

Benefits & Compensation[®]

Vol. 44, No. 9 September 2007

DIGEST

Business Strategy, People Strategy and Total Rewards—



CONNECTING THE DOTS

by Stacey L. Kaplan

©2007 International Foundation of Employee Benefit Plans

Many executives are quick to introduce a new compensation or benefit program because they've heard about it in the news or through one of their colleagues. However, this program may just be the latest "plan du jour," not fitting within their organiza-

Continued on page 13

International Foundation [®]
EDUCATION - BENEFITS • COMPENSATION

Accomplish More.

Business Strategy, People Strategy

Continued from page 1

tion's strategic direction. It is important to identify and implement programs that bring an organization further along its strategic path. This article strives to "connect the dots" among business strategy, people strategy and total rewards. It describes the value of integrating these initiatives and the value that a total rewards strategy brings in the achievement of business goals. It presents a "how-to" approach in linking the total rewards—defined as compensation, benefits, learning and development, and work environment—to an organization's business and people strategy.

Many human resources (HR) professionals aspire to forge a "strategic partnership" with their top management. However, this expression appears diluted upon observing HR executives buried in "administrivia," focused on operational tactics rather than business outcomes. For HR executives to play the esteemed role of "strategic partner," they must demonstrate business knowledge. This knowledge includes not only how a for-profit entity earns its money or, in the case of a nonprofit, how it fulfills its mission, but also how it serves its customers and differentiates itself from its competitors. Too often, that knowledge is lacking. Top management will continue to exclude even the most experienced HR directors from boardroom discussions until they exhibit financial literacy and business acumen. When HR professionals demonstrate their understanding of what is driving their business, they will add value by mobilizing the right workforce with the right skills to achieve the business goals of the enterprise.

Setting the Stage: Understanding Your Business

There are many factors influencing the formulation and execution of a sound business strategy. When thinking about strategy, one must look forward and visualize how the organization might evolve. The strategy provides the "roadmap," articulating the organization's overall business direction. What is the mission of your organization? A mission statement describes its overall purpose—what you do, who you do it for and how you do it.

What is your vision? Defining an organization's vision requires forward thinking, since it articulates the organization's desired future.

Along with mission and vision are organizational values that describe what is important to your organization and serve as enablers to accomplishing its mission. They may be qualitative (e.g., teamwork, respect) or quantitative (e.g., dollars). The mission, vision and values provide a foundation for business strategy, but that is just the beginning of the discussion, as evidenced by the agenda of just about every strategic planning session. Executives may labor for hours drafting the most articulate mission and vision state-

Executives may labor for hours drafting the most articulate mission and vision statements, but this exercise alone will not drive the organization forward.

ments, but this exercise alone will not drive the organization forward. Other critical questions must be asked and answered relating to customers, competition, culture and the company's position in its lifecycle.

Economics 101 taught us about the typical business lifecycle of emergence, growth, maturity and decline. Emerging and growing companies execute their strategies differently than mature companies or those in decline. It is important for an organization to understand its current position in its lifecycle and determine if it wishes to compete in that position or strive to change it. For example, banking traditionally has been considered a mature industry; however, with other financial services companies offering competing services (e.g., insurance companies,

credit unions), banks have revamped their thinking, and some have changed their business strategy to contend with a new set of competitors.

Some organizations face the challenge of managing businesses across multiple lifecycles. Superior Energy Services, a New Orleans-based provider of specialized oilfield services and equipment serving the oil and gas industry, encompasses both mature and emerging business units, resulting from several acquisitions over the past few years.

According to Ray Lieber, vice president of HR, "We're required to tailor our business and people strategies to our business units, since our company is comprised of both growth-oriented and mature business lines. Although we are a growth company, some of our business units have reached a more mature cycle due to the nature of their services and current geographic operating areas."

In their writings about general business strategy, Benjamin Tregoe and John Zimmerman from Kepner-Tregoe, Inc., identify "driving forces" that propel organizations to accomplish their goals (see Table I). Although the authors name nine possible driving forces, typically only one or two serve as the basis for business strategy, determining the types of products and services offered and the markets in which they are offered. For example, financial institutions and auto manufacturers are product driven, committed to increasing the quantity and quality of their products. Consumer products and retail organizations are driven by market needs. Organizations that are technology driven focus on developing products and services that are based on the latest technological advances. Production-driven companies focus on maximizing their production capacity, such as hospitals striving to fill beds and airline carriers aiming to occupy seats. Knowledge of an organization's key driving forces keeps it focused on its path to execute its business strategy.

