**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

# ASSESSMENT OF REWARD SYSTEM ON EMPLOYEES PERFORMANCE: IN THE CASE OF ETHIOPIAN ELECTRIC UTILITY HEAD OFFICE

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT FOR THE AWARD OF MASTERS DEGREE IN BUSINESS ADMINISTRATION**

**BY – ASTER MELKAMU**

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**ADDIS ABABA, ETHIOPIA**

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**REQUIRMENTS FOR THE DEGREE OF**
**MASTERS OF BUSINESS ADMINISTRATION**

**ADDIS ABABA**
**ETHIOPIA**
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# Declaration

I here by declare that this MBA research thesis is my original work and has not been presented for a Master's degree in any other College or University, and all sources of material used for this proposal have been duly acknowledged.

Name: **Aster Melkamu**

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Date : March, 2025

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Date-------------------------------------

# EXAMINERS APPROVAL SHEET

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

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**BY – ASTER MELKAMU**

**APPROVED BY BOARD OF EXAMINERS**

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# ACRONYMS

HRM - Human Resources Management

EEU - Ethiopia Electricity Utility

SPSS - Statistical Package Software for Social Science

SD-Standard Deviation

# ABSTRACT

*This study examines the impact of reward management on employee motivation at the Ethiopian Electric Utility (EEU). Using a validated questionnaire with a Cronbach Alpha of 0.79, data were collected from 91 employees (87.5% response rate) through a census method, excluding those with less than one year of service. Findings indicate that non-financial rewards ($r = .749$, $p < 0.01$) have a stronger positive effect on motivation than financial rewards ($r = .445$, $p < 0.01$). Regression analysis shows that promotion, recognition, and work conditions contribute more significantly to motivation than payment and benefits. Many employees perceive the current reward system as unfair and demotivating. The study recommends a balanced reward strategy that combines transparent financial incentives with strong non-financial motivators—such as recognition, leadership support, and improved work conditions—rooted in equity and organizational justice principles to enhance motivation, engagement, and organizational performance.*



**Key words**: *Financial rewards, Non-financial rewards, recognition, working condition, payment, benefit, promotion, and leadership & supervision*

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of study

This day's organizations are operating in a dynamic environment where there are changes in technology, customer demand and expectations, social, political and economic factors. Human resources are the most dynamic of all the organizational resources that need considerable attention through creating an enabling work environment and designing a better reward and motivation schemes.

Reward and motivation is one of the most critical contributors to the success of an organization and its workforce. Reward system is one of the most essential parts in a company's development and success. In order to maximize the overall performance of the company, it is vital for an employer to understand how employees perceived the fairness of the reward system, and motivated by the rewards given by the company

According to Armstrong and Murlis (2019), reward management must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy. They have to be integrated with other human resource management (HRM) strategies, especially those concerning human resource development – reward management is an integral part of an HRM approach to managing people

Effective reward management is based on a well-articulated philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. It recognizes that if HRM is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution (Armstrong and Murlis, 2019)

In order to maximize the overall performance of the company it is vital for an employer to understand what motivates the employees and how to increase their job satisfaction. It might however be challenging for a company to find out what motivates its employees, especially because different people are motivated by different things (Nursebo, 2022)

In addressing different needs of employees it is better to design a total management system that can accommodate somehow different types of interest of employees. According to Michael Armstrong and Murlis (2022), a total reward approach is holistic; reliance is not placed on one or two reward mechanisms or levers operating in isolation. Account is taken of all the ways in which people can be rewarded and obtain satisfaction through their work. The aim is to offer a value proposition and maximize the combined impact of a wide range of reward initiatives on motivation, commitment and job engagement

The aim of performance management in the Ethiopian Electric Utility **(EEU)** is to facilitate an on-going, proactive effort designed to facilitate high performance in pursuance of the strategic goals and objectivesof the organization as well as to manage and enhance employee competence. The policy further defines a performance management system as a management tool aimed at integrating individual performance to the wider organizational strategy and the pursuit of organizational excellence. Its major goal is to manage employee performance, provide feedback, take steps for improving performance, and ultimately reward good performance (**EEU** HR policy manual; 2008)

The purpose of this study is therefore to study the effect of reward management on employee performance at Ethiopian electric utility **EEU.**

## 1.2 Statement of the problem

Today organizations are showing a high degree of commitment towards strengthening of reward practices which are aligned with other HR practices and the goals of the organization for attracting, retaining and motivating employees. Efficient reward practices helps in attracting result driven professionals who can flourish and succeed in performance based environments. Hence, it is a crucial motivator and may contribute towards the enhancement of the productivity of the employees.

As it is indicated in Nursebo thesis paper (2022), in today's turbulent environment, the survival of business organizations depend on having a sustainable competitive advantage. This sustainable competitive advantage can be acquired only through getting and maintaining capable, skilled, committed and motivated work force. In order to having such human resource, organizations need to have a reward system that is internally and externally equitable, competitive, attractive and fair.

An efficient management of reward system may have a beneficial effect upon the performance in several ways - instilling a sense of ownership amongst the employees, may facilitate long term focus with continuous improvement, reduces service operating costs, promotes team work, minimizes employee dissatisfaction and enhanced employee interest in the financial performance of the company

According to Armstrong and Murlis (2004), Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization. It deals with the design, implementation and maintenance of reward processes and practices that are geared to the improvement of organizational, team and individual performance. Hence organizations are highly expected to design a reward mechanism to retain their employees with attractive reward and motivation practice.

The employees' satisfaction survey which has been made by external consultant shows that most of the problems in the exchange are related with structural gaps; there is a need to revisit HR policy frameworks, organization structure and different rules and regulations prevailing in the company. Among others consider; salary, benefit, and other rewards setting policy and procedure, grievance handling and conflict management mechanism, performance management policy and procedure, etc. EEU employee satisfaction survey: (2018).

The researcher conducted preliminary investigation and found that employee's performance has declined recently mainly for poor reward system employed by the organization.

Based on the researcher's observation on the reward system on employees of Ethiopia electric utility and satisfaction survey result the reward system of the organization has a negative effect on the employees performance, therefore, the researcher in this study tries to answers the following basic research questions;

1. To what extent Payment significantly affect employee's performance?
2. To what extent benefit significantly affect employee's performance?
3. To what extent recognition significantly affect employee's performance?
4. To what extent promotion opportunity significantly affect employee's performance?
5. To what extent working condition significantly affect employee's performance?
6. To what extent supervision significantly affect employee's performance?

## 1.3 Objectives of the study

### *1.3.1. General Objectives*

The general objective of the study is to investigate how well implementation of the current reward management system of Ethiopia Electricity Utility generates employees' performance.

### *1.3.2. Specific objectives*

Specific objectives of this study are;

1. To investigate if Payment has significant effect on employee's performance
2. To investigate if benefit has significant effect on employee's performance
3. To explore if recognition has significant effect on employee's performance
4. To investigate if promotion opportunity has significant effect on employee's performance
5. To dig out if working condition has significant effect on employee's performance
6. To investigate if supervision has significant effect on employee's performance

## 1.4 Hypothesis

**$H_1$**: Payment has a statistically significant positive effect on employees' motivation in Addis Ababa, Ethiopia.

**$H_2$**: Benefits have a statistically significant positive effect on employees' motivation in Addis Ababa, Ethiopia.

**$H_3$**: Promotional opportunities have a statistically significant positive effect on employees' motivation in Addis Ababa, Ethiopia.

**$H_4$**: Recognition has a statistically significant positive effect on employees' motivation in Addis Ababa, Ethiopia.

**$H_5$**: Working conditions have a statistically significant positive effect on employees' motivation in Addis Ababa, Ethiopia.

**$H_6$**: Supervision or leadership has a statistically significant positive effect on employees' motivation in Addis Ababa, Ethiopia.

## 1.5 Significance of the research

Designing and introducing the standard reward system helps any organization to get achieved their planned success. Importance of having advanced reward system that fit with the current demand of employees are; retaining qualified employees, decrease staff turnover, promote organizational development and help to achieve organizational objectives.

This study will help the exchange to clearly understand the major reward factors that benefits the organization through creating satisfied staffs in terms of rewards and help the organization to decide their focus area while designing reward and benefit packages. In addition the study helps to create awareness about the reward practice of EEU and it includes;

- It Discovers whether rewards motivate employees of EEU and it identifies what kind of rewards tools employee consider most beneficial
- This study revolves particularly in the reward system of the exchange and it uses as a reference paper for further study in this area and related themes
- This research is geared towards senior management and board member of EEU to help them come up with appropriate forms of rewards to enhance employee motivation
- Finally this study used as a base for further studies in the area of motivation both technological related sectors and others.

## 1.6 Scope of the Study

This study focuses on examining the impact of six key reward-related factors payment, benefits, recognition, working conditions, promotion opportunities, and leadership/supervision on employee motivation within formal organizational settings in Addis Ababa, Ethiopia. The research is limited to employees working in selected firms within the city and collects data during the period from January to June 2025 using a cross-sectional survey design. To maintain focus and manageability, the study deliberately excludes other motivational factors such as job security, autonomy, work–life balance, and team dynamics, as well as broader HR practices like performance appraisals and career development programs. It also does not cover non-governmental organizations, informal sectors, or adopt longitudinal or experimental methods. These boundaries ensure a clear and precise investigation into the relationship between specific reward elements and employee motivation, enhancing the feasibility and relevance of the findings to the research objectives.

## 1.6 Organization of the paper

The study will be organized in to five chapters. Chapter one contains introduction, problem statement, research objective, significance of the study, scope of the study, limitation of the study and organization of the study. Chapter two contains literature review, chapter three consists of research design, chapter four contains results and discussion, and finally chapter five contains Summary, conclusion and Recommendation.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Theoretical review

Reward has been defined in various ways by different scholars. According to Jeffery Gold (2010) reward refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship. In the similar way Wilson (2010) also defined reward as an external agent administered when a desired act or is performed, that has controlling and informational properties. He went further to explain that rewards are usually administered to increase the probability of an event occurring, depending on the saliency and direction of the controlling and informational aspects of the reward.

(Hand book of employee reward management and practice, edition, 2007) Reward management deals with the strategies, policies and processes required to ensure that the contribution of people to the organization is recognized by both financial and non-financial means. It is about the design, implementation and maintenance of reward systems (reward processes, practices and procedures), which aim to meet the needs of both the organization and its stakeholders.

The overall objective is to reward people fairly, equitably and consistently in accordance with their value to the organization in order to further the achievement of the organization's strategic goals. Reward management is not just about pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, learning and development opportunities and increased job responsibility.

## 2.2 Reward policies

According to Armstrong and Helen (2007) reward policies provide guidelines for the implementation of reward strategies and design and management of reward process. They will be influenced strongly by the guiding principles and reward philosophy of the organization. The reward policies will be concerned with the level of rewards, the relative importance attached to market rates and equity, attraction and retention of employees, the match between rewards and business performance, total reward policy,, the need to communicate reward policies to employees and transparency.

## 2.3 Purpose and Role of Reward System

In most organizations, the purpose of reward system is to attract, retain and motivate qualified employees. In this respect, the reward system Philosophy centers on the three issues: the concept of fairness and equality of rewards, the importance of each employee's contribution to the organization, and the status of the external market (Micheal 2005, and Donald White, 1986).

According to Moorhead (1992), the organizations reward system must be equitable and consistent to ensure equality of treatment and compliance with the law. In addition, there should be a fair reward for the individuals' contribution to the organization, although in most cases these contributions are difficult if not impossible to measure objectively. Given this limitation, measure should be as fair and equitable as possible (Moorhead 1992).

White and David (1986), stresses on the role and purpose of the reward system by stated as "in most situations, it is better to use rewards not as a bribe for doing what the leader wants, but rather to reinforce desirable behavior after it has already occurred" (Donald White and David 1986). This idea of reward system has emphasized that the reward system in a given organization would have a positive motivational impact when the system its fair and tied to employee performance.

Moreover, it has the objective to elicit good work performance and maintain commitment to the organization. As researches show, reward system could be affected by social and psychological factors including the employee ideas of "fairness" and "trust". Hence, a system perceived to be fair is one of the key components of the psychological contract (www.management help.org). Mujtaba,(2010) have showed, the existence of an increasingly demand on corporations to develop reward programs that are motivating employees to work harder and faster. These programs usually educate and encourage associates to become more productive, efficient and valuable individuals in the company. However, due to the pressures related to performance and incentives or in effective implementation procedures, in some cases, these programs can encourage unethical behaviors.

