



COMPENSATION SYSTEM AND EMPLOYEES MOTIVATION IN COMMERCIAL BANK OF ETHIOPIA: EVIDENCE FROM DUNA BRANCH

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Abstract:

Commercial bank of Ethiopia seeks to obtain maximum level of performance from bank employees. Compensation system is a key to enhances employees' motivation and performances. Employees motivation also a crucial in human capital and resource management. Therefore, this study was aiming to investigate the role of compensation system on employee's motivation in the Commercial bank of Ethiopia. For the study total 55 sample was determined. The research was applied primary and secondary data. Primary data was collected through questionnaires and interviews. Descriptive and inferential data analysis method was conducted. The result presented that out of 100% employees, 83.64% employees received compensation in the study branch. Hence, compensation system and practice positively and significantly associated with employee's motivation and good performance. Commercial bank of Ethiopia under research should focus on enhancing compensation systems, practices, and policies implemented in the bank.

Keywords:

Commercial bank, Compensation practice, Employee motivation, Human capital, Ethiopia

1. Introduction

World today need innovation and development to induce organizational communication to their employees. Need is a key the organizations to systematize their tasks such as re-design system and processes and enhance management system (Catanzaro, 2001). The companies at least expect employees to accomplish the assigned tasks and management expect that the employees should learn new skills and supervise themselves to the organizational business needs, and employees expect fair pay and safe working condition (Wang, 2004). Effective utilizing all available resources such as human and non-human resources are very crucial to achieve certain needs and goals. Specifically, human resources are the most valuable resource or asset to derive such needs and goals. Employees are a key or backbone of a companies to attain its needs, goals and desired objectives in terms financially and non-financially (Armstrong, 2009).

Compensation is the remuneration, systematic way, organized practice, and integral part of human resource management which is very crucial in motivating the employees and enhancing company effectiveness and efficiency. Employee compensation is a key element in better human resource management (Wang, 2004). It is a vital determinant influencing motivation individual to enhance the good performance in the company (Casio, 2013). A Good Compensation Package (GCP) is very crucial to motivate employees to enhance company productivity. motivated employees through by compensation very important the organization in order to achieve the goal of efficiently and effectively (Sara et al., 2004). The appropriate employee compensation encourages workers knowledge and capacity to improve their performance (Gebremedihin, 2013).

Compensation is very important deriver in human resource management. In order to create incentives for employee's organization use different type of compensation such as direct financial compensation, indirect financial compensation, and non-financial compensation (Wang, 2004). Direct financial compensation such as wages and salaries, bonus, tips, promotion, and commission are widely recognized form of compensation (Frey and Osterloh,

2002). Indirect financial compensation is employees achieve benefits that has financial value not a direct monetary payment like group medical insurance coverage, retirement plan, stock option, profit sharing (Celestial, 2009). Non-financial compensation is not monetary value but satisfaction that comes from work environment to employees such as status, appreciation and recognition, work-life balance, delegation, working conditions, job enrichment, and job security (Gebremedihin, 2013).

Employees Compensations reveals all form of payment or reward to employees like wage salaries, incentives, bonus, medical insurance, commissions (Armstrong, 2012; Bowra et al., 2012; Gray, 2005). Human resources are the vital factor for achieving organizational development either financially or non-financially. Employees Compensations is something going to employee for their good work either monetary and non- monetary (Griffeth et al., 2000). It is very crucial activity to employees satisfaction. Compensation is referred as a responsibility and willingness and ability of an organization to derive to employees for their better achievement and performance (Armstrong, 2009). The role of organization to enhance employee's performance by facilitating fair, attractive and competitive compensation system which create employees legal, motivative, happy and productive (Bowra et al., 2012; Celestial, 2009; Robbins, 2003). All financial compensation not included in direct financial reward such as medical and hospital insurance worker receive job is performed itself or psychologically protection like health, life insurance, vacation, and sick lives (Bernardo, 1998).

