

**EFFECTIVENESS OF EMPLOYEES COMPENSATION - MEASURED BY CUSTOMER  
SATISFACTION (STUDY CONDUCTED AT PRIVATE BANKS OF  
ETHIOPIA\_SNNPR\_WOLAITA SODO BRANCHS)**

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*Abstract*

*Employee compensation refers to the benefits: cash, vacation, etc. that an employee receives in exchange for the service they provide to their employer. Employee compensation is generally one of the largest costs or expenses for any organization. It is the total amount an employee can expect to receive when working for an organization. The effectiveness of employee's Compensation at Wolaita Sodo private banks are one of the work which have been doing or considering the main duties with the main sectors of banking to run market and marketing activities, construction sectors, and other complex business sectors by the help of an experts. The purpose of this study is to analyze some of the most important internal and external factors that affect the effectiveness of compensation on working condition or benefit of private banks in Wolaita Sodo City. In addition to this, the study evaluate the effects of firms' ability to pay, employee productivity, compensation by laws and regulation, reward strategy as well as job requirements on the compensation system. Primary and secondary data are the main values that applied in this research study. To determine the study population, the researcher has used the stratified sampling method. The data collected from the whole respondents and used descriptive statistics. The data analyzed using descriptive statistics such as, percentage, frequency distribution table and standard deviation and presented by using tables.*

*The result from the analysis show that, many of internal and external variables have significant impact on Private banks compensation, while very few of them have no significant impact on banks compensation.*

*This study is relevant to academicians, researchers and industry people who work in the field of private banks. Besides on these research findings, the private bank heads of the Wolaita Sodo with concerned bodies may conduct the extra benefit by the help of the special significant variables and the sector should take care especially, the current government business systems. In addition to this, the other researcher may come up with different projects that let the workers to stay connected with the working organization.*

*Key Words: Internal factors, external factors, compensation, workloads, descriptive statistics.*

## **I. INTRODUCTION**

In any profit-oriented organization, employment relationship is seen as an exchange process where employees provide inputs in terms of skills and expertise in return for various compensations from the employer. From the perspective of the employee, pay has an important influence on Standard of living, status, and security. Less direct forms of compensation such as health care, pensions and other benefits also have an important impact on employees' well-being. From the employer's point of view, compensation is both a major cost of doing business that needs to be controlled and an investment that must generate adequate returns in terms of employee attitudes, skills, behaviors and organization performance (Heery & Noon, 2001).

Compensation is money that experienced inconvenience, loss, or suffering claims from the person or organization responsible or from the state. In addition to these, Compensation is cash or non-cash rewards employees receive in change for their work. When the system is properly administered employees are more likely to be satisfied and motivated to contribute the achievement of organizational objectives but when employees perceive their compensation to be not appropriate performance, motivation and satisfaction may declined dramatically (Schwind and et al, 2003) and

<https://www.collinsdictionary.com/dictionary/english/compensation> accessed 10/7/2017. Compensation refers to all form of financial returns and tangible benefits that employees receive as part of an employment relationship (Bernardin, 2010).

Compensation is adequate and equitable remuneration of personnel for their contribution to the achievement of organizational objectives (Banti Worke et al, 2006). The study concerns different types of term such as payment that employee receive which includes different types of compensation, bones, salary and wages. It also includes different types of financial compensation that is called benefits and service which consists insurance payment, retirement plan payment for time that is not worked. According to Branding (2010), in organization compensation is to be effective, it have to include the following adequate, equitable, balanced, and cost effective, security pay, incentive providing pay and acceptable to the employees. Some researcher argues that paying is tied with performance, the intrinsic reward that a person gets from job.

The study gives especial focus on nine private banks in Wolaita Sodo City includes: Abyssinia Bank, Abay bank, Awash Bank, Brihan Bank, Dashen Bank, Debub Global Bank, Hibret Bank and Nib Bank, Oromiya Bank. The banks are working best for their survival and to stay connected with different benefits. These all have expert/workers who handled the customers. These workers need compensation to stay long period with that bank by gaining according to their performance. So that, this is a research tries to find out the factors that affect the workers to go out and seek the other banks or related sectors.

