

WOLKITE UNIVERSITY



COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

**THE ROLE OF COMPENSATION ON EMPLOYEES
JOB PERFORMANCE (IN CASE OF COMMERCIAL
BANK OF ETHIOPIA WOLKITE TOWN)**

**A RESEARCH PAPER SUBMITTED TO DEPARTMENT
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ABTRACT

The study is designed to assess the role of compensation on employee job performance in case of commercial Bank of Ethiopia in wolkite town. The main objective of this study is to investigate the role of compensation on employee performance in Commercial bank of Ethiopia at wolkite town. The study was faced geographical, conceptual and methodological delimitation. Also the study is limited only in commercial Bank of Ethiopia in wolkite town and it is difficult to generalize the finding of this study to employees of other commercial Bank of Ethiopia even to live in the same region. The target populations of the study are employees of commercial Bank in wolkite town. There are 36 employees in the bank. The researcher used census type of data collection technique and I were use descriptive research design. To successfully accomplish the study and meet the objective, I was use both primary and secondary source of data. A Questionnaire was designed to collect the data on the factor related to compensation like salary, rewards, indirect compensation and employee performance. The collected data were analyzed by using descriptive statistics such as tables, frequency and percentage. The major findings of this research are that compensation has positive impact on employee performance.

Key words; salary, rewards, indirect compensation and employee performance.

CHAPTER ONE

1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The reason behind developing business organizations in the world is making profit. To achieve this objectives organization use various available human and non-human resources. Among these resources, human is commonly seen as the most valuable asset of the organization to earn competitive advantage and achieve its objectives. Because other requirement cannot perform activities by themselves rather it is by workers. As organizations strive to achieve one or more objectives through exhaustive utilization of human capital the employee aim toward achieving individual purposes while working for the organization. When employees carry out their activities, organizations evaluate them for several different reasons that include determining giving feedback, Assessing for training programs and making compensation. Compensation is a human resource management function that deal with every type of rewards individual receives in exchange for performing organizational tasks. The general purposes of compensation policy covers respecting employee's performance, maintaining competitive labor market conditions, maintain justice employee salaries, motivating employee performance and reduce employee turnover (Milkovich, 2008).

The traditional ways of competitive advantage have to be supplemented with organizational capability i.e. the firm's ability to manage people (Ulrich and Lake 1990). Organizational capability relates to hiring and retaining competent employees and developing competencies through effective human resource management practices (Ulrich and Lake 1991). Companies in Saudi Arabia similarly practice this trend to ensure their competitiveness within the industry. Human resource units consider numerous compensation and benefits practices to ensure maximum utilization of the human capital within the industry (Pynes, 2008). Pawan S. Budhwar and Yaw A. Debrah compare the basis for compensation for Saudis and non-Saudis where the authors says that the basis for compensation for the non-Saudis is cost incurred by the organization. For Saudi nationals in the public sector the basis for compensation is cost and socio cultural factors(Human Resource Management in Developing Countries by Pawan S. Budhwar, Yaw A. Debrah). Human resource departments are considering employee due for hire before setting the compensation scale.

The issues concerning basic pay are critical in this context hence demanding cautious consideration. Additionally, numerous organizations in the industry have enacted bonuses and profit sharing mechanisms among other benefits pegged on productivity. The act of practicing equity is another crucial aspect evident among most organizations in the Saudi Arabian context despite the challenges (Wiseman, Gomez-Mejia & Fugate, 2000).

1.2 Statement of the problem

It is very known that well administrated compensation system practice in an organization result in reducing turn over in an organization, increasing job satisfaction and increasing moral of employees. Compensation system contributes for the worth function of the organization in significantly. But it is not common in our country is due to the fact that employees have no choice except to be employed in the organization, even though they know the problems. (Alganih bezabih, 2015). Compensation systems are very crucial for any organization. If employees are compensating appropriately, they perform better and become more productive. “Employees are encouraged when they are financial and nonfinancial rewarded (Caruth and Handlongthen, 2001).

Researcher would be focus on the problems that are common in the bank. Lake of know how the employees only who invent new work. Problem on compensating employee based on performance, does not give flexible work time for employee, Give more priority to compensate employees for only who have high performance. Does not employees work over time, no position among the employees in the organization; provide reward only for employees who contribute more does not consider who contribute less. The bank should be give great deal of important and must be able to understand and manage its very well. Otherwise there would be problem arise and lead to great deal of loss in the bank performance. Compensation is the problem many organization ,regardless to the nature of activity, physical location and there size based on these reason the bank manager to compensate the employees financial and none financial service because of the bank compensation increase the effectiveness and efficiency of the bank by increasing productivity and profit. So the employees’ compensation is the central part of employment relationship from the employees’ point of view and policy having the overall role on their relationship with the organization (mondy, R. Wayne 1999).