The number of factors like individual needs, reward expectation, equity and fairness influences employee motivation which in turn affect human living standards and behavior. The cognitive factor such as perception and learning affect motivation and working performance. Motivation is the vital determinant towards enhancing the performance (Prasad, 2005). Low and absence motivation leads employee's inefficiency, corruption, indiscipline and absenteeism at organization (Memmott and Growers, 2002).

2. Statement of the Problem

Employee's performance highly and positively related with employee motivation that means motivated employees are committed, punctual and provide good services to the companies which in turn leads good companies' performance (Wang, 2004). The motivation employees influenced by different factors such as lack incentives, lack of income opportunities, lack housing, poor education, inaccessibility health, poor access to water and low electricity availability in the companies. CBE to minimize these different provide safe place of market share by facilitate good bank service in attractive way to employees which is very crucial to attract different customers to the bank and vital to enhance employee's performance in the CBE (Armstrong, 2005).

Excellent compensation system in a company is very key to reduce turnover of employees, enhance job or work satisfaction, and enhance moral of employees. It is vital contributes for worth function of the companies (Frey and Osterloh, 2002). In CBE due to lack of know how the employees, employees there is no choice of employment. Compensation employee give priority or depends on high performance. CBE to increase better compensation system practices would manage their company and employees in productive way, otherwise, bank face loss of bank performance. This mean bank compensation enhances the efficiency of the bank by enhancing profit (Catanzaro, 2001). In CBE in Ethiopia in general and CBE of Duna branch in particular, there is limited data and empirical literature review on compensation system and employee's motivation. Therefore, this research was aimed to examine compensation system and employee's motivation in CBE in Duna branch.

3. Review of Literature

(Owusu, 2012) study on impact of motivation on permanent employee performance commercial bank of Ghana applying qualitative and quantitative data. The result presented that there is positive significant association between motivation and permanent employee performance. (Albeit, 2015) developed the research the role of motivation and employee performance in commercial bank of Victoria in Kenya employing correlation and regression analysis. The findings revealed that motivation significantly influenced permanent employee performance. According to the research (Bushiri, 2014) on the effect of working environment and permanent employee's performance applying qualitative and quantitate data. The result presented that there is positive correlation between working environment and employees' performance. As (Mruma, 2013) the study developed on effect of motivation and teacher's performance in Nya Magana District, Tanzania education institutions applying qualitative and quantitative. The finding showed that there is positive relationship between motivation and permanent teacher's performance.

(Vijayakumar and Subha, 2013) evaluated that there is positive significant association between motivation, work satisfaction, reward, and permanent employees' performance. Their result showed that rewards should have positive impact on motivation and satisfaction. According to (Hafiza et al., 2011) the research developed on employees' motivation, concluded that there is a significantly positive associations between rewards and employee motivation. (Ajmal et al., 2015) conducted their studies on intrinsic and extrinsic rewards, and employee's satisfaction and motivation. Intrinsic and extrinsic rewards are key elements for employee motivation and satisfaction. As their studies appropriate rewards are the essential motivators to achieve better companies' goal.

(Nebiat, 2010) developed study on relationship between rewards and nurse's motivation in Addis Ababa Hospitals. The aims of the study were to evaluate the association between rewards and nurse motivation in the study area. The finding presented that there is positively significant association between reward and the nurse's motivation. (Vijayakumar and Subha, 2013) indicated that many studies tried to reveal association between motivation and permanent employees' performance. Therefore, this study evaluates effect of compensation practices or system on employee's motivation of CBE in Duna branch.

The research estimation approach is guided by the conceptual framework. The conceptual framework is developed based on the empirical review of literature (Mruma, 2013). For the study compensation is explanatory variable and employees motivation is dependent variable. The factors such as sex, age, educational, experiences, wages and salaries, bonus, tips, promotion, omission, medical insurance coverage, retirement plan, stock option, profit sharing, appreciation and recognition, work-life balance, delegation, working condition, job enrichment, and job security are affect employee's motivation. The conceptual framework of the present study showed in Figure 1.

