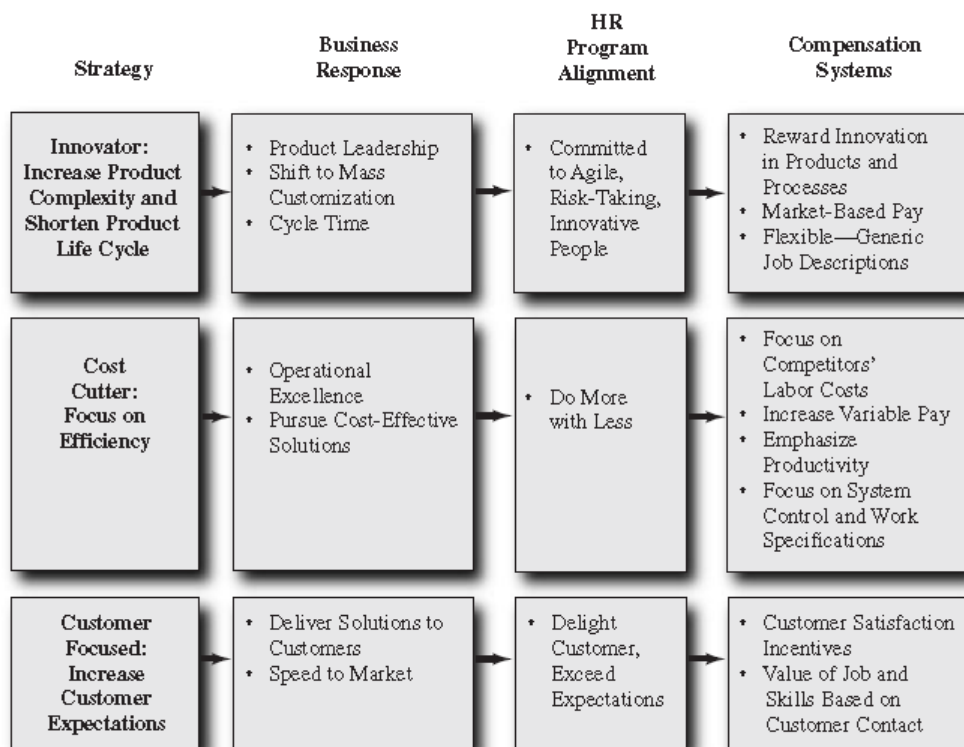


Tailoring the Compensation System to the Strategy

If the basic premise of a strategic perspective is to align the compensation system to the business strategy, then different business strategies will translate into different compensation approaches. Figure 1 gives an example of how compensation systems might be tailored to three different business strategies. The **innovator** stresses new products and short response time to market trends. A supporting compensation approach places less emphasis on evaluating skills and jobs and more emphasis on incentives designed to encourage innovations. The **cost cutter's** efficiency-focused strategy stresses doing more with less by minimizing costs, encouraging productivity increases, and specifying in greater detail exactly how jobs should be performed. The **customer-focused** business strategy stresses delighting customers and bases employee pay on how well they do this. Different business strategies require different compensation approaches. One size does not fit all.

Tailor the Compensation System to the Strategy



Reference: Milkovich–Newman. Compensation. (2004).