

**A COMPARATIVE STUDY OF THE USE OF REWARD  
SYSTEMS BETWEEN PRODUCTION AND SERVICE SECTORS**

**By**

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**A Thesis Submitted to the School of Graduate Studies of Addis  
Ababa University in Partial Fulfillment of the Requirements for the  
Degree of Masters of Business Administration (MBA)**

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**JUNE 2011**

## **Declaration**

**I, the undersigned, declare that this study is my original work and has not been presented for a degree in any other university, and that all the sources of material used for the study have been dully acknowledged.**

**Declared by;**

**Name** \_\_\_\_\_

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## ACKNOWLEDGEMENTS

**First and for most I would like to thank the Almighty God for giving me the courage, inspiration, diligence and wisdom required for the successful accomplishment of this thesis.**

**I am very much grateful to Dr. Tilahun Teklu, my advisor to this MBA Thesis, who has been forwarding his priceless comments all through the preparation of this study. I am also indebted to appreciate his presence for consultation in his office and elsewhere at convenience. So, thank you for all your help Dr. Tilahun.**

**Further I would also like to send my gratitude to all respondents that took the time to participate in this thesis and for openly answering my questions. Without them this thesis would not have seen the light of day.**

**I would also like to thank my friends and foremost my family for supporting me in my work and also for their patience.**

**June 2011**

**Dawit Amha**

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## **ABSTRACT**

This study is about reward system, which essentially is a steering instrument available to maintain the organizational efficiency and productivity and which also have the purpose of motivating the employees to act in the best interest of the organization as well as to reach organizational goals. The purpose with this study was to see how companies in different sectors make use of a reward system in order to increase their effectiveness and efficiency. The aim was also to see to what extent organizations are linking the organizational goals with the individual goals that occur within an organization. A comparison between the sectors has done in order to observe similarities as well as differences. As groundwork of this thesis theories regarding motivation and effectiveness and efficiency were used. The research question was based on the purpose with this study and stated as follows:

*“In what way are organizations using a reward system to motivate the employees to work in the best interest of the organization and reach organizational goals?”*

In order to answer the research question I have conducted a qualitative study. I have made two interviews with different companies within two different sectors, a total of four interviews. The sectors that I have chosen to focus on were the production sector and the service sector. The interviews were all face to face meetings in Addis Ababa. The empirical findings have then been tried to be analyzed by linking them to the theories used in the theoretical framework.

The main conclusions I have made is that all companies are focusing primarily on profitability and results when rewarding. Within all sectors, the companies have found very difficult to link individual goals to organizational goals in the organization. It is only Ethiopian Electric Power Corporation (EEPCO) that already laid the ground for linking individual goals to organizational goals though it is not yet started implementing the system. Based on my finding the production sector is working more satisfactorily concerning employees' job satisfaction and motivation.

Further I could conclude that the less developed reward system an organization has and considers it to be a steering instrument the less thoroughly developed will the groundwork for it be and vice versa. Some similarities that I could see within the two sectors were that they all are using monetary and non monetary rewards (financial and non financial rewards) and that the rewards are being given to both individuals to teams though differ in extent.

*Key words: effectiveness, efficiency, motivation, reward, reward system*

# CHAPTER ONE

## INTRODUCTION

Most organizations seek to optimize their return on investment and in order to do that they need to be efficient. One way to improve the productivity is to optimize the utilization of the organizations' human capital (Appelbaum and Hare, 1996). In order to maintain the organizational efficiency and productivity, the managers and board members can use different steering instruments to control the activities in the company. One of these steering instruments available is the use of a reward system which purpose is to motivate the employees to act in the best interest of the organization as well as to reach organizational goals.

John Stredwick states in his study that along with the changes in the business markets the way employees are being rewarded is also changing. The companies need to make sure that they stay in their competitive position with the help of a conscious human resource management. The reward has a central role in the organizational performance since it will support and help to fine tune the groundwork for success that is the human capital (Stredwick, 2000). Organizations are highly dependent on their human capital and a motivated staff can ensure the survival of the company. By using a reward system as a steering instrument the organizations can lead their employees to a wanted behavior. Tsai Chin-Ju indicated that the motivation among the employees has a positive relationship with the productivity of the organization (Chin-Ju, 2005). This indicates that human resource management has a possibility to create many competitive advantages if the companies are able to manage it well and motivate through the reward system (Stredwick, 2000). There are, hence, many reasons for why it is so important for the organizations to motivate their employees in a sufficient way. When this is done, it can create a win-win situation for both the employees as well as for the company.

John Stredwick is also one of the researchers that show in his study that it is important that the rewards are aligned with the organizational goals in order to create efficiency (Stredwick, 2000). Every organization has goals for the future and there are many different ways for organizations to pursue the goals. This thesis focuses on the reward system and how organizations can make use of that in a way that will benefit both the organization as well as the employees in the end. The

organization wants the employees to work in their best interest in order for the organization to become more efficient and effective and to gain competitive advantage. To get the employees to work towards the goals of the organization a reward system is useful. By rewarding employees for their effort to achieve the organizational goals the employees will be motivated to continue to work in the best interest for the organization. However, to create a reward system that is fulfilling its purpose is not easy. There are a number of aspects that have to be taken in consideration by the managers in order for the reward system to be accepted by, on one hand the managers, but it is just as important that it will be accepted by the employees. One of the main obstacles is to recognize that every employee has personal goals with the job and to combine them with the organizational goals is a highly important but also difficult task for the managers. However, by overcoming this obstacle and for the employees to reach their personal goals as part of the organizational goals will be a tremendous motivational factor for the employees (Atkinson et al., 1997).

In Ethiopia, most reward systems are not formalized nor do they are best aligned with the structure and goals of the organization. In addition, they are often given in response to a manager's perception of when an employee performed exceptionally well. There were usually no set standards by which exceptional performance could be measured, and it could have meant anything from having a good attitude, assisting another department, or being consistently punctual. But nowadays, in response to the emerging environmental pressures, organizations are transforming their structures and management systems. As a result, many organizations are rethinking their reward strategies to better align them with the new realities (Agarwal, 2011).

The absence of adequate information on the similarity and/or difference of reward systems in different organizations are the major reason that reduced the value attached with the reward system that can appropriately fits an organization. Considering this, the study provided new information regarding the similarity and/or difference of reward systems that exists between different organizations.

In the theoretical framework, theories regarding motivation, both content- and process theories are presented. I also discussed theories regarding what to consider when making use of a reward system in order to reach organizational goals and at the same time increase the effectiveness and

efficiency within the organization. The researcher also tried to link the motivation theories, which consist of content- and process theories, with the effectiveness and efficiency theory, and tried to explain how the researcher consider them to influence each other.

### **1.1 Statement of the Problem**

Organizations consist of human capital that all have their own interests with their work that might not always be aligned with the organizations. In order to influence and motivate employees, managers have plenty of available strategies. The theories of reward system are treating all organizations as unanimous and do not take in consideration that they exists in separate contexts. Different sectors could have separate presupposition depending on the differentiation in their markets hence, the researcher made the assumption that this affects how they can and will motivate their employees. The researcher believes that the theories are treating all sectors the same regardless of the fluctuation that I, in this study, observed existing between sectors. The study tried to look into the way that how organizations use a reward system and to explore the similarity and/or difference between sectors.

### **1.2 Objectives of the Study**

With this thesis, the researcher studied how organizations today are making use of a reward system to motivate their employees to become more effective and efficient and thus carry out their work in the best interest for the organization. The researcher also wanted to look at the reward system that the organizations are offering their employees to see if there are any differences and/or similarities between organizations in different sectors. Further, the researcher also aimed to see if employers today are offering their employees more options than just monetary rewards.

### **1.3 Theoretical Perspective**

The theories that the researcher used in this study include both motivation theories, which consist of content and process theories as well as agency theories.

**Content theories:** The collected theories regarding the needs are called content theories of motivation and all focus on the goals we aspire, our specific needs and explore situations where these needs trigger behavior. (Senyucel, 2009)

**Process theories:** The process theories concentrate on the choices (or actions) individuals make to achieve their goals. (Senyucel, 2009)

**Agency theory:** The agency theory shed light to the problem that can occur when the organizational goal does not align with the individuals' goal. The main theme in this theory is that a principal, the employer, assigns work to the agent, the employee, who thereby needs to perform the work (Yu and Ming, 2008).

#### **1.4 Research Question**

In what way are organizations using a reward system to motivate the employees to work in the best interest of the organization and reach organizational goals?

- In what way are organizations using a monetary reward to motivate the employees to work in the best interest of the organization and achieve organizational goals?
- In what way are organizations using a financial reward to motivate the employees to work in the best interest of the organization and achieve organizational goals?
- In what way are organizations using a non financial reward to motivate the employees to work in the best interest of the organization and achieve organizational goals?

#### **1.5 Definition of Terms**

**Reward system:** “Procedures, rules, and standards associated with allocation of benefits and compensation to employees” <http://www.businessdictionary.com/definition/reward-system.html>  
The researcher used this concept in accordance with incentive systems and compensation systems as a way to motivate the employees to strive for reaching organizational goals.

**Reward:** In this study, reward is more than money. A reward is something which is offered in order to make employees contribute to the firm. Chester Bernard writes: “The contributions of personal efforts which constitute the energies of organizations are yielded by individuals because of rewards” (Bernard, 1938).

**Financial rewards:** For the sake of this study, the researcher considers all financial rewards as rewards that can be linked to a cost for the organization. This is done regardless if the reward itself will contribute any money in terms of cash to the employee.

**Monetary reward:** The researcher, here, considers a monetary reward as a reward that is given to an employee that consists of money in any form.

**Non financial rewards:** As an opposite of the financial reward a non-financial reward is not linked to a cost for the organization. This type of reward might constitute of feed-back or social recognitions for the work done (Stajkovic and Luthans, 2001).

**Motivation:** “The degree to which a person is moved or aroused to expand effort to achieve some purpose” (Rainey, 1993).

**Efficiency:** “Comparison of what is actually produced or performed with what can be achieved with the same consumption of resources (money, time, labour, etc.). It is an important factor in determination of productivity” <http://www.businessdictionary.com/definition/efficiency.html>

**Effectiveness:** “Degree to which objectives are achieved and the extent to which targeted problems are resolved. In contrast to efficiency, effectiveness is determined without reference to costs and, whereas efficiency means "doing the thing right," effectiveness means "doing the right thing.” <http://www.businessdictionary.com/definition/effectiveness.html>

### **1.6 Delimitations and Limitations**

The study would have been more important had it been included most of the middle sized and largest companies found in Ethiopia but given difficulty of analyzing, organizing, and interpreting the data gathered by the researcher’s capacity, and the time given for the study, it confined itself to two organizations from the service sector and two organizations from the production sector.

The researcher limited the study to not look at the reward system as a way to attract new employees rather the researcher studied how organizations are using a reward system to retain current employees. This limitation has done based on the fact that the researcher is more interested in studying the importance that a reward system has in motivating employees to be loyal to the organization. Further, in this study the researcher has not looked at the base pay as a

part of the reward system. The researcher considered this to be a presumption for the employees to carry out their work in the first place. However, the researcher studied the salary system in order to see how the respondents relate it to their reward system.

Instrument trustworthiness (credibility, transferability, dependability, and conformability) and authenticity for data gathering was the major limitations of the study.

### **1.7 Significance of the Study**

This study has yielded new information regarding the similarity and/or difference of reward systems between sectors. The data that was gathered in this study was expected to indicate a significant similarity and/or difference between organizations in different sectors, so that further research can be undertaken to build on this finding and to improve on the understanding and meaning of the reward systems in different sectors.

## CHAPTER TWO

### REVIEW OF LITERATURE

#### 2.1 Reward, reward system and salary

So as to create a meaningful understanding of the theories used in this study, it is logical to start with a general discussion of reward and reward system and the related concepts. Then, the researcher has linked each theory to the intended position in both the study as well as how the theories fit into the reward system.

As cited by Niemi and Pellas 2009, Michael Armstrong, in his book “Employee Reward”, defined reward system as the tools available and used by the employers in order to attract, retain, motivate and satisfy their employees. The concept of reward system also includes all investment made in the organizations human capital and everything that the employees find attractive in the employment relationship (Armstrong, 2003).

A reward system is a combination of financial rewards as well as employee benefit and these two elements combined together compose the total remuneration for the employee. The total reward system also incorporates non-financial rewards which also includes performance management processes. An important aspect of this is that even if a benefit regards increased health care in form of medical attention, as an example, this will impose as a financial reward since it is linked to a cost for the organization. So for this study, the researcher has chosen to consider all financial reward as rewards that impose a cost to the organization even if it does not generate hard cash to the employee (Ibid).

A reward system is built around five main components that all include financial rewards, benefits and non-financial rewards. There is a *process* of measuring and evaluating the work of the individuals so as to decide the level of employee benefits that need to be distributed. A reward system also needs a *practice* for motivating using financial and non-financial rewards. These practices constitute of the financial reward in form of payment, both base and variable, as well as employee benefits. It also includes non-financial rewards that originate from the work itself and

effective management (Ibid). The aim is to bring together these steps so that the organizations gather all of the competences and resources that lie among the employees. The reward system's sole purpose is to motivate the employees in order to maximize the efficiency of the organization by creating a steering- and management instrument. Using the right rewards can help the managers and the employers to stimulate the employees to create job satisfaction and to act in a certain way. If the employees respond as intended, this can ultimately increase the organizational efficiency, hence, create competitive advantages. The system also needs *structure* so that the level of reward meets the value of the positions in the organization and *schemes* for providing the individuals with financial rewards that meet their performance. It is also necessary to create appropriate *procedures* in order to maintain the system so that the reward system creates efficiency within the human capital (Ibid).

The salary is part of the reward system as a financial reward that the employees get as a payment for a job accomplished. But the salary is often not considered to be a reward since the basic pay is considered to be taken for granted. No rational employee would consider working for no money at all and the salary is therefore considered to be an established right for the employee and therefore creates no extra stimulus. The salary is merely compensation to the employee for providing a resource and the reward itself is considered to be something extra outside the salary (Kohn, 1999). Taking that in mind, this study did not put any regards to base salary when the researcher talk about rewards and instead the focus was on the rewards that are given to the employee in excess of the base salary. This is an element of a flexible salary system where the reward is connected to a flexible part that changes depending on the performance of either the company or the employee itself (Hughes, 1965). Edward Lawler also indicated that pay can be a source of motivation when it is tied to performance and seen as a form of recognition (Lawler, 2000).

