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JUST DESSERTS

It is a simple fact of life if you want to select, retain and motivate talent, you must design a reward strategy that differentiates you from your competition. If you want your company to maximize its potential for success, you must align your employees' aspirations with your business goals, clearly defining your strategic direction and designing management tools (including rewards programs) to support that strategy. A great reward strategy cannot make a bad business strategy successful; however, a bad reward strategy can quickly derail a great business strategy.

INFLUENCES ON REWARDS DESIGN

Many factors influence rewards design. Understanding and carefully considering the potential impact of these factors can help ensure that your rewards programs are appropriately structured to support your company's business objectives. These influencing factors include:

- 1) Environment and organization profile. This includes the maturity of both the organization and the industry in which it competes, its scope of operations, the size and fit within its industry sector, as well as its stakeholder groups (including owners, customers, suppliers, and employees). Finally, government and unions also comprise environmental factors that can influence rewards design.
- 2) Strategy profile. When we discuss strategy, we generally do so in three broad subcategories as follows:
 - General business strategy (GBS): Defining the organization using Michael Porter's classic three-pronged model of cost leadership, product/service differentiation, or focus.
 - Value chain strategy (VCS): Characterizing the organization in terms of how and where it pursues its competitive advantage.
 - Specific business strategy (SBS): Capturing specific choices made around growth and customer relationship strategies.
- 3) Organization capabilities. These factors capture information about core competencies required for success and grouping them into categories (customer interface, products and services, management, people, and technology), as well as considering how an organization competes and tracks critical changes.
- 4) People Strategy. People strategy includes each of the three following subcategories:
 - Organization structure: Analyzing how management to get the company's business done through work, jobs and functions.
 - Organization processes: Defining the management techniques that need to be measured and the management processes that, in turn, defined and determined the measurement criteria.
 - Organization culture: Establishing the norms about how the company and its employees share communication regarding common values and expectations.

LESSONS LEARNED

In our years of working with companies to align rewards programs with business strategy, we have seen many success stories. These successes have consistent and measurable underpinnings.

The Rewards of Well Thought Out Rewards

High-performing organizations use rewards more effectively through three consistent approaches. First, they create alignment between business strategies and reward strategies through consistent words, deeds, and actions. Second, they utilize a broad set of reward tools and techniques to deliver key messages through rewards that are appropriately designed to support short term and long-term organizational goals. Third, they frequently communicate plans, performance expectations, and actual performance results, and refine ongoing rewards programs with experiential data.

“Best practice” in this sphere is a myth; in fact, pursuit of best practice can be misleading and counterproductive. True industry leaders don’t focus on following others’ examples, or even leading the way; rather, they concentrate their efforts on aligning their reward programs with their business strategy. This is in stark contrast to the typical under-performing company’s “me too” approach to rewards, implementing programs either behind the curve or without fully considering the uniqueness of their firms and other important influences.

The percent of organizations indicating that their rewards program and business strategies were not satisfactorily linked is alarming to us, particularly given that this necessary step is neither difficult nor painstaking. It does require sharing and communicating information openly. It also requires understanding objectives, determining how those objectives are accomplished at various organizational levels, and how performance metrics are linked to actual results.

It’s All About “How” NOT “How Much”

Aligning the rewards program to an organization’s business strategy is far more important than the actual value of the rewards themselves. Indeed, when a rewards program is customized to specific organizational goals for a division, department or individual, that program will have a greater influence in driving results. The influence of customization and employee involvement are particularly important in diversified businesses, rapid “turn-around” situations and “point-in-time” business events such as new product launches.

The three critical decisions in reward strategy development are:

- Money – the reward itself
- Mix – the balance of different program components
- Key messages – what the rewards say to employees about organizational values and goals

Surprisingly, experience has illustrated that mix and key messages are far more significant determinants of successful rewards/business strategy alignment than money. Decision-makers need to set priorities and to determine the goals of the reward program:

- Is the company trying to attract individuals or retain existing employees?
- Is the objective to encourage short-term performance or to focus on long-term success?
- Is the company’s goal to encourage individual excellence or to promote team results?
- Does the organization want to encourage risk taking or gradual continuous improvement?

These goal “pairs” are not always mutually exclusive, but developing clearly defined organizational priorities can be of significant assistance in helping to structure rewards program.

Strategy Profile

Organizations employing a cost-based strategy tend to provide total rewards that are below or at the market median level. As one would expect, the effective utilization of variable pay in these companies is significant and necessary.

Organizations that have a product/service differentiation strategy tend to have higher profit margins and pay at or above the market median of the competition. These companies are less concerned about controlling fixed compensation costs.

The third type of general business strategy is a “focus strategy”. Here a company uses either a differentiation or cost-based strategy in a niche (such as a specific market or geography). Specialized knowledge of the competitive framework (cost/differential) and the realities of niche are key to the success of the focus strategy. As a result, the people with this be highly specialized knowledge will be paid a premium above market. The economics of the focus strategy will generally determine how much of a premium is necessary and who receives it.

People Strategy

Leading companies connect their workforces and their business strategies through the effective articulation of a distinct “people strategy”. The three faces of a pyramid best define a “people strategy”. Those three sides of the people strategy pyramid are: organization structure, processes, and culture. The effectiveness of each “side” of the people strategy determines how successful the organization is in executing the business plan. The people strategy in aggregate outlines the framework for the systems a company uses to select, develop, retain, mobilize and compensate its workforce. Its goal is to translate business strategy into action. A reward strategy that is systematically re-evaluated within a well-designed people strategy can yield powerful results.

THE ROLE OF COMPENSATION IN CHANGE MANAGEMENT

Many compensation programs fail to meet organizational objectives. One reason for this may be that compensation programs have not kept up with the pace of organizational change. Companies that do not address rewards at the same time they are redesigning their business strategy will lag behind the competition and employees will be uncertain about corporate direction. Successful organizations make sure their reward strategy changes as the company changes and use rewards to communicate new expectations and key messages.

CONCLUDING CAVEATS

Never before have organizations been required to change, innovate, and execute with such urgency. The added pressure of the economic crisis and the focus, especially on executive compensation programs, herald a new age for rewards. No company can risk leaving compensation policies changed or at least unexamined. Compensation cannot be left like a tool rusting on a shelf. It is time now to take down this tool, refit it, and use it effectively.

Developing an effective reward program takes imagination and effort. Every organization has differentiating characteristics and factors influence each organization in a different way. Accordingly, there is no single algorithm, model or paradigm that covers every situation. Nonetheless, there is a simple formula for success. Align business, people, and reward strategies and an organization can compete in even the most difficult environment.