Alignment of Business Strategies, Organization Structures and Reward Programs: A Survey of Policies, Practices and Effectiveness

research

A Report by WorldatWork

Dow Scott, Ph.D., Loyola University

Tom McMullen, Bill Bowbin
Hay Group

John Shields, Ph.D., University of Sydney

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WorldatWork
The Total Rewards Association

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The Total Rewards Association

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Media Contact:

Marcia Rhodes

14040 N. Northsight Blvd.

Scottsdale, Arizona

85260-3601

480-304-6885

Toll free: 877-951-9191

Fax: 480-483-8352

Marcia.Rhodes@worldatwork.org

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INTRODUCTION

A competitive business advantage is derived from the alignment of business strategies and reward programs. For compensation professionals, this is practically an axiom, similar to the saying "practice makes perfect" for the musician or the formula "$E=MC^2$" for physicists. The WorldatWork Total Rewards Model specifies that the business strategy, organization culture and HR strategy should be the primary determinants of reward strategy and program design to positively impact performance and results. Open any compensation textbook and you will find chapters dedicated to linking business strategy and reward programs. However, this compensation tenet contradicts our search for "best" reward practices, defined as reward programs and policies that are superior to other policies and programs regardless of the organization's business or HR strategy, how the organization is structured, or other characteristics of the organization.

In a 2007 survey, WorldatWork members identified pay program alignment as one of the most important strengths or areas that *needed* improvement (Scott, McMullen, Sperling and Bowbin, 2007).

While academicians and consultants place great importance on the alignment of reward strategies and programs with business strategy, research on the topic is limited. As a result, the research team from Hay Group, WorldatWork and Loyola University Chicago surveyed a representative sample of WorldatWork members to determine how they formulate and align their business strategies, organization structure and reward programs. Then the team examined the effects of competitive strategy alignment with organizational structure, pay policies and programs relative to three measures of organization performance.

Rewards Alignment Model:

Strategy/Organizational Structures → **Reward Strategies, Policies and Practices** → **Effectiveness Measures**

Strategy/Organizational Structures

Competitive Strategy*
- Quality Defenders
- Cost Defenders
- Analyzers
- Prospectors
- No consistent strategy

Structures
- Org. centralization & team based
- Pay Structures (ranges, job evaluation & pay surveys)

Reward Strategies, Policies and Practices
- Competitive position of pay levels
- Performance measurement
- Pay variability
- Pay communication
- Non-cash rewards
- Consistent strategy across business units
- Alignment of business strategy
- Reinforces org. effectiveness
- Reinforces org. culture

Effectiveness Measures
- Self-reported org. effectiveness
- Fortune's Most Admired Companies
- Total shareholder return (TSR)

*Adapted from Miles & Snow typology.

The specific research questions were:

- How do organizations define the linkage between business strategy, organizational structure and reward strategies and programs?
- What are the specific actions that organizations adopt to align their business strategy, organizational structure and reward strategies?
- How does the alignment of business strategies and reward strategies and programs affect organization performance?

METHODOLOGY

Data Collection and Sample Characteristics

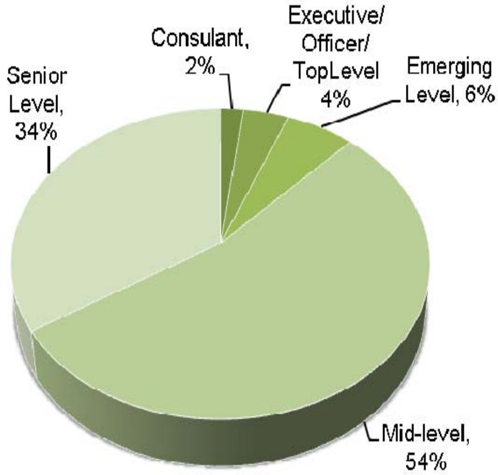
Seven thousand WorldatWork association members were invited to participate in this study, which was open from Jan. 5 through Jan. 20, 2009.

We received 449 valid responses from WorldatWork members. To reduce the potential for statistical error, we dropped multiple responses from the same organization. The responses kept represent the most senior-level participant with the assumption that he/she would be more cognizant of the strategic issues in the organization.

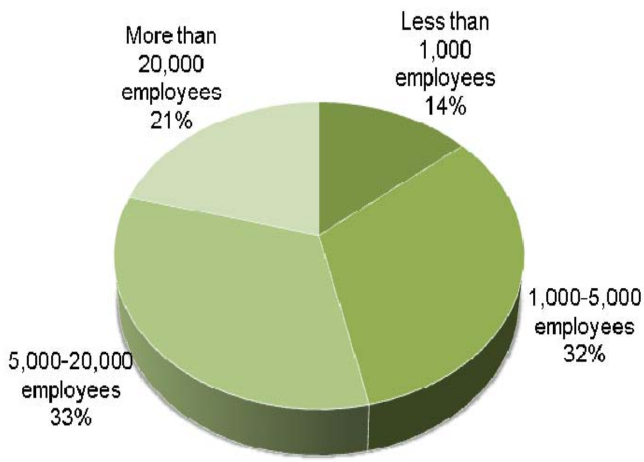
Respondent Demographics

Respondents represented the range of reward/HR professionals and reported data for organizations covering a diverse range of industries and sizes.

