

**Human Resource Management Practices in Selected
Ethiopian Private Companies:
A Study to Increase Employee Productivity in Ethiopia**

by

Dirk J. van Wasbeek

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Robert Kennedy College
Delémont
Switzerland

**HUMAN RESOURCE MANAGEMENT PRACTICES IN
SELECTED ETHIOPIAN PRIVATE COMPANIES**
—
**A STUDY TO INCREASE EMPLOYEE PRODUCTIVITY
IN ETHIOPIA**

by
Dirk J. van Wasbeek

A Dissertation
Submitted to Robert Kennedy College
in Partial Fulfillment of
the Requirements for the Degree of
Doctor of Business Administration (DBA)

July 2004

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Abstract

Human Resource Management Practices in Selected Ethiopian Private Companies

—

A Study to Increase Employee Productivity in Ethiopia

This dissertation examines how human resources are managed at selected Ethiopian private companies, how Ethiopian human resource management practice is evolving and how it can be improved. The examination is qualitative and exploratory, since no comparative research on human resource management has yet been conducted at Ethiopian profit or non-profit organizations. An understanding of Ethiopian human resource management practice makes it possible to improve Ethiopian human resource management practice, and thus to increase employee productivity.

The study took place at four manufacturing and four service companies in Addis Ababa, all representative of their sector.

The research claim is that Ethiopian human resource management practices differ from human resource management practices in the West, due to differences in cultural factors, economic systems, political systems, and legal and industrial relations. For this reason, Ethiopia's culture, politics, economy and legal and industrial relations have been analyzed.

The main finding of this study is that the importance of human resource management is not uniformly understood at all the case-study companies. Although the multinational companies based in Ethiopia see their human resources as the companies' most important asset, as human capital, the local companies generally do not.

The fact that respondents claim that Ethiopia has limited experience in industrialization might explain why human resource management in Ethiopia is rudimentary and still has a long way to go.

With this dissertation the researcher wants to contribute to improving Ethiopian human resource management practice. Moreover, this dissertation may be used as a framework for similar research in other sectors or for more specific in-depth research. This dissertation may also serve as a knowledge base for company managers, business consultants, academics and government officials of countries with a national culture similar to Ethiopia's (for example Kenya, Tanzania and Zambia), countries undergoing (or which have undergone) a recent transition to a free market economy, and countries facing similar macro-economic developments.

To
Julia
Sarah, Justine and Nathalie

Dissertation Committee

Prof. David Y. Costa, Dean of the Graduate School, at Robert Kennedy College.

Dr. Roy Damary, Head of Business Studies, Director of Doctoral Programme, at Robert Kennedy College.

Mr. David Duffill, Professor of Corporate Finance, at Robert Kennedy College.

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Likewise, I wish to express my indebtedness to my respondents for their cooperation and support while completing my work. I am greatly indebted to the gatekeepers in the case-study companies. Without their understanding and support the research could not have been completed.

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Glossary

Abyssinia The old name for Ethiopia, given by the Greeks a long time ago. The state of Abyssinia is said to be more than 3000 years old. The Europeans stopped using the name Abyssinia and started using the name Ethiopia around the twelfth century. The name Ethiopia is also found in the Old Testament of the Bible, indicating that Ethiopia is an ancient state. According to some historians, the geographical boundaries that are covered in the Bible are not the same as the ones that are found in Ethiopia nowadays. Some historians say that the name Ethiopia covered a larger geographical area than at present, and might have included areas as far as Yemen, Eritrea, Djibouti, Somalia, and some parts of Sudan (Ayenew, 2003).

Anxiety A diffuse state of being uneasy or worried about what may happen (Hofstede, 1997, 260).

Attitudes Evaluative statements of judgments concerning objects, people or events (Robbins, 1998, 140). Attitudes have: (a) a cognitive component; the opinion or belief segment of an attitude, (b) an affective component; the emotional or feeling segment of an attitude, and (c) a behavioral component; an intention to behave in a certain way toward someone or something.

Benefits Indirect financial and non-financial payments employees receive for continuing their employment with the company (Dessler, 2003, 527).

Birr The Ethiopian monetary unit, composed of 100 cents. Introduced officially in 1976, replacing the Ethiopian dollar (Ofcansky and La Verle, 1991).

Bonus A grant of money as a gratuity to workers. A special earned payment based on for example production. Anything welcome that one receives over and above what is expected or usual (Webster, 1991, 110). Additional money based on the financial performance of the organization, unit of the organization, or an individual (Psychology, 2002).

