

# The reality of implementing strategic compensation practices for workers in industrial organizations

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## Abstract

This research aims to analyze the current state of implementing strategic compensation practices at Al-Ittihad Food Industries Co. Ltd. in Babil Governorate, with a specific focus on two dimensions: competency-based compensation and performance-based compensation. The study adopted a descriptive-analytical approach; data were collected using a questionnaire distributed to 75 employees, 65 of which were retrieved and deemed valid for analysis using SPSS software (Version 26). The results revealed a high level of employee perception regarding the importance of strategic compensation practices and their role in developing professional competencies, improving service quality, and meeting beneficiary needs. Furthermore, the findings demonstrated that these practices contribute to enhancing employee motivation, boosting productivity, and strengthening organizational loyalty. Conversely, no statistically significant differences or significant correlational relationships were observed between demographic characteristics and the level of perception regarding these practices, suggesting a consistency in employee attitudes regardless of their personal differences.

Keywords: Strategic Compensation, Competency-Based Strategic Compensation, Individual Performance-Based Compensation, Al-Etihad Food Industries Company Limited.

## Abstrak

Penelitian ini bertujuan untuk menganalisis kondisi terkini implementasi praktik kompensasi strategis di Al-Ittihad Food Industries Co. Ltd. di Provinsi Babil, dengan fokus khusus pada dua dimensi: kompensasi berbasis kompetensi dan kompensasi berbasis kinerja. Studi ini mengadopsi pendekatan deskriptif-analitis; data dikumpulkan menggunakan kuesioner yang dibagikan kepada 75 karyawan, 65 di antaranya dikembalikan dan dianggap valid untuk analisis menggunakan perangkat lunak SPSS (Versi 26). Hasil penelitian menunjukkan tingkat persepsi karyawan yang tinggi mengenai pentingnya praktik kompensasi strategis dan perannya dalam mengembangkan kompetensi profesional, meningkatkan kualitas layanan, dan memenuhi kebutuhan penerima manfaat. Lebih lanjut, temuan menunjukkan bahwa praktik-praktik ini berkontribusi pada peningkatan motivasi karyawan, peningkatan produktivitas, dan penguatan loyalitas organisasi. Sebaliknya, tidak ditemukan perbedaan yang signifikan secara statistik atau hubungan korelasional yang signifikan antara karakteristik demografis dan tingkat persepsi mengenai praktik-praktik ini, yang menunjukkan konsistensi dalam sikap karyawan terlepas dari perbedaan pribadi mereka.

Kata kunci: Kompensasi Strategis, Kompensasi Strategis Berbasis Kompetensi, Kompensasi Berbasis Kinerja Individu, Al-Etihad Food Industries Company Limited.

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## 1. Introduction

In addition to being a high-cost component due to the size of the financial allocations given to them, compensation systems have a direct impact on retaining talent, motivating them, and increasing their level of job satisfaction, making them one of the essential elements of successful human resources management strategies. Whether or not an organization's competitiveness is enhanced depends critically on the design of a fair and economical compensation plan. As a result, choices on pay scales and distribution methods are essential strategic choices that have an impact on the profitability and long-term viability of the company (Sorn et al., 2023).

Base salary, financial incentives, and fringe benefits are often combined in compensation plans. The need for people to acquire new skills and competencies is growing as the rapid technological advancements change the modern workplace, underscoring the need to create compensation plans that adapt to these on going changes. Given that financial incentives are a key factor in attracting employees, many large organizations are eager to implement efficient pay plans that help attract and retrain exceptional talent (Besette, 2014). Gerhart et al. (2009) argue that compensation is a strategic tool that transcends mere financial compensation, contributing to employee motivation, talent attraction, and retention. Individuals value competitive wages coupled with comprehensive benefit packages, such as retirement and health insurance.

Therefore, strategic compensation management enhances an organization's attractiveness and improves its ability to retain human capital, transforming the compensation system into a means of fostering organizational loyalty and trust. This necessitates the adoption of flexible policies that respond to environmental changes, Kaisara & Pansiri (2012) also stress the necessity for institutions to embrace a future view in their compensation strategies, moving beyond the bounds of conventional practices and customary payment systems. The strategic approach to compensation is predicated on determining what is required to strengthen the organization's competitive advantage and then creating compensation plans that facilitate the accomplishment of its strategic goals. As a result, the pay policy plays a crucial role in guiding the organization's vision and objective and improving its capacity to attain institutional excellence and sustainability.