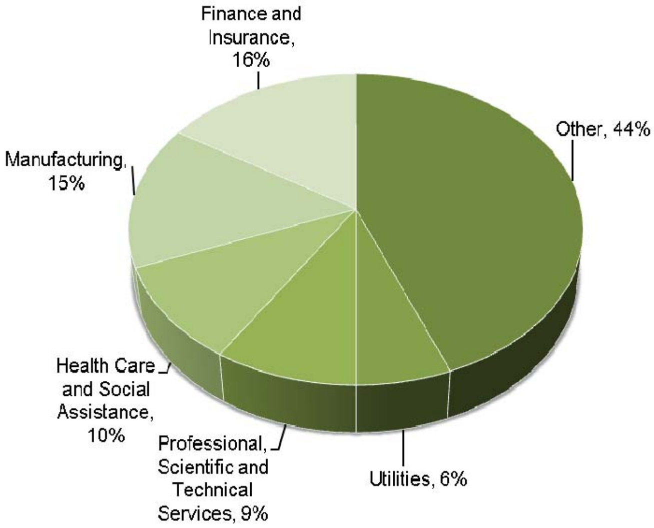
Responsibility Level:



Organization Size:



Industry:



Study Variables and Measures

The well known and highly regarded Miles and Snow typology was the basis for developing the competitive strategies measures, categorized as:"defender," "analyzer" and "prospector." Organization structure (degree of centralization) was based on the equally well known Burns and Stalkers typology. The reward strategy, policies and program measures listed in Figure 1 were specifically developed for this study. We adopted and modified items from similar scales or added items of our own based on our knowledge and experience with these variables (e.g., pay variability, pay communications and non-cash rewards). The measures are defined in the next section, "Findings," and individual items that make up these measures are shown in the tables.

Three measures of organizational effectiveness were also assessed. One was a self-assessment of relative organizational performance as rated by survey respondents. "Please indicate how your organization compared to its competitors. Consider how the organization performed, on average, over the past *three* years." Respondents rated their organizations' overall performance compared to competitors as: lowest, 1% to 20% (1%); low, 21% to 40% (7%); middle, 41% to 60% (33%); high, 61% to 80% (32%); and top, 80% to 100% (28%). Even though one might expect a certain amount of upward performance bias, this subjective measure of performance was strongly correlated with the financial measure of total shareholder return (TSR) over a three-year period. TSR is the change in the organization's stock price plus any dividends paid over a three-year period. This measure was only available for companies that were listed on public stock exchanges.

Fortune's Most Admired Company designation was the third rating of organization effectiveness used. Hay Group derives the Most Admired Company rankings for *Fortune* magazine and has first-hand knowledge of what makes the Most Admired Companies great. This rating is awarded by industry experts based on both financial results and qualitative evaluation of company performance. In determining industry rankings, Most Admired Companies are rated on nine key attributes:

Raters are asked to assess each eligible company in their industry on each of the following:

- Ability to attract and retain talented people

- Quality of management
- Quality of products or services
- Innovation
- 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 companies 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, we confirmed that variables were valid and reliable through factor analysis and alpha coefficients. These analyses can be obtained from the senior author, Dow Scott, Ph.D. To determine the relationship between the variable Pearson correlations, t-tests were used.

SURVEY FINDINGS

Recognizing that reward alignment occurs at several junctures, the findings are first grouped by:

- Competitive strategy (Miles and Snow typology)
- Organizational structure, degree of decentralization (Burns and Stalker typology)
- Pay structure and competitive position of pay levels
- Performance measurement
- Pay variability
- Pay communication
- Non-cash rewards

Next, we assess the degree to which these factors are aligned and the strength of their relationship to organizational performance. Given the scope and detail of the information collected from WorldatWork members, the text below highlights the more interesting findings and refers the reader to the tables for the specific information collected and how survey participants responded.

Competitive Business Strategies

The alternative business strategies that an organization might follow to successfully compete have been defined by numerous authors; the models and definitions of these constructs are often similar. We selected the Miles and Snow (1978) typology which defines a straight-forward description of alternative strategies and a typology quite often used by researchers. Miles and Snow identified three market competitive strategies: defenders, analyzers and prospectors.

Shields (2007) provides a brief description of each:

- **Defenders** act to protect and preserve their market share from existing and new competitors. They will have only one core product or service line 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 ." (See pages 107-108).

Tables 1 through 7 provide data as to how survey respondents describe the competitive strategy or strategies followed by their organizations. Although these organizations did not define the defender strategy consistently as per Miles and Snow, most respondents indicated that their organizations attempt to control costs and champion quality as a competitive advantage. Specifically, 59% of respondents indicated that they vigorously pursued cost reductions and 63% said they exercised tight control of overhead costs. An even higher percentage of respondents agreed that their organizations compete on quality (79%), vigorously pursue improvement in product and service quality (87%), and see product or service quality as more important than price in maintaining market share (59%). The importance respondents place on quality is evident because this scale has the highest average mean score of all the competitive advantage and other pay measures. We suspect this focus on cost and quality reflects the expressed need for continuous quality improvement and cost reduction to survive in the global market. (See Tables 2 and 3).

Far fewer organizations indicate that they consistently follow Miles and Snow's Analyzer strategy as shown in Table 4. Only 11% of organizations agreed that that they "preferred to wait" for competitors to introduce new products or services in order to learn from their experiences. However, 46% of the respondents suggest that their organizations carefully monitor the practices of major competitors before adopting those which appear to be the most promising. Most respondents indicated that their organization prefers to diversify into areas compatible with their existing product or service base (74%). The inability to obtain reasonable factor scores or a coefficient alpha of more than .5 indicates that respondents were not consistent in their responses to these items and as such, one must question the notion that there is an overall analyzer strategy to which organizations represented in this study subscribe. As a result, we did not create a scale (i.e., overall measure) for this competitive strategy for further analysis.

