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Recommended Citation

Scott, K. Dow; McMullen, Thomas; Shields, John; and Bowbin, Bill. Reward Alignment: High Hopes and Hard Facts. WorldatWork Journal, 18, 4: 32-47, 2009. Retrieved from Loyola eCommons, School of Business: Faculty Publications and Other Works,

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Reward Alignment: High Hopes and Hard Facts

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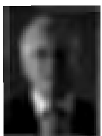

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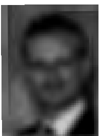

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It is widely believed that an organization's reward programs should be aligned with and support the achievement of its business strategy. Management academics and consultants alike assert that a competitive advantage is derived from optimally aligning the organization's reward programs with its business strategy, organization structure and work culture. For compensation professionals, this is all but an axiom, similar to "practice makes perfect" for musicians or $E=MC^2$ for physicists.

The WorldatWork Total Rewards Model suggests that an organization's reward strategy and programs should be borne out of its business strategy, organization culture and HR strategy. Open any compensation textbook and it will include chapters dedicated to linking business strategy and reward programs. The compensation literature is replete with prescriptive models of strategic reward alignment, such as Heneman, Fisher and Dixon (2001) and Shields (2007).

Yet, alignment for many remains an elusive ideal. It seems an aspiration rather than an organizational reality. In a recent WorldatWork study, 20 percent of respondents identified alignment between their reward programs and business strategy as the key strength of their compensation program (Scott, McMullen, Sperling and Bowbin 2007). In the same research, 22 percent of respondents indicated that reward program alignment was the one thing most in need of improvement.

And, there is a further problematic issue here as well. While so many in the field of compensation place great importance on the alignment of reward strategies and programs with business strategy, organizational research on the topic is surprisingly limited. Even those studies that do provide a degree of support have significant methodological limitations. For instance, a survey-based study by Allen and Helms (2002) found an association between business strategy, reward configuration and business performance but the respondent sample comprised employed graduate students rather than reward practitioners.

To explore the importance of alignment more thoroughly, the authors surveyed a representative sample of mostly mid- to senior-level WorldatWork members to understand how they formulate and align their business strategies and organization structure with their reward programs. The authors then examined the effect of competitive strategy alignment on organization structure, and pay policies and programs relative to three measures of organization performance shown in Figure 1 on page 34.

In this research, the researchers specifically sought answers to the following questions:

- Do organizations actually attempt to align business strategy, organizational structure and reward programs?
- How does the alignment of business strategies, structure and reward programs affect organization performance?
- What are the specific actions organizations can adopt to align their business strategy, organization structure and reward programs?

DATA COLLECTION AND SAMPLE CHARACTERISTICS

About 7,000 WorldatWork association members, virtually all of whom work for U.S. organizations or multinationals, were invited to participate in this study. The survey was open online from Jan. 5-20, 2009 and required approximately 15 minutes to complete.

To reduce the potential for statistical error, the researchers dropped multiple responses from the same organization. The researchers kept only the responses provided by the most senior-level participants on the assumption that they would have the broadest perspective on strategic issues in the organization. The 449 valid responses from WorldatWork members (6.4 percent of the target population) are within the norm of data collected through an open survey to a large constituent group.

Study Demographics

Most WorldatWork members who responded to the survey held senior and mid-level professional positions. The breakdown was: 4 percent, officers senior-level executives; 34 percent, senior compensation professionals; 54 percent, mid-level compensation professionals; 6 percent, emerging or junior-level compensation professionals; and 2 percent, compensation consultants.

FIGURE 1 Reward Alignment Model

Respondents represented the range of organizations from small to large with: 14 percent, less than 1,000 employees; 33 percent, 1,000-5,000 employees; 33 percent, 5,000-20,000 employees; and 21 percent, 20,000-plus employees. This study represented an array of diverse industries with the highest concentration of organizations: 15 percent, manufacturing; 16 percent, finance and insurance; 10 percent, health care and social assistance; 9 percent, professional, scientific and technical services; and utilities, 6 percent.