## **2.2 Motivation in theory**

The use of a reward system is a tool for the organizations in order to motivate the employees so that efficiency can be achieved. So as to answer the research question, it is essential to understand motivation and how it fits in the organizational context. Motivation, as a concept, can be divided into being either an intrinsic or extrinsic motivation. The intrinsic motivation comes from inside the employee and is without any obvious external incentives. An intrinsic motivation regards the

work itself and motivation comes from satisfaction from the actualization of the work procedure. The intrinsic reward is based in the work and how the work procedure and its content are laid out. An extrinsic motivation, on the other hand, is the external motivation that is triggered by influences from outside the employee. In order to stimulate an extrinsic motivation within the employee the employer can use external rewards and incentives (Frey, 1997). In the following sections, the researcher has discussed more in detail what motivation is and how the managers and employers can create motivation by using a reward system.

### **2.2.1 Early Theories of Motivation**

Though the study's emphasis is on the contemporary theories of motivation which are broadly categorized as content and process theories of motivation, the researcher finds important to look into the early theories of motivation. This is since the contemporary theories of motivation are developed based on the ideas of the early theories of motivation.

Theory of motivation can be traced back to the ideas of Taylor (1911) who came up with the principle of Scientific Management, which aims to give greater control to management over the labour process by exchanging effort for reward. Taylor regarded management superior to employees and argued that management should be the brains of the organization (Senyucel, 2009).

Following Taylor's principle of Scientific Management, Mayo's works on the Hawthorne experiment was so dominant. The Hawthorne experiments concentrate on four areas: lighting, lay out of the rooms, employees' perception of their superiors and social relations at work. The overall conclusion was people's satisfaction at work heavily depend on their social relations with others (friendship, love, sense of belonging, etc.) and social relations were more important than the physical conditions (the actual office building, view, furniture, etc.). In other words, the experiments found that people were motivated more by their social relations than the physical conditions at work (Mayo, 1933). Mayo's works on the Hawthorne experiments started an interest in human behavior. Many theories of motivation which is regarded as contemporary theories of motivation have developed and they can usually put into two categories: content and process theories.

## **2.2.2 Contemporary Theories of Motivation**

### **2.2.2.1 Content theories**

The collected theories regarding the needs are called content theories of motivation and all reflects upon the specific things inside the employee or the human that influences the motivation (Segal et al., 2005).

#### **Hierarchy of needs theory**

Abraham Maslow is widely known for his theory of motivation building on the ideas that human behavior is driven by a hierarchy of needs. According to Maslow humans are born with certain needs, which are organized in a hierarchical structure ranging from basic physiological needs to a need for self-actualization. Humans are motivated by need deprivation. The most important needs are the physiological needs including food, water, and sleep. Next in hierarchy are the safety needs including security, stability, and structure. Subsequently we have the belongingness and love needs including love, affection, and belonging to social groups. Then the esteem needs, which are divided into self-esteem and esteem from others, the first includes a sense of achievement, adequacy, and competence, whereas the last includes reputation, prestige, status, and recognition. At the top of the hierarchy we have the need for self-actualization, which is vaguely defined as being true to ones nature and becoming everything one is capable of becoming – i.e. the need for self actualization varies from person to person.

The main ideas in Maslow's theory are that humans try to satisfy their needs in the above mentioned order and when a need is satisfied it does no longer motivate behavior – strictly speaking it is no longer a need. For example, a person desperately lacking food or water will not normally worry about his self – esteem. On the other hand, once his physiological needs are satisfied these are not important anymore and he starts trying to satisfy other needs. Maslow doesn't claim that all behavior is motivated by the satisfaction of only one need. Actually most behavior is multi-motivated according to Maslow (1970 [1954]). This also means that a lower need does not have to be fully satisfied in order for a higher order need to become important.

Having said that, Maslow's focus – especially in his later works – is very much on the need for self-actualization (Maslow, 1999 [1968]). The need for self-actualization is in the later works

named growth motivation and distinguished from deficiency motivation, which includes the four above mentioned needs. This highest need or motivation of self-actualization can never be completely satisfied – humans will always strive for completion. In relation to this motive money is not important, whereas the content of the job, the possibility of using your talents, capacities, and creative tendencies are the important work motivators.

### **Motivation-Hygiene Theory**

Frederick Herzberg has developed a theory about motivator factors and hygiene factors (Herzberg, 1966; 1968; Herzberg et al., 1993[1959]). As mentioned above Maslow distinguishes between growth needs and deficiency needs and this distinction is resembled by Herzberg's distinction between motivating factors and hygiene factors. Maslow never really tested his theory empirically and did not try to apply it directly to the work setting. Herzberg to the contrary tried to apply the theory to the work setting and tested his hypothesis empirically. The basic idea and main finding in Herzberg's work is that job satisfaction and job dissatisfaction does not stand at opposite ends of a continuum. The presence of one kind of factors- the motivators – leads to job satisfaction, but the absence of these factors does not lead to job dissatisfaction, but just to no job satisfaction. The opposite is true for the hygiene factors leads to job dissatisfaction (Herzberg, 1968). The argument is that humans are driven by two different dynamics: pain avoidance and growth seeking. Similar to Maslow's theory of needs some factors are only important to a certain extent – the hygiene factors contributing to satisfy that need are of permanent importance.

Herzberg's empirical work is partly inspired by the Hawthorne experiments. The findings of the importance of good relationships between workers and supervisors and the existence of informal group norms are mentioned in the introducing chapter of his original study (Herzberg et al., 1993[1959]). Later he becomes more critical of those findings since his own research provides a somewhat different picture of work motivation.

Herzberg's motivation-hygiene theory is based on the distinction between job content and job context. Enriching the job is a way to satisfy the need for self- actualization, whereas improving extrinsic factors such as salary, interpersonal relationships (such as relations with supervisors are classified as an intrinsic factor, but Herzberg classifies it an extrinsic factor based on his empirical findings), and company policies only satisfies the deficiency needs. Herzberg

acknowledges the importance of the hygiene factors, but he is very critical towards the resources spent on wage incentive systems and training of supervisors. In what way he distances himself from the findings at Hawthorne. These approaches might work well in jobs where the intrinsic factors are impossible to improve, but for many jobs focusing on the job content would be more efficient for increasing employee satisfaction.

#### **2.2.2.2 Process theories**

In contrast to the content theories that primarily focused on the specifics within the human being, mainly their needs, that initiate or start the need the process theories regards how this takes place. The process theories try to explain how the employee decides what to do or to behave and how much effort he/she wants to contribute with (Segal et al., 2005).

#### **Goal-setting theory**

Locke is taking a process approach to motivational theories through his goal-setting theory just as the theory developed by Vroom. The main difference between the two is how the authors regard to the expectancy of a reward and the performance. Vroom sees a positive relation between expectancy and performance in a linear way. Locke on the other hand, even if he agrees with this assumption, also takes into consideration that the more difficult the goal is the more difficult it is to obtain it and thereby could potentially have a negative relation. Therefore he stresses the importance of making a separation between the expectation within and between goals conditions (Locke and Latham, 2002).

In the goal-setting theory Locke is also stating that the theories developed by other authors were too focused in the unconscious in finding what motivates the individual. The goal-setting theory takes into consideration the conscious motives that exist when the organization sets goals that need to be met. These goals can create motivation for the employees if they are handled and developed in an accurate way. The basic assumption in goal-setting theories is, according to Locke, that the employee has been given a task and is given feed-back on the progress. The progress is measured in relation to the goal of the task or the organization. The goals might be set by the organization but it can also be done on an individual level as well (Locke, 1996). The goal can be defined as the aim for an action and they can be both internally and externally explained. The internal goal is the end result or the notion that we strive to achieve. The external goal

regards the object we want to obtain such as a job or a level of performance. For the organization, to maintain the highest level of performance the goal-setting theory means that the goal itself need to be both highly specific and at a high level of difficulty. In order to obtain the core benefits from this, the organization has to make sure that there is enough amount of knowledge within the employees to achieve the goals. However, organizations must take into consideration that the level of goal commitment with the employees also affects the outcome. This is especially critical if the goals are both difficult to achieve and specific. The employee that is set to obtain a goal and perform a task needs to feel that the goal itself is important (Locke, 1996). According to this theory, a goal is necessary in order to create motivation within the employees to perform better than before. This can be done in several ways and using a reward system is one of them. Locke indicates that monetary rewards can improve the sustainability of a person's commitment as well as a person's performance. A monetary reward can thereby make the employee to repeat his/her behavior. However, monetary rewards have no effect if the goals are set on a level that is impossible to obtain. To obtain the highest level of commitment from the employees, the employer and the organization can as an alternative adjust the goals so that the goals fit the capacity of the employees. The employer can also provide training and raise the level of experience so that the employees meet the level of the goal. The last option that Locke raises is the ability to increase the level of self-perception within the employees so that the individuals feel that they have the ability to reach the goals. Locke means that a person or an employee does not necessarily have to be assured that the goal is obtainable as long as they feel that the personal effort is contributing to a positive outcome. This leads to the self-efficiency of the employee and how well the employees react to the feedback given or if the goal that are being set are accepted or not (Locke, 2004).

### **Self-efficiency**

Self-efficiency is the concept of the individual perceiving to be able to perform to his/her fullest. The level of self-efficiency will influence the level of motivation as well as the outcome of the performance. From the employers' point of view, there is a possibility to improve an employee's performance, the level of motivation and the choices the individual make through the improvement of the employees self perception (Appelbaum and Hare, 1996).

Feedback is an important part in the goal-setting theory since it gives the employees an understanding of how well they are performing. This will have an impact on how effectively the employees will perform the task needed to obtain the set goal. Without any feedback the employees will not try to improve their behavior or challenge them self into overcoming past performance. This will thereby lead to an inefficient output for the entire organization. Since the reward system has no positive impact on the efficiency if the goals are impossible to reach the difficulty arises to balance the rewards so that it fits with the goals. There is a possibility that the reward connected to a certain task and outcome is overpowering other tasks that are just as important but not related to the goal itself (Locke, 1996). When linking the goal-setting theory to a reward system there is, according to Locke, four different methods to use for the employers. One is to extend the goals a little bit further than before and for those who achieve them there will be a substantial bonus. The obstacle to this method is that if the employees have laid down an extensive amount of work and still not been able to reach the goal, hence no reward will be distributed and that can lay down the ground for dissatisfaction. One way of avoiding this is to offering a reward system that does provide different levels of rewards linking to different levels of goals. Since even the lower levels of goals will provide a level of rewards, the motivation to strive higher to a higher goal might not occur. This is in some sense solved, even if it is not done entirely, by the third method. This method is imposing a linear reward system where there will be a substantial increase to the reward as the employee climb towards a higher goal. The fourth and last method links goal-setting to a reward system by motivating the employees with pay for performance. There will be specific task with a given goal and the employee will be receiving a reward based on how well the task has been executed. The level of the reward will thereby be set afterwards which gives the employer the ability to take the entire context of the execution into consideration when offering the reward. This however requires well trained managers who have the ability to make correct and fair decisions (Locke, 2004). Even if the theories proposed by Locke in most terms refer to a financial, foremost monetary, reward when linking goal-setting theory to the reward system, the researcher did not make such a drastic distinction. For the sake of this study, the researcher included the possibility that the rewards can constitute of non-monetary and non-financial rewards as well.

## **Expectancy theory**

Having discussed what the employee can strive for and the ability for goal-setting to create motivation it give rise to a new question. What determines how much effort the employee actually will provide? Locke discusses the possibility that the workers will not strive to reach the highest goal that is related to the highest reward (Locke, 2004). Vroom has developed an insight and gives an explanation to this with his expectancy theory or VIE theory. The VIE theory discusses how much effort a person will contribute with and what performance this effort will result in base on how they value the outcome. The theoretical model consists of the valence, instrumentality and expectancy of the individual (VIE). The basic of the theoretical model is that the employee will only get motivated and hence try to reach a goal if they value the outcome. They must also find the performance needed as instrumental in reaching the outcome. This is explained as the employee's perception of the causal effect between their behavior and the reception of the reward. This will be obtained if the employee feels that they have the capability to perform in an accurate way that is instrumental to reach the goal (Lee, 2007).

According to Vroom, *valence* is defined as the valuation of the actual outcome or the result of one's performance. A positive valence is created if the employee has any interest in attaining the outcome (Vroom, 1964). *Instrumentality* consists of the individuals' thoughts of the probability that their performance would actually result in a particular outcome. High instrumentality, arise from that if the employee would receive the reward at all a good work-result is a necessity (Lee, 2007). *Expectancy* is the belief that there is a probability that they can perform in a way that leads to a positive result. The belief within the employee comes from the notion that he/she has the capacity and the skills needed to influence the outcome (Vroom, 1964). This can be related to the term self-efficiency that Appelbaum (Appelbaum and Hare, 1996) and Locke discussed earlier regarding the employee's ability to perform to its fullest (Locke, 1996).

### **2.3 Problems and critics to reward systems**

A reward system can be used as a tool for creating motivation among the employee and enables the organization to increase the efficiency (Stajkovic and Luthans, 2001). The theoretical discussion so far has shown that when motivating the employees the managers must pay attention to what motivates through the needs of the employees. The theoretical discussion has also shown that it is also vital to consider how motivation arises through imposing goal-setting and

expectancy theories. Managers can use the reward system as a financial control tool in order to make sure that the employees are motivated to work towards the organizational goal. This however imposes a possible problem when the employer and the employee do not strive toward the same objective (Matsumura et al., 2001).

### **Agency theory and reward system**

The agency theory provides solution to the problem that can occur when the organizational goal does not align with the individuals' goal. The main theme in this theory is that a principal, the employer, assigns work to the agent, the employee, who thereby needs to perform the work (Yu and Ming, 2008). The theory is focusing on two main problems that can occur between the agent and the principal and first there is the issue of conflicting goals. There is also the principal problem of verification of the agent's behavior and there is a need for monitoring the performance to avoid this problem (Eisenhardt, 1989). Outside the theoretical framework, in real life the principal has no direct control over the behavior of the agent and there is no guarantee that the agent behave as the principal wants. In the agency theory, this phenomenon is referred to as the moral hazard problem (Matsumura et al., 2001). There is also the problem with unevenness in the risk taking between the agent and the principal. This is something that occurs when the principal and the agent's choice of action is not congruent due to different preference of levels of risk they are willing to take (Eisenhardt, 1989). The reward system is build upon the notion that it, when properly structured, can move the employee in a direction that is most preferable for the organization. This could be seen as the effect of the control system or the reward system (Yu and Ming, 2008) Matsumura et al. are proposing a new model to explain how the principal can use rewards to control the agent. They mean that the outcome of the agent's performance will be dependent on the size of the reward. This is due to the fact that when working towards the goal set by the employer or the principal the employee, the agent, will not only gain monetary rewards. The employee will also gain non-monetary rewards from the work itself. If the employee's interest in performing the work is conflicting with the interest of the principal, the employee will gain a larger portion of non-monetary reward by striving to fulfill his/her own goal instead of the principal's. It is due to the structure of the reward system that determines if the employee will gain more from fulfilling the goals of the organization than his/her own

(Matsumura et al., 2001). With this in mind, it becomes clear that the employers must create a reward system that minimizes the risk of a moral hazard problem with the employee.

