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ST. MARY'S UNIVERSITY SCHOOL OF GRADUATES

**THE EFFECT OF COMPENSATION ON EMPLOYEE
MOTIVATION: THE CASE OF AWASH WINE S.C**

BY

BETELHEM SAMUEL

ID: SGS/0634/2010A

JULY, 2019

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL
OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF
THE REQUIRMENTS FOR THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION (HRM CONCENTRATION)**

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CONTENTS

ACKNOWLEDGEMENTS	iv
ACRONYMS	v
LIST OF TABLES	vi
LIST OF FIGURES	vii
ABSTRACT	viii
CHAPTER ONE	1
INTRODUCTION	1
1.1. Background of the Study.....	1
1.2. Background of the Organization	3
1.3. Statement of the Problem	3
1.4. Research Questions	5
1.5. Objectives of the Study	5
1.6. Scope of Study	5
1.7. Limitation of Study	5
1.8. Significance of the Study	6
1.9. Definition of Terms	6
1.10.Organization of the Study.....	7
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1. Introduction	8
2.2. Theoretical Literature Review.....	8
2.3. Empirical Literature Review	25
2.4. Conceptual Framework	26
CHAPTER THREE	27
RESEARCH DESIGN AND METHODOLOGY	27
3.1. Introduction	27
3.2. Research Design.....	27
3.3. Research Approach	28
3.4. Population and Sampling Techniques	29
3.5. Instruments of Data Collection	30
3.6. Procedures of Data Collection.....	31
3.7. Methods of Data Analysis	31
3.8. Validity and Reliability of Measures	32

3.9. Ethical Consideration	32
CHAPTER FOUR.....	33
ANALYSIS AND INTERPRETATION.....	33
4.1. Introduction	33
4.2. Response Rate	33
4.3. Demographic Characteristics of Respondents.....	33
4.4. Analysis of Data Related to The Study	35
CHAPTER FIVE.....	47
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	47
5.1. Introduction	47
5.2. Summary	47
5.3. Conclusions	48
5.4. Recommendations	48
REFERENCES.....	52
APPENDIX I: COVER LETTER.....	55
APPENDIX II: QUESTIONNAIRE.....	56
DECLARATION.....	60
ENDORSEMENT.....	61

ACKNOWLEDGEMENTS

I humbly acknowledge the great support I have received from various people and for their contribution to this project, without their support this work would never have come to completion.

To my advisor Dr. Abraraw Chaine for his dedication, time and the push to achieve academic excellence. I would also like to extend my heartfelt thanks to all employees of Awash Wine S.C who gave me relevant information which I use in my study and responded for my questionnaire and also great thanks of HR employees of the organization, who assisted me in giving all necessary documents. So, I extend my thanks and appreciation to all of them who have been there for me when I need them.

ACRONYMS

1. HR – Human Resources
2. ISO – International Organization for Standardization
3. SPSS – Statistical Package for Social Sciences
4. S.C – Share Company

LIST OF TABLES

Table	Page
Table 3.1: Population Size	29
Table 4.1: Response rate of Questionnaires Administered per Department ..	33
Table 4.2: Demographic Characteristics of Respondents	34
Table 4.3: Practice of Compensation on Employee Motivation	35
Table 4.4: Direct and Indirect Financial Payments and Employee Motivation.	38
Table 4.5: Importance of Benefits to Employees.....	41
Table 4.6: Correlations between Independent and Dependent Variables.....	43
Table 4.7: Model Summary.....	44
Table 4.8: ANOVA Result.....	44
Table 4.9: Regression coefficients result.....	45

LIST OF FIGURES

Figure	Page
Figure 4.1: Conceptual framework of this study.....	26
Figure 4.1: List of Benefits Entitled.....	41

ABSTRACT

The general objective of the study was to determine the effect of compensation on employee motivation at Awash Wine S.C. The study used descriptive research design and followed quantitative research approach. A sample of 243 respondents was selected out of the population of 610 employees using Simple random sampling technique. A structured questionnaire was used to collect data from the respondents. The data was analyzed using the Statistical Package for Social Sciences (SPSS). The study found that many of the respondents were not very familiar with the practice of compensation at Awash Wine S.C. With regard, to the extent to which financial payments affect employee's motivation, the respondents were impressively aware of all entitlements both basic and other contingent payments. The level of motivation was relatively low, and the respondents felt that their motivation levels would be boosted if their basic pay was to be increased. In conclusion the study demonstrated that a proper compensation plan was lacking, and employees lacked some of the key information in employee compensation determination. The study also concluded that although the employees were highly motivated by basic pay and were aware of their compensation entitlements, the motivation was not driven by the basic employee motivators. The study recommends a system of compensation plan be developed, feedback mechanism should also be developed, and staff encouraged to use them. Further recommendation is that management should clearly document pay structures and effectively communicate the same to all.

Key words: Compensation, Benefit, Employees Motivation

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Motivation is one of the factors that keep employees on board, motivates them to work harder and better thus leading to increased productivity and growth of the business. Without motivation, productivity, morale, profits, product, and service delivery becomes at stake.

Whether internal or external, there should be motivation. Compensation and benefits are reward based motivational factors. Benefit is an indirect reward that an employee gets for being part of the family or the organization (Mathis, and Jackson, 2008). On the other hand, compensation entails the reward that is given to an employee to complement the time or any resource that he might have used.

Nowadays, compensation and benefits are one of the fastest changing fields in Human Resources, as many companies are continuing to investigate various ways of rewarding employees for increase their job satisfaction and their performance. Here, compensation refers to all forms of financial return and tangible services and benefits employees receive as part of an employment relationship, which includes topics in regard to wages or salary programs; for example, salary ranges for job descriptions, merit based programs, bonus based programs, commission based programs, long term or short terms incentives programs, and etc. Besides, employee's benefit includes the allowances, income protection, life insurances, life balance, vacation, and etc. Benefits are forms of value, other than payment, that are provided to the employee in return for their contribution to the organization, that is, for doing their job (Mathis, and Jackson, 2008).

Why the compensation and benefits is so important for all the employees? The answer is compensation is the main sources of employee's financial security. As we know, everyone is works in expectation of some rewards; employees may see compensation as a return in an exchange between employer and themselves, as an entitlement for being an employee of the company and as a reward for a job well done. Besides, compensation is a motivator for employees. Now, people look for a job that not only suit their interested and talent, people also look for the salary and the other benefits

which the company will be offer, for example, life insurance, incentive, allowances, and etc. Besides, in the economic downturn, based wages is become very important sources to employees for living. Therefore, if the employers give higher salary to their staff, this will be motivating them to perform well and they will more satisfy with their job. By doing so, the employees will know that the company is appreciate their contribution and their efforts are noted by management (Tang, Roberto, Toto & Tang. 2004).

In Ethiopia, there are many public or private industries occur in market. To compete with other competitor, each industry must increase their competitive advantage. The key competitive advantage is employees. Therefore, the issues of the employee motivation become very important for the employer. There are many factors which can influence motivation among Awash Wine S.C's staff, for example, job security, compensation and benefits, opportunities to use skills and feeling safe in the work environment.

From November 1 to 27, 2018, Awash Wine S.C conducted 'Employee Satisfaction and Engagement Survey' at all branches named Farm, Lideta and Mekanissa. The respondents' who were eligible to participate in the survey were for those who worked 6 and above months and the total amount of respondents was 375 out of 605 employees. Both open ended and close ended questions were used in the survey checklist. (AWSC survey data 2018)

The purpose 'Employee Satisfaction and Engagement Survey' survey was to determine factors that influence the overall employee engagement and satisfaction in the workplace. It assessed 24 aspects of employee engagement and job satisfaction. The aspects were categorized as basic needs, career advancement opportunities, compensation, recognition, teamwork, performance, communication, alignment/ corporate citizenship, employee cafeteria services quality, PPE and working clothes, change room quality, bathroom and shower service, and clinic service quality. (AWSC survey data 2018)

Based on its result, the compensation aspect of the company showed 39% which is lower regarding employees' motivation when compared to the other twenty-three aspects that the survey covered. In general, this paper tried to assess the effect of

compensation on employees' motivation of Awash Wine S.C. (AWSC survey data 2018)

1.2. Background of the Organization

Established in 1956, Awash Wine S.C is Ethiopia's longest established wine maker. Since that time, the company has grown to be one of the country's most loved brands - a market leader that is interwoven with the cultural fabric of the country. Currently the company is going to implement ISO 9001 and food safety management program 2005 and the primary requirement for this program is assessing its internal and external environment. The company has strengths by having the large wine market share, hiring young and dynamic staff, good image of the product, and has more than 75 years' experience in Winery Business by having competitive salary and benefit packages, and is increasing its sales volume year to year. (Dawit, 2016 Addis Fortune p.12).

1.3. Statement of the Problem

While compensation is arguably one of the key drivers of motivation and one of the most studied areas, doubts have been cast by Herzberg et al. (1957) and Armstrong (2008) on effect of motivation on compensation. They argued that, while lack of it causes dissatisfaction, its provision does not result in lasting motivation. The effects of compensation on motivation vary from organization to organization.

Most people are motivated by money at least for their basic needs and wants (DeNisi and Griffins, 2008). Employee motivation through compensation can be in several forms including salary raises, performance bonuses, commissions, profit sharing and other extra benefits such as vacations, cars and other tangible items that are used as rewards (Campbell, 2007). These compensation systems can be categorized as direct financial payment and indirect financial payments (Dessler, 2004).

Compensation and benefits are a primary motivator for employees. Nowadays, people look for a job not only suit their creativity and talents but compensate them both in term of salary and other benefits accordingly. (Enotes.com, 2008) Therefore, when the problems occur to the compensation and benefits of the employees are going to have impact on employee's motivation. When the employees receive the salary less than he or she expected, he or she will feel that he or she is not appreciated by the company and

what he or she did is meaningless. So, the employee will feel less motivated by the company. According to the Society for Human Resources Management report, demotivation can contribute to multiple organizational problems and has been associated with increased levels of turnover and absenteeism, which ultimately cost the organization in terms of low performance and decreased productivity. (SHRM, 2009) Thus, employer must ensure that the compensation and benefits system is fair and equitable to all the employees and understanding the system. By doing so, employer can motivate their employees.

In Awash Wine S.C, there are many employees to cover and the employer does not really understand what their staffs need. It is impossible for taking all employees' compensation and benefits throughout the firm into consideration to set up the reward system. This is because different department employees have different needs. For example, for the production manager, flexible working hours and higher bonus will be more favored by them. But, for the marketing department the flexible working hours and more incentives and allowances will be favored by them.

On November 2018, Awash Wine S.C conducted 'Employee Satisfaction and Engagement Survey'. It was conducted using a designed online checklist platform by external enumerators. Its purpose is to determine factors that influence overall employee engagement and satisfaction in the workplace. Based on the result of the survey, the compensation aspect of the company showed a lower number of motivations on employees when compared to other twenty-three aspects that were covered.

In Awash Wine S.C, the direct and indirect financial programs offered and their effects on employee motivation and the non-financial benefits offered and their effect on employee motivation is not clear. The direct financial programs offered are wages, salaries, bonuses, incentives and commissions while the indirect financial motivation offered are departmental retreats, insurance, retirement plans, paid sick leaves and purchase discounts. Based on the data received from the Human Resources Department regarding turnover rate causes on the fiscal year 2018/19, 61% of employees feel demotivated and then resign because of the compensation practice of the company. This study addressed this gap based on the 'Employee Satisfaction and Engagement Survey' result; by enquiring on the effect of compensation on employee motivation at Awash Wine S.C.

