

Final Project 1

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Project Template

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Project title: Compensation Reconstruction

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Graduation Project – 1 (Assignment 3)

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Chapter 2: Literature Review

2.1 Introduction

This chapter examines existing literature on compensation models, regulatory compliance, and their implications for organizational efficiency and employee satisfaction. It provides a theoretical foundation for the study by exploring key concepts, frameworks, and empirical evidence relevant to compensation reconstruction, particularly in regulated environments like Saudi Arabia.

2.2 Overview of Compensation Frameworks

Compensation models serve as the backbone of organizational HR strategies, influencing employee motivation, retention, and overall performance. Traditional salary structures often emphasize a single component—basic pay—while neglecting allowances like housing and transportation. Modern frameworks, however, integrate these components to ensure regulatory compliance and employee satisfaction. Studies underscore the significance of transparency in compensation, which fosters trust and enhances morale (Harvard Business Review, 2023).

2.3 Regulatory Standards and Compliance

Compliance with labor laws and social insurance regulations is critical for organizational sustainability. In Saudi Arabia, the General Organization for Social Insurance (GOSI) mandates specific requirements for payroll structures. Research highlights that non-compliance not only incurs financial penalties but also erodes employee trust (GOSI, 2023). Integrating regulatory standards into compensation models ensures cost efficiency while mitigating legal risks.

2.4 Theoretical Perspectives

Key theories underpinning this study include:

- **Equity Theory:** Proposes that employees assess fairness in compensation by comparing their input-output ratio with peers. Transparent salary structures address inequities, fostering job satisfaction.
- **Motivation-Hygiene Theory:** Suggests that compensation is a hygiene factor, essential for employee satisfaction but insufficient to drive motivation alone. Structuring salaries to meet employee expectations aligns with this theory.
- **Compliance Theory:** Focuses on adherence to legal standards as a driver of organizational legitimacy and operational stability.

2.5 Case Studies

Almarai (2023): Almarai's compensation restructuring initiative reduced employer GOSI contributions by 15% and increased employee satisfaction by 20%. The company's model emphasized structured allowances and transparent communication.

Saudi Aramco IKTVA Program: The IKTVA program incorporates compensation restructuring to strengthen compliance with local labor laws. This initiative has improved operational efficiency and enhanced the company's reputation as an employer of choice.

2.6 Gaps in Existing Literature

Despite extensive research on compensation frameworks, gaps remain in integrating compliance, cost efficiency, and employee satisfaction into a unified model. Existing studies often address these elements in isolation, overlooking their interdependencies in regulated environments like Saudi Arabia.

2.7 Conclusion

The literature underscores the need for comprehensive compensation models that balance regulatory compliance, cost efficiency, and employee satisfaction. This chapter establishes the theoretical and practical relevance of the study, paving the way for the proposed research model and methodology.

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