A more detailed description of the data is included in the final WorldatWork research report titled, *Alignment of Business Strategies, Organization Structures and Reward Programs: A Survey of Policies, Practices and Effectiveness.*

Measures

The widely known and highly regarded Miles and Snow typology was the basis for developing three measures of competitive strategies: Defender; Analyzer; and Prospector. The survey instrument included multiple items for each of these three types of strategies. Responses to these questions provided the researchers with an understanding of how the respondent's organization responded to strategic situations as well as allowed the researchers to score the respondent's organization relative to the degree to which it followed the competitive strategies identified by Miles and Snow.

The main measure of organization structure was based on the equally well-known Burns and Stalker (1961) typology. This measure asked respondents to indicate how their organization makes decisions. The scale of possible responses was designed to determine the degree to which the organization makes decisions in a centralized and consistent manner. This was supplemented by a series of items measuring the extent of team-based work, a key dimension of decentralized decision-making in work organization.

The reward strategy, policies and program measures listed in Figure 1 were developed specifically for this study. The measures are defined in the next section (Findings) and individual items and descriptive data can be found in the WorldatWork report.

The researchers used three measures of organizational effectiveness in this study:

1 | **Self-assessment of organization performance.** Respondents were asked to rate the overall performance of their organization compared to its competitors over the previous three years (2006-2008). Respondents rated their organization's overall performance compared to competitors as follows: 1 percent, lowest 1-20 percent; 7 percent, low 21-40 percent; 33 percent, middle 41-60 percent; 32 percent, high 61-80 percent; and 28 percent, top 80-100 percent. Even though one might expect a certain amount of upward skew in this self-assessment of performance, this subjective self-report evaluation of performance was correlated with the second measure of organization performance used in the survey.

2 | **Total Shareholder Return (TSR)** over the same three-year period ($r = .308$). (See Table 1, pages 42-43). Clearly, the TSR measure is available only for companies that are listed on public stock exchanges, but the correlation between the two performance measures increases the confidence in the reliability of the respondents' assessments of their organizations' relative performance. At the same time, using three-year TSR data enables some allowance for the recent widespread decline in market performance resulting from the post-2008 global financial crisis.

3 | **Fortune's Most Admired Company** designation was also utilized in the study. Hay Group has partnered with *Fortune* magazine over the past 12 years in developing the Most Admired Company designations for eligible organizations. This rating is derived by overall ratings of corporate reputation based on both financial and non-financial assessments of organization performance provided by industry executives, board members and industry analysts. In determining organization rankings, Most Admired Companies are rated on 9 key attributes within their industry sector:

- Ability to attract and retain talented people
- Quality of management
- Quality of products or services
- Innovativeness
- Long-term investment value
- Financial soundness
- Wise use of corporate assets
- Social responsibility to the community and the environment
- Effectiveness in conducting business globally.

A total of 49 organizations in the sample were rated as Most Admired Companies, which were compared to 250 non-Most Admired Companies of similar size.

Data Analysis

Once the data were collected, the researchers confirmed through factor analysis and alpha coefficients that measures were valid and reliable. The descriptive data from individual items and scales are available in the WorldatWork report.

To determine the strength of relationship between variables, Pearson correlations and t-tests were used and are reported in Tables 1 and 2 on page 24. Further information about these analyses may be obtained by contacting Dow Scott, Ph.D., (dscott@luc.edu), the first author of this research.

FINDINGS

Recognizing that reward alignment occurs at several levels (as shown in Figure 1), the study's findings are grouped as follows:

- Business strategy (based upon the Miles and Snow typology)
- Organizational structure: degree of decentralization (based upon the Burns and Stalker typology) and teamwork
- Compensation program characteristics
- Compensation program effectiveness.

Competitive Business Strategies

Most respondents indicated that their organization has an identifiable business strategy. Only 9 percent said that their senior managers do not understand their business strategy; 16 percent said that the strategy is frequently changed; and 24 percent said that the business strategy is not consistently executed.

One of the strongest overall findings is that having a coherent and consistently applied business strategy of virtually any type correlates positively with organizational performance, whereas having either no identifiable business strategy or an inconsistent strategy is associated with lower performance relative to peer organizations. (See Table 1). Tables 1 and 2 show that organizations that rate themselves as either not having a strategy or having an inconsistent one are rated less effective by respondents (self-assessment) and also by the assessor pool that rated the Fortune Most Admired Companies.

