**CHAPTER ONE: INTRODUCTION**

**1.1 Background of the study**

Compensation represents the exchange between employees and organization, both gives something in return for something else. In the past, the compensation issues were often confidential and govern by individual employer’s preferences and choices. However in today’s competitive world the compensation policies are more transparent and the employees take their own choices based on the compensation package. Thus, balancing the cost of compensation and retaining the employees have become the most important priority for the organization (Bhattacharyya 2009).

Compensation is the total cash and non-cash payment that is exchanged between employee and organization for the work done by the employee for the organization. Compensation is more than an employee's regular paid wages. It mainly include base pay, sales commission, overtime wages, bonus pay, recognition or merit pay, benefits (insurances, standard, vacation policy, retirement, stock option, other non- cash benefits)Dr. Pradip Kumar Das, Dr. Madan Chhetri & Ms. Roshni Tamang. 2021)

The compensation management is an organized practice which is important for balancing the work and employee relationship by providing monetary and non-monetary compensation to employees. Compensation includes all form of pay given to the employees which arise from the employment. The one of the strapping feature of the organizations is compensation management and they used it to attract and retain the most important and worthy assets. The compensation management is considered to be a complex process which requires accuracy and precision and if not carried out properly may lead to employees’ dissatisfaction. An ideal compensation policy motivates the employees to work harder and with more determination. It also helps the organizations to set the standards for job that it is related, realistic and measurable.

Compensation related to organization refers to how compensation is aligned with the organizational culture, strategy and objectives. It involves designing and implementing compensation plans that support the desired behaviors and outcomes of the workforce. It also requires communicating and evaluating the effectiveness of the compensation programs on a regular basis. It also helps attract, retain and motivate talent, as well as drive performance, innovation and growth. It can also reflect the values and identity of the organization and foster a sense of belonging and engagement among employees, as stated by Griffin (2012)

This research is designed to assess the employees‟ compensation management practice” in one of the private banks in Ethiopia, Nib International Bank. Since the compensation strategy is the same throughout the organization, data collected from employees is also intended to analyze the existing compensation in Nib International Bank, investigate employees ‟perception towards compensation management practice” performance.

Nib International Bank was established on 26 May 1999. The Bank commenced its operation in 28 October 1999 by 27 employees. It joined the banking industry as the sixth private bank licensed in the country.

**1.2 STATEMENT of the problem** Compensation is an important and complex part of the organization-employee relationship. Then, compensation to an employee should be enough to provide and cover the basic necessities of an employee and help him/her maintain a reasonable standard of living. As Griffin (2012) noted, if employees don’t earn enough to meet their basic economic needs, they will look employment elsewhere. On the other hand, if employees believe that the contributions to the organization is under-valued (i.e., if they feel that they aren’t paid according to their performance) they may leave the organization or if they choose to stay (due to lack of alternatives) they may show poor performance, low morale, or little commitment to the organization. Thus, organizations must develop a good and acceptable remuneration /compensation scheme.In Ethiopia, the numbers of private and government banks have grown significantly and banking industry is rapidly expanding in its geographical reach, branch expansion, in technology and employee intake. Accordingly, it is believed that there is significant turnover and movement of employees from one bank to another and to some extent to other non-ones or out of banking industry because of different practices of compensation and benefit among different companies. Staff turnover takes place at all levels, driven by the desire to improve earnings, careers and to move from rural to urban areas. Constant staff turnover has a negative impact on an organization's capacity to operate efficiently and to manage long-term planning and development. To overcome these problems, different banks endeavor to practice different compensation and benefit system that fit with the general standards of working environment, competitive remuneration, and reward system integrated with good organizational management, shared values, and beliefs of their organization that can attract, retain and motivate the desired man power.Nib bank is one of the private banks that faces various challenges in attracting and retaining qualified staff, such as There is a lack of clarity and transparency in the compensation management practice of Nib International Bank. The bank's employees are unsure about the methods used to evaluate, determine and distribute their compensations and benefits packages. This leads to dissatisfaction among employees and demotivation, which could negatively impact their performance, retention, and overall organizational effectiveness. Therefore, there is a need to assess the current compensation management practices of Nib International Bank to identify issues that may exist and find solutions that can improve the effectiveness, efficiency, and transparency of the compensation management process. Therefore, this study aims to assess the compensation management practices of Nib International Bank and identify the factors that affect its effectiveness and enhancing its organizational performance.