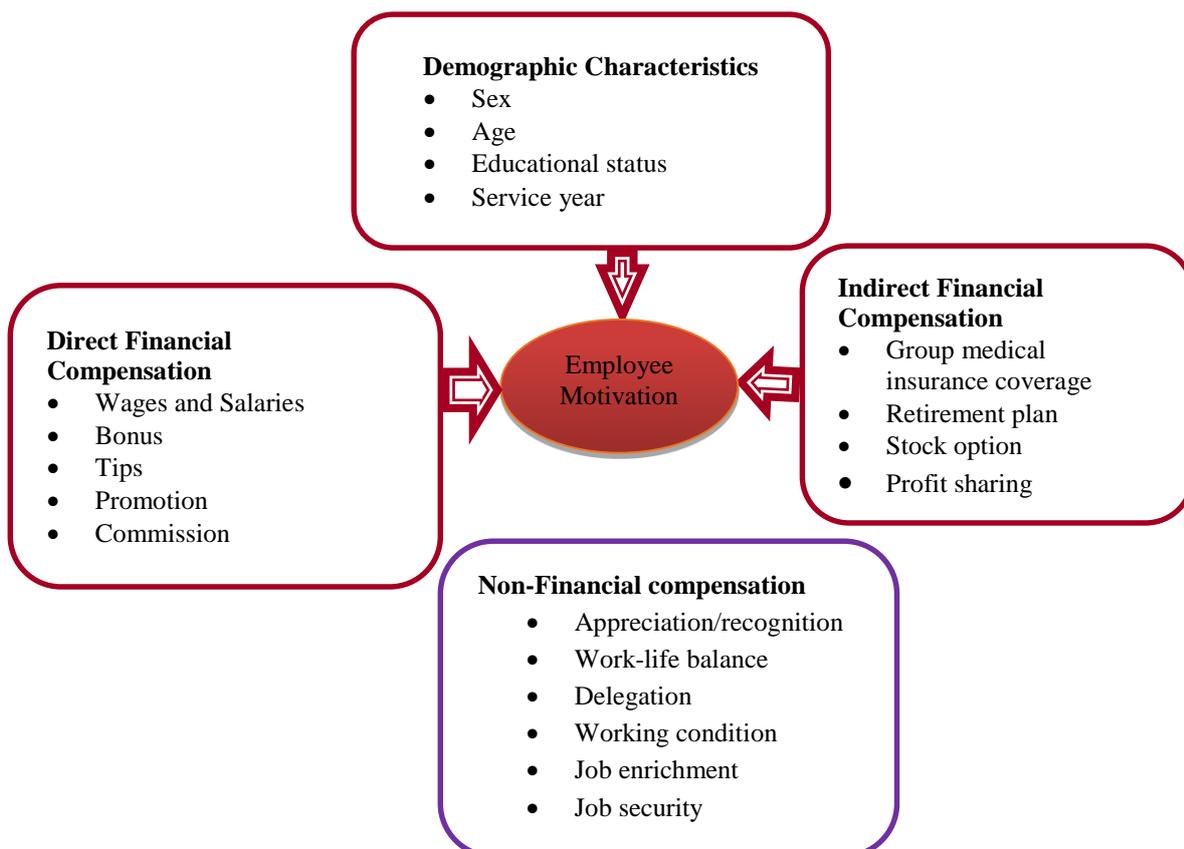


Figure 1: Conceptual framework of the study
Sources: Modified from (Mruma, 2013)

3. Methods and Materials

3.1. Description of the Study Branch

The study was conducted in Duna branch of CBE in Hadiya Zone, SNNPRS, Ethiopia. Duna branch of CBE found in Duna woreda. Duna woreda are located in the South West central part of Ethiopia about a distance of 270 km south of Addis Ababa. Duna woreda geographically located between 7 0 37'19" N latitude and 37 0 37' 14"E longitudes. The Duna branch of CBE were established in 2001 G.C. Currently the total permanent employees of Duna branch of CBE are 55. Out of total permanent employees of Duna branch of CBE, 36 employees are male and 19 employees are female.

3.2. Data collection

The date for this study was collected from primary and secondary source of date. The primary data was collected by questionnaires and interviews. For the data analysis both qualitative and quantitative data were collected. For the study the census of data from total 55 permanent employees of CBE in Duna branch were collected. The secondary data was supplementary data for this study collected from published and unpublished source, books, and document of CBE in Duna branch.