Thus, firms need to have appropriate pay systems that encourage and reward employees to always stay focused on their efforts in an efficient manner and to always do the right thing. At the meantime, managers and entrepreneurs should be moving toward greater alignment between performance management and company strategies, values, and quality measures. Thus, reward should be linked with goal setting, employee development, competency measures, and team performance. The researchers also noted that, an effective reward system could have the power that affects the morale and productivity of each individual (.Mujtaba.2010).

## 2.4 Total reward programs

Armstrong and Murlin,(2004) the total reward concept emphasizes the importance of considering all aspects of reward as an integrated and coherent whole. Each of the elements of total reward, namely base pay, pay contingent on performance, competence or contribution, employee benefits and non-financial rewards, which include intrinsic rewards from the employment environment and the work itself, are linked together.

The conceptual basis of total rewards is that of grouping or ‘bundling’, so that different reward processes are interrelated, complementary and mutually reinforcing. This is the basis of the Hay Group Model of Engaged Performance. Total reward strategies are vertically integrated with business strategies, but they are also horizontally integrated with other HR strategies to achieve internal consistency (Armstrong and Murlin, 2004).

The concept of total reward encompasses both financial and non-financial rewards. Hence, its significance to both the organizations and employees emanate from its comprehensiveness. According to Armstrong & Stephens (2005) total reward can be used as a means of influencing behavior, enhancing employment relationship, flexibility to meet individual needs and winning the war for talent. Companies that want to foster high performance work system will reward employees based on their performance. Hence, the reward is utilized as a means of influencing behavior

## 2. 4.1 Elements of Total Reward

Armstrong and Murlis, (2004) Essentially, the notion of total reward says that there is more to rewarding people than throwing money at them, or, as Helen Murlis and Steve Watson4 put it: 'The monetary values in the reward package still Total reward and engaged performance matter but they are not the only factors.' They went on to say: 'Cash is a weaktactic in the overall reward strategy; it is too easily replicated. Intrinsic reward is far more difficult to emulate.' But they also stress that total reward policies are based on 'building a much deeper understanding of the employee agenda across all elements of reward'.

## 2.4.2 Components of total reward system

Armstrong and Murlis (2004)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Financial Rewards and benefit | Base Pay<br>Contingent pay (for performance, competence or contribution)<br>Variable pay (cash bonuses)<br>Share ownership<br>Benefits | ⇒ | Total remuneration | + | Non-Financial Rewards those arising from work itself and the work environment | Recognition<br>Responsibility<br>Meaningful work<br>Autonomy<br>Opportunity to develop skill<br>Career opportunities<br>Quality of working life<br>Work/life balances | ⇒ | Total Reward |

Transactional Rewards — Relational Rewards

Table 2:1 Components of total reward system

### 2.4.2.1 Financial rewards

According to Armstrong and Murlin (2005), the theory of financial reward has viewed based on instrumental theory. According to this theory, people are primarily motivated by economic rewards. It assumes that they will be motivated to work if rewards and penalties are tied directly to the results they achieve. In addition, this theory states that money provides the means to achieve ends.

It is an instrument for gaining desired out comes and its force will depend on two factors: first the strength of the need and, second the degree to which people are confident that their behavior will earn the money they want to satisfy the need. As the writer further explains that, money is therefore a powerful force because it is linked directly or indirectly to the satisfaction of all the basic needs.

However, the effectiveness of money as a motivator depends on a number of circumstances, including the values and needs of individuals and their preferences for different types of financial and non-financial rewards (Armstrong and Murlin 2005). Financial rewards (E.g Salaries, Merit pay, base pay increment based on promotion, length of services, incentive (based on performance like bonuses, and recognition with pay) are extrinsic rewards which of course administered externally – that is usually by management.

As shown in their book, Armstrong and Mulin (2005),one of the criteria for assessing the effectiveness of financial reward practices as a means of motivation is ;Pay-for-performance systems are created in the light of an understanding that direct motivation only takes place if the rewards are worthwhile, if they are specifically related to fair, objective and appropriate performance measure if employee understand what they have to achieve and if their expectations on the likely hood of receiving the reward are high(Armstrong and Mulin; 2005)

**Financial Rewards and Benefits**

These are types of rewards given in the form of monetary pay that may be given directly or indirectly to employees. The direct form of payment incorporate base pay/ salary, merit pay/cost of living adjustments, incentives, bonuses, etc that are directly given to employees(Milkovich et al, 2009). On the other hand indirect form of payments are provided in the form of employee benefits such as pensions, holidays, and varied fringe benefits such as medical cost coverage, cafeteria benefit, etc. They are also known as transactional rewards.

**Base pay**

Base pay is the core payment made by the employer for work performed and usually tends to reflect the organizational value of either the work that the employee undertakes or the value of skill and competency who is undertaking the work. It is directly related to time and the rate is calculated in terms of number of hours, week or month that the employee performed the task given (Thorpe and Homan, 2000).

There are a number of assumptions that underpin the relationship of time to pay. One of these is that time beyond stated hours of work has more exchange value and therefore is paid at premium rates. The variation in premium rates reflects the differing value paced on different periods of time. For example, employees work at their day offs are paid double of their daily salary, those who work at night shift get additional of half of their hourly salary for each hours they worked, etc. The basis of base pay is the period of time an employee worked and normally not associated with productivity of an employee at a particular time.

**Contingent pay/Cost of Living Adjustment**

Contingent/merit pay are given as increments to the base pay in recognition to the past work behavior of an employee. The pay adjustment may also be done based on changes in what other employers are paying for the same work, change in the overall cost of living, or change in experience or skill. Merit pay programs evaluate past performance of individual and then decide on the size of the increase (Milkovich et al, 2009).

**Variable pay**

It is a flexible pay given to employees based on their individual, team or organizational performance. It is commonly known by the name ‘pay at risk’ hence getting the pay guaranteed only when there is a good performance.

**Incentives**

Incentives are pay increases directly related to performance. Unlike that of merit pay, incentives do not increase the base wage. In addition, the potential size of the incentive payment will generally be known beforehand. The incentive provided depend on performance of individual employee, a team of employees, a total business unit or some combination of individuals, teams and units. Incentives can be short or long term incentives. Long term incentives are intended to focus on employee efforts to multiyear results. Typically they are in the form of stock ownership or options to buy stock at specified advantageous price (Kruse and Blasi, 2000). The belief underlined stock ownership is that employees with a financial stake in the organization will focus on long-term financial objectives: return on investment, market share, returns on net assets, and the like.

**Benefits**

These are benefits given to employees in addition to their salary/wage. Such benefits are those monetary and non-monetary benefits given to the employees during and post-employment period which are connected with employment but not to the employee's contribution to the organization.They are also known by the name fringe benefits. Authors like Cascio (2003) claim that fringe benefits covers bonus, social security measures, retirement benefits like provident fund, gratuity, pension workmen's compensation, housing medical, canteen, Co-operative credit, consumer stores educational facilities, recreational facilities financial advice and so on

### 2.4.2.2 Non-Financial Rewards

Rewards that do not involve any direct payments and often arise from the work itself, for example achievement, autonomy, recognition, scope to use and develop skills, training, career development opportunities and high-quality leadership (Armstrong and Murlis, 5$^{th}$ edition, 2004).Non-financial rewards can be focused on the needs most people have, although to different degrees, for achievement, recognition, responsibility, influence and personal growth.

**Non-Financial Rewards**

These types of rewards do not involve any direct payments and often arise from the work itself. They can be focused on the needs most people have. Recognition, responsibility, work autonomy, influence and personal growth are some of the rewards incorporated under the non-financial types of rewards.

**Recognition**

Recognition of work is the essence of securing good work. It is one of the most powerful motivators. Efficient people would naturally like to get recognition for their skill and excellence in their work. Such recognition can do many things that what a cash reward can do. Armstrong and Murlis (2005), underlined on the point that, recognition is supposed to be given judiciously. That is, it must be related to real achievements of employees. The recognition given will have a great impact if it is followed by provision of achievement bonuses awards.

**Achievement**

The other type of non-financial reward is recognition. It is defined as the need for competitive success measured against a personal standard of excellence. This is one of the three major needs of employees at managerial position: achievement, power, and affiliation. Employees' achievement motivation can be raised by organizations through processes such as job design, performance management, and skill or competency-related pay schemes.

**Promotion**

It involves a competitive selection process, and results in the employee's movement in to a different role in a higher pay band. If it is done fairly it enhance employee motivation and competitiveness.

**Personal growth**

Individual employees irrespective of their current level want to upgrade themselves. This is the philosophy of continuous development. The availability of learning opportunities, the selection of individuals for high-prestige training courses and programs and the emphasis placed by the organization on the acquisition of new skills as well as the enhancement of existing ones, can all act as powerful motivators of employees to higher performance

**Working Condition**

The conditions in which an individual or staff works, including but not limited to such things as amenities, physical environment, stress and noise levels, degree of safety or danger, and the like.

## 2.5 Reward Composition

According to the expectancy theory, which is discussed under section below, individual needs and wants vary. Therefore, reward management requires proper composition between financial and non-financial rewards. As stated in Chapman & Kelliher (2011) the owners of organization usually want to ascertain that employees direct their work effort in line with the owners' best interests. Jensen and Meckling, (1976, qouted in Chapman and Kelliher, 2011) further stated that,owners' interest can be achieved through adjusting the reward mix, in particular the balance between fixed and variable rewards, to ensure that appropriate incentives are in place for the employee to act in the owners' interest.

Torrington, Hall, & Taylor (2008) suggest the following four points as important part of conventional wisdom in designing reward system. The first one is younger employees are more interested in high direct earnings at the expense of indirect benefits, such as pensions, which will be of more interest to older employees. Second, incentive, or performance-related payment arrangements are likely to interest employees who either see a reliable prospect of enhancing earnings through the ability to control their own activities, or see the incentive scheme as an opportunity to wrest control of their personal activities away from management by regulating their earnings. Third, women with children are less interested in payment arrangements that depend on overtime than men often are. And the fourth is overtime is used by many employees to produce an acceptable level of purchasing power particularly among the lower-paid.

In fact there is no conventional wisdom. Preferences differ according to the value, norms, background, economic status etc of individuals. Despite this fact, Bowen (2000) argues that rewards for entry level employees, usually youngsters, need be more cash based whereas employees with longer service or higher in the compensation scheme may be influenced by cash equivalent or non-cash rewards such as education, extra-time off and the like. All of the above points suggest that there should be both financial and non-financial rewards so as to reward employees according to their needs and values.

## 2.6 Impacts of reward

Torrington et al., (2009) stated reward has multi-dimensional impact on the general effectiveness of a company through such as attraction and retention of employees, motivation of performance, motivation of skill development and driving changes.

Attracting staff: the reward package on offer must be sufficiently attractive visa-vis that of an organization's labor market competitors to ensure that it is able to secure the services of the staff it needs. The more attractive the package, the more applications will be received from potential employees and the more choice the organization will have when filling its vacancies. Similarly, wills (2000) confirmed the idea as reward is the most critical issue when it comes to attracting and keeping talent. Attractive packages allow the appointment of high-caliber people and often mean that organizations are bale to fill vacancies more quickly than is the case with reward offering which is either unattractive or poorly communicated. However, what is 'attractive' in total reward terms in one labor market will be less attractive in others because people vary in hat they are looking for. There is thus a need to establish what the target market values most and to tailor the offering accordingly (Torrington et al., 2009).

Retaining staff: the costs associated with recruiting and developing people, as well as the growing significance of specialist organizational knowledge in creating value and maintaining competitive advantage, mean that retaining effective performers is a central aim of reward strategy in many organizations, particularly those competing in knowledge intensive industries where highly qualified people are in short supply. This requires strategic aspects of reward package that is attractive enough to prevent people from becoming dissatisfied and looking elsewhere for career development opportunities. Flynn (1998) also added reward and recognition program keep high sprit up and improve the retaining capacity of companies (Terrington et. Al., 2009).

Motivating staff: reward play a vital role in determining the significant performance in job and most commonly, it is positively associated with the process of motivation (Danish & Usman, 2012). Aside from helping to ensure that effective performers are recruited and retained, in more general terms it is necessary that reward package should serves to motivate positively and does not demotivate. Occupational psychologists many of whom accept that the power of monetary reward to motivate is very limited, at least over the longer term, have long debated the question of the extent to which money ever can positively motivate. What is not in doubt, however, is the very considerable power of poorly designed or implemented reward practices demotivate, particularly when they are perceived by staff to be inequitable in some shape or form.