Human resource are among the fundamental resource available to any organization to achieve its objective if employee exert their maximum effort by using collective performance in return

employees need reward and training with the training and development programs and also it requires employees performance through activities of effective job performance. The slow attitude of management in failing appreciates its performance influence on employee's performance so that appropriate management techniques would be developing result in a great waste of human resources. The dissatisfaction of employees in the compensation and job performance in an organization are more often than not reflect in high labor turn over, frequent complaint, strike and deterioration in job performance. In order to avoid employee's dissatisfaction management should be appraise its performance and apply appropriate leader employees relations in order to create a healthy working environment which would be subsequently improve employees' performance and that of the organization at large. The dissatisfaction of employees in the compensation and job performance, complaints, employee absenteeism, employee separation, specifically involuntary separation; occur when leader (manager) decide to terminate or lay off employee and such related cases motivate to conduct the study.

1.2.1 Research questions

1. What are the major compensation package practices in commercial bank of Ethiopia in wolkite town?
2. What factors affect the compensation systems of the organization?
3. What is the importance of compensation on employee performance?

1.3 Objectives of the study

1.3.1 General objective of the study

The general objective of the study would be to investigate the role of compensation on employee's job performance in case of commercial bank of Ethiopia in wolkite town.

1.3.2 Specific objectives of the study

- ✓ To identify the various compensation system that affect employee performance.
- ✓ To examine compensation system in organization.
- ✓ To determine the importance of compensation on employee performance at commercial bank Ethiopia in wolkite town.

1.4 Significance of the study

This study were important to managers. Firstly, the study helps the managers to indicate good methods of compensation system in the organization. Secondly, the study was an important input for the managers when designing a compensation packages for employees. Thirdly, this study provides valuable information for managers on the role of good compensation packages to enhancing employee's performance. Finally, the study also serving as a reference for future researches on this topic.

1.5 Scope of the study

1.5.1 Geographical scope

The scope of the study were limited itself on commercial bank of Ethiopia in wolkite town on the role of compensation on employee job performance because of some constraints like time and budget.

1.5.2 Conceptual scope

The conceptual scope of the study includes both financial and non-financial compensation packages. Financial compensation includes salary, Bonus, reward and others. Non-financial compensation include like recognition.

1.6. Limitation of the study

The study faced the following limitations while doing this research. Firstly, due to cost and time limitation other branches found in commercial bank of Ethiopia in wolkite town are not included in study. Secondly, the researcher faced the problem of employee's willingness to fill questionnaires due to work load and inequitable attitudes. Finally, there can be the problem of job stress from employees this leads to some employees not to explain their own idea.

1.7. Organization of the paper

The study would be including three chapters. The first chapter deals about introduction part of the study like background of the study, statement of the problems, Research questions, Objectives of the study, Significance of the study, limitation of the study and scope of the study. The second chapters were deals about related review literature; the third chapter incorporates methodology of the study.

1.8. Ethical consideration

Ethics ensure that no one was harmed or suffer adverse consequence from research activities; it helps to protect the right of participants or subjects. it save respondents from discomfort, pain, embarrassment, and loss of privacy, puts participant at ease, lets them know to whom they are speaking, motivate them to answer questions truthfully and improve cooperation through honest disclosure of purpose, by considering these point the researcher tried to put ethical consideration as follow. Formal letter of request would be shown to the organization manager to get the required data by making them understand the aim of the study as partial fulfillment of Bachelor of degree in management and to convince them as it would be not intended for other purpose. Then oral consent would be obtained from each respondent before any questionnaires were dispatched. Finally questionnaires sheet were collected by the researcher with attractive accent.

CHAPTER TWO

2 .REVIEW OF RELATED LITERATURE

2.1 Definition of compensation

Employees are real wealth of an organization. The attainment of organizational objectives largely depends on employees' motivation to work. Compensation is total of all rewards provided to employees in turn for their service. , defines compensation as all form of financial and non-financial benefits as well as clear and apparent services which are accepted by employees as the part of work relations. Here, one should know the fact that employees work in organization for the sole purpose of earning enough money to live comfortably and satisfy all their needs. Compensation not only allows organizations to get right people in to the right job at the right time but it also facilitates the effective utilization of its work force. Compensation is the process of directly and indirectly rewarding employees for their performance of assigned tasks. , defines compensation as all form of payments or reward given to employees which arises from their employment.

There are two components in compensation administration, which are fixed component and variable component. A fixed component is in the form of basic salary whereas a variable component is payment based on performance such as bonus or profit sharing and benefits such as health insurance and annual leaves.

2.2 Types of compensation

According to, compensation is divided in to two types. These are: Financial Vs. non-financial compensation

1. Financial compensation

Financial compensation consists of both direct financial and indirect financial compensation. Direct financial compensation which is paid to employees in the form of wages, salaries, bonuses and commissions in exchange of their performance and indirect financial compensation is a reward employees receive such as health benefits, paid time off from work such as annual leave, maternity leave, sick leave and other related benefits.

2. Non-financial compensation

Non-financial compensation includes any satisfaction, which employees receive from the job, such as the fulfillment of needs for recognition, personal growth, advancement and affiliation or the job environment like pleasant work companions, work setting and the like results non-financial compensation. For example, being a member of successful department results satisfactions for the member /for each individual/. Non-financial compensation consists of prizes, self-esteem and recognition. It also affects employees' motivation, productivity and turn over which in turn affects organizations performance.