When companies formulate their business strategy, they determine how they intend to compete in the marketplace. Over 20 years ago, marketing guru Michael Porter defined *competitive strategy* as "being different" and identified

Continued on next page

Driving Forces and Sample Organizations in Alignment

Driving Forces	Sample Organizations
Products offered	Financial services
Production capability	Health care
Market needs	Consumer products
Natural resources	Petroleum
Method of sale	Door-to-door sales
Method of distribution	Manufacturer's representatives
Size/growth	Conglomerates
Technology	Scientific innovators
Return/profit	Portfolio companies

Source: Kepner-Tregoe and International Foundation of Employee Benefit Plans.

Sample Questions to Ask Top Management

- What are your mission/vision/values?
- What are your current pressing business issues?
- What is your business strategy? Is it working?
- What are your strengths, weaknesses, opportunities and threats?
- What effect do your customers have on your business?
- What are your current workforce capabilities?
- What will your workforce requirements be in the future?
- How will you bridge the gap between current and future needs?

three ways in which an organization might compete. These principles are still valid today. Will they compete on price, like Wal-Mart (e.g., be the low-cost provider)? Will they try to differentiate themselves based on products or services, like Nike? Will they segment the market and focus on a particular group of buyers or geographic area, like IKEA? Understanding the competition is a business imperative. HR professionals are aware of the competitive landscape from an attraction and retention standpoint but would benefit from knowledge of their competitive environment at large.

An initial step for HR to forge a strategic partnership with senior leadership is to participate in open dialogue about the organization's business strategy along with its short-term and long-term goals. At left is a list of key questions to ask top management to understand its current and future business challenges. This is a

precursor to establishing a people strategy that defines the resources and capabilities required to execute the business strategy. The answers to these questions will provide a framework upon which to develop a people strategy aligned with the business strategy.

Solidifying Your People Strategy

Once the business strategy has been defined, top management and its subordinate leaders must execute the business plan. A solid people strategy plays a critical role in moving the company forward in attaining its goals. A people strategy—or HR strategy—defines the resources required to execute the business strategy, including the competencies needed to support the objectives of the organization. This definition relates to the classic phrase “the right people with the right skills.” The

leadership team retains its responsibility to define the requisite behaviors and skills and to identify and bridge the gaps between the “as is” workforce and the “to be” model.

Aligning people strategy with business strategy affects how workers are deployed. For example, Southwest Airlines builds its business strategy around low operating costs and stellar customer service. Its people-centric culture enables it to execute its strategy. Southwest needs a workforce that embraces customer friendliness and customer satisfaction, and the company recruits individuals who possess strong communications and customer-facing skills.

Regarding job design, Southwest embraces broader roles rather than narrowly defined jobs to create a more flexible workforce. The carrier empowers its workers to make decisions with considerable freedom and responsibility. Worker flexibility, including the ability to demonstrate skills across multiple job roles, facilitates customer service.

Business events influence an organization's people strategy and the composition of its workforce. Events such as mergers, acquisitions, staff reductions, plant closures and expansion into other countries affect the organization's talent requirements. If a mature organization acquires an emerging company whose competencies lie in innovation and technology, the workforce requirements change. Leaders must respond by recruiting and developing technically savvy workers and determining how to keep them engaged and productive. In the case of global expansion, required skill sets may change to execute the business strategy in another country. This might include the need for a bilingual workforce with an understanding of the culture and business mores abroad. To be successful, attraction and retention policies need to be aligned with strategic business goals.

When Sears, Roebuck and Co. embarked on a business transformation about ten years ago, it aspired to become a “compelling place to work, shop, and invest.” This slogan demonstrated alignment with its key stakeholders—employees, customers and shareholders. To translate its business goals into reality, the company educated its employees at all

Continued on page 16

Categories of Total Rewards and Sample Components

Table II

Compensation	Benefits	Learning and Development	Work Environment
Base salary	Health care	Career planning	Flexible workweek
Annual incentives	Life insurance	Succession planning	Telecommuting
Long-term cash incentives	Disability	Professional memberships	Job design modifications
Equity (stock options, restricted stock)	Retirement/401(k)	Training programs	Comfortable workstations
Spot awards	Child-care resources	Annual conferences	Recognition programs
Project incentives	Fitness center	Mentoring programs	Community volunteer opportunities
Employee referral program	Elder-care programs	Lunch and learns	Casual dress
Signing bonuses	Legal assistance	Sabbaticals	Free meals

levels on its business drivers to engage them in implementing the retail business strategy. Learning maps measuring six feet were used to help employees visualize services offered by the company and better understand their own role in improving competitiveness and business processes.