Driving change: pay can be used specifically as one of a range of tools underpinning change management processes. The approach used is to ties base pay, bonuses or promotion to the development of new behaviors, attitudes or skills gained by employees. Pay works far more effectively than simple exhortation because it provides a material incentive to those whose natural inclination is to resist change. It also sends out a powerful message to employee indicating the seriousness of the employer's intentions as regards proposed or ongoing changes (Torrington et al., 2009)

## 2.7 Motivation

Different authors define motivation in different ways. Torrington et al., (2009) defined the term as the desire to achieve beyond expectations, being driven by internal rather than external factors,and to be involved in a continuous striving for improvement. Armstrong (2010) describe motivation as the force that energizes, directs and sustains behavior. Motivation theory explains how motivation works and the factors that determine its strength. It deals with how money and other types of rewards affect the motivation to work and level of performance. It therefore influences decision on how people should be valued, the choice and design of financial rewards and the use of nonfinancial rewards.

## 2.8 Employee Motivation

Rewards cannot directly affect success. The direct effect of rewards is on employees' motivation. Various definitions of motivation exist. For this thesis, employees' motivation is seen as the employees desire to work and perform well in order to contribute to organizational or project success. Two types of motivation exist: Intrinsic and extrinsic motivation. Intrinsic motivation is "self-generated" and means employees are motivated to work because of the work while extrinsic motivation is generated by external stimulus such as rewards (Armstrong 2002).

Three perspectives were identified in the literature about how rewards affect motivation and hence reward practice. First, extreme opponents of rewards argue that rewards negatively affect employees' motivation under any circumstances. Accordingly, the extreme reward opponents completely refuse the use of rewards. In contrast the extreme proponents of rewards argue, rewards positively affect employees' motivation under any circumstances.

Accordingly, they advocate the use of one universal reward style and propose a best practice approach. Finally, modest reward proponents argue that the rewards effect on employees' motivation may be both, positive or negative. The effect depends on some variable factors that lead to different good practices in rewarding but no universally best practice Armstrong & Murlis (2004)

## 2.9 Motivation theories

Motivation theory examines the process of motivation. It explains why people at work behave in the way they do in terms of their efforts and the directions they are taking. (Armstrong, 2006) Motivation is a factor that exerts a driving force on our actions and work. According to Baron (1983), motivation is an accumulation of different processes which influence and direct our behavior to achieve some specific goal. It is such a dynamic in today's environment that explicitly creates and encompasses a positive impact on job. Within an organization, the best performance is feasible with most committed employees that can be achieved through employee motivation. There is no definitive motivation technique or a reliable and effective method that works for every one in every situation rather it should be adapted to fit the circumstances (Bradley, 2013).

Job performance may be taken as a function of the capacity to perform, the opportunity to perform, and the willingness to perform. No combination of capacity and opportunity will result in high performance in the absence of some level of motivation or willingness to perform. (Nelson, 1996) Three components of motivation are:

1. Directions: relates to an individual preference to do among different possible alternatives.
2. Intensity: refers to the strength of the response once the choice is made.
3. Persistence: refers to the staying power of behavior or how long a person will continue todevote effort.

Motivation is important to an organization because it increases the performance level of employees, decreases employees turnover and absenteeism, and helps in accepting of organizational changes. There are a lot of motivation theories and research findings that attempt to provide explanations of the behavior-outcome relationship. These theories can be classified in to Content approach and Process approach.

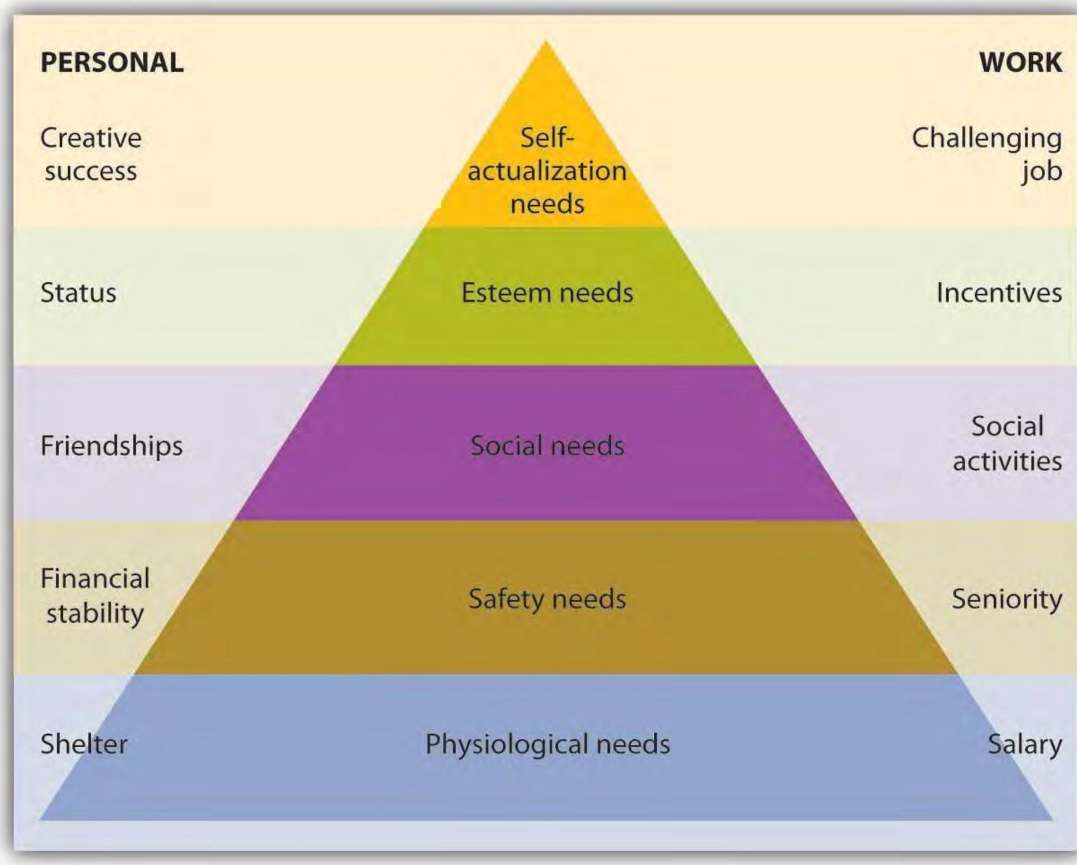
### 2.9.1 Content Approaches:

The content theories of motivation focus on the factors within the person that energize, direct, sustain, and stop behavior. They try to determine the specific needs that motivate people. Four important content approaches to motivation are:

- Maslow's need hierarchy,
- Alderfer's ERG theory,
- Herzberg's two-factor theory, and
- McClelland's learned needs theory. Each of these four theories has had an impact on managerial practices.

#### 2.9.1.1 Maslow's Need Hierarchy:

The bottom line of Maslow's theory is that needs are arranged in a hierarchy staring from physiological needs to the self-actualization needs and these needs are physiological, safety and security, belongingness, social, and love, esteem and self-actualization. Maslow's theory assumes that a person attempts to satisfy the more basic needs (physiological) before directing behavior toward satisfying upper-level needs.

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### 2.9.1.2 Alderfer's ERG Theory:

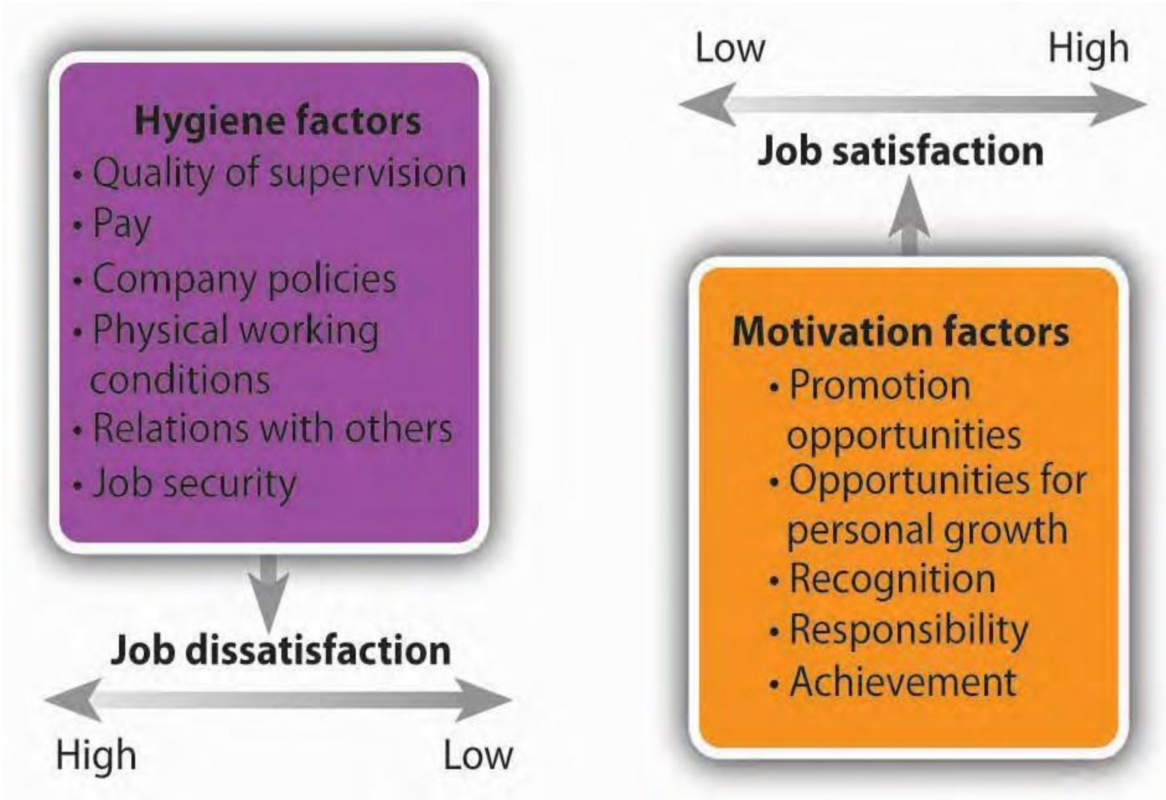
Even though Alderfer agrees with Maslow in the arrangement of individual needs hierarchy, his proposed need hierarchy involves only three sets of needs.

1. Existence. Needs satisfied by such factors as food, air, water, pay and working.
2. Relatedness. Needs satisfied by meaningful social and interpersonal relationships.
3. Growth. Needs satisfied by an individual making creative or productive contributions.

When we relate Alderfer's three needs with Maslow's they have similarities and differences. Existence needs are similar to physiological and safety categories; relatedness needs are similar to belongingness, social, and love category; and growth needs are similar to esteem and self-actualization categories. However, both theories differ on how people move through the different sets of needs. Maslow suggests that unfulfilled needs are predominant until it is satisfied. And the next higher level of needs isn't activated until the predominant need is satisfied. Hence, a person only moves up the need hierarchy if lower-level need is adequately satisfied. In the contrary, Alderfer's ERG theory proposed that, in addition to the satisfaction-progression process that Maslow proposed, a frustration-regression process is also at work. That is, if a person is continually frustrated in attempts to satisfy growth needs, relatedness needs reemerge as a major motivating force, causing the individual to redirect efforts toward satisfying a lower-order need category.

### 2.9.1.3. Herzberg's two-factor model

Herzberg's two-factor model theory states that the factors giving rise to job satisfaction (and motivation) are distinct from the factors that lead to job satisfaction. It is sometimes called the motivation –hygiene theory. There are two groups of factors. The first consists of the satisfiers or motivators, which are intrinsic to the job. These include achievement recognition, the work itself, responsibility and growth.




The second group comprises what Herzberg calls the dissatisfaction avoidance or hygiene factors, which are extrinsic to the job and include pay, company policy and administration, personal relations, status and security. These cannot create satisfaction but, unless preventive action is taken, they can cause dissatisfaction. He also noted that any feeling of satisfaction resulting from pay increase was likely to be short-lived compared with the long-lasting satisfaction from the work itself. One of the key conclusions derived from the research is therefore that pay is not a motivator, except in the short term, although unfair payment systems can lead to demotivation (Armstrong 2007)

Source: http://catalog.flatworldknowledge.com/bookhub/5?e=carpenter-ch14_s01

Herzberg's two-factor model draws attention to the distinction between intrinsic and extrinsic motivators, and his contention that the satisfaction resulting from pay increase does not persist has some face validity. But his research and the conclusions he reached have been attacked – first because it is asserted. The original research is flawed and fails to support the contention that pay is not a motivator, and secondly because no attempt was made to measure the relationship between satisfaction and performance. As David Guests (2004) has written 'many managers' knowledge of motivation has not advanced beyond Herzberg and his generation. This is unfortunate. Their theories are now over thirty years old. Extensive research has shown that as general theories of motivation the theories of Herzberg and Maslow are wrong. They have been replaced by more relevant approaches (Armstrong 2007)

#### 2.9.1.4. McClelland's learned needs theory

The three basic motivating needs of McClelland that are associated with learning concepts are: the needs for achievement, the need for affiliation, and the need for power. The main subject of McClelland's theory is that these needs are learned through coping with one's environment. Since needs are learned, behavior which is rewarded tends to recur at a higher frequency. As a result of the learning process, individuals develop unique configurations of needs that affect their behavior and performance (Agarwal, 1982).