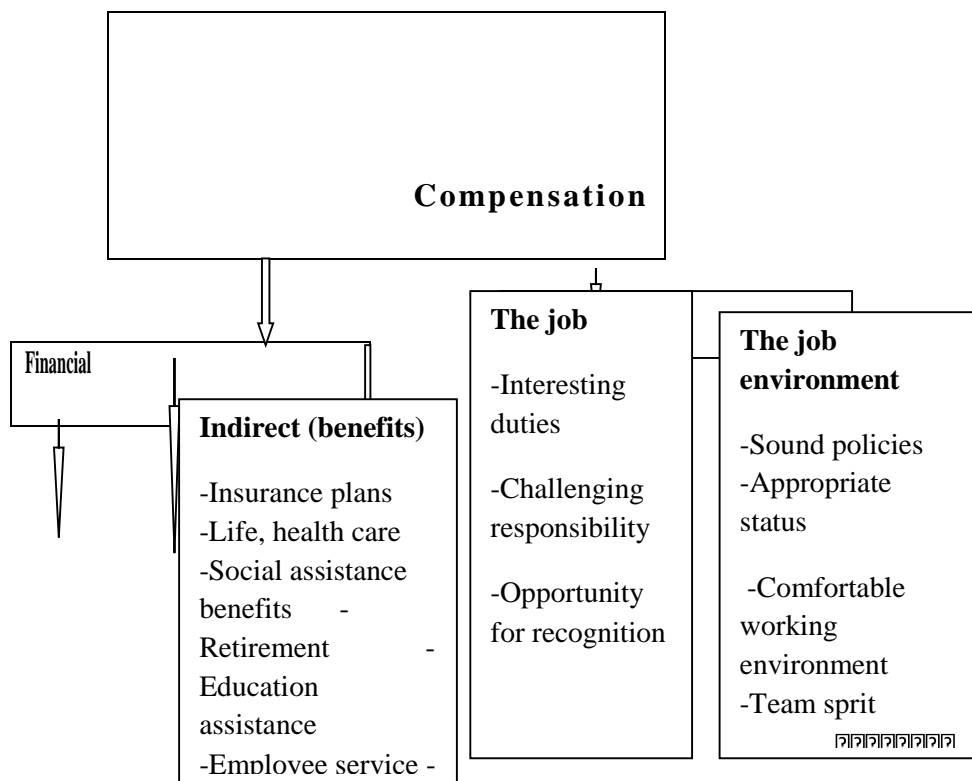


Figure 2.1: Types of compensation (Mondy and Noe, 1999)

All these compensation s affect the performances of the employees in different manners. A high rate of compensation in an organization results in high productivity, profitability, competitive to other organization.

Different types of compensation packages practices

- Base pay
- Commissions
- Over time pay
- Bonus ,profit sharing, merit pay
- Stock options

Compensation system is the sum total of all monetary and non-monetary benefits provide to employs in exchange for their willingness to work.

Common compensation system are

- Salary ,hourly, contractor pay for employee

2.2.1 Basic financial compensation

2.3 Theories of compensation

Compensation is the remuneration given to the employees for the work they do for the organization. In other words, an employee is entitled to both the financial and non-financial benefits in return for his contribution to the organization. To understand which components compensation is efficient, we need to go through the theories of compensation. There are three theories of compensation viz. reinforcement theory, expectancy theory, equity theory and agency theory which are explained below (mondy, 1999).

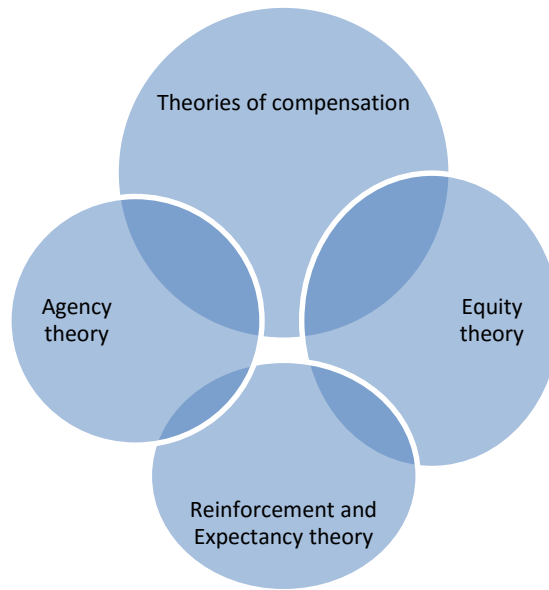


Figure 2.2; theories of compensation

2.3.1. Equity theories of compensation

According to this theory, there should be equity or the uniformity in the pay structure of an employee's remuneration. If the employee feels he is not being paid fairly for the amount of work he does in a day will result in lower productivity, increased turnover and high absenteeism. The remuneration system should comply with three types of equity. Organizations must attract, motivated, and retain competent employees. In doing so, organizations strive for equity in their compensation systems. Equity is workers perceptions that are being treated fairly. Compensation must be fair to all parties concerned and be perceived as fair. Adams equity theory says that an employee who perceives inequity in his or her rewards seeks to restore equity. The theory emphasizes equity in pay structure of employees' remuneration.