Business Partner A business partner is the sum of: a strategic partner, an administrative expert, an employee champion, and a change agent (Ulrich, 1997, 37).

Career Planning and Development The deliberate process through which a person becomes aware of personal career-related attributes and the lifelong series of stages that contribute to his or her career fulfillment (Dessler, 2003, 274).

Collective Bargaining The process through which representatives of management and the union meet to negotiate a labor agreement (Dessler, 2003, 528).

Collectivism The opposite of individualism; together, they form one of the dimensions of national culture. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty (Hofstede, 1997, 260).

Commission A percentage paid to an agent or employee on the business which he transacts (Webster, 1991, 197).

Commitment An employee's identification with an agreement to pursue the company's or the unit's mission (Dessler, 2003, 528).

Compensation See *Employee Compensation*.

Core Values The primary or dominant values that are accepted throughout the organization (Robbins, 1998, 597). Core values govern the fundamental beliefs, attitudes, and acceptance behaviors that a group holds most deeply and widely, those that define its culture (Scarborough, 2001, 2).

Corporate Culture See *Organizational Culture*.

Corruption The state of being or becoming decayed (Webster, 1991, 219). Lack of integrity or honesty; especially susceptibility to bribery; use of a position of trust for dishonest gain (Princeton University, 1997).

Cultural Myopia The firm's failure to understand host-country cultural differences that require different approaches to marketing and management (Hill, 2000, 567).

Culture The set of values, attitudes, and beliefs shared by a group, which sets the standards of behavior required for continued acceptance and successful participation in that group (Scarborough, 2001, 1). The collective programming of the mind, which distinguishes the members of one group or category of people from another (Hofstede, 1997, 5). The complex whole that includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by a person as a member of society (Hill, 2000, 675). A culture is the behavioral norms that a group, at a certain time and place, have agreed upon to survive and coexist (Elashmawi and Harris, 1998, 59). Elements in a culture are: language, nonverbal communication, space and time orientation, religion and belief systems, pattern of thinking, self-images, set of values, material culture, and aesthetics (Elashmawi and Harris, 1998, 59).

De Facto Maintaining effective control although not permanently and constitutionally established, or not fully recognized by other states; *the de facto government* (Webster, 1991, 251).

De Jure Legally, by right; lawful (Webster, 1991, 253).

Derg Formed in June 1974 and composed of a substantial body of young military officers, none above the rank of major, drawn from the main units of the army, air force, navy, and police. The Derg's membership ranged from perhaps 106 to 120 or more. New officers were never admitted, whereas original members were continuously eliminated, especially during the Derg's early years. Its inner workings were almost never disclosed. Known at first as the Coordinating Committee of the Armed Forces, Police and Territorial Army, after September 1974 it was known as the Provisional Military Administrative Council (PMAC), or simply as the Derg (Amharic for "Committee" or "Council"), a term derived from Gi'iz and little used before the 1974 revolution. The Derg lasted officially from June 1974 to September 1987, when the People's Democratic Republic of Ethiopia came into being (Ofcansky and La Verle, 1991).

Direct Financial Payments Pay in the form of wages, salaries, incentives, commissions, and bonuses (Dessler, 2003, 529).

Doctor of Business Administration (DBA) A professional doctorate for a manager which aims to help their career in a way that a PhD cannot (Perry, 2001).

Effectiveness Achievement of goals (Robbins, 1998, 23).

Efficiency The ratio of effective output to the input required to achieve it (Robbins, 1998, 23).

Employee Compensation All forms of pay or rewards going to employees and arising from their employment (Dessler, 2003, 528).

Employee Productivity The productivity of employees (see also *Productivity*). Employee productivity is the measure of how individual employees, performing similar tasks and activities, compare to each other and to the employees of other companies in terms of their respective accomplishments (Retrac, 2002).

Empowerment Putting employees in charge of what they do (Robbins, 1998, 379).

Ethiopian Calendar Year The Ethiopian year consists of 365 days, divided into twelve months of thirty days each plus one additional month of five days (six in leap years). Ethiopian New Year's day falls on September 11 and the year ends the following September 10, according to the Gregorian (Western) calendar (Ofcansky and La Verle, 1991).

Ethiopian Fiscal Year Based on the Ethiopian calendar year. Corresponds to July 8 to July 7, seven years behind the Gregorian (Western) calendar through December 31, and eight years behind thereafter (Ofcansky and La Verle, 1991). See also *Ethiopian Calendar Year*.

