

Developing a Compensation Strategy

A Practitioner's Perspective



The following article covers four things you should do — and four things you should avoid doing — when developing your organization's compensation strategy and aligning it with business objectives, workplace culture and HR strategy.

What You Should Do

1. **Get real about what strategy means.** The word “strategy” often is overused and misunderstood. For clarity purposes, let's start with understanding what strategy means in a business context. Business strategy is management's game plan for strengthening the performance of the enterprise. Business strategy is about three key choices: (1) where we play; (2) how we win, i.e., what is our market competitive advantage; and (3) how we maximize long-term value. A compensation strategy should be management's game plan for strengthening the effectiveness of its compensation

offering. It should reflect choices the management team has made in relation to: (1) the compensation elements they are going to leverage most; (2) how they are going to integrate their compensation offering within the organization, so that they have a competitive advantage to attract, engage and retain the talent they need; and (3) how they will maximize long-term value for both the organization and its employees.

2. **Be clear on what you mean by compensation.** Over the years, the HR profession has excelled in coming up

with different terms to describe its pay and benefits offerings to employees. Whether you call it compensation, compensation and benefits, total rewards (based on the WorldatWork model or variation thereof), employee value proposition or something else, the important thing is to be crystal clear on what you mean and consistently communicate it to avoid confusing your line managers and employees.

3. **Earn the support of non-HR stakeholders on the merits of your compensation strategy.** If the development of a compensation strategy is done solely by HR, you do not have an integrated strategy. The onus may be on the compensation practitioner to develop the strategy; however, for your strategy to be relevant to your organization, you will need the buy-in of stakeholders from finance and the core business departments. Be prepared to modify your strategy based on the feedback you receive.
4. **Align and integrate your compensation strategy with the organization's HR & business strategy.** The compensation strategy should align with and support the HR and business strategy. If it is not clear from reading your compensation strategy how and where it aligns to both HR and business strategy, you do not have a strong compensation strategy. Test this alignment at the start of the project and you may invariably find that it is a sobering experience to decipher and articulate the alignment.

What You Should Avoid Doing

1. **Overcomplicating your compensation strategy.** It can be tempting to develop a complex strategy in response to complex challenges. Complexity also can be a natural outcome of multiple stakeholder reviews unless this process is managed tightly. Often, complex compensation strategies do not work as they are too hard to effectively communicate and execute.
2. **Copying another organization's compensation strategy.** As stated, one of the three choices that need to be made in developing a business strategy is how the organization is going to "win." In compensation strategy terms, this boils down to what are you going to do in the compensation space that will enable you to attract, retain and engage talent more successfully than your competition. All too often, compensation professionals are obsessed with market data at the expense of ingenuity or innovation within their own organizations. While it is of value to understand what the market is doing, a good compensation strategy will differentiate your compensation practices from your competitors.

3. **Underestimating the level of communication effort required.** For your compensation strategy to be fully effective it needs to be widely communicated and understood by employees across all levels of your organization. Compensation professionals should internalize and expect to spend more time and effort in the communication of the strategy than they did in developing the strategy. A good test of a compensation strategy is how well it resonates and makes sense to both line managers and employees.
4. **Failing to keep your compensation strategy up to date.** To ensure your compensation strategy remains current with business and talent needs over the medium to longer term, it will need to be updated and modified on a regular basis. A good way of doing this is to integrate the review of the strategy into the annual salary review process so that changes can be made if required.

Begin with the End in Mind

Developing a compensation strategy is not rocket science. It is, however, a difficult process to execute effectively. Developing an effective strategy requires a myriad of skills from business acumen to broad HR knowledge, compensation and communication expertise, and stakeholder management. It also requires operational discipline to stay the course from initiation of the process to stakeholder review/approval and communication to employees. Begin with the end in mind and ensure your organization's compensation strategy differentiates from the competition and resonates with your employees. **ws**

Pat Gurren, CCP, GRP, is an independent compensation consultant. He can be reached via his web site, www.gurren.ie or e-mail, pat@gurren.ie.



Pat Gurren, CCP, GRP