As shown in Table 5, respondents were consistent in their responses to the statement that assesses the degree to which their organizations follow or do not follow a prospector strategy (coefficient alpha = .78). Although not all respondents indicate that their organizations follow a prospector strategy, most agree that innovation is "the key to achieving competitive advantage" (66%); and that they must "constantly seek to locate and exploit new product or service opportunities" (61%).

Table 6 indicates that some organizations do not follow a strategy per se or at least do not consistently follow a strategy. Nine percent agree that their senior managers did not understand the business strategy, 16% agree that the strategy was changed frequently and 24% agree that the business strategy was not consistently executed.

We can now examine each of the scales (i.e., measures created) as to how they relate to each other via a correlation analysis shown in Table 23. Based on the self-reported effectiveness measure, organizations attempting to follow a competitive strategy through cost reduction, quality or prospecting were *more likely* to do the following as compared to organizations that did not follow a consistent strategy:

- Centralize their strategic vision, planning and operations
- Link compensation programs to organization effectiveness
- Use compensation programs to reinforce organization culture
- Have accurate performance measurement systems
- Have variable pay
- Use non-cash rewards
- Align their business strategy with their compensation programs.

Based on the TSR effectiveness measure, organizations following a cost-reduction strategy had a negative relationship with organization effectiveness but organizations following the prospector strategy had a positive relationship with performance. Most Admired Companies were more likely to follow a prospector strategy and more likely to have a strategy than a non-Most Admired Company.

Given that organizations often compete in a variety of industries, leadership must decide to align competitive strategy and centralize operations regardless of the markets or differentiate their strategies and decentralize operations. Table 7 indicates the majority of respondents attempt to “align business units and subsidiaries around a common strategic business vision” and to a lesser degree, centralize operations to achieve cost advantages.

Organization Structure (Degree of Centralization)

Burns and Stalker (1961) theorized that decision making is a predominate driver of organization structure centralized where consistent decisions are made by senior management or decentralized with employees at all levels in the organization having considerable influence on decisions.

Although Burns and Stalker’s scale has been widely used for research, we were unable to discern with factor analysis or alpha coefficient that indeed respondents do assess their organizations as Burns and Stalker believed. As a result, these items in total are neither presented nor analyzed as a scale as shown in Table 8. Although most respondents indicated that their organizations are team based (57%) and encourage employees to take responsibility (85%), only a few indicated a highly decentralized decision-making process (30%) or that employees had considerable input into decisions that affect them (25%). Furthermore, 64% of respondents indicated that communication is “top down”; only 34% *disagreed* that employees receive close supervision, and 54% felt information is shared only with those who need to know. These findings might be viewed as troubling since many organizations purport to be team-based, encourage responsibility and participation. If these responses are indicative of U.S. organizations — few consistently live up to their espoused ideals.

However, the alpha coefficient and factor analysis of Burns and Stalker’s scale indicate our justification for examining two subscales. (See Table 9). These items specifically focus on the extent to which the organization is team-based or sustains centralized policies.

The correlation analysis in Table 23 indicates that team-based organizations are more likely to:

- Link compensation programs to organization effectiveness
- Use compensation programs to reinforce their organization culture
- Use accurate performance measures
- Have higher variability in their pay levels
- Use non-financial rewards more frequently
- Have strategic consistency across business units
- Align their business, HR and compensation strategy
- Consider their organizations more effective than their peers.

The correlation analysis in Table 23 indicates that centralized organizations are more likely to:

- Utilize strategies of cost and quality defenders and prospectors
- Have a team-based organization structure
- Have performance measurement accuracy
- Offer higher variability in their pay levels
- Have better pay communication

- Use non-financial rewards more often
- Use compensation programs that reinforce organization culture and effectiveness
- Have strategic consistency across business units
- Have stronger alignment of their business, HR and compensation strategy
- Have higher self-rated levels of organization effectiveness.

Finally, team-based organization structure was positively related to the three-year average TSR.

Pay Strategies, Policies and Programs

Pay structure and competitive position of pay: Since the statements on pay structure were not designed to represent an overall measure of pay structure, Table 10 provides only descriptive information for each survey statement. Although general consensus exists among compensation professionals about the desirability of having wide pay ranges, few organizations have done so (18%). Most respondents indicate their organizations operate from traditional pay structures (71%) and grant line managers more influence over pay decisions than HR or compensation managers (55% and 34%, respectively).

Most respondents contend that their pay structures target the median for base pay (79%), total cash compensation (58%) and total direct compensation (53%), with organizations slightly more likely to pay above the median as shown in Table 11.

Performance measurement: A large percentage of respondents indicate their use of accurate performance measures, i.e., individual employee performance (48%), team or unit performance (41%) and organization performance (75%). The coefficient alpha (.78) indicates respondents purporting to have accurate performance in one dimension, also claim accurate measures for other performance dimensions. (See Table 12). Organizations primarily engage in traditional performance appraisals to measure employee performance (80%); while only 26% suggest that their organizations use multiple measures of employee performance as shown in Table 13.

The reported degree of performance measure accuracy at the individual, team and organizational level was found to be related to self-reported organization effectiveness. Most Admired Companies also report higher levels of performance measurement accuracy than did non-Most Admired Company peers.

Pay variability: Managers and compensation professionals have long suggested that substantial pay variability (or differentiation) 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, earn substantially more than their peers. Only 19% of the respondents indicated that salary increases for superior performers are at least *two times* the size of increases received by average performers; only 23% agreed that superior performers are paid significantly larger annual salaries (10% or more) than average performers, and only 30% acknowledged a significant variation in annual incentive payouts between superior and average individual performers. It is only with promotions that respondents acknowledge that high performers did substantially better than average performers (83%).

