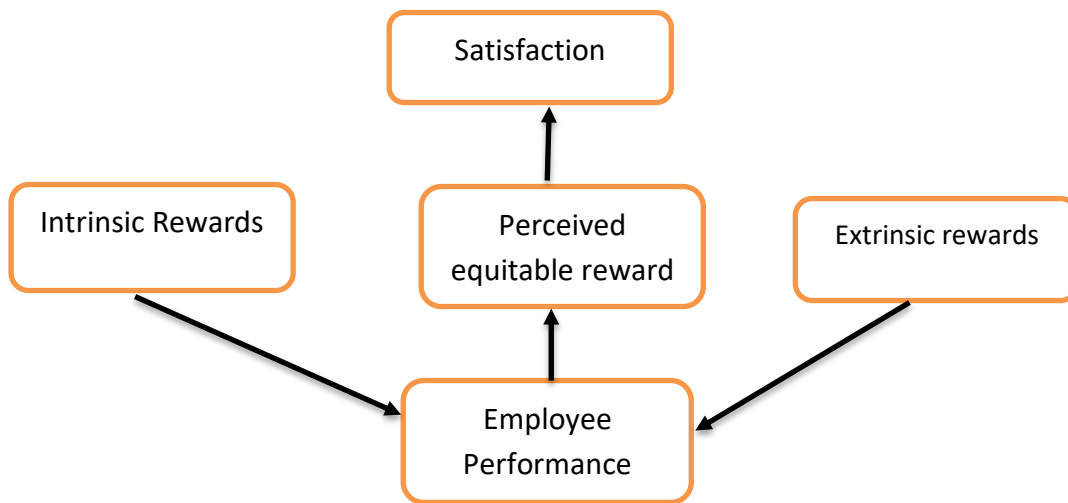
Many of the past research conclude that HRD practices are found to be weakly related with performance and various examples about HRD practices and employee performance shows a positive relation. HR considered employees as important factors to achieve organizational goals and objective and to attain a competitive advantage over competitors. Although employee performance is considered to be an important factor in organizations, few studies didn't find a direct effect of HRD practices on employee's performance. Many studies have found that HRD practices of staffing, training, involvement of employees and incentives have a positive relation with employee performance and increase the productivity of the firm (Ali & Jadoon, 2012).

Different concepts have been discussed to explain the how level of performance of HRD practices affect employee performance and a general tendency shows that HRD practices have positive roll on individual performance. Employee performance is normally looked at in terms of outcomes. However, it can also be looked at in terms of behavior Armstrong (2009).

Aguinis (2009) described that "the definition of performance does not include the results of an employee's behavior, but only the behaviors themselves. Performance is about behavior or what employees do, not about what employees produce or the outcomes of their work".

Perceived employee performance represents the general belief of the employee about his behavior and contributions in the success of organization.

*Fig. 2. 1. Model of relationship of performance to satisfaction*



Source: (Lawler & Porter, 1973)

**Extrinsic** rewards as defined by Lawler & Porter (1973) are monetary incentives, promotions, status and security and have a weak link to performance and these may include monetary rewards. On the other hand, Hayenga & Corpus (2010) describe

**intrinsic** rewards as internally focused and are more directly related to good performance and these may include non-monetary rewards.

### **2.1.3. Expectancy Theory**

Mwita (2004) confirmed that the Expectancy Theory entails the amount to which increased effort is supposed to lead to improved job performance i.e. the likelihood that effort or action will lead to an outcome. Robbins (2005,) mentioned that Expectancy Theory claims that the strength of a tendency to act in a certain way depends on the strength of an anticipation that the act will be followed by a given consequence and on the attractiveness of that consequence to the individual.

The expectancy theory further demonstrates that an employee will be inspired to exercise a great level of determination when he/she trusts that effort will lead to a good performance

evaluation; that a good evaluation will lead to organizational rewards such as a gratuity, pay increase, or an advancement; and that the rewards will please the employee's individual goals.

#### **2.1.4. Goal setting theory**

The theory had been proposed by Edwin Locke in the year 1968, which suggests that, the individual goals established by an employee play an important role in motivating him/her for higher performance. This is because the employees keep following their goals. If these goals are not achieved, they either improve their performance or modify the goals and make them more realistic. In case the performance improves it will result in achievement of the performance management system aims (Salaman, 2005).

Edwin Locke and Gary Latham (1990), leaders in goal setting theory and research, have incorporated nearly 400 studies about goals into a theory of goal setting and task performance. According to the theory, there appear to be two cognitive determinants of behavior: values and intentions (goals). A goal is defined simply as what an individual is consciously trying to do. Locke and Latham suggest that the form in which one experiences one's value judgments is emotional. That is, one's values create a desire to do things consistent with them. Goals also affect behavior (job performance) through other mechanisms. For Locke and Latham, goals, therefore, direct attention and action.

Furthermore, challenging goals mobilize energy, lead to higher effort, and increase persistent effort. Goals motivate people to develop strategies that will enable them to perform at the required goal levels. Finally, accomplishing the goal can lead to satisfaction and further motivation, or frustration and lower motivation if the goal is not accomplished.

## **2.1..5. Recognition and Motivation Theory**

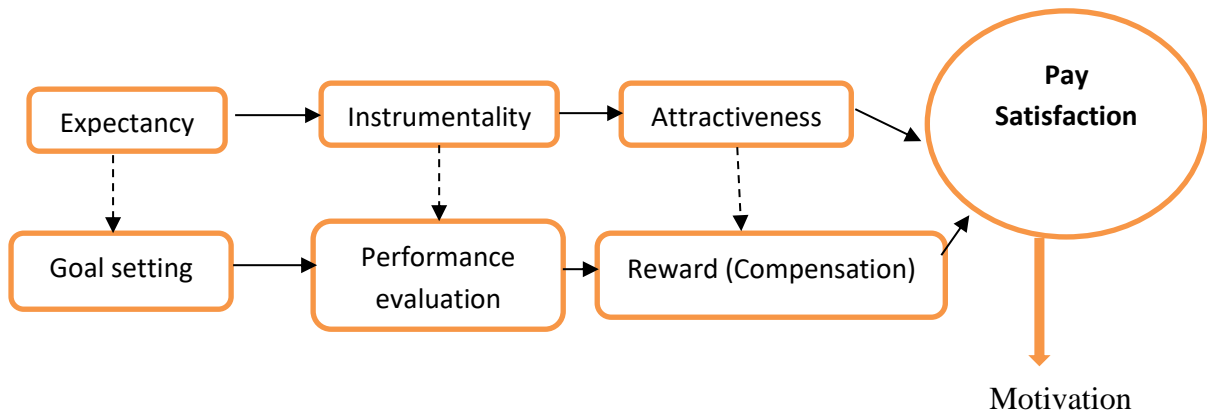
According to Basset-Jones & Lloyd (2005), motivators associated with intrinsic drivers can compensate those linked to financial incentive while observing those benefiting from recognition of extrinsic rewards. “The absence of change in attitude towards pay supports the contention that rewards that are contingent upon performance will decrease intrinsic motivation in the presence of other reward schedules that may be operating” (Jordan, 1986 ). McConvill (2006) suggested that top executives focusing on a company’s performance are motivated by both personal and company- driven strategic goals and objectives.

Hence, Legge (1995) advises that an employee can helpfully be regarded as a system of biological needs, psychological drives, insights and morals. This means that a person’s system works so as to sustain its internal balance in the face of loads placed upon it by external factors then it progresses in response to his or her undeveloped needs to solve the difficulties presented by the external situation.

Nonetheless an another argument could be that each person’s system will have distinctive characteristics because dissimilar persons’ systems progress with different patterns of needs, views and morals; and person systems are not stagnant, but carry on developing as they meet new difficulties and experiences.

Mwita (2004) confirmed that motivation can exist in two ways. First of all, employees can inspire themselves by looking for and carrying out work, which pleases their needs or lead them to expect that their goals and objectives will be attained. Then, employers can inspire employees through methods such as applause, advancement, remuneration, appreciation and many others. Hence, these can be defined as intrinsic and extrinsic motivating factors.

Fig. 2.2. Model of the relation of performance based pay to Motivation



Source: Ducharme, Singh and Podolsky, New York University, CBR, 2005

### 2.1.6. Employee Retention

Ramanaiah & Lavanya (2011) define employee retention as “a systematic effort by employers to create and foster an environment that encourages current employees to remain employed by having policies and practices in place that address their diverse needs”. It is an ability to maintain a stable workforce and a process in which employees are encouraged to stay longer in organizations. McNatt, Glassman & McAfee (2007) are of the opinion that companies need to strike a balance between the need to hire new employees on the one hand and to motivate the current employees to high performance on the other hand.