### **Why rewards at all?**

Even if many theories indicate the positive side of using incentives and rewards to motivate their employees to work towards the organizational goal there are, however, some who state the opposite. The most prominent critic to the use of reward system is Alfie Kohn, who has the belief that a reward harms more than it do good (Kohn, 1999). The theme for the critics is not that they claim that a reward, and foremost financial rewards do not work they claim that they work too well. When offering money, the employee tends to only focus in the task related to the reward and since it is difficult to specify in detail what the organization wants it is also difficult to measure. The motivation within the employee is only focusing on performing what they are being told and nothing more (Baker et al., 1988). Kohn means that the reward does have an effect on the behavior of the employees but the problem is that it is not for the long term. The change in the behavior the rewards create is only temporary and highly tied to the reward itself. When the reward ends the behavior ends as well. This is, according to Kohn, that the attitudes behind the previous behavior have not been affected by the reward and there is a need for commitment toward the behavior. Kohn also means that the reward do not generate an increase in the productivity hence do not increase the efficiency of the organization. He even states that those employees who were expecting a reward had a lower productivity than those who did not expect anything (Kohn, 1999).

### **2.4 Effectiveness and Efficiency Theory**

This part in the literature review discusses the concept of effectiveness and efficiency and how they relate to reward systems. One reason as to why organizations have reward systems is to increase both effectiveness as well as efficiency. By motivating the employees to follow the goals of the organization it will increase the effectiveness and efficiency since all employees will strive for the same outcomes. Further it lies in the employer's interest to create such a reward system that will enable the employees to constantly improve the effectiveness and efficiency in the organization and be rewarded for their effort to reach the organizational goals (Atkinson et al., 1997).The literature in this section is presented from an efficiency point of view. This type of view indicates that an organization can choose different steering instruments in order to reach

their goals. The type of instrument the organization chooses will lead to different effects inside the organization. These effects will then enable the organization to reach their goals (Ibid).

The instrument that has been used in this study is reward systems and from an efficiency point of view it can be explained as follows; the goal of the organization is to increase the efficiency. This can be done by creating a reward system where the employees will be rewarded for achievements that will have a positive impact on the efficiency. The employees will be motivated to reach the goals of the organization and the organization will increase the efficiency based on the effects of a reward system. Based on the efficiency view, a reward system can be divided into four dimensions; purpose with a reward system, the groundwork of a reward system, different types of rewards and finally the receiver of a reward system (Hughes, 1965). The researcher finds the four dimensions to be very basic and something that each employer should take into consideration when developing a reward system. The four different dimensions are discussed separately as follows.

### **The purpose with a reward system**

There are several purposes of having a reward system and the most significant in this section is increased effectiveness and efficiency. As cited by Niemi and Pellas 2009, in order to reach this purpose it is important that the organization creates a reward system where the employees and the organization strive towards the same direction (Hughes, 1965). This can be done using the Goal Setting Theory. The organization has to know where they want to be in the future in order to know how to get there; i.e. means and ends. However, it is not only organizational goals that exist within an organization; there are personal goals as well which every individual in the organization has set up for themselves. The organizational goals and the individual goals do not need to be the same but both need to be compatible and achievable. This can be done by informing the employees about the organizational goals and letting the employees be part in reaching these goals. This should be done in such a way that the employees can set up personal goals for themselves, which will lead to increased motivation to reach both the organizational goals as well as the personal goals. It should be noted that if an individual does not identify with the company and its purpose, the individual will have difficulties in finding meaning with their work (Ibid).

In order for the organization to increase the effectiveness and efficiency, the organization should foster a climate where the employees are encouraged to be goal oriented. A goal oriented person sees his/her role in the company very clearly and will be motivated by working towards organizational goals and at the same time put up personal goals for him/her self (Ibid). Further, to create this type of organization with a high level of motivation should be a specific objective in itself in the organization since this is as important as any other goal of the organization. This objective will lead to increased efficiency since both personal and organizational goals will be achieved (Ibid). It might be assumed that the job satisfaction among the employees will increase since they feel that they will get personal development through achieving both personal and organizational goals.

In order for the managers to create an effective organization there are six steps that should be taken into consideration which refers to aligning the individual goals with the organizational goals. First, it is important that everyone within the organization is aware of the vision and mission of the organization i.e. what the purpose with the organization is. Second, the objectives of the organization should be broken down into different levels of sub goals so that they can be understood and achieved by lower level personal. Third, the objectives of the organization as well as the levels of sub goals are communicated to the right employees and divisions (the employees that will execute them). Fourth, the manager should help and encourage each employee to set up personal goals that can be achieved. Fifth, modify tentative organizational goals when necessary. And finally, continually remind everyone about the organizational goals in order to achieve them and constantly evaluate the organizational as well as the personal goals to make sure that there is a balance between the two (Hughes, 1965). These six steps should be taken into consideration when the purpose with a reward system is to increase the effectiveness and efficiency within an organization. It shows the importance of involving the employees in such a way that they will feel part of the organization and that they are important for reaching the goals successfully. It is important to note that the reward system should be based on the organizational goals and reward the employees who contribute to reaching these goals. It is also important that the rewards are valued by the employees and that the outcomes are valued by the organization, this way both parties will be satisfied with the situation (Atkinson et al., 1997).

### **The groundwork of a reward system**

There are different types of groundwork for a reward system; that is on what basis an employee should get a reward. If an organization wishes to stimulate a specific behavior that will lead to achievement of a specific goal then the organization should reward behaviors that contribute to reaching the goal. In this study, the researcher mainly focused on financial and non financial measures as groundwork of when to reward an employee. It is not easy to decide on the basis for a reward system since there are a number of uncertainties that will affect the outcome of a job. An employee can put a lot of effort into a task but at the end, environmental changes might lead to that the outcome of the task will be affected in a negative way. These types of uncertainties have to be taken into consideration when creating a reward system. Due to these uncertainties, companies often base their rewards on the input, for example working hours, skills and knowledge that are put into the job rather than on the outcomes. Even though the employees consider rewards based on input to be less motivating compared to rewards based on the outcome, companies still use this model as a way to deal with different kinds of uncertainties (Atkinson et al., 1997).

When it comes to financial measurements, the researcher in this study mainly focus on pay for performance. This is since studies have shown that it is a great motivation factor for employees and at the same time leads to improved performance (Durham and Bartol, 2000). Which the researcher considers will increase the effectiveness and efficiency within the organization. Pay for performance is often linked to a monetary rewards, and mostly bonuses (Ibid). Pay for performance can occur at three different levels within an organization, individual level, team level and organizational level and depending on which level pay for performance is used, it will take somewhat different forms (Durham and Bartol, 2000). At the individual level pay for performance can be measured on number of units performed, which will have an effect on the base pay, it can be variable pay, which will not influence base pay and that the employee has to work hard to receive again, this can for example be a cash bonus. It can also be measured on past performance and the employer will increase the employee's base pay. At the team level pay for performance is measured on the outcomes of the teams. At the organizational level, the measurements will be on the overall performance of the organization and rewards will be distributed to all employees (Ibid).

When an organization decides to base their reward system on pay for performance, it will increase not only the performance among the employees but it will also increase the overall performance of the organization. However, there are a few aspects that the organization has to take into consideration when developing measurements for pay for performance. The first one is to decide on what performance is desirable for the organization in order to reach the organizational goals. This is a way for the organization to link the strategy with the reward system but also to make sure that the employees will be rewarded for the “right” performance. Further, it is important for the organization to inform the employees about what performance is valued and will be rewarded. This will enable the employees to focus on the tasks that will be valued by the organization and not waste time on something that is not appreciated. Also it is crucial that the performance that will be rewarded is measurable so that the organization know when to reward and when not to. If such type of measures is not defined then the possibility for the employees to be rewarded correctly will decrease. Another important aspect that needs to be pointed out is the employees must have the skills; knowledge and competences to reach the desirable performance otherwise pay for performance as groundwork of a reward system will not be useful and will be de-motivating for the employees (Ibid).

A non financial groundwork for a reward system is not as common as a financial basis. Non financial measurements can for example be customer- and employee satisfaction and market shares. Even though these types of measurements are important for companies it is still the financial measurements that most often is the basis for a reward system (Durham and Bartol, 2000).

### **Different types of rewards**

The third step when creating an effective reward system is to decide what types of rewards that should be offered to the employees in the organization. In this study, the focus would be on monetary, non monetary and non financial rewards, but the concept of intrinsic and extrinsic rewards were also discussed. As have been mentioned above, the first step in creating an effective reward system is to decide what they want to accomplish with the system and linked to this is on what basis a reward should be handed out. When this is done the organization can start

considering what types of reward that should be offered to the employees. It is highly important that the organization realizes that they have to offer rewards that the employees value (Atkinson et al, 1997). If this is not taken into account then the reward might have a negative impact on the receiver and the motivation to reach the organizational goals might decrease. Therefore, the organization should find out what motivates the employees and also recognize that people in different stages of their life are motivated by different things (Hughes, 1965). A decision whether to offer monetary and/or non monetary rewards have to be made. The most common monetary reward is cash bonuses (note that not referring to base salary) but there are obviously additional financial rewards as well, for example gain sharing, and stock related rewards and profit sharing. A monetary reward can be handed out when someone has done an excellent job or when the organization has improved the results. The monetary rewards can be given to both individuals and teams and they can be based on individual as well as team performance (Atkinson et al., 1997). However monetary rewards do not always have a positive effect on motivation. If there is no link between the reward and the accomplishments of an employee the reward will not have an impact on the motivation. If everyone is getting the same monetary reward regardless of their performance or effort then the reward will not have an impact on the motivation. On the other hand if monetary rewards are linked to the individual and his/her accomplishments then money can be a strong motivator (Hughes, 1965).

Non financial rewards are rewards that do not cost the organization anything. Today the most significant non financial rewards are connected to the employment contract and to the relationship between the employee and the employer. The study by Manas and Graham indicates that money is no longer the number one motivation factor among employees. They mean that today employees are more interested in opportunities and thereby to develop their skills and knowledge. If an organization is not able to successfully provide opportunities for their employees they will end up with a situation of employee retention (Manas and Graham, 2003). Non financial rewards can be divided into three categories. The first one is affiliation, which refers to the overall value that working in an organization for a longer period of time will bring. This includes everything from job satisfaction to the pleasure of working for the number one company on the market. The second category is quality of work and life and this is about the employee and its ability to grow both personally as well as professionally. This is done by having

a job that provides the employee with challenges in such a way that the employee will improve their skills and knowledge. The third category is training and development and is focusing on the employees, training them for both current jobs and for future jobs (Ibid). However, it's better to consider training and development as a financial reward but not a monetary reward in this study. This is because; education of the employees might be linked to a cost for the organization even if it does not generate any money for the employee. This is one way to organize non financial rewards by having the employee in the centre. The researcher believes that this kind of categorization will give the organization a sufficient overview about how non financial rewards can be used. Therefore, it will lead to a good groundwork when discussing non financial reward as part of a reward system.

Further there are two additional forms of a reward system and that is intrinsic and extrinsic rewards. As have been discussed earlier in this study, intrinsic reward is something that comes from inside the individual and refers to how the individual relates to the job and the organizational environment. Experts point out that intrinsic rewards have higher motivational effects than extrinsic rewards among employees and therefore it is crucial for the organization to keep in mind and try to create such a working environment that will enable the employees to gain intrinsic rewards. Extrinsic rewards on the other hand can be linked to both financial and non financial rewards and is therefore something that the organization can control (Atkinson et al., 1997). It is important for organizations to keep both of these additional reward systems in mind in order to create an optimal reward system. Even though intrinsic rewards are linked to the individual employee, the organization can still try to foster intrinsic rewards by creating a working environment and job assignments that the employees value and appreciate. Intrinsic rewards are most likely to occur when employees have the authority to make decisions regarding the organization and when these decisions are done based on the employees' skills, knowledge and competence. This will motivate the employees to act in the best interest for the organization (Ibid). Extrinsic rewards on the other hand are important to include in the reward system when rewarding a team for the first time, this will increase the individuals' interest to collaborate (Singer, et al., 2008). Previous studies stated that the most significant motivation factor for employees is the interest in the job itself. The researcher considers this to be an intrinsic reward and it also shows the importance for managers to recognize this and motivate them from an

intrinsic aspect. Further the study also points out that motivation is important for the productivity and again it can be seen that motivated employees will lead to a more effective and efficient organization but if intrinsic motivated employees will have a higher impact on the effectiveness and efficiency than extrinsic motivated people is not defined. Even though studies have pointed out that intrinsic motivation is more sufficient than extrinsic (Atkinson et al., 1997), there are other studies claiming that there is no evidence that intrinsic motivation will increase the effectiveness and efficiency within an organization (Frey, 1997).

Further there are studies that claim that both intrinsic as well as extrinsic rewards are needed in an organization. Often extrinsic rewards will have a negative effect on the intrinsic work motivation since it might be “pushed aside” and therefore it is crucial that organizations try to manage these factors in such a way that favors both intrinsic and extrinsic motivation and rewards (Ibid).

### **The receiver of a reward system**

The final step in the efficiency model is to determine the receiver of the reward. In this study, the researcher assessed individual, team and organizational level rewards. The top management as a separate category was not included since the study has focused on how to motivate the employees and not the top management team as such. Rewarding teams can be very important in some organizations, especially if team work is frequently occurring. However not all companies see the value in rewarding teams which will have a negative impact on the outcomes of the teams. When an organization is rewarding teams, it communicates to the employees that the team work and the outcomes are highly valued and appreciated by the organization. This is a way to encourage the teams to continue to deliver high-quality outcomes (Hoffman and Gogelberg, 1998).