To sum-up, each of the four content theories try to explain behavior from a slightly different angle. None of the theories has been accepted as the sole basis for explaining motivation; however, each of the theories provides the manager with some understanding of behavior and performance. Each of the content approaches presents the clearest, most-meaningful, and most-accurate explanation of motivation. In reality, each has strengths and limitations that practicing managers need to consider; none is clearly inferior or superior to the others, especially in today's diverse workplace. Smart managers will look to all of these approaches to provide insights that can be applied to specific challenges and problems (Ivancevich and Matteson, 2002).

## 2.10. Process Approaches

The three process theories of motivation: expectancy theory, equity theory, and goal-setting theory are focused on answering the questions of how individual behavior is energized, directed, maintained, and stopped.

### 2.10.1. Expectancy Theory:

The four most important terms of expectancy theory are: first and second level outcomes, instrumentality, valence, and expectancy. First and second level outcomes first-level outcomes resulting from behavior are those associated with doing the job itself and include productivity, absenteeism, turnover, and quality of productivity. The second-level outcomes are those events (rewards or punishments) that the first-level outcomes are likely to produce, such as merit pay increases, promotion, and termination. Instrumentality: is the perception by an individual that first-level outcomes (performance) are associated with second-level outcomes (rewards). Valence: refers to the preferences for outcomes as seen by the individual. An outcome is positively valiant when it is preferred and negatively valiant when it is not preferred or is avoided.

Expectancy: It refers to the individual's belief regarding the probability that a particular behavior will be followed by a particular outcome. Managers, can use the concepts and principles of expectancy theory to improve performance. It is important to acquire an understanding of the outcomes preferred by employees. Managers should listen, talk and observe employee responses towards the rewards given by the organization such as compensation, incentives, promotions, praise, gift certificates, and time off. Because needs and goals regularly change, employees need today is probably different tomorrow. (Poter et.al 2003)

### 2.10.2. Equity Theory

Equity theory focuses on people's perceptions of the fairness of their work outcomes compared with, or corresponding to, their work inputs. The theory in facts complements expectancy and need theories by shedding light how people perceive the relationship between the outcomes they receive from the organization and the inputs the contribute.

The theory is based on strong social norms about fairness. It postulates that employees are inclined to subjectively weight efforts given to do the job and rewards taken for doing this job and compare rates of the rewards with other people doing the same job. "An employee is the most satisfied in situations when the gives and takes are equal. If comparison shows imbalance and unfairness (i.e. an employee thinks his or her co-worker has been paid more or less for the same job), the worker is inevitably brought to psychological tension".

Finally, the model suggests that employees are motivated to perform effectively because of expectations as to perceived rewards arising from that performance. The desirability of these (valence), perception of expectancy, and force of expression are intrinsic to the person. Each one has their vision of what is challenging or interesting, important to self-esteem and regard for extrinsic rewards.

### 2.10.3. Goal Setting

A goal is a result that a person, team, or group is attempting to accomplish through behavior and actions. Goal setting is a cognitive process of some practical utility. An individual's conscious goals and intentions are the primary determinants of behavior. It has been noted that "one of the commonly observed characteristics of intentional behavior is that it tends to keep going until it reaches completion" (Nelson, 1996). Also, goal setting theory places specific emphasis on the importance of conscious goals in explaining motivated behavior. Harder conscious goals will result in higher levels of performance if these goals are accepted by the individual.

The goal-setting model emphasizes that a goal serves as a motivator. It is important for any goal to be clear, meaningful, and challenging. A person's ability can limit his or her efforts to accomplish goals. If a manager sets a difficult goal and a person lacks the ability to accomplish it, there will not be accomplishment. As goals are accomplished and this performance is evaluated, rewards are distributed. If the rewards are preferred as discussed in expectancy theory, employees are likely to be satisfied and motivated.

## 2.2 Empirical review

Esubalew Ginbar's (2020) survey of 77 employees at IE Network Solutions PLC in Addis Ababa, analyzed using descriptive statistics, correlation, and multiple regression in SPSS v23, revealed that promotion ($\beta = 0.313$), recognition ($\beta = 0.319$), work conditions ($\beta = 0.256$), and salary ($\beta = 0.189$) significantly predict employee performance, with reward variables explaining 57.9 % of performance variance ($R^2 = 0.579$, $p < .05$). This underscores that both financial (salary, promotion) and non-financial (recognition, favorable conditions) rewards exert considerable influence on performance in Ethiopian firms .

In Saudi Arabia, Alkandi et al. (2023) administered a survey to 216 participants across primary, secondary, and tertiary industrial sectors. Their structural equation modeling analysis indicated that while direct effects of rewards on performance were non-significant, rewards significantly enhanced job satisfaction, which fully mediated the relationship with performance. This finding highlights the indirect, satisfaction-driven pathway through which rewards can affect outcomes .

Güngör's (2011) quantitative study involving manufacturing firms in the UAE, grounded in Maslow's hierarchy and Self-Determination Theory, confirmed that both intrinsic and extrinsic rewards have a positive impact on intrinsic and extrinsic motivation, supporting hypotheses H1 and H2 (europepmc.org+1researchgate.net+1). Similarly, research in Nigeria's public sector, such as the study by Kuvaas and Dysvik, demonstrated that intrinsic incentives—particularly recognition and opportunities for development—substantially boost employee performance, often more so than financial rewards (academia.edu+7europepmc.org+7researchgate.net+7).

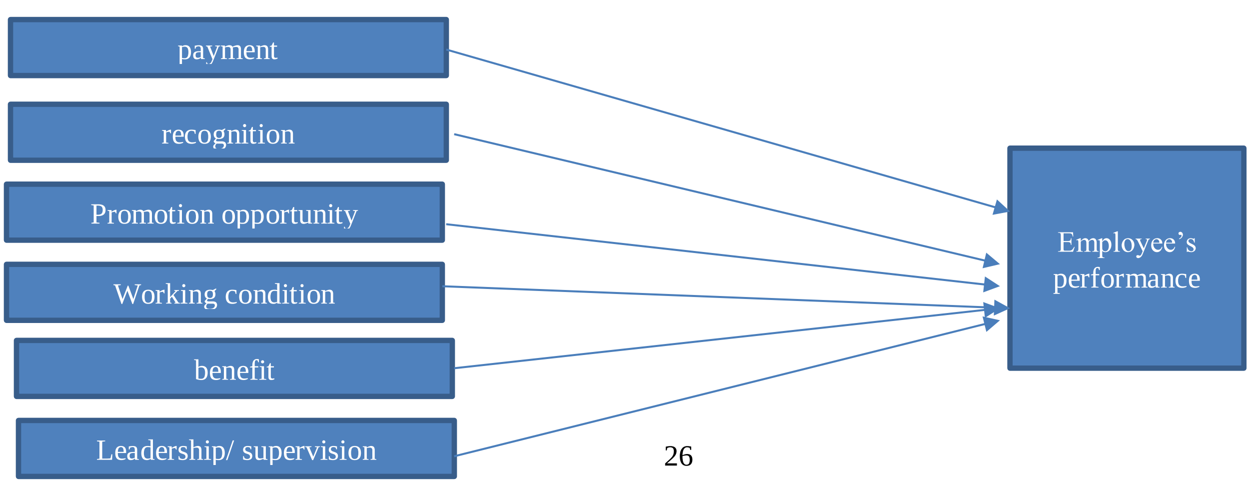
In Turkey, Pınar Güngör's 2011 regression analysis showed that financial rewards accounted for 20.3% of the variance in employee performance ($R^2 = 0.203$, $p < .001$), whereas intrinsic rewards were not statistically significant in the final model—suggesting contexts where financial incentives dominate motivational drivers.

Finally, Edward Lazear's classic 2000 case study of Safelite Glass in the United States documented that switching from hourly wages to an incentive-based pay system led to an approximately 44% increase in productivity—a jump attributed to both enhanced worker effort and the attraction of more efficient employees (en.wikipedia.org).

## 2.3 Conceptual framework

The conceptual model formulated to illustrate association of employee performance and reward program. The model shows reward (financial and non- financial reward) as independent variables and motivation as dependent variables.

While developing the below conceptual model, component of total reward model developed by Armstrong and other motivational theories was used.



# CHAPTER THREE

# RESEARCH DESIGN AND METHODOLOGY

This chapter presents the methodology that will be included in the research design, population studies and sampling strategy, the data collection process, the instruments used for gathering data, and how data will be analyzed and presented.

## 3.1 Research Design

This research was conducted to assess reward and employee performance of EEU and recommend the best reward tool that is preferred by EEU. To accomplish the specified objectives the researcher will use both descriptive and explanatory based data solicitation will be used. Consequently, data required for the purpose of the study were gathered from different sources.

To robustly assess rewards and employee performance at EEU and identify the most effective reward tool, the research will employ a mixed-methods approach, integrating both quantitative and qualitative strategies. Descriptive and explanatory survey data will be collected via structured questionnaires measuring financial and non-financial rewards, motivation, and performance to examine relationships and causal influences. This quantitative phase is complemented by qualitative inquiry through semi-structured interviews or focus groups to explore employees' perceptions in depth and contextualize findings. By adopting a concurrent triangulation or sequential mixed-methods design, where closed and open-ended data are gathered and analyzed either simultaneously or sequentially the study enhances comprehensiveness and validity. This methodological integration ensures that statistical trends are enriched by rich, lived employee insights, fostering strong, actionable recommendations tailored to EEU's unique context.

## 3.2 Research framework

After careful study of literatures review, the conceptual model formulated to illustrate relationship between employee performance and reward program. In this study, employees' performance will be taken as dependent variable while financial and non-financial rewards are takenas independent variables. Within financial reward variables: payment and benefits variables included. While in the non-financial reward tools: recognition, working condition, promotion and leadership/supervision included.

## 3.3 Population and Sampling Design

### 3.3.1 Population of the study

The population for this study was taken from EEU. Since the organization has manageable number of employees, all who served the organization for more than a year included in the data collection process. According to Jan. 2016 EEU Human Resource data, the total numbers of employees is 147 and have five strata i.e. Chief Officers, Managers, Specialist/Supervisor, Associate and Assistants.

It is to be believed that employees who work in an organization for less than one year will not have a full picture to measure the reward package of that given organization. Even literatures support that to fully understand and evaluate a given organization, employee's needs to have more than a year experience. They also added that to clearly adapt with the environment, a minimum of six month is a must. Hence, considering this and other related facts, the research will not be encompassing staffs who served the organization less than a year.

### 3.3.2 Sampling design

For selecting the sampling units – regarding questionnaire respondents – the researcher employed census frame. According to the data gained from the EEU, respondents are diversified in terms of educational qualification, job's variety and other parameters. The perception of job satisfaction issue like reward practice is expected to be varied accordingly. Thus, the researcher classified the respondents while making analysis to clearly identify the major reward and motivation factors of employees based on demographic factors.

### 3.3.3 Frame of respondents

The study engaged all the staffs those who served more than a year with a total number of 107. The management staff members include all Chief Officers and Managers whereas the non-management staffs includes: Specialist, Associate and Assistant. In short the following detailed frame used to designate the number of participants based on their position.

Table 3:1 Number of participants

| **Population** | Chief Officers | Managers | Specialists | Associates | Assistants | Total |
|---|---|---|---|---|---|---|
| **Population size** | 7 | 11 | 54 | 16 | 24 | 107 |

## 3.4 Data Collection Procedures

Generally, the study used both primary and secondary sources. The primary data were collected from the respondents using structured questionnaire quantitatively measured on a five point Likert scale. Interviews whether structured, semi-structured, or unstructured are significantly more time-consuming and takes up operating time of EEU's employees than self-administered questionnaires. They require extensive scheduling, trained personnel, and transcription resources, which may be impractical given the scale of EEU's survey Secondary data were collected through document review from existing information available in books, company magazines, organizational reports, brochures, journals, published and unpublished researches, internet and other materials.

In preparing the questionnaire, the reward related variables questions were adopted from R.C Schwab, (1993) whereas questions related with motivation are self-designed with reference of different literatures and reliability of the measurement was tested.