## II. STATEMENT OF THE PROBLEM

### Scholars Arguments

Compensation by nature most complex form and its system contains many different decision rules, guidelines, and processes for determining pay level and pay structure. The pay Structure is the relative differential among various jobs within the organization and how this is determined. The relative amount of compensation assigned to each job compared to the job market (Erasmus et al 2001).

For most employers the workers compensation claim process occurs behind the scenes. Many transactions between the injured employee and private bank companies are carried out unknown to the employer. However there are many common problems associated with the claim process that ultimately have an impact on the employer's workers compensation program and pricing.

Compensation plays an important role in an organizations ability to attract and retain qualified and high performance workers. If employees will compensate in good manner, they will create good working habit and achieve goals of the organization (<https://www.netfind.com/vertical>). However, if the compensation is not practiced in a good manner, it lowers employee's performance; they will have low productivity and creates employees' carelessness and becomes the cause of interruption of customer service (Bernardin, 2010).

In consideration of these problems, I intended to conduct the research on compensation effectiveness at private banks in Wolaita Sodo branch whether their compensation plan/system that they are giving is effective or not.

### Research Question

- What are the factors that affect compensations effective at Wolaita Sodo private banks?
- Is the private banks compensation is effective?
- What are the results if compensation plan is effective and ineffective at banks?

### Specific Objective

- To identify factors that affecting employee's compensation effectiveness at their plan.
- To check the effectiveness of employees compensation plan.
- To show the results when private banks during compensating and not compensating their experts/works.

### Significant of the Study

The study on the effectiveness of employee's compensation plan would have its own significances and it:

- Positive impact on the efficiency and results produced by employees.
- Encourage the employees to perform better and achieve the standards fixed.
- Enhance the process of job evaluation.

- Help in setting up an ideal job evaluation and the set standards would be more realistic and achievable.
- Raise the morale, efficiency and cooperation among the workers.
- Help management in complying with the various labor acts.
- Provides platform for happy and satisfied workforce.

### Scope of The Study

The research is delimited on the effectiveness of compensation plan around Wolaita Sodo City private banks. It contains internal and external compensation problems as general. It includes nine private banks which are giving the same functions by help of an expert.

### Research Methodology

**Target population:** The employee's who work is in private Banks in Wolaita Sodo branch was the target population of the study.

**Research Design:** The representation of research design basis and the element selection technique used the sample that should be non-probability sampling. Sample design element selection technique was restricted sampling probability of stratified sampling. The real figure of each bank workers/ experts numbers as follows: Abyssinia Bank = 11= $N_1$ , Abay Bank = 15= $N_2$ , Awash Bank = 14= $N_3$ , Brihan Bank = 17= $N_4$ , Dashen Bank = 35= $N_5$ , Debub Global Bank = 6 =  $N_6$ , Hibret Bank = 16 =  $N_7$ , Nib Bank = 10 =  $N_8$ , Oromiya Bank = 21 =  $N_9$ . Suppose, I want a

sample size  $n = 50$  to be drawn from a proportion of size  $N = 135$  which is divided in to nine strata of sizes:

**$N_1 = 11, N_2 = 17, N_3 = 6, N_4 = 35, N_5 = 21, N_6 = 15, N_7 = 10,$**   
 **$N_8 = 16, \text{and } N_9 = 14$**

. Adapting Proportional allocation, I got the sample sizes as under for the different strata:

- ▶ For strata  $N_1= 11$ , I have  $P_1 = \frac{11}{135}$  and hence:  $n_1 = p_1 = 50(11/135) = 4$
- ▶ For strata  $N_2= 17$ , I have  $P_2 = \frac{17}{135}$  and hence:  $n_2 = p_2 = 50(17/135) = 6$
- ▶ For strata  $N_3= 6$ , I have  $P_3 = \frac{6}{135}$  and hence:  $n_3 = p_3 = 50(6/135) = 2$
- ▶ For strata  $N_4= 35$ , I have  $P_4 = \frac{35}{135}$  and hence:  $n_4 = p_4 = 50(35/135) = 12$
- ▶ For strata  $N_5= 21$ , I have  $P_5 = \frac{21}{135}$  and hence:  $n_5 = p_5 = 50(21/135) = 8$
- ▶ For strata  $N_6= 15$ , I have  $P_6 = \frac{15}{135}$  and hence:  $n_6 = p_6 = 50(15/135) = 6$
- ▶ For strata  $N_7= 10$ , I have  $P_7 = \frac{10}{135}$  and hence:  $n_7 = p_7 = 50(10/135) = 4$
- ▶ For strata  $N_7= 16$ , I have  $P_8 = \frac{16}{135}$  and hence:  $n_8 = p_8 = 50(16/135) = 6$
- ▶ For strata  $N_8= 14$ , I have  $P_9 = \frac{14}{135}$  and hence:  $n_9 = p_9 = 50(14/135) = 5,$

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Thus, I used these proportional standard deviation( $\delta$ ) of allocation, the sample size for nine strata are: 4,6,2,12,8,6,4,6 and 5 respectively which is in proportion to the sizes of the strata 11, 17, 6, 35, 21, 15, 10, 16 and 14.

My proportional allocation is considered most efficient and an optimal design when the compensation of selecting an item is equal for each stratum. The difference in stratum sizes and difference in stratum variables should be elaborated by using disproportionate sampling design by requiring (C.R. Kothari 2004):

$$\frac{n_1}{N_1\delta_1} = \frac{n_2}{N_2\delta_2} = \frac{n_3}{N_3\delta_3} + \dots, \quad \frac{n_k}{N_k\delta_k}$$

Where  $\delta_1, \delta_2, \delta_3, \dots$  and  $\delta_k$  represent the standard deviation of the  $k$  stratum.

$N_1, N_2, N_3, \dots$  and  $N_k$  represent the sizes of the  $k$  stratum

$n_1, n_2, n_3, \dots$  and  $n_k$  represent the sample of the  $k$  strata. These allocations determined by the sample sizes of different strata like:

$$n = \frac{n * N_1 * \delta_1}{N_1\delta_1 + N_2\delta_2 + N_3\delta_3 + \dots + N_k\delta_k} \text{ for } i = 1, 2, 3, \text{ and } k, \text{ by applying this formula for all stratas.}$$

Disproportionate sample design for optimum allocation the sample sizes for different nine strata determine as under: Sample sizes for strata with  $N_k$  values:

$$n_1 = \frac{50(11)4}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 2$$

$$n_2 = \frac{50(17)6}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 5$$

$$n_3 = \frac{50(6)2}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 1$$

$$n_4 = \frac{50(35)12}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 20$$

$$n_5 = \frac{50(21)8}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 8$$

$$n_6 = \frac{50(15)6}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 4$$

$$n_7 = \frac{50(10)4}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 2$$

$$n_8 = \frac{50(16)6}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)} = 7$$

$$n_9 = \frac{50(14)5}{11(4) + 17(6) + 6(2) + 35(12) + 21(8) + 15(6) + 10(4) + 16(6) + 14(5)}$$

$$= 3$$

### Sampling Methods of the Study

Stratified sampling method was used to collect data form total population. The reason is the total populating was not manageable to get acquire relevant information from each employee in the organization.

### Types and Sources of Data

Both primary and secondary sources used to get the required information. The primary data was collected from employees through questionnaires and though interview, which were both structured and uninstructed.