3.3. Population of the Study

The total and target populations of this research is 55 permanent employees of CBE in Duna branch. The current study was applied census sampling technique. The total amount of target population in the CBE in Duna branch is 55. Therefore, the study was applied the entire total permanent employee of CBE in Duna branch.

3.4. Data Collection Instruments

For the data collection the study applied questionnaires and interviews. Both open and close-ended structured questionnaire was prepared to collect required primary data. The interview was conducted with manager of the CBE in Duna branch.

3.5. Methods of Data Analysis

This research was applied both descriptive and inferential data analysis methods. The descriptive analysis performed by applying percentage, frequency, means, standard deviation, tables, and minimum and maximum values. The inferential statistics was conducted by applying correlation and regression.

4. Results and Discussions

4.1. Demographic characteristics of respondents

Table 1 presented that demographic features of permanent employees of CBE in Duna branch. As the descriptive analysis from 55 permanent employees, 36 (65.54%) and 19 (34.55%) are males and females respectively. The result presented that majorities are males and enhancing female employees in CBE in general and in Duna branch in particular is a key to optimize employee's motivation, and worker and bank performance. As a result, compensation is vital components to improve the employee's motivation in CBE of Duna branch. The finding of this study is consistent with (Armstrong, 2009).

The mean age of employees in CBE OF Duna branch is 31.8 years with minimum and maximum are 21 and 52. The mean age of employees who have got compensation is 34.52 and the remaining mean age 27.45 is not compensated. The mean age difference between compensated and counterparts in CBE of Duna branch is 7.07. The age group employees in CBE of Duna branch account 26 – 35 age group is 35 (63.64%), this present that the majorities employees exist in this age group. The result indicated this age group receive better compensation than the remain age group in CBE of Duna branch. The result is in line with (Owusu, 2012).

Education is very important elements in affecting compensation practice as well as employee's motivation and performance. According to the data result, the majorities of employees in CBE of Duna branch are first degree holder 42 (76.37%) and the result is followed by diploma holders 7 (12.73%). In order to increase competitive advantage, it is most suitable the CBE of Duna Branch create capable and skilled employees which in turn increase bank performance. The data result indicated that the more education relatively creat better opportunity in terms of employees' compensation than counterparts. The finding of the present study is in line with the findings (Armstrong,

2009). Service year employees showed that the majority of the employees are between 3 – 6 years account from total 35 (63.63%) followed by 0 – 3 years account 13 (23.64%). The result is in line with (Bushiri, 2014).

Table 1: Demographic characteristics/profiles of respondents

| S. NO | Category | Variables | Frequency | Percentage |
|-------|-------------------|-------------------|-----------|------------|
| 1 | Sex | Male | 36 | 65.54 |
| | | Female | 19 | 34.55 |
| | | Total | 55 | 100 |
| 2 | Age | Less than 25 | 14 | 25.45 |
| | | 26 – 35 | 35 | 63.64 |
| | | 36 – 45 | 4 | 7.27 |
| | | Above 46 | 2 | 3.64 |
| | | Total | 55 | 100 |
| 3 | Educational level | Certificate | - | - |
| | | Diploma | 7 | 12.73 |
| | | First degree | 42 | 76.37 |
| | | Second degree | 6 | 10.90 |
| | | PhD degree | - | - |
| | | Total | 55 | 100 |
| 4 | Service year | 0 – 3 years | 13 | 23.64 |
| | | 3 – 6 years | 35 | 63.63 |
| | | 6 – 9 years | 7 | 12.73 |
| | | 9 and above years | - | - |
| | | Total | 55 | 100 |

Source: Computed from own survey data 2022

4.2. Compensation Practices

Table 2 indicated that the descriptive statistics presented that the attitudes in CBE of Duna branch employees towards compensation practice. The analysis result showed mean and SD of financial compensation are 3.35 and 0.48 on average respectively. The table 2 revealed employee showed salary pay with mean value of 3.32, SD = 0.57 and bonus pay mean value 3.24, SD = 0.51. The analysis result presented that there is moderate employee perceptions financial compensation and low perceptions on bonus than salary. The mean value and SD of non—financial compensation is 3.21 and SD = 0.38 on average respectively. The overall employee perception on compensation practice were mean 3.32, SD = 0.427 on average.