Employee's perceptions of how they are being treated by their firms are of prime importance to them. The dictum a fair day work for fair day pay a sense of equity felt by employees. When employees perceive inequity, in can result in lower productivity, higher absenteeism or increase in turnover.

1. Internal equity theory

Internal equity exists when employees are paid according to the relative value of their jobs within an organization. Job evaluation is a primary means for determining internal equity. Employee equity exists when individuals performing similar jobs for the same organization are paid according to the factor unique to the employee. The employee perceives the fairness in different pay for different jobs based on the nature of work involved, i.e. he must feel that pay differentials among the jobs are fair. The most common factor is employee performance, as determined by the performance appraisal. Internal equity is the perceived fairness of the pay structure within the organization.

2. External equity

External equity exists when the organization employees are paid comparably to those who perform similar jobs in other organizations. Compensation survey enables organizations to determine the extent or amount to which external equity is present. External equity is the perceived fairness in pay relative to what other employers are paying for the same type of labor. The employee should feel the fairness in what they are being paid is in line with what players in the same industry are paying to their employees for the same kinds of job.

3. Individual equity theory

The employee perceives the pay differentials among the individuals who are performing the same kind of a job and within the same organization. Usually an individual with more experience gets high remuneration as compared to the fresher irrespective of the nature of a job.

2.3.2 Agency theory of compensation

This theory states that both the employer and the employee are the stakeholders of the company and the remuneration paid to the employee is the agency cost. The employee will try to get an increased agency cost whereas the employer will try to minimize it. Hence, the remuneration should be decided in such a way that the interest of both the parties can be aligned. Thus, these theories posit that the compensation in the form of salary or wages can be decided on the basis of the outcome or the behavior of an employee. The agency theory focuses on the divergent interests and goals of the organizations stakeholders and the way that employee remuneration can be used

to align these interest and goals. Employee and employers are the two stakeholders of a business unit, the former assuming the role of principals and the latter the role of agents. The remuneration payable to employee is the agency cost. It is neutral that the employees expect high agency costs while the employers seek to minimize it. The agency theory says that the principle must choose a contracting scheme that helps align the interest of the agents with the principals own interests (Mondy, 1999).

2.3.3. Reinforcement and expectancy theory of compensation

This theory is based on the assumption that, the reward-earning behavior is likely to be repeated, i.e. an employee would do the same thing again for which he was acknowledged once. Similarly, in the case of expectancy theory, given by vroom, the employee is motivated to do a particular thing for which he is sure or is expected that performance will be followed by a definite reward or n outcome. In general, reinforcement theory states that a response followed by compensation is more likely to recur in the future. The implication for compensation management is that high employee performance followed by a monetary reward will make future high performance more likely. Like reinforcement theory, expectancy theory focuses on the link between compensation and employee job performance, although it emphasizes expected compensation or incentives.

2.3.4 Motivational theories of compensation

Motivation is the act of stimulating someone or oneself to take a desired course of action; it is the act or processing of furnishing with an incentive or inducement to action managing requires the creation and maintenance of an employment in which individuals work together in groups towards the accomplishment of common objectives. Then the manager's job is not to manipulate people, rather to motivate them. To motivate employees' needs to recognized what motivate them. The primary tasks of managers are to get people to contribute activities that help to achieve the mission and goals of an organization. To guide people's activities in desired directions required knowing what leads people to things; that means, what motivated them. The basic elements of all human behavior is some kind of activity whether physical or mental activities are goal oriented; that means, the people do things that leads them to accomplish their goals (Bantie Workie,2004).

2.4 Importance of compensation

Compensation is important to personnel managers for many reasons of all personnel problems, paying employees is perhaps the most perplexing or complex one , states that it involves many emotional factors to employees and employers.

1. The importance of compensation to employees

Compensation has benefit to employee. First, it is the primary and often the only source of income for employees and their family. Second, it is fair reward for the work employees perform and the benefits they provide for the employees. Third, it determined the employees' social status. Finally, income level is often as a measure of persons worthy.

2. The importance's of compensation to the employers

The amount a firm pays its employees in the form of wages, salary, and fringes benefits is quite important, as this cost factor interacts with total revenue to determine the firm's financial success. Therefore, the primary way for employees to increase their earnings is to increase the company's sales and profits. A firm's compensation policy should be to pay wages high enough to attract, motivates, and retain qualified employees and, at the same time, low enough to ensure adequate profits to attract new capital, expand productive facilities, and permit consumer satisfaction at a reasonable price.

3. The importance of compensation to the nations' economy

The nation also has an interest in the compensation problem most overt complaints of workers focus their absolute and relative wage rate. If wage rates increase faster than increases in employee productivity, unit labor costs group and the inevitable result is a wage price spiral.

2.5 Employee performance

Employee performance is about employees achieving the results, goals or standards as per the expectation set by the organization. Employees are rated on how well they do their jobs compared to the performance standard set. In short it is the accomplishment of a given task measured against pre-set of standards of accuracy, completeness, cost, and speed, the initiative they take, their creativity in solving problems and the resourcefulness in the way they utilize their resources, time and energy.