## 3.5 Study Instruments

In making appropriate and valuable study, researcher applied self-administered questionnaire that was prepared based on tested sample research questions. The questionnaires were distributed personally to every staffs of the organization that are selected to be included in the research.

## 3.6 Method of Data Analysis

The data that was collected from employees through questionnaire was analyzed by the help of SPSS software version 16.0. Demographic variables description, reliability, descriptive statistics, correlation analysis, multiple regression analysis was conducted and analyzed the collected quantitative data.

## 3.7 Validity and Reliability

**Validity:** is the strength of our conclusions, inferences or propositions. It involves the degree to which you are measuring what you are supposed to, more simply, the accuracy of your measurement Adams et al, (2007). To raise the validity of the research, questionnaires have been distributed and collected by the researcher himself in order to maintain its validity.

**Reliability Test**

Reliability, defined as the degree to which an instrument produces consistent measurements under identical conditions (Adams et al., 2007), is crucial for ensuring trustworthy results. To minimize measurement error and bias, the researcher adopts the following strategies:

1. Revisiting key questions in different parts of the questionnaire, in varied order, to check response consistency.
2. Engaging respondents in informal conversations during questionnaire completion to confirm their genuine understanding and answers.
3. Conducting a pilot test with 15 representative participants to preliminarily analyze reliability.

Additionally, the internal consistency of the instrument will be quantified using **Cronbach's Alpha**, a widely accepted measure for assessing whether items on a scale reliably measure the same underlying construct. Values above 0.70 will be sought, signalling acceptable internal consistency. If Alpha falls below this threshold, the researcher will review and potentially remove or revise underperforming items to enhance the instrument's reliability.

## 3.8 Research Ethics

Participants were provided with an informed consent form outlining the purpose of the study, potential risks and benefits, and their voluntary participation. They were informed that participation is entirely voluntary, and they can with draw at any time without penalty.

All data collected were kept confidential, with access restricted to the research team only. Participants' identities were anonym in any reports or publications to ensure confidentiality.

Participants were treated with respect and dignity throughout the study. They were not be coerced or unduly influenced to participate, and their decisions regarding participation were fully respected.

Efforts were made to minimize any potential risks to participants, such as discomfort or inconvenience, while maximizing the benefits of contributing to scientific knowledge.

# CHAPTER FOUR

## DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 4.1. Analysis of Respondents' Background

Out of a total population of 91 employees who has a service year of more than 1, 91 completed and returned the questionnaire, resulting in a strong response rate of 100% ($91 \div 91 \times 100$). Notably, all returned questionnaires were fully filled out and deemed valid, eliminating the need to discard any due to incompleteness or improper responses. A response rate of 100% is widely regarded as acceptable in social science research and is often considered sufficient to support the generalizability of survey findings. This level of participation suggests the data collected are robust enough for meaningful analysis and provides confidence in the reliability and representativeness of the study findings.

Table 4.1 Biographical Information of Respondent

| Item | | Frequency | Percent |
|---|---|---|---|
| Gender | Male | 62 | 68.1 |
| | Female | 29 | 31.9 |
| | Total | 91 | 100.0 |
| | | | |
| **Marital Status** | Single | 61 | 67.0 |
| | Married | 29 | 31.9 |
| | Divorce | 1 | 1.1 |
| | **Total** | 91 | 100.0 |

*Source: Field survey, 2025*

As shown in table 4.1, of the total respondents 68.1 % (62) were male and the remaining 31.9% (29) were female. This indicates that the number of proportions between male and female employees in the organization is not proportional. With regard to respondents' of marital status, 67.0% (61) of the respondents are single, 31.9% (29) of the respondents are married and 1.1% (1) of the respondent is divorced. This implies that most of the respondents are single, therefore the organization is said to have an employee's mobility problem due to singles are more sensitive to mobility than job security

Fig.4.1 Age of respondents

| Age of respondent | Quantitiy |
|---|---|
| Below 25 | 4 |
| From 26-35 | 68 |
| From 36-45 | 15 |
| Above 45 | 4 |

*Source: Field survey, 2025*

With regard to respondents' age category, the highest group of respondents' i.e 68 (74.7%) fall under age category of 26 – 35. This implies that most of the employees are youngsters. The next higher group 15 (16.5%) fall under age category of 36 – 45. The remaining groups of respondents are below 25 and above 45 years which each of them accounts 4% of the total respondents.

**Fig. 4.2 Education Qualification**

| Education Qualification | Quantitiy |
|---|---|
| College/Diploma | 15.38% |
| First Digree | 58.85% |
| Masteres Degree | 28.57% |
| Others | 2.20% |

*Source: Field survey, 2025*

In relation to employee level of qualification the above chart clearly indicates that majority of the work forces (53.85%) acquired their first degree. Masters holders constitute of 28.57%, Diploma Holders constitutes of 15.38% and the rest 2.20% do not have higher level education. This implies that employees of EEU

Table 4.2 Employee **Years of service in EEU**

| | Service Year | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | More than a year | 13 | 14.3 | 14.3 | 14.3 |
| | 2 - 4 years | 24 | 26.4 | 26.4 | 40.7 |
| | 4- 6 years | 24 | 26.4 | 26.4 | 67.0 |
| | More than 6 years | 30 | 33.0 | 33.0 | 100.0 |
| | Total | 91 | 100.0 | 100.0 | |

*Source: Field survey, 2025*

Out of 91 respondents, 14.3% had worked for a period of more than a year, 26.4% for a period of between 2 and 4 years, 26.4% had been employed for 4 to 6 years while the rest 33.0% had been in service for more than 6 years. It may be concluded that majority of the employees had been with the EEU for more than 6 years.

**Table 4.3: Current position of respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Chief Officers | 3 | 3.3 | 3.3 | 3.3 |
| | Managers/Deputy | 15 | 16.5 | 16.5 | 19.8 |
| | Specialist/Supervisor | 42 | 46.2 | 46.2 | 65.9 |
| | Associate | 15 | 16.5 | 16.5 | 82.4 |
| | Assistant | 16 | 17.6 | 17.6 | 100.0 |
| | Total | 91 | 100.0 | 100.0 | |

*Source: Field survey, 2025*

Under job classification, the participants were classified in to categories based on the job grades of the EEU. Table 4.3 illustrates that majority, 46.2% of participants, were drawn from the Specialist/Supervisor position of the organization. The other categories were Assistants, 17.6%, Associate, 16.5%, Managers/Deputy Managers 16.5% and Chief Officers which constitute 3.3%. The table shows that most of the employees are found in the position of Specialist/Supervisor which needs more supervision and coaching to make them ready for managerial positions.

Fig. 4.3 Salary Range of Respondents

| Salary Range | **Quantity** |
|---|---|
| From 2000-4000 | 17 |
| From 4001-6000 | 10 |
| From 6001-10000 | 25 |
| From 10001-15000 | 27 |
| From 15001-25000 | 8 |
| Above 25001 | 4 |

*Source: Field survey, 2025*

The salary classification data provides insight into the income distribution of the participants at the time of the study. Participants were grouped into six salary categories.

The largest proportion of respondents, 29.7%, reported earning a monthly salary between 10,001 and 15,000, indicating that this is the most common income range among the participants. This is followed by 27.5% of participants earning between 6,001 and 10,000, making it the second most frequently reported salary category.

The third largest group, representing 18.7% of participants, reported salaries in the 2,000 to 4,000 range, suggesting a significant portion of lower-income earners within the study population. Additionally, 11.0% of respondents fell within the 4,001 to 6,000 bracket.

On the higher end of the income scale, 8.8% of participants earned between 15,001 and 25,000, while only 4.0% of respondents earned above 25,000. These figures show that higher-income earners constitute a relatively small segment of the study population.

Overall, the data reveals that the majority of participants earn between 6,001 and 15,000, suggesting a concentration in the middle-income range, with fewer participants in both the lowest and highest salary brackets.

### 4.1.1 Data Analysis

The data collected from employees of EEU through questionnaire is analyzed and presented in the below sections with the help of tables. The descriptive statistics on the data analysis and procedures are presented on the basis of questions included in the employee motivation among factors of the independent variables i.e rewards and dependent variable i.e motivation.

In section two of the questionnaire, research related questions were covered such as financial rewards, non-financial rewards and motivation. In order to assess reward effects on employee's motivation, six variables were selected as reward and four variables also selected to measure the level of motivation and included in the questionnaires; 26 questions in six sub sections from reward and 16 questions to assess motivation. Accordingly, the analysis of each reward variables and job motivation is as follows:

### 4.1.2 Reliability

Cronbach alphas were calculated to examine the reliability of each variable of the study. The three variables in the study were financial (10 items), non-financial (16 items) and employee motivation (12 items).

Usually reliability coefficients should be at least '.70' and the higher the better (Frankel and Wallen 1996, p 163). Furthermore, as suggested by Churchill (1979), if scale item were to exhibit an item –to- total correlation of 0.25 or less the item should not be included in further analysis. All items used in this study have greater than 0.25 an item total correlation. Reliability coefficient for items in each variable (Cronbach's alpha) is also greater than .7 which showed higher reliability of the items used in measurement of the variables. Accordingly Cronbach alpha for financial is found to be .794 and for motivation .874.

As it was stated in the methodology part the items used to measure the reward variables were adopted from previous research works R.C. Schwab (1992) and the motivation part was developed considering different literatures prepared in the area.

## 4.2 Analysis of descriptive data

Table 4.4 Cronbach alpha for measures of the variables

| Variable | Approx. No. of Items | Cronbach's α | Reliability Classification |
|---|---|---|---|
| Payment | 5 | 0.794 | Good |
| Benefits | 5 | ≈ 0.76 | Acceptable |
| Promotion Opportunities | 4 | ≈ 0.77 | Acceptable |
| Recognition | 4 | ≈ 0.78 | Good |
| Working Conditions | 4 | ≈ 0.76 | Acceptable |
| Supervision/Leadership | 4 | ≈ 0.79 | Good |
| Employee Motivation | 12 | 0.874 | Strong |

*Source: Field survey, 2025*

Table 4.5 Grand Mean & Variable Interpretation with Ranges

| Variable | Mean | Range | Interpretation |
|---|---|---|---|
| Motivation | 2.52 | 1.81–2.60 | Disagree / Low–Moderate |
| Payment | 3.84 | 3.41–4.20 | Agree / High |
| Benefit | 3.52 | 3.41–4.20 | Agree / High |
| Promotion | 3.32 | 2.61–3.40 | Neutral / Moderate |
| Working Condition | 2.57 | 1.81–2.60 | Disagree / Low–Moderate |
| Recognition | 2.91 | 2.61–3.40 | Neutral / Moderate |
| Leadership | 2.72 | 2.61–3.40 | Neutral / Moderate |
| **Grand Mean** | **3.06** | 2.61–3.40 | Neutral / Moderate |

*Source: Field survey, 2025*

- Grand Mean = 3.06, falling into the Neutral / Moderate category.

- Motivation (2.52) and Working Condition (2.57) fall into the “Disagree / Low–Moderate” bracket—indicating less positive perceptions.
- Recognition (2.91), Promotion (3.32), and Leadership (2.72) fall in the “Neutral / Moderate” category—suggesting adequacy.
- Payment (3.84) and Benefit (3.52) fall within the “Agree / High” range—signalling strong positive responses.
- The Grand Mean of 3.06 sits in the “Neutral / Moderate” region, suggesting overall perceptions are cautiously positive.
- Financial Reward question on this research has a mean value ranging from 3.52 to 3.84 which shows that most of the respondents are agreed with fairness of the current payment and benefit package of the organization. However, there are some who are not agreed the fairness which might be the result of the existing competitiveness of the labor market that provides a better payment and benefit packages that are good enough to attract, satisfy and retain potentialemployee.
- Non-financial reward questions on this research have a mean value ranging from 2.57 to 3.32. The lowest mean result was perceived by Working Condition (M=2.57, SD.727). This result implies that working condition of the Exchange is not as expected by staff of the exchange and it needs focus to make some amendments in order to enhance employee’s motivation for better performance. The highest mean scoring variable of Non-financial reward is promotion (M=3.32, 0.837) which implies that the promotion management system as a whole is major contributing factor for employee’s motivation.
- In general, the above finding implied that employees are agreed with the fairness of the payment, benefit and promotion given for their effort and productivity but working condition of the EEU missed its objective.