1.4. Research Questions

Derived from the research problem, the following questions are raised.

1. What is the practice of compensation at Awash Wine S.C?
2. To what extent do direct and indirect financial payments affect employee's motivation at Awash Wine S.C?
3. To what extent do benefits affect employee's motivation at Awash Wine S.C?

1.5. Objectives of the Study

1.5.1. General Objective

The general objective of this study is to determine the effect of compensation on employee motivation at Awash Wine S.C.

1.5.2. Specific Objectives

1. To assess the practice of compensation at Awash Wine S.C.
2. To determine the extent to which the direct and indirect financial payments affect employee's motivation at Awash Wine S.C.
3. To determine the extent to which benefits affect employee's motivation at Awash Wine S.C.

1.6. Scope of Study

The study was limited to the company's 3 branches which are located at Addis Ababa and Oromia. The branches at Addis Ababa are located at Lideta (Head office) and Mekanissa; whereas, the Farm vineyard is located at Oromia/Merti. The study examined the employees of Awash Wine S.C who were employed on permanent and contract term of employment in the year 2018/19. The selected sample was 184 employees out of 610 employees at Lideta, Mekanissa and Farm branches. But, out of the targeted 243 respondents; 231 employees responded to the questionnaire, this represented a 95% response rate.

1.7. Limitation of Study

The result of this research was limited to only to the assessment of compensation practice, the direct and indirect financial payments and staff benefits. Since Awash

Wine S. C's activities significantly increased and the number of employees likewise increased since 2017, the research focused on the organization's activities for the period 2017 – 2019. There were time and resource limitation to increase the sample size. Regarding the data collection method, only structured questioner was used. In addition, since it is the policy of the company, it was not possible to include the salary range of employees and compare the discrepancies between similar positions. The variables used on the study were employee's motivation as a dependent variable and direct financial payments, indirect financial payments, benefits, compensation practices, and compensation types as independent variables

1.8. Significance of the Study

The study has three major areas of significance namely; Academic, Managerial and Social.

- i. Academic Significance:** It is envisaged that this study will contribute to and expand the frontiers of knowledge in the field of study, especially studies that has been done on compensation management and motivation with focus on private sector and special reference to wine industries in Ethiopia. It will also launch a new area for future debate in the management of compensation and motivation among wine companies in Ethiopia.
- ii. Managerial Significance:** The managers in the wine industry should endeavor to identify the areas of motivation of the employee's they can improve upon that will encourage the employees to work harder that will make the organizational goal achievable.
- iii. Social Significance:** It is envisaged that community will benefit by not witnessing disruption in the economy by way of industrial action that can lead to the closure of the business. When the employees are on strike because of inadequate compensation, the whole community may be affected in the sense that there could be roadblocks that hinders traffic flow. Other workers may join them in sympathy strike which affects other sectors of the economy.

1.9. Definition of Terms

Motivation: is the willingness to exert high levels of effort towards the organization's goals, conditioned by the efforts ability to satisfy some individual need (Ramlall 2004: 53). He also asserts that motivation represents “those psychological processes that

cause the arousal, direction, and persistence of voluntary actions that are goal oriented”. Seiler et al., (2011), Mitchell, (1982: 81) and Lin (2007: 137) define motivation as “an internal driver that activates and direct behavior”.

Compensation: is a form of reward given as a result of a job that has been done or effort put in to achieve a set goal and as such this serves as a motivational factor that encourages an individual to put more energy or commitment into his or her job (Armache, 2012; Ederer and Manso, 2013; Qureshi, 2013).

Benefits: are the indirect financial and non-financial payments employees receive for continuing their employment with an organization. (Cascio, 2003 and Dessler, 2005).

Productivity: is the individual output; this may be in the form of units per person or revenue generated per person (Armstrong, 2008).

1.10. Organization of the Study

The study is organized into five chapters. The first chapter is an introductory part of the study in which background of the study, background of the organization, statement of the problem, objective of the study, research questions, definition term and limitation/Scope of the study. The second chapter deals with related literature review of the study. The third chapter is about methodology of the study. Chapter four analyzes the data and presents the findings. The last chapter is the summary of findings, conclusions, and recommendations part.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter reviewed relevant literature under employee's compensation and the effect on employee's motivation. The review addressed three research objectives namely; to determine the practices of compensation, to determine the extent to which direct and indirect financial payments affect employee's motivation and finally to determine the extent to which benefits affect employee's motivation. At the end of the chapter the empirical review will be discussed.

2.2. Theoretical Literature Review

Compensation systems play a significant role in promoting organizations' strategic goals (Milkovich 1988). Traditionally, compensation systems were designed to strictly reward employees based on the specific jobs they performed. Earlier researches have concluded that employees are the most important resource of the organization, and to satisfy customers, organizations must first satisfy their employee's requirements. And also, organizations have in the recent past experimented with this tradition as stated above and with increasingly varied forms of compensation based for example, on the market or on employee skills (Nebeker et al. 2001).

In comparing the traditional system with the skill-based pay systems, the latter rewards employees for the array of skills they possess or the combination of different jobs they can do. Two employees doing the same piece of work could be placed on very different pay levels because one may possess more skills than the other. Which is quite different from the job based pay systems. The result-based system approach to compensation could however be a very good system to ensure that irrespective of the skills you possess, your compensation is only tied to your output, as proposed by one researcher by the name Aguinis (2007). It is not always true that only the employee who demonstrates the competencies desired will produce the desired output and that makes the argument by Aguinis very valid.

Much heated debate has centered on the philosophical differences inherent in these systems and their purported benefits (Barrett et al., 1991) but few empirical researches have focused on comparing pay structures and outcomes (Gerhart and Milkovich 1992).

They also noted that there is virtually no research on the consequences of skill-based and knowledge-based pay structures relative to more traditional job-based pay structures”.

2.2.1. Compensation

Milkovich and Newman (1999) stated that, Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship. The Journal of Global Business and Economics (2010) also defines compensation as “the combination of all cash incentives and the fringe benefits mix that an employee received from a company which constitutes an individual’s total compensation.” (Chabra 2001) refers to Compensation as a wide range of financial and non-financial rewards given to employees in exchange for their services rendered to the organization.

According to DeNisi and Griffin (2001) compensation is a reward system that a company provide to individuals in return for their willingness to perform various jobs and tasks within organizations. They further stated that relevant and commensurate rewards need to be provided to the employees so that they feel valued and their expectations on exchanging their skills, abilities and contribution to the organization are met.

Compensation systems, also known as reward systems and pay systems refer to the scheme by which rewards are distributed to an employee (Barr 1998). According to (Thomas 1998) the typical compensation package includes two basic components: direct pay and indirect pay or benefits. Compensation systems vary across organizations and Gerhart and Milkovich (1988, p. 12) suggested that “employers tend to distinguish among themselves through differences in the contingency of compensation.”

Scholars have argued that compensation systems provide outsiders with information about less visible organizational characteristics (Gerhart and Milkovich, 1990) and therefore, they might signal to a job applicant what an organization’s culture, norms, and values are like (Rynes and Barber, 1990). It is further suggested by Rynes (1987, p.190) that “compensation systems are capable of attracting (or repelling) the right kind of people because they communicate so much about an organization’s philosophy, values, and practices.” Organizations could therefore take another look at their

compensation packages and redesign them to attract those candidates on the job market who they think are very skilled and can help them reach their goals.

2.2.1.1.Types of compensation

One of the crucial aspects in managing an organization is the compensation management. It is a process by which employees are being remunerated for their input at their workplace (Khan et al., 2011). Compensation is of different types depending on their nature. Compensation has been classified into the following types (i) financial, (ii) non-financial and (iii) compensation and the individuals.

Financial Compensation: Financial compensation is also known as compensation that is concerned with monetary terms which comprises financial rewards and financial incentives. According to Armstrong (2003: 687).

Non-Financial Compensation: This is a kind of compensation that does not involve money directly and this reward normally croup-up from the work itself. These include achievement, autonomy, recognition, the scope to use for work. Others include development of skills, training and career development opportunities (Armstrong 2003: 626, Herzberg, 1966).

Compensation and the individual: Many researchers are of the view that any firm that desires higher performance from workers should link remuneration and person effort together (Encinosa III, Gaynor and Rebitzer, 2007; Kaplan and Norton, 2007; Bartlett and Ghosal, 2013).

Firms are attaching greater recognition to individual pay and performance not only to persuade their workers to increase productivity and efficiency but also to entice them with the aim of retaining the highly valued workers so that there will be more commitment through a more favorably attitude disposed towards the attainment of the goals of the firm (Kuvaas, 2006). Similarly, Lee and Bruvold (2003) opine that the more the employees are encouraged by the firm, the more the workers will be ready to their commitment level to the firm. This is also supported by (Gardner et al., 2004). Similarly, Lawler (2003) argues that when remuneration is highly attached to the effort result, it highly promotes effectiveness of managing performance of the firm as well as that of the workers. He suggests that matching remunerations to the performance result

give rooms for the effort management system to be more result oriented with reference to motivation. It is submitted that workers put more agility to achieve results when they are aware that their remuneration package will be determined by the effort put in to accomplish the performance goal of the firm (Lawler, 2003).

2.2.1.2.Determinants of Compensation

Henderson (2006: 27-33) gives some critical or basic reasons underlying the differences in pay and of compensation. Packages for different employees relate to the following thirteen correlates or determinants. Notably, though each of these correlates is relatively simple and straightforward, but like most factors influencing compensation decisions, their interactions can become difficult to follow and understand.

Knowledge and skill: The kind of job the employee performs is the most important factor influencing the rate of pay. In determining pay for a job, no single factor is more significant than the knowledge and skills required or possessed by the job holder (Dulebohn & Werling, 2007; Ida & Ali, 2010).

Kind of business: The type of business is one of the significant factors that influences the amount received by job holders. In many cases, the private sector businesses provide higher rates of pay than the public sector of the economy (Jaiswall & Firth, 2009; Chen, Hsu & Chen, 2014).

Union-Non-union status: The businesses that are unionized receive higher rate of pay than those that are nonunionized.

Capital intensive versus Labor intensive: Business that requires low labor costs relative to revenues pay the employees higher (Menezes-Filho, Muendler & Ramey, 2008).

Size of business: The size of the business is one of the determinants of compensation or pay rates. Larger businesses offer higher pay rates than smaller businesses. The issue of profitability and unionization are usually and frequently tied to the organization's size. The demand for products often leads to increase in the business size. For psychological reasons, the more profitable a business is, the more likely it is to share some of its profits with the employees by increasing the pay rates (Lluis, 2009; Shah, Javed & Abbas, 2009; Cao et al., 2012; Kashif & Mustafa, 2012).

Management philosophy: The philosophy of management in deciding pay rates is also crucial in compensation decisions. Some business owners and top executives are having the conviction that their employees should be paid highly as much as possible whereas others hold a different view and these biases has a definite impact on the amount of pay offered and given to employees (Van der Merwe, 2009; Yau, Chun & Balaraman, 2009).

Total compensation package: The total amount to be received by the employee is also important when it comes to term of determining the pay rate. Base pay or annual pay has been used to analyze the compensation packages of employees. However, with the passage of time, this kind of comparison has become less and less useful because employees have become interested in knowing their employer's pension scheme, medical allowances, meal subsidy and other benefits. In today's world, employees have significant interest in and knowledge of their compensation packages which relates to the real worth and value of their major components (Goergen & Renneboog, 2011).