The significance of pay for performance incentives can make a difference in the retention of supervisors who appear to be dissuaded from resigning from their jobs by the availability of performance-based rewards (Bertelli, 2006). This balance is critical in that it mitigates pay inversion effects thereby helping companies to attract, motivate and retain high quality employees. It follows that for an organization to retain high quality employees, it is important for these employees to be satisfied with their allocated tasks. Banker, Leeb & Potter (1996) found empirical evidence to support the assumption that well-designed incentive compensation contracts improve employee performance.

Pay for performance schemes may increase employees' earnings in the short run and thus improve job satisfaction in this regard (Lok & Crawford, 2005). However, other aspects such as increased workloads and effort associated with these schemes unfortunately may have less beneficial effects on job satisfaction in the long run (Green & Heywood, 2008). Furthermore, performance related schemes are positively related to satisfaction with pay and there is a negative relationship between the performance-based incentives and the task itself. Alternatively, Hersch (2008) found that the risk faced by companies in losing their quality employees to their rivals will enhance their compensation plans in order to attract and retain the highly skilled employee.

Scholarly research in this field therefore presents a dichotomy in consensus. In other words, the literature indicates that very little is understood in terms of whether performance-based incentives improve or confound employee retention. The present investigation thus attempted to address and further understand this problem from the perspective of MOENCO.

### **2.1.7. Perception and HRM Practices:**

In 2004, groundbreaking research by Bowen and Ostroff argued that in order for HR systems to lead to desired performance, they must elicit clear and shared perceptions of the work climate and of the behaviors that management expects, supports and rewards. That study suggested that HR outcomes depend on employee perceptions. Here, researchers build on that theory by focusing on employees' beliefs about why HR adopts certain practices, which hasn't been previously studied. This is also the first study to focus on employees' perceptions, rather than relying on management's definitions of what constitutes an "emphasis on quality" HR practice versus a "cost control" practice. The shift in focus is important because historically researchers have focused primarily on intended HR practices as described by managers, but not employees' perceptions of or reactions to them, thereby (implicitly) assuming that HR practices function as intended. Yet in reality, the same HR practice is often regarded in different ways. For example, some employees may view a pay-for-performance system as a sign of empowerment— management rewards workers who provide high-quality service or produce high-quality products. Others, however, may see this practice as a means of controlling costs and getting as much productivity out of workers



as possible, with little concern for their wellbeing. Even within a firm, the same HR practice may be viewed differently by different employees. But the effect is the same; if employees feel they're being valued, they respond more positively, whether or not the HR practice in question is actually, by management's definition, a "quality" HR practice. Clearly, employees are going to assign meanings to the HR policies that govern their daily working lives. Individual attitudes, in turn, tend to accumulate into unit-wide perceptions. Members of the same work unit often come to hold similar views through what's known as a "double interact" process (Morgeson and Hoffman, 1999).

This occurs when one employee shares a sentiment with a colleague, who responds, after which the first employee responds back a reinforcement that creates collective attitudes. Once a unit has established a distinct character, it often self-perpetuates that character by attracting like-minded new employees and losing through attrition those who don't share the unit's views. This is especially important for service-oriented companies to consider, since an impressive body of research (e.g., Schneider, Erhart, Mayer, Saltz & Niles-Jolly, 2005) shows a clear relationship between service quality, customer satisfaction and financial returns. It's reasonable to expect, then, that unit-wide perceptions will have a strong effect, particularly as those perceptions are manifested in OCBs that can be very helpful to the company. The bottom line is that although employees' perceptions of HR practices can vary from person to person, companies that ignore those perceptions risk hurting their bottom line.

### **2.1.8. Performance Based Compensation (PBC)**

Performance based compensation is a method of compensation designed to reward employee performance. Performance based compensation may be based on individual and team performance (Gomez, 2007).

Gomez-Mejia and Balkin (2007) specify favorable conditions under which performance related compensation is deemed to be favorable and they include; where individual performance can be objectively and meaningfully measured, where individuals are in a position to control the outcomes of their work, where close team working or cooperation with others is not central to successful job performance and where there is individualistic organizational culture. In addition, Brown and Armstrong (2000) rightly point to the

importance of careful implementation and lengthy preparation prior to the installation of a performance based compensation scheme.

Performance based compensation often combine a fixed base salary with a variable pay component such as bonuses or stock options that vary with the individual's performance (Mackenzie, 1996).

The performance based compensation offered by an organization can be individual, group or organizational incentives. Mathis (2000) identifies individual compensation as those given to individual employees relative to their effort to pay and can be suitable to use when individual performance can be identified and isolated by the nature of job performed, where a substantial amount of work is done independently allowing individual contributions to be identified, where there is competition among employees and where the organization culture emphasizes individual's achievement and reward.

Recent years have witnessed extensive innovations in compensation systems and, in particular, a variety of attempts to link compensation to a measure of performance. Such innovations have often been related to broader initiatives to improve the performance of organizations and especially efforts to increase employee involvement in decision making (Appelbaum 1998). Two main variables proxying the use of performance based compensation schemes are used. The first is based on whether employees at the establishment receive payments from any type of performance based compensation schemes. The second is based on whether the establishment has individual or group performance compensation schemes. Performance based compensation schemes are part of a continuum of compensation systems aimed at encouraging greater inputs by workers into the production process (Kleiner 2001). Performance based compensation ties pay directly to an individual's performance in meeting specific business goals or objectives. Managers and employees design performance targets to which the employee will be held accountable. The targets have accompanying metrics that enable employees and managers to track performance. The metrics can be financial indicators or they can be indirect indicators such as customer satisfaction or speed of development (Cole, 1998).

**Table 1.1. PROS and CONS of Performance Based Compensation:**

<b>Pros</b>	<b>Cons</b>
Linking pay to performance increases workers' motivation, effort, and loyalty to the company.	Risk-averse workers may prefer flat-rate schemes to performance-related pay.
Incentive schemes work as a screening mechanism by encouraging only more productive workers to apply.	Explicit incentives may displace workers' intrinsic motivation.
Performance related pay can improve macro-economic performance and the resilience of employment to economic shocks.	When rewards are paid for profits, but no penalty is incurred if losses are made, pay incentives may have perverse and counterproductive effects.
Incentive schemes support the allocation of high quality workers to high-productivity firms.	Performance-related pay may generate excessive work intensification and psychological stress.
Share-ownership schemes are associated with better firm performance in the longer-term.	Government intervention through tax breaks and financial incentives are not necessarily efficient.

Source: Claudio Lucifora IZA world of labor May 2015.

### **2.1.9. The Relationship between Performance Management and Performance Evaluation**

For the purposes of this study, employees are regarded as a valuable resource that should be addressed during the formulation of the strategy with a view of linking human resource management with the organizational performance and overall business strategy. Performance evaluation on the other hand focuses on the measurement of work performance with a mission of taking a snapshot of work performance (Landy & Farr, 1983). There is a shift from the exclusive use of performance evaluation to more comprehensive and developmentally focused performance management processes (Gravina & Siers, 2011). Furthermore, performance evaluation is a component of

performance management processes and performance evaluations assist organizations in achieving functions; namely, documenting performance and making comparisons between employees (Gravina & Siers, 2011).

Aguinis (2009) is of the view that performance management is expected to serve six functions:-

Linking work behaviors to the organization's strategic purposes.

- Serving as a basis for administrative decisions.
- Communicating performance standards and performance feedback to employees.
- Establishing developmental objectives for training and coaching activities.
- Providing data for organization wide maintenance and interventions
- Documenting performance records for organizational and legal purposes.

Allan (1992) postulates that a performance appraisal portrays strengths and weaknesses of employees in a non-continuous basis. He further argued that performance evaluations tend to measure wrong behavior's by focusing on employees' personal characteristics rather than on job performance. However, Pfeffer (1998) on the other hand indicated that HR practices that strengthen and Complement each other are necessary for an organization's architecture to deliver the desired performance. Producing desired outcomes that precedes enhanced performance is a vital step in the performance management process (Gruman & Saks, 2011). In addition, performance management will be enhanced by focusing on employee engagement as a determinant of job performance and desired outcome (Gruman & Saks, 2011).