But are some types of business strategy more strongly associated with high performance than others? Although numerous strategic models have been put forward, the Miles and Snow (1978) typology is perhaps the most frequently used and it is a typology similar to those proposed by many other researchers. As described by Shields (2007), Miles and Snow identified three fundamental competitive strategies that an organization can follow:

- Defenders act to protect and preserve their market share from existing and new competitors. They have a limited range of product or service lines and focus on improving the technical efficiency of their existing operations. A Defender will seek to maximize the efficiency of existing technical methods, hence emphasizing cost minimization or quality enhancement or a balance of the two.
- Analyzers are cautious diversifiers. They may have one or two core products or services and one or more non-core product lines that are spin-offs from the core business. Analyzers are more likely to be market followers than market leaders and will also be inclined to compete on quality rather than cost, at least in the long term.
- Prospectors are habitual diversifiers. They are proactive and perhaps aggressive market opportunists and risk-takers with a diverse and ever-changing portfolio of products and little loyalty to any particular type of product and service. They are constantly on the lookout for new and more attractive market opportunities, always trying to be first into a new product or service area. The emphasis is on speed, agility, technological dynamism, flexibility and risk-taking, particularly to anticipate new customer needs and maintain a competitive advantage.

Items used to measure the degree to which an organization subscribes to any one of these strategies were adapted from strategic constructs and suggested items from: Miles and Snow (1978); Heneman, Fisher and Dixon (2001); Zahra and Pearce (1990); and Shields (2007).

In addition, the researchers included items designed to measure the possibility that a company might have either no business strategy or one that was not consistently applied. The factor analysis of these data indicated that while respondents did not perceive these strategies as mutually exclusive nor in a manner congruent with the Miles and Snow constructs, respondents did recognize a number of distinct strategic approaches. Specifically:

- The way survey respondents perceived the Defender strategy was not consistent with the model proposed by Miles and Snow, which is to focus on protecting and preserving market share through cost savings and/or quality improvement. (The alpha coefficient was low and the item measures did not consistently load, eroding confidence that the Defender strategy was, in fact, a scale). However, as shown in the WorldatWork Report, 59 percent of respondents indicated that they vigorously pursue cost reductions, and 63 percent said they exercise tight control of overhead costs. An even higher percentage of respondents agree that their organizations: compete on quality, 79 percent; vigorously pursue improvement in product and service quality, 87 percent; and see product or service quality as more important than price in maintaining market share, 59 percent, as shown in Tables 2 and 3 of the WorldatWork report. As such, exploratory factor analysis of the hypothecated Defender items indicated the presence of two distinct competitive strategies, first, a "cost-reduction" strategy (two items with alpha coefficient = .69); and second, a "quality defender" strategy (three items with alpha coefficient = .75).
- The Analyzer strategy as defined by Miles and Snow also was inconsistent with survey respondents' perceptions of a strategy that focuses on offering limited product lines and being market followers. Furthermore, only 11 percent of respondents agree that they "prefer to wait" for competitors to introduce new products

or services in order to learn from their experiences, as shown in Table 4 of the WorldatWork report.

- The Prospector strategy was one construct with which respondents seem to have a perception consistent with the Miles and Snow definition. Although not all organizations adopt this strategy, there was strong agreement that innovation is "the key to achieving competitive advantage" (66 percent); and that organizations must "constantly seek to locate and exploit new product or service opportunities" (61 percent). (See Table 5 in the WorldatWork report.) The five items in the Prospector scale all cohered strongly within the factor analysis, and they had an alpha coefficient = .78).

As might be expected, the three ideal strategic types to emerge from the study's analysis were not seen as mutually exclusive in practice. Indeed, most respondents said that their organization focuses on both cost control and programs to increase quality while more than half of the organizations indicated that they followed a Prospector strategy.