In conclusion, the incentive system ought to be created in a way that both contributes to more successful results and is in line with the organization's overarching aims. As a result, compensation plans need to balance cost and effectiveness while being effective and able to meet established corporate goals. Managers must make well-informed decisions regarding how well payment systems conform to market norms and trends in light of the fact that many firms are implementing creative compensation plans that are closely correlated with overall organizational performance levels. This study contributes to enriching the existing literature by providing an applied analysis of strategic compensation practices within the food industries sector specifically within of

a private enterprise as AL-Etihad Food Industries Company a field that remains in need of further empirical investigation.

## **2. Literature Review**

### **The concept of strategic compensation**

Economic and psychological theories emphasize how crucial it is to match compensation plans with the demands and procedures of labor market human resource management, which are often divided into three primary categories: motivation, retention, and attractiveness. In order to improve organizational performance, the strategic compensation hypothesis is predicated on creating an integrated mix of compensation instruments that complement the organization's strategy. The primary distinction between the traditional and strategic approaches is that the former concentrates on paying workers according to the skills listed in the job description, whereas the latter focuses on the employee's actual level of competence and skills, helping to achieve organizational goals, developing knowledge and skills, improving flexibility, retaining talent, and boosting productivity (da Silva et al., 2016).

Karimi & Singh (2004) define a compensation strategy as an organizational plan that establishes the quantity and timing of employee wages and is flexible enough to accommodate shifting company requirements. This approach improves the organization's capacity to draw in and keep talent by including elements of monetary remuneration and work benefits. According to Davis & Gabris (2008), compensation systems can be used as a tool to promote organizational performance by implementing a performance-based compensation system or by offering greater wages. They also represent an organization's competitiveness in a changing business climate.

However, Anvari et al. (2014) stress that strategic compensation seeks to accomplish organizational objectives through fair procedures that take into account both internal and external work distinctions, hence boosting employee motivation and commitment. Since successful remuneration is linked to higher levels of emotional commitment and organizational performance, it plays a crucial role in influencing attitudes and actions at work. According to Larkin (2019), the organization's position in the labor market, the overall compensation level, reward principles, and baseline salary determination criteria are all defined by the compensation plan, which is a crucial component of human resource strategy. Because it directly affects the organization's cost structure, this approach is usually approved by the board of directors and carried out by senior executive management. Compensation plans, according to Indeed Editorial Team (2021), describe how businesses decide on employee perks and pay scales, including establishing compensation ranges, conducting performance reviews, and encouraging employee loyalty. The fundamental elements of the compensation system include a base salary, commissions, bonuses, overtime compensation, paid time off, and flexible scheduling; making sure that compensation policies align with business goals and HR strategies; and gaining a long-term competitive advantage.

### **Objectives and importance of the strategic compensation program**

According to Malik (2018), companies need to create internally consistent compensation plans that are both vertically and horizontally connected with other HR systems from a strategic standpoint. This keeps them competitive in the job market, which helps draw in and keep top people. By creating competitive pay plans that are in line with the organization's budget, labor market demands, and pertinent government requirements, compensation management seeks to attract, motivate, and retain people. According to James et al. (2024), attracting talent, boosting employee motivation, maintaining high morale, and ensuring compliance with relevant laws and the organization's compensation philosophy, while considering current labor market dynamics, are the primary objectives of compensation management. These objectives can be achieved by offering competitive salaries, attractive benefits, a variety of incentives and rewards, as well as employee wellbeing initiatives, retirement plans, and insurance that supports job security and employee satisfaction.

According to Sandbach (2020), the majority of HR professionals understand that achieving fair pay while staying within the company's budget is the primary goal of compensation management. Nonetheless, by comprehending how compensation management affects business results, compensation systems can be used more successfully to attain organizational excellence. The following are the primary goals of compensation management: The first is attracting top talent by creating competitive compensation plans; the second is improving employee retention and rewarding them through fair and performance-based pay, which increases productivity; the third is motivating employees and boosting their engagement and job satisfaction by making sure they feel their efforts are fairly recognized; the fourth is ensuring compliance with pertinent federal regulations and legislation, which maintains fairness and protects the organization from legal risks; and the fourth is maximizing return on investment by creating effective and balanced compensation plans that increase productivity and maintain employee satisfaction.