**Performance evaluation** serves as the foundation of a pay for performance system. A pay for performance system links an employee's pay to some measure of individual and/or pay organizational performance, usually through a formal performance valuation. Consequently, performance standards and measures and the application of those standards and measures matter greatly to both the organizations and the employee. Organizations should therefore ensure that:

- (1) Performance goals and measures are relevant, reasonable, and usable;
- (2) Employees understand and participate in the performance evaluation process; and
- (3) Performance is evaluated fairly and rigorously. Organizations considering a pay for performance system should be prepared to devote considerable effort to performance

evaluation. One frequently cited challenge is that performance is often difficult to define and measure in public sector organizations. Even so, it is critical that this effort be made. Neil A.G. McPhie (2006).

Organizations should select supervisors based on their supervisory potential, develop and manage them to function as supervisors rather than technicians or staff experts, and evaluate and pay them based on their performance as supervisors. Performance evaluation systems do not evaluate performance; supervisors do. Although organizations should take steps to define and measure performance as precisely and reliably as possible, they should recognize that it is not possible to predetermine or quantify every important aspect of employee performance.

Therefore, organizations need to allow some room for supervisors to use discretion and judgment when evaluating employee performance which is to say, some element of subjectivity. But they should also provide guidelines and training to equip supervisors to exercise that judgment responsibly because trust between supervisors and employees is critical to success. Supervisors also perform other tasks that directly affect employee performance and how employees will fare under a pay for performance system. For example, supervisors assign work; they translate organizational goals into work unit and individual performance goals; they identify training needs and provide access to training opportunities; and they provide coaching and feedback. Consequently, any organizations considering pay for performance needs to ensure that its supervisors are willing and able to perform supervisory duties and should hold them accountable for how they discharge their responsibilities. Neil A.G. McPhie (2006).

#### **2.1.10. Bonus Schemes**

Bonus Schemes are based on the Balance Score Card which is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals (Gomez, 2007). Bonuses which tend to be larger than merit pay increases involve lower risk to the employer since the employer does not make a

permanent financial commitment. The organizations set policies regarding the bonuses. Usually bonuses are provided at the end of a designated period (Armstrong, 2001). Some of the criteria for the success of such bonus payments are group over individual performance, the existence of objective criteria for distribution, and the fact that such criteria are capable of measurement to ensure that what is paid is related to it (Allan, 2007).

### **2.1.11. Incentives**

Incentive pay is generally given for specific performance results rather than simply for time worked. Incentives include profit sharing, gain sharing and employee stock ownership plans. Gain sharing is a form of pay for performance. In gain sharing employees receive a portion of the profit achieved from their efforts. How much they receive is determined by their performance against the plan (Brown, 2000). Gain sharing works as follows; the organization must measure the historical or baseline performance. Then if employees help improve the organization's performance on those measures, they share in the financial rewards achieved.

The effectiveness of a gain sharing plan depends on employees seeing a relationship between what they do and how well the organization performs. The larger the size of the organization, the harder it is for employees to see the effect of their work. Gain sharing plans are therefore more effective in companies with fewer than 1,000 people. Gain sharing success also requires the company to have good performance metrics in place so that employees can track their process. The gain sharing plan can only be successful if employees believe and see that if they perform better, they will be paid more. The pay should be given as soon as possible after the performance so that the tie between the two is established (Kleiner 2001).

### **2.1.12. Merit pay**

According to Grobler, Warnich, Carrell, Elbert & Hatfield (2006) time based pay systems are not wholly devoid of a relationship between salary and performance, instead many include merit pay increase to staffs. He further states that after performance evaluation is finished, employees usually get increases in salary if their work record is judged commendable. Therefore, merit raises are intended to motivate employees by binding at least part of their salary to their performance.

Merit pay consists of an increase in base pay and is normally given once a year, supervisors' ratings of employees' performance such as below expectations, achieved expectations, and

exceeded expectations are typically used to determine the amount of merit pay granted. Once a merit pay increase is given to an employee, it remains a part of that employee's base salary for the rest of his or her tenure with the firm except under extreme conditions such as a general wage cut or a demotion (Hall 2008). The workability and effectiveness of merit pay depends on the existence of a suitable performance evaluation system. Merit pay is integrated into salary and is not lost due to poor performance later (Dessler 2008). Stronge (2006) argues that merit pay or other performance pay programs provide added motivation for employees in keeping beginner employees from leaving the profession after a few years and especially in retaining experienced employees.

### **2.1.13. Managing and Reviewing Performance:**

Refers to the annual formal process of reviewing and documenting employee performance it is an ongoing process where employees and supervisors can work together to:

- Identify and describe work expectations;
- Develop goals and plans to guide the work of the employee;
- Discuss learning and development needs;
- Recognize achievements; and
- Plan for future individual and organizational growth and development.

All academic and professional employees with an employment contract in excess of 12 months duration participate in the managing and reviewing performance process with their supervisor. The timing of the process is integrated with the Work Unit's annual planning cycle. (*Taylor, 2008*).

#### **2.1.14. Employees' Perception of Performance Evaluation System**

Employee perception of fairness of performance evaluation has been studied as a significant factor in employing acceptance and satisfaction of performance evaluation. In discussing the performance evaluation process inside any organization, it is very important for the success of the performance evaluation to determine how those employees who are responsible for conducting the evaluation as well as those being evaluated generally perceive the performance evaluation process.

Boswell & Boudreau (1997) argued that performance evaluation purpose affects rating processes and attitude, and they conceived that employee attitudes may vary depending on perceptions of how the performance evaluation is used. Attitudes and perceptions towards various aspects of performance evaluation system and process (e.g. perception of fairness and accuracy, evaluation items, evaluation interview behavior, evaluation satisfaction) have long been recognized.

The study conducted by Levey and William (1998) there is a perceived knowledge in predicting evaluation reaction in terms of job satisfaction and organizational commitment. The conclusion on the studies was drawn as: The employees who believe they understand the evaluation systems used in the organization are most likely to favor important organizational variables in the future and also have the following characteristics:

- They are more accepting and largely favor the evaluation system and its feedback
- They have more satisfaction on their job.
- They are highly committed to the organization
- They are most likely to rate the performance evaluation as fair.

According to Awosanya & Ademola (2012) employees to have positive attitude towards performance evaluation, the following should be taken into consideration:-

- There should be a system of formal Evaluation
- It should be conducted frequently
- Supervisors should have more knowledge about the appraisal process.
- Employees should have an opportunity to appeal their ratings.



- The organizational environment should be cooperative rather than competitive
- The plan of the organization should also deal with weakness rather than only acknowledge strength.

Moreover; the performance reward contingency may moderate the relationship between perceived evaluative use and feelings about the evaluation such that those employees who receive positive outcomes will be pleased with evaluative performance appraisal use and those that receive negative outcomes will not.

### **2.1.15. Designing and Implementing Performance Based Compensation:**

Neil A.G & McPhie (2006) from our research, we have learned that organizations must invest time, money, and effort in the design and implementation of their pay for performance compensation systems in order to succeed. A reliable and fair pay for performance system will require an effective performance evaluation system and supervisors who are able and willing to use it properly. Organizations will also need mechanisms such as training and systematic monitoring of pay decisions and outcomes to ensure that pay for performance systems operate as intended.

Organizations have many options when designing a pay for performance system. These options include the coverage of a pay for performance system, the type of performance to be rewarded, how performance will be measured, and the form that pay for performance will take, and the delegation and review of pay decisions.

Neil A.G & McPhie (2006, explained more that: for pay for performance to be effective, organizations need to meet several requirements. Although organizations have options to design their pay practices, successful pay for performance systems do have some features in common. A pay for performance system can only be effective if employees : value the pay or recognition that the organization offers in return for high performance; understand what is required for them; believe that they can achieve the desired level of performance; and believe that the organization will actually recognize and reward that performance. Those conditions are not likely to be achieved unless an organization meets certain requirements. These requirements include:

- A culture that supports pay for performance;
- Effective and fair supervisors;
- A rigorous performance evaluation system;
- Adequate funding;
- A system of checks and balances to ensure fairness;

- Appropriate training for supervisors and employees; and
- Ongoing system evaluation.

Research and experience indicate that organizations need to attempt to meet all of these requirements. For example, well designed performance measures are not a satisfactory substitute for trained, conscientious supervisors; similarly, a high level of funding does not compensate for a lack of check.