2.6 Relating Compensation and employee performance

It has been found that there is a significant relationship between compensation and employee job performance in organization. For example, Milkovich (2008) found that a firm's ability to attract, motivate and retain employees by offering competitive salaries and appropriate rewards is linked to firm performance and growth. Higher performance requires much more than employee motivation. Employee ability, adequate equipment, good physical working conditions, effective leadership and management, employee health and other conditions all help raise employee performance levels.

Most compensation experts believe that pay affects the performance of employees. A number of studies indicate that if pays tied to performance, the employee produces a higher quality and quantity work. Compensation in the form of pay for performance has intuitive appeal, it is extremely difficult to perfectly and it a pay for performance system together. Developing a system that employees consider as showing that pay is tied to performance requires a number of managerial skills. The first skill is managers must be able to allocate pay on the basis of merit. Any merit pay increase must be meaningful, not token, if it is to be motivational. The second skill is managers must be willing to specially discriminate among subordinates, in terms of rating and rewarding performance. The third skill is the pay system must be communicate at the time of employment in terms of initial pay, expected long term progression, and adjustments. This information should be communicated the manager, who informs the employee as well what performance levels are required to obtain the pay increases. The last skill is managers must have the ability to discuss the pay for performance linkage with subordinates.

Due to this reason compensation are linked to measurable performance on employees to perform the objectives of the organization. So compensation and performance have directly related. A compensation system does not necessarily mean rewarding in the monetary form. It is also includes flexible benefits, medical care, work life balance as well as employee perks.

2.7 empirical reviews

Remuneration dues not simply compensation employees for their effort has impact on the recruitment and reaction of talented people according tomilkovich and new(2001).Armstrong(2005)in his own analysis says compensation management is all about

development relationship and psychological content that adapt total compensation approach which recognize that the number of ways in which people can compensate.

According to Calista (2009) compensation is lead to better performance and keep worker to focus on their work.

Harrison and Liska (2008) in their study reward is central policy of employment contract after all itmainreas on why people work. This includes all type of reward both intrinsic and extrinsic that is received as result of employment by the organization.

According to Janitor (1996) well design and functional compensation is an efficient way to increase employees work motivation.

Lack of compensation is one of appropriate main reason behind to the employee's turnover.

Researcher will be used to study and analysis of compensation system on employee's motivation in the commercial bank of Ethiopia wolkite branch.

To study the gap in terms of compensation component offer by organization and expected by employees.

To know the effect of compensation management system on productive level of employees.

To analysis the factor that hinder the compensation management system.

To know satisfaction level of employee with respect to their current compensation structure.

(www.ofpc.edu/compensationpol)

CHAPTER THREE

3. Research Design and Methodology

3.1 Research approach

The researcher would use qualitative approach because it emphasizes objective percentage, table and average analysis of data collected through questionnaires and interview. The research focuses on gathering numerical data and generalizing it across groups of people or to explain a particular phenomenon.

Conducting qualitative research study is to determine the relationship between compensation (independent variable) and employee performance (dependent variable). Under this research approach personal bias can be avoided by keeping a distance from participating subjects and using accepted computational technique.

3.2 Research design

The researcher was conducting the research by using descriptive type of research on the title of the role of compensation on employee job performance. Because it shows the role of compensation on job performance and it describes the state of affair as it exists at present. Typically, descriptive research design concerns with determining the relationship between compensation and employee job performance. Descriptive research design basically describes “what is”. Descriptive research is one which describes, records, analyzes and interprets the conditions that exist, so the most appropriate research design for this type of research would be descriptive.

3.3. Target population

Target populations of the study were employees in commercial Bank of Ethiopia in Wolkite town. We use census data collection technique. Census data collection means a complete enumeration of the whole population. We would use census data collection because of different reasons. Firstly, the population is not vast. Secondly, to get high degree of accuracy and data collection through census gives an opportunity to have an intensive study about the problem. Thirdly, in order to make sound decision and eliminate bias.

I use all employees of commercial Bank in Wolkite town. The numbers of employees are 36, among this 4 of the employees are female and the remaining 32 employees are male.

3.4 sampling size and sampling technique

The target population of the researcher would be 36 permanent employees of commercial bank of Ethiopia in wolkite town. The researcher was interested to focus only these permanent employees to collect the research data. The researcher would be use census technique. Since the number of population in the commercial bank of Ethiopia in wolkite town were 36, so the researcher would be use census method because the small number of population (employee) in the bank.

3.5. Data type and Sources

The researcher used both primary and secondary data to successful accomplishment of research. The primary source of data for the study is the response of employees that is obtained through questionnaire and interview. Secondary data on the other hand, collected from books, journals, organizational documents, internet and different written materials which support this research.

The data for the research would be collect through questionnaire and interview from the employees of commercial bank in wolkite town. The questionnaire contained a total of questions on one independent (compensation) and one dependent (employee performance) variable.