**1.3 Basic Research Question**

The research questions are designed with the specific purpose of investigating the existing compensation management practices in Nib International Bank. In this regard, the following questions are considered in order to address the purpose of the study.1. What is the existing compensation management practice adopted by the NIB?

2. What are the perceptions of employees toward the compensation practices of the NIB International Bank?

3. How do compensation management practices influence employee attitudes, behaviors, and performance?

**1.4 Objectives of the study 1.4.1. General Objectives**The general objective of this study is to assess compensation management practice in the case of Nib International Bank **1.4.2. Specific Objectives**The specific objective of compensation management practices is:  To identify the existing compensation management practice adopted by Nib International Bank. To assess the perceptions of employees toward the compensation of the Nib International Bank. To explore compensation management practices, influence employee performance.

**1.5 Significance of the study**The result of this research is expected to provide feedback and recommendations to NIB International Bank, particularly to the Human Resource and Management departments, enhancing their understanding of employee perceptions towards existing compensation management practices within the organization. Additionally, the study will help the bank identify its strengths and weaknesses in compensation and benefit administration. This research also aims to fill the gap in the literature concerning compensation management in the banking sector, contributing valuable insights to the field. For researchers, this study can serve as a stepping stone for subsequent investigations into employee compensation practices and will act as a useful reference for those addressing related issues. Furthermore, policymakers can benefit from this research by developing relevant and appropriate policies, procedures, and frameworks to create an effective compensation system within the organization. Overall, this research serves as a valuable reference for researchers, human resource professionals, and policymakers interested in addressing compensation management issues.**1.6 Scope and Delimitations of the Study**This study examines the existing compensation management practices of Nib International Bank and assesses employees' perceptions toward these practices. The assessment focuses on various aspects of compensation, including direct financial benefits, indirect financial benefits, and nonfinancial benefits. The conceptual delimitation will exclude broader organizational management practices unrelated to compensation management, ensuring a targeted analysis.The geographical scope is limited to the Nib International Bank in the Northwestern District, specifically selected branches in Addis Ababa. Given that Nib International Bank operates as a nationwide service provider, evaluating the attitudes of all employees is impractical due to time and budget constraints. Therefore, this research is confined to employees working in these selected branches, allowing for a more in-depth understanding of their perceptions and experiences related to compensation practices.