Fifty-seven percent of respondents agreed that employees could earn substantially more if the business unit or the organization performs well. It would appear that more than half the organizations use organization performance measures as a basis for incentive pay.

Few respondents (15%) indicated that their organizations place more pay “at risk” (i.e., variable pay) than do their competitors. Most organizations seem to focus on cash awards (79%) as opposed to equity awards, stock or stock equivalent (8%).

Table 23 reveals that organizations reporting increased pay variability are more likely to operate from a common strategic vision and planning process and centralize operations. Compensation programs are also more likely linked to:

- Organization effectiveness
- Use of compensation programs to reinforce culture
- Report more accurate measures of performance
- Use of non-financial rewards
- Have a consistent strategy across business units
- Align the business strategy with the team-based organization structure, HR and compensation programs
- Report that their organizations are more effective then those of their peers.

Pay variability was found to be related to the self-reported organization effectiveness and Most Admired Companies report higher levels of performance measurement accuracy than did non-Most Admired Companies as shown in Tables 23 and 24.

Pay Communication: In two previous studies of WorldatWork members, we learned that compensation professionals believe pay communication is important, yet organizations are doing too little to help employees understand how they are paid and the value of the pay packages they receive (Scott, Sperling, McMullen and Bowbin, 2008; Scott, McMullen, Sperling and Bowbin, 2007). The current study reinforces these findings per the second lowest mean score (2.8), as shown in Table 15. Only 41% of respondents agree that their employees know the pay ranges for their pay grade or position; 21% know the pay ranges for the grade or positions immediately above their own; 36% say the pay information is openly shared by the organization; and only 33% *disagree* that employees have very limited understanding of why they are paid what they are paid. Pay communications, like pay variability, is an area that compensation professionals contend is important, but they admit that they don’t do nearly enough to help employees understand how they are paid and the value of their pay packages.

Although Table 23 indicates that effectively communicating with employees is not associated with competitive strategies or organization performance, communications is positively associated with non-financial reward use and negatively associated with five-year TSR.

Non-cash rewards: In recent years, compensation professionals have emphasized that employees think in terms of total rewards, which include base pay, variable or incentive pay, benefits and a long list of non-financial rewards. Employee recognition also has been given considerable attention at conferences and in the literature due to its inexpensive application and because employees place considerable importance upon being recognized for their efforts or contributions. As shown in Table 16, only 34% of respondents agreed they have an effective recognition program. Few organizations (7%) reward employees with time off for good performance, even though employee surveys indicate this is a popular reward. Respondents agree their organizations are providing flexible work schedules (65%), are offering numerous development opportunities (55%), and are attempting to maintain job security for high performing employees (71%).

Use of non-financial rewards is associated with team-based organization structures, following a prospector strategy, pay variability, and organization effectiveness.

Strategic alignment and compensation programs: As shown in Table 17, respondents indicate that their compensation programs reinforce financial performance (80%) and customer satisfaction (53%). To a lesser extent, compensation strategy reinforces internal processes (41%) and human capital development (41%).

For the most part, respondents acknowledge their compensation programs are used to reinforce a culture of individual performance (81%) and collaboration and teamwork (58%). To a lesser extent, the compensation programs reinforce a culture of creativity and innovation (39%). (See Table 18).

Thirty-eight percent of the respondents indicate that compensation programs have changed in the last four years, whereas, 51% indicate their programs have not changed. The business strategy (70%), HR strategy and compensation strategy are consistent (70% and 68%, respectively). (See Table 19).

Alignment of the competitive strategy, organization structure and pay system: As shown in Table 20, most respondents indicate that their business strategy was aligned with the HR strategy, organization structure and compensation strategy (65%, 70%, and 54%, respectively). It is interesting that few respondents indicated their business strategy was aligned more with compensation strategy than either the organization structure or HR strategy.

Table 21 shows that most respondents perceive their business strategy as effective (57%), and to a lesser extent their HR strategy and their compensation strategy (43% and 40%, respectively).

Alignment of the business strategy and compensation programs was found to be related to the self-reported organization effectiveness, and Most Admired Companies reported higher levels of alignment then did non-Most Admired Companies as shown in Tables 23 and 24.

Relationship of Strategy, Organization Structure, Pay System and Performance: In summary, perceived organization effectiveness is positively associated with the survey's variables with the exception of those claiming not to have strategy or number of assessors used.

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, our research indicates this assumption is in fact true. More specifically, we found higher levels of organization performance when the following occurred:

- Organizations utilized a defined competitive business strategy and they followed a quality defender or prospector strategy.
- The competitive business strategy was aligned with HR and compensation strategies.
- The organization adopted more centralized policies and programs across business units and was team-based.
- There were accurate measures of performance, higher levels of pay variability and use of non-cash rewards.
- There was a consistent business strategy across business units.

This research has certain limitations. First, since most of the variables were collected at one point in time and correlation analysis was used, relationships between variables could *not* determine causality. Second, the organization assessment of business strategy and pay strategy, policies and programs was based on the individual assessment of (typically) a senior compensation person and was not verified by other sources. Finally, TSR was substantially affected by the economic crisis in the United States. However, even with these limitations, the overall findings were consistent with alignment theory and previous research.

As a result, we suggest that organizations take the following action:

- Spend adequate time in aligning their pay strategies, policies and programs with the business strategy
- Create strategies, policies and programs that are consistent across business units
- Emphasize pay strategies, policies and programs that encourage pay variability, performance measure accuracy and non-cash rewards.
- Frequently reinforce their business, performance and reward strategies through the involvement of senior leadership and line management and via a well-crafted rewards communication strategy.