3.6 Methods of Data presentation and Analysis

After the collection of the data which collects from respondents, the error and omissions would be detect by using editing and coding then we turn to the task of analyzing them. The analysis of data requires a number of closely related operations such as establishment of categories to raw data through coding, editing and tabulation. The data would be grouped based on similarity or on the basis of common characteristics. To do so, the data can be summarized, categorized and rearranged and tabulated to indicate the events, percentages, cumulative percentage and frequency distribution data interpretation can be used to interpret and analyze. For the simplicity researcher use percentage to interpret and analyze the findings. Generally, I can present the data by using tabular methods of presentation and the data is interpreted by using percentage.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter deals about the analysis and interpretation of data that is collected from the employees of commercial bank of Ethiopia in wolkite town, which has been analyzed and interpreted according to the respondent view, with the objectives to assess the impact of compensation on employee performance. Out of 36 questionnaires distributed to employees of commercial bank of Ethiopia in wolkite town 34 questionnaires were collected, and the remaining 2 questionnaires were not returned. Based on collected questionnaires the researcher have been analyzed by descriptive analysis, responses were tabulated ,frequencies, and percentage techniques employed for the purpose of analyzing the collected data and the results were interpreted in the form of statements and the interpretation is done according to the collected data.

Assessment of Payment System and Employee Satisfaction

This part mainly deals with the presentation and explanation of employee’s opinion towards compensation and their level of satisfaction with the organizational payment level. With regard to the payment level, the respondents were requested to evaluate and rank their payment level by comparing with other employees of any other organizations, with their educational status and related on their experience.

Table 1 employee understanding about compensation

What role do you think compensation plays in your organization?	No of respondent	Percentage
To meet the employers legal obligation	9	26.5%
To encourage employees to work hard	15	44%
To help employees meet basic needs	10	29.5%

Total	34	100%
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Source: questionnaire survey 2019

Tables 4.2 show that 9(26.5%) of the respondent understood compensation as a means of meeting employer’s legal obligation. 15(44%) of the respondents understood compensation as a means to encourage employees to work hard. Whereas the remaining 10(29.5%) of the respondents understood compensation as a means of meeting employees basic need. From this the researcher conclude that the respondents understood compensation as a means to encourage employees to work hard.

Table 2 Compensation offered by the organization to the employees sufficient

Does your monthly salary sufficient in according to your living.	No of respondents	Percentage
Yes	12	35.3%
No	22	64.7%
Total	34	100%

Source: questionnaire survey 2019

Table 4.3 show that 12(35.3%) of the respondents said that the salary that received from the bank is sufficient for their living whereas 22(64.7%) of others respondents said that it is not sufficient for their living. From this majority of the respondents said that monthly salary received from the bank is not sufficient for their living.

Table 3 Employees payment level

Question item	Very high		High		Fair		Low		Very low		Total	
	R	%	R	%	R	%	R	%	R	%	R	%
How do you compare the basic salary you receive in the bank compared with others similar banks (holding the same job position)?	5	14.7	10	29.4	16	47	2	5.8	1	2.9	34	100%

Source: questioner survey 2019

Table 4.4 is to evaluate the payment level in the organization that hold the same job position and the payment level to other similar organizations.

The above Table show that 2(5.8%), of the respondents opinion show that the salary receive that holding the same job position in the bank is low. And also 10(29.4%) of the respondents said that the salary receive is high 16(47%) of the respondents said that the salary receive compared to other receive that hold the same job in the bank is fair. 5 (14.7%) of the respondents said that the salary receive is very high and the remaining 1(2.9%) of the respondents opinion show that the salary receive that holding the same job position in the bank is very low. There for most of the respondents said that the salary receive compared to other receive that hold the same job in the bank is fair.

Table 4 shows employees' satisfaction with respect to basic salary

According to Ivancevich (2001), one should know the fact that employees work in organizations for the sole purpose to get enough money to live relatively comfortable and satisfy all their needs.

To what extent are you satisfied with your basic salary?	Respondent No	Percentage (%)
Very satisfied	2	5.9%
Satisfied	10	29.41%
Neutral	6	17.64%
Unsatisfied	16	47%
Very unsatisfied	-	-
Total	34	100%

Source: Questionnaire survey 2017

Table 4.4 show that 2(5.9%) of the respondents said that by their basic salary they are very satisfied, 10(29.41%) of employees are satisfied, 6(17.64%) of the employees are neutral, and also 16(47%) of the employees are unsatisfied with their basic salary. From this majority of employees of commercial bank of Ethiopia in wolkite town are unsatisfied on their salary.

Compensation packages besides wage and salary

According to Ivancevich (1989), salaries are money paid monthly or annual basis to employees whose output cannot be easily quantified also the monthly paid rate is determined by the mutual agreement between the individual employees and the employer.

Wages are the remuneration paid for the service labor in production periodically to all employees or workers. And also wages are payments based on the number of units produced or piece rate pay system.