As shown in Table 1 on pages 43-44 and Table 2 on page 44, organizations that most strongly indicated that they consistently follow a Prospector strategy performed at higher levels than organizations that less consistently follow this strategy on all three performance measures, self-assessment, Fortune's Most Admired Companies status, and three-year total shareholder return (TSR).

The critical issue regarding how business strategy relates to organizational performance is the degree to which a firm follows a consistent strategy of any type, but particularly a Prospector strategy, as opposed to not following a strategy at all. While there was some evidence of positive performance outcomes under a quality defender approach, a strategy emphasizing cost reduction was actually associated with lower TSR over the prior three years.

Organization Structure
(centralization of decisions and participative team-based work)

Burns and Stalker (1961) theorized that decision-making is a predominate driver of organization structure. In centralized structures, decisions are made by senior management; in decentralized structures, local management and employees have considerable influence on organizing decisions. Unfortunately, alpha coefficient scores and factor analysis of the Burns and Stalker's scale do not justify thinking of the organization structure as they conceived it. However, the researchers found two independent subscales whose items focus specifically on the extent to which the organization has a team-based structure that encourages employee participation and a centralized and consistent structure where policies and programs are managed centrally. The items that make up these scales can be found in Table 8 of the WorldatWork report. The four-item "centralization" scale had an alpha coefficient of .75, while that for the "team-based" structure was .56.

Interestingly, as indicated in Table 1, organizations that report higher degrees of centralization are also more likely to have team-based participative work structures. This contradicts Burns and Stalker's notion that there is a tradeoff between centralization and employee participative structures.

Overall, the Table 1 data shows that if decision-making is more centralized, organizations: 1) are more likely to have a consistent business strategy and 2) were rated as performing at a higher level relative to peers. Team-based work also appears to be associated with higher performance in both relative and absolute terms.

The results suggest that performance outcomes are influenced by both the nature of business strategy and the elements of organizational structure. However, the key question in terms of reward alignment is how the compensation program interacts with strategy and structure to influence performance outcomes. Here, too, the results comprise a mixture of the expected and the surprising.

How Compensation Program Characteristics Align with Strategy, Structure and Performance

Compensation Program Alignment and Impact: In terms of respondents' summative judgments, pay alignment remains, at best, an aspiration in almost half of the organizations surveyed. Asked to indicate the degree of perceived alignment between the business strategy and compensation strategy, a bare majority of respondents (54 percent) indicated that the two were either aligned or strongly aligned, with 15 percent indicating that compensation was unaligned and a further 31 percent reporting that compensation was "neither aligned nor unaligned." (See WorldatWork report, Table 20).

The impact of the compensation program on business performance and culture was generally more positive although here, too, there are indications of perceived substantial shortfalls. When asked to provide holistic assessments of compensation program impact on aspects of organizational effectiveness and organizational culture, respondents indicated generally positive perceptions. In Table 17 of the WorldatWork report respondents indicate that their compensation programs reinforce financial performance (80 percent) and customer satisfaction (53 percent). To a lesser extent, compensation strategy reinforces internal processes (41 percent) and human capital development (41 percent). For the most part, respondents acknowledge their compensation programs are used to reinforce a culture of individual performance (81 percent) and collaboration and teamwork (58 percent). To a lesser extent, the compensation programs reinforce a culture of creativity and innovation (39 percent). (See Table 18 of the WorldatWork report).

However, perceptions along the above lines provide, at best, only a first approximation to the extent and impact of compensation program synchronicity with business strategy and organizational internal characteristics. Such holistic perceptions are also particularly vulnerable to unreliability because of common method (single respondent) bias. For this reason, the study also sought to gauge the

strength and influence compensation program alignment by less a subjective means using multi-item measures of pay program characteristics and disaggregated correlation analysis.

Pay Levels: It terms of how pay levels were positioned relative to the market, the majority of organizations in the sample said they follow market median pay practices. Asked to indicate the company's competitive pay position for total direct compensation (base cash, target short-term incentives plus target long-term incentives), 53 percent indicated that they positioned at the market median, 29 percent above the median and 18 percent below the median. (See WorldatWork report, Table 11). Organizations were more likely to be high payers if they followed either a quality Defender or Prospector strategy or if they were more centralized in terms of their organization structure. High payers were also reported to have shown higher performance relative to peers over the prior three years. Somewhat surprisingly, though, high total pay turned not to be a distinguishing feature of most admired company businesses in this study. In previous research we have actually found most admired companies to pay less than the peer group.