NewPage Corporation, an Ohio-based manufacturer of coated papers, believes in communicating its business goals to its workforce of over 4,000 employees. According to Glenn Grill, director of compensation and benefits, “We’ve begun the process of educating our workforce on our goals and business model. Both union and nonunion employees have been exposed to our organization’s key business objectives in areas such as financial metrics, lean Six Sigma, customer service and productivity initiatives.”

Total Rewards—Aligning With Business Strategy and People Strategy

Total rewards encompass everything that employees value in their employment relationship—compensation, benefits, development and the work environment. It is a holistic approach that aligns with business strategy and people strategy. In the last decade, employers realized that they must go beyond just offering competitive compensation and benefits programs (*transactional rewards*) to compete for talent. This is especially true today

where loyalty of the emerging workforce’s members is more to themselves than to their employers.

Compensation and benefits programs are typically financial in nature and must be at least at a baseline competitive level for companies to attract and retain talent. Competitors easily copy these programs, which typically fail to engage employees enough to stay with an organization. Learning and development programs and a flexible and fun work environment (*relational rewards*), however, provide an opportunity for employers to better differentiate themselves from their competition and enhance employee commitment to their organization. All four components of rewards encompass a tool kit for HR leaders to draw upon in constructing a comprehensive rewards program that will provide them a competitive edge. Table II identifies samples of rewards in each of the four categories.

Many employers on *Fortune* magazine’s annual list of the best companies to work for in America embrace a total rewards strategy rich in relational rewards, such as flexible working arrangements, developmental opportunities and fun office perks. This strategy provides them heightened visibility as a preferred employer in a tight labor market. Research has shown that higher-rated employers tend to receive more employment applications, making recruitment easier. Additionally, these higher ratings often translate into improved retention

and enhanced profitability, since engaged employees typically provide better customer service.

Google achieved *Fortune* magazine’s coveted number one position on its list of the best companies to work for in 2007. No one can dispute Google’s remarkable business performance. What is interesting to note is its incredible mix of quirky and traditional employee perquisites. One can reasonably deduce that its people strategy is to drive productivity by attracting high achievers who are willing to spend most of their time at work. Its complementary reward strategy is to provide amenities that enable employees to manage their lives more easily while maintaining focus on their jobs. Sample perks include company-paid gourmet meals, a 24-hour gym, an in-house doctor and concierge services like dry cleaning and on-site massages. This strategy makes employees feel valued and enhances the attraction and retention of talent that is committed to helping the company execute its business strategy, regardless of the blur between personal and work lives.

Volkswagen of America aligns its financial rewards to its business by paying incentives for the attainment of individual goals related to the achievement of shared company goals. All employees are eligible for bonuses.

“Our shared critical targets in areas such as sales, customer and dealer satisfaction, and profitability are aligned both top down and across business units to

promote teamwork and organizational performance,” said Lynda Gugel, general manager of HR.

The company’s development programs also support the achievement of business results.

“We invest in learning and development solutions that align competencies and behaviors with business outcomes that most closely support our business strategy,” Gugel said.

Table III highlights the alignment of business strategy, people strategy and total rewards for a retail chain that wants to increase its revenue and profits and embraces superior customer service as part of its business strategy. It scrutinizes its policies and changes some of them to reflect a more customer-centric approach, such as liberalized return policies and expanded store hours. The retailer develops a people strategy to facilitate its goal attainment. One of the key provisions is to attract and hire store associates who are actual customers of this retail chain. The idea is to translate customer loyalty into associate loyalty by capitalizing on the positive feelings the customer already has for the retailer and its brand. A second provision within its people strategy is to staff the store for peak periods, utilizing part-time associates to cover periods of heaviest traffic volume. Third, the retailer strives to enhance the selling skills and competencies of its sales force.