To meet the requirements listed above, organizations will need to make investments that extend far beyond the money needed to fund bonuses and pay increases. For example, supervisors will need: training in designing performance measures and providing performance feedback; a performance evaluation system that enables them to accurately distinguish among levels of performance; and guidelines for determining pay increases or performance bonuses. The introduction of a pay for performance system can also identify weaknesses in other areas such as training, communications, and employee relations that should be addressed. *Neil A.G. McPhie (2006).*

**Table 2. Assessing Organizational Readiness for Pay for Performance**

<b>Dimension</b>	<b>Indicator</b>
Organizational Culture	Open, two-way communication is valued and pursued. Trust exists between employees and supervisors/managers. Human resources management (HRM) systems such as selection, training, and performance evaluation have clear and consistent objectives and support pay for performance.
Supervisors	Employee efforts support organizational goals. Work assignment, evaluation of performance, and distribution of awards are fair. Discretion and accountability go hand-in-hand.
Performance Evaluation	Assessment of employees is fair and accurate. Employees receive timely, accurate, and meaningful feedback.
Funding	Appropriate pay increases and bonuses are given. Top leadership is willing to make difficult choices when allocating funds and awards.
Fairness	Checks and balances are in place. Transparency is valued and ensured.
Training	Training is provided to both supervisors and employees. Training covers both pay system philosophy and mechanics.
System Evaluation	The organization evaluates how the pay for performance system is being administered and whether the pay for performance system is accomplishing its goals. Employee attitudes are tracked.

Source: *Neil A.G. McPhie (2006).*

## **2.1.16. Measuring Employee Performance status**

According to the writers of ‘The Balanced Scorecard’ Robert S. Kaplan and David P. Norton, “What you measure is what you get” (Harvard Business Review, July-August 2005). They explain that proper measurement of performance in any company has to have a balance, much like the different instruments used to fly a plane and suggest evaluating a variety of metrics to determine the business’ overall performance. This is where things get tricky. You do want to evaluate your employees on different dimensions of their performance but you must deliver the findings in language that can be easily translated into personal growth.

Clarity isn’t the only problem in performance evaluation. Another big issue to watch out for is the competition that can arise from emphasizing individual performance. In fact Wohlfarth and Stevens (2003) wrote in “Creating and Measuring Ways to Win Together” that, “One of the assumptions is thinking that the only way to measure success is on a win-lose basis. Teams need a scoreboard that measures collaboration.” While individual success and achievement is important to measure, people need to understand the importance of teamwork. Providing measurements of how teams are working together can increase levels of organizational collaboration and help raise productivity.

Here are some tips to make sure that your measurement is meaningful and promotes organizational success:-

### **Reduce Complexity**

Measuring performance shouldn’t be something that requires an interpreter. Keep it simple and make what you measure and how you measure it clear and consistent throughout the company. When you deliver performance evaluations, make sure your language makes sense and there are clear actionable items for people to work on.

### **Avoid the Numbers Game**

Don’t tell people that they scored a 1.618 on their performance scorecard. Aside from being particularly meaningless, numbers like this aren’t actionable. Use words to let a person know how they are doing.

### **Get in Touch with the Untouchables**

Sometimes a person is valuable because of the way that they are and not necessarily for the things that they do. So many companies place value on getting things done quickly but a fast work pace isn't the only thing that contributes to the overall success of a company. Identify who the relationship builders are in your organization. Those are the people that smooth out the conflicts, the ones that make people feel good working in the office. It is hard to put a price tag on how much this kind of work is worth but it is an essential function in work place productivity.

### **Get the Whole Story**

You can use assessments and matrices to figure out if your employees are performing but getting the real story from the people that are directly affected by this person is really the way to get to the bottom of things. Make sure your measurements include some questions about how co-workers feel about the person being evaluated. Asking the right questions can give you some deep insight into the performance of the people who work for you.

### **Be an Olympic Judge**

If you are trying to track performance and you are asking people to tell you how a person is doing, make sure to throw out the low score and the high score. Be aware that people tend to over rate their friends, or people that they like and underrate those that they don't have an affinity to. Take the overly good and overly bad reviews that you might get and take them a little more lightly than the average opinion.

### **Trend Spot**

Whatever method you decide to use to measure performance, make sure to keep your eyes and ears open for patterns. If people's performances have slipped, that could be a sign that something big is going on in your organization. Avoid the tendency to blame and get to the bottom of things quickly. Declines in performance could signal shifts in the market, or lack of buy in to your company's product line, marketing strategy, mission, vision or values.

### **Think Win/Win**

Make sure the tone of your evaluation emphasizes cooperation and teamwork. When people feel that they are rewarded for the work that they do instead of the teamwork that they have contributed to, they will have the tendency to want to prove that they are better than others.

Measuring employee performance is a tough thing to do right. On the one hand you want to let people know how they are doing, but on the other, there are lots of things to measure to come up with a proper evaluation. Don't let yourselves get caught up in the complexity trap. Be clear about what you want to measure and be clear about how you deliver the news. That way everyone will know where they stand. Robert S. Kaplan and David P. Norton, (1996).

## **2.2. Empirical Literature Review**

Even though there are many empirical studies in relation to employees' perception of performance based compensation and its consequence work outcomes, in the form of work performance, affective organizational commitment and turnover intention. Therefore, in this section the most selected and related empirical finding of related literatures were presented.

Mobulelo Ngubelahna (Nov. 2012), conducted a research on employees' perceptions of Performance based compensation systems at a state-owned enterprise.

A total of 290 usable responses were received equating to an overall response rate of 40.1%. The sample frame was represented adequately. It was noted that 75% of the respondents represented professionals, management and head or champion job grades.

The findings revealed that there are differences in the perception of PBC systems between various demographic categories such as job level, gender, length of service and actually obtaining an incentive reward. Descriptive statistics conducted revealed that the sub-scale, "Individual motivation" had the highest mean ranking, clearly indicating that IDC employees are driven by a desire for individual motivation and a personal will to achieve personal performance recognition as a way of earning performance-based compensation.

The study conducted by Saeed & Shahbaz (2011) on employees' perceptions about the effectiveness of performance appraisal in the case of Pakistan. In the study a total of 150 questioners were distributed of which 137 completed responses (representing 91.33% of response rate) were used for data analysis. The finding of the study indicates that employees perception about the effectiveness of performance appraisal is high with mean= 4.02 and SD= .515 and the level of work performance and affective organizational commitment is also high with mean of 4.12 & 4.36 and standard deviation of 0.846 & 0.791 respectively.

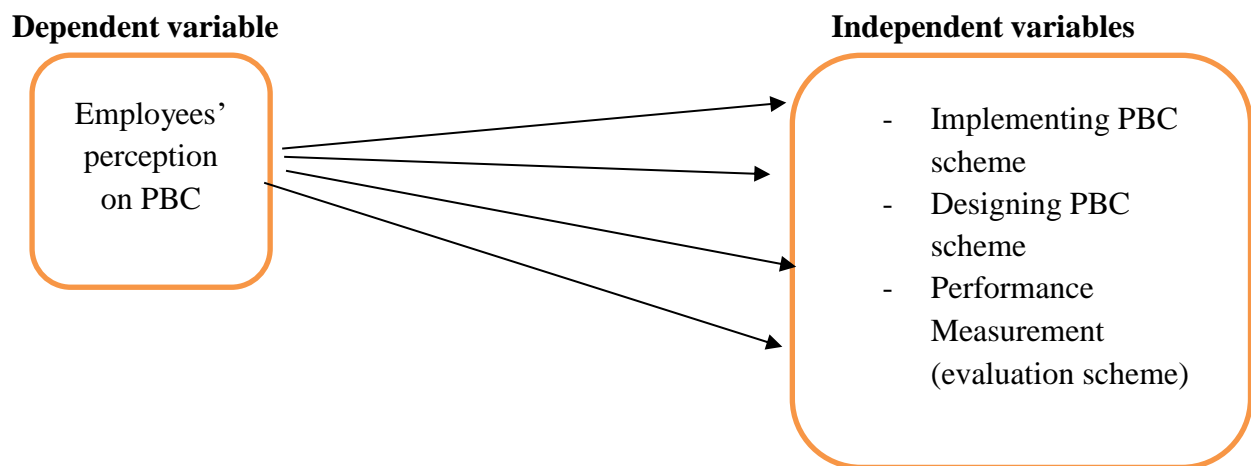
Whereas, turnover intention is low with mean= 3.15 and SD= 1.205. This finding indicates the sampled employees are satisfied with the existing performance appraisal system; in turn, work performance and affective organizational commitment is increased, whereas, turnover intention is minimized.