Geographic location: The geographic location of the job is also a serious factor to be considered when determining compensation or pay rates because employment and unemployment do not affect all sections of the nation equally.

Supply and demand of Labor: The rate at which labor is being supplied and demanded is widely used to determine the pay rates of employees. In times of high unemployment, individuals with certain skills or abilities are in great demand and sometimes the demands are in specific locations, at other times, and they are national in scope.

Profitability of the organization: Organizations with high levels of profit have the tendency of paying higher rates to their employees than those organizations with low profits. The profitable organizations use high rates of pay to attract, hire, and retain the best employees by paying them above the existing pay rate in the markets.

Employment stability: Job security is important when it comes to determining or making decisions as regards pay rates since employees become more concerned with the continuation of their employment especially during periods when the workforce is being reduced in size. Psychologically, employees want to know that their jobs are highly secured for as long as they want.

Employees who have the feeling that their jobs are permanently secured are often willing to accept lower pay, on the understanding that the paycheck will be there if the assignment is performed in the most acceptable manner.

Gender and demographic differences: Gender and demographic differences is another factor that is considered in determining the compensation package. In most cases, the gap between male and female rates of pay has been a major cause necessitating advocating for women's rights.

Employee tenure and performance: When determining pay rates by using various composite data, it is very difficult to separate two critical employees' differences, that is, tenure and performance. Most often, the low-level rate used with minimal-skill jobs become more valuable as the length of service increases.

2.2.1.3. Practices and Methods Used to Determine Employee's Compensation

The compensation system results from allocation, conversion and transfer of the income of an organization to its employees for their monetary and in-kind claims on goods and services, the design, the implementation and administration of any component of compensation and benefits. The entire compensation system refers sensitivity to, and an understating of human perceptions needs and drives. Recognizing the essential contribution work makes to the physical and psychological survival of all workers in the start of designing and managing a practical and useful compensation system. Werther and Davis (1993).

Establishing pay objectives involves several important decisions because these objectives serve several purposes. First, objectives shape the design of the pay system. If employers decide the primary objective of the pay system is to attract and retain competent, highly skilled employees, in these cases the performance is best influenced through other personnel practices such as job enrichment or team building techniques. A pay system with these objectives may stress market competitive and relatively high base salary.

2.2.1.4. Designing Pay Structure

The pay level is determined by defining the relevant labor markets in which the employer competes. Conducting surveys to find out what other employers pay and

using that information in conjunction with the organizations policy decisions to generate a pay structure. The pay structures influence how efficiently the organization is able to attract and retain a competent work force and to control its labor costs. As pay is important both in its effects on employees and on account of its cost, organizations need to plan what they will pay to their employees based the seniority and the responsibility of their job. An unplanned in which each employee's payee is independently negotiated will likely result in unfairness, dissatisfaction and rates that are lard to fill. The pay structure differs from country to country and from organization to organization.

2.2.1.5.Equal pay for equal

An equitable practice should be adopted for the recognition of individual differences in ability and contribution. There should be clearly established procedure for hearing and adjusting wage complaints. The employees and the union, if there is one should be informed about the procedure used to establish wage rates. The wages should be sufficient to ensure for the worker and his family reasonable standard of living. The wage and salary structure should be flexible so that changing conditions can be easily met. Prompt and correct payments of the dues of the employees must be ensured and arrears payment should not accumulate.

An organization should be or may be designed its compensation package based on the strategic plan and objective of the organization.in designing a compensation system the challenges for an organization is that to develop pay programs that support and reinforced the business of the organization and the kind of culture, climate and behaviors that are needed for the organization to be effective. The key is finding those approvals to pay that fit the organizations strategy and management style. Weihirich, kontz (1984)

1. Base pay /wage:-is the basic cash compensation that an employer pays for the work performed. Base wage tends to relate the value of the work itself and generally ignores differences in contributors attributable to individual employees.

2. Merit pay: -is a reward past work behaviors and accomplishments. It is often given as lump sum payment or as increments to the base pay. Merit programs are

commonly designed to pay different amounts depending on the level of performance.

3. Incentive pay: -It is one forms of pay linked to an employee's performance as an individual, group member, or organizational member. It is typically designed to energize or control employees' behavior. Incentive pay is influential as the amount paid is linked to certain pre-defined behaviors or out comes.

2.2.1.6.Incentive pay system

Like merit pay plans, individual and group incentive pay system are adopted to enhance employee motivation to perform. While merit pay plans attempt to motivate by relating periodic pay increases to employee performance ratings, most incentive pay plans tie day to day earnings directly and automatically to relatively objective indexes of individual or groups performance. In individual incentive pay plans, it is individual performance that is measured and rewarded. These plans vary widely however, with respect to performance measures used and the specific linkages established between performance and pay. Piece-rate plans pay directly for units of output produced. Herbert.et (1999).

2.2.1.7.Deforming Base pay

Job based pays typically rests upon the foundation of the job evaluation system. Job evaluation is "a systematic comparison done in order to determine the worth of one job relative to another. Job evaluation is also defined as ' a systematic with procedures designed to aid in establishing pay differentials among jobs within a single employer.

Jobs are the basic unit of analysis used to determine the pay structure. Hence job analysis is referred. The results of job analysis is serve as input for evaluating jobs and establishing job structure, Job evaluation invoices The systematic evaluation of the job description that results from job analysis. Glueck, (1989)

The evaluation is based on the content of the work, value of the work to the organization, the culture of the workplaces and external market forces; it helps in establishing a pay structure that is internally equivalent to employees and consistent with the goals of the organization. The basic principle is jobs that require greater

qualifications more responsibilities and more complex job duties should be paid more highly than jobs with lesser requirement.

2.2.2. Employee Motivation

The word motivation means different things to different people and it was coined out of a Latin word “*movere*” which means to move or change a thing (Adeoye, 2001). Mathauer and Imhoff (2006: 3) define motivation as “the willingness to exert and maintain an effort towards organizational goals”. Adeoye (2001: 46) argues that “motivation is an inducement to arouse the interest of an employee to achieve a set up goal of an organization”.

Alstrom & Bruton (2010: 200) are of the view that motivation is “the driving force behind an individual’s actions that energizes and directs goal-oriented behavior”. Ramlall (2004: 53) define motivation as the “willingness to exert high levels of effort towards the organization’s goals, conditioned by the efforts ability to satisfy some individual need”. He also asserts that motivation represents “those psychological processes that cause the arousal, direction, and persistence of voluntary actions that are goal oriented”. Seiler et al., (2011), Mitchell, (1982: 81) and Lin (2007: 137) define motivation as “an internal driver that activates and direct behavior”. These authors assert further that motivation energizes and guides behavior toward reaching a particular goal and is intentional and directional. Grant et al., (2007: 56) considers motivation “as an umbrella concept encapsulating the psychological processes that direct, energize, and sustain human behavior”.

Motivation of employees is a vital aspect of human resources management towards accomplishing the goals of the organization as well as that of the employees. Human subjects view motivation of employees as essential aspects of the organizational strategy adopted to enhance the firm’s performance through the motivation of the employee’s effort or ability and as attracting and retaining highly skilled employees (Gerhert et al., 2009, Larkin et al.,2011).

2.2.2.1.Types of motivation

Motivations as a phenomenon in human resource management and contemporary management have been widely research into (Kelly, 2009; Ahlstrom & Bruton, 2010; Seiler et al, 2011). Motivation is that propeller that energizes behavior, gives attitudinal

direction and underlies the continuous persistence even when an individual employee faces one or more challenges (Grobler et al., 2011; Mathis and Jackson, 2011; Brevis and Vrba, 2014).

Motivation is of various types' namely (i) financial, (ii) non-financial, (iii) intrinsic and (iv) extrinsic motivation.

Financial motivation: Financial motivation is said to be direct or indirect. Direct financial motivation comprises the pay an employee receives in the form of wages, salaries, bonuses or commissions while indirect financial motivation consists of all financial motivation or rewards that are not included in direct financial motivation such as vacation, child care or elder care, and various kinds of insurance (Ivancevich, 2004: 298, Brevis & Vrba, 2014).

Non-Financial motivation: Non-financial motivation is a kind of motivation that does not involve monetary terms like praise, responsibility, self-esteem and recognition which affects the motivation and productivity of an employee (Ivancevich, 2004: 298). It is not enough to motivate workers with money alone but could be combined with non-monetary incentives such as recognition to enhance greater productivity (Willis-Shattuck, Bidwell, Thomas, Wyness, Blaauw and Ditlopo, 2008; Mattson, Torbiöm & Hellgren, 2014). Similarly, Chandler, Chonya, Mtei, Reyburn and Whitty (2009) opine that social status expectations, working environments and relationships between different cadres at workplace as non-financial motivators goes a long way to ginger workers toward higher performance.

Intrinsic motivation: This simply means doing an activity for the sake of doing that activity which denotes that the activity is interesting, engaging and brings satisfaction. For instance, the acceptability of internet-based learning medium by students is basically based on perceived enjoyment for their intention to use the new learning medium (Lee, Cheung and Chen, 2005). In the same vein, intrinsic motivation could be derived through knowledge sharing. Employees get fulfilled by enhancing their knowledge self-efficacy or assurance in their effort by providing useful knowledge to the firm to broaden the performance of the firm as well as their own performance (Lin, 2007; Cruz, Pérez and Cantero, 2009).

Extrinsic motivation: Extrinsic motivation is a means to satisfy indirect needs or something given by someone else as recognition for good work done, for example, pay increases, praise and promotion. These are motivation that is anchored on the achievement of a desired goal or some other kind of external remuneration such as money or awards (Walker, Greene and Mansell, 2006). Lin (2007) believed extrinsic motivation centers on the goal-driven reasons such as recompenses or remunerations gotten when executing a duty. He submitted that the combination of both intrinsic and extrinsic motivation affects individual intentions concerning an activity as well as their real attitude. This view was supported by the study done by Kim, Shim and Ahn (2011) that extrinsic motivation deals with behaviors that are engaged in response to activities that is apart from its own sake, such as payments or recognition or the dictates of other people. This is relevant to this study in the sense that without teamwork, the expected performance may not be achieved. (Negatively connected to overtime use), financial influences (connected to pay level), and sales growth (positively connected to pay level (Werner & Ward, 2004). Firm-level effects connected to individual incentives capture sales, customer satisfaction, profit, performance, and revenues (Shieh, 2008). Those connected to group incentives capture division incentives, gain sharing, and stock-based and profit-sharing schemes.

2.2.3. Compensation and Employee Motivation

2.2.3.1. Direct and Indirect Financial Payments and Employee's Motivation

Financial payments are rewards that enhance employee's financial well-being directly or indirectly (Decenzo et al, 2007). According to Dessler (2008) the direct financial rewards refers to payment to employees which when done they enhances employee's financial position directly. Direct financial rewards come in form of wages, salaries, incentives, commissions and bonuses (Dessler, 2008). Bowen (2000) also notes that financial rewards mean those direct and indirect payments that enhance an employee's well-being, they make employee financially sound so that he/she can fulfill his/her material desire. There are two main categories of direct financial rewards namely: - Base/Basic pay and Contingent pay. Dessler (2008) reckons that financial payments are determined on the basis of equity which he defines as the fair treatment of employees. This may be internal equity where employees are paid according to relative value of

their jobs within same organization or external equity where organizations' employees are paid comparably to workers perform similar jobs in other firms.