Pay Structure: In response to a series of single-item statements about pay structures, wider pay ranges were related to alignment of the pay systems. (See WorldatWork report, Table 10). This research also shows that organizations that use wider pay ranges were more likely follow a Cost-cutters or Prospectors strategy. While more traditional narrower pay grades/ranges showed no particular strategic association, there was no discernable market performance benefit arising from the use of either wide or narrow pay ranges, although use of wider ranges and pay devolution were distinguishing features of Most Admired Company organizations. (See Table 1 on pages 43-44 and Table 2 on page 44.)

Jobs were more likely to be valued by means of job evaluation/internal equity principles in organizations with cost-reduction strategies, high centralization and narrower pay ranges. Conversely, use of salary surveys/external equity principles was characteristic of quality Defender and Prospector strategies, high centralization and team-based work alike, and broader pay ranges.

Pay Variability: The study found solid evidence of relationships between pay variability and differentiation and alignment both in terms of strength of impact and relationship to organization performance. The research indicates that organizations do not differentiate pay as strongly as is commonly believed. (See WorldatWork report, Table 14). For instance, managers and compensation professionals have long suggested that substantial differences in performance-based salary increases is a prerequisite to motivate performance, to align company goals or strategies with employee pay and to attract and retain high performers. However, Table 14 indicates high performers in most organizations do not, in fact, receive substantially higher merit increases than their peers. Only 19 percent of the respondents indicated that salary increases (in percentage terms) for superior performers are at least two times the size of percentage increases received by average performers; only 23 percent agreed that superior performers are paid significantly greater (10 percent or more) salaries than are average performers, and only 30 percent acknowledged a significant variation in annual incentive payouts between superior and average performers. It is only when promotions are considered that respondents acknowledge that high performers earn substantially more than average performers (83 percent).

However, the correlation results for the seven-item pay variability scale presented in Table 1 below tell a rather different story. Pay variability is a significant characteristic of all three types of business strategies and is marked by its absence in firms with no coherent business strategy. It is also more likely to be present in firms with high centralization and team-based work structures. Further, it is characteristic of firms with high relative performance as well as Most Admired Companies.

Other Pay Practices: While prescriptions abound, noncash reward practices remain a chronically under-researched aspect of contemporary total reward management. The researchers were especially intrigued to find, that the use of such practices have very pronounced alignment relationships. (See WorldatWork report, Table 16). Specifically, the use of noncash recognition is more prevalent in organizations with quality Defender or Prospector strategies, high organization centralization and team-based work, and where pay decisions are devolved down the line. Such practices are also associated with higher relative performance and with most admired company status.

Somewhat surprisingly, pay communication appears to be statistically unrelated to either business strategy type or organizational performance. The only clear findings here are that formal pay communications are more prevalent in organizations with high organization centralization and that organizations that do not report formal pay communications also lack a consistent business strategy.

How Compensation Programs Internally Align

So far we have considered each element of the compensation program in isolation from the others. However, alignment theorists typically posit that strategic fit necessarily requires the choice of a logically grouped bundle of reward practices that are internally compatible and complementary. In other words, when it comes to compensation program configuration and impact, it is likely that the "whole" of the compensation program will be greater than the sum of its individual elements. Indeed, the correlation estimations presented in Table 1 below seem to bear this out, with certain practices clustering together. To illustrate this, compensation programs exhibiting high pay variability, which correlates with high relative performance, are also characterized by above-median market positioning, use of wider pay ranges (rather than narrow grades), greater use of broader pay ranges and higher use of noncash recognition rewards. Interestingly, the latter association indicated that noncash recognition rewards complements, rather than substitutes for, high variable pay. It is also instructive to note that while variable

TABLE 1 Bivariate Correlations (Pearson)