**1.8 Research Design and Methodology1.8.1 Research Design**a descriptive research design was applied in order to state the current compensation management practices of the Bank. This research design method was selected since it would enable the researcher to obtain important information with regards to the perception of employees towards the current compensation management practices of the Bank. In addition, it would also enable the researcher to obtain rich data and to have a systematic collection and presentation of data that were needed to achieve the objective. Moreover, this study used both qualitative and quantitative research approaches. The qualitative research approach was used to describe and state the current practices of the Bank and to interpret the data that were collected from interviews and open-ended questions in the questionnaire. In addition, the quantitative research approach was employed to analyze numerical data that were gathered from the respondents through the questionnaire.**1.8.2 Population** This study focuses on the employees of Nib International Bank, which has over 7,000 employees distributed across various functional divisions and departments. For this research, the totalpopulation consists of employees from the Northwest District, specifically selected branches of Nib International Bank in Addis Ababa. Within the Northwestern District, there are approximately 56 branches, employing over 356 individuals in Addis Ababa. This study employs a census approach involving all team members from these selected branches. According to the human resource managers of these four branches, the total number of employees is 55, comprising 29 females and 26 males.**1.8.3 Types of data collected**In order to carry out any research activity, information must be gathered from proper sources. Therefore, to achieve the objective of this study, both primary and secondary sources of data were used in conducting the research. The primary data was collected through structured questionnaires that were distributed to employees. Data gathered through questionnaires was analyzed quantitatively. Additionally, interviews were carried out to gather information from top-level managers, and the collected data was analyzed qualitatively.The secondary data was collected from relevant documents, journals annual reports of the company and different literatures related with compensation Management practices.**1.8.4 Methods of data collection**The study employed both qualitative and quantitative data. The qualitative data were collected through interviews, while the quantitative data were gathered through questionnaires. The primary data collection methods for this study included interviews and questionnaires.A questionnaire is a formalized set of questions designed to obtain information from respondents. It translates the researcher’s information needs into specific questions that respondents are willing and able to answer. This study primarily utilized closed-ended questionnaires as the data collection instrument. The closed-ended questionnaires were structured using a five-point Likert scale, which Lis a psychometric response scale commonly used in questionnaires to assess participants' preferences or degrees of agreement with a statement or set of statements This scale ranges from "strongly disagree" to "strongly agree," enabling the study to easily convert the qualitative aspectsof the data into quantitative measures. Structured questionnaire papers were distributed to 55 employees of the organization, Interviews were conducted with selected HR managers, and the information and insights obtained from them were summarized and reported. These qualitative insights provide a comprehensive understanding of current compensation management practices of Nib International bank.**1.8.5 Methods of data analysis** Data analysis is a valuable and organized method for examining a large group of data gathered from various sources. According to Marczyk (2005), descriptive studies primarily focus on providing precise and complete descriptions of facts. This study adopts a descriptive research design, utilizing various tools to analyze the collected data.To analyze the data gathered from employees through questionnaires, it was organized, tabulated, and presented in terms of frequency and percentage using Excel. Both qualitative and quantitative methods of data analysis were employed in this study. Statistical tools such as frequency and percentage calculations were used for the analysis. Descriptive analysis was also applied to demographic characteristics, including gender, age, experience, and educational level, and monthly basic salary. The data collected from primary sources were presented using tables, frequencies, percentages, and charts. Additionally, data gathered from interviews and secondary sources were analyzed using qualitative methods and integrated into the discussion and interpretation section of the research.**1.9 Limitation of the study** There are several limitations to the assessment of compensation management practices in the case of Nib International Bank. Firstly, this study will focus on selected branches in the Northwestern District among the 56 branches in Addis Ababa. Due to time and resource constraints, only employees from these selected branches will be included. Additionally, some respondents did not complete the questionnaires correctly, and others did not return the questionnaire papers on time, which resulted in a lower response rate. This unwillingness has impacted the research and does not fully represent the diverse perspectives of employees regarding compensation management practices.**1.10 Organization of the Study**The study consists of four chapters. The first chapter discusses the introduction part, which contains the background of the study , the statement of the problems, objectives, research questions, significance of the study, scope/Delimitation of the study, Definition of terms, Research design and methodology, population, Types of data collection, methods of data collection and analysis ,limitation of the study will be included in chapter one.In the second chapter, a literature review related to the study is discussed theoretical review, empirical literature reviews, and conceptual frameworks are included. The third chapter is about data analysis and interpretation and presentation. The collected data were analyzed, discussed, and interpreted. And the last chapter contains a summary, conclusion, and recommendations of the whole research paper.