The outcomes of, say a project, is often performed by a team, which makes it difficult to reward one single person for that particular outcome. Due to this, many organizations have started to reward teams instead of individuals. However, by moving towards team rewards rather than individual rewards will not be free from problems. When rewarding a team it is assumed that every member of that team has made an effort and worked hard in order to reach the goals. But it is not always the case. There are situations where free riding is a problem. In situations like that,

the whole group will get a reward even the person that has not contributed to the outcomes. This might create problems within the team since everyone is getting acknowledged for their work even when some of them have not contributed to the outcomes (Atkinson et al., 1997). Obviously team rewards include a lot of positive aspects as well. It motivates the employees to work together and be more innovative regarding problem solving. The employees will be encouraged to “think outside the box” and be rewarded for their effort in finding new solutions for different types of problems (Kaplan and Norton, 2001). Another reason for rewarding teams is the idea that a team will perform significantly better than a single individual. It can also be described as the sum of two individuals (1+1) is not two but three. This is referred to as the synergy effect. However it is not enough for the organization to put different teams together and expect them to provide the organization with top results, it is just as important for the team to learn how to collaborate. It is when every individual within a team has gotten to know each other, the skills and abilities that the team can start to produce high standard outcomes (Hoffman and Gogelberg, 1998).

If an organization has decided to reward teams instead of individuals there are two factors that have to be considered. The first one is interdependence within the team as well as with other teams. If the interdependence is high between both, then it is important for the organization to be careful with how they reward the teams. For example, if there is a high interdependence between a number of teams but only one of the teams will be rewarded for the outcomes then it will have a negative impact on the future team work, since the reward is considered to be handed out on unfair basis. The second factor is the frequency of team work within an organization, that is how often the employees are working in teams; constantly or intermittently. If they are working in a team full- time then team rewards might be suitable and if team work is occurring more infrequently then individual rewards might be preferable (Ibid).

Recent studies have shown that when an organization is deciding to reward either individuals or teams the degree of trust within the team needs to be taken into consideration. If there is low trust between the members of a group, that is the degree of getting to know and trust the other members’ competences and skills are low, then individual rewards are more suitable. This is because the individual will get rewarded based on own performance and does not have to rely on

other group members to get a reward, especially when the team dynamic is not optimal (Merriman, 2008). Further, in some jobs individual rewards will be preferable rather than team rewards. This could for example be personal selling or new innovative products. Here, individual rewards are more suitable and it is important that the rewards will motivate the individual to deliver successful outcomes (Kaplan and Norton, 2001). When striving for problem solving in teams the use of individual rewards that are based on individual performance do not work in favor for the team based problem solving. This, since the individuals in the team are more interested in their personal rewards than delivering sufficient outcomes with the team. So as to alleviate dealing with the challenges and problems associated with team and individual reward system, companies especially those that have no fully structured reward system prefer organizational level rewards. It is true that organizational level reward systems are convenient and easy to implement but they are not free from rewarding both the good and bad performing employees equally. Other researches do not support this and states that the most effective is to combine both individual reward systems and team reward systems along with the organizational level reward system (Kerrin and Oliver, 2002). With this, it can be pointed out that when creating a reward system it is important for the organization to discuss what they want to accomplish with the reward system. By doing that, it will be easier to decide if they should have individual rewards, team rewards, organizational level rewards or all.

## **2.5 Summary of the Theoretical Framework**

So far in the theoretical framework, theories regarding motivation, early theories of motivation and both content- and process theories have presented. The researcher also discussed theories regarding what to consider when making use of a reward system in order to reach organizational goals and at the same time increase the effectiveness and efficiency within the organization. Now it's appropriate to link the motivation theories, which consist of content- and process theories, with the effectiveness and efficiency theory, and try to explain how the researcher considered them to influence each other.

Motivation is the central aspect in the theoretical framework and it is something that the employers constantly need to have in mind when developing a reward system. Motivation consists of the content theories and the process theories. It has been discussed that motivation will affect the four aspects of creating and developing a reward system. When an organization

has decided to include a reward system the first decision is what the purpose with it will be. Will it be used as a steering instrument or are there other purposes with it? Whatever the purpose with it might be, the organization has to figure out what role the employees will have in it. This will lead to the next step which is the groundwork of a reward system. It is important that the groundwork of it, that is on what basis a reward should be handed out is well established. This is done in order for the employees to consider the reward system as fair but also so that they can see their place in the organization. It also means that they know that if *I put this much effort into this task then I will get a reward*, which is one of the basis in the expectancy theory. Another part of the groundwork is that the organization has clear goals so that they know where they want to be in the future. These goals have to be broken down to smaller goals so that they are possible for the employees to reach, since the groundwork of a reward system so often is linked to reaching different sub goals. By giving the employees the opportunity to reach the goals, it will lead to increased motivation among the employees and hence the effectiveness and efficiency will increase within the company when the employees will know what is expected from them. The third step when creating a reward system is to decide what types of rewards the organization should offer to the employees. It is highly important to offer the employees' rewards that they value otherwise the reward system will not have an impact on the motivation. An organization can chose to have monetary and non monetary rewards, all depending on the resources and wishes from the employees. It is important for the organization to realize that people are motivated by different things and that they have different needs that have to be satisfied. It is also crucial that the effort that the employee puts into a task corresponds with the reward that he/she will receive, this in order to increase the motivation. The last step in developing a reward system is the decision whether to reward teams and/or individuals. Here it is important to consider whether the organization will encourage team work, organizational work, or individual work and base the receiver of a reward system on that. Another aspect to take into consideration is motivation; will the employees be more motivated to work in teams or individually? Either way, the important aspects is that the system is fair otherwise will the motivation decrease and then so will also the effectiveness and efficiency. In order to create a reward system, which will increase the effectiveness and efficiency within the organization, all four steps of that theory must be thoroughly developed. However, this is not enough, it is just as important to take the content- and process theories into consideration in order to get the most sufficient result of a reward system.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Research Approach**

This study followed a case approach, which means that based on the theoretical framework; I collected information needed in order to see if the reality is in accordance with the theories. In order to answer the research question I considered a qualitative method to be the most useful in gathering information. This was since a questionnaire would not have given me the opportunity to see different gradation between the respondents. By conducting a qualitative research, I could get unique information that would not have been possible by sending out a questionnaire. A qualitative research can give the advantage to see the unique in every situation and to create a “me- you” feeling between the respondent and the researcher. This helped me to get a deeper understanding for each situation, something that would have not been possible with a quantitative method.

#### **3.2 Source of Data**

I thoroughly used a primary data source in the study and the data was gathered through deep interviews with senior human resource officers of the companies. After choosing to make deep interviews, I have developed an interview guide. Deep interviews were chosen in order to get the most out of each interview. An interview guide is a list of all the different topics that need to be discussed during the interview (Patton, 1987). This list is a way for the interviewer to make sure that no topic is forgotten. Further an interview guide allows the respondents to talk very openly and freely about each question and the interviewer can ask follow up questions during the interview if something is not clear and needs to be specified (Ibid). The interviewer does not need to follow the interview guide in the exact same way for each interview, nor do all questions need to be asked in the same order.

#### **3.3 Sample Selection**

I have decided to do two interviews in two different sectors. This choice was made since part of the purpose with this study was to study the reward system in different sectors in order to see if there are any similarities and/or differences between them. I chose two different sectors which were the production and service sectors. These sectors were chosen based on a convenience sample; that was the sectors that were available for me at the time when the study was conducted

and where there were companies that were either middle sized or large sized. This could have an effect on the end result since other sectors might use a reward system in a completely different way. However, I found that the sectors that I had access to, gave me more or less sufficient material for this study.

The choice of only including non small sized companies (middle and large sized companies) was made since I believe that the possibility of these companies having a reward system, that is part of their strategy on how to reach organizational goals, are higher than within small sized companies. It should be pointed out that with middle sized companies I refer to companies that have more than 10 employees, use power driven machineries, at least partially sell their products to other companies and should have a fixed location (Business Statistics Directorate of Ethiopia). The companies also had to be located on other places than just Addis Ababa; they had to be national companies. This choice was made on the basis that a national company in Addis Ababa would consist of an amount of employees that my study required. I also assumed that a national organization has a higher probability to have a more deliberate reward system. Further, I have decided to do two interviews within each sector, this was since I considered one interview not to be sufficient enough to provide useful information. Another reason for this choice was the possibility to transfer the results to some extent, which I did not feel I could do if only one interview within every sector had been made. The choice of respondents within each sector was again made based on a convenience sample. I discussed potential participants within each sector that are either middle- or large sized companies and that are located in Addis Ababa. Further, I wanted a high variation between the companies in the sectors in order to see the differences and similarities more easily between the sectors. When I had decided on a number of companies that I considered being appropriate for my study I started to knock their door until I got the number of respondents that I was aiming for.

### **3.3.1 Access and non-completion**

It was so difficult to get respondents for this study. After I had decided on a number of companies that were suitable for my study I looked to their office one by one. Many of the companies were not willing to provide the information that I wanted for my study. Only two respondents warmly welcomed my request one from the production sector and the other from the service sector.

Moving on to access, I did not find it difficult to get the respondents to talk openly about their reward system. Everyone gave me satisfactory information that I could build my empirical findings on. However the way that the respondents answered my questions greatly varied. A few of them seemed to have difficulties with just answering the question and not talk about related issues, while some were answering my questions very quickly and were using all the right terms. When reading the empirical part it might be noted by the reader that the empirical length of each respondent varies. This is because, as mentioned above, some of the respondents were answering very quickly and were using the same terms that I have in the thesis. This made it easy for me to transfer the data to empirical format and therefore some of the respondents have a shorter empirical part.

### **3.4 Data Analysis**

Based on my theoretical framework, I collected information needed through deep interviews in order to see if the reality is in accordance with the theories. The information was analyzed by comparing the empirical findings with the theories I have chosen for the study. In short, the data analysis was undertaken through analysis of interviews.

### **3.5 The Interview Guide**

My interview guide, appendix B, was based on my theoretical framework and follows the same structure as the theoretical framework did. The purpose with the first two questions was to establish the respondent's position in the company as well as the experience he/she has within this field. Questions three to six was to get an idea how the different respondents define a salary system and a reward system and what part they play in the organization. The following questions in the interview guide followed the same structure as the theoretical framework, and therefore I would not further discuss how they relate to the theories.

#### **3.5.1 Description of the interview**

I conducted four interviews within twelve days. All interviews were located at the respondents office here in Addis Ababa. One respondent from the production sector and one from the service sector wanted to see the interview guide before the interview so they received them and gave me an appointment. Before I started the interview I gave all the respondents the opportunity to make

their individual name anonymous and they prefer to be anonymous. I asked them if I could record the interview, which everyone disagreed on. Further I asked the respondents if they could take the time to read through the transcriptions in order to avoid misunderstandings and misinterpretations. All of the respondents agreed to do this and the transcriptions were given to them at the end of the interview. However since they were complaining about the time that they spent on the interview I don't think they all go through the transcription in detail. A summary of the interviews could be found in appendix B. The first interview was with Anbessa Shoe S.C., a production company, and the respondent was the Head of Human Resource and Development Department. The interview took 37 minutes and he was professional, and I noticed early on that he knew what he was talking about and he understood the questions as well as the purpose with the study. He was serious during the whole interview, and it would be false to say that the atmosphere was relaxed. The second interview was with Ethiopian Electric Power Corporation (EPPCO), a company in the service sector. The respondent was the delegated Head of the Performance Standard Monitoring and Reward System Section in Addis Ababa. The interview took 30 minutes and he was very comfortable and clearly understood the purpose with a reward system. The atmosphere was also relaxed and there was a lot of laughter during the interview. The following interview was with a service giving company which is Awash International Bank S.C. (AIB). The respondent's position at the company was Senior Personnel officer. The interview took 47 minutes and it seemed that he did not really understand the purpose with a reward system, neither the overall purpose with it or why AIB use it. The respondent was so serious during the whole interview and the atmosphere was unrelaxed. The fourth interview was with a company from the production sector which was Kaliti Food S.C. The respondent's position at the company was Senior Human Resource officer. The duration of the interview was 35 minutes and the respondent was very relaxed and professional. He answered the questions very thoroughly and it showed that he was well experienced in the topic of my thesis. During the interview both the respondent and I were laughing a lot and the atmosphere was very comfortable.

### **3.5.2 Trustworthiness and authenticity**

#### **Credibility and transferability**

When conducting a qualitative research, like this one, the terms of trustworthiness and authenticity are used as measures of quality of the study. As part of the term trustworthiness I

need to discuss credibility and transferability that can be linked to validity of a study. When saying that a study has a high credibility it means that the researcher has interpreted that information in a correct way. It also shows the degree of misunderstandings and misinterpretation is very low. By letting the respondents take part of the transcript I have enhanced the credibility of this study. However, I must argue that a higher level of credibility could have been gained if the respondents were given access to the final empirical material as well but it was difficult to do so due to lack of time in the side of both the respondents and the researcher.

Transferability in a study means if the knowledge is applicable on other settings as well. For this study it means if the information can be used on other sectors and other companies. Transferability also means that the knowledge that one will receive from reading this thesis will be useful for understanding different situations and contexts that are part of the reality of the individual. I consider my findings to be transferable to some extent since especially in situations where both my respondents within one sector have given similar answers or when all companies in all sectors have responded in the same way. However, I do realize that the small number of respondents in each sector would make it difficult to transfer the findings.

### **Dependability and Confirmability**

It is common when doing a quantitative research that the term reliability is discussed when arguing for how reliable a study is. For a qualitative study this is discussed in terms of dependability and confirmability. With dependability it means that the researcher make sure that the process of the study is audited by others and that the process of the study is made available (Patton, 1987). To ensure that this study maintained a high level of dependability I have had some guidance from my advisor who has had the opportunity to correct me. When conducting the interviews, though recording was not possible, I tried to make a call and obtain information from the respondents when needed. These procedures strengthen the level of dependability of this study but I am aware of that it is far from complete. Confirmability in a study regards the level of objectivity the researcher has and that the result shows that the researcher has left out his/her bias. It also means that the researcher made it possible for others to confirm the results (Ibid). One way of doing this would have been to let other take part of the transcripts to make sure that I as a

researcher have interpreted them correctly. In this study the transcripts have only been read by the respondents. I can therefore not say that this study has a high level of confirmability.

### **Authenticity**

In this study I discussed the term authenticity from the viewpoint that the study gives a correct picture of the viewpoints that exists within the respondent group. In other words it means that the respondents have to be representatives for the group of people that are being studied (Patton, 1987). The respondents were all working with personnel issues and they had similar position within their companies. Based on this I can say that the respondents can be seen as good representatives for this study. They also seemed to answer the questions as thoroughly as they could.