### Data Discussion and Presentation

The analysis, interpretation and presentations of findings are collected from employees and managers through questionnaire and interview. As that, all the (53) fifty three questionnaires were distributed and collected from respondents and clear and deep interviews were presented to the manager. Having this; I presented the data in the following manner:

**Table 4.1 Personal information of the workers (Respondents)**

Background Variables	Item	Respondents	
		n	%
Sex	Male	29	54
	Female	24	46
	<b>Total</b>	<b>53</b>	<b>100</b>
Age range	21-30	2	4
	31-40	38	71
	40 and above	13	25
	<b>Total</b>	<b>53</b>	<b>100</b>
Education level	Degree	41	77
	Master and above	12	23
	<b>Total</b>	<b>53</b>	<b>100</b>
Work experience	2-3 year	4	8
	Above 3 year	49	92
	<b>Total</b>	<b>53</b>	<b>100</b>
Salary ranges	Below 2000	0	0
	2000-6000	4	8
	6000-8000	28	53
	Above 8000	21	39



	<b>Total</b>	<b>53</b>	<b>100</b>
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Source: Data 2017

**Gender:** The above table shows that, 54% (29) respondents were male and the remaining 46 % (24) were females. Therefore, the researcher argues that dominantly males were involved in the private bank organization.

**Age:** Based on the above table out of total respondents, 4% (2) of respondents were between 21-30 years, 71% (38) of respondents were between 31-40 years, 25% (13) of the respondents were 40 and above. From this; researcher concludes that most respondents were at age range between 31-40 years.

**Education:** As indicated in the above table from the total respondents 41(77%) are degree holders and the remaining 12(23%) were master degree and above. Hence, the organization has more degree holder employees.

**Work experience:** According to the data above 4 (8%) of employees have work experience 2-3 years and 49 (92%) of respondents have work experience above 3 years. From this, the researcher generalized that organization is much more filled by employees who have long work experience.

**Salary:** From the above table all respondents were get 0 (0%) are gaining below 2000 ETB, 4(8%) of the respondents lies between 2000-6000, 28(53%) of the respondent are getting 6000- 8000 and 21(39%) of the respondents were lies between above 8000 ETB. From this, the researcher concludes most of employees have salary between 6000-8000 ETB.

**Table 4.2 Types of Non Monetary Benefits Given**

Variables/factors	Number of respondents	
Types of benefit/Non financial Given	n	Percentage %
Health Insurance	11	20.75
Disability Insurance	4	7.74
Retirement Insurance	30	56.60
Bonus Benefits	8	15.09
Total	53	100

Source: Data 2017

Based on the above data table 4.2 11(20.75%) of respondents where gat benefits of health plan. Out of the total 4(7.74%) of respondents where got disability protection plan benefits, and 30(56.6%) of respondents answered they get Retirement Insurance. Lastly, 8 (15.09%) get benefit of bonuses at the end of the year according to their performance total balance sheet recorded. This indicates that most employees get Retirement Insurance plan of the benefit and secondly, medical or health benefits.

**Table 4.3 How often benefits are provided excluding Basic salary**

Variables/factors	Respondents	
	n	%
Provision of Benefits Given		
Sometimes	31	60
Regularly	5	8
Frequently	17	32
Total	53	100

Source Data 2017

As shown in the above table 4.3, 31 (60%) of respondents get benefit sometimes, 5(8%) of respondents get regularly and 17(32%) of the respondents get the benefits frequently. Whatever the bank sector organizations are profit oriented that they worries not to pay extra benefits to their works. This shows most of employees in the organizations earn benefits sometimes.

