

“How do I Create a Competitive Advantage with My Compensation Programs?”



What is a Competitive Advantage?

Competitive advantage is achieved when a business produces surplus profits – greater than its competitors – due to unique product pricing or resource advantages. As a result, its profitability is greater than the average profitability of all other businesses competing for the same set of customers.

The real gold medal, however, goes to those organizations that can achieve a sustainable competitive advantage. This implies that a business's strategies enable it to maintain above-average profitability for a number of years. This is typically achieved through the creation and execution of processes, positions and/or propositions (as in value proposition) that are difficult to duplicate.

How is a Competitive Advantage Achieved?

Businesses pass the competitive advantage threshold by attracting and retaining great people and then nurturing a unique culture – one that demonstrates passion, executes with consistency, perpetuates success, breeds confidence and rewards performance.

Companies that achieve this start with and build upon a foundation of mission, values and vision that are reinforced by, in and through every aspect of their business plan. As a result, they commonly enjoy a shared value system with their employees – because both are clear about, and compelled by, the direction the company is headed, how it's going to get there, what is expected of everyone and how each will be rewarded for the company's success.

In their book, *Strategic Management*, Charles W. L. Hill & Gareth R. Jones offer the following insights about organizational culture. Their insights are key to linking the ability of a company to enjoy a competitive advantage in the market place with building compensation strategies that will correspondingly fuel the performance needed to achieve that outcome.

Organizational culture is " ...the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization...

"Organizational values are beliefs and ideas about what kinds of goals members of an organization should pursue and ideas about the appropriate kinds or standards of behavior organizational members should use to achieve these goals...

"From organizational values develop organizational norms, guidelines or expectations that prescribe appropriate kinds of behavior by employees in particular situations ..."

The key word in this quote is "behavior." For a business to achieve the results associated with a competitive advantage it needs the right people consistently doing the right things in the right way and for the right reasons. As a result, any rewards system that is built must, at its core, encourage a focus on the right performance factors and reward their execution. This is how results are achieved and sustained.

Larry Brody and Ram Charan, in their book Execution, put it this way:

"A business' culture defines what gets appreciated, respected, and, ultimately, rewarded; those rewards and their linkage to performance are the foundation of changing behavior. If a company rewards and promotes people for execution, its culture will change. However your organization determines rewards, the goal should be the same - your compensation and reward system must have the right yields. You must reward not simply on strong achievements on numbers, but also on the desirable behaviors that people adopt. Over time, your people will get stronger, as will your financial results."

Compensation as a Competitive Advantage

With the aforementioned principles in mind, consider the impact on your company's ability to achieve a competitive advantage in the marketplace if your culture demanded the following in its efforts to attract and retain great people:

- Only talented, committed and focused people "need apply"
- No entitlements (people are only rewarded for achieving well defined performance standards)
- All employees must think and behave like owners

Such a culture needs a rewards system that reinforces those standards and that attracts the right "fish" to the "pond". That said, the rewards framework needs to be built in harmony with the strategic, operational and performance management systems of the company for a competitive advantage to ultimately be achieved.

The diagram below illustrates this principle. In the middle is the pathway a business must follow to get from its present company to the "bigger" and "better" future company it hopes to become. That future company ideally is one that enjoys the competitive advantage being discussed.

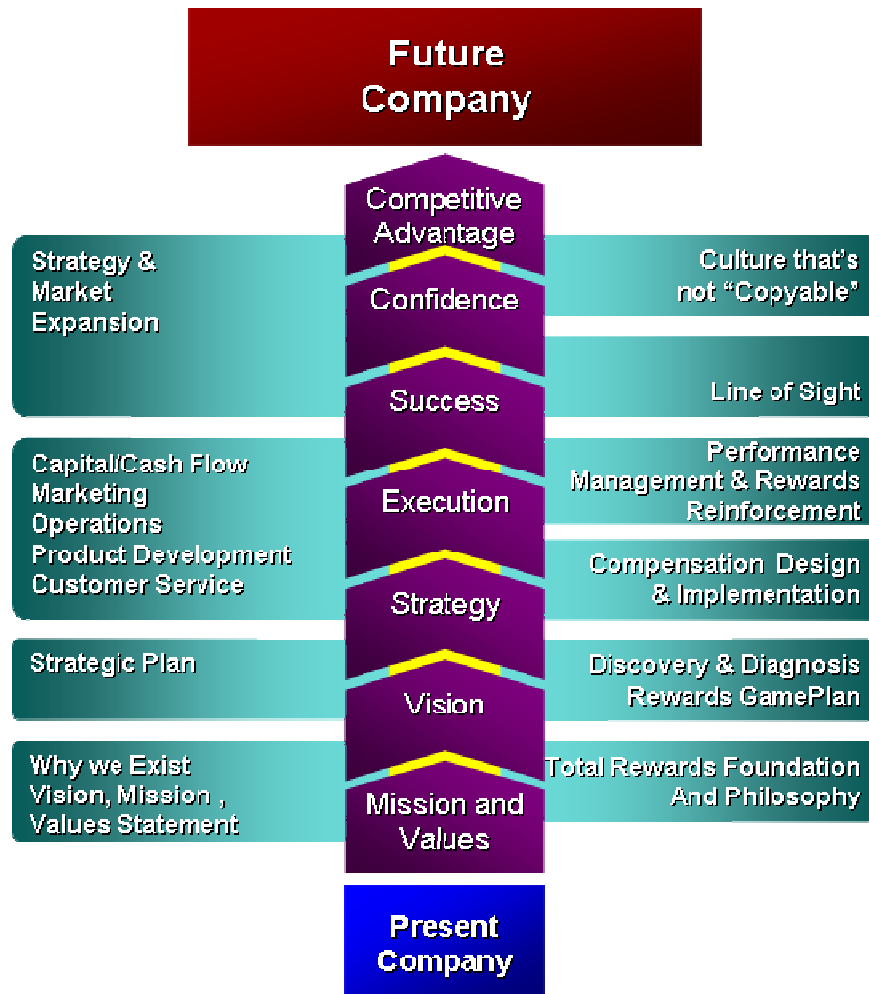
The pathway to the future company starts with a foundation of mission and values, out of which grows the company vision. At this stage, a company must clearly define why it exists, what it stands