	Cost Reduction	Quality	Prospector	No Clear Strategy	Centralized Structure	Team-based Structure	Above Market Total Direct Pay
Cost Reduction							
Quality Defender	.126**						
Prospector	.208**	.342**					
No Clear Strategy	-.066	-.336**	-.164**				
Centralized Structure	.361**	.366**	.284**	-.478**			
Team-based Structure	-.030	.309**	.273**	-.258**	.157**		
Above-Market Total Direct Pay	-.036	.161**	.128*	-.180**	.187**	.083	
Wide Pay Grades/Ranges	.118*	.056	.143**	.056	.064	.059	.067
Traditional Pay Grades/Ranges	.057	.007	-.029	.020	.030	-.102**	-.065
Pay Devolved to Line Managers	.045	-.014	.033	.028	.125**	-.064	-.064
Job Evaluation/ Internal Equity	.146**	.038	.002	.044	.068	-.044	-.018
Surveys/External Competitiveness	.068	.167**	.126**	-.107*	.152**	.144**	-.014
Pay Variability	.192**	.190**	.234**	-.232**	.330**	.249**	.281**
Noncash Rewards	.064	.214**	.219**	-.232**	.344**	.352**	.220**
Formal Pay Communication	.003	.089	-.016	-.108*	.145**	.025	.085
Organization Performance (over 3 years)	-.010	.271**	.162**	-.295**	.192**	.179**	.255**
3-Year Total Stock Return	-.192*	.080	.199**	-.124	-.066	.199**	.129

	Wide Pay Ranges	Traditional Pay Grades and Ranges	Pay Devolved to Line Managers	Job Evaluation/ Internal Equity	Surveys/ External Compensation	Pay Variability	Noncash Rewards	Formal Pay Communication	Organizational Performance (over 3 years)
Cost Reduction									
Quality Defender									
Prospector									
No Clear Strategy									
Centralized Structure									
Team-based Structure									
Above-Market Total Direct Pay									
Wide Pay Grades/Ranges									
Traditional Pay Grades/Ranges	-.347**								
Pay Devolved to Line Managers	.158**	-.145**							
Job Evaluation/ Internal Equity	-.084	.230**	-.117*						
Surveys/External Competitiveness	.004	-.006	.214**	-.258**					
Pay Variability	.166**	-.232**	.133**	-.086	.089				
Noncash Rewards	.066	-.046	.052	.011	.077	.334**			
Formal Pay Communication	-.019	.125**	-.022	.059	.014	-.031	.228**		
Organization Performance (over 3 years)	-.040	-.024	-.039	.006	.054	.141**	.125*	.038	
3-Year Total Stock Return	.088	.061	.029	-.079	.045	-.003	.025	-.140	.308**

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

TABLE 2 Comparison between Fortune Most Admired Company (MAC) and Peer Organizations

Scale and Item Characteristics	MAC ('07 & '08) (N=49)	Non-MAC Control Group (N=250)
Cost Reduction	3.7	3.6
Quality Defender	4.0	4.0
Prospector	3.8	3.4
None or Inconsistent Business Strategy	2.2	2.5
Organization Centralization	3.6	3.3
Organization Structure — Team-Based	3.3	3.3
Above Market Total Direct Pay	2.2	2.1
Wide Pay Ranges/Grades	2.7	2.3
Pay Devolution to Line Managers	3.7	3.4
Traditional Pay Ranges/Grades	3.3	3.6
Job Evaluation/Internal Equity	3.0	2.9
Salary Surveys/External Competitiveness	4.1	3.9
Pay Variability	3.2	2.9
Noncash Rewards	3.2	2.9
Formal Pay Communication	2.8	2.7

(Comparative means for which t-value is significant at $p<.05$ are bolded and underlined.)

pay is not aligned to any one particular competitive business strategy type; it is most strongly associated with a Prospector approach.