Similarly, Roque (2020) notes that in addition to issues with attaining salary equality and making efficient investments in human resources, the lack of a clear, methodical framework for wage decision-making can make it difficult to draw in and keep talent. A number of factors emphasize the significance of benefits and compensation plans as well as compensation methods in raising organizational value, chief among them being: First, financial planning and budgeting, where a well-defined pay approach helps to reduce inconsistent judgments that could jeopardize internal fairness and precisely estimate recruitment expenses and wage increases. The second strategy is to draw in talent by crafting a value proposition that appeals to qualified applicants who appreciate the combination of material and non-material pay and perks. Third, keeping skilled workers by guaranteeing internal and external wage equity, restricting their transfer to rival companies, and routinely assessing the compensation system to guarantee the sustainability of equity. Fourth, putting in place fair wage standards that guarantee equality and lower the legal risks related to discrimination through uniform regulations and wage gap assessments.

The Indeed Editorial Team (2021) claims that compensation methods improve the organization's strategic value by aiding in the methodical management of pay. The following are the main goals of creating and executing a compensation plan: First, encouraging employees to boost productivity in a favorable work environment and supporting company goals by tying incentives and awards to actual performance. Second, enhancing hiring and retention procedures by implementing competitive pay plans that draw and keep skilled workers. Third, smart financial planning is made possible by efficiently managing the budget by precisely assigning cash for bonuses and raises. Fourth, advancing the idea of equity and justice in pay by creating transparent and unambiguous compensation plans that recognize exceptional work, thereby fostering a high-performance culture and motivating staff to keep improving.

### **Strategic compensation practices**

Strategic compensation involves designing incentive systems that align employee rewards with an organization's long-term goals, performance standards, and competitive strategy. Unlike traditional pay structures focused on job roles and internal equity, it integrates compensation with broader HR and business strategies to drive desired behaviors and outcomes. This approach combines direct rewards such as salaries, bonuses, and incentives with indirect rewards, including benefits and recognition programs. By linking pay to organizational performance, strategic compensation enhances motivation, attracts and retains talent, and fosters sustainable competitive advantage. According to (Al-Ma'adhedee & Al-Fiky, 2021), strategic compensation techniques include both performance-based and competency-based remuneration.

### **Competency-based strategic compensation**

Praveen and Karuppasamy (2017) emphasized the significance of implementing a compensation system that links pay to an individual's competency level and its value in the external market, hence reflecting their market value. This strategy supports the growth of an organization built on continuous learning by increasing employee motivation to gain the skills and knowledge required to increase their productivity while also permitting wage increases commensurate with their increasing market value. The researchers also stress that in order to stay competitive in the job market, competency-based remuneration plans prioritize excellent performance and encourage personal accountability for professional growth. These systems, which motivate workers to reach desired salary levels by improving their competences and professional performance, are characterized as wage structures based on an individual's abilities, knowledge, and experience rather than job title.

According to Lawler (1994), competency-based remuneration, which emphasizes people and their skills rather than the jobs themselves, provides an alternative to conventional job evaluation techniques for establishing base pay. Individuals are rewarded based on their possession of different skill sets, and the talents that the organization requires are seen as the fundamental unit of analysis. A worker in a production system may be paid more if they learn how to run more machines or carry out support duties like maintenance and inspection. Employees may be compensated

for developing sophisticated abilities in hardware, software, and management consulting in complicated work environments like the information services industry. To guarantee a successful return on the organization's investment in human capital, these systems rely on the integration of skills evaluation, certification, pay scale determination, and training programs. In contrast to standard performance appraisal, this system focuses on determining an individual's level of skills and capabilities rather than just the caliber of their work during a given time frame.

Hon (2012) went on to say that one of the most crucial human resource management strategies for encouraging innovation is competency-based remuneration plans. The mix of abilities, information, and behaviors required for successful performance is known as competence. High achievers constantly exhibit these skills through more reliable and productive work practices. As a result, competency-based compensation is a smart approach for a company to reward and acknowledge the expertise, abilities, and consistent professional behavior of its workers.

According to Manalo & Valenzuela-Manalo (2010), a competency-based pay system must be developed as a strategic organizational intervention since human resources are essential to an organization's success. The researchers stress that to guarantee this system's efficacy, all stakeholders from employees to senior management must be involved. They suggest a three-phase framework for putting this system into practice: identifying competencies within the organization based on the duties and accomplishments of each job, and then developing them based on those responsibilities; creating reward frameworks, objectives, and guidelines through employee collaboration to define performance standards for each competency; and holding regular performance reviews to talk about each employee's performance and set goals for the next period. This framework is unique in that it measures behavioral skills in addition to functional competencies.