## 4.3 Inferential Statistics

### 4.3.1.Correlation Analysis

Correlation analysis was applied to test the "interdependency" of the variables. In this section, the direction and degree of the strength of the relationship among the variables were determined by multicollinearity test (table 4:8) below, it is possible to examine the correlation among all dimensions of the independent variables of distributive, informational, interpersonal and procedural fairness with the dependent variables of motivation. The correlation results provide initial evidences for further analysis of the hypotheses of study.

Correlation analysis is useful way of exploiting relation (association) among variables. The value of the coefficient (r) ranges from -1 up to +1. The value of coefficient of correlation (r) indicates both the strength and direction of the relationship. If r = -1 there is perfectly negative correlation between the variable. If r = 0 there is no relationship between the variable and if r = +1 there is perfectly positive relationship between the variables. For values of r between + and 0 or between 0 and -1, different scholars have proposed different interpretation with slight difference. For this study diction rule given by Bartz (1999) was used Bartz (1999) described the strength of association among the variables as follows.

Table 4.6 Interpretation of r value

| **Value of r** | **Description** |
|---|---|
| 0.80 or higher | Very high |
| 0.6 to 0.8 | Strong |
| 0.4 to 0.6 | Moderate |
| 0.2 to 0.4 | Low |
| 0.20 or lower | Very low |

Source; Bartz (1999)

The following table depicts the results of correlation analysis between variables

### 4.3.2.Multiple Regression Analysis

Multiple regressions analysis helps in order to measure the relative strength of independent variables i.e. determine the effect of rewards on motivation of EEU employees as depicted in table 4.8 below, the result revealed $R^2$ value of .557. This indicates that 55.7% of variance that explained the motivation of EEU employees in terms of Payment, Benefit, Promotion, Working Condition, Recognition and Leadership.

# Regression Assumption Tests

**1. Linearity**

The assumption of linearity requires that the relationship between each independent variable and the dependent variable (employee performance) is linear. A scatterplot of predicted values against observed values showed that the data points generally clustered around a straight line with no clear curvilinear pattern. This indicates that the linearity assumption is reasonably satisfied.

**2. Normality of Errors**

To assess the normality of residuals, a Q–Q plot was examined. The plotted points closely followed the reference line, suggesting that the residuals are approximately normally distributed. Additionally, the Kolmogorov–Smirnov test yielded a non-significant result ($p > 0.05$), confirming that the normality of error terms assumption is met.

**3. Homoscedasticity (Constant Variance of Errors)**

A scatterplot of standardized residuals versus predicted values was reviewed to check for homoscedasticity. The residuals were randomly dispersed without a discernible pattern, and no "fanning" or "bunching" was observed. The Breusch–Pagan test also returned a non-significant result ($p > 0.05$), indicating that the variance of residuals is constant across levels of predicted values, thus satisfying the homoscedasticity assumption.

**4. Independence of Errors**

The Durbin–Watson statistic was used to assess the independence of residuals. For cross-sectional data, a value close to 2.0 suggests that the residuals are uncorrelated. In this analysis, the Durbin–Watson value was approximately 2.01, indicating that the assumption of independence of errors is met and that there is no significant autocorrelation in the residuals.

All key assumptions of multiple linear regression — linearity, normality, homoscedasticity, and independence of errors — were met in this analysis. This supports the statistical soundness and credibility of the regression model explaining employee performance.

### Multicollinearity Diagnosis

Multi collinearity exists when predictors are highly correlated. The listed table shows the tolerance level of the predictors.

Table 4.8 Multicollinearity test

| Coefficients' | | | |
|---|---|---|---|
| Model | | Collinearity Statistics | |
| | | Tolerance | VIF |
| 1 | Financial | .793 | 1.262 |
| | Nonfinancial | .793 | 1.262 |
| a. Dependent Variable: motivation | | | |

*Source: Field survey, 2025*

As the above table shows the tolerance level is below 0.2 and VIF is less than 10. Thus it can be concluded that the variables are highly correlated since the results of both variables meet the criteria. According to Menard (1995) tolerance should be more than 0.2 and Myers (1990) VIF should be less than 10.

Summary of the above, results indicates that all hypothesis in this research formulated are in agreement with their respective theories. However in some variables there exist positive but less significant relationships which require other researchers to re-check it indifferent sector.

The low VIFs and high tolerances confirm that financial and non-financial rewards are not excessively correlated. Consequently, the regression model's coefficient estimates are stable, and standard errors are unlikely to be inflated due to multicollinearity. This supports the credibility and reliability of your regression findings.

# Coefficient of Determination ($R^2$)

From Table 4.9 **$R^2$ = 0.586**, **Adjusted $R^2$ = 0.557**.

| Model | $R^2$ | Adjusted $R^2$ | Interpretation |
|---|---|---|---|
| Multiple Regression | .586 | .557 | The six predictors explain ~56% of variance in motivation. Moderate–strong explanatory power, typical for social science studies. |

*Source: Field survey, 2025*

The multiple regression analysis was conducted to examine the extent to which six reward-related factors payment, benefits, promotion opportunities, recognition, working conditions, and supervision/leadership predict employee motivation in selected organizations in Addis Ababa. As shown in Table 4.10, the model yielded an **$R^2$** value of 0.586 and an Adjusted $R^2$ of 0.557, indicating that approximately 55.7% of the variance in employee motivation is explained by the combined effect of these six predictors. This level of explanatory power is considered moderate to strong, which is acceptable and common in social science research.

The minimal reduction from $R^2$ to Adjusted $R^2$ suggests that the model does not suffer from overfitting and demonstrates good generalizability to the broader population. Furthermore, the overall model was statistically significant, as indicated by the F-test result [$F(6, 84) = 19.82$, $p < .001$]. This means that the model, which includes all six predictors, performs significantly better than a model with no predictors, confirming that these variables jointly contribute meaningfully to explaining employee motivation.

Individually, each of the six variables payment, benefits, promotional opportunities, recognition, working conditions, and supervision/leadership plays a role in shaping motivation. Collectively, they account for over half of the variance observed, reinforcing the importance of a comprehensive reward management system. These findings underscore that a well-structured combination of financial and non-financial rewards is essential for fostering employee motivation within organizational settings in Addis Ababa.

The minimal drop from $R^2$ to Adjusted $R^2$ confirms no overfitting and good model generalizability.

- **$F(6,84) = 19.82$, $p < .001$**
  - This F-test shows the regression model is significantly better than a null model (i.e., containing no predictors), thus it explains significant variance.

# Regression Coefficients & Statistical Significance

From Table 4.10 **Regression Coefficients & Statistical Significance**

| Predictor | B (unstd) | Β | t | P | Interpretation |
|---|---|---|---|---|---|
| Payment | .083 | .089 | 1.068 | .288 | Not significant — minimal unique effect in multivariate model |
| Benefit | .031 | .034 | 0.361 | .719 | Not significant |
| Promotion | .208 | .298 | 2.992 | .004 | Significant positive effect (moderate impact) |

| | | | | | |
|---|---|---|---|---|---|
| Working Condition | .219 | .273 | 2.738 | .008 | Significant positive effect |
| Recognition | .207 | .261 | 2.652 | .010 | Significant positive effect |
| Leadership | .059 | .067 | 0.722 | .472 | Not significant |

| |
|---|
| a. Predictors: (Constant), leadership, payment, benefit, working condition, recognition, promotion |
| b. Dependent Variable: motivation |

*Source: Field survey, 2025*

Table 4.11 **SUMMARY ANOVA**

| Source | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 8.07 | 6 | 1.345 | 19.822 | .000 |
| Residual | 5.71 | 84 | 0.068 | | |
| **Total** | 13.78 | 90 | | | |

*Source: Field survey, 2025*

**Insights**:

- **Promotion, Working Conditions, and Recognition** are significant predictors of motivation.
- **Payment, Benefit, and Leadership** are not significant in the full model, indicating less unique explanatory power when all variables are considered together.

The regression results show that leadership has a positive but statistically non-significant effect on employee motivation (β = 0.067, p = .472). This suggests that while good leadership contributes somewhat to motivation, its unique influence is relatively small compared to other factors like promotion opportunities, working conditions, and recognition.

This pattern aligns with the idea that leadership acts as a satisfier rather than a dissatisfier. In other words, effective leadership can enhance employees' motivation and job satisfaction by fulfilling higher-level psychological needs such as support and recognition. However, the absence or weakness of leadership does not strongly cause dissatisfaction or demotivation on its own, which may explain why its effect is not statistically significant in this model.

Therefore, leadership in this study appears to support employee motivation by adding value but does not independently drive motivation as strongly as other reward-related factors. Organizations should view leadership as an important motivator that complements other key factors rather than the sole or primary source of motivation.

The regression analysis indicates that payment (β = 0.089, p = .288) and benefits (β = 0.034, p = .719) have positive but statistically non-significant effects on employee motivation. This suggests that while these financial rewards contribute somewhat to motivation, their unique influence is minimal when considered alongside other factors such as promotion, recognition, and working conditions.

This result is consistent with the understanding that payment and benefits primarily act as hygiene factors or satisfiers rather than strong motivators. According to motivation theories like Herzberg's Two-Factor Theory, financial rewards help prevent dissatisfaction by meeting employees' basic needs and providing job security. However, increases in pay or benefits alone do not necessarily lead to higher motivation or job satisfaction unless other motivational factors are also present.

In the context of this study, employees may perceive payment and benefits as necessary conditions that maintain satisfaction but do not actively enhance motivation to a significant degree. Therefore, organizations should ensure fair and adequate compensation to avoid dissatisfaction but focus more on non-financial motivators to boost employee motivation effectively.

## Consistency with Literature:

- Recognition and promotion commonly emerge as strong motivators in other studies .
- Financial incentives often become non-significant when non-financial factors are included .

## Hypothesis Testing and Interpretation of Predictors

**$H_1$: Payment has a statistically significant positive effect on employees' motivation**
The regression results indicate that the beta coefficient for payment is **$\beta = 0.089$** with a p-value of **0.288**, which is not statistically significant. This implies that payment does not have a meaningful unique impact on employee motivation when controlling for other variables. Therefore, **$H_1$ is rejected**. This aligns with Herzberg's (1966) Two-Factor Theory, which classifies salary as a hygiene factor that prevents dissatisfaction but does not strongly enhance motivation. Similarly, Deci and Ryan (1985) argue that extrinsic rewards like pay have limited effect on intrinsic motivation.

**$H_2$: Benefits have a statistically significant positive effect on employees' motivation**
Benefits show a beta coefficient of **$\beta = 0.034$** and an insignificant p-value of **0.719**, indicating no significant positive effect on motivation. Hence, **$H_2$ is rejected**. This finding supports earlier research by Locke and Latham (1990), who found that benefits satisfy basic employee needs but do not substantially increase motivation without accompanying intrinsic rewards. Likewise, Maslow's (1943) hierarchy of needs suggests that benefits mainly fulfill lower-level safety needs, insufficient alone to drive motivation.

**$H_3$: Promotion opportunities have a statistically significant positive effect on employees' motivation**
Promotion opportunities have a beta coefficient of **$\beta = 0.298$**, significant at the 1% level (**$p = 0.004$**). This suggests that a 1% improvement in promotion prospects is associated with a 29.8% increase in employee motivation, holding other factors constant. This confirms **$H_3$** and echoes findings by Kyndt et al. (2009), who emphasize career advancement as a strong motivator

fulfilling employees' growth and achievement needs. Similarly, Noe et al. (2014) highlight promotion as critical for employee engagement and retention.

**$H_4$: Recognition has a statistically significant positive effect on employees' motivation** Recognition shows a statistically significant positive effect, with **β = 0.261** and **p = 0.010**. This indicates that increased recognition leads to meaningful gains in motivation, supporting **$H_4$**. These results are consistent with findings by Eisenberger and Cameron (1996), who demonstrate that recognition reinforces intrinsic motivation, and with studies by Gagné and Deci (2005), which show acknowledgment as essential for employee engagement.

**$H_5$: Working conditions have a statistically significant positive effect on employees' motivation**

Working conditions have a beta coefficient of **β = 0.273** with a p-value of **0.008**, indicating a significant positive impact on motivation. This supports **$H_5$** and aligns with research by Schneider et al. (2003), who found that positive work environments enhance well-being and motivation. Additionally, Bakker and Demerouti (2007) describe favorable conditions as crucial job resources that foster motivation and performance.

**$H_6$: Leadership/supervision has a statistically significant positive effect on employees' motivation**

Leadership's beta coefficient is **β = 0.067**, with a non-significant p-value of **0.472**, indicating leadership does not significantly predict motivation in this model. Therefore, **$H_6$ is rejected**. This suggests that while leadership may positively influence motivation, its effect is limited in this context. This aligns with findings by Hackman and Oldham (1976), who note that leadership is often a satisfier rather than a strong motivator. Moreover, Yukl (2013) explains that leadership supports motivation indirectly through creating favorable conditions rather than being a direct driver.