The study conducted by Fakharyan (2012) on the effect of performance evaluation satisfaction on employees outcomes employing on the moderating role of motivation in work place of Tehran, Iran. In this study out of 404 total populations 77 samples was selected using accidental sampling technique. The finding of the study indicates that there is relationship between performance appraisal satisfaction and work performance of employees on the significance level of  $p \leq .05$  ( $r = .15$ ,  $sig = .001$ ), there is also a positive and meaningful relation between perception of performance evaluation and affective organizational commitment on the significance level of  $P \leq .05$  ( $r = .85$  and  $sig = .001$ ) whereas performance appraisal satisfaction and turn over intention has been significant on the level of  $p \leq .05$  ( $r = -.77$ ,  $sig = .001$ ). So, there is a negative and meaningful relationship between performance appraisal and quitting of job position. However, the regression analysis result show that performance appraisal satisfaction has a direct but little ( $\beta = .08$ ) impact on work performance,  $\beta = .73$  and  $\beta = -.66$  impact on affective organizational commitment and turn over intentions respectively. *Abreham Zewdie Bekele, Assegid Demisse Shigutu, And Assefa Tsegaye Tensay (2014).*

### 2.3. Conceptual Frame Work

Based on the above literature reviewed the graphical relationship of the independent and dependent variables are represented as the conceptual framework of this study as follows:

*Fig.2.3. Conceptual Framework*



*Source: Abreham Zedie, Asegid Demise, Assefa Tsegaye international Journal. April- 2014-September2014.*

### Variables of the Study

#### **Dependent Variable:**

The dependent variable of this study is employees' perception on performance based compensation (PBC) scheme that can influence by (i.e. implementing PBC system, designing PBC scheme and Employees performance measurement).

#### **Independent Variables:**

In this study the independent variables are implementing PBC scheme, designing PBC scheme, and employees' performance measurement which influences on employees' perception on PBC scheme in the organization.

## **CHAPTER THREE:**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **Introduction**

This chapter focused on the methodology that was used in the study. It includes the research design, population and sampling technics, types of data and instruments of data collection, Reliability, methods of data analysis and ethical issues.

#### **3.1. Research Design**

Research design involves determining how the technique will be applied to answer the research questions. The design of the study can be thought of as a blueprint detailing what will be done and how this will be accomplished. Key aspects of research design include: research methodology; participant/sample collection and assignment (if different conditions are being explored); and data collection procedures and instruments.

This study was a survey in the form of a cross-sectional study in which data was collected once across the population through sampling. According to Singh (2006), research design is essentially a statement of the object of the inquiry and the strategies for collecting the evidence, analyzing the evidences and reporting the findings.

In this research design the statistical methods employed includes: descriptive statistics to count the frequency of responses and reliability analysis to test the internal consistency of the instrument.

#### **3.2. Research Approach**

The study employed both qualitative and quantitative approaches. According to Creswell (2003) the quantitative survey research design is vital to create quantifiable causes and effect relationship between the variables and assessment type of the study. Christensen (1985) noted that quantitative survey is the most appropriate one to use if the purpose of an investigation is to describe the degree of relationship which exists between the variables.



### 3.3. Population and Sampling Techniques

#### Population

The study was targeted on the employees of MOENCO Addis Ababa branch of both the head office and kality branch which are considered to represent all employees of the company working other branches in the country.

*Table 3.1. Departments and employees in each department.*

No.	Departments in MOENCO	Number of Employees
1	MD office	3
2	HR Department	44
3	Marketing department	19
4	Service Department	245
5	Finance, IT,& Import Dep't	55
6	Spar part Department	81
7	Engineering Department	66
	<b>TOTAL</b>	<b>513</b>

#### Sampling Techniques:

The researcher used random sampling technique. This technique involves identifying groups in the population and enables generalization with a margin of error that is statistically determinable.

According to sample theory the size of sample greatly influences our ability to generalize results back to the population we are investigating. According to Gold, David (1969), Sample theory centers on the central limit theorem, which briefly states that, as sample size N becomes large, the sampling distribution of the mean becomes approximately normal. Also, the sampling distribution was fall around the variable's population mean.

The size of the sample is determined scientifically using Yamane's (1967) cited by Israel. D (n.d) sample size formula as follows.

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

where: n represents the sample size that could be drawn from the entire Population, N is the population size and e is the level of sampling error (5%)

$$n = 513 / 1 + 513 (0.05)^2$$

$$n = 224$$

### **3.4. Source of Data and Data Collection Tools:**

#### **3.4.1. Source of Data:**

To address the research objectives both primary and secondary source of data are utilized. To organize the primary data, the researcher used structured questioners and interview techniques. Whereas, secondary data are obtained through reading of related literatures, review of the company's official documents, like structure, policies, collective agreement between MOENCO and the labor union of the company, records, bulletins and requesting data from human resource department.

#### **3.4.2 Data Collection Tools**

The data were collected through structured survey questionnaires and interview with one randomly selected human resource department manager and six other managers from different departments of the organization.

#### **3.4.3. Procedures of Data Collection**

The required information or data was gathered by means of a survey. The survey method allowed for the collection of data in a highly structured manner from a large number of participants. In addition, the survey method made it possible to generate sufficient empirical evidence so as to confidently conclude findings or generate conclusions about the broader population under study (Saunders & Lewis, 2012) the, employees' perceptions of performance based incentive systems, was operationalized based on theory analyzed in the literature review. An appropriate questionnaire was then designed, tested and constructed in order to cover the various domains of the main research construct. The instrument was then distributed to a convenience sample of the population, physically and electronically.

According to Zikmund (2003), convenience sampling allows the researcher to obtain a significant number of completed questionnaires quickly and in a more economical way.

A survey with 44 statements was used to determine employees' attitudes towards performance-based compensation (PBC) systems and its overall effect on employee perceived behavior when

performing job related tasks. All questions or statements were asked on a five-point Likert designed item, from 1 (strongly agree) to 5 (strongly disagree). An email invite was sent to potential participants with a link to the survey, which included information in terms of completion instructions, the voluntary nature of the survey and an assurance of confidentiality.

### 3.5. Reliability of Data

#### 3.5.1. Reliability

Reliability refers to the extent to which the data collection techniques or analysis procedure will yield consistent findings and the factors of the main construct (perception of performance based compensation systems) will determined by making use of Cronbach’s alpha coefficient, as recommended by Field (2009). The alpha coefficient will calculate to assess the internal consistency (reliability) of the items in each factor.

**Table 3.2. Reliability Statistics**

<b>Reliability Statistics</b>	
Cronbach's Alpha	N of Items
.946	42

*Source: SPSS (version 25) result*

As it is shown in above table, the overall and inter item Cronbach’s alpha value of all the dependent and independent variables of the study achieve the minimum requirement of reliability analysis (i.e.  $\alpha > .70$ ). Thus, based on this finding the researcher concludes that the pilot test of the instrument is reliable to apply in the current study.

The accuracy with which things are measured in a study is expressed in terms of reliability. To ensure reliability in this study, a thorough examination was made of the relevant literature. Then, it was pre tested with informal discussion with ten randomly selected colleagues. This small size was guided by the suggestion given by Saunder (2009) that the minimum of ten samples were adequate for pretesting. Thus, this could help the researcher to know the clarity and meaningfulness of the questions.

## Pilot Test of the Instrument

To confirm whether the adapted instruments are understood or not by the respondents a pilot reliability test were conducted. A total of ten questionnaires were distributed to the respondents, the participants for this pilot test was selected randomly from each department. Then the returned 10 pilot instrument were coded and a Cronbach's Coefficient Alpha test was employed by SPSS version 25.00. Thus, the SPSS output is summarized in:

**Table 3.3. Reliability Statistics**

		N	%
Cases	Valid	10	100.0
	Excluded <sup>a</sup>	0	.0
	Total	10	100.0

a. List wise deletion based on all variables in the procedure.

## 3.6. Data Analysis Method

The data analysis method employed was descriptive method. The content analysis will use in order to analyze the responses from the interviews. Descriptive statistics such as means, and standard deviations employed to classify the responses on performance based compensation practices from the employees of the company.

The researcher used descriptive because Descriptive statistics provide simple summaries about the sample and about the observations that have been made. Such summaries may be either quantitative, or qualitative data or visual, i.e. simple-to-understand graphical or tabular. These summaries may either form the basis of the initial description of the data as part of a more extensive statistical analysis, or they may be sufficient in and of themselves for a particular investigation.