The retailer designs its rewards strategy to align with its business and people strategy. The retailer decides to provide a base salary and benefits package at the “going rate” in the community. Besides providing competitive pay and benefits, it offers a storewide incentive plan to reward team performance, with one of the metrics being customer satisfaction scores obtained from a storewide survey. The retailer offers flexible work arrangements to associates who desire a part-time work schedule. It taps into retirees and students to help cover peak periods in the evenings and on weekends. In line with its people strategy to develop its workforce, it offers sales training classes to enhance employees’ product knowledge and sales skills. In turn, a better-trained workforce enhances customer service, one of the retailer’s primary business strategies. The retailer offers an employee discount to encourage associates to continue shopping in the stores and

promote positive employee relations. Aligning these strategies enhances the likelihood that the retailer’s business goals will be attained.

Rewards programs are best designed and implemented after the successful alignment of an employer’s business strategy and people strategy, as opposed to selecting program components in a vacuum. Too often organizations jump to the implementation phase without assessing the impact on the business and people strategies. This results in solutions that are out of sync with their business challenges. There may be trendy solutions written up in the latest trade journals, but they may not be appropriate solutions for every company.

Aligning business strategy, people strategy and total rewards requires education, communication and commitment of business leaders and their teams.

For example, when broadbanding was first introduced as a new, flexible approach to salary administration, some business magazines wrote about it, highlighting the advantages of fewer, wider salary ranges and perceived streamlined administration. Some organizations were quick to implement this approach without considering the amount of manager education and monitoring needed to be cost-effective. Although a very workable solution for many organizations, it was not a good fit for others.

Similarly, reward programs need to be selected that complement the organization’s values and culture. If teamwork is a key value, then reward programs should reinforce teamwork versus individual performance. Incentive programs that reward individual achievement will

be counterproductive in an environment that emphasizes collaboration and team performance, unless they are well integrated with overall company goal attainment.

An organization’s stage in its lifecycle influences its people strategy and where to place its bets from a total rewards perspective.

“Our emerging business lines have different needs than in our more mature units,” Lieber said. “In terms of rewards, one size definitely does not fit all. We are attempting to design and pilot some non-traditional pay initiatives in our growth companies, while ensuring that employee development programs are structured as a complementary element of the total strategy.”

The Power of Alignment: Connecting the Dots

What does the alignment of business strategy, people strategy and rewards look like? Imagine this scenario: HR demonstrates its business acumen and is invited into the boardroom to participate in strategic business discussions. A credible strategic partnership emerges between senior management and HR. With a solid understanding of the business, HR positions itself to develop and execute its people strategy, bridging the gap between current workforce capabilities and future required capabilities essential for organizational goal attainment. HR serves as a catalyst to energize the workforce, understanding the employee value drivers important for attracting and retaining the right talent to execute the business plan. HR analyzes the workforce demographics to understand the composition of the workforce and changing needs. The results challenge HR to rethink the total rewards package.

Baby boomer retirements are proliferating, and strong-willed Generation Yers require different types of rewards. The emerging workforce values flexibility, opportunities to work on the latest technology and immediate recognition for performing well. HR designs a mix of transactional and relational rewards, balancing a competitive compensation and benefits package with innovative learning

Continued on next page

Sample Linkage of Business Strategy, People Strategy and Total Rewards

Table III

Business Strategy	People Strategy	Total Rewards Strategy
Provide superior customer service.	Hire current customers.	Pay going-rate base salaries and benefits; provide team-based incentives and employee discount.
Keep stores open when customers want to shop (e.g., later hours, weekends).	Increase part-time workforce to cover peak periods.	Provide flexible work arrangements, including more part-time schedules.
Offer unique products at reasonable prices.	Hire inexperienced employees, and provide development opportunities.	Provide sales training and product knowledge training.