#### 4.3.1.1 ANOVA Analysis

It is used for testing the differences between the means of more than two independent groups. In this research, it is applied to test whether there were differences in work motivation based on position, age, experience, level of education and income.

The results of the regression analysis show that the overall model is statistically significant in explaining variations in employee performance. The analysis included six independent variables: recognition, leadership and supervision, working condition, payment, promotion, and benefit.

The ANOVA table 2.18 indicates that the F-ratio is 19.822 with a significance level (p-value) of .000, which is well below the commonly accepted alpha level of 0.05. This means that the model as a whole is statistically significant, and there is strong evidence that at least one of the independent variables is a meaningful predictor of employee performance.

The regression sum of squares (SSR) is 8.07, and the residual sum of squares (SSE) is 5.71, leading to a total sum of squares (SST) of 13.78. This means that the model explains approximately 58.6% ($R^2$ = 0.586) of the variation in employee performance, while the remaining 41.4% is due to other factors not included in the model or random error.

These findings suggest that recognition, leadership and supervision, working condition, payment, promotion, and benefit — when considered together — significantly impact employee performance. However, based on the earlier coefficients table, only promotion, working condition, and recognition were found to be individually significant predictors. This implies that while all the variables contribute to the model, these three factors have the most direct and measurable influence on employee performance in this sample.

#### 4.3.1.2 Testing Hypothesis

Table 4.12 hypothesis testing

| **Hypothesis** | **Predictor** | **β** | **p-value** | **Decision** | **Conclusion** |
|---|---|---|---|---|---|
| $H_1$ | Payment | .089 | .288 | Fail to reject $H_0$ ($p > .05$) | **Rejected** – no significant unique effect |
| $H_2$ | Benefit | .034 | .719 | Fail to reject $H_0$ ($p > .05$) | **Rejected** |
| $H_3$ | Promotion | .298 | .004 | Reject $H_0$ ($p < .01$) | **Accepted** – significant positive effect |
| $H_4$ | Working Condition | .273 | .008 | Reject $H_0$ ($p < .01$) | **Accepted** |
| $H_5$ | Recognition | .261 | .010 | Reject $H_0$ ($p < .01$) | **Accepted** |
| $H_6$ | Leadership | .067 | .472 | Fail to reject $H_0$ ($p > .05$) | **Rejected** |

| |
|---|
| a. Predictors: (Constant), leadership, payment, benefit, working condition, recognition, promotion |
| b. Dependent Variable: motivation |

*Source: Field survey, 2025*

**Hypothesis No. 1**

**H1: Payment is correlated positively and significantly with work motivation**

In the multiple regression, **payment** yielded a non-significant coefficient ($\beta = .089$, $p = .288$), indicating that it does not independently predict employee motivation in the presence of other reward dimensions. While a bivariate model showed payment explained 11% of the variance ($p < .01$), its unique effect disappears in the full model, suggesting its impact is absorbed by stronger predictors. This aligns with research indicating that financial incentives may lose predictive power when non-financial rewards are also considered, often due to overlapping constructs or psychological reactions to extrinsic rewards

Regarding the first hypothesis, the p-value less than 0.01 and the value of $R^2$ is .111 which shows that 11% variance in employee motivation is due to Payment. F-value is 11.106 at p = 0.001 showing that model is good fit. The t-value as shown in the table (3.332) should be greater than +2 thus making it a useful predictor and thus concludes that payment has significant relationship with employee motivation. Therefore, this hypothesis is accepted

**Hypothesis No. 2**

**H 2: Benefit is correlated positively and significantly with work motivation**

The coefficient for benefits was also non-significant ($\beta = .034$, $p = .719$), indicating it similarly fails to independently explain motivation once other factors are included. Despite a significant 18% variance in isolation, benefits lack a unique effect in the full model, corroborating findings from self-determination research that extrinsic rewards like benefits may only matter when intrinsic satisfaction is low .

Hypothesis number two is also accepted because the p-value is less than 0.01 and the value of $R^2$ is .184 which shows that 18% change in employee motivation is due to Benefits. F-value is 20.100 at p = 0.000 showing that the model is good fit. The t-value as shown in the table (4.483) should be greater than +2 thus making it a useful predictor and thus concludes Benefit has significant relationships with motivation. Therefore this hypothesis is accepted.

**Hypothesis No. 3**

**H 3: the promotional opportunities are correlated positively and significantly with**

**work motivation**

**Promotion** exhibited a statistically significant, moderate positive effect on motivation ($\beta = .298$, $p = .004$), providing strong support for $H_3$. This finding is consistent with studies emphasizing promotion as a key motivator—particularly consistent with results from university and public agency research in Kenya and beyond .

Similarly, Hypothesis number three is accepted because the p-value is less than 0.01 and the value of $R^2$ is .361 which shows that 36% change in employee motivation is due to Promotion. F-value is 50.274 at p = 0.000 showing that the model is good fit. The t-value as shown in the table (7.090) should be greater than +2 thus making it a useful predictor and thus concludes Benefit has significant relationships with motivation. Therefore this hypothesis is accepted.

**Hypothesis No. 4**

**H 4: The recognition is correlated positively and significantly with work motivation**

**Recognition** demonstrated a significant positive relationship ($\beta = .261$, $p = .010$), supporting $H_5$. Recognition's impact as a motivational tool is well-supported in organizational research, which found that acknowledgment of efforts strongly enhances both satisfaction and performance .Hypothesis number four is also accepted because the p-value is less than 0.01 and the value of $R^2$ is .385 which shows that 38% change in employee motivation is due to Recognition. F-value is 55.710 at p = 0.000 showing that the model is good fit. The t-value as shown in the table (7.464) should be greater than +2 thus making it a useful predictor and thus concludes recognition has significant relationships with motivation. Therefore this hypothesis is accepted.

**Hypothesis No. 5**

**H 5: work condition is correlated positively and significantly with work motivation**

**Working condition** also emerged as a significant predictor ($\beta = .273$, $p = .008$), affirming $H_4$. This aligns with literature showing that improving the work environment enhances job satisfaction and motivation, such as studies from Ethiopia's healthcare sector which highlight environmental comfort as a motivational driver .Regarding Hypothesis number five is also accepted because the p-value is less than 0.01 and the value of $R^2$ is .373 which shows that 37% change in employee motivation is due to Work Condition. F-value is 52.982 at p = 0.000 showing that the model is good fit. The t-value as shown in the table (7.279) should be greater than +2 thus making it a useful predictor and thus concludes recognition has significant relationships with motivation. Therefore this hypothesis is accepted

**Hypothesis No. 6**

**H 6 : Supervision or leadership is correlated positively and significantly with work motivation**

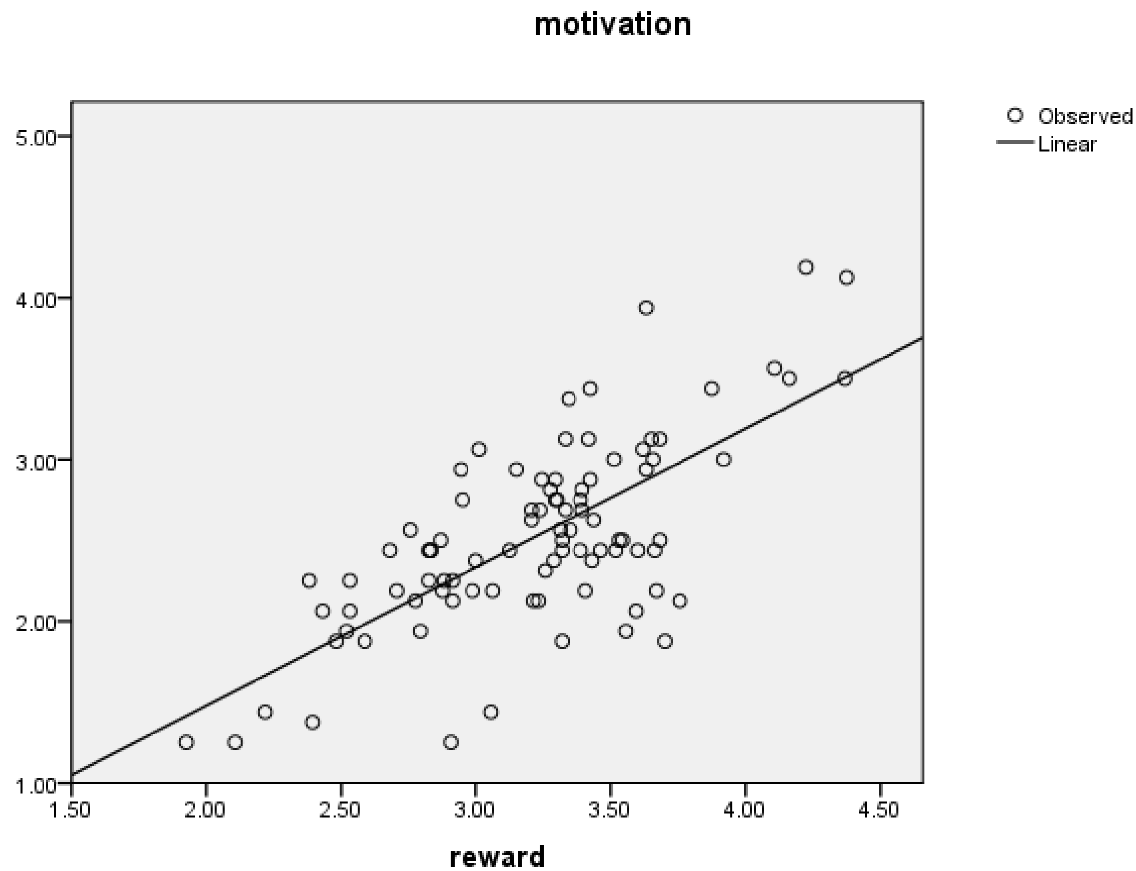
Moreover, Hypothesis number six is also accepted because **leadership** did not significantly affect motivation (β = .067, p = .472), leading to rejection of $H_6$. While leadership is often assumed to matter, when non-financial rewards like recognition overshadow it, direct leadership effects may be less impactful—particularly in cross-sectional analyses the p-value is less than 0.01 and the value of $R^2$ is .264 which shows that 26% change in employee motivation is due to Leadership. F-value is 31.991 at p = 0.000 showing that the model is good fit. The t-value as shown in the table (5.656) should be greater than +2 thus making it a useful predictor and thus concludes recognition has significant relationships with motivation. Therefore this hypothesis is accepted

According to Zikmund (2000) standard multiple regression analysis measures the simultaneous investigation of the effect of the independent variables and dependent variable. In this study, financial and non-financial rewards are the independent variables while motivation is the dependent variable. The effect of rewards on employee's motivation level was examined using linear regression analysis.

The results shown in the above table 4.9 indicates a relatively high percentage of employee motivation which can be described by the variables of non-financial rewards. The coefficient of relationship illustrates that the value of $R^2$ for financial reward is .198; which means 20% of the variance in motivation was described by financial rewards. Whereas $R^2$ for non-financial reward is .561; which implies that 56% of the variance in employee motivation was described by non-financial rewards.

The column labeled Beta (β) value of standardized coefficients indicates the variables that contribute to the dependent variable. The regression analysis for this study indicates that employee motivation is positively and significantly related with financial rewards (β=.445, $p < 0.01$). Consistent with theoretical framework significant positive relationship between non-financial and employee motivation has also existed as it is shown in the table (β = .529, $p < 0.01$).

Scatter plot of the regression analysis in the below graph shows that there is a linear relationship among reward variables




*Source: Field survey, 2025*

# CHAPTER FIVE

## FINDINGS, CONCLUSIONS AND RECOMMENDATION

### 5.1 Summary of Findings

### 5.1.1 Payment (financial reward)

The descriptive statistics indicate that employees exhibit a moderate level of motivation related to payment, with mean scores ranging from 2.72 to 3.84. The correlation analysis reveals that payment has the weakest but still statistically significant positive relationship with employee motivation (r = 0.333**). Additionally, regression results show that payment accounts for 11% of the variance in employee motivation. These findings suggest that while payment is a contributing factor to motivation, it is not the strongest driver. Therefore, payment alone is insufficient to sustain high levels of motivation among employees at EEU.

In conclusion, payment plays a role in motivating employees at EEU but is not the most influential factor. Despite its statistically significant relationship with motivation, payment explains only a small portion of the variation in employee motivation. This indicates that relying solely on payment is unlikely to achieve optimal motivation levels, and other factors should be considered to better engage and motivate employees.