Excise Tax A tax levied by the federal and state government upon the manufacture, sale, or consumption of certain commodities, or a tax levied on the right, privilege, or permission to engage in a certain business, trade, occupation, or sport (Webster, 1991, BD-40).

Extended Family A family group including relatives to the second and third degree (or beyond), like grandparents, uncles, aunts, and cousins (Hofstede, 1997, 261).

Extrinsic Rewards Extrinsic rewards do not come from the work itself, they are given by supervisors to ensure that work is done properly and that the rules are followed. They include things like salaries, bonuses, commissions, perks, benefits, and cash awards (Thomas, 2000, 6).

Femininity The opposite of masculinity; together they form one of the dimensions of national culture. Femininity stands for a society in which social gender roles overlap: both men and women are supposed to be modest, tender, and concerned with the quality of life (Hofstede, 1997, 261). See also *Quality of Life*.

Flextime A plan whereby employees build their workday around a core of midday hours (Robbins, 1998, 234).

Gender In the social sciences, the term 'gender' has been introduced to refer to the differences between women and men without strictly biological connotations. These are socially constructed differences between the two sexes that are not caused by biological sexual differences. Gender relations are the rules, traditions, and social relationships in societies and cultures, which together determine what is considered 'feminine' and what 'masculine', and how power is allocated between, and used differently by, women and men. Gender refers to a social construction of femininity and masculinity, which carries over time and place and is enacted through learned, rather than innate, behavior (Macdonald, Sprenger, and Dubel, 1997, 10).

Globalization Trend away from distinct national economic units and toward one huge global market (Hill, 2000, 677).

Gross Domestic Product (GDP) The market value of a country's output attributable to factors of production located in the country's territory (Hill, 2000, 677).

Human Capital The knowledge, education, training, skills and expertise of a firm's workers (Dessler, 2003, 530).

Human Resource Management (HRM) Activities an organization conducts to use its human resources effectively (Hill, 2000, 678). The aspect of management that concerns the coordination of all aspects of employment including hiring, training, compensating, motivating, disciplining, and all day-to-day interactions. Formerly this function was called personnel administration, employee relations, or industrial relations (Pell, 2001, 312). The policies and practices involved in carrying out the 'people' or human resource aspects of a management position, including recruiting, screening, training, rewarding, and appraising (Dessler, 2003, 530).

Human Resource (HR) Planning – Also called employment or personnel planning – The process of deciding what positions the firm will have to fill, and how to fill them (Dessler, 2003, 90).

Human Resource (HR) Strategy The researcher defined human resource strategy as the actions the HR manager and other company managers take to attain company's HR goals.

Incentives Inciting to action; Incentive schemes to secure higher production (Webster, 1991, 489). Short-term incentives include cash or stock bonuses. Long-term incentives are often stock options.

Indirect Financial Payments Pay in the form of financial benefits such as insurances (Dessler, 2003, 530).

Individualism The opposite of collectivism; together, they form one of the dimensions of national culture. Individualism stands for a society in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family only (Hofstede, 1997, 261).

Industrial Relations The relationships among the worker, the union, and the employer (Dessler, 2003, 467).

Innovation A new idea applied to initiating or improving a product, process, or service (Robbins, 1998, 646). The development of new products, processes, organizations, management practices, and strategies (Hill, 2002, 678).

Intrinsic Rewards Intrinsic rewards come to the worker directly from the work they do – satisfactions like pride in workmanship or the sense that they are helping the customer (Thomas, 2000, 7).

Job Analysis Developing a detailed description of the tasks involved in a job, determining the relationship of a given job to other jobs, and ascertaining the knowledge, skills, and abilities necessary for an employee to perform the job successfully (Robbins, 1888, 552).

Job Description A list of job duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities (Dessler, 2003, 531). The job description is a part of the *Job Analysis*.

Knowledge The state of knowing, cognition. Understanding (Webster, 1991, 544).

Knowledge Management (KM) A newly emerging, interdisciplinary business model dealing with all aspects of knowledge in the context of the firm, including knowledge creation, codification, sharing, and how these activities promote learning and innovation. In practice, knowledge management encompasses both technological tools and organizational routines in overlapping parts (Gotcha, 1999).

Labor Costs Labor costs are a calculation of how much a company pays for its people and how much they produce (Pfeffer, 2001, 144).

Labor Rates Labor rates are straight wages divided by time (Pfeffer, 2001, 144).