Five Steps to Aligning Total Rewards With Business and People Strategies

Table IV

Develop Business Strategy	Align People Strategy	Align Total Rewards	Assess Financial Impact	Implement and Monitor
<ul style="list-style-type: none"> • Mission/vision/values 	<ul style="list-style-type: none"> • “As is” vs. “to be” capabilities 	<ul style="list-style-type: none"> • Compensation 	<ul style="list-style-type: none"> • Cost/benefit analysis 	<ul style="list-style-type: none"> • Administrative policies
<ul style="list-style-type: none"> • Business lifecycle 	<ul style="list-style-type: none"> • Workforce demographics 	<ul style="list-style-type: none"> • Benefits 	<ul style="list-style-type: none"> • Cost sharing 	<ul style="list-style-type: none"> • Training
<ul style="list-style-type: none"> • Driving forces 	<ul style="list-style-type: none"> • Employee value drivers 	<ul style="list-style-type: none"> • Development 	<ul style="list-style-type: none"> • Return on investment (ROI) 	<ul style="list-style-type: none"> • Program audit
<ul style="list-style-type: none"> • Competitive strategies 	<ul style="list-style-type: none"> • Attraction and retention ideas 	<ul style="list-style-type: none"> • Work environment 	<ul style="list-style-type: none"> • Future workforce changes 	<ul style="list-style-type: none"> • Followup

Source: International Foundation Certificate Series: Total Compensation and Organizational Strategies.

and work environment amenities. The offering tries to differentiate the company from its competitors—perhaps with specialized training, spot bonuses, workout facilities or perks that will make employees’ busy lives a bit easier. It may even find a way to engage the employees in socially responsible activities, like community service or “green” environmental issues, which resonate well with young workers.

HR analyzes the financial impact of developing its total rewards strategy and the associated program costs. Once implemented, HR monitors ongoing administration, making modifications as needed to ensure that the programs retain their cost-effectiveness and continue to accomplish their prescribed goals. Table IV summarizes five steps toward aligning total rewards with business and people strategies.

Aligning business strategy, people strategy and total rewards requires education,

communication and commitment of business leaders and their teams. Through regular two-way communication efforts, department managers and supervisors educate their teams on business operations and their critical role in achieving the business plan. Inherent in this process is managing the change that will likely ensue from greater performance expectations and accountability. Through its people strategy development and total rewards design, HR serves as a change agent, helping to connect the dots to reveal a picture of workforce synergy, with everyone focused on the attainment of common business goals. Successful execution demonstrates the power of alignment. **B&C**

References

“Broad Focus Needed to Ensure HR Strategy and Business Strategy Work Together” Worldat-Work online newsletter. May 8, 2007.

Durfey, Kelly. “Aligning Employees to Organizational Objectives,” *Solutions*. June 2002:26-28.

Kaplan, Stacey. “Total Rewards in Action: Developing a Total Rewards Strategy,” *Benefits & Compensation Digest*. August 2005:32-37.

Kaplan, Stacey and Larry Montan. *Total Compensation and Organizational Strategies* curriculum. International Foundation 2007.

Kiger, Patrick J. “HR’s New Strategic Role,” *Workforce Management Online*. September 2006.

Nichols, Fred. *Strategy—Definitions and Meanings*. Educational Testing Service 2006.

“Perk Place: The Benefits Offered by Google and Others May Be Grand, but They’re All Business,” *Knowledge@Wharton*. March 21, 2007.

Porter, Michael. *Competitive Strategy*. Harvard Business School Press; 1986.

Porter, Michael. “What Is Strategy?” *Harvard Business Review*. November-December 1996.

Sherman, Stratford and Anthony Rucci. “Bringing Sears into the New World,” *Fortune*. October 13, 1997. CNNMoney.com.

Singh, Ph.D., Parbudyal. “Strategic Reward Systems at Southwest Airlines,” *Compensation & Benefits Review*. March/April 2002:28-33.

Tregoe, Benjamin and John Zimmerman. *Top Management Strategy*. Simon and Schuster 1980.

For information on ordering reprints of this article, call (888) 334-3327, option 4.



Stacey L. Kaplan is the managing principal of Diamond Consulting Group LLC, an independent HR consulting practice located in West Bloomfield, Michigan. She specializes in total reward, performance management and general HR consulting. Kaplan holds a bachelor's degree from Tufts University and a master's degree from Central Michigan University, as well as the certified compensation professional designation. She is an instructor for Total Compensation and Organizational Strategies, an International Foundation Certificate Series course.

E-mail address: Stacey.Kaplan@diamond-consultinggroup.com

Reproduced with permission from *Benefits & Compensation Digest*, Volume 44, No. 9, September 2007, pages 1, 13-19, published by the International Foundation of Employee Benefit Plans (www.ifebp.org), Brookfield, Wis. Statements or opinions expressed in this article are those of the authors and do not necessarily represent the views or positions of the International Foundation, its officers, directors or staff. All rights reserved.