2.2.3.2.Base/ Basic Pay

Base/ Basic pay also known as membership-based reward, refers to the amount of pay that constitutes the rate for the job, it may be varied according to the grade of the job or for manual workers, the level of skill required (Armstrong, 2008). Several factors influence the base pay; these include legal (government regulations), union (staff labour relations), company policy (company strategic aims) and equity (internal and external/market comparisons) (Dessler, 2004). Chrudden and Sherman (1980) indicate that other additional factors include worth of the job and individual bargaining power.

According to Armstrong (2008) the basic pay is normally expressed in form of normal rate and allowances. The normal rate may be hourly, weekly, monthly or annually while the allowances may be overtime, shift working or increased cost of living adjustment. DeNisi and Griffin (2008) differentiates between salary and wage by defining salary as income paid to an individual on the basis of performance or position held while wages refers to hourly compensation paid to operating employees on the basis of time worked.

2.2.3.3.Contingent Pay

Contingent pay on the other hand refers to additional financial rewards that may be provided and are related to performance, competence, contribution, skill or experience (Armstrong, 2008). They may come inform of incentives, commissions, bonuses and merit pays (Decenzo et al, 2007). Dransfield, (2000) states that automatic increases within the fixed pay bands have largely disappeared and the trend is toward performance-related-pay as the preferred method. Dessler (2008) defines financial incentives as financial rewards paid to workers whose production exceeds some predetermined standard. Bowen (2000) adds to the definitions that performance-based rewards are such benefits which are provided based on an employee's job performance ability. The reward depends upon the performance of an individual in the actual work floor. These rewards are exemplified using commissions, piece work pay plans, incentive systems, group bonuses or other forms of merit pay plans. Many people see contingent pay as the best way to motivate people, but it is simplistic to assume that it

is the only extrinsic motivator in the form of pay that creates long-term motivation (Armstrong, 2008).

Gomez et al. (2012) states that most employees believe that they should be rewarded to recognize their performance, they defined pay-for-performance or incentive system as a system that rewards employees on the assumptions that individual employees and work teams differ in how much they contribute to the firm and that the firms over-all performance depends to a large extent on the individuals and groups within the firm. They also argued that for a firm to attract, retain and motivate employees, the firm needs to reward employees on the basis of their relative performance. Lazear (2000), Paarsch and Shearer (2000) and Parent (1999) recon that use pay performance schemes has been shown to increase employee morale. Brown and Session (2003) confirmed the same by stating that employees prefer environment where productivity is rewarded and that this increases employee morale.

Dessler (2008), defined some of the incentives such as piece work plan, which refers to a system of pay based on several items processed by individual worker in a unit of time. Merit pay as an incentive, (also known as merit raise) is a salary increase to an individual for better performance, it goes toward increasing one's base salary. Merit pay options are one-off short-term bonuses, given to individuals as recognition of better performance without raising the base pay of the individual. Decenzo et al. (2007) refers to incentives for professional employees like system analysts and programs, engineers, doctors, economists whose work involves use of learned knowledge to provide solutions, to as competency-based compensation plan. Professional employees are also incentivized by used of recognition-based awards, these are non-financial incentives such as employee-of-the-year award, job well done card, star award card which are meant to give performance feedback (Decenzo et al, 2007). Incentives for salespeople come in the form of sales commissions, straight salaries or combination of both, this is with aim of ensuring the top line numbers or turnover (Dessler, 2008). Armstrong, (2008) expounded the above points by giving the applicability of the different forms like salary only, salary plus commission and salary plus bonus. He argued that the "salary only option" is applicable in a company where direct selling is more important than sales volume; hence need to encourage its customer service rather than high pressure selling.

Finally, the salary plus bonus operates well when flexibility in providing reward is important and sales staffs need to be motivated to focus on certain aspects of their work other than simply maximizing sales volume, thus ensure that other goals like high margins are achieved. The latter may however be complex to administer and understand. Commission only works well when sales performance depends on ability to sell and staff is not involved in non-selling activities. This provides a direct financial incentive, attracts high performing sales staff and ensure selling cost vary directly with volume.

Finally, additional non-cash rewards for example recognition and opportunity to grow, is better applied when it is believed that other methods of payments need to be enhanced to provide additional motivation to the salesperson.

Team or group incentives plans are plans in which production standard is set for a specific work group and its members are paid incentives if the group exceeds the standard (Dessler, 2008). While team incentives may foster a sense of cooperation and unanimity, the main disadvantage of plans is that one may not get paid proportionately to the personal effort put to the work, which may de-motivate top workers (Dessler, 2008). In addition, Gomez et al. (2012) also adds that although team-based approach may aid in performance measurement, the system may allow free-riding effects and social pressure may limit performance.

Organization-wide incentive plans, also called variable pay plan are plans in which all or most employees enjoy rewards as a result a performance of over-all companywide nature (Dessler, 2008). Examples include profit sharing, employee stock ownership (ESOP) and gain sharing plans. According to Bowen (2000), these organization-wide rewards are also called Membership based rewards. They are those rewards that are paid on the basis of being a member of an organization. It means, the basis of allocating rewards is employee's organizational membership. Hence, the reward goes to all employees irrespective of their performance. Incentives for managers and executives are rewards meant for recognizing the crucial roles that managers play in the divisional and companywide profitability (Dessler, 2008). They may be informed of short-term incentives like, annual bonus or long-term incentives like stock options.

2.2.4. Benefits and Employee's Motivation

According to Armstrong, (2008), there is more to rewarding people than throwing money at them, a point that is also echoed by Clegg and Birch (2002) that reward is not all about money. Decenzo et al. (2007), states that today's workers expect more than just a salary or wage, they want additional considerations that will enrich their lives. They described non-financial rewards as the desirable extras in the organization which do not directly increase the employee's financial position, but rather add attraction to life on the job. Examples of such rewards may include things like, preferred office furnishing, assigned parking space, business cards, own secretary and recognition and amongst other things.

Dessler (2008) defines benefits as indirect financial and non-financial payments employees receive for continuing their employment with the company. Gomez et al. (2012) also says that benefits are sometimes called indirect compensation as they are given to employees in form of plan rather than cash; they provide security for employees and their family members. Decenzo et al. (2007) too defines employees benefits as non-financial rewards offered to attract and keep employees, he adds that they have grown in importance and variety as employers have realized that such benefits affect the discretion of applicants when accepting or declining employment offers. DeNisi and Griffins (2008) defines benefits as the various rewards, incentives and other things of value that an organization provides to its employees beyond their wages, salaries and other forms of direct financial compensation. Bernardin (2003) defines benefits as indirect forms of compensation that are intended to maintain or improve the quality of life for employees. Indirect financial rewards come in form of subsidized benefits such as retirement plans, paid sick leaves and purchase discounts (Decenzo et al, 2007). Dessler (2008) classifies other payments like employer-paid insurance and vacations as forms of financial benefits.

2.2.4.1. Benefits Classifications

Employee benefits have been classified widely according to different authors and the context of circumstance. Dessler (2008) for example classifies benefits into four basic types, namely; Supplemental pay benefits, Insurance benefits, Retirement benefits and Personal Service and Family-friendly benefits. Supplemental pay benefits provide for time not worked, they include unemployment insurance, vacation and holiday pay,

severance pay, and Insurance benefits includes, workers compensation, group hospitalization, accident and disability insurance; and group life insurance. Retirement benefits include social security and pension plans. Personal service and family-friendly benefits include food services, recreational and child and child-care opportunities, legal advice, credit unions, educational subsidies and counseling. These may also be referred to as voluntary benefits. Decenzo et al. (2007) on the other hand classifies the benefits into seven categories, Legally required benefits such as social security, Unemployment insurance, Voluntary benefits, Retirement benefits, Survivor benefits, Paid time offs, Insurance plans and Health insurance. Cole (2002) classifies employee benefits into three key categories, security benefits like pension and life insurance, work related benefits like subsidized meals and special training opportunities and finally status-related benefits like prestige car and entertainment allowance. DeNisi and Griffin (2008) argues that although most of the above-named benefits are designed for all the employees in an organization (with varying levels) some organizations have developed a cafeteria-style benefit plans which allows the employees to choose the benefits that fits them.

2.2.4.2. Recognition Benefits

The irony of benefits however is though they attract and retain good workers; they do not directly affect workers performance. According to Decenzo et al. (2007) they are membership based offered regardless of performance levels as their absence contributes to employee's dissatisfaction and increased absenteeism and turnover. According to Nelson and Spitzer (2003) there is revolution going on in today's workplace, workers want respect and they want it now, they want to be trusted to do a good job, they want autonomy to decide how best to do it, they want support even if they make mistake and they want to be appreciated when they do a good job. Cascio (2010) adds that employee benefits do not enhance productivity but are rather powerful tools of attracting and retaining talent, and for improving the quality of life of employees and their dependents.

Recognition and performance are closely linked (Nelson and Spitzer, 2003), this is because recognition helps one motivate employees more and it helps in providing practical feedback. A genuine and effective recognition system exhibit the following characteristics of being based on contingency, being timely, frequency, informal and spontaneous, the right setting and context (personal touch), significance of provider and

value to the recipient. Nelson in his study also found out that low use of recognition as a tool for motivation was attributed to six main excuses described as follows; I don't know how best to do it, I don't feel it is important, I don't have time, I might leave somebody out, others don't value the recognition I give, the organization does not facilitate or support the initiative. Clegg and Birch (2002) indicates that a simple recognition for success, whether it's a simple pat on the back or Nobel prize can be very useful. As a matter of facts, a simple comment can have totally disproportionate effect on motivation. It is hard to believe but extra cash in the pocket does not motivate as much as genuine recognition argues, Clegg and Birch (2002). Clegg and Birch 2002 adds that the effect of recognition becomes weaker as the numbers get larger. The more personal the better and it is also important that the person giving recognition is respected by the recipient.

2.2.4.3. Other Benefits

Nelson and Spitzer (2003) also gave the following list of items as the prime non-financial motivators which if more are present the more the employees are motivated. These are action, fun, variety, input, stake sharing, choice, responsibility, leadership opportunity, social interaction, teamwork, using strength, learning, error tolerance, measurement, goals, improvement, challenges, encouragement, appreciation and significance. Robert (1999) in his handbook, *"Dealing with People"* concurs with Nelson & Spitzer's list. Expounding on the motivators, Nelson and Spitzer, (2003), and Robert Heller (1999) explained action as being actively engaged in productive work while fun is a work environment that includes enjoyable activities not just hard work. Input on the other hand represents feeling that one's opinion matters while stake sharing is the feeling of ownership in the organization. Choice is about being empowered to make discretionary decisions while responsibility is taking a role in whole task rather than piecework. A leadership opportunity is a chance to manage a team, meeting or event. Social interaction is the freedom to interact with others freely while teamwork is about being a member of a productive team. Using strength is being encouraged to do the things that one does well, and learning is enhancing one capability.

Error tolerance is being allowed to fail without punishment and being helped to learn from experience. Measurement is being encouraged to keep one's own score rather than being micromanaged while goals is being encouraged to set one's targets rather than

having them imposed by others. Improvement is being in an environment that enables people to become little better every day while challenge is about giving appropriately difficult tasks that cause one to stretch without feeling anxious. Encouragement is being in an environment which others believe in people while appreciation is about receiving acknowledgment of contributions and lastly significance is feeling part of a mission that matters. DeNisi and Griffin (2008) adds to the above list by noting that some organizations have resulted to different type of benefits known as wellness programs.