## 3.7. Ethical Issues

In doing this research, there was an ethical responsibility to do the work honestly and with integrity. The primary data was collected from voluntary employees to fill the data through the request of the researcher and secondary data was also collected from company validated documents. In order to maintain the confidentiality of the respondents' information, the respondent's personal data like their name was not mention on the questionnaire. It was also assure that the information gathered was only for academic purpose.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1. RESPONSE RATE:

A total of 224 questionnaires were distributed to both branches found in Addis Ababa, from which 221 responded and 3 was not responded. This represents 98% of the total

*Table 4.1. Responses rate*

	Sample size	Response Rate
Returned	221	98.7%
Not returned	3	1.3%
<b>Total</b>	<b>224</b>	<b>100.0</b>

#### 4.2. Demographic Characteristics of Respondents

This section shows the demographic characteristics of the respondents including gender, age range, educational back ground, job position and year of services.

As it is shown in table 4.2.1. below, 55.7 % (n= 123) of the respondents were male. The remaining 44.34% (n=98) of the respondents were female. Regarding to the age composition of the respondents, the largest number of the respondent 100 (45.2%) was in the age group of 31-40 years old; the second largest group 82 (37.1%) those aged between 21-30 years old, of the total respondents 39 (17.6) indicated that they were in the age group of between 41-50. The educational background of respondents as shown in table 4.3.1, the largest group of respondents 139(62.9%) are bachelor degree holders, the next largest group 59(26.7%) are diploma holders followed by those hold the masters 23(10.4%).

**Table 4.2. Gender, Age and Educational Level of respondents**

<b>Demographic factors</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>		
Male	123	55.7
Female	98	44.3
<b>Total</b>	<b>221</b>	<b>100.0</b>
<b>Age</b>		
21-30	82	37.1
31-40	100	45.2
41-50	39	17.6
<b>Total</b>	<b>221</b>	<b>100</b>
<b>Educational Level</b>		
Diploma	59	26.7
Degree	139	62.9
Masters	23	10.4
<b>Total</b>	<b>221</b>	<b>100.0</b>

*Source: SPSS (version 25) result*

As it is shown in table 4.3.2 below, most of the respondent 78 (35.3%) indicated that they had been employed with MOENCO between 2 and 5 years. 53(24.0%) and 44(19.9%) of respondents indicated tenancy with the organization of between 11-15 years and 6-10 years respectively. 43 (19.5%) and 3 (1.4%) of the respondents indicated their stay in the organization >15 years and <2 years respectively as well. Thus, most of the employees had been employed between 2-5 years of service with their current organization.

Regarding to the employment position, the largest group of respondents 71 (32.1%) are management, followed by 60 (27.1 %) Professionals, and 58(26.2%) support employees whereas, the remaining 17(4.5%) 15(6.8%) are administrative and section managers respectively as shown in table 4.3 below.

As shown in table 4.2.2 below, in relation to time worked in the current position, most of the respondent 95 (43.0%) are indicated job tenure of more than 5 years followed by 56(25.3%) and 31(14.0%) 4 years and 3 years with their current position respectively.25 (11.3%) and 3(1.4%) 4 and 11(5.0%) are with their current position for 2, 1 and <1 years respectively. Thus, the majority 95 (43.0%) of the current work positions are working with their current position for more than 5 years.

**Table 4.3. Respondents' position and experience in the organization and on the current job.**

<b>Experience and position</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Experience in organization</b>		
<2 years	3	1.4
2-5 years	78	35.3
6-10 years	44	19.9
11-15 years	53	24.0
>=15 year	43	19.5
<b>Total</b>	<b>221</b>	<b>100.0</b>
<b>Position</b>		
Support	58	26.2
Administrative	17	4.5
Professional	60	27.1
Management	71	32.1
Section Manager	15	6.8
<b>Total</b>	<b>221</b>	<b>100.0</b>
<b>Experience on current position</b>		
<1 year	11	5.0
1 year	3	1.4
2 years	25	11.3
3 years	31	14.0
4 years	56	25.3
More than 5 years	95	43.0
<b>Total</b>	<b>221</b>	<b>100.0</b>

*Source: SPSS (version 25) result*

### **4.3. Analysis of Data Collected From the Study**

In this analysis the response for each specific statement are compared using the mean and standard deviation score. The degree of agreement or disagreement of the respondent for each statement are also analyzed by summarizing the five point likert scale response in to three by consolidating the strongly disagree and disagree response in to one negative response (i.e. disagree) and the strongly agree and agree response in to one positive response (i.e. agree) and the neutral response is taken as it is.

The respondents were requested to indicate perceived factors that influence employee performance in a five point Likert scale. The range was ‘strongly disagree (1)’ to ‘strongly agree’ (5). The scores of strongly disagree and disagree have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ( $0 \leq S.E. < 2.4$ ). The scores of ‘moderate agree’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: ( $2.5 \leq M.E. < 3.4$ ) and the score of both agree and strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; ( $3.5 \leq L.E. < 5.0$ ). A standard deviation of  $>0.9$  implies a significant difference on the impact of the variable among respondents.



**Table 4.4.: Employees Opinion on the Designing scheme of PBC**

	N	Minimum	Maximum	Mean	Std. Deviation
I have the opportunity to participate in the employee performance planning process	221	1.00	5.00	2.8190	1.28055
I have clear Idea of what the organization goals and plans are in the future	221	1.00	5.00	3.6606	1.04348
My efforts support organizational goals	221	2.00	5.00	4.1991	.80125
My performance goals are set based on the standard job description	221	1.00	5.00	3.6063	1.00623
The Job standards set to individuals are achievable	221	1.00	5.00	3.5882	.92326
The Job standards set to individuals are reasonable	221	1.00	5.00	3.5928	.78436
I know what is expected of me in the organization	221	2.00	5.00	4.2172	.62368
The HRM system have clear and consistent objectives of performance based compensation system	221	1.00	4.00	2.9683	.87068
I have received timely,accurate,and meaningful feedback from my supervisor	221	1.00	5.00	3.1357	1.22832
The evaluation system is fair and accurate	221	1.00	5.00	2.6063	1.01074
The company promotion policies are fair	221	1.00	4.00	2.5656	1.03199
Training and Development Plans are developed and monitored for all employees	221	1.00	5.00	2.8688	1.11436
Compensation for exceptional performance exists in the company	221	1.00	5.00	2.9864	1.21161
<b>Valid N (list wise)</b>	<b>221</b>			<b>3.2934</b>	<b>0.99</b>

Source: SPSS (version 25) result

The overall response for the thirty items indicates the mean= 3.29 and SD= 0.99. The higher the mean score, the more that respondent agreed with the statement and vice versa. The figures for standard deviation (SD) also indicate the degree to which responses varied from each other; the higher the figure for SD, the more variation in the responses. Therefore; this result based on Zaidatol and Bagheri (2009) mean score compression basis, the mean score= 3.30 indicates that there is low level of satisfaction towards the current PBC scheme, which implies, the respondents are 'dissatisfied' with the performance evaluation system of the organization.

Thus, from this finding it can be generalized that, the respondents are dissatisfied concerning with the designing of PBC scheme, Therefore, those remarked areas of dissatisfaction are the good indicators and the root causes for employees' negative perception regarding to the design of PBC scheme of their organization.

**Table 4.5. Employees Opinion on the Implementation of PBC scheme**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
The salary paid to me is compensated to my service	221	1.00	5.00	2.7054	.80386
There is annual wage increment based on performance evaluation	221	3.00	5.00	2.7611	.52326
I feel that I paid based on my performance evaluation	221	1.00	5.00	2.2851	.95594
PBC makes me more initiative on my job	221	1.00	5.00	2.6521	.89516
Monetary compensation motivates me	221	1.00	5.00	2.0123	.84417
Most of the time I have received recognition or praise for a job that I performed	221	1.00	5.00	2.1025	1.02785
I always get the expected result of the performance evaluation and payment	221	1.00	5.00	2.7856	.93118
I am always provided with a feedback about my work progress	221	1.00	5.00	2.6752	.90567
I do frequently discuss with my supervisor about my performance	221	1.00	5.00	2.3163	.95135
<b>Valid N (listwise)</b>	<b>221</b>			<b>2.47</b>	<b>0.87</b>

*Source: SPSS (version 25) result*

The overall response for the ten items indicate the mean= 2.47 and SD= 0.87. Therefore; this result based on Zaidatol and Bagheri (2009) mean score compression basis, the mean score= 2.47 indicates that there is low level of satisfaction towards the implementation scheme of PBC, which implies, the respondents are ‘dissatisfied’ with the implementation scheme of PBC in the organization. Thus, from this finding it can be generalized that, the respondents are dissatisfied concerning with the implementation of PBC scheme in the organization.