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Table 1 Competitive Strategy - Defender											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Offers a narrow range of products or services	51	**11%**	200	**45%**	40	**9%**	129	**29%**	26	**6%**	**2.7**
Aggressively protects its existing product or service markets from competitors	11	**2%**	32	**7%**	116	**26%**	207	**47%**	75	**17%**	**3.7**
Prefers to penetrate deeper into its existing markets rather than diversify into new product or service areas	9	**2%**	115	**26%**	141	**32%**	135	**31%**	36	**8%**	**3.2**
Prefers growth to be cautious and incremental	16	**4%**	132	**30%**	101	**23%**	172	**39%**	22	**5%**	**3.1**
Competes chiefly by offering its products or services at the lowest possible prices	54	**12%**	217	**49%**	121	**28%**	40	**9%**	7	**2%**	**2.4**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.
Factor loading and the coefficient alpha score did not justify treating these items as a scale.

Table 2 Competitive Strategy - Cost Reduction											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Vigorously pursues cost reductions	12	**3%**	61	**14%**	107	**24%**	209	**47%**	54	**12%**	**3.5**
Exercises tight control of overhead costs	8	**2%**	68	**15%**	86	**19%**	222	**50%**	59	**13%**	**3.6**
Coefficient Alpha = .69										**Average Measure Score**	**3.6**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 3 Competitive Strategy - Quality Defender											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
My organization:	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Competes chiefly by providing products and services of the highest possible quality	2	**0%**	17	**4%**	71	**16%**	217	**49%**	133	**30%**	**4.1**
Vigorously pursues improvement in product and service quality	1	**0%**	14	**3%**	42	**10%**	258	**59%**	124	**28%**	**4.1**
Sees product or service quality as more important than price in maintaining market share	5	**1%**	33	**8%**	139	**32%**	184	**43%**	71	**16%**	**3.7**
Coefficient Alpha = .75										**Average Measure Score**		**3.9**

Due to rounding, the valid percentages may not total 100%; ~~V~~valid percentages do not include missing responses.

Table 4 Competitive Strategy - Analyzer											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
My organization:	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Is seldom first to enter a new or emerging product or service area	32	**7%**	145	**34%**	126	**29%**	112	**26%**	17	**4%**	**2.9**
Carefully monitors the practices of major competitors before adopting those which appear to be the most promising	4	**1%**	81	**19%**	149	**35%**	170	**40%**	26	**6%**	**3.3**
Prefers to wait for competitors to introduce new products or services in order to learn from their experiences	32	**7%**	206	**48%**	148	**34%**	38	**9%**	8	**2%**	**2.5**
Prefers to diversify into areas compatible with its existing product or service base	2	**0%**	19	**4%**	89	**21%**	262	**62%**	53	**12%**	**3.8**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.
Factor loading and the coefficient alpha score did not justify treating these items as a scale.

Table 5
Competitive Strategy - Prospector

My organization:	Strongly Disagree (1) #	Valid %	Disagree (2) #	Valid %	Neither Agree nor Disagree (3) #	Valid %	Agree (4) #	Valid %	Strongly Agree (5) #	Valid %	Mean Score
Offers a wide and constantly changing range of products or services	11	**3%**	148	**34%**	126	**29%**	119	**28%**	28	**6%**	**3.0**
Uses a wide and constantly changing range of technologies	11	**3%**	107	**25%**	91	**21%**	192	**44%**	34	**8%**	**3.3**
Constantly seeks to locate and exploit new product or service market opportunities	4	**1%**	51	**12%**	112	**26%**	228	**52%**	40	**9%**	**3.6**
Responds rapidly to emerging market opportunities	8	**2%**	88	**20%**	168	**39%**	140	**32%**	27	**6%**	**3.2**
Sees innovation as the key to achieving competitive advantage	5	**1%**	53	**12%**	89	**20%**	196	**45%**	92	**21%**	**3.7**
Coefficient Alpha = .78										**Average Measure Score**	**3.4**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 6
Competitive Strategy – None or Inconsistent