### **Individual performance-based compensation**

In skill-based systems, pay is determined by how much an individual uses their skills over a given time period. The quality of task performance is the main focus when job enrichment is used as a work design technique. However, an individual's contribution to team performance may also be evaluated, which means that, where measurable, a portion of remuneration must be linked to the degree of these contributions. Determining each team member's function might be difficult, but peer evaluations that connect individual contributions to compensation can help. Linking rewards to the success of the team, unit, or organization as a whole is an alternative to individual performance-based pay that promotes the desire to perform and a sense of control over group outcomes. Additionally, because profit-sharing schemes more obviously demonstrate the collaborative aspect of the company, they are more suitable in skill-based work cultures. Performance-based compensation often seeks to compensate workers for meeting objectives and doing high-quality work, increasing their sense of recognition and encouraging them to stay with the organization (Lawler, 1994).

According to Uen & Chien (2004), the idea of performance-based remuneration means that an employee's productivity or the caliber of their work performance determines the worth of compensation. However, this kind of compensation plan's administration and execution procedures are its worst flaw. Additionally, the researchers clarified that organizational practices and design flaws may limit the efficacy of performance-based compensation. In order to overcome these obstacles, they stress how crucial it is for people performing the evaluation to have a deep comprehension of the behaviors linked to job performance in addition to developing precise and objective performance measurement techniques. Additionally, certain job categories and organizational settings with minimal levels of coordination and supervision are appropriate for individual performance-based compensation.

However, according to Barnes et al. (2012), selecting the right compensation plan is essential to luring top personnel. One efficient way to do this is through a performance-based payment system, which offers monetary incentives when predefined goals are met. This approach, commonly known as "pay for performance," is a type of monetary reward given to staff members who go above and beyond expectations and perform exceptionally well in their roles. When an employee exceeds the employer's expectations, they are given bonuses in addition to their base pay. Organizations should create accurate performance measuring systems and set exact standards for deciding on performance-based awards in order to guarantee the efficacy of this system.

### **Research hypotheses**

The literature in human resource management indicates that compensation strategy is one of the most important theoretical frameworks explaining the use of performance-based pay systems. It posits that linking pay to performance results contributes to aligning employee interests with organizational goals and enhancing productivity levels. Fulmer et al. (2023) demonstrated that compensation is a strategic tool that directly impacts the achievement of organizational goals, rather than simply an operational element. Larkin et al. (2012) also showed that performance-based pay systems influence employee behavior and motivation, both positively through incentives and negatively through social comparisons, underscoring the importance of employee awareness of these practices. In a recent literature review, Larkin & Pierce (2015) noted a long-standing relationship between compensation and performance, spanning more than three decades of research. Financial incentives linked to performance contribute to improved work outcomes, although the degree of impact varies depending on individual and organizational characteristics. Furthermore, other studies (Scott et al., 2015; Guo et al., 2016; Cobb et al., 2022) have shown that employees' responses to compensation systems can vary according to demographic factors such as age, experience, and education, which in turn affects their acceptance of these systems. Therefore, the following hypotheses are based on this theoretical and research foundation linking strategic compensation to employee perceptions and demographic factors.

Hypothesis1: Al Etihad Food Industries Limited employees are not sufficiently aware of the significance of implementing strategic pay approaches, such as performance-based and competency-based remuneration.

Hypothesis2: Al Etihad Food Industries Limited employees' perceptions of the application of competency-based and performance-based strategic compensation practices do not differ statistically significantly based on demographic factors (gender, age, educational attainment, and years of service).

Hypothesis3: The perception of the significance of implementing strategic compensation practices (competency-based and performance-based) at Al Etihad Food Industries Limited is not statistically correlated with demographic variables (gender, age, educational attainment, and years of service).

### **3. Research Method**

The study sample consisted of employees of Al-Ittihad Food Industries Company Limited in Babylon Governorate. Data were collected using a paper questionnaire consisting of two sections: the first for demographic data, and the second to measure the sub-dimensions of the strategic compensation variable. Distribution of the questionnaire to employees was approved by senior management. Statistical analyses were conducted using SPSS software (version 26), employing the following methods according to the nature of the hypotheses: Cronbach's alpha coefficient to assess reliability; internal consistency to measure item homogeneity; frequencies and percentages to describe demographic characteristics; arithmetic means and standard deviations to assess the level of implementation of wage strategies; one-way analysis of variance (ANOVA) to test for differences; and chi-squared correlation to reveal the relationship between strategic compensation methods and employees' personal characteristics.