**Table 4.4 All variables/Factors That Influence the Compensations**

No.	Variables/factors	Respondents		
		Yes =n & %	No = n & %	Total n & %
1	Availability of Equitable Benefits Service	25(47 % )	28( 53% )	53 ( 100% )
2	Balance of benefits in comparison with the same organization	23(43 % )	30( 57% )	53 ( 100% )
3	The fairness of benefits	27(50.1 % )	26( 49.9% )	53 ( 100% )
4	Effectiveness of motivation	15( 28% )	38(72 % )	53 ( 100% )
5	High level of satisfactory Rewards	23( 43% )	30( 57% )	53 ( 100% )
6	Effect of gov'nt regulation is high	42( 79% )	11( 21% )	53 ( 100% )
7	Expectation of high group influence	26( 49.9% )	27( 50.1% )	53 ( 100% )
8	Favorability of working condition	25(47 % )	28( 53% )	53 ( 100% )

Source: Data 2017

Based on the above table 4.4 No. 1, 25(47%) of respondents responded that they get equitable benefits or services in the organization and 28(53%) of respondents responded that the benefits are not given equitably in the organization. This indicates that most employees of the organization get equitable benefit.

Based on the above table 4.4 No. 2, 23(43%) of respondents responded that they get balanced benefits in comparison with the same organization or services in the organization and 30 (57%) of respondents responded that the benefits are not given the same as in the other organization. This indicates that most employees of the organization paying or giving unbalanced payments of the benefit.

Based on the above table 4.4 No. 3, 27(50.1%) of respondents responded that they getting fair benefits or services in the organization and 26(49.9%) of respondents responded that the



benefits are not given fairly in an organizations. This indicates that most employees of the organization get fair benefit.

Based on the above table 4.4 No. 4, 15(28%) of respondents responded that they getting effective motivation, benefits or services in the organization and 38(72%) of respondents responded that the benefits are not given in effective way in the organizations. This indicates that most employees of the organization get un effective benefit.

Based on the above table 4.4 No. 5, 23(43%) of respondents responded that they get high level of satisfactory rewards, benefits or services in the organization and 30 (57%) of respondents responded that the benefits are not given in highly satisfactory way to the employees in an organization. This indicates that most employees of the organization should not get high rewards, benefit or compensations.

Based on the above table 4.4 No. 6, 42(79%) of respondents responded that the government regulation affect highly their compensations, benefits or services in the organization and 11 (21%) of respondents responded that it may not affect highly the benefits or compensation in an organizations. This indicates that most employee's compensation activities or deliverance not affected by the government regulations, proclamation, procedures and other duet to their self independent working structures.

Based on the above table 4.4 No. 7, 26(49.9%) of respondents responded that they expect high work group influences on benefits or services in the organization and 27(50.1%) of respondents responded that the benefits are not influenced highly in benefits or compensation in the organization. This indicates that most employees of the organization not highly expected on high work group influences on benefit giving.

According to the above table 4.4 No. 8, 25(47%) of respondents responded that they get favorable working conditions or services in the organization and 28 (53%) of respondents responded that the working conditions are not favorable to them in their organizations. This indicates that, most employees of the organization working not under the favorable conditions.

**Table 4.5 Satisfaction with Basic Salary**

Variables/factors	Respondents	
	n	Percentage
Degree of Satisfaction on payable salary		
Highly satisfied	19	39
Satisfied	21	40
Unsatisfied	23	43
Highly unsatisfied	0	0
Total	53	100

Source: Data 2017

Based on the above data, 19(39%) of respondents were highly satisfied with their basic salaries, 21 (40%) of respondents were satisfied by their basic salaries and 23(43%) of the respondents were not satisfied with their basic payable salaries. This indicates that most respondents were unsatisfied by their basic salary.

**Table 4.6 Payment evaluation based on contribution and the sacredness of the pay**

No.	Variables/factors	Respondents				
		Very high =n %	High= n & %	Low = n %	Very low = n & %	Total = n & %
1	Payment according to contribution	11(21%)	18(40%)	24(45%)	0(0%)	53(100%)
2	Level of Compensation satisfaction	3(6%)	24(45%)	26(49%)	0(0%)	53(100%)

Source: Data 2017

The data in the above table 4.8 No.1 indicates that, 24 (45%) of respondents respond that the payment is according to their contribution and it is low to them and 11(21%) of the respondent said that they get it according to their contribution called very high. The remaining 18 (40%) of respondents respond that the payment is high according to their contribution. This indicates the payment is mostly according to their contribution.