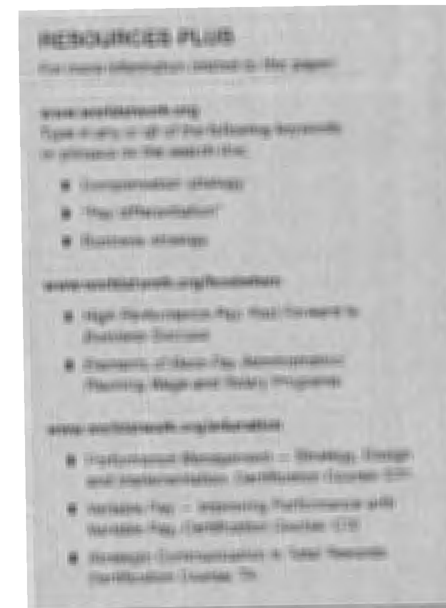
CONCLUSIONS AND RECOMMENDATIONS

Unlike most surveys of compensation practices, this research attempts to test a fundamental assumption of the profession: Does alignment of business strategy with compensation strategy, policies and programs increase organizational performance? In short, the research indicates this long-held belief is essentially true. More specifically, the researchers found higher levels of organization performance when:

- Organizations have a defined business strategy, particularly a prospector strategy.
- Organizations adopt more centralized policies and programs across business units and are team-based.
- When there are higher levels of pay variability and when noncash rewards are used.

Certain pay practices are more prevalent in organizations with certain business strategies and structural features rather than others. Specifically:

- Prospectors are more likely to use higher market positioning levels, wider pay ranges, variable pay and noncash recognition programs.
- Quality Defenders use higher market positioning levels, variable pay and noncash recognition.
- Companies with no coherent business strategy will position pay levels lower in the market and make less use of market surveys, variable pay, noncash recognition and formal pay communication.



The results also showed some consistent use of related pay practices. To illustrate:

- Variable pay prevalence correlates with above-market pay level positioning, use of wider pay ranges, greater use of pay devolution and higher use of noncash recognition.
- An emphasis on rigorous management of internal equity correlates with narrower pay ranges/grades and centralized pay decision-making.
- Noncash recognition is correlated with higher pay positioning, increased usage of variable pay and more formal pay communications.

This research has certain limitations. First, since most of the data were collected at one point in time and correlation analysis was used, the relationships between variables cannot determine causality. Second, the assessment of the relationships between business strategy and pay strategy, policies and programs were largely based on the assessments made by mid- to senior-level practitioner in the organization's compensation function and was not verified by other sources. Finally, TSR was substantially effected by the worldwide economic crisis. Even with these limitations, the findings were overall consistent with reward alignment theory and consistent with other research initiatives.

Based on the findings and their practical experience, the researchers believe that compensation professionals can substantially improve the effectiveness of their pay programs by focusing on aligning their reward philosophy, strategy and compensation policies, programs and practices with their business strategy.

To better align reward programs, the researchers suggest the following: First and foremost, one must be certain that the business strategy is appropriate for the business and provides the organization with a competitive advantage in the marketplace. Second, the business strategy must be communicated and implemented in a way that offers guidance for aligning the organization's structure of work, pay philosophy, and reward policies and programs. The reward

strategy should specify how the organization's employees and its management can achieve and sustain a competitive advantage.

The results of this study also suggest that management can centralize policies and programs, such as those related to rewards, and at the same time pursue a team-based structure that more strongly encourages employee involvement. This idea contradicts traditional theory of organization design and management where centralized structure is believed to inhibit employee participation.

Aligning business strategy and reward programs is daunting given the number of different work units and occupations that make up a major corporation as well as the effort from management needed to implement and sustain alignment. It often requires organizations to use an array of reward programs including base pay, short- and long-term incentives, benefits, career development, non-financial recognition and work-life balance to meet the varied needs from the workforce.

The research suggests that some pay practices, such as above-market level pay, pay variability and noncash recognition, may be directly associated with organization performance relative to peers regardless of industry, strategy or other specifics of the business. Such pay methods may transcend the strategy employed by the organization and fall into the category of "best practice." However, the results also show, no less clearly and in accordance with alignment theory, that there are significant patterns of alignment and misalignment between types of strategies, structures and reward practices. ▮

AUTHORS' NOTE

Richard Sperling, Sperling HR and Dennis Morajda, Performance Development International LCC, are acknowledged for their contributions to the survey initiative.

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