

# What is the meaning of compensation

[Psychology](#), [Motivation](#)



Which meaning of compensation seems most appropriate from an employee's view: Return, reward or entitlement? Compensation and Benefits remain as an invaluable tool to attract, motivate and retain qualified candidates. Compensation refers to the wages and other non-financial forms of compensation that an organisation pay to employees for the work they do. Compensation can be given out to employees in the form of pay, incentives, and benefits for performing their job.

A total compensation and benefits package aids the organisation in increasing and maintaining the individual's and team's morale, encouragement towards peak performance, achieve internal and external equity, and increases employees' loyalty to the organisation. When employees see compensation as a form of entitlement, they might feel that this compensation is unconnected with their accomplishment. Compensation systems are meant to attract, retain and motivate employees. When employees see their compensation as a form of entitlement, the motivation effect ceases.

Employee reward and recognition programs are one method of motivating employees to change work habits and key behaviours. Employee reward systems refer to programs set up by a company to reward performance and motivate employees on individual and/or group levels. They are normally considered separate from salary but may be monetary in nature or otherwise have a cost to the company. Reward systems may be used as a tool to lure top employees in a competitive job market as well as to increase employee performance.

Though employee recognition programs are often combined with reward programs they retain a different purpose altogether. They are intended to provide a psychological—rewards a financial—benefit. Although many elements of designing and maintaining reward and recognition systems are the same, it is useful to keep this difference in mind, especially for small business owners interested in motivating staffs while keeping costs low. In designing a reward program, a small business owner needs to separate the salary or merit pay system from the reward system.

Financial rewards, especially those given on a regular basis such as bonuses, profit sharing, etc. , should be tied to an employee's or a group's accomplishments and should be considered " pay at risk" in order to distance them from salary. By doing so, a manager can avoid a sense of entitlement on the part of the employee and ensure that the reward emphasizes excellence or achievement rather than basic competency. Merit pay increases, then, are not part of an employee reward system. Normally, they are an increase for inflation with additional percentages separating employees by competency.

They are not particularly motivating since the distinction that is usually made between a good employee and an average one is relatively small. In addition, they increase the fixed costs of a company as opposed to variable pay increases, such as bonuses, which have to be " re-earned" each year. Finally, in many small businesses teamwork is a crucial element of a successful employee's job. Merit increases generally review an individual's

job performance, without adequately taking into account the performance within the context of the group or business.

Types of Reward Programs include: Variable Pay, Bonuses, Profit Sharing, Stock Options, Group-based reward systems, Bonuses are generally short-term motivators. By rewarding an employee's performance for the previous year, they encourage a short-term perspective rather than future-oriented accomplishments. In addition, these programs need to be carefully structured to ensure they are rewarding accomplishments above and beyond an individual or group's basic functions. Otherwise, they run the risk of being perceived of as entitlements or regular merit pay, rather than a reward for outstanding work.

Proponents, however, contend that bonuses are a perfectly legitimate means of rewarding outstanding performance, and they argue that such compensation can actually be a powerful tool to encourage future top-level efforts. Recognition Program While most employees certainly appreciate monetary awards for a job well done, many people merely seek recognition of their hard work. For an entrepreneur with more ingenuity than cash available, this presents an opportunity to motivate employees. Cash is no longer the ultimate motivator.

Non-cash awards tend to be more effective; the exception was rewarding increasing sales. Non-cash awards programs would work better than cash in such cases as reinforcing organizational values and cultures, improving teamwork, increasing customer satisfaction and motivating specific behaviors among other programs. One problem associated with many

compensation systems is the lack of employee involvement. Though it has been stated that reward in most cases has more motivation, attraction and retention effects, it might not be so for some employees.