Based on the above data table 4.9, No. 2, 26(49%) of respondents respond that the organization compensation is low their basic needs and wants. While the remaining 24(45%) of respondents respond the organization compensation is a little bit satisfying basic needs and wants. This a data indicate that mostly the organization compensation is unsatisfying basic needs and wants.

### **Interviews for the Manager**

The researcher conducted interview from the manger of the organization and got the following result: How your organization compensation is implemented?

The organization compensation system is implemented by the order of head office means it is centralized system of compensation.

What are problems arise from employees related to compensation?

The managers described the problems that are faced on employees with related to compensation is decrease employees moral and dissatisfaction is sometimes occur, because of employees are not compensated based on performance.

What are factor that affect the organization Compensation system?

Managers described that there are various factors and influences to compensation of the organization. Those factors are internal or external factors:

Government regulations: as indicated by the manager it affects the compensation changed or increased. So government affects the organization compensation and taxes also affect the organizations compensation. Mangers: decrease employees compensation because of all managers of dashed bank is share holders so increase their share instead of employee's compensation.

Organization ability to pay: organization that have high profit and enjoy good cash management the organization can increase compensation. When the organization can decrease profit, some benefits are cut because of funds are not available. The bank pay low bonus because of low profit.

### **III. SUMMARY**

According to the data collected by different techniques, the research findings presented and summarized as follows:

- The majority of respondents are males which is 54%, most of the respondents age lies 38(71%) between 31- 40 yours, most employees 41(71%) have degree holder employees, majority of respondents have long work experience, most employees 28(53%) salary greater than 6000 ETB, most of employees get retirement benefit at first hand and health as second.
- The majority of respondents in the organization earn benefit sometimes, most of employees of the organization get equitable benefits, mostly the organization give rewards are in unbalanced way, majority of respondents are satisfied by their basic salary, basic salary is mostly unfair with related to similar organizations, payment is mostly according to employee contribution, mostly the organization compensation is satisfying basic need and wants, work group influences the organization compensation.
- Government regulation can affect the compensation.
- Most of employees do their work in a favorable condition.
- The compensation system is implemented by head office or centralized way.
- The problem is faced by employee means decreases moral and dissatisfaction because of performance is not considered.
- Many factor that affecting compensation: government rule, regulation, procedures of the organization and organization's capacity to pay.

### **IV. CONCLUSION**

On the basic research questions, there are different factors that affect compensation systems that are organization ability to pay, government rule and organization manger. The employee's compensation of Wolaita Sodo private banks is not as such effective according to their working conditions, working structures and time management systems. It is tested by criteria's such as the compensations are not as such adequate, equitable, balanced, cost effective, secure to pay, incentive providing pay and acceptable by employees.

The result of effective compensation plans of private banks employees are satisfied by their basic salary becomes productive workers and the organization attracts qualified employees.

Generally, the compensation plans in is affected by different factors and based on the criteria the workers are productive. Therefore, I conclude the compensation plans of private banks are effective.

#### **V. RECOMMENDATION**

Compensation system is needed to attract and retain employees. So in order to utilize the compensation effectively, I recommend that: if it is effective compensation available to the workers/experts, it is better to compensate based on employees performance and it avoids employees dissatisfaction and increases employee's moral.

If the private banks compensation is effective, it is better to compensate employees based on the on their work effort rather than use centralized compensation system. I advise them advice compensation is better for organizations provided frequently to motivate, compensate employees and they have a better achievement for the organizations' success. It is better the organization to the private bank sectors to improve the payment according to their contribution in the organization due to sustainability. When the government changes and proclaims the new things in monetary system or making very high the public sectors, there are more probability to the experts to shift. That any private bank sector should look critically what the government have been doing in view point of compensations, salaries and other benefits.

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