## **CHAPTER FOUR**

### **EMPIRICAL PART**

In this chapter I presented the empirical findings that I have retrieved from my interviews. The information was presented company by company by starting with the production sector and then moving on to the service sector.

#### **4.1 Production Sector – Anbessa Shoe Share Company**

##### **4.1.1 The Company and the Respondent**

###### **Background information**

Anbessa Shoe S.C. is the first and the leading producer and distributor of Ethiopian made leather footwear made in quality for more than seventy years. The strength of the company lies in its state of the art technology, skilled manpower and abundant natural leather. The company has the largest market share locally and exports its products to major European destinations, USA and Africa. The company has more than 800 total numbers of employees. The respondent has been working for this company for three years and his current position is Head of the Human Resource Administration and Development Department.

###### **Reward and reward system**

The organization has a single salary system for both white collar (administrative) and blue collar (production) workers. The company also considers the number of years an employee has been working for them and what type of position he/she has. The company is part of a central reward system and they have unstructured reward system for both the white and blue collar workers. The most common type of reward in the company is bonus and it is given when the company gets profitable. The company as a general rule gives the employees one month salary as a bonus when the company gets profitable but this rule is subject to change along with the profit figure of the company. The decision regarding the type of reward that should be given is mostly decided by the top level management and the board. The labor union participates in the determination of salary increment.

#### **4.1.2 Motivation**

##### **Needs**

The company regards itself to be an attractive employer since they are the leading producer and distributor of Ethiopian made quality leather footwear. The employees have possibilities to climb in the company hierarchy. The company is a flexible organization and they focus a lot on healthcare for their employees. In addition, the salary system of the company is carefully designed in a way that exceeds the average payment of most of the shoe factories in Ethiopia. And the salary is continually amended by considering the economic situation and other work situation. Furthermore, to retain the employees, the company has a social committee which is responsible for creating conducive social environment. The labor union and the credit association also foster the bond among employees. Opinions either to improve the various processes in the production center or to express feelings of discontent are warmly welcomed by the management. The employees can affect their work situation in many ways; they can present their opinions to the managers, they can express their discontent for the company's corruption office, for the Human Resource Department, and the manager. There is also a discipline committee for handling disciplinary issues among the employees.

##### **Goals and expectations**

The overall goal of the company is to produce leather footwear to the right time, the right cost, and at the right quality for both local and foreign market. In addition to this, every department/division has their own specific goals; this could for example be to decrease costs related to the production of their items. On a monthly basis, the company's departments and the employees will present a report, in a meeting, hierarchically to their immediate managers. The goals of the organization are communicated to the workers both orally and in written form. In the factory the goals are posted on billboards together with facts about how things have looked in the past and how well they are performing now in order to reach the goals. In order to reach the goals, the employees are always encouraged to see how things can be improved in order to increase the effectiveness and efficiency. This is since the company clearly understands that the employees are the backbone of the organization and that they know how to make things better. When an employee has ideas about how things can be improved, the company will try to change

it. This is a way for the employees to stay motivated when they see that their opinions really matters. At the factory, there are departmental meetings every month. The purpose with the meeting is to go through last month's work activity and see if there is anything that can be improved for the upcoming month. Feedback is given to the employees continuously during different processes and activities. At the production side there is a meeting twice a month and more when there is a new thing that should be communicated to them and among the white collar workers it is once in a month. At the factory there are short meetings every day before a shift starts and every week the company goes through the order and number of sold items from the week before. So basically feedback is given every day or every week. Further feedback is given to specific activities at different departments so that the employees can feel that they influence their situation. Individual goals are difficult to take into consideration, especially among the production workers. This since the product produced by the company's employees has an understandable specific time. So the workers are seen more as a team that has one common goal. Among the white collar workers it is easier to have individual goals and it is possible that the manager for each department has specific goals for his/her employees. The company is dealing a lot with intern recruiting and all open positions are mostly being posted internally. Intern recruiting is very common among the blue collar workers but in the case of the white collar workers it is a mixture of both, sometimes it is better to recruit internally and sometimes externally, in order to get some new blood into the building. Many employees have started at the production side and have today a higher position in the company. Occasionally, the employees might say to the Human Resource Department that they are keen in changing their position or department in the company, having the necessary qualification, and ask the Human Resource Department to keep them in mind the next time they are recruiting.

#### **4.1.3 Effectiveness and Efficiency**

##### **The purpose with a reward system**

The primary purpose with the reward system is to reach the company goals, through creating a motivated and satisfied work force.

##### **The groundwork with a reward system**

The groundwork of the reward system is company profitability, it in other words can be expressed by the number of products produced and the costs spend to produce them. The reward

system is therefore mostly basis profitability. It is always the top management in collaboration with the board members that make the decision regarding the reward system. The managers of the different departments have the authority to recommend exceptionally high performing employees to the top level managers. There is also a type of reward that the managers are encouraged to give to their employees which is feedback. The managers are also educated in having development discussions with their employees.

### **Types of rewards**

This company has a bonus that they offer when the company gets profitable and they are working a lot with improving the feedback that is given to the employees. Once a year a development discussion are held with employees where they get feedback on their work but the employee can also give feedback back to the manager. It is not only important to give feedback when an employee has done something good, it is just as important to give feedback when something bad has been done. The company, especially since 2006, has started a project which main purpose is to constantly improve processes, activities, and the production capacity within the company, the project is believed to facilitate the feedback. They also have some non financial rewards like a change/shift in the work station (for the blue collar workers), the possibility to influence own work (especially, for the white collar workers). They are also offering free transportation service, full insurance coverage, and full coverage of educational expense and are focusing on healthcare. The company, as a primary alternative always seeks for internal recruitment, especially promotion. Furthermore, the company provides its employees with its leather products for free twice a year.

### **Receiver of a reward system**

The bonus is offered to both the white collar and blue collar workers. Because as the respondent points out, till now, it is difficult to implement an individual based reward system for each and every employee. But the top management is now considering mechanisms to reward individual employees by using intensive individual based rewards. This is since a bonus, though convenient, is not a fair type of reward. A bonus has a limitation of rewarding both the good and bad performers equally. There is a rare practice of rewarding teams. As the respondent points out, just before three months a team is rewarded for a certain sum of money due to their achievement of

repairing very important machinery, without that team's effort the machine can only have a chance of stopping production or going abroad to get repaired.

## **4.2 Production Sector – Kaliti Food Share Company**

### **4.2.1 The Company and the Respondent**

#### **Background information**

Kaliti Food S.C. occupies a pioneering status, signaling a major breakthrough in the onset of industrialization in Ethiopia. The factory used to be widely popular for its traditional outputs branded a “Colon Alpi” and later “Cerealia”, which subsequently earned its name in the old days. Kaliti Food S.C. enjoys an ideal premise located at the heart of Kaliti an ever blooming industrial zone of the country. Currently, the factory has the following product mixes; various grades of wheat flour, bread, sweet biscuits, high energy biscuits, varied types of spaghetti, varied types of macaroni, pastine, and gallette. The factory also supplies industrial byproducts derived from wheat flour in the form of animal feeds. The company currently manages 531 employees in its eight sales outlets in Addis Ababa and five regional sales outlets including the employees working in the factories production site. The respondent is the Senior Human Resource Officer for the company. He has worked within the organization for 10 months in the same current position.

#### **Reward and reward system**

Kaliti Food S.C. uses a single salary system for both the white collar (administrative) and blue collar (production) workers. The respondent states that the blue collar workers usually found in a lower salary scale. As to the respondent, as most of the companies, the company has no a fully developed definition of a reward system but he states that their aim is to be a good company and an attractive employer. The respondent says that they receive lots of open application after the company is privatized before a year. The applicants apply anticipating a higher salary and a better benefit due to the fact that it is privatized and changing many of its organizational work structures. The aim for their reward system is to motivate the employees by creating a healthy environment for their employees at their work place. They apply the same reward system spread on the main branch and the other sales outlets of the company. Decisions regarding the reward system at Kaliti Food S.C. are mostly made at the top management and board level. There are

also times that the reward can be decided by the collective agreement of the management, the board and the weak labor union of the company. They also have announcement boards (rarely used) as well as short department meetings as a reminder and to inform if there are any changes regarding the reward system.

#### **4.2.2 Motivation**

##### **Needs**

The respondent feels that their construction of rewards mostly a bonus, in addition to the company's privatization, within their system helps them to become an attractive employer. They need to work with these kinds of things since the food processing industry has in general a lower salary level than for instance car assembling industries. They are very involved in making sure that their employees can grow within their company and the respondent says the company greatly desires that almost every manager in the food complex could have started at the working floor and managed to move up the career ladder. This since it can greatly increase the commitment and job satisfaction of employees. As to the respondent, this was used a lot in the company before its privatization but after the privatization, he is not able to cite such kind of practice in the company. For those that have the will to move forward, Kaliti Food S.C. offers trainee programs for instance when they saw that there would be a lot of natural retirements. This is, according to the respondent, some of the things Kaliti Food S.C. does to keep their good name. For the employees has a general meeting once in a year where everyone can get an opportunity to ventilate their opinions regarding their work situation but when there are exceptional cases the number of meetings per year can exceed one. The company also has a departmental meeting once in a month. Employees also can affect their work situation and present their opinions regarding the structure of their work informally to their immediate managers and if the opinion communicated is of a serious situation, the responsible organ will call a meeting and take the necessary adjustment after communicating it to the top management level. This will give the employees the opportunity to be heard and the employees think themselves as a very important asset of the company and this can also greatly increase their job satisfaction. To improve the comfort with the work situation and job satisfaction, the company, especially after its privatization is improving the physical work environment for the workers and that Kaliti Food S.C. is investing a lot of money in this type of improvement. Such things as staff rooms for the

employees are also, according to the respondent, an important issue to consider when talking about satisfaction for the employees. It is also important that the staff room is enjoyable.

Kaliti Food S.C. also has a suggestions box where the employees can hand in suggestions for improvement. They planned to reward the best suggestion but as for now they are not offered any more but they try to come up with an alternative. They found that it is difficult to reward suggestion regarding improvements of their day to day work since it sometimes, even if it means improving the profitability, is something that is within the limits of your work duties as it is.

Exercising and keeping a healthy diet are important issues for Kaliti Food S.C. since they are in the food industry. They always try to have an extensive knowledge regarding good diets and they use this knowledge, not only when they develop new products, when taking care of the employees. It is important to have control over the amount of sugar and fat that are in the food. As a result of this, Kaliti Food S.C. treats their employees with its products on a freely basis per a certain period of time though the respondent was unable or unwilling to specify the period of time.

### **Goals and expectations**

Kaliti Food S.C. has both a total goal for the entire organization as well as sub goals for the different departments and sales outlets. The respondent says that the basic idea is for the employees to work fast and efficient but there is not up to one single individual to achieve the goals. It is more a question of cooperation and it is through the production meetings that all work are decided and structured. Those meetings can contribute to the individuals' self confidence and make the employee feel that he or she through their work makes the company a good company. Kaliti Food S.C. has moved from only focusing on top-down planning to a more bottom-up planning. This is due to the fact that if the workers feel good and are happy at work they contribute to a well being to the entire work team. Hence, if the work team is a well being group then the managers also feel good and so on all the way to the top. Of course it is important that the planning works both ways, says the respondent, with the top management showing up a good example. When the top-down planning is well established the bottom-up planning takes over and becomes more important.

In Kaliti Food S.C. there is no formal or written decision how feedback to the employees should be treated. The respondent says that there are no specific rules regarding that feedback should be given at specific point in the process. But the company as a whole has a more subtle culture that encourage that feedback is being given during any work processes. The possibility to give feedback down to an individual level is done through the departmental meetings which are done not more than once in a month. Because the task that is expected of an individual is implicitly known. Kaliti Food S.C. has developed good possibilities for their employee to move within the company. The goals for the individual can however be colliding with the interest of the organization and therefore have to be left without any attention. An individual goal can also be, according to the respondent, regarding to the salary. Kaliti Food S.C. has a salary ceiling for certain positions and if an individual has reached this limit the company cannot offer more. They try to offer another position for that employee or else they cannot meet the individual goal. At organizational level, there is a scheduled meeting once in a year. In addition, there is a subtle culture of giving feedback at most once in a month. The feedback is mostly a matter of synchronizing different opinions and make sure that they align and the company improves. Furthermore, if the managers do not explain their position, the employees cannot make any changes, and it is believed, without any feedback the employees might not find their work to be satisfying. That is why the company is using feedback as to the respondent.

#### **4.2.3 Effectiveness and Efficiency**

##### **The purpose with a reward system**

The respondent states that the primary purpose of the reward system is motivating the employees to attain company objectives. The respondent also pinpoints that though the company is not applying a well developed reward system, the company is trying to show the employees that the company finds their work satisfying and that the company appreciates the employees.

##### **The groundwork of a reward system**

The groundwork of the rewards within Kaliti Food S.C. is mostly company performance that is company profitability. The company has no rewards in form of occasional or subjective types when someone has done something extra. This is done to avoid misinterpretation of what a good job is.

### **Types of rewards**

Beside the food products that Kaliti Food S.C. is offering to their employees at the work place they have also developed rewards that involve their wellbeing in general. This, according to the respondent align with their main purpose of finding a balance and contribute to a more healthier and comfortable living for their employees. Kaliti Food S.C. has its own clinic in the premises of the company. In addition, the employees are entitled for full insurance coverage as long as they are working in the company. Furthermore, the company also gives full coverage of educational expenses if the employee's field of study can greatly contributes to the company's future. The company also provides lounge service for its employees on a reduced price. According to the respondent, the benefit that is highly appreciated by the employees is the company's food products that are offered on a free basis. Internal recruitment, especially promotion is given a priority in the company.

### **Receiver of a reward system**

Kaliti Food S.C. has individual rewards, team rewards and organizational rewards. At an individual level, there is the reward that regards the health activities and the free distribution of the company's food products but it is depending on if the employee uses the benefit or not. As to team rewards, though it is not implemented on a regular basis, the sales office that attained outstanding sales get additional benefits. Concerning the organizational rewards, it is only when the company achieved its goal at a predetermined level.