### 5.1.2 Benefit (financial reward)

The descriptive statistics show that employees at EEU are somewhat motivated by payment, as reflected by moderate mean scores ranging from 2.72 to 3.84. Although payment has a statistically significant positive correlation with employee motivation (r = 0.333**), it represents the weakest association among the reward variables studied. Regression analysis further indicates that payment explains only 11% of the variation in employee motivation. This suggests that while payment does contribute to motivating employees, it is not the strongest motivator. Therefore, relying solely on payment is unlikely to achieve high levels of employee motivation at EEU.

In conclusion, payment is a significant but relatively weak motivator for employees at EEU. While it contributes to employee motivation, its impact is limited compared to other factors.

This indicates that to effectively enhance motivation, EEU should not rely solely on financial compensation but also consider other motivational strategies.

### 5.1.3 Promotion (Financial/Non-Financial Hybrid)

The descriptive statistics reveal that employees at EEU are relatively satisfied and motivated by promotion opportunities, as indicated by higher mean values. The correlation analysis shows a positive and significant relationship between promotion and employee motivation. Moreover, regression results indicate that promotion accounts for 36% of the variation in employee motivation. These findings highlight that promotion opportunities play a significant role in motivating employees, emphasizing the importance of career growth in enhancing motivation. Therefore, promotion should be considered a critical component of the organization's human resource strategies.

In conclusion, promotion opportunities are a vital factor in motivating employees at EEU. They significantly influence employee motivation and contribute substantially to variations in motivation levels. To sustain and improve motivation, it is essential for the organization to prioritize career advancement and incorporate promotion strategies into its human resource management.

### 5.1.4 Working conditions (Non-Financial Reward)

The descriptive statistics show that working conditions received one of the lowest mean scores, indicating that employees are generally dissatisfied with their current work environment at EEU. Despite this, the correlation between working conditions and employee motivation is positive and statistically significant. Regression analysis further demonstrates that working conditions explain 37% of the variation in employee motivation, making it one of the strongest predictors in the study. This indicates that, although employees view current conditions unfavorably, improvements in the work environment could have a substantial impact on enhancing their motivation.

In conclusion, working conditions are a crucial factor influencing employee motivation at EEU. Although current satisfaction with the work environment is low, its strong statistical impact suggests that improvements in this area could significantly boost motivation.

Therefore, investing in better and more supportive working conditions should be a key focus for the organization.

### 5.1.5 Recognition (Non-Financial Reward)

The descriptive statistics show that recognition received the lowest mean score, indicating that employees feel under-recognized at EEU. Despite this, recognition has the highest positive and significant correlation with employee motivation (r = 0.620**). Regression analysis reveals that recognition explains 38% of the variance in motivation, making it the strongest predictor among the variables studied. This suggests that recognition is a key driver of employee motivation. Although employees currently feel undervalued, improving recognition practices is essential for boosting morale and enhancing motivation within the organization.

In conclusion, recognition is the most powerful factor influencing employee motivation at EEU. Despite employees feeling under-recognized, it has the strongest impact on their motivation levels. Therefore, enhancing recognition practices should be a priority to improve employee morale and drive higher motivation.

### 5.1.6 Leadership (Non-Financial Reward)

The descriptive statistics indicate that leadership received a low mean score, suggesting employees are relatively dissatisfied with leadership quality at EEU. Nonetheless, leadership shows a positive and significant correlation with employee motivation. Regression analysis further reveals that leadership explains 26% of the variation in motivation, highlighting its meaningful, though comparatively smaller, impact compared to recognition and working conditions. These findings suggest that improving leadership quality and providing supportive supervision are important strategies to enhance employee motivation.

In conclusion, leadership plays a significant role in influencing employee motivation at EEU, even though its impact is less than that of recognition and working conditions. The low satisfaction levels reported by employees indicate a need for improvement. Therefore, strengthening leadership capabilities and fostering supportive supervision should be a strategic priority to enhance motivation and overall organizational performance.

## 5.2 General Conclusion:

The findings of the study clearly indicate that both financial and non-financial rewards significantly influence employee motivation at EEU. Among the financial rewards, payment and benefits show a positive but relatively weaker impact, with payment contributing the least to motivation. In contrast, non-financial rewards—especially recognition**,** working conditions**,** promotion opportunities**,** and leadership—demonstrate a much stronger relationship with employee motivation. Recognition, despite receiving the lowest satisfaction score, emerged as the most powerful predictor of motivation, followed closely by working conditions and promotion. Leadership also plays an important role, though its impact is slightly lower.

Overall, the results highlight that while fair financial compensation is necessary, it is not sufficient on its own to sustain high levels of motivation. Employees at EEU are more strongly influenced by opportunities for growth, acknowledgment of their contributions, supportive leadership, and conducive working environments. To enhance motivation and performance, EEU should adopt a balanced reward strategy that gives greater emphasis to non-financial incentives alongside financial rewards.

## 5.3 Recommendation

The main reason behind the existence of organizations is to attain the objective behind their establishment through their employees. However, this can be attained when organizations able to motivate their employees and make them to focus towards the goals of their respective organizations. On the other hand, employees have their own demands that are supposed to be fulfilled by their employers. This is the logic behind the establishment of reward programs in many organizations. The major concern of this section is to give recommendation for EEU and it is made based on the findings of the whole research work.

If rewards offered are not competitive, it will be difficult to recruit staff since potential employees can obtain better rewards from competitors. Existing staff may also be tempted to leave the organization if they are aware that their reward system is uncompetitive. High staff turnover can lead to higher costs of recruitment and training of new staff. Losing existing employees may also mean that some of the organizations accumulated knowledge is lost forever.The conclusion to be gained from this is that;

## Practical Recommendations for EEU

1. **Adopt a Strategic Total Reward System**
   Move beyond monetary compensation. Integrate non-financial rewards such as recognition, career growth opportunities, and supportive leadership to better motivate employees.
2. **Ensure Reward Competitiveness**
   Regularly review and adjust the reward system based on inflation, market trends, and the organization's financial capacity to stay competitive and retain talent.
3. **Enhance Work Environment and Culture**
   Foster a positive and supportive workplace by improving physical conditions, encouraging open communication, and recognizing employee efforts—both big and small.
4. **Implement Continuous Feedback and Surveys**
   Conduct regular employee satisfaction surveys and act on the feedback to address issues promptly and improve engagement.
5. **Strengthen Career Development Plans**
   Invest in career management by offering learning opportunities, clear growth paths, and support for skill development to retain and empower talent.
6. **Recognize Achievements Consistently**
   Celebrate both major accomplishments and smaller milestones to reinforce a culture of appreciation and motivation.
7. **Encourage Employee Involvement in Reward Design**
   Involve employees in shaping recognition and reward systems to ensure they are meaningful and aligned with actual needs.
8. **Expand Future Research Areas**
   Explore other motivational factors such as work-life balance, task autonomy, job responsibility, and interpersonal relationships for more holistic insight.

If EEU can implement these recommendations, they will gain the benefits of more motivated employees willing to invest more discretionary effort to make their organization successful. Coupling this discretionary effort with enabling work environments will enable them to win in the talent marketplace.

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# APPENDIX

## QUESTIONNAIRE

## ST. MARY'S UNIVERSITY

## SCHOOL OF GRADUATE STUDIES

Questionnaire to be filled by staffs of EEU

Dear Respondents:

I am conducting a research on "The effect of Reward system on Employee performance: in the case of Ethiopia Electric Utility" for partial fulfillment of the requirements for masters of Arts Degree in business management. The study intends for academic purpose only, besides the outputs of the study will help as input for the company's decision makers.

**Directions for filling the questionnaire**

There is no right and wrong answer of the options provided. Therefore, you are kindly requested to fill your real opinion regarding each question. Your response is utilized only for the purposeof this survey.

► Please put an " " mark on your choice in the space provided

► No need of writing your name

I would like to appreciate your kind cooperation to fill this questionnaire in

advance.**Aster Melkamu**

***Part one: General Information***

| | | | | |
|---|---|---|---|---|
| **Gender** | Male | | Female | |
| | | | | |
| **Marital Status** | Single | Married | Divorced | others |
| | | | | |
| **Age category** | Below 25 | 26 – 35 | 36 - 45 | Above 45 |
| | | | | |
| **Highest qualification** | College Diploma | First Degree | Master Degree | others |
| | | | | |

| | | | | |
|---|---|---|---|---|
| **Years of service in EEU** | More than a year | 2 - 4 years | 4 - 6 years | More than 6 years |
| | | | | |

1. Current Position? ______________________________________________

2. In which of the following salary ranges fall your salary?

2000 – 4000 ☐ 4001 – 6000 ☐

6001 – 10,000 ☐ 10,001 –15,000 ☐

15,001 – 25,000 ☐ above 25,001 ☐

**Part Two: Research Related Questions:**

The following questions are presented on a five point likert scale. If the item strongly matches with your response choose 5 (strongly agree), if you moderately agree on the idea choose 4 (agree), if you can't decide on the point choose 3 (neutral), if you don't agree with the idea choose 2 (disagree) and if you completely disagree with the point choose 1 (strongly disagree).

The purpose of this questionnaire is to give you a chance to tell how you feel about your present job, what things you are motivated with & what things you are not motivated with.

Remember: keep the statement in mind when deciding how motivated you feel about the aspect of your job.

Be frank and honest. Give a true picture of your feelings about your present job.

| | | Strongly disagree (1) | Disagree (2) | Neutral (3) | Agree (4) | Strongly agree (5) |
|---|---|---|---|---|---|---|
| | Payment | | | | | |
| 1 | My salary is satisfactory in relation to what I do | | | | | |
| 2 | My salary is fair when compared with that of similar jobs in other companies | | | | | |
| 3 | My salary is enough to satisfy my needs | | | | | |
| 4 | Salary increment is managed fairly | | | | | |
| 5 | Salary adjustment is made according to the current market | | | | | |
| | **Benefit** | | | | | |
| 6 | There is a good benefit package | | | | | |
| 7 | My medical scheme is satisfactory | | | | | |
| 8 | There is a good opportunity for training | | | | | |
| 9 | Transportation benefit is fair with the current cost of transportation service | | | | | |
| 10 | The staff loan system is sufficient | | | | | |
| | **Promotion** | | | | | |
| 11 | The opportunity for promotion exists | | | | | |
| 12 | My job allows me for rapid promotion | | | | | |
| 13 | Staffs has promoted in a fair and transparent manner | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 14 | My job motivated me since it has a return for growth | | | | | |
| **Working Condition** | | | | | | |
| 15 | The arrangement of office layout is convenient for me | | | | | |
| 16 | My work has a strong pressure to rush with little time for break | | | | | |
| 17 | I get the opportunity to discuss with a group of employee and work as a team | | | | | |
| 18 | I am enjoying the social aspect of my Work | | | | | |
| **Recognition** | | | | | | |
| 19 | The nature of my job helped me to get tangible recognition for my performance | | | | | |
| | | | | | | |
| 20 | I get credit for what I do | | | | | |
| 21 | I get constructive criticism about my Work | | | | | |
| 22 | At the organization, those who deserve recognition don’t always get it. | | | | | |
| Leader/Supervisor | | | | | | |
| 23 | Support me in case of problems | | | | | |
| 24 | Treat me equally with other staffs | | | | | |
| 25 | keeps me informed about what is going on | | | | | |
| 26 | The relationship with my boss enables me to be open when discussing work Problems | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 27 | I consistently meet the performance standards set for my role. | | | | | |
| 28 | My work contributes positively to the overall goals of the organization | | | | | |
| 29 | I produce high-quality work that meets organizational expectations. | | | | | |
| 30 | I take initiative to go beyond what is required in my job. | | | | | |
| 31 | I complete my tasks efficiently and on time. | | | | | |
| **Organizational** | | | | | | |
| 27 | I feel happy when I am working Intensely | | | | | |
| 28 | I feel I belong to the Exchange | | | | | |
| 29 | I try to improve ways of doing my job effectively and efficiently | | | | | |
| 30 | I have a courage to do tasks effectively | | | | | |

**Part Three**

Here below six reward factors that affect your performance are presented. Therefore, please give rank from No. 1 up to 6. No. "1" is the reward factor that affects your motivation very much while No. "6" the least affect your motivation.

| Items | Rank |
|---|---|
| ➢ Recognition | |
| ➢ Leadership and Supervision | |
| ➢ Payment | |
| ➢ Benefit | |
| ➢ Promotion | |
| ➢ Working Condition | |

**Thank you for completing the questionnaire!!!**