In my organization:	Strongly Disagree (1) #	Valid %	Disagree (2) #	Valid %	Neither Agree nor Disagree (3) #	Valid %	Agree (4) #	Valid %	Strongly Agree (5) #	Valid %	Mean Score
Senior managers do <u>not</u> understand the business strategy	124	**28**	229	**52**	44	**10**	34	**8**	6	**1**	**2.0**
Business strategy changes frequently	34	**8**	228	**52**	106	**24**	64	**14**	10	**2**	**2.5**
Business strategy is <u>not</u> consistently executed	36	**8**	206	**47**	92	**21**	93	**21**	12	**3**	**2.6**
* Seldom makes changes in products or services offered unless forced by the market	38	**9**	238	**55**	99	**23**	51	**12**	3	**1**	**2.4**
Coefficient Alpha = .75										**Average Measure Score**	**2.4**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 7 Organization Centralization – Vision, Planning and Operations											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
My organization:	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Effectively integrates operations to exploit economies of scale	9	**2%**	76	**18%**	168	**39%**	161	**37%**	18	**4%**	**3.2**
Has common business planning processes across all operations	16	**4%**	108	**25%**	92	**21%**	184	**42%**	33	**8%**	**3.3**
Aligns business units or subsidiaries around a common strategic business vision	10	**2%**	51	**12%**	70	**16%**	250	**58%**	51	**12%**	**3.7**
Achieves cost and scale advantages through centralized operations	13	**3%**	70	**16%**	124	**29%**	195	**45%**	29	**7%**	**3.4**
Coefficient Alpha = .75										**Average Measure Score**	**3.4**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 8 Organization Structure - Centralization and Participation											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
In my organization:	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Employees receive close supervision	11	**3%**	136	**31%**	154	**35%**	128	**29%**	10	**2%**	**3.0**
Following rules, guidelines and procedures is less important than getting results	43	**10%**	189	**43%**	90	**20%**	108	**24%**	14	**3%**	**2.7**
Work in our organization is highly team-based	3	**1%**	77	**17%**	113	**25%**	200	**45%**	53	**12%**	**3.5**
Decision-making processes are highly decentralized	37	**8%**	181	**41%**	90	**20%**	111	**25%**	22	**5%**	**2.8**
Communication is from the top down	5	**1%**	59	**13%**	93	**21%**	229	**51%**	60	**13%**	**3.6**
Employees have considerable input into decisions that affect them	20	**5%**	175	**40%**	137	**31%**	103	**23%**	8	**2%**	**2.8**
There are consistent job designs and organization structures across the organization	32	**7%**	131	**29%**	53	**12%**	194	**44%**	35	**8%**	**3.2**
Job duties are clearly defined	15	**3%**	74	**17%**	78	**18%**	252	**57%**	25	**6%**	**3.4**
Information is shared with only those who need to know	8	**2%**	103	**23%**	95	**21%**	202	**46%**	35	**8%**	**3.3**
Employees are encouraged to take responsibility	1	**0%**	19	**4%**	47	**11%**	273	**61%**	107	**24%**	**4.0**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.
Factor loading and the coefficient alpha score did not justify treating these items as a scale.

Table 9 Organization Structure – Team Based											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
In my organization:	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Work in our organization is highly team-based	3	**1%**	77	**17%**	113	**25%**	200	**45%**	53	**12%**	**3.5**
Decision-making processes are highly decentralized	37	**8%**	181	**41%**	90	**20%**	111	**25%**	22	**5%**	**2.8**
Employees have considerable input into decisions that affect them	20	**5%**	175	**40%**	137	**31%**	103	**23%**	8	**2%**	**2.8**
Employees are encouraged to take responsibility	1	**0%**	19	**4%**	47	**11%**	273	**61%**	107	**24%**	**4.0**
Coefficient Alpha = .56										**Average Measure Score**	3.3

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 10 Pay Structure											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Pay ranges are very wide. Maximums are more than 90% higher than minimums	93	**21%**	220	**50%**	47	**11%**	61	**14%**	16	**4%**	**2.3**
Our organization has a traditional pay structure with grades and ranges	46	**10%**	58	**13%**	21	**5%**	234	**53%**	81	**18%**	**3.6**
Internal company values (e.g., job evaluation) are primarily used to determine job value	42	**10%**	159	**36%**	73	**17%**	137	**31%**	31	**7%**	**2.9**
External values (e.g., pay surveys) are primarily used to determine job value or pay	8	**2%**	37	**8%**	48	**11%**	247	**56%**	105	**24%**	**3.9**
Line managers have primary influence over pay decisions	9	**2%**	106	**24%**	82	**18%**	215	**48%**	33	**7%**	**3.4**
Human resources or the compensation department has primary influence over pay decisions	18	**4%**	169	**38%**	110	**25%**	127	**29%**	20	**5%**	**2.9**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.
Diverse set of pay practices is not intended to form a scale.

Table 11
Competitive Position of Pay

	Below Median (1)		At Median (2)		Above Median (3)		Don't Know/ Not Available	Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	
Base salary structures	45	**10%**	343	**79%**	44	**10%**	**15**	**2.0**
Total annual cash compensation (base pay plus target short-term incentives)	62	**15%**	233	**58%**	107	**27%**	**43**	**2.1**
Total direct compensation structures (base cash plus target short- and long-term incentives)	67	**18%**	195	**53%**	108	**29%**	**71**	**2.1**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 12
Performance Measurement - Accuracy

	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Individual employee performance is accurately measured	17	**4%**	94	**21%**	120	**27%**	189	**43%**	24	**5%**	**3.2**
Team, department or unit performance is accurately measured	17	**4%**	112	**25%**	131	**30%**	165	**37%**	16	**4%**	**3.1**
Organization performance is accurately measured	9	**2%**	39	**9%**	65	**15%**	261	**59%**	70	**16%**	**3.8**
Coefficient Alpha = .78										**Average Measure Score**	**3.4**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 13 Performance Measurement - Number of Assessors											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Employee performance is measured from multiple perspectives, which may include customers, subordinates and peers (Reversed item)	41	**9%**	202	**45%**	86	**19%**	104	**23%**	13	**3%**	**3.3**
Employee performance is primarily measured by traditional performance appraisal completed only by his/her supervisor-/manager	12	**3%**	44	**10%**	36	**8%**	284	**64%**	71	**16%**	**3.8**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 14
Pay Variability

