

Compensation: Connecting Strategy and Rewards - by Anne Howard
(Part 3 of a 3 part Series on Compensation)

My last newsletter article talked about the importance of taking a strategic approach to compensation. I commented that two distinctly different business strategies would necessarily have very different compensation approaches.

A natural question: "What might the two different compensation approaches look like?" was sent by a reader. The following is one example of what the differences might look like.



Business Strategy	Innovator & Industry Leader	Efficient Production - Established Product/Service
External Environment	Rapid Change	Rapid Change
Key Performance Demands	Idea Sharing, Risk Taking, Transformation/Elimination of Existing Products/Service	Increased Productivity, Process Improvement, Reduction of Waste
Compensation Model	High Proportion Of Cash Compensation At-Risk. At-Risk Rewards Generated By Specific Achieved Results Individual/Team/Company Results Rewarded Equally. Equity A Key Focus Of The Compensation Package.	Balance Of Fixed And At-Risk Cash Compensation. At-Risk Rewards Provided Based On Sustained Incremental Change. Profit Sharing The Focus Of The At-Risk Rewards.
Example of a Total Reward Package	Base Pay - Midpoint Of Market Incentive Pay – Potential Of 150% Of Base Pay With 1/3 In Equity Benefits: Skeletal Health & Wellness Benefits Education, Training & Development Perqs – Work Environment & Individual Needs Satisfaction	Base Pay - 80% Total Cash Incentive Pay – 20% Total Cash Benefits: Traditional Health & Wellness Benefits Job Focused Training & Development Perks – Work/Life Balance Focus

In designing the Total Reward Package for any organization two key elements not pursued in this example are the leadership and culture of the two organizations. Understanding those two factors is fundamental to developing a total compensation strategy and process that will support organizational success.

To be effective, a reward package must be designed to satisfy the needs of the people in the organization, which requires an understanding of what motivates that group of people. As organizations grow so do the differences in the needs of the employees. To create successful reward programs that attract and contribute to the retention of workers in today's competitive environment compensation specialists need to:

- understand what the motivators are for their full spectrum of workers and
- design total reward programs that creates satisfaction for everyone.



With a workforce of four multicultural generations, doing so becomes ever more challenging. Numerous, and at times conflicting, theories of human motivation can make the proverbial needle in the haystack seem simpler to find than the foundation for a successful rewards program.

What we do know is that rewards need to be flexible enough to allow for individual customization, consistent enough to ensure both perceived and real internal equity, significant enough to attract attention in the external environment, while still driving the performance and having the affordability and usability required to achieve organizational success. **A challenge to be sure!**