**Table 4.6. Employees Opinion on the measurement scheme of employees' performance**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
I have adequate information about the scoring system used to compute the incentive amount	221	1.00	5.00	2.251	.93951
I know the purpose of performance evaluation	221	1.00	5.00	2.5456	.96340
I believe performance evaluation is used for mutual benefit	221	1.00	5.00	2.423	.81744
I am satisfied with the current performance evaluation system	221	1.00	5.00	2.235	1.08929
I understand my performance result is determining factor for my pay	221	2.00	5.00	2.342	.81547
In my opinion the performance evaluation system or criteria is fair and objective	221	1.00	5.00	2.4501	1.12470
I do always agree with my supervisor on my evaluation result	221	1.00	4.00	2.345	.92602
In my opinion supervisors effectively monitor employees performance	221	1.00	4.00	2.7142	.92205
The compensation system in the company is predictable	221	1.00	5.00	2.6056	.76026
My manager evaluates my performance based on the standard of my job description	221	1.00	4.00	2.5005	1.02392
<b>Valid N (list wise)</b>	221			<b>2.4612</b>	<b>0.938</b>

Source: SPSS (version 25) Result

The respondents level of perception on measuring employee performance scheme satisfaction  
The mean score= 2.4612 indicates that there is low level of satisfaction towards the implementation scheme of PBC, which implies, the respondents are ‘dissatisfied’ with the implementation scheme of PBC in the organization.

**Table 4.7. Employees Opinion on the overall Perception of PBC**

	N	Minimum	Maximum	Mean	Std. Deviation
I have adequate opportunities for professional growth in the organization	221	1.00	5.00	2.6431	1.10797
I do receive adequate training and information to do my job	221	1.00	5.00	2.5041	1.15361
There is recognition for work accomplished	221	1.00	5.00	2.6016	.97560
There is reward for work accomplished	221	1.00	5.00	2.4005	.91264
Promotion is always given based on individuals ability and performance	221	1.00	4.00	2.5023	.97526
Incentives focuses on employees efforts on specific performance target	221	1.00	5.00	2.6012	.86940
The organization is always consistent when administering policies concerning employees performance	221	1.00	5.00	2.4483	.88439
My immediate supervisor encourages my career development	221	1.00	5.00	2.0241	.92413
Top performing employees receive more pay and recognition than average performers	221	1.00	5.00	2.5108	1.25685
<b>Valid N (list wise)</b>	<b>221</b>			<b>2.470</b>	<b>1.00665</b>

Source: SPSS (version 25) Result

The overall response for the nine items indicates that the mean= 2.470 and SD= 1.00. Therefore; this result based on Zaidatol and Bagheri (2009) mean score compression basis, the mean score= 2.470 indicates that there is low level of satisfaction towards the current PBC scheme, which implies, the respondents are 'dissatisfied' with the performance evaluation system of the organization.

#### **4.3.1. Interview Finding and Discussion**

The interview method of collecting data involves presentation of oral verbal stimuli and reply in terms of oral-verbal responses (Kothari, 2004). This method can be used through personal interviews and if possible, through telephone interviews. Therefore, an interview is used as a primary data collection technique like that of questionnaire, observation and the like regardless of advantages and disadvantages it has. Thus, in this study personal interview was carried out with one randomly selected human resource department and six managers from different departments.

These randomly selected managers were asked about the suitability of performance evaluation scheme in MOENCO, accordingly, all of the interviewee replay that there exists a formal evaluation system in the organization. In relation to the frequency of performance evaluation scheme all the seven interviewee are requested. Based on the result of the interview, all respondents replayed that performance evaluation is conducted in the organization every six months.

All the seven interviewees are also asked about their level of satisfaction on the overall performance evaluation scheme of MOENCO. Of which, two of the interviewees are satisfied with the current performance evaluation scheme of the organization. The remaining five respondents are also dissatisfied with the performance evaluation practice. Therefore, based on the result of the interview, most employees of the organization are not satisfied as such with the current performance evaluation scheme of the organization.

A question was also raised regarding to the overall implementation of performance evaluation scheme in MOENCO. Among the total seven, interviewees, two of them are agreed on the proper implementation of performance evaluation and the remaining are not. Thus, there is no the same understanding in common among employees, as a result it is better to noted that even if in some extent performance evaluation is implemented well, there is a problem in the overall implementation of performance evaluation.

Questions were raised to interviewee if there is any adjustment to be considered in the practice of performance evaluation in MOENCO. All the seven interviewee, providing their own suggestions as per their feeling, but overall their opinion contains the following points in common.

- To leave the score open without limitation so that the evaluation can freely score (Without benchmark)
- Making the evaluation system more participatory & communicate the result between supervisor and subordinates to make it more Transparent.
- providing feedback based career development to initiate the best performers.

Interviewees are also asked about the impact of employee different perception on performance evaluation system on their performance in the form of designing & implementing performance evaluation scheme, measuring their performance and their overall perception on PBC. There was the same understanding in common among the seven respondents and they revealed that even if the degree of influence of perception of employees are different on PBC, absolutely employee's perception of performance evaluation has its own impact on employee's performance. Based on the result of the interview it can generalize that employees' different perception of performance evaluation is a factor that affects both the employee and organizational performance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS, RECOMMENDATIONS**

Based on the results of the study obtained through the questionnaire distributed to 220 employees of MOENCO and the interview conducted with seven randomly selected managers one from human resource management department and six from other departments, the following summary, conclusions and recommendations are made:

#### **5.1. SUMMARY OF MAJOR FINDINGS**

The aim of the study is to assess the perception of employees on performance based compensation in the form of implementing and designing the performance based compensation system, measuring employees' performance and the overall employees' perception on performance based compensation. On the review of theoretical, conceptual and empirical related literature of the study, perception of employees on performance based compensation practice had a significant relationship with their performance.

In conducting this study, the required data is obtained through structured questionnaires and interviews. The structured questionnaires was adopted from three prior related studies, in order to measure all variables of the study. To check the reliability of the adopted instruments reliability test was carried out. To determine the sample size from the total population of the study (513), the researcher used formula based sample size determination. Basically, a total of 224 questionnaires were distributed to the sampled employee, among these 221 were returned, Thus, 221 returned questionnaires are analyzed using statistical package for social science (SPSS version 25). In the analysis descriptive statistics, was performed.

The study found out that MOENCO was using different kind of rewards in order to influence the performance of its employees. The compensation were found however to have negative influence on perception of employees. MOENCO further was found not to be rewarding exceptional performance by its employees and giving them freedom to take decisions and or participate in planning process this affects their perception towards the company.



## 5.2. CONCLUSIONS

The primary aim of this study is to explore the underlying structure of the employees' perceptions of performance-based compensation (PBC) systems, and its subsequent impact on the employees' commitment and performance, because performance evaluation scheme has been an issue of major concern with its long lasting impacts on the employees' performance, which in turn, leads to the organizational performance. The study has been successful in accomplishing its three research objectives and it makes contributions to the literature. Thus, based on the findings of the study the following conclusions are drawn:-

In this part of the descriptive findings the researcher have been able to present the perceptions of MOENCO employees with regard to the performance based compensation system wherein the employees that they have moderate level of satisfaction with the designing of PBC system being practiced in the organization; and dissatisfied with the implementation of PBC system; with the measurement of employees performance system, and with the overall employees perception on PBC system.

The result of interview also support this fact, but it does not mean that they are completely dissatisfied with the overall evaluation scheme in the company, that is, to some extent they are satisfied with the performance evaluation system of MOENCO. Out of the six items being used in the evaluation of employee perception of performance based compensation, as per their fairness perception, the respondents had high level of satisfaction for two items, and are also slightly satisfied on one of the items; whereas, the respondents had low level of satisfaction on the following statements:-

- The overall implementation of the performance evaluation system,
- On the subjectivity of the system,
- Restriction on performance evaluation result and
- Lack of transparency of the rating scheme.

Therefore, as the above commented areas are the core causes for employees' negative perception on the operation of performance based compensation scheme at MOENCO. In turn, as an interview findings also indicate, this negative perception of employees towards PBC system has its own impact on the employees' commitment and performance. From the interview findings employees perception towards PBC system can be enhanced through; continuously record the performance of subordinates, making the evaluation system more participatory & communicate the result between managers and subordinates, job targeted feedback system and providing feedback based career development.