In my organization:	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Base salary increase percentages for superior performers are at least two times the size of increases received by average performers	57	**13%**	227	**52%**	70	**16%**	72	**16%**	14	**3%**	**2.5**
Superior performers are paid significantly larger annual salaries then are average performers (at least 10% more)	40	**9%**	198	**45%**	101	**23%**	88	**20%**	13	**3%**	**2.6**
There is significant variation in annual incentive payouts between superior and average individual performers	52	**12%**	173	**40%**	81	**19%**	105	**24%**	26	**6%**	**2.7**
High performers are much more likely to be promoted than average performers	5	**1%**	30	**7%**	40	**9%**	291	**66%**	75	**17%**	**3.9**
Employees can earn significantly more if the business unit or the organization performs well	21	**5%**	84	**19%**	78	**18%**	184	**42%**	67	**15%**	**3.4**
Employees can earn significantly more if their team, work unit / department or the organization performs well	34	**8%**	147	**34%**	116	**27%**	112	**26%**	22	**5%**	**2.9**
Our organization puts more pay "at risk" (i.e., variable pay) than our main competitors	54	**12%**	194	**44%**	128	**29%**	53	**12%**	11	**3%**	**2.5**
*Incentive pay focuses primarily on cash awards	11	**3%**	25	**6%**	56	**13%**	262	**61%**	79	**18%**	**3.9**
*Incentive pay focuses primarily on equity awards, stock or a stock equivalent *	126	**30%**	176	**42%**	86	**20%**	31	**7%**	4	**1%**	**2.1**
Coefficient Alpha = .77										**Average Measure Score**	**2.9**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.
* Item was not included in this scale.

Table 15 Pay Communication											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Employees know the pay ranges for their pay grade or position	67	**15%**	117	**26%**	79	**18%**	144	**33%**	36	**8%**	**2.9**
Employees know what the pay ranges are for the grade or the positions immediately above their own	87	**20%**	179	**40%**	83	**19%**	76	**17%**	17	**4%**	**2.5**
Compensation program information is shared openly by the organization	55	**12%**	154	**35%**	77	**17%**	130	**29%**	30	**7%**	**2.8**
Employees have very limited understanding of why they are paid what they are paid (Reversed Item)	17	**4%**	128	**29%**	105	**24%**	160	**36%**	36	**8%**	**2.8**
Coefficient Alpha = .83										**Average Measure Score**	**2.8**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 16 Non-cash Rewards											
	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
My organization has effective non-monetary programs for recognizing employee performance	27	**6%**	159	**36%**	109	**24%**	125	**28%**	25	**6%**	**2.9**
My organization provides numerous development opportunities for employees	13	**3%**	83	**19%**	103	**23%**	215	**48%**	32	**7%**	**3.4**
My organization rewards employees with time off for good performance	118	**27%**	250	**56%**	48	**11%**	25	**6%**	4	**1%**	**2.0**
My organization gives employees special perks and amenities for good performance such as special parking spots, club membership and dinners out	120	**27%**	237	**53%**	36	**8%**	50	**11%**	2	**0%**	**2.0**
There are often group celebrations for attaining performance goals or for special events	39	**9%**	129	**29%**	91	**21%**	163	**37%**	21	**5%**	**3.0**
My organization has flexible work schedules to accommodate employee needs	21	**5%**	64	**14%**	71	**16%**	227	**51%**	62	**14%**	**3.6**
My organization strongly attempts to maintain job security for high performing employees	9	**2%**	39	**9%**	79	**18%**	237	**53%**	81	**18%**	**3.8**
Coefficient Alpha = .66										**Average Measure Score**	**2.9**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 17
Compensation Programs Reinforce Organization Effectiveness

The compensation programs reinforce the importance of the:	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Organization's financial performance	10	**2%**	37	**8%**	40	**9%**	236	**53%**	120	**27%**	**3.9**
Customer satisfaction	12	**3%**	97	**22%**	97	**22%**	199	**45%**	36	**8%**	**3.3**
Internal processes	14	**3%**	119	**27%**	127	**29%**	170	**38%**	12	**3%**	**3.1**
Human capital development (i.e., employee development)	20	**5%**	123	**28%**	120	**27%**	162	**37%**	16	**4%**	**3.1**
Coefficient Alpha = .65										**Average Measure Score**	**3.4**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 18
Compensation Programs Reinforce Organization Culture

The compensation programs reinforce a culture of:	Strongly Disagree (1)		Disagree (2)		Neither Agree nor Disagree (3)		Agree (4)		Strongly Agree (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Creativity and innovation	16	**4%**	112	**26%**	136	**31%**	157	**36%**	15	**3%**	**3.1**
Individual performance	9	**2%**	32	**7%**	44	**10%**	272	**61%**	87	**20%**	**3.9**
Collaboration and teamwork	14	**3%**	60	**14%**	113	**26%**	215	**49%**	39	**9%**	**3.5**
Coefficient Alpha = .68										**Average Measure Score**	**3.5**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 19
Consistency of Strategy Across Business Units

Across business units, my organization's:	Highly Inconsistent (1)		Inconsistent (2)		Neither Consistent nor Inconsistent (3)		Consistent (4)		Highly Consistent (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Business strategy is	7	**2%**	48	**11%**	76	**17%**	260	**59%**	48	**11%**	**3.7**
HR strategy is	9	**2%**	54	**12%**	67	**15%**	270	**61%**	41	**9%**	**3.6**
Compensation strategy is	8	**2%**	61	**14%**	72	**16%**	256	**58%**	45	**10%**	**3.6**
Coefficient Alpha = .82										**Average Measure Score**	**3.6**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 20
Alignment Business Strategy