2.3. Empirical Literature Review

Eman Fuad in his assessment of compensation and Benefit package practice in Ethiopian Road Authority (July 2010), he found that there is no employees discussion in preparing compensation plan in organization not only this they don't know from where they can get information regarding the compensation plan of the organization. Employees are demotivated with the current monetary incentive's bonus and son on. In general, his finding shows that the motivation of employees towards their work regarding the existing remuneration system of the organization is limited in case of salary. This means employees are demotivated and may not stay in the organization for long period of time. This may not lead to increase turnover and absenteeism of the organization. He also recommend that the company attention should be given for improvement in area of existing remunerating system to increase the level of motivation of employees; the organization could be able to allocate appropriate remuneration system to increase the motivation of employees and also he recommend the organization should administer the salary scale fairly based on the responsibility they have qualified and relevant year of experience to retain and motivate employees for higher performance.

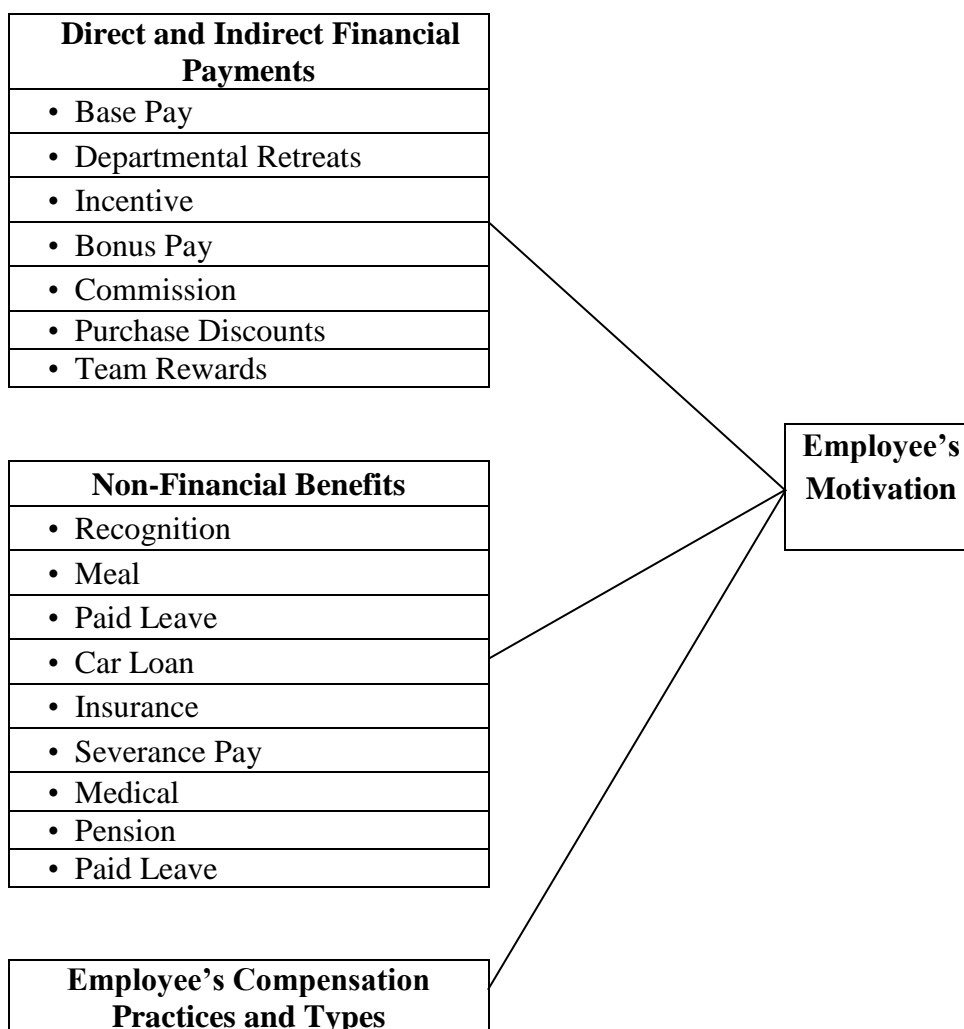
Another thesis conducted by Bililign Lemma (June 2012) assessment on employees benefit package and motivation of employees in the case of Dashen Bank. His finding demonstrated that the benefit package of the company is not enough to cover the basic need of its employee and their families that resulted demotivation from employees' side. Moreover, his study also established that the benefit package of the company is lower than similar and different company to cover the needs of its employees. Finally, his findings him to the conclusion that for all Dashen Bank and other similar industry

in general to use a flexible benefit package on their police and program and reduce employee's demotivation.

2.4. Conceptual Framework

This study is to determine the effect of compensation on employee motivation. The independent variables considered are direct financial payments, indirect financial payments, benefits, compensation practices, and compensation types. Whereas, the dependent variable is employee's motivation. Figure 4.1 presents the conceptual framework of this study.

Figure 4.1: Conceptual framework of this study



Source: Own compilation

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

This chapter discusses the research design and methodology of the study. It describes the research design, approach, population and sample size, the sampling design, the instruments and the process of data collection, statistical procedures used to analyze the data, and finally the chapter concludes by the validity and reliability of measures.

3.2. Research Design

Research methodologies or research strategies connotes the whole method that a researcher engages in collecting data with the objective of conducting research and effectively drawing a logical and realistic conclusion/deduction (Asika, 2008; Creswell, 2014). The research design is a road map to execute the research study. This is also a structured means of investigation aimed at identifying variables and their relationship to one another and this is basically used for the purpose of gathering data for the research hypotheses to be tested by the researcher or provide answers to the research questions (Asika, 1991, Saunders et al., 2012).

According to Robson (2002), based on the purposes they serve, researches can be categorized into three types: explorative, descriptive, and explanative. Exploratory research is characterized as the seeking of new insights, the, looking around”, and the asking of questions or the bringing of some phenomenon into new light. Descriptive research is characterized as the depicting of accurate profile of people, events, or situations. Finally, explanative research aims at gaining an explanation of a specific problem, generally in the form of causal relationships (Robson, 2002).

This study used both descriptive and explanative types of mixed research designs. Reason for the choice of explanative research design is that it is typical to use quantitative results to assist in explaining and interpreting the findings of a study. In addition, this design is used in the study in order to determine the relationship between employee’s motivation as a dependent variable and direct financial payments, indirect financial payments, benefits, compensation practices, and compensation types as independent variables. The finding of this research explains the relation of each independent variable with the dependent variable that makes the research type causal.

In addition, the study has also some features of descriptive research design. Descriptive statistics was adapted in order to analyze the research objectives and research questions through simple percentage, mean, standard deviation, Pearson product moment correlation coefficient, and regression. The design was appropriate because of its ability to determine and describe the characteristics of employees, existing nature of compensation practice and types at the company. This further enabled the study to analyze the existing practice by comparing it with the theoretical aspects.

3.3. Research Approach

Research approaches are plans and the procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation.

There are three research types of approaches: qualitative, quantitative, and mixed methods. Qualitative research is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. Quantitative research is an approach for testing objective theories by examining the relationship among variables. Mixed methods research is an approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and using distinct designs that may involve philosophical assumptions and theoretical frameworks.

The study followed quantitative research approach using survey design. Quantitative research approach gives the opportunity to ask a series of questions from the respective respondents and can make a summary of their responses using percentages, frequency counts or more advanced statistical indexes (Amaratunga et al., 2002; Leedy & Ormrod, 2010; Tillman et al., 2011). The reason for adopting quantitative approach was that it was an appropriate means for arriving at statistical descriptions. This research used this research design due to the nature of the research and the research question. Besides, the objective of the research was to quantify of the effect of each independent variable on dependent variable. Using quantitative design, the research tried to quantify the correlation type and strength between the independent variables (direct financial payments, indirect financial payments, benefits, compensation practices, and compensation types) and its dependent variable (employee's motivation).

3.4. Population and Sampling Techniques

3.4.1. Population

Population is said to mean all the conceivable elements, subjects or observations relating to a phenomenon of interest to the researcher. Subjects or elements are separate individual items that constitute the entire population, which may either be observed or physically counted (Asika, 1991).

Awash Wine S.C has a total of 610 employees on permanent and contract basis in all branches which are divided by eight departments. Table 3.1 shows the population size and distribution.

Table 3.1: Population Size

Department	Population	Percentage
Commercial	177	29%
Farm	114	19%
Finance	23	4%
HR	66	11%
Plant	192	31%
Procurement	17	3%
Quality	6	1%
Technic	15	2%
Total	610	100%

3.4.2. Sample Size

For the purpose of this study and according to its scope representative samples were selected from employees. Simple random sampling was applied to give equal chance of being selected for all participants, at a confidence level of 95% Saunders *et.al.* and Israel (2009) a statistical sample of 243 were selected from the total population of 610 employees by applying the below statistical formula.

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

n = Sample size
N = Population size
e = Level of precision, Yamane (1967)

$$n = \frac{610}{1 + 610 * (0.05)^2}$$

$$n = 243$$

3.4.3. Sampling Frame

Sampling frame is part of the entire population of the study, which is a working universe that was considered and used for in this study. Therefore, sampling is the process adopted in drawing samples from the main population. In this study, the total population of 610 employees were included on the sampling frame.

3.4.4. Sampling Technique

The researcher used Probability sampling i.e., simple random sampling to select sample respondents from the total population. The researcher used this sampling method because employees are available, and it was easy for the researcher to select randomly from the population. On the other side this sampling technique gives equal chance for all respondents to be included in the sample. In Awash Wine S.C, employees are classified in departments. The departmental classification enabled to attain a good level of homogeneity within any single department hence the sample picked from the different departments would give a better representation of the population. The researcher divided the sample into commercial, farm, finance, HR, plant, procurement, quality and technic department staffs and the sample was picked randomly from the list of staff per department.

3.5. Instruments of Data Collection

This research carried out with primary and secondary sources of data that enable the researcher to meet the objective of the study outlined at the beginning. The primary sources of data were collected through structured questionnaires. The questionnaire was divided into four main parts, Part I, II, III and IV. Part I of the questionnaire consisted

of five questions seeking general information about the respondents, these included the age, the gender, the level of education, the number of years they have worked at Awash Wine S.C and finally the general feeling of staff motivation in the organization. Part II of the questionnaire sought to assess the practice of compensation at Awash Wine S.C. It had ten questions. Part III had ten questions and it sought to determine the extent to which direct financial compensations affect employee's motivation. Finally, part IV consisted of five questions seeking to determine the extent to which benefits affect employee's motivation. Part II, III and IV consisted of questions on a 5-point likert scale asking the respondents to give their opinions by ticking option 1 for "Strongly Agree", option 2 for "Agree", option 3 for "Not Sure", option 4 for "Disagree", and lastly option 5 for "Strongly Disagree".

As a secondary source, reviews of different literatures both theoretical and empirical, which have a bearing to the research topic, were made. The company's website www.awashwine.com was also a useful source especially for information related to the company's background.

3.6. Procedures of Data Collection

The questionnaire was administered by means of hand delivery to all respondent, the questionnaire was estimated to take 15 minutes to complete. Personal hand delivery, self-explaining of the purpose and assisting manually to fill questionnaire done to all respondents helped to ensure a high rate of response.

Pilot test was conducted using 30 questionnaires to identify and eliminate potential problems associated with question content, wording and format. Based on the feedback received from pretest participants, few changes were made on the questionnaire before it was administered to the sample.

