**Impact of Compensation on Employee Morale**

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**Introduction**

Employee morale is instrumental in the performance and health of any organizational entity and symbolizes employees' collective perception, happiness, and expectancy. Fair remuneration entails wages, salary structure, and other associated factors such as emoluments and incentives. When employees feel that they are fully compensated for their work, they become satisfied and motivated to work better, increasing productivity (Sudiardhita et al., 2018). Any rate of pay that is reasonably standard and commensurate with the job can improve the workers' morale since it will be seen as a sign that they are valued for their work. On the other hand, low rewards result in discontent or low job satisfaction and poor morale, hence high turnover. This essay seeks to explain how compensation has continued to have both a positive and negative on the morale of an employee.

**Direct Financial Compensation**

**Base Salary**

The first and most apparent form of remuneration is the wage or the salary paid to the employees. Reasonable and competitive rates of pay are crucial in retaining the best talents. When the employees contend that their wages meet their expectations, the likelihood of them feeling valued or motivated is high. On the other hand, underpayment brings about feelings of dissatisfaction, low morale, and increased turnover (Soria, 2019).

Several studies assert that when the salary received is felt by the employees to be adequate, there is improved job satisfaction and morale among workers. Equity Theory, which John Stacey Adams advocates, espouses that employees always strive for a fair ratio of inputs they deposit at the workplace, such as effort, experience or skills, and the number of outputs they reap in the form of organizational rewards or compensation (Stafford, 2018). Such imperfections in this balance may cause feelings of inequity and, consequently, low morale.

**Bonuses and Incentives**

According to Salah (2016), rewards and incentives are other compensation forms that can motivate and encourage employees. That can encourage the employees. They may be issued concerning an individual worker, a group of workers, or even the organization as a whole. Since the bonuses provided are performance-based, the employees get motivated to improve their performance and achieve their goals and objectives to be rewarded.

Nevertheless, it is very important to offer transparency concerning these bonuses. Suppose the employees in an organization feel that the bonus system applied in the company is unfair or planned randomly. In that case, the employees will be demotivated and lose their trust in the company. Not only do the criteria communicated to the employee need to be measurable and achievable, but the rewards must be seen as valuable and worth the effort expended to meet company goals or standards, thus improving morale through recognition of effort (Gallus & Frey, 2016).

**Indirect Financial Compensation**

**Benefits and Perks**

Besides monetary incentives, incentive and reward schemes are known to go a long way in enhancing employee motivation as Lazear (2018) claims. According to Thuo & Wambugu (2022), welfare practices like pension schemes, medical cover, and paid leaves, among other provisions, also enhance employee compensation. Comprehensive benefits are useful in enhancing employee morale as they help increase job satisfaction and minimize stress. For example, health insurance helps employees and their families through family health care, alleviating health concerns through insurance. Likewise, company-sponsored retirement plans give workers the financial protection they need later in their working years, boosting loyalty and commitment to the employer.

**Work-Life Balance**

Flexible working hours, remote working, and employees' leave also affect morale, a form of compensation that enables workers to balance their work and family lives. People with a work-life balance feel content and are likely to work harder than those who feel an imbalance in their work and family life. Such benefits help organizations lower absenteeism and employee turnover rates since they give them more control over their schedule and responsibilities (Abid & Barech, 2017).

**Psychological Impact of Compensation**

**Recognition and Valuation**

Compensation is one way that companies use as a tangible measure to demonstrate how much they appreciate their workforce. Employees get motivated when their remuneration package meets or is close to market standards. This recognition can go a long way to improve morale, giving employees a feeling that their efforts are fully appreciated. On the other hand, remuneration that is not satisfactory will create a perception of low worth, which may lead to a lack of morale. This low morale may demoralize the employees and make them feel that the efforts they keep putting into the organization are not being valued (Ali & Anwar, 2021).

**Motivation and Job Satisfaction**

Financial rewards are directly connected to motivation. Alfayad & Arif (2017) state that in Herzberg's Two-Factor Theory context, compensation is a hygiene factor that may help avoid discontent but does not enhance satisfaction. However, the feeling that the compensation is inadequate is one of the factors that can cause dissatisfaction and lack of motivation. On the other hand, proper and competitive remuneration can result in high job satisfaction. Employers get more from their workers if they are satisfied with the remunerations offered to them in the workplace. It can also result in increased performance and productivity and a more positive attitude at the workplace.

**Organizational Impact of Employee Morale**

**Productivity and Performance**

When employee morale increases because they feel that their compensation translates directly to their effort, their performance and productivity also increase. In another view, motivated employees work harder to contribute to the goals and objectives of the organization. They are also capable of demonstrating problem-solving and innovation skills, which are essential qualities to the success of the company (Lipuku et al., 2022; and Huo, 2020).

**Retention and Turnover**

Another facet of compensation and morale concerns is the influence compensation practices have on the retention of employees. Offering its employees a competitive compensation package reduces turnover rates as employees develop commitment and satisfaction with their jobs. High turnover rates lead to some detrimental effects for organizations, most of which are fiscally related but also include the loss of valuable employees. Organizations can attract and keep only highly qualified and motivated workers through proper compensation, who, in turn, contribute to the companies' success and reputation (Pertiwi & Supartha, 2021).

**Organizational Culture**

Compensation is also considered to influence the organizational culture. A culture that supports its employees and pays them as per their worth promotes employees' dignity and drives them to work harder. This positive culture can improve communication, teamwork, and collaboration, thus increasing morale (Pawirosumarto, 2017).

**Conclusion**

Compensation is one factor defining an organization's employees' motivation. Hence, while match pay – basic wage, bonuses, commissions, and other perks- affects the perception of fairness and value, other factors include job satisfaction, working hours, and appreciation. When compensation is received adequately, it leads to high job satisfaction, motivation, and productivity. It also enhances staff retention and fosters the best organizational climate. Conversely, a lack of incentives leads to dissatisfaction, low morale and high turnover. Therefore, compensation systems should be carefully planned, logically built, and reasonable to ensure that they gain the support of the employee and the organization. As a result, they can enhance employee satisfaction, improving the organization's functionality in the process.

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