5 Other types compensation receive other than basic salary

Is there any other type of compensation you receive than your basic salary	Respondent No.	Percentage (%)
Yes	34	100%
No	-	-
Total	34	100%

Source: questionnaire survey, 2019

In addition to wage and salary, the benefits supplied by the organization to the employees are very important to the wellbeing and security of its employees. The benefits can be helpful in increasing the performance of the employees and recruiting the qualified employees. The response obtained from the respondents indicates that the organization supplies other compensation package other than wages and salaries to the employees such as medical allowance, position allowance, living allowance and retirement benefit.

Table 6 shows fairness of additional compensation benefit

According to, additional compensation benefits are benefits that offer to the employees. And these benefits are known as indirect financial benefits are life and health care benefit, retirement benefits, vacations, holidays and sick leaves

Does the additional compensation benefit you receive fair compared to what other similar bank offer	Respondent No	Percentage (%)
Yes	20	58.8%
No	14	41.2%
Total	34	100%

Source: questionnaire survey2019

Table 4.7 Shows that 20(58.8%) of the respondents said that the additional compensation that receives from commercial bank of Ethiopia in wolkite town is fair when compared to what other similar bank offer. And also 14(41.2%) of other respondents said that it is not fair.

From this majority of the respondents said that the additional benefits received from the Bank are medical and health insurance to the employees.

4.7 Job performance Relationships between compensation and employee

Table 7 Relationship of compensation system with performance

Did you agree compensation system is related with employee job performance?	Respondent	Percentage
Yes	32	94%
No	2	6%
Total	34	100%

Source; questionnaire survey 2019

Table 4.8 shows that 32(94%) of respondents agree that compensation system and employee job performance whereas the remaining 2(6%) of employees say that compensation and employee job performance are not related.

Table 8 Shows compensation motivates employees to better performance

Do you think that the compensation you get motivated towards better performance	Respondent	Percentage (%)
Yes	30	88%
No	4	12%
Total	34	100%

Source: questionnaire survey 2019

The above Table, 4.9 shows that 30(88%) of the respondents suggested that the compensation they get from commercial bank of Ethiopia in wolkite town are motivated towards better performance. This show that majority of employees are motivated by compensation that are given by commercial bank of Ethiopia in wolkite town. And 4(12%) of the employees are not motivated by compensation that get from commercial bank of Ethiopia in wolkite town. I can understood that majority of the employees are motivated by the compensation that gets from commercial bank of Ethiopia in wolkite town towards better performance.

Table 9 employee's opinion on how compensation influences employee job performance

No	Statement	Score				
		SA	A	N	D	SD
	A well designed compensation has an effect on employee job performance in the following way;					
1	Motivate employees to perform better	13 (38%)	18 (52.9%)	2 (6%)	1 (2.9%)	-
2	Reduce employee turnover and absenteeism	10 (29.4%)	20 (58.8%)	2 (6%)	1 (2.9%)	1 (2.9%)
3	Makes employee committed to the organization therefore commitment to work increase	14 (41%)	16 (47%)	3 (8.82%)	-	1 (2.9%)
4	Improve employee willingness to do extra work	14 (41%)	15 (44%)	4 (11.8%)	2 (6%)	1 (2.9%)
5	Creates very good working relationship between management and employees to improve performance	13 (38%)	18 (52.9%)	2 (6%)	1 (2.9%)	-
6	Makes employees feel appreciated and the give their best	14 (41%)	17 (50%)	3 (8.82%)	-	-
7	Attract and motivate qualified personnel to work better	15 (44%)	18 (52.9%)	1 (2.9%)	-	-
8	Reward hardworking employees to sustain high performance	10 (29.4%)	13 (38%)	8 (23.5%)	2 (6%)	1 (2.9%)
	Total percentage	302	397	74	21	12
	Average percentage	37.75%	49.63%	9.25%	2.63%	1.5%

Source; questionnaire survey 2019

Table 4.9 shows above 37.75 percent of employees in commercial bank of Ethiopia in wolkite town are strongly agreed and 49.63 percent of the respondents agree on the idea that compensation had a link with employee performance. 9.25 percent of the respondents neutral on the idea that compensation had a link with employee performance. Whereas 2.63 percent of the respondents and 1.5 percent of the respondents are disagree and strongly disagree with the above statement respectively. In general above 85 percent of respondents agree on the relationship between compensation and employee job performance, whereas less than 15 percent of the respondents disagree about their link.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 Introduction

Depending on the data which was collected from the commercial bank of Ethiopia employees in wolkite town and the data was analyzed according to responses of employees. In this chapter, conclusion of the study on the role of compensation on employee performance can be presented. Finally, recommendation forwarded to the concerned bodies of the bank in order to take all the necessary measure.

5.2 Conclusions

From the study analysis majority of employees are male and young From the study analysis majority of the respondents understood compensation as a means of encouraging employees to work hard.

From the study analysis the researcher concluded that the organization salary and their living are not matched. This means the monthly salary provided by the organization is not sufficient.

From the study analysis majority of the respondents said that the salary given to the employees in the commercial bank of Ethiopia in wolkite town is fair that the salary received that hold the same job position in the bank.

Majority of respondents suggested that the basic salary provided by the bank is not satisfied.