**CHAPTER FOUR:SUMMARY, CONCLUSION AND RECOMMENDATION4.1 SUMMARY**  When we see the respondents by gender, most of the respondents are female. In terms of age most of the respondents are less than 30 years.  Regarding educational level of the respondents, it showed that majority of respondents are first degree holder. When we see length of service year, most of respondents are less than 5 year worked in NB  With regards to monthly salary most of the respondents earn between 10,001br to 20,000.  38.3% of the respondents disagree on feeling of wage and salary paid equitability with theirexperience, responsibilities and qualification that is equal to the required job. Majority of the respondent were neutral on incentive for exceptional performance existence and allowance payments satisfaction in the organization. With regards to the basic pay relatively equitable to the market compensation the finding indicated that majority of the respondent are agree The data shows, most of respondents on bonus payment comparison to the market were neutral on in NIB relative to other banks Majority of the respondent disagree that there is reasonable periodical increase in monthly salary. As presented in the given data, majority of the respondents feel the health and safety insurances set by the bank is adequate

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 From the given data the majority of the respondents are neutral with the statement of the retirement benefit offered by my employer is satisfactory and reflects my current level of performance.

 majority of the respondents are neutral with the company assistance with Vehicle loan and personal loan With regards to the feeling of appreciation at work because the bank gives enough recognition for well done work, respondents strongly disagree The data shows, all respondents strongly agree and agree on the issue of their present job relevance for the growth of the bank. The result shows that majority of respondents agree that adequate of training and information to received to perform their job better. Most of respondents disagree on the existing compensation and benefit schemes offered by the bank motivate me to perform my job better. A majority of respondents felt that the bank provides adequate protection.**4.2 Conclusion**Compensation is a tool used by management for a variety of purposes to further the existence of the company in a dynamic competitive market. Among the multi-purpose companies use compensation, recruiting and retaining qualified employees, increasing employees‟ satisfaction, reward and encourage peak performance, achieve internal or external equity, reduce turnover, and encourage company loyalty are the main ones. The study assessed the compensation practices of Nib International Bank, focusing on employees' perceptions of financial and non-financial compensation and their level of performance. It concluded that employees generally hold negative perceptions of direct financial compensation, particularly regarding wage and salary, paid equitability with their experience, responsibilities, and qualification that are equal to the required job there are several key findings regarding employee perceptions. Most respondents are female and under 30 years old, with the majority holding a first degree and having less than five years of service in the bank. The monthly salary for most employees falls between 10,001 and 20,000 BR. A significant portion of respondents (38.3%) express dissatisfaction with the equity of wages and salaries relative to their experience, responsibilities, and qualifications. Additionally, many respondents remain neutral regarding the existence of incentives for exceptional performance and satisfaction with allowance payments. While the majority agree that basic pay is relatively equitable to market compensation, there are notable concerns about the effectiveness of the current compensation and benefits schemes in motivating employees. Overall, the findings indicate a general negative perception of direct financial compensation among employees, highlighting the need for improvements in both financial and non-financial compensation practices to enhance employee satisfaction and performance**4.3. Recommendation** The bank should conduct a market analysis to benchmark its compensation packages against industry standards. This will help in designing a fair and competitive compensation policy that not only retains current employees but also attracts qualified candidates. Regular reviews of the compensation structure should be implemented to ensure it remains competitive. To address the lack of understanding regarding the bank's compensation policy, the management should create a comprehensive communication strategy. This could include workshops, informational sessions, and detailed written materials that outline salary structures, benefits, and other compensation-related information. Regular updates and open forums for questions can further clarify any confusion among employees. The bank should establish a clear framework for performance-based compensation that aligns with individual, team, and organizational goals. This approach will not only motivate employees to perform better but also promote a culture of accountability and recognition. Management should develop programs that recognize and reward outstanding employee performance through non-financial means, such as awards, public recognition, or additional time off. These initiatives can enhance employee morale and foster a positive work environment.

 The bank must assess the current training programs and gather feedback from employees to identify areas for improvement. Offering relevant and valuable training opportunities that align with employees' roles and career aspirations will increase job satisfaction and contribute to their professional growth. Consideration should be given to mentorship programs, skill development workshops, and leadership training