3.7. Methods of Data Analysis

The data analysis was carried out based on the variables covered in the study. The Statistical Package for Social Sciences (SPSS) version 20 for Windows was used to screen and analyze all the data collected. These data were organized with the help of the software into figures and tables to present and discuss the results of the study.

3.8. Validity and Reliability of Measures

According to Muller (2011), validity and reliability are measures used in quantitative research to assess the accuracy of the measurement tool and its consistency. Validity refers to the extent of measuring what is intended to measure, while Reliability is concerned with questions of stability and consistency in which the same measurement tool yield stable and consistent results when repeated over time. Both types of measures are important tools to reach at a valid research result. Therefore, to achieve this, the researcher has used the following mechanisms.

3.8.1. Validity

Validity is the strength of conclusions, inferences or propositions, or put simply, it is defined as the "best available approximation to the truth or falsity of a given inference, proposition or conclusion.

As suggested in Saunders, et al. (2009, p.363) self- administered questionnaire provides reliable data. The instrument's validity and reliability was evaluated by the research advisor and experts who have knowledge on the subject matter; the distribution as well as the collection and the explanation about questionnaire filling and convenience support was accomplished by the researcher to increase understandability among the respondents and there by maintain data reliability.

3.8.2. Reliability

In order to ensure reliability, statistical analysis was implemented to examine the internal consistency of the instruments utilized. To assure validity to the research, the researcher used Cronbach's Alpha test. The result of this test according to SPSS version 20 is 0.8 which is good based on George & Mallery (2003) scale of reliability reference.

3.9. Ethical Consideration

While conducting this study ethical considerations were considered. Adequate care has been taken to select appropriate time to distribute questionnaires. Circumstances such as busy and high peak office task hours were avoided so that respondents can give answer to the questions in a relaxed manner. By explaining the purpose and objective of the study, maximum effort was made to make respondents feel secured and confidentiality is maintained so that no harm can happen to them.

CHAPTER FOUR

ANALYSIS AND INTERPRETATION

4.1 Introduction

In this chapter, the analysis and presentation of firsthand information that was collected via questionnaires is presented. The chapter also outlines the results of data analysis obtained from data collected from respondents. The data collected was analyzed with the Statistical Package for Social Science (SPSS). The main purpose of this study was to determine the effect of compensation on employee motivation independent variable and dependent variables. This study aims to achieve the research objectives as well as answers the research questions highlighted in chapter one.

4.2 Response Rate

The researcher distributed 243 questionnaires for three branches of the company and was able to collect 231 questionnaires back. That means the response rate for this research was about 95%. Table 4.1 shows the response rate of questionnaires administered per department.

Table 4.1: Response rate of Questionnaires Administered per Department

Category	Sample Size	Response	Percentage
Commercial	71	69	97%
Farm	41	37	90%
Finance	8	7	88%
HR	20	20	100%
Plant	81	78	96%
Procurement	10	8	80%
Quality	4	4	100%
Technic	8	8	100%
Total	243	231	95%

4.3 Demographic Characteristics of Respondents

This part had five questions touching on Gender, Age, Education level, Employment duration and the general feeling on motivation in the organization. The data is as presented in the Table 4.2.

Table 4.2: Demographic Characteristics of Respondents

No	Variables	Type	Frequency	Percent
1	Gender	Male	195	80%
		Female	48	20%
Total			243	100%
2	Age	20-30	61	25%
		30-40	107	44%
		40-50	39	16%
		Over 50	36	15%
Total			243	100%
3	Education	Certificate	44	18%
		Diploma	80	33%
		Degree	87	36%
		Masters	32	13%
Total			243	100%
4	Year of Service	<5 year	112	46%
		5-10 years	73	30%
		10-15 years	22	9%
		15-20 years	19	8%
		<20 years	17	7%
Total			243	100%
5	Staff Motivation	High	32	13%
		Moderate high	141	58%
		Not sure	34	14%
		Moderately low	29	12%
		Low	7	3%
Total			243	100%

Source: Survey Result (2019)

The findings showed that 48 of the respondents were female and 195 were male. This shows a 20% and 80% representation of female and male respectively. This implies that the population of male is higher than female.

From the findings, 25% of the respondents were aged between 20-30 years old. 44% of the respondents were the middle-aged group of between 30-40 years old. 16% were between 40-50 years. Lastly 15% were between 50-60 years. This implies that the company has over 44% of its population at a youthful age of 30-40 years old.

Regarding education level, the respondents who had a college certificate were 18%, while those who had diploma training were 33%. The first degree and masters degree were represented by 36% and 13% respectively.

The findings showed that 49% of the respondents had been in employment for less than five years. A 30% had worked for between 5-10 years, 9% between 10-15 years, 8% were between 15 – 20 years. Another 7% of the respondents had over 20 years working in the company.

When asked about the general feeling of motivation in the organization, 13% of the respondents felt that the motivation levels were high. A 58% of the respondents said it was moderately high. 14% were not quite sure and 12% felt that levels were moderately low. Another 7% of the respondents felt low.

4.4. Analysis of Data Related to The Study

4.4.1 The practice of Compensation on Employee Motivation at Awash Wine S.C

Part II of the questionnaire had ten items which sought to assess the practice of compensation on employee motivation at Awash Wine S.c. The respondents were required to give their opinions on a likert scale by ticking option 1 for Strongly Agree to 5 for Strongly Disagree. The data is as presented in the Table 4.3.

Table 4.3: Practice of Compensation on Employee Motivation

No	Statement	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Mean	STD DEV
		F %	F %	F %	F %	F %	F %	F %
1	Compensation costs has significant portion.	34 14%	141 58%	53 22%	3 1%	12 5%	2.25	0.89
2	Compensation plan is well formulated.	7 3%	95 39%	73 30%	56 23%	12 5%	2.88	0.961
3	The pay structure meets the requirement of the government of Ethiopia.	51 21%	122 50%	53 22%	12 5%	5 2%	2.17	0.886
4	The pay structure has good balance within employees.	12 5%	49 20%	104 43%	66 27%	12 5%	3.07	0.931
5	The pay structure has	5 2%	70 29%	104 43%	53 22%	11 4%	2.98	0.879

	good balance with other employees.							
6	My job is very well defined.	46 19%	175 72%	15 6%	5 2%	2 1%	1.94	0.637
7	I am compensated for use of my skills.	12 5%	142 58%	19 8%	68 28%	2 1%	2.61	0.974
8	My Job offers little incentives for gaining new skills.	5 2%	44 18%	24 10%	114 47%	56 23%	3.71	1.076
9	Decisions on compensation are managed centrally.	61 25%	97 40%	36 15%	36 15%	13 5%	2.35	1.163
10	Salary survey is conducted before determining new salaries.	19 8%	15 6%	104 43%	66 27%	39 16%	3.37	1.074

Source: Survey Result (2019)

The study found out that, majority of the respondents agreed that compensation constituted a significant component of the organization cost. Gomez et al. (2012), states that employee compensation is the single most important cost in most firms and that in some manufacturing organizations it accounts for 60% of the total cost. This is higher in some service organizations and hence this meant that the effectiveness with which compensation is allocated can make a significant difference in gaining or losing a competitive edge. Dessler (2008) added that improperly developed compensation plan may result to a wage rate that is too high hence unnecessary expenses. This shows that the findings agree with those of Gomez et al. (2012), and Dessler (2008).

Arguably one of the factors that affect the design of any compensation plan is government requirement and a good compensation plan must meet the minimum government requirement (Dessler, 2008). The findings showed that a more than half of the respondents believed that the compensation plan met the government requirement, a quarter were not sure while less than one tenth disapproved. Gomez et al. (2012) indicates internal and external equity as one of the key factors that must be considered when determining a compensation plan. The study showed that on the internal equity only a small group of about a quarter believed that the pay structure achieved internal equity. Almost half of the respondents were not sure while another one third felt that the structure did not achieve internal equity. The findings on external

equity showed an almost similar response with only a third agreeing that the system achieved external equity.

Armstrong (2008) and Dessler (2008) describe the steps in ensuring a well-balanced employee compensation to include job definitions, job evaluation and salary surveys amongst others. Although most of the respondents at 91% agreed that their jobs were well defined, and almost half of the respondents felt that process of compensation determination especially the salary survey was not adequately conducted before determining new salaries. DeNisi and Griffins (2008), Dessler (2008) and Milkovich et al. (2013) points out to the two main broad ways of categorizing compensation as skills-based and job-based approach. A job-based approach assumes that jobs are very well defined and titled for example a cashier, a matron or a chef. The works in these jobs is done by people who are paid to perform them well. In this plan since all jobs are not equally important to the firm, the labor market puts greater value on some jobs than on others with the most important jobs paying the most. Skills based approach on the other hand assumes that workers should not be paid for the jobs they hold but for how capable they are at performing the task or multiple tasks (Gomez et al, 2012). The greater the variety of job-related skills one possesses the more they are paid. DeNisi and Griffin (2008) defines skill-based pay as rewards to employees for acquiring skills. From the study a two thirds majority of the respondents felt that at Awash Wine S.C employees were compensated for the use of their skills. The study also showed that less than a quarter of the respondents felt that employees were incentivized to gain new skills. Over two thirds of the respondent disagreed that there were incentives for gaining new skills or knowledge.

4.4.2. Direct and Indirect Financial Payments and Employee Motivation

Part III of the questionnaire had ten items which sought to determine the extent to which direct financial payments affect employee motivation at Awash Wine S.C. The respondents were required to tick their opinions on a 1 to 5 Likert scale, 1 being Strongly Agree and 5 being Strongly Disagree. The data is as presented in the Table 4.4.

Table 4.4: Direct and Indirect Financial Payments and Employee Motivation

No	Statement	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Mean	STD DEV
		F %	F %	F %	F %	F %	F %	F %
1	My basic pay is reviewed Periodically.	80 33%	141 58%	7 3%	10 4%	5 2%	1.84	0.828
2	My basic pay varies from others	61 25%	117 48%	56 23%	2 1%	7 3%	2.08	0.878
3	My basic pay motivates me to do my work well	12 5%	124 51%	22 9%	73 30%	12 5%	2.79	1.08
4	My basic pay is well balanced with what I do	10 4%	78 32%	56 23%	75 31%	24 10%	3.1	1.088
5	My basic pay is well balanced compared to Other staff	5 2%	24 10%	136 56%	61 25%	17 7%	3.25	0.807
6	An increase in basic pay will motivate me more	97 40%	107 44%	5 2%	24 10%	10 4%	1.94	1.089
7	Staff are compensated for achieving set targets	117 48%	100 41%	7 3%	10 4%	9 4%	1.74	0.972
8	Team rewards motivates	51 21%	92 38%	44 18%	44 18%	12 5%	2.48	1.155
9	There exists good teamwork	51 21%	165 68%	7 3%	15 6%	5 2%	2	0.821
10	Staff are entitled to organization reward	68 28%	139 58%	7 3%	17 7%	12 5%	2.04	1.018

Source: Survey Result (2019)

The researcher found out that almost all of the respondents agreed to their basic pay was reviewed periodically to adjust for the cost of living. On question of pay variation

for different levels a majority agreed that there was variation in the organization. This finding was in line with the expectations of the different authors, Armstrong (2008), Decenzo et al. (2007) and Dessler, (2008). They defined basic pay as membership-based reward that constitute rate for the job, this is reviewed regularly and may be varied according to the grade of the job or the level of skills. Further findings from the study showed that half of the respondents were motivated by their current pay and a one third were not motivated at all. This was in line with Dessler (2008) view that basic pays as the name suggests, are just base pays and though their absence de-motivates employees, their presence may not necessary motivate the employees as they expect to get it anyway for the work done, time worked or for them being there. It is however important that base pay helps achieve the internal and external equity to avoid de-motivation.