### **5.3. RECOMENDATIONS**

For employees of an organization a sound performance based compensation system must be seen as a serious issue, to exercise their maximum efforts towards realization of organizational objectives and goals. In situations where employees are not aware of what they are expected to perform and the consequences that their performance would bring to them, it is difficult to expect better work performance, organization commitments.

Therefore, On the basis of the findings and conclusions reached, the following recommendations are made in order to change the perception of employees by improve the performance based compensation system at MOENCO in order to increase their performance.

The findings on the descriptive analysis indicates that, employees are not satisfied with the current performance based compensation scheme of the organization and the following areas are also identified as a principal causes for employees low level of perception (dissatisfaction) about the existing PBC scheme, that is, the designing and implementing of the PBC scheme, on the measurement of employees performance scheme & the overall employees perception on PBC. Therefore, the findings have serious managerial implications in order to create a good perception on the mind of the employees. In doing so; the organization should have to design and implement performance based compensation system in the best possible ways in order to change the perception of employees by realizing the following activities:

- Appropriately and adequately file and document the performance of the subordinates on a continuous basis.
- Making the evaluation system participatory in the sense that employees should be allowed to see their evaluation and comment on it.
- Discussing on the evaluation result among the evaluators and evaluate clearly.
- Design ways to communicate the results of the employees as well as the criteria against which they are going to appraise the subordinates.
- Reviewing the performance of the subordinates with a due attention.
- Make aware of employees about appeal procedure, at the time when they are dissatisfied with the performance rating

As indicated in the descriptive part of the finding, employees of MOENCO have also low level of perception on the measurement system of employees' performance. Therefore, the organization should have to give due attention to continually improve and maintain employees' performance and should make conscious efforts by creating different mechanisms such as:

- Creating trust on the mind of employee about performance evaluation.
- Establishing organizational plans for the career and development of employee
- Providing opportunity to employee to suggest improvement in the ways things are done (employee participation).

#### **5.4 Suggestions for Further Research**

To make this study more comprehensive, a large population of MOENCO employees who are working outside Addis Ababa branches should be surveyed.

To make generalization, it should be conducted in different public sectors, since this study is limited only the two branches of the organization.

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## **ANNEX I**

**St. Mary's University College**

**School of Graduate studies**

**MBA program**

**Questionnaires**

### **Employees' perceptions on performance based compensation systems in the case of MOENCO**

**Dear Colleagues,**

You are invited to participate in an academic research study as one of the MOENCO employees. I am a Master's student in Business Administration (MBA) at St. Merry University (SMU). As part of my MBA qualification I am doing a research titled "Employee's perception on performance based compensation in the case of MOENCO." This study is authorized by the Human Resources Executive of MOENCO.

For the purpose of confidentiality your name will not appear on the questionnaire, thus your responses are entirely confidential. No one in the organization will see the answers you give. So please answer the questions as honestly as possible. Furthermore, you cannot be identified from the responses you provide. Any data you provide can only be accessed by the researchers at the University of St. Mary's university and will be used for academic purpose only.

By completing the questionnaire you are declaring that the answers you provide are voluntary and can be used in my MBA study. If you have any concerns, please contact me.

Frehiwot Asfaw

Email: [fifiasfaw@gmail.com](mailto:fifiasfaw@gmail.com)

Cellphone: 0911953642

Yours sincerely,

## PART I PERSONAL DATA

Please indicate your responses by putting (✓) mark in the boxes provided.

### 1. Gender:

Female  Male

### 2. Age range:

21-30  41-50   
31-4  Above 50

### 3. How long have you been working in MOENCO?

< 2 years  11-15 years   
2-5 years  > 15 years   
6-10 years

### 4. Education Level

Certificate  Degree  Other   
Diploma  Masters

### 5. What is your current job position?

Support  Management   
Administrative  Section Manager   
Professional  Divisional Executive

### 6. How long you have been in one position?

< 1 year  2 years  4 years   
1 year  3 years  More than 5 years

**PART II: DATA RELATED TO THE STUDY**

Put a (√) mark in the boxes provided that matches your choice.

**2.1. DESIGNING PERFORMANCE BASED COMPENSATION**

Uses 1-Strongly disagree, 2-disagree, 3-Neither agree nor Disagree, 4- Agree, 5- Strongly Agree

No.	Variables	Responses				
		1	2	3	4	5
1	I have the opportunity to participate in the Employee Performance planning process					
2	I have clear idea of what the organization’s goals and plans are in the future					
3	My efforts supports organizational goals.					
4	Individual performance goals are set based on the standard job description					
5	The job standards set to individuals are achievable					
6	The job standards set to individuals are reasonable					
7	I know what is expected of me in the organization					
8	The HRM system have clear and consistent objectives of performance based compensation					
9	Employees receive timely, accurate, and meaningful feedback from their supervisor.					
10	The evaluation system is fair and accurate.					
11	The company promotion policies are fair.					
12	Training and development plans are developed and monitored for all employees.					
13	Compensation for exceptional performance exist in the organization					



## 2.2. : IMPLEMENTING PERFORMANCE BASED COMPENSATIO ]

Put a (√) mark in the boxes provided that matches your option.

No	Variables	1	2	3	4	5
1.	The salary paid to me is compensated to my service					
2.	There is annual wage increment based on performance evaluation					
3.	I feel that I am paid based on my performance evaluation					
4	Performance based compensation makes me more initiative on my job.					
5	Monetary compensation motivates employees?					
6	In the last year I have received recognition or praise for a job that I have performed.					
7	I feel my contribution supports the organization's goal.					
8	I always get the expected result of the performance evaluation and payment.					
9	I have been provided with a feedback about my work progress in the last six months					
10	I do frequently discuss with my supervisor about my performance					

## 2.3. MEASURMENT OF EMPLOYEE PERORMANCE

Put a (√) mark in the boxes provided that matches your option.

Variables		Responses				
		1	2	3	4	5
1	I have adequate information about the scoring system used to compute the incentive amount					
2	I know the purpose of performance evaluation					
3	I believe performance evaluation is used for mutual benefit?					
4	I am satisfied with the current performance evaluation scheme.					
5	I understand my performance result determining factor for my pay.					
6	In my opinion, the performance evaluation system or criteria is fair and objective.					
7	I do always agree with my supervisor on my evaluation result					
8	In my opinion supervisors effectively monitor employees' Performance?					
9	The compensation system in the organization is predictable					

10	My manager evaluates my performance based on the standard of my job description					
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**2.4.: EMPLOYEE’S PERCEPTION ON PBC SYSTEM?**

Put a (√) mark in the boxes provided that matches your option.

No.	Variables	Responses				
		1	2	3	4	5
1	I have adequate opportunities for professional growth in the organization.					
2	I usually have adequate training and information to do my job.					
3	There is recognition for work accomplished					
4	There is reward for work accomplished					
5	Promotions are always given based on ability and performance.					
6	Incentives focuses employee efforts on specific performance targets.					
7	The organization is always consistent when administering policies concerning employees performance					
8	My present job is relevant to the growth and development in my career.					
9	My immediate boss encourages my career development.					
10	Top performing employees receive more pay and recognition than average performers					

**Your Overall perception on the performance based compensation system in the company:-**

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*Thank you for your precious time!!!!*

**ANNEX II**  
**St. Mary's University College**  
**School of Graduate studies**  
**MBA program**  
**Questionnaires**

**Employees' perceptions on performance based compensation systems in the  
case of MOENCO**

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For the purpose of confidentiality your name will not appear on the interview, thus your responses are entirely confidential. No one in the organization will see the answers you give. So please answer the questions as honestly as possible. Furthermore, you cannot be identified from the responses you provide. Any data you provide can only be accessed by the researchers at the University of St. Mary's university and will be used for academic purpose only.

By completing the interview you are declaring that the answers you provide are voluntary and can be used in my MBA study. If you have any concerns, please contact me.

Frehiwot Asfaw

Email: [fifiasfaw@gmail.com](mailto:fifiasfaw@gmail.com)

Cellphone: 0911953642

Yours sincerely,

1. Is there a formal performance evaluation scheme in MOENCO?

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2. How often is the evaluation conducted in MOENCO?

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3. Are you satisfied with the performance evaluation scheme MOENCO?

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4. Do you think that performance evaluation scheme in MOENCO is being implemented well?

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5. Would you suggest if there is anything to be considered with regard to the current performance evaluation system being used in MOENCO?

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6. Do you think that employee perception of performance evaluation system has its own impact on their work performance?

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