## **4.3 Service Sector – Ethiopian Electric Power Corporation (EEPCO)**

### **4.3.1 The Company and the Respondent**

#### **Background information**

EEPCO is a company that is responsible for generating, transmitting, distributing, and selling of electric energy throughout Ethiopia monopolistically. When it was first established its name was Ethiopian Electric Light and Power Authority (EELPA); the company gets its current name, Ethiopian Electric Power Corporation (EEPCO) in 1997. The company, all over the country, has more than 12, 446 employees. EEPCO, since it is generating, distributing, and selling of electric energy, it is considered to be a company in the service sector. The respondent is the Head of

Performance Standard Monitoring and Reward System Section and has been working in the position since 2010 and has been working in the company in different positions since 2008.

### **Reward and reward system**

EEPCO has only one salary system for both the white collar (administrative) and blue collar (non-administrative) workers. But this does not mean that the white collar and the blue collar workers have the same salary scale. The salary system is decided centrally by the executive group committee of the company based on the board's approval. The labor union does not involve in the salary system determination but can involve in the determination of salary increment. The respondent points out that there is no reliable evidence of difference between the salary system of administrative and non-administrative employees. When discussing the reward system at EEPCO, the respondent is pointing out that the salary is not a reward system; rather it is something that the employee is getting for a job he/she is performing. The respondent defines the reward system at the company as the bonus which is offered to both the white collar and blue collar workers when the company becomes profitable. The bonus is based on overall corporate performance. There are no reward systems that can be decided locally. Employees working in important projects can get a bonus based on how well the result of their project team this can only be done in accordance with the recommendation of the project manager but this is in a rare occasion. This kind of bonus to project teams has been introduced in order to increase the effective accomplishment of projects and to increase the engagement and the feeling of participation among the project team members. The decision whether to make use of the reward system or not is the decision of the executive group committee and the board. According to the respondent there are other forms of reward that are designed to be used in the company but not yet implemented. The company also developed a reward system manual incorporating the practice of other countries.

### **4.3.2 Motivation**

#### **Needs**

The respondent points out that EEPCO has no special programs to retain the employees in the company and according to him that is why the company showed high rate of turnover for the past consecutive years. EEPCO is not working a lot on encouraging the employees to develop their skills and knowledge. It is true that the company covers educational costs for few employees but

it is not based on careful selection of an employee and it does not appropriately designed to serve the long term objectives of the company. The important thing here is that, all employees have the possibility to advance in the company hierarchy. Concerning creating a healthy culture or a “we” feeling in the company, the company is working poorly. The employee has little opportunity to a development discussion where it will be a discussion of the positive and the negative aspects of the job as well as what can be done to improve the negative aspects. The company has a sports center for the intent of fostering its employee’s job satisfaction but the respondent claims it as if it were a business oriented center rather than as a center that can increase employees’ job satisfaction.

### **Goals and expectations**

The overall goal of EEPCO is to meet the country’s electric energy demand and being able to export electric energy for the neighboring country. This goal has to be broken down into smaller ones in order to make it possible to achieve. Further, every department has own goals but together everyone at EEPCO is working towards the organization’s overall goal. The goals are being decided centrally and then they are communicated downwards in the organization so that everyone is aware of the goals. This can be done through meetings with department heads and the department will be responsible for communicating the goals for the department members through meetings. Furthermore, brochures are used to communicate the goals to the employees. At the meetings, EEPCO do not only present the new goals they will also go through the goal achievements from the previous year. The respondent points out the importance that each employee is aware of the goals, especially since EEPCO has a lot to do in meeting the country’s electric energy demand. Another important factor is to make sure that the customer is satisfied with EEPCO’s services and work but still now the customers are not yet satisfied by the company’s services. Further the respondent says that feedback is something that could be improved within the company. Often feedback is given when a goal has been reached or when the project has been finished. However, the respondent thinks that maybe it is more important to give feedback during a process or activity rather than when it has been finished. As for the individuals’ goals the respondent points out that it is not possible for EEPCO to take each individual’s goal in consideration, since EEPCO is a company that has to generate a wide ranging and sufficient electric energy. Further, some of the goals that the employees have might not have

a positive impact on the company rather they are more to develop the employee. If this is the case then the individual goals might not taken so much into consideration. However if there are employees that have individual goals that benefit both the employee as well as the company then the goals will be considered by EEPCO.

### **4.3.3 Effectiveness and Efficiency**

#### **The purpose with a reward system**

EEPCO has chosen to make use of a reward system in order to reach its goal, that is, to satisfy the country's electric energy demand as efficiently as possible with attaining a reasonable and attractive profit. However the respondent points out that a reward system should make the employees feel more involved in the processes and they will feel part of the company and at the end all this will lead to the company's goal achievement. But as to the respondent, the employees are not feeling part of the company because they are not greatly involved in the process of the reward system.

#### **The groundwork of a reward system**

Currently, the rewards at EEPCO are mainly based on company profitability. According to the company profit the amount of reward that will be offered will be decided by the executive group committee and the board. Regarding some very important projects, based on the recommendation of the project manager, the executive group committee will decide upon the type of benefit that should be given to the project team. In short, whether the employees will get a reward is up to the top level managers, the main issue is that the team is achieving the goals for that particular project.

#### **Types of rewards**

As it has been said before EEPCO is providing a bonus to all employees of course on the basis of the profit figures. EEPCO also offers health care, full insurance coverage, 75% coverage of educational expenses, and the employees are also free of electric power charge as long as they are working in the company. The company gives certificates or letters of commendation for the exceptionally high performing project team and individuals working in project sites. Moreover, the company also gives recognition to the efforts of the best performing billing centers. Various

trainings are also being offered by the company though they are not based on careful investigation. Furthermore, promotion is the other alternative of rewarding employees.

#### **Receiver of a reward system**

The rewards at EEPCO are given at a corporate level and sometimes at a team level when exceptional performance in projects and billing centers is achieved, there will be team rewards. Concerning individual rewards, the respondent points out that it is not yet applicable though it is stated in the company's reward system manual. In a very rare occasion, individuals especially working in project sites are rewarded taking into consideration their individual effort/contribution to the project.

### **4.4 Service Sector – Awash International Bank S.C. (AIB)**

#### **4.4.1 The Company and the Respondent**

##### **Background information**

Awash International Bank S.C. (AIB) was established as the first private commercial bank in Ethiopia by 486 founding shareholders with a paid-up capital of Birr 24.2 million. Over the past sixteen years, the number of shareholders and the amount of paid-up capital has increased to 2834 and Birr 550 million respectively. Currently, AIB has over 2625 employees in its 68 branches operating in the country. AIB provides services like mobilizing all types of deposits, credit services, and international banking services. The respondent has the title Senior Personnel Officer and has had this position for the past six months and has been working in the company since 2006.

##### **Reward and reward system**

AIB uses single salary system both for the white collar (managerial) and blue collar (non-managerial) workers. All branches where ever they are located are being served by a single salary system. The salaries are thereby centrally decided. AIB aims to have a consistency in their reward system and has the same system all over the branches. The information regarding what reward system they have and what are required of the employees to obtain it is communicated to the employees through the departments. Due to the aim of consistency of the distribution of rewards

the decisions are made at a central level rather than locally. Regarding the decision about the type of reward system that should be provided, the top management is mostly responsible.

#### **4.4.2 Motivation**

##### **Needs**

AIB, though its employees have the ability to grow within their organization, though the company is always works to have a high percentage of internally recruited managers, this couldn't still make it an attractive employer. Employees also have the ability to become a branch manager although this possibility is important, it doesn't stop the employees from looking for other organizations, especially banks that provide a better benefit. The respondent also points out that concerning retaining of employees, it doesn't give adequate emphasis to the blue collar workers contrary to that AIB tries its best so as to retain its key managers. If the employees have any thoughts regarding their work situation they can talk directly to their immediate supervisor and the employees' opinion will get the necessary solution by communicating it to the next level manager. But there is no formal and continuous type of work place meetings where the employees have the chance to shed light to their opinions. Rather than individual employee's opinion, the bank's branch offices opinion is given emphasis and it's the head office that decides upon the opinions raised by the branch offices. In order to increase the job satisfaction, AIB works towards having an attractive interaction between employees starting in different sections, divisions, departments, and branch offices.

##### **Goals and expectations**

AIB as a company has several goals but the overall goal is that they strive to be the most preferred bank of the people. There are also branch office goals within different areas as well and they all regard issues as where they aim to be in the future and financial goals. They also have goals regarding the number of sick leaves they have in the company, the number of educations they need to conduct, and how many new branch office that they should open. And these all goals are based on the five year strategic plan of the company. AIB uses the annual and the quarterly meetings of the management to distribute and to communicate goals to the employees.

The strategic plan is the plan from which AIB lift out parts that are presented as goals regarding future plans and so on. The most difficult part here is to break down these goals to a level where the employees feel that they can contribute with something that affects the goals. It is the respective manager's responsibility to break down the goals since they all are responsible for their own branch offices. However, the respondent says that they have a long way to go in this area to distribute this in an effective way. Feedback concerning the financial goals is given to the employees once in a year. But more concerned organs of the company will get feedback on a monthly basis. This is done in order to make sure that AIB reaches its financial goals. The respondent also says that there are some follow-ups during the year as well to make sure that AIB is on the right track.

#### **4.4.3 Effectiveness and Efficiency**

##### **The purpose with a reward system**

Even if AIB believes that they have not developed a comprehensive reward system, they do however feel that they have set the purpose of stimulating happiness at work. Accepting that there are employees always seeking for a better benefit schemes in other organizations, the respondent whole heartedly expressed that their employees feel pride and joy in their work and their achievement. The respondent also points out that their aim is to create a feeling of: "If I contribute with something extra, I will get something extra in return" which is one of the bases in the expectancy theory.

##### **The groundwork of a reward system**

AIB basis its reward mainly on the company profitability but exceptionally high performing employees and branch offices are rewarded based on their achievement. To make it a little clear, branch office that is most profitable than other branches will get a reward that exceeds other branches. Generally, I can say that it's mostly based on financial groundwork.

##### **Types of rewards**

Since the groundwork is mostly financial, the reward handed out to employees is mainly bonuses, and salary increment. When looking beyond the monetary reward that AIB provides, there is a more non-monetary reward system that includes full form of education for employees when it is found essential for the bank's future, full coverage of medical expenses, and there are also

experiences of giving letter of commendation as a non financial reward to best performing employees. And more importantly, promotion is the other option of rewarding the best performers of course when the employees found meeting the necessary qualification in addition to their best performance.

### **Receiver of a reward system**

Though it is not well structured and done rarely, the company has individual reward system (given for best performers), branch based reward system, and corporate level reward system. Those rewards that are centrally decided all depends on the individual's own performance, the branch office's performance, and more generally the company's overall performance. Concerning rewards that should be decided locally, as the respondent points out, there is no any authority given.

## **CHAPTER FIVE**

### **RESULTS AND DISCUSSION**

In this chapter I have analyzed the empirical findings from my respondents with the basis of the theoretical framework of the thesis. I first analyzed each sector and then make a comparison between the sectors in order to serve the thesis's purpose and answer the research question. A summary of the analysis can be found in appendix C.

#### **5.1 Reward, reward system and salary**

##### **5.1.1 Production Sector**

The respondents in the production sector are Anbessa Shoe S.C. and Kaliti Food S.C. Both companies are pioneers and have a considerable position in the manufacturing markets for their products and their manufacturing plants are located in Addis Ababa. The companies also have a mixture of white and blue collar workers. Both companies use a single salary system for both white and blue collar workers. Moreover, the companies in the service sector use a bonus as their major reward system. Even if both companies make use of monetary and non monetary rewards (both financial and non financial reward) they have chosen not to give to their employees the option of converting them into a monetary reward. The respondents in the production sector have no a fully structured reward system but they try to make a conscious choices when investing in their human capital. This implies that, since the companies have not developed a fully structured reward system, the five components of reward system which is process, practice, structure, schemes, and procedures are being used haphazardly (Armstrong, 2003).

##### **5.1.2 Service sector**

The respondents in the service sector are Awash International Bank S.C. (AIB) and Ethiopian Electric Power Corporation (EEPCO). The respondents are two large companies in their markets with a large amount of employees working for them. AIB is established as the first private commercial bank after the renaissance of Ethiopia's private sector. EEPCO is a company that is responsible for generating, transmitting, distributing, and selling of electric energy throughout Ethiopia monopolistically. Both companies use a single salary system for both the white and the blue collar workers. In both companies the salary system is being decided centrally this helps the

companies to have consistency of distribution of rewards. In both companies there is no a reward system that can be decided locally. Both companies also use bonus as a major organizational reward system. In case of EEPCO, the labor union does not involve in salary determination but can involve in the determination of salary increment. In rare occasions, there are rewards for best performing project teams and individuals especially in project sites. This is done for the purpose of increasing the engagement and the feeling of participation among project team members and individuals. Increased engagement and participation is a major aspect of intrinsic motivation if properly implemented (Frey, 1997). In AIB, the information regarding what type of reward system they have and what are required of the employees to obtain it is communicated to the employees through the departments.

### **5.1.3 Similarities and differences between sectors**

All of the companies, regardless of which sector they belonged to have no fully structured reward system. All the companies have a mixture of white and blue collar workers. The dominant reward type which is widely used in the four companies is bonus. Though all companies use both monetary and non monetary rewards (financial and non financial rewards) but they have chosen not to give the employees the option of converting the non monetary reward into a monetary reward. The salary system in all the four companies is being decided centrally this helps the companies to have consistency of distribution of rewards. EEPCO's labor union, though it is not involved in the salary determination, take part in the determination of salary increment. In all companies though it is made in rare occasions and the extent differs, there are team and individual rewards. This is done for the purpose of increasing the engagement and the feeling of participation among team members. Since the employees found attractive what is presented for and being invested on them in their employment relationship, it can be said that the organizations are properly investing in their employees (Armstrong, 2003) but if the employees found what is presented for them unattractive, they look for other organizations presenting a better employment relationship this is the case that EEPCO and AIB are encountering.

## **Motivation**

### **5.2 Content theories**

#### **5.2.1 Production sector**

Both companies offer possibility to their employees to climb in their companies' hierarchy. According to Herzberg, it is one of the hygiene factors which primarily prevent job dissatisfaction of employees (Herzberg et al., 1993[1959]). Salary, in both companies, is amended mostly considering the economic situation. But in case of Anbessa Shoe, there exists continuous salary amendment. In both companies, employees can affect their work situation and present their opinions regarding the structure of their work and the opinions of the employees are warmly welcomed by the management. The two companies treat their employees with their products on a freely basis per a certain period of time. In addition, the companies focus a lot on the healthcare of their employees.