In addition basic salary and wage the bank offered different types of compensation. These are bonus, housing allowance, transportation allowance, retirement benefit, hardship, special duty and insurance coverage. In addition to the above, commercial bank provides medical allowance for their employee. If employee medical case is so hard, the bank has the responsibility to treat the employees up to 10000 USD to attend his healthy abroad like USA.

Majority of the respondent said that the additional compensation offered by the bank is fair compared to other similar bank offered.

Majority of the respondents agrees on the idea that compensation is related with employee's performance.

Majority of the respondents said that compensations that offered by the bank played a great role towards better performance. In order to take a desired Course of action by one self, increase commitment towards organization, become hard worker to the accomplishment of the organization objective and provide a roadmap for future growth.

From the study analysis majority of employee agree on the idea that a well-designed compensation had a role on employee job performance. These finding buttressed the argument by Noe et al (1996) that organizations use compensation to motive employees to raise their morale, reduce absenteeism and turnover, and improve the strength of the organization. Also tying with chabra (2001), which according to him the main purpose of compensation is to attract and maintain efficient human resource and to motivate them.

The manager of the bank suggested that the basic factor that affect compensation policies are external market condition, competitors, economy of the nation and the cost of the living.

From the manager response compensation is very necessary towards increase performance of the employees because compensation is merit based.

In general the study proves that employees would be more motivated and willing to give their best contribution when they get compensation appropriate to their work.

5.3 Recommendation

Based on the fact that gathered from the bank employees the following recommendations are suggested:

- The organization salary and their living not matched; I recommended that the organization try to increase employee's salary better to maintain the employee's job performance.
- I recommended that, it is better to give salary increment providing by reviewing the compensation policy of the bank.
- The salary given to the employees of commercial bank of Ethiopia in wolkite town is not fair that compared to the others received that hold the same job position in other similar

bank, so the researcher recommended that the organization should be improve their compensation policy and relatively increase employees salary as much as possible.

- Majority of respondents suggested that the basic salary provided by the bank not satisfy the employees, the researcher recommended that it is a better to increase employees salary in order to become strong competitor in this market.
- In addition to basic wage and salary the bank offered different type of compensation these are bonus, housing allowance, transportation allowance and retirement benefit; additional benefits that commercial bank of Ethiopia in wolkite town offers to their employees is necessary to retain, and improve the performance of the employees we recommended that making the organization competitive in the sector, it is better to maintain this approach.
- The compensation that offered by the bank played a great role towards better performance, so I recommended that the organization is better to improve its own compensation policy in order to increase employee performance.
- In generally, the researcher recommended that the compensation package now a day plays a great role towards employee job performance, perform at their best level and ensure the competitiveness of the organization, so, commercial bank of Ethiopia in wolkite town improve its current compensation policy and improve for the future in order to reduce employee turnover towards other banks low employee performance and to achieve its vision, objective and goals.

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APPENDIX
Wolkite University
College of Business and Economics
Department of Management

Dear respondents

My name is Berihun Woriku and currently, I am a graduate student at Wolkite University under the department of management. To get a BA (bachelor of art) degree in management, I am doing a research which is entitled on “**The role of compensation on employee job performance in the case of Commercial Bank of Ethiopian in Wolkite town.** Accordingly, to collect information, I have prepared a questionnaire. To success in obtaining the necessary and accurate information your honest cooperation is highly appreciated on answering the question. The information you provide will be used only for the research purpose and the researcher will assure you that your information will not be disclosed to other party.

Thank you in advance for your cooperation!

Instructions

- It is not necessary to write your name
- Thick this(√) in the provided boxes appropriate

I. Basic Research Question information.

1. What role do you think compensation plays in your organization?

To meet the employer legal obligation

To encourage employees to work hard

To help employees meet basic needs

2. Does your monthly salary sufficient according to your living?

Yes No

3. How do you the salary you receive in the bank compared to what others receive in other similar Banks, holding the same position?

Fair Very low High Very high Low

4. To what extent are you satisfied with your basic salary?

Very satisfied Very unsatisfied Neutral Satisfied
Unsatisfied

5. Is there any other type of compensation you receive than you basic salary?

Yes NO

6. To what extent you are satisfied with other type of compensation?

Very satisfied Satisfied Unsatisfied Neutral

7. does the additional compensation benefits you receive is fair compared to what other similar banks offer?

Yes No

8. Did you agree compensation system is related with employee job performance?

Yes No

9. Do you think that the compensation you get motivated toward better performance?

Yes No

10. What is your opinion on how effective compensation influences employee performance?

Thick this (√) in the provided table appropriately

No	Statement	Scoring				
	A well designed compensation has an effect on employee performance in the following way.	SD	D	N	A	SA
		1	2	3	4	5
1	Motivates employee to perform better					
2	Reduce employee turnover and absenteeism					
3	Makes employee committed to the organization there for commitment to work increase					
4	Improves employee willingness to do extra work					
5	Creates very good working Relationship between Management and employees to improve performance					
6	Makes employees feel appreciated and they give their best					
7	Attract and motivates Qualified personnel to work better and improve job performance					
8	Rewards hard working employees to sustain high performance					