The number of respondents, who agreed to their pay matching the work they do netted to about a third while those who disagreed were almost half. A whole quarter of the respondents were not sure. This tied to the above findings on respondent view that the processes of compensation determination were not followed, in this case the job evaluation. Job evaluation is a systematic process of defining the relative worth or size of jobs within an organization in order to establish internal relativities and provide the basis for designing an equitable grade structure, grading jobs and managing job and pay relativities (Armstrong, 2008). The same was also evidenced with the findings on basic pay being balanced as compared to other employees where only a small percentage of the respondents agreed.

In the finding on the fact that basic pay would motivate more, an 84% response was received in favor of agreeing. This was in agreement to the argument by Drafke (2002) who pointed out that money can increase performance but only in the short time, DeNisi and Griffins (2008) on the other hand argued that higher level of pay tend to increase satisfaction greatly, the study findings was in agreement with DeNisi and Griffins view. It was however not clear whether it was only for short term or for long term. The researcher also found out that almost all of the respondents improved their performance on receiving a pay for performance, according to Gomez et al. (2012), Lazear (2000), Paarsh and shearer (2000) and Parent (1999) use of pay for performance schemes has been shown to increase employee morale. Brown and Session (2003) confirmed the same by stating that employees prefer environment where productivity is rewarded and that this increases employee morale.

The Findings on team rewards and organizational rewards were that over two thirds of the respondents agreed that they received additional pay for their performance against the set targets and that they felt motivated for being rewarded for what they achieved as a team; and as a result of the whole organization achieving its set objectives, this was in line with the above views of Gomez et al. (2012), Lazear (2000), Paarsh and shearer (2000) and Parent (1999). Finally, a Pearson's correlation test on direct and indirect financial payments and employee's motivation showed a positive correlation on all areas tested except for one. The correlation between current basic pay and motivation was negative. This was as expected as per the views of authors like Drafke, (2002), DeNisi and Griffins (2008), Bretz and Thomas (1992) and Clegg and Birch (2002).

4.4.3 Benefits and Employee Motivation

Part IV of the questionnaire had five items which sought to determine the extent to which benefits affect employee motivation at Awash Wine S.C. Question one required the respondents to give their opinions on whether they receive the listed benefits. On questions two to five the respondents were required to give their opinions on a 1 to 5 Likert scale, 1 being strongly Agree and 5 being strongly disagree.

4.4.3.1 List of Benefits Entitled

When asked if they were entitled to a list of sampled benefits namely, medical, pension, paid leave, insurance, car loans, free meals, childcare and severance.

The findings showed that on medical benefits 207 respondents agreed so, on pension 236 affirmed, Paid leave 236, insurance 143, car loan 61, Meals 158, severance pay had 158 affirmations but on childcare, all respondents didn't agree up on. The findings are as illustrated in Figure 4.1.

Figure 4.1: List of Benefits Entitled

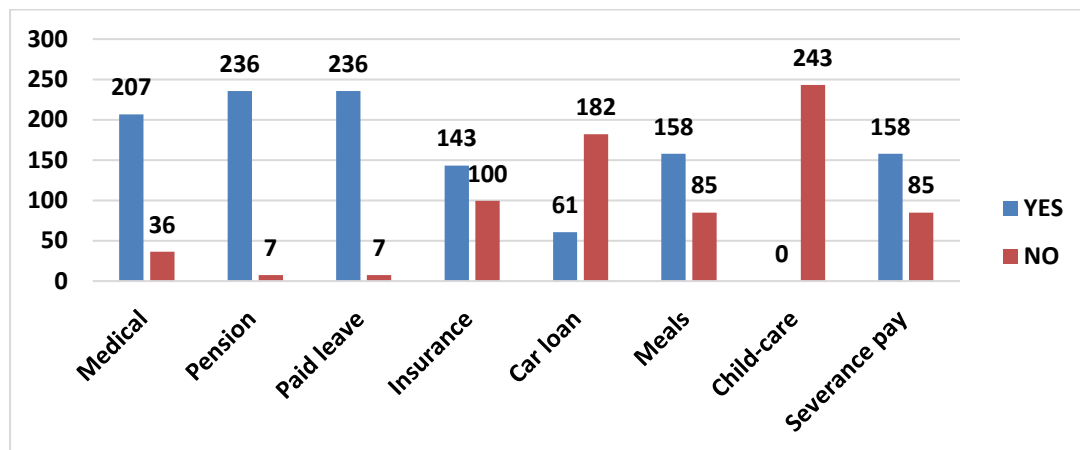


Table 4.5: Importance of Benefits to Employees

No	Statement	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree	Mean	STD DEV
		F %	F %	F %	F %	F %	F %	F %
2	Benefits are very important	44 18%	102 42%	15 6%	77 32%	5 2%	2.58	1.17
3	Benefits I receive motivates me	51 21%	153 63%	7 3%	27 11%	5 2%	2.1	0.928
4	I am recognized for what I do	44 18%	126 52%	29 12%	32 13%	12 5%	2.35	1.074
5	The recognition system motivates me	44 18%	124 51%	24 10%	34 14%	17 7%	2.41	1.144

Source: Survey Result (2019)

The study found out that not all the respondents were entitled to the benefits stated. The highest responses were on paid leaves and pension with 236 respondents each confirming that they were entitled. The lowest response was in childcare support that none of the respondents confirmed entitlement. Dessler (2008) defines benefits as indirect financial and non-financial payments employees receive for continuing their employment with the company. Gomez et al. (2012) also says that benefits are sometimes called indirect compensation as they are given to employees in form of plan rather than cash; they provide security for employees and their family members. Decenzo et al. (2007) too defines employee's benefits as non-financial rewards offered to attract and keep employees, he adds that they have grown in importance and variety

as employers have realized that such benefits affect the discretion of applicants when accepting or declining employment offers. DeNisi and Griffins (2008) defines benefits as the various rewards, incentives and other things of value that an organization provides to its employees beyond their wages, salaries and other forms of direct financial compensation. Bernardin (2003) defines benefits as indirect forms of compensation that are intended to maintain or improve the quality of life for employees.

The study also found out that two thirds majority of the respondents agreed that benefits were important. As regards to the fact that the presence of benefits motivates employees, the researcher found out that a great percentage of the respondents felt motivated. Only a small percentage felt otherwise. These findings were in accordance to the views of Armstrong, (2008), Clegg and Birch (2002), and Decenzo et al. (2007). The authors said that there was more to rewarding people than throwing money at them, reward is not all about money and that today's workers expect more than just a salary or wage, they want additional considerations that will enrich their lives, they described non-financial rewards as the desirable extras in the organization which do not directly increase the employee's financial position, but rather add attraction to life on the job. Examples of such rewards may include things like preferred office furnishing, assigned parking space, business cards, own secretary and recognition and amongst other things.

On recognition rewards the researcher found out that there was a system in place with almost all respondents agreeing and that the recognition system motivates the employees. This last finding begs to differ with the views of authors like Decenzo et al. (2007) and others. Their argument was that the irony of benefits was though they attract and retain good workers; they do not directly affect workers performance. According to Decenzo et al. (2007) they are membership based offered regardless of performance levels as their absence contributes to employee's dissatisfaction and increased absenteeism and turnover. According to Nelson and Spitzer (2003) there is revolution going on in today's workplace, workers want respect and they want it now, they want to be trusted to do a good job, they want autonomy to decide how best to do it, they want support even if they make mistake and they want to be appreciated when they do a good job. Cascio (2010) adds that employee benefits do not enhance productivity but are rather powerful tools of attracting and retaining talent, and for improving the quality of life of employees and their dependents.

4.4.4. Correlations between Independent and Dependent Variables

Correlation analysis helps to gain insight into the direction and strength of correlation between variables. Correlation coefficients take values between -1 and 1 ranging from being negatively correlated (-1) to uncorrelated (0) to positively correlated (+). The sign of the correlation coefficient defines the direction of the relationship. The absolute value indicates the strength of the correlation. Correlation analysis was undertaken before conducting the regression analysis.

Table 4.6: Correlations between Independent and Dependent Variables

		Direct financial payments	Indirect financial payments	Motivation	Benefits	Compensation Practices	Compensation Types
Direct financial payments	Pearson Correlation	1	.838**	.797**	.852**	.786**	.841**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	243	243	243	243	243	243
Indirect financial payments	Pearson Correlation	.750**	.845**	.895**	.895**	.746**	.735**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000
	N	243	243	243	243	243	243
Motivation	Pearson Correlation	.913**	.882**	.886**	.911**	.778**	.840**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000
	N	243	243	243	243	243	243
Benefits	Pearson Correlation	.703**	.796**	.870**	.883**	.888**	.792**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000
	N	243	243	243	243	243	243
Compensation Practices	Pearson Correlation	.796**	.842**	.812**	.822**	.834**	.835**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000
	N	243	243	243	243	243	243
Compensation Types	Pearson Correlation	.786**	.913**	.882**	.886**	.911**	.778**
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000
	N	243	243	243	243	243	243

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

Source: SPSS Result (2019)

In this study the direct and indirect financial payments and employee’s motivation showed different correlations levels for the various areas tested. The results show that there is a relatively strong correlation between direct financial payments and employee motivation ($r=.913$, $p<0.01$). On the other hand, a Pearson’s correlation test between employee’s benefits and employee’s motivation showed different levels correlations on the areas tested. The results show that there were no significant correlations between employee benefits and their motivation.

4.4.5 Model Summary

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.932a	.912	.892	.203

- a. Predictors: (Constant), direct financial payments, indirect financial payments, benefits, compensation practices, and compensation types.
- b. Dependent variable: Employee Motivation

4.4.6 ANOVA

Table 4.8: ANOVA result

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	59.781	7	8.540	22.224	.000 ^b
	Residual	54.567	142	.384		
	Total	114.348	149			

- a. Predictors: (Constant), direct financial payments, indirect financial payments, benefits, compensation practices, and compensation types.
- b. Dependent variable: Employee Motivation

The above tables showed that, the result in the ANOVA table confirmed the significance of the overall model by p- value of 0.000 which is below the alpha level, i.e. 0.05, which means, the independent variables taken together have statistically significant relationship with the dependent variable under study. The other major result under the model summary table showed the R or coefficient of correlation of the model is 0.723 or 72.3% and R Square or coefficient of determination of the model is 0.523 or 52.3%.

4.4.7 COEFFICIENTS

The regression analysis was done using employee’s motivation as dependent variable and direct financial payments, indirect financial payments, benefits, compensation practices, and compensation types as independent variables. The following table depicted the analysis’s result as follows;

Table 4.9: Regression coefficients result

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-1.21	0.352		-3.44	0
Direct Financial Payments	0.223	0.088	0.181	2.527	.003*
Indirect Financial Payments	0.451	0.074	0.429	6.085	.000*
Benefits	0.221	0.075	0.202	2.934	.004*
Compensation Practices and Types	0.333	0.085	0.272	3.929	.000*

Source; SPSS Result, 2019

a. Dependent Variable: Employees Motivation

The above table shows that, the independent variables Direct Financial Payments, Indirect Financial Payments, Benefits and Compensation Practices and Types have statistically significant relationship with the dependent variable since their p-value is below the alpha level which 0.05 is. Considering the standardized beta coefficients, the strongest predictor of the dependent variable (Employees Motivation) is Outcome

orientation with 0.429 value and Direct Financial Payments, Indirect Financial Payments, Benefits and Compensation Practices and Types with a beta value of 0.181, 0.429, 0.202 and 0.272 respectively. All the independent variables have positive relationship with the dependent variable.