My organization's:	Highly Unaligned (1)		Unaligned (2)		Neither Aligned nor Unaligned (3)		Aligned (4)		Highly Aligned (5)		Mean Score
	#	Valid %	#	Valid %	#	Valid %	#	Valid %	#	Valid %	
Business strategy and HR strategy are	7	**2%**	39	**9%**	107	**24%**	249	**57%**	37	**8%**	**3.6**
Business strategy and organization structure are	4	**1%**	32	**7%**	99	**23%**	265	**61%**	38	**9%**	**3.7**
Business strategy and compensation strategy are	6	**1%**	61	**14%**	137	**31%**	210	**48%**	26	**6%**	**3.4**
Coefficient Alpha = .86										**Average Measure Score**	**3.6**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 21 Rated Effectiveness of Business, HR and Compensation Strategy												
Please indicate how your organization compared to its competitors, on average, over the past THREE years.	**Lowest (1) (1-20%)**		**Lower (2) (21-40%)**		**Middle (3) (41-60%)**		**Next (4) (61-80%)**		**Top (5) (80-100%)**		**Not Applicable**	**Mean Score**
	#	**Valid %**	**#**	**Valid %**	**#**	**Valid %**	**#**	**Valid %**	**#**	**Valid %**	**#**	
How would you rate the effectiveness of the business strategy?	3	**1%**	32	**9%**	126	**34%**	119	**32%**	95	**25%**	**47%**	**3.7**
How would you rate the effectiveness of the HR strategy?	9	**2%**	47	**12%**	158	**42%**	120	**32%**	43	**11%**	**46%**	**3.4**
How would you rate the effectiveness of the compensation strategy?	14	**4%**	49	**13%**	166	**44%**	111	**30%**	36	**10%**	**47%**	**3.3**
Coefficient Alpha = .83											**Average Measure Score**	**3.5**

Due to rounding, the valid percentages may not total 100%; valid percentages do not include missing responses.

Table 22 Organization Effectiveness												
Please indicate how your organization compared to its competitors, on average, over the past THREE years.	**Lowest (1) (1-20%)**		**Lower (2) (21-40%)**		**Middle (3) (41-60%)**		**Next (4) (61-80%)**		**Top (5) (80-100%)**		**Not Applicable**	**Mean Score**
	#	**Valid %**	**#**	**Valid %**	**#**	**Valid %**	**#**	**Valid %**	**#**	**Valid %**	**#**	
Overall organization performance	4	**1%**	25	**7%**	122	**33%**	118	**32%**	105	**28%**	**48**	**3.8**

Table 23

Pay Alignment Survey: Scale Correlation Analysis

	Cost Reduction	Quality Defender	Propsector	None / Inconsistent Strtgy	Org. Cntrlztn	Org. Strctre - Team Based	Perf. Measure. - Accuracy	Pay Variability	Pay Comm	Non Cash Rewards	Comp Prgrms Reinforce Org. Effective.	Comp Prgrms Reinforce Org. Culture	Consistency Strategy Across BU	Alignment Business Strategy	Org. Perf. (over 3 years)	Rated Effct Business, HR, Comp Strategy
Quality Defender	.126**															
Prospector	.208**	.342**														
None / Inconsistent Strtgy	-.066	-.336**	-.164**													
Org. Centralization	.361**	.366**	.284**	-.478**												
Org. Structure - Team Based	-.030	.309**	.273**	-.258**	.157**											
Perf. Measurement - Accuracy	.238**	.349**	.247**	-.444**	.511**	.333**										
Pay Variability	.192**	.190**	.234**	-.232**	.330**	.249**	.504**									
Pay Communication	.003	.089	-.016	-.108*	.145**	.025	.114*	-.031								
Non Cash Rewards	.064	.214**	.219**	-.232**	.344**	.352**	.385**	.334**	.228**							
Comp Programs Reinforce Org. Effectiveness	.205**	.343**	.267**	-.352**	.492**	.291**	.476**	.345**	.226**	.363**						
Comp Programs Reinforce Org. Culture	.196**	.379**	.296**	-.387**	.462**	.422**	.550**	.463**	.114*	.379**	.582**					
Consistency of Strategy Across BU	.213**	.320**	.160**	-.493**	.595**	.117*	.446**	.236**	.225**	.307**	.386**	.396**				
Alignment Business Strategy	.250**	.323**	.241**	-.469**	.601**	.201**	.550**	.352**	.214**	.334**	.480**	.510**	.657**			
Org. Perf. (over 3 years)	-.010	.271**	.162**	-.295**	.192**	.179**	.217**	.141**	.038	.125*	.258**	.234**	.184**	.271**		
Rated Effectiveness Business,HR,Comp Strategy	.157**	.320**	.283**	-.439**	.460**	.232**	.450**	.287**	.183**	.303**	.427**	.369**	.475**	.592**	.669**	
3 Year Total Stock Return	-.192*	.080	.199**	-.124	-.066	.199**	-.081	-.003	-.140	.025	.051	.085	-.046	-.038	.308**	.172*
5 Year Total Stock Return	-.172*	.121	.234**	-.091	-.052	.142	-.099	-.011	-173*	-.058	.069	.084	-.029	-.031	.351**	.186*

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

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

Table 24 Fortune's Most Admired Companies (MAC) Analysis		
Computed Scale	**MAC ('07 & '08)**	**Non-MAC Control Group**
Cost Reduction	**3.7**	**3.6**
Quality Defender	**4.0**	**4.0**
Prospector	**3.8**	**3.4**
None or Inconsistent	**2.2**	**2.5**
Organization Centralization	**3.6**	**3.3**
Organization Structure - Team Based	**3.3**	**3.3**
Performance Measurement - Accuracy	**3.8**	**3.3**
Pay Variability	**3.2**	**2.9**
Pay Communication	**2.8**	**2.7**
Non-Cash Rewards	**3.2**	**2.9**
Comp Programs Reinforce Org Effectiveness	**3.5**	**3.3**
Comp Programs Reinforce Org Culture	**3.7**	**3.4**
Consistency of Strategy Across BU	**3.8**	**3.6**
Alignment Business Strategy	**3.8**	**3.5**
Rated Effectiveness Business, HR, Comp Strategy	**3.6**	**3.4**