#### **5.2.2 Service sector**

Both companies have no special programs to retain the employees in the company. Lack of appropriate retaining programs leads the companies' employees to look for other attractive organizations and this makes the turnover rate in both companies high. In case of AIB, though it is not adequately provided there is an effort of retaining the key managers. Both companies' employees have the possibility to advance in their companies' hierarchy. On the other hand, the companies have no formal, frequent and continuous workplace meetings. Moreover, the companies cover educational expenses for employees. Covering educational expenses contributes to the need for self-actualization of employees which is according to Maslow very important for motivating employees (Maslow, 1999 [1968]). But in case of EEPCO the opportunity is given for few employees and it is not based on careful selection of employees. To make things worse, it is not designed to serve the long term objective of the company.

#### **5.2.3 Similarities and differences between sectors**

Both sectors offer possibility to their employees to climb in their companies' hierarchy. In the production sector salary is continually amended considering the economic situation. Especially, Anbessa S.C. provides continuous salary amendment and the salary amendment is made considering the economic situation but the problem here is that the salary/pay if not tied to performance, it is difficult to serve as a source of motivation. As to Lawler, pay can be a source

of motivation when it is tied to performance and seen as a form of recognition (Lawler, 2000). Companies within production sector offer opportunity to their employees to affect their work situation and present their opinions regarding the structure of their work and the opinions of the employees are warmly welcomed by the management. Moreover, all the companies except AIB treat their employees with their products on a freely basis per a certain period of time. All the companies, especially companies in the production sector focus on health care. All companies regardless of their sector cover educational expenses of their employees. What makes EEPCO differ in covering educational expenses is that the opportunity is given for few employees and it is not based on careful selection of employees. Additionally, it is not designed to serve the long term objective of the company. The main difference between the two sectors is that while the companies in the production sector use various programs to retain employees, companies in the service sector have no special programs and this leads the companies' employees to look for other attractive organizations and this makes the turnover rate in both companies high. While there are frequent meetings in the production sector, the companies in the service sector have meetings but they are not frequent, formal, and continuous workplace meetings.

### **5.3 Process theories**

#### **5.3.1 Production sector**

Both companies' overall goal is to produce their products at the right time, the right cost, and at the right quality for the local market. In goal-setting theory, Locke stated that goals can create motivation for the employees if they are handled and developed in an accurate way (Locke, 1996) setting goals and communicating them can by itself create motivation. The fact that Anbessa Shoe occupies largest market share and exports its products can make its goal setting process a little broader since it can also take into account the foreign market. In both companies, individual goals are difficult to take into consideration, especially among the blue collar/production workers. Both have a salary ceiling for certain positions and if an individual has reached this limit the companies cannot offer more. They try to offer another position for that employee or else they cannot meet the individual goal. At times when the individual goals are colliding with the interest of the organization that is when there is conflicting goals, especially as to Kaliti Food S.C. they will be ignored. But rather than ignoring individual employee's goals, the employers must create a properly structured reward system that minimizes the risk of conflicting goals

between the employer and the employees and the problem of conflicting goals can also be solved by the Agency theory (Eisenhardt, 1989). When the reward system is properly structured, it can move the employee in a direction that is most preferable for the organization (Yu and Ming, 2008). Regarding the use of the reward system in order to motivate their employees, the dissimilarities in the companies are more obvious. Kaliti Food S.C. usually provides a lower salary for the blue collar workers and has no a fully developed definition of a reward system. Kaliti Food's prime aim is to be a good company and an attractive employer. While rewarding, mainly in promotion, the company considers the number of years an employee has been working for them and the type of position he/she has. Kaliti Food received lots of application following their privatization; the application is due to the hope of getting an attractive salary. The major aim of goal setting and rewarding in the companies is to motivate employees (Locke, 1996). Decisions regarding the reward system in both companies are made by the top level management and the board. The reward in Kaliti Food S.C. can also be decided by the collective agreement of the management, the board and the weak labor union of the company. In Anbessa Shoe S.C. labor union involves in the determination of salary increment. If there are any changes regarding the reward system and goals, billboards will be used by the company. The salary system of Anbessa Shoe is carefully designed in a way that exceeds the average payment of most of the shoe factories in Ethiopia. Anbessa Shoe has a flexible organization which leads it to have a more flexible salary system while Kaliti Food's reward system is bound to rules and regulations. For the purpose of retaining employees, Anbessa Shoe S.C. has a social committee which is responsible for creating conducive social environment. The labor union and the credit association of the company also foster the bond among employees. Kaliti Food, when they feel that there would be a lot of natural retirements, the company offers trainee programs. To improve the comfort with the work situation and job satisfaction, the company, especially after its privatization is improving the physical work environment for the workers and is investing a lot of money in this type of improvement. Kaliti Food uses suggestions box and planned to reward the best suggestion. The goals of Anbessa Shoe S.C. are communicated to the workers both orally and in written form. Contrary to that, in Kaliti Food S.C., there is no formal or written decision how goals should be communicated and how feedback to the employees should be treated. Concerning feedback, Anbessa Shoe gives continuous feedback to the employees during different process and activities. This fulfils the basic assumption in goal-setting theories which is,

according to Locke, that the employee has been giving a task and is given feed-back on the progress (Locke, 1996). Basically, the company gives feedback every day or every week. The company's blue collar workers have a meeting at least twice a month while the white collar workers have a meeting once in a month. In addition, at the factory, there are short meetings every day before a shift starts and every week the company goes through the order and number of sold items from the week before. Among the white collar workers, it is easier to have individual goals and it is possible that the manager for each department has specific goals for his/her employees. Among the blue collar workers, intern recruiting is very common while in case of the white collar workers, it is a mixture of internal and external recruiting. In case of Kaliti Food S.C., there is no specific rule regarding when feedback should be given at specific point in the process. An important thing here is that the company also has moved from only focusing on top-down planning to a more bottom-up planning. With the hope that if the workers feel good and are happy at work they will contribute to the wellbeing of the entire work team. In this company, there is a more subtle culture of giving feedback down to an individual level and done through departmental meetings which are made not more than once in a month.

### **5.3.2 Service sector**

The respondent companies in the service sector use a certain level of feedback though it is not both appropriately designed and is not enough. Both companies also employ meetings. Taking each individual goal into consideration is not possible for both companies. Both companies in the service sector not only present the new goals they will also go through the goal achievements from the previous year in their annual meetings. There are also various differences between the two companies: in AIB, if employees have thoughts regarding their work situation, they can talk directly to their immediate supervisor and the employees' opinion will get the necessary solution by communicating it to the next higher level manager that is if it cannot be solved by the immediate supervisor. The company also works towards having an attractive interaction between employees though its effort is minimal. In AIB, branch office opinions are given more emphasis than individual opinion. In EEPCO, employees have little opportunity to a development discussion. Though it is claimed as if it is business oriented, the company has a sports center and a lounge service for its employees. EEPCO's primary goal is meeting the country's electric energy demand and being able to export electric energy for the neighboring country. Company goals are communicated downwards in the organization so that everyone is aware of the goals.

This can be done through meetings with department heads and the department will be responsible for communicating the goals for department members through meetings. The company also uses brochures widely to communicate the goals downward to the employees. This goes in line with goal setting theory which is though goals might be set by the organization but it can also be done on an and communicated to an individual level as well (Locke, 1996). Feedback is something that should be improved in the company. Feedback is mostly given when a certain goal has been reached or when the project has been finished but it is more important to give feedback during a process or activity rather than when it has been finished. In case of AIB, the company has several goals but the overall goal is that to strive to be the most preferred bank of the employee. All goals of the company are based on the five year strategic plan of the company. The company uses the annual and quarterly meetings of the management to distribute and to communicate goals to the employees. Feedback concerning the financial goals is given to the employees once in a year but more concerned organs of the company will get feedback on a monthly basis. To make sure that AIB is on the right track, there are some follow-up actions.

### **5.3.3 Similarities and differences between sectors**

All companies, despite the sector they involve in, have overall goal which is to produce their products and services at the right time, the right cost, and at the right quality for the local market. The thing that makes Anbessa Shoe S.C. and EEPKO different is that the two companies have started to involve in the export market especially, Anbessa Shoe S.C. exports most of its leather foot wears to the foreign market. Regardless of the sector all companies have overall goal and the goal has to be broken down into smaller ones in order to make it possible to achieve. Further, every department has own goals but together everyone in the companies is working towards the companies' overall goal. The goals are being decided centrally and then they are communicated downwards in the organization so that everyone is aware of the goals. This can be done through meetings with department heads and the department will be responsible for communicating the goals for the department members through meetings. In all the four companies, individual goals are difficult to take into consideration, especially among the blue collar workers but among the white collar workers it is a bit easier to have individual goals and it is possible that the manager for each department has specific goals for his/her employees. All the companies have a salary ceiling for certain positions and if an individual reached at this limit the companies cannot offer more. They try to offer another position for that employee or else they cannot meet the individual

goal. All the four companies in the two different sectors communicate goals and give feedback to the employees but the way they communicate goals and give feedback varies from company to company. In case of Anbessa Shoe, the goals of the company are communicated to the workers both orally and in written form. The company gives feedback to the employees continuously during different processes and activities. At the production side, there is meeting at least twice a month and white collar workers have a meeting once in a month. At the factory, there are short meetings every day before a shift starts and every week the company goes through the order and the number of sold items from the week before. So it can be said that basically, feedback is given every day or every week. For Kaliti Food S.C., there is no formal or written decision how feedback to the employees should be communicated but regarding the goals of the company, the employees are communicated orally in the general meeting. Concerning feedback, the company has no specific rules on the subject of when feedback should be given at specific point in the process. But in the company, there is a more subtle culture of giving feedback down to an individual level and done through departmental meetings which are done not more than once in a year. With the hope that if the workers feel good and are happy at work they contribute to the wellbeing of the entire team, Kaliti Food has moved from only focusing on top-down planning to a more bottom-up planning. In case of AIB and EEPCO, goals are communicated downwards to the employees in the companies' general meeting which is made once in a year and at departmental levels, brochures are also used to communicate goals. Both companies will not only present the new goals they will also go through the goal achievements from the previous year. Feedback is mostly given when a goal has been reached or when the project has been finished; therefore feedback is something that could be improved within the company. In AIB, feedback concerning the financial goals is given to the employees once in a year but more concerned organs of the company will get feedback on a monthly basis. To make sure that AIB is on the right track, there are some follow-up actions.

## **Effectiveness and Efficiency**

### **5.4 The purpose with a reward system**

#### **5.4.1 Production sector**

The purpose with their reward system is to attain company goals through creating a motivated and satisfied work force. Both companies try to show the employees that the company finds their work satisfying and that the company appreciates the employees.

#### **5.4.2 Service sector**

Both companies use a reward system to reach their company goals. In case of AIB, though the respondent believes that they already set the purpose of stimulating happiness at work to reach their company goal, the employees are still looking for other organizations providing better benefits. EEPCO also gives priority to satisfy the country's electric energy demand as efficiently as possible with attaining a reasonable and attractive profit. In order to reach the purpose of reward system, it is important that the organization creates a reward system where the employees and the organization strive towards the same direction (Hughes, 1965) otherwise the employees do not feel as part of the company because they are not actively being involved in the process of the reward system this is what is happening in the two companies. This can be proved by the rate of turnover that exists in both companies.

#### **5.4.3 Similarities and differences between sectors**

There is a clear difference between the companies in the two sectors regarding the purpose with their reward system. Companies in the production sector want to attain company goals through creating a motivated and satisfied work force. Both companies are trying their best to show the employees that they find their work satisfying and that the companies appreciate the employees. The two companies in the service sector want to reach their company goal in a different direction that is without giving adequate emphasis to their employees. The employees in these companies feel as detached from the organizational reward system.

## **5.5 Groundwork of a reward system**

### **5.5.1 Production sector**

In both companies, the groundwork of a reward system is company performance which is profitability (based on output) of the company but they also, in rare cases, reward inputs though the employees found it less motivating when comparing with rewards based on outputs (Atkinson et al., 1997). There is also some difference between the two companies regarding the way they ground the reward system. For instance, Kaliti Food S.C. has no rewards in the form of occasional or subjective types when someone has done something extra. This is done to avoid misinterpretation of what a good job is. Contrary to this, Anbessa Shoe S.C. encourages some type of occasional or subjective types of rewards. In Anbessa Shoe S.C., the managers of the different departments have the authority to recommend exceptionally high performing employees to the top level managers. There is also a type of reward that the managers are encouraged to give to their employees which is feedback. The managers are also educated in having development discussions with their employees.

### **5.5.2 Service sector**

Both companies within the service sector have a financial groundwork to their reward system and hence both are rewarding outputs rather than inputs. Therefore, I can say that none of the companies are taking uncertainties in the environment into account and is focusing more on the motivation among the employees. This is something that will be higher when rewarding based on only output.

### **5.5.3 Similarities and differences between sectors**

The service sector is mostly rewarding output instead of input while it is a mixture of both input and output in the production companies. This shows that companies in the service sector are more interested in the result rather than on the effort that has been put into the work. This is due to the fact that in the service sector, customer satisfaction can be seen as output and something that is crucial within the service industry. Why the production sector is also focusing on input might be they are so dependent on technology and therefore things might go wrong. Therefore the production sector might take uncertainties into account to a higher extent since when dealing with technology there will always be the possibility that the machinery at the factories stop working

which will have a negative effect on the production. Of course uncertainties will occur in every sector but as for technology, the other sectors are not as dependent on it as the production sector.

## **5.6 Types of rewards**

### **5.6.1 Production sector**

In both companies when achieving profitability, all employees get bonus. In case of Anbessa Shoe, a one month salary is given as a bonus, though it is adjusted according to the profit. But in case of Kaliti Food, the bonus is given at a predetermined percentage level of the profit. Both companies provide full insurance coverage, full coverage of educational expenses, transportation services and provide their products to their employees on a freely basis in a certain period of time. Internal recruitment, especially promotion is also used as a primary option in filling vacant positions in both companies. There are also some differences between the two companies in this sector. Kaliti Food S.C. is also developed rewards that involve the employees' wellbeing in general. This, according to the respondent align with their main purpose of finding a balance and contribute to a more healthier and comfortable living for their employees. In case of Anbessa S.C., they are working a lot with improving the feedback that is given to the employees. Once a year a development discussion are held with employees where they get feedback on their work but the employee can also give feedback back to the manager. It is not only important to give feedback when an employee has done something good, it is just as important to give feedback when something bad has been done. They also have some non financial rewards like a change/shift in the work station (for the blue collar workers), the possibility to influence own work (especially, for the white collar workers).