for and what it values. Correspondingly, it must build a compatible total rewards foundation and philosophy consistent with the ends it seeks to serve. The company vision is fulfilled only through a well designed strategic plan. That plan is matched on the rewards "side" with a Compensation and Rewards GamePlan that envisions pay for performance programs that will support and reinforce the company's strategy.

Execution of the company's strategy is key to its success. Capital and cash flow need to be managed, marketing initiatives need to be crafted and launched, operations need to be well executed, superior products or services need to be developed, and excellent customer service needs to be rendered. All of these functions depend upon the applied intelligence of a dedicated workforce. As a result, these elements need to be reinforced by compensation strategies that are effectively engineered and tied to roles and expectations that are well defined and communicated.

Through this combined confluence and application of business ideals, organizational architecture and rewards processes and systems, a company ultimately experiences success and builds a culture of confidence. Rewards reinforcement strategies work hand in hand with performance management systems to elevate that success and create true "line of sight" in the organization. Such a company has unleashed the lifeblood of a competitive advantage.

The Competitive Advantage Process



The Compensation “Pantry”

To take this pattern of rewards planning and strategizing to an implementation level, a company needs to examine the elements of compensation that will best promote and reinforce the outcomes it wishes to achieve. In our work with business clients, we commonly discuss eight different "ingredients" they have available in the compensation "pantry" to choose from and blend together in making their compensation "pie." The ingredients to be included will depend upon the outcome they wish to achieve. This will be different in every organization - although some of the same ingredients might be used by each.

From this "pantry," a company will need to develop the right balance between short and long-term rewards and guaranteed versus incentive compensation. Ultimately, a compensation "pie" might be made up of some or all of the following:

- Salary
- Short-term cash incentives
- Long-term cash awards
- Equity awards
- Core benefits and welfare plans
- Executive benefit plans
- Qualified retirement plans
- Non-qualified retirement plans

Given these choices, the question a company needs to ask relative to its compensation structure is not HOW MUCH should we pay our employees; rather, HOW should we pay our employees. Your decision making in this regard should include the following logic pattern:

- Which compensation components should we use?
- How much of each should we have?
- Under what terms and conditions should they be realized?

The Four “Fs”

Ultimately, companies that enjoy a competitive advantage in the marketplace don't just initiate quality rewards programs. They sustain them. Their ability to do so is dependent in part on the way in which they identify the issues and problems they face and then address them accordingly. We classify these issues in the following categories. In asking the questions associated with each category, a business can better assess its area of greatest priority in dealing with its compensation development.

Future

- Are employees compelled by the future of the organization?
- Is there a belief in the business strategy of the company?
- Are there opportunities for personal and professional growth and development?

Foundation

- Is there an alignment between the compensation philosophy of our company and its mission, values and vision?
- Do we have a rewards value proposition that has attraction capacity – that will help us recruit and retain great people?
- Is there an ownership mentality throughout our organization?

Framework

- Are we achieving an efficient return on our compensation investment?
- Is our compensation program properly balanced between long and short-term rewards and guaranteed versus incentive compensation?
- Have we established clear performance standards for the achievement of rewards in the organization?

Focus

- Have we created "line of sight" in our organization between the vision and strategy of the company and the roles, expectations and rewards we have and provide for our employees?
- Do we have a rewards reinforcement strategy in place that keeps employees focused on the expectations we have of them and how they will be rewarded for performance?
- Are we consistently achieving the desired results we want from our employees?

In Conclusion

A competitive advantage in the marketplace begins and ends with getting and keeping the right people "on the bus" as stated in Jim Collin's seminal book, Good to Great. Once in place, a culture of confidence needs to be nurtured and achieved through consistent execution of key results emanating from the vision and strategic plan of the business. Such a pattern of execution is achieved, in part, by developing an aligned rewards philosophy and GamePlan, then envisioning, creating and sustaining great compensation strategies.

VisionLink is a national compensation consulting firm focused on helping companies envision, create and sustain compensation strategies that will be key drivers of results and increase the productivity of employees.



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