So, from the above table one can drive the model as follows;

$$M = -1.211 + 0.223 \text{ DFP} + 0.333 \text{ IFP} + 0.067 \text{ BF} + 0.451 \text{ CPT}$$

Whereby M = the dependent variable (Employees Motivation)

DFP = Direct Financial Payments

IFP = Indirect Financial Payments

BF = Benefits

CPT = Compensation Practices and Types

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study as detailed in chapter four, concludes and gives recommendations as deemed fit on the effect of employee compensation on motivation at Awash Wine S.C.

5.2 Summary

The general objective of the study was to assess the effect of compensation on employee's motivation at Awash Wine S.C. The study was guided by the following three research objectives: to assess the practice of compensation at Awash Wine S.C, to determine the extent to which direct and indirect financial rewards affected employee's motivation at Awash Wine S.C, and to determine the extent to which benefits affected employee's motivation at Awash Wine S.C. The study used descriptive research design. A sample of 184 respondents was selected out of the population of 610 employees using stratified sampling technique. This represented a 30% sample of the whole population. A structured questionnaire was used to collect data from the respondents. The data was analyzed using the Statistical Package for Social Sciences (SPSS). It was interpreted in frequencies, percentages, correlations and regressions. The findings were presented using tables and figures.

From the findings, over half of the respondents were not clear on the compensation plan of the organization. A majority of respondent disagreed or was not sure that there was internal and external equity with the existing pay structure. Many respondents believed their jobs did not incentivize gaining of new skills or knowledge and finally a high response of almost half of the respondents was not sure if salary survey were conducted before determining new salaries while a significant number disagreed. Only a small portion agreed to salary surveys being conducted. The findings on whether the respondents were motivated by their current basic pay, slightly above half of the respondents felt so and over one thirds of the responses were negative. There was an

almost equal response in agreement and in disagreement that the current basic pay was well balanced with the work done by the respondents. An overwhelmingly high positive response was received that the respondents would be motivated if their basic pay was to be increased. An even higher positive response came when the respondents were asked if they received additional pay for their performance against the set targets. A good percentage of the respondents also conformed to the fact that they felt motivated for being rewarded for what they achieved as a team.

Summary of the findings on employee's benefits showed that not all respondents received a benefit and that majority of the respondents received one or the other form of benefit in the organization. A good response of slightly less than two thirds was received on whether the respondents valued the benefits given; there was even a stronger response on the question of benefits motivates. Over three quarter of the respondents also agreed to there being a system that recognizes and rewards performance and over two thirds of the respondents believed that this system motivated them well.

5.3 Conclusions

The purpose of the study was to determine the effect of employee compensation on employee motivation at Awash Wine S.C. Based on the findings of the study, the following conclusions were drawn on the three key and specific objectives of the study.

5.3.1 The Practice of Compensation at Awash Wine S.C

The fact that a good number of the respondents were not sure of the compensation plan in place and minimum government requirements and that they disagreed that the plan achieved internal and external equity could only mean that, the plan was either not communicated to them adequately or it was not strongly upheld. On job well definition there was a good response of agreeing which implies that this was well communicated to employees and employees understood what was expected of them. Compensation for use of skills received nearly two thirds agreeing response while a third disagreed, this could mean that the organization uses a mixture of skills and job-

based pay or it could mean that some individuals are not placed in the jobs that match their skills. A two thirds majority confirmation that compensation decision was made centrally indicates majority of decisions were made centrally. The fact that many respondents were not sure or disagreed about salary survey being conducted to determine salaries could mean that the system was not used and so they were not familiar with it.

5.3.2 Direct and Indirect Financial Payments and Employee's Motivation

In conclusion a very high agreeing response on regular pay was review and variation within the organization implies that employees were aware this and that it was happening. The mixed response of respondent feeling either motivated or otherwise by increase in basic could only mean that basic pay does not fully motivate. The almost equal response of those agreeing and those disagreeing to basic pay being well balanced with the work done means that there was no good relationship between work done and compensation received, or not enough communication was done to help employee understand how their work contributed to pay received. A very high responses of not being sure that there was a good balance on basic pay between fellow employees, could mean that there was a high imbalance in salary levels or that the salary levels for each group or level of employees was not well communicated.

The overwhelmingly high response on pay for performance implies that a there was a good communication of targets and individual achievements. It also meant that individual people were aware of the system. Since a high percentage of the respondents felt motivated for being in a team and for achieving team targets, then this meant that teamwork was highly encouraged and that it gave the desired results. The negative correlation between current basic pay and motivation could mean that staffs were not motivated.

5.3.3 Benefits and Employee's Motivation

The strong response on the entitlement of benefits shows that employees were quite aware of the benefits. It also meant communication about the benefits was better. Although there was a high response on the value that the respondents put on the

benefits, a good percentage of them felt otherwise, this could mean that the benefits were not sold well to them or the combination of the various benefits did not work for them. On there being a system of recognition and such a system recognizing the respondents the high response again points out that to a high awareness on the employee's side and a better communication in the organization.

5.4 Recommendations

The recommendations for the specific areas covered are as follows.

5.4.1 The Practice of Compensation at Awash Wine S.C

From the findings and the conclusions made, there seems that proper practice of employee's compensation in the organization are lacking, and especially in evaluation against what the different authors advocate for. It is with this knowledge that the researcher recommend that the Human Resources Manager should develop systems that will ensure that there is a compensation plan entailing job evaluation processes and pay structures in the organization. Any changes in the plan, like salaries or process should be supported by right fundamentals like salary survey and facts on the ground. Employees should be encouraged to take up-skills enhancement programs and lastly proper communication and clarification channels to be set where information is disseminated regularly to all or is easily and readily available to all employees.

5.4.2 Direct and Indirect Financial Payments and Employee's Motivation

In the light of the findings, of high awareness of existence of basic and other additional payment, only a small population was motivated with their basic pay and the overwhelming positive response on motivation improving as a result of change in basic pay. The researcher recommended that a salary survey and job evaluation for total rewards received are to be commissioned in a bid to ensure there is internal and external equity in the organization and that motivation is driven by the right fundamentals. On the contingent pay, although the study did not go deep into finding out the various forms of contingent pay in the organization, the general feeling of motivation was high. The researcher also recommends that a further study be done even by department to determine the specifics and take necessary actions. In the area

of teamwork, team rewards and whole organization reward it is recommended that further study be done to enhance it.

5.4.3 Benefits and Employee's Motivation

The respondents seemed quite aware of the benefits available and what they were entitled to. There was also a high-level motivation for benefits received, although a small group felt benefits were not important. In the light of the findings the researcher would recommend that management to take initiatives in finding out which benefits work well and why. This could be done by creating an environment conducive for information sharing and brain storming. Different views would then be evaluated and implemented as necessary. This could help the organization in cost saving with unnecessary benefits and help in improving motivation.

5.4.4 Suggestions for Further Research

To add value to this study the researcher would also recommend that further studies be done. The study on base pay can be done to find out its effects on internal and external equity in the organization. A further study on contingent pay can be done to find out the different forms' contingent pays in place and which form motivates more and why. Finally, further study on benefits is recommended to find out how current benefits can be improved and motivates employees more. Considering the great number of youthful populations in the organization and the number of years spent in the organization. The researcher would also recommend that further studies done on what motivates the youth to give their best and expected duration of stay.

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APPENDIX I:
COVER LETTER

Betelhem Samuel
Addis Ababa

To :- _____
Awash Wine S.C

Request to participate in research study

Dear Respondents, I am a student of St. Mary's University, School of Graduate Studies undertaking MBA (with HRM concentration) program. As partial fulfillment of my study, I am conducting a research project titled "The Effect of Compensation on Employee Motivation " using Awash Wine S.C as a case study. You are invited to take part in this research by filling the attached questionnaire honestly. I would like to assure the confidentiality of this study because it is solely used for academic purpose and all respondents will remain anonymous to safeguard their privacy. Your responses will make the paper interesting and its results will be significantly important. I would like to thank you in advance for the time you are willing to devote to fill out this questionnaire.

Thank you for your time and participation.

Yours sincerely;

APPENDIX II:
QUESTIONNAIRE

PART I – GENERAL INFORMATION

1. Gender : Male Female
2. Age : 20-30 30-40 40-50 Over 50
3. Education : Certificate Diploma Degree Masters PHD
4. How long have you worked for Awash Wine S.C?
- : <5 year 5-10 years 10-15 years 15-20 years >20 years
5. How would you describe staff motivation at Awash Wine S.C?
- : High Moderate high Not sure Moderately low Low

PART II –THE PRACTICE OF COMPENSATION AT AWASH WINE S.C

Please tick the box that best fits your opinion for each statement.

		1	2	3	4	5
		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1	Employee compensation costs forms a significant portion of our company's costs.					
2	Employee compensation plan at Awash Wine S.C is well formulated.					
3	The pay structure at Awash Wine S.C meets the requirement of government of Ethiopia.					
4	The pay structure at Awash Wine S.C ensures there is a good balance of pays between the employees in the company.					
5	The pay structure at Awash Wine S.C ensures that there is a good balance in comparison with other employees of other related companies.					
6	I feel that my job is very well defined.					
7	I feel I am adequately compensated for use of my skills in my job.					
8	My Job offers little or no incentives for gaining new skills or knowledge.					
9	All the decisions affecting employee compensation are managed at one central place as opposed to every departmental head handling their areas.					

10	In my opinion a thorough survey of salary is conducted within the industry before determining a new staff salary or change in the organization.					
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PART III – DIRECT AND INDIRECT FINANCIAL PAYMENTS AND EMPLOYEE MOTIVATION

Please tick the box that best fits your opinion for each statement

		1	2	3	4	5
		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1	My basic pay is reviewed periodically.					
2	My basic pay varies from others in other levels of employment.					
3	My basic pay motivates me to do my work well.					
4	My basic pay is well balanced compared to the work I do.					
5	My basic pay is well balanced compared to other employees in the company.					
6	An increase in my basic pay will motivate me improve on my performance.					
7	There exists a system in the company of compensating employees if they achieve their targets.					
8	In my work, the team reward motivates me well.					
9	My team works very closely to enable achieve the team reward.					
10	I am entitled for a reward if the whole organization achieves its set target.					

PART IV – EMPLOYEE BENEFITS AND EMPLOYEE MOTIVATION

Please tick the box that best fits your opinion for each statement

		Yes	No
1	In addition to my pay for the work I do, I am entitled to the following benefits.		
	a. Medical		
	b. Pension		
	c. Paid leave		
	d. Insurance		
	e. Car loan		
	f. Meals		
	g. Child-care		
	h. Severance pay		

		1	2	3	4	5
		Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
2	The benefits are so important to me they are one of the reasons I have not moved from Awash Wine S.C.					
3	The benefits I receive motivates me to do well at my work.					
4	At Awash Wine S.C there is a system of staff recognition, where outstanding performance are recognized on a timely manner, regularly and also for the right reasons.					
5	The recognition system motivates me to work well in my area and even to go beyond the call of duty.					

DECLARATION

I declare that this thesis is my original work, prepared under the guidance of my research advisor Dr. Abraraw Chane. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning and degree.

Name

St. Mary University School of Graduate Studies

Signature and Date

ENDORSEMENT

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

Advisor

Signature and Date