### **5.6.2 Service sector**

The two respondent companies in this sector use a reward mostly bonus. In comparison with EEPCO, salary increment is a little bit accustomed in AIB. On the other hand, EEPCO provides free electric power service for its employees. There are many similarities between the companies within this sector. Both have monetary rewards in form of bonuses and non monetary rewards like full coverage of educational expenses (75% in case of EEPCO), full insurance coverage, and provides healthcare facilities to all employees.

### **5.6.3 Similarities and differences between sectors**

Every sector has a mix of monetary and non monetary rewards and in every sector extrinsic rewards are dominating. Regardless of sector, all the four companies uses bonus intensively as their major reward. In the two sectors, especially in the production sector climbing to the company hierarchy is given emphasis and all the four companies also use internal recruitment especially promotion as their primary options. All the companies regardless of sector, though a little differs in extent, provide to their employees coverage of educational expenses, coverage of insurance and gives emphasis to employees health care. Especially, Kaliti Food gives adequate attention for the wellbeing of its employees. This can be shown in that the company has its own clinic in the premise of the factory. In addition, the company also provides a lounge service at a reduced price for its employees. All companies except AIB provide transportation service and provide their products on a free basis in a certain period of time per year for their employees. Providing a change in shift in the work station, giving adequate feedback to the employees and preparing a development discussion is the main type of reward adjustment that makes Anbessa Shoe S.C. different from other companies. Giving certificates of commendation is rarely used in all companies. What is the more important thing here is that it is highly important that the organizations realize that they have to offer rewards that the employees value (Atkinson et al., 1997). Otherwise there is the possibility that the motivation to reach the organizational goals might decrease.

## **5.7 Receiver of a reward system**

### **5.7.1 Production sector**

Both companies apply individual and team rewards in rare occasions. Organizational reward, bonus, is intensively used in both companies but Anbessa Shoe is now considering other mechanisms to reward individual employees by using intensive individual based rewards. This since bonus has a limitation of rewarding both the good and bad performers equally. There are also a lot of differences between the two companies while in implementing their reward system. Anbessa Shoe S.C.'s managers of the different departments have the authority to recommend exceptionally performing employees to the top level managers. The managers of the company are also greatly encouraged to give feedback to their employees. Once in a year, the company holds development discussions with the employees where they get and give feedback from and to their

managers. In case of Kaliti Food S.C., it has no rewards in form of occasional or subjective types when someone has done something extra. This is done to avoid misinterpretation of what a good job is. The company also developed a reward system that involves the employees' wellbeing in general, with the purpose of achieving this; the company has already established its own clinic in the premises of the company. Lounge services for the employees at a reduced price are also being offered.

### **5.7.2 Service sector**

AIB though, it is in rare occasions, uses salary increment and also other individual reward system but the salary increment is not tied with individual performance. Both companies provide education for employees, full coverage of medical expenses, certificates of commendation to their employees as a reward. Both companies use promotion when the employees are found meeting the necessary qualification. Companies in the service sector also use team and organizational rewards. AIB also feel that they have set the purpose of stimulating happiness at work though the employees are still looking for other organizations. In AIB, exceptionally high performing employees and branch offices are being rewarded based on their outcome and the amount of reward that will be offered is decided by the group executive and the board similar to other companies. EEPCO also provides free electric power for its employees. In addition, it provides a lounge services and prepared a sports center though it is regarded as business oriented by the respondent.

### **5.7.3 Similarities and differences between sectors**

All the two sectors do have a combination of individual, team and organizational rewards but individual rewards and team rewards are rarely implemented. An organizational reward, mostly bonus, is used in all companies.

## CHAPTER SIX

### CONCLUSION AND SUGGESTION

#### 6.1 CONCLUSION

Before I begin with discussing the conclusions I have found in this thesis, it is better to start by once again stating the research question:

*In what way are organizations using a reward system to motivate the employees to work in the best interest of the organization and reach organizational goals?*

I have found some similarities as well as differences between the two sectors that are the groundwork for this thesis. The main conclusions that answer the research question would be discussed by comparing the sectors. The comparison was made with the basis of the summary of the theoretical framework that holds the four dimension of a reward system and how they all influence motivation. The setup of the dimensions will create efficiency and effectiveness in the course of motivation through satisfying needs and setting goals. My conclusion has also been made on the basis of the summary table of my analysis (appendix C) and relates the analysis to the theoretical model.

Even if the spoken purpose of the use or a rare use of a reward system, I make the conclusion that all sectors in the end have the aim to reach their goals. This is proven by the fact that all break down their goals into sub goals and have continuous meetings and other channels to distribute them to their employees.

The service sector and the respondents are mainly focusing on the end result when rewarding. This is also showed in their lack of providing feedback during the ongoing processes. If the feedback is given when a process or activity is done, the feedback will not have any impact on the result since it has already been accomplished. I therefore make the conclusion that the service sector shows a highly one-tracked mind when choosing their reward system and tradition seem to have a great impact on their choices. Especially in case of EEPKO, though they have already developed a fully structured reward system, they are still tied with their previous reward system which is traditional. What makes the two respondents in the service sector similar is that both

companies' employees are not feeling as if they are part of their companies and because of lack of appropriate retaining programs in the sector, the employees are leaving their companies and are looking for other attractive companies. In the production sector both companies had their focus on the employees but through different means. The similarity lies in their involvement of the employees and how they take care of their employees' contribution to stimulate motivation. The production sector, compared to the service sector, gave emphasis to the employees' opinions to goal achievement in order to be more efficient.

Further the groundwork for the reward will be developed when the organization has a thoroughly developed reward system and considers it to be a steering instrument in order to increase the efficiency, effectiveness and to reach company goals. In an environment where there is no thoroughly developed reward system, it may be difficult to establish the groundwork of the reward system. Having said this, the groundwork for the reward system are, however, slightly different between the sectors. Only the companies in the production sector that are trying to reward the input though they are rewarding the output intensively. Therefore my conclusion is that this is due to that the main rewards given had a monetary base. I also make the conclusion that this can be explained by the uncertainties that is involved in offering money in beforehand.

Every sector has a balance between monetary and non monetary (financial and non financial rewards) rewards and in every sector the extrinsic rewards are dominating. In every sector it seems as monetary rewards are the most important ones, this since when asking them about what types of rewards they have they were mostly focusing on monetary rewards. Therefore I can say that the sectors still consider money to be the number one motivation factor. Every sector is doing attempts to create a working climate where intrinsic rewards and motivation will be possible. The sector where this is most visible is the production sector. Further, every sector is dealing with individual, team rewards, and organizational rewards as groundwork for their reward system, even though the extent differs.

I can argue that all companies widely use organizational rewards. Team rewards, and individual rewards are rarely used in all companies when exceptional performance is achieved.

## **6.2 SUGGESTION FOR FURTHER RESEARCH**

When conducting this thesis I came across topics that were related to my subject matter but did not fit into this study. I consider those topics as important aspects when studying reward systems and therefore further studies will be required.

The first topic consists of the existence of semi/fully structured or developed reward system. Both sectors made use of different reward systems and defined them in separate ways. This indicates that there is no general reward system that fits all companies. For further research, I would suggest a research that illuminates what impact a change in the reward system would have for the different sectors and the potential efficiency. It would also be interesting to study how the companies would react in terms of productivity if the reward system were removed all together. This could help different sectors to optimize their use of a reward system as a control and steering instrument. In the end the companies can improve their efficiency and productivity with the help of a more strategic use of a reward system.

The next topic regards the intended outcome of a reward system. Two of the respondents said that they were not sure that the system that was being used worked in the direction that was intended when implemented. Therefore, my suggestion for further research consists of a study of the different companies and sectors and if they are receiving the thought outcome with their reward system. This goes hand in hand with the companies' capacity to maximize their efficiency. This could be extra helpful for those companies who are experiencing a highly competitive environment like banks.

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### **Electronic Sources**

<http://www.businessdictionary.com/definition/reward-system.html>

<http://www.businessdictionary.com/definition/efficiency.html>

<http://www.businessdictionary.com/definition/effectiveness.html>

# APPENDIX

## **APPENDIX A: INTERVIEW GUIDE**

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF MANAGEMENT, INFORMATION AND ECONOMIC SCIENCE**  
**SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION**  
**MASTERS OF BUSINESS ADMINISTRATION (MBA) PROGRAM**

These interview questions are designed to collect information about the **reward system** used in your organization. The information shall be used as a primary data in my thesis research which I am conducting as a partial requirement of my study at Addis Ababa University for completing my MBA under the School of Business and Public Administration.

Since your genuine, honest, and prompt response is a valuable input for the quality and successful completion of the study, I request you and your organization for the release of the appropriate information.

Thank you, for your cooperation, in advance!!!

### **THE COMPANY AND THE RESPONDENT**

#### ***Background information***

1. Name, position and number of years at this position
2. Short description of the company

#### ***Reward and reward system***

3. What type of salary system do you have? (individual or collective agreement) Is it centrally or locally decided?
4. How do you define the reward system that you have in your company?
5. Is the company part of a central reward system?
6. How has the reward system been implemented in your company? (who makes the decision about the type of reward system, how is the structure and the presumption of it communicated to the employees)

## **MOTIVATION**

### ***Needs***

7. How do you work towards becoming an attractive employer?
8. In what way can the employees present their opinions regarding the structure of their work and how can they affect their work situation?
9. Can you give examples of arrangements that have been made, from your side, in order to increase the job satisfaction among the employees?

### ***Goals and expectations***

10. What are the goals of the company? Are there different goals between different departments/divisions? What are they?
11. How are these goals communicated to the employees?
12. In what way can the employees work towards reaching the goals?
13. Is feedback given to the employees during different processes in order to reach the goals? If yes, how is this done?
14. Is the feedback given to specific activities, processes, employees and / or tasks? Or is the feedback given on a more generally basis?
15. How are the individual goals with the work taken into consideration? Are there possibilities for promotion and / or internal recruitment?

## **EFFECTIVENESS AND EFFICIENCY**

### ***The purpose with a reward system***

16. What is the primary purpose with your reward system? (motivate, reach goals, increase effectiveness and efficiency)

### ***Groundwork of a reward system***

17. What is the basis for a reward in your company? Which activities and / or behaviors are you aiming to reward?
18. At what level in the company is the decision made if the right activity, compared to the goals of the company, has been performed? (the annual accounts, the results, subjective judgments made by middle managers)

19. Who has the right of decision regarding what type of reward that will be offered and to whom? To what extent do the managers and middle managers have authority to make own decisions regarding motivational arrangements? How is the personnel responsibility divided within the organization?

***Types of rewards***

20. What types of rewards are you making use of today? Monetary - and non monetary rewards? Why have these been chosen?

***Receiver of a reward system***

21. Are the rewards individual and / or team based? Is the reward given to individuals or to teams?

## APPENDIX B: SUMMARY OF INTERVIEWS

<i>Type of company</i>	<i>The position of the respondent</i>	<i>Length of interview</i>	<i>Atmosphere during the interview</i>
<i>Anbessa Shoe S.C. – Production Sector</i>	<i>Head of Human Resource and Development Department</i>	<i>37 minutes</i>	<i>Professional and serious</i>
<i>Kaliti Food S.C. – Production Sector</i>	<i>Senior Human Resource Officer</i>	<i>35 minutes</i>	<i>Professional and relaxed, lots of laughter</i>
<i>Awash International Bank S.C. – Service Sector</i>	<i>Senior Personnel officer</i>	<i>47 minutes</i>	<i>Serious and unrelaxed</i>
<i>Ethiopian Electric Power Corporation – Service Sector</i>	<i>Delegated Head of the Performance Standard Monitoring and Reward System</i>	<i>30 minutes</i>	<i>Comfortable, Relaxed, and Lots of laughter</i>

## APPENDIX C: SUMMARY OF ANALYSIS

Contents	Production Sector	Service Sector
Reward, Reward System, and Salary	Has no fully structured reward system but they try to make conscious choices when investing in their human capital. Use a single salary system for both white and blue collar. The salary system decided centrally.	Has no fully developed reward system. Use single salary system for both the white and blue collar workers. The salary system is being decided centrally this helps the companies to have consistency of distribution of rewards. EEPCO's labor union takes part in the determination of salary increment.
Content Theories	Possibility to their employees to climb in their companies' hierarchy/ employees can affect their work situation and present their opinions regarding the structure of their work.	Possibility to their employees to climb in their companies' hierarchy/ no special programs to retain the employees in the company.
Process Theories	Breaking down the goals into smaller once so they will be comprehensive to the employees, working most sufficient with this to reach company goals.	Breaking down the goals into smaller once so they will be comprehensive to the employees, working most sufficient with this to reach company goals.
Purpose with a Reward System	Increase company goal attainment/ increase job satisfaction/ increase motivation.	Reaching company goals/ Employees feel that they are greatly detached from the organizational reward system.
The Foundation of a Reward System	Outputs more specifically company profitability/ sometimes various employees' opinion (input) in the process of production are rewarded.	Output more specifically company profitability.

<p><b>Types of Rewards</b></p>	<p>Both monetary and non monetary rewards (financial and non financial), extrinsic reward is dominating. Intrinsic reward used better than the service sector.</p>	<p>Both monetary and non monetary rewards (financial and non financial), extrinsic reward is dominating.</p>
<p><b>The Receiver of a Reward System</b></p>	<p>Organizational level rewards are common but team and individual rewards are used occasionally. In implementing team and individual rewards, production sector is better than service sector.</p>	<p>Organizational level rewards are common but team and individual rewards are used occasionally.</p>

## **APPENDIX D: RESEARCH SUB QUESTIONS AND TOOLS.**

- In what way are organizations using a monetary reward to motivate the employees to work in the best interest of the organization and achieve organizational goals?

Data needed: monetary rewards that are being provided by each organization in the two sectors.

The variable: Monetary reward

Instrument: Interview

Analysis: Comparative Analysis

Specific tool: Interview Analysis

- In what way are organizations using a financial reward to motivate the employees to work in the best interest of the organization and achieve organizational goals?

Data needed: financial rewards that are being provided by each organization in the two sectors.

The variable: Financial reward

Instrument: Interview

Analysis: Comparative Analysis

Specific tool: Interview analysis

- In what way are organizations using a non financial reward system to motivate the employees to work in the best interest of the organization and achieve organizational goals?

Data needed: the non financial rewards that are being provided by each organization in the two sectors.

The variable: Non financial reward

Instrument: Interview

Analysis: Comparative Analysis

Specific tool: Interview Analysis