Leadership The ability to influence a group toward the achievement of goals (Robbins, 1998, 347). There is no general agreement on the best way to define leadership, but most definitions imply that it is, at least in part, a process of exerting positive influence over other persons. Leadership involves influencing people to exert more effort in some task or to change their behavior (Wexley and Yukl, 1984, 159). Leadership is about coping with change (Kotter, 1998, 37).

Long-term Orientation The opposite of short-term orientation; together they form a dimension of national culture originally labeled 'Confucian dynamism'. Long-term orientation stands for the fostering of virtues oriented towards future rewards, in particular perseverance and thrift (Hofstede, 1997, 261).

Machiavellism The political doctrine of Machiavelli, which denies the relevance of morality in political affairs and holds that craft and deceit are justified in pursuing and maintaining political power (The American Heritage Dictionary of the English Language, 2000). The degree to which an individual is pragmatic, maintains emotional distance, and believes that ends can justify means (Robbins, 1998, 58).

Management Individuals who achieve goals through other people (Robbins, 1998, 2). Management is about coping with complexity. Its practices and procedures are largely a response to the emergency or large, complex organizations in the twentieth century (Kotter, 1998, 37).

Management Development Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills (Dessler, 2003, 531).

Masculinity The opposite of femininity; together they form one of the dimensions of national culture. Masculinity stands for a society in which social gender roles are clear and distinct: men are supposed to be assertive, tough, and focused on material success; women are supposed to be more modest, tender, and concerned with the quality of life (Hofstede, 1997, 262). See also *Quantity of Life*.

Merit Pay – Also called merit raise – Any salary increase awarded to an employee based on his or her individual performance (Dessler, 2003, 531). Pay raises based on the employee's performance and productivity (Psychology, 2002).

Modern Elite In contrast to the *traditional elite*, whose members are the political, spiritual and sometimes religious heads of families, clans, and ethnic communities, the dominant characteristic of the modern elite is that of acquiring Western education (Ukpabi, 1990, 22-23). See also *Traditional Elite*.

National Culture The collective programming of the mind acquired by growing up in a particular country (Hofstede, 1997, 262).

Nepotism Favoritism shown in the advancement of relatives especially by appointing them to offices for reasons other than personal worth (Webster, 1991, 671).

Organizational Behavior (OB) A field of study that investigates the impact that individuals, groups, and structure have on behavior within organizations, for the purpose of applying such knowledge toward improving an organization's effectiveness (Robbins, 1998, 7).

Organizational Climate Organizational climate is a measure of the extent to which people's expectations about what it should be like to work in an organization are being met (Bowditch and Buono, 1997, 299).

Organizational Culture – Also called *Corporate Culture* – The shared pattern of beliefs, assumptions, and expectations held by organizational members, and their characteristic way of perceiving the organization's artifacts and environment, and its norms, roles, and values as they exist outside the individual (Bowditch and Buono, 1997, 286). A common perception held by the organization's members; a system of shared meaning (Robbins, 1998, 595). The collective programming of the mind which distinguishes the members of one organization from another (Hofstede, 1997, 262).

Piece-rate Pay Plans – See also *Piecework* – Workers are paid a fixed sum for each unit of production completed (Robbins, 1998, 215).

Piecework – See also *Piece-rate Pay Plans* – A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day (Dessler, 2003, 532).

Power Distance The extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. One of the dimensions of national culture; ranges from small to large (Hofstede, 1997, 262).

Productivity Productivity implies doing high-quality work with great efficiency. The actual productivity formula today is rather complicated in some operations, but in essence, productivity still means output per man-hour (Sibson, 1994, 6). Productivity is a performance measure including effectiveness and efficiency. An organization is productive if it achieves its goals and does so by transferring inputs into outputs at the lowest cost. As such, productivity implies concern for both *effectiveness* and *efficiency* (Robbins, 1998, 23). Productivity is the average output produced by input(s) – a combination of human and capital resource (known as Total Factor Productivity). At a macro-economic level, the majority of productivity indices involve measures relating to per capita GDP, with an increasing recognition of the greater sensitivity of GDP per capita per hour (Investors in People UK, 2001, 1).

Quality of Life A national culture attribute that emphasizes relationships and concern for others (Robbins, 1998, 138).

Quantity of Life A national culture attribute describing the extent to which societal values are characterized by assertiveness and materialism (Robbins, 1998, 138).

Recruitment The process of generating leads, inviting candidates, interviewing candidates, making offers, and hiring (based on: Dessler, 2003, 98).