Table 2: Mean and standard deviation of compensation practices

| S. No | Description | N | Mean | Std. Deviation |
|-------|----------------------------|----|--------|----------------|
| 1 | Salary | 55 | 3.3203 | 0.57324 |
| 2 | Bonus | 55 | 3.2431 | 0.51215 |
| 3 | Financial compensation | 55 | 3.354 | 0.48418 |
| 4 | Non-financial compensation | 55 | 3.2160 | 0.38422 |
| | Total compensation | 55 | 3.3215 | 0.42735 |

Source: Computed from own survey data 2022

4.3. Employee Motivation

The data analysis results in the Table 3 indicated that the majorities of permanent employees in CBE of Duna branch 46 (83.64%) who have got compensation are motivated towards better performance. The remaining 9 (16.36%) of permanent employees are not motivated by compensation in the study branch. The result of the current study is consistent with (Ajmal et al., 2015; Hafiza et al., 2011). Improved compensation practice is very crucial and positively affects employee's motivation in CBE of Duna branch. Therefore, it revealed that better compensation practice and system positively influences permanent employee's motivation than counterparts. Hence, there is major difference between compensated and non-compensated permanent employees in CBE of Duna branch in terms of employee's motivation.

Table 3: Compensation motivates employees to better performance

| Motivated status | Frequency | Percentage |
|------------------|-----------|------------|
| Yes | 46 | 83.64 |
| No | 9 | 16.36 |
| Total | 55 | 100 |

Source: Computed from own survey data 2022

4.4. Compensation practice and employee's motivation

The correlation analysis applied to show the correlation between compensation practice and employees' motivation. The findings presented that all elements of compensation are significantly positive relationships with employees' motivation. The result of regression revealed that financial compensation $r = 0.484$, non-financial compensation $r = 0.172$, total compensation $r = 0.408$. The presented that the compensation and employee's motivation were positively correlated. Therefore, compensation practice has positive effect on employee's motivation in CBE of Duna branch.

4.5. Analysis of Interviews

According to the manager in CBE of Duna branch compensation policy is very important instruments to derive better motivation and performance which in turn a key to achieve objectives. The good performed employees are compensated than counterparts based up on this policy instrument. As a manager response there are external such as market condition, competitors, GDP of nation, and cost of living, and internal factors affecting compensation policy. Additionally, manager presented that compensation packages very necessary towards enhance the performance of permanent employees in CBE of Duna branch because compensation is merit based.

5. Conclusions and Recommendations

Compensation system is a very important or prerequisite for achieving better employees' motivation, which in turn contributing towards enhanced employees' performance and living standards. Employees motivation is a key component in human resource management and it is very crucial in promoting employee's performance and organizational productivity. Therefore, this study was aiming to assess compensation practice and employee's motivation in CBE of Duna branch. For the data analysis primary and secondary sources of data was collected. The census data collection method was applied to determine a total 55 permanent employees. Descriptive and inferential methods were employed for data analysis. The results of data analysis presented that compensation practice significantly positive effects on employees' motivation in CBE of Duna branch.

Based up on the results of the study the following recommendations were developed. The achieve better employees and organization goals appropriate compensation plan is very crucial. Therefore, companies better guided by proper compensation plan to achieve their objectives. Employees skill, knowledge, attitude, and willingness are very important components in compensation practice and employee's motivation. Hence, organization is better to develop employee's knowledge and skill by using different training about their work, which in turn properly enhance skill and knowledge of employees. Compensation package and policy plays a great role towards motivate employees and ensure the competitiveness of the organization. So, in order to improve employee's performance and organization goal it is better to use improved and structured compensation policy. Therefore, further study considers extending this line of study by expanding scope of the study branch.

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