The primary variable in the study was strategic compensation practices. Measures of these practices, both competency-based and performance-based, were derived from existing research instruments, specifically a questionnaire (Al-Madhi and Al-Faqi, 2021) designed to measure such practices. This questionnaire consisted of seven items for each practice: (cbsc1-cbsc7) competency-based strategic compensation items and (pbsc1-pbsc7) performance-based strategic compensation items. Participants were asked to indicate their level of agreement with the statements using a five-point Likert scale (1 = strongly disagree; 5 = strongly agree).

### **4. Results and Discussion**

#### **4.1 Results**

##### **Data Analysis**

The workers at Al-Etihad Food Industries Company Limited in the Babylon Governorate made up the current study population. An 87% response rate was obtained from the distribution of 75 questionnaires to the company's employees, of

which 65 were returned and considered legitimate for statistical analysis. The research sample is described in Table (1).

Tabel 1. Descriptive and demographic profile of participants

Demographic variables	Categories	Frequency	%
Gender	65	%100	65
	0	%0	0
Age	30 years and under	38	%58.5
	31 to 40 years	20	%31
	41 to 50 years	6	%9
	51 to 60 years	1	%1.5
Educational attainment	Preparatory school and below	1	%1.5
	Technical diploma	1	%1.5
	Bachelor's degree	60	%92.5
	Postgraduate studies	3	%4.5
Years of service with the company	5 years and under	37	%57
	6 to 10 years	25	%38.5
	11 to 15 years	3	%4.5

### Measurement Model Evaluation

The Cronbach's alpha coefficients for the scale's internal consistency analysis are shown in Table (2), along with the arithmetic means and standard deviations for the items of the strategic compensation dimensions. The findings show that every item had a large number of replies. The competency-based strategic compensation dimension's arithmetic means varied from 4.02 to 4.35, whereas the performance-based strategic compensation dimension's arithmetic means varied from 3.98 to 4.29. This illustrates how well-informed research participants are about competency-based and performance-based strategic remuneration strategies in their workplace. Additionally, the standard deviations fell within acceptable bounds, suggesting that there was little heterogeneity among the participants and a strong connection between the responses.

Table 2. Description and Diagnosis of The Dimensions Of Strategic Compensation

Items	M	SD	Cronbach's alpha
cbsc1	4.35	0.648	0.779
cbsc2	4.02	0.739	
cbsc3	4.20	0.870	
cbsc4	4.08	0.835	
cbsc5	4.02	0.910	
cbsc6	4.09	0.996	
cbsc7	4.12	1.038	
Strategic compensation based on efficiency	4.13	0.57	0.827
pbsc1	4.14	0.846	
pbsc2	4.06	0.864	
pbsc3	3.98	0.927	
pbsc4	4.11	0.812	
pbsc5	4.29	0.785	
pbsc6	4.08	1.065	
pbsc7	4.14	0.864	
Strategic compensation based on performance	4.11	0.62	0.886
Strategic compensation	4.12	0.59	

According to Sekaran and Bougie (2009), the Cronbach's alpha test results for the scale's internal consistency validity revealed that all values were higher than the statistically acceptable level of 0.70. This validates the research instrument's dependability and appropriateness for assessing the variables being investigated. As a result, the survey's results may be trusted to analyze the research phenomenon and make pertinent conclusions, which helps to provide scientific recommendations that support the validity of the study's methodology and serve its goals.

### Hypothesis testing

The first hypothesis examines the degree to which Al Etihad Food Industries Limited employees understand the significance of putting strategic pay practices that is, competency based and performance-based compensation into practice. Both competency based and performance based compensation had high arithmetic means, reaching (4.125 and 4.114, respectively), surpassing the hypothetical mean of (3), according to the results of the descriptive statistical analysis of the items and dimensions related to strategic compensation, which are shown in Table (2). Additionally, the results revealed comparatively low standard deviation values (0.572 and 0.619, respectively), suggesting that the sample's responses were homogeneous and closely aligned with the arithmetic means. Based on the aforementioned, it can be inferred that Al Etihad Food Industries Limited personnel are well aware of the significance of implementing both competency-based and performance-based strategic pay strategies. As a result, the theory that workers are not sufficiently aware of the significance of these procedures is disproved.