Relationship Orientated Fiedler labels an individual 'relationship oriented' if an individual is primarily interested in good relations with co-workers, where even the least preferred co-worker is described in relatively positive terms (Robbins, 1998, 355).

Rural Relating to, or characteristic of the country or of people living in the country (Webster, 1991, 872). Rural is the opposite of urban.

Short-term Orientation The opposite of long-term orientation; together, they form a dimension of national culture originally labeled 'Confucian dynamism'. Short-term orientation stands for the fostering of virtues related to the past and present, in particular respect for tradition, preservation of 'face', and fulfilling social obligations (Hofstede, 1997, 262).

Socialization The acquisition of the values and practices belonging to a culture, by participating in that culture (Hofstede, 1997, 263).

Strategic Human Resource Management The linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility (Dessler, 2003, 534).

Strategy Actions managers take to attain the firm's goals (Hill, 2000, 681). The company's long-term plan for how it will balance its internal strengths and weaknesses with its external opportunities and threats to maintain a competitive advantage (Dessler, 2003, 6).

Subsistence Economy An economy not based on money and in which there is little or no buying and selling, though there may be bartering (Webster, 1991, 987).

SWOT Analysis The overall evaluation of a company's strengths, weaknesses, opportunities, and threats (Kotler, 2000, 76).

Task Orientated Fiedler labels an individual 'task oriented' if an individual is primarily interested in productivity (Robbins, 1998, 355).

Traditional Elite In traditional society in Africa, the leaders – often elders in family clans – form a distinct group; called the traditional elite. The main criterion for joining the traditional elite class is old age itself (Ukpabi, 1990, 22-23). See also *Modern Elite*.

Uncertainty Avoidance The extent to which members of a culture feel threatened by uncertain or unknown situations. One of the dimensions of national culture; ranges from weak to strong (Hofstede, 1997, 263). The degree to which people in a country prefer structured over unstructured situations. In countries that score high on uncertainty avoidance, people have an increased level of anxiety, which manifests itself in greater nervousness, stress, and aggressiveness (Robbins, 1998, 138).

Urban Relating to, belonging to or characteristic of a city or town or of people living in a city or town (Webster, 1991, 1082). Urban is the opposite of rural.

Values Basic convictions that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence (Robbins, 1998, 132). Broad tendencies to prefer certain states of affair over others (Hofstede, 1997, 263).

Workforce Diversity The increasing heterogeneity of organizations with the inclusion of different groups (Robbins, 1998, 13).

List of Abbreviations

AAU	Addis Ababa University
ADLI	Agricultural-Development Led Industrialization
ANDM	Amhara National Democratic Movement
CELU	The Confederation of Ethiopian Labor Unions
CEO	Chief Executive Officer
CETU	The Confederation of Ethiopian Trade Unions
DBA	Doctor of Business Administration
EEA	The Ethiopian Economic Association
EIA	Ethiopian Investment Authority
EIIPD	Ethiopian International Institute for Peace and Development
EMI	Ethiopian Management Institute
EMPA	The Ethiopian Management Professionals Association
EPA	Ethiopian Privatization Authority
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
ETC	Ethiopian Telecommunications Corporation
EU	European Union
FDI	Foreign Direct Investment
FEACC	Federal Ethics and Anti-Corruption Commission
GDP	Gross Domestic Product
HDI	Human Development Index
HR	Human Resources
HRD	Human Resources Development
HRIS	Human Resources Information System
HRM	Human Resource Management
ICFTU	International Confederation of Free Trade Unions
ICT	Information and Communication Technology
IES	Institute for Ethiopian Studies
ILO	International Labor Organization
IMF	International Monetary Fund
ISI	Import-Substituting Industrialization
IT	Information Technology
KM	Knowledge Management
MNC	Multinational Company
NGO	Non-Governmental Organization
OAU	Organization for African Unity (now African Union)
OB	Organizational Behavior
OECD	Organization for Economic Cooperation and Development
OPDO	Oromo People's Democratic Organization
OSSREA	Organization for Social Science Research in Eastern Africa
PA	Performance Appraisal
REWA	Revolutionary Ethiopian Women Association
RKC	Robert Kennedy College
ROI	Return on Investment
RPI	Retail Price Index (Addis Ababa)
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TPLF	Tigray People's Liberation Front
UK	United Kingdom

UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNMEE	United Nations Mission for Ethiopia and Eritrea
US	United States
WFP	World Food Programme
WPE	Workers' Party of Ethiopia

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