According to the second hypothesis, demographic factors (gender, age, educational attainment, and years of service) do not statistically significantly affect how Union Food Industries Limited employees view the implementation of strategic compensation practices, specifically competency-based and performance-based compensation. A one-way ANOVA test was employed to evaluate this hypothesis, as the table below illustrates.

Tabel 3. Results of One-Way ANOVA

Demographic variables	Source of variation	Sum of squares	d	Average of squares	F	Sig
Age	Between groups	0.941	3	0.314	1.007	0.396
	Within groups	18.989	61	0.311		
	Total	19.930	64			
Educational attainment	Between groups	1.653	4	0.413	1.357	0.260
	Within groups	18.277	60	0.305		
	Total	19.930	64			
Years of service with the company	Between groups	0.503	2	0.251	0.802	0.453
	Within groups	19.427	62	0.313		
	Total	19.930	64			

The F-value for the demographic variables (age, years of service, and educational attainment) was not statistically significant at the significance level (Sig < 0.05), according to the results in Table (3). This indicates that these demographic factors do not statistically significantly affect how employees at Al Etihad Food Industries Limited

view the implementation of strategic compensation practices, specifically competency-based and performance-based compensation. Thus, it is accepted that employees of Al Etihad Food Industries Limited do not perceive the implementation of strategic compensation practices (competency-based and performance-based compensation) differently depending on their age, gender, level of education, and years of service.

Tabel 4. Correlation Between Perception of the Importance of Applying Strategic Compensation Practices and Demographic Variables

	Recognizing the importance SCP			Total
	Medium	High	Very High	
Age				
30 years and under	4	20	14	38
31 to 40 years	2	9	9	20
41 to 50 years	0	4	2	6
51 to 60 years	0	0	1	1
Pearson Chi-Square Value				2.878 <sup>a</sup>
Asymptotic Significance (2-sided)				0.824
Educational attainment				
Preparatory school	0	0	1	1
Technical diploma	0	1	0	1
Bachelor's degree	5	30	25	60
Higher diploma	0	1	0	1
Master's degree	1	1	0	2
Pearson Chi-Square Value				7.942 <sup>a</sup>
Asymptotic Significance (2-sided)				0.439
Years of service with the company				
5 years and under	6	17	14	37
6 to 10 years	0	14	11	25
11 to 15 years	0	2	1	3
Total	6	33	26	65
Pearson Chi-Square Value				5.171 <sup>a</sup>
Asymptotic Significance (2-sided)				0.270

According to the third hypothesis, there is no statistically significant relationship between Al Etihad Food Industries Company Limited's perceived significance of implementing strategic compensation practices, such as competency-based and performance-based compensation, and demographic factors like age, years of service, and educational attainment. As indicated in Table 4, the Pearson Chi-Square correlation coefficient was utilized to evaluate this hypothesis. The aforementioned demographic variables (as independent variables) and the perceived significance of implementing strategic compensation practices (as a dependent variable) do not statistically significantly correlate, according to the table's results, since all variables' asymptotic significance was greater than the 0.05 level. This indicates that the demographic factors function independently and do not help to explain the variations in the research sample's assessment of the significance of putting strategic compensation policies into place. The third hypothesis, which claims that there is no statistically significant correlation between the demographic variables (gender, age, years of service, educational attainment) and the perception of the significance of implementing strategic compensation practices (competency-based compensation, performance-based compensation) at Al Etihad Food Industries Limited, is accepted

in light of these findings. This confirms the independence of these variables from the dependent variable and their lack of influence on the degree of perception among the sample members.

#### **4.2 Discussion**

This study examined the status of strategic compensation practices at Al-Ittihad Food Industries Company Limited in Babylon Governorate, focusing on competency-based and performance-based approaches. The findings demonstrated high reliability and internal consistency of the scale, along with strong organizational awareness and consensus regarding the importance and implementation of these practices. Results indicated that employees recognize the critical role of strategic compensation in enhancing skill utilization, service quality, responsiveness to customer needs, productivity, professional development, and organizational commitment. No statistically significant differences were found in perceptions based on demographic variables, suggesting uniform understanding across employee groups. The study underscores the importance of strategic compensation in improving efficiency, reducing negative workplace behaviors, and supporting organizational effectiveness. It also contributes theoretically by offering a comprehensive framework and practically by providing recommendations to enhance employee capabilities and compensation systems, with broader applicability to private sector organizations.

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