Aligning business Strategy, HR strategy and compensation Strategy

**Business strategy**

A business strategy is the means by which it sets out to achieve its desired ends (objectives). It can simply be described as a long-term business planning. will cover a period of about 3-5 years.

EX: 1) Raising the finance to build a new factory or plant.

   2) Strategies are concerned with the scope of a business' activities i.e. what and where they produce.
strategies

1. Generic (general) strategies
2. Competitive strategies.

Types of generic strategies.

**Growth** i.e. the expansion of the company to purchase new assets, including new businesses, and to develop new products.

**Internationalization / globalization** i.e. moving operations into more and more countries. For example companies like Gillette, Coca-Cola, are major multinationals with operations across the globe.

**Retrenchment** involves cutting back to focus on your best lines. concentrating on what you do best.
Competitive advantage

Competitive strategies are also important. **Competitive strategies are concerned with doing things better than rivals.**

-To be competitive a firm shouldn't just copy the ideas of rivals. They should seek to out compete rivals. There are two main ways of being competitive.

1. **By selling goods at lower prices** than rivals. This is possible when a firm is the market leader and benefits from economies of scale.

2. **By differentiating your product** from those of rivals - which enables you to charge a higher price if desired.

**Economies of scale** - The advantages that large firms have from producing large volumes of output enabling them to spread their costs over more units of output.

**Differentiation** - Making a product different from rival offerings e.g. through packaging and labeling, customer care, additional extra features, etc.
HR Strategy

• It covers the various areas of human resources functions such as recruitment, compensation, performance management, reward and recognition, employee relations and training.

• Human resource strategy consists of principles for managing the workforce through HR policies and practices.

• Human resource strategy is designed to develop the skills, attitudes and behaviors among staff that will help the organization meet its goals.
What is HR Strategy?

A co-ordinated set of actions aimed at integrating an organization's culture, organization, people and systems in order to get achieve the business goals.

KEY QUESTIONS FOR HR DEVELOPMENT STRATEGY

1. Where do we want to be?
2. How do we get there?
3. Where are we now?
4. What kinds of people do you need to manage and run your business to meet your strategic business objectives?
5. What people programs and initiatives must be designed and implemented to attract, develop and retain staff to compete effectively?
compensation strategy

Derived from the HR Strategy and it defines the **position of the organization on the job market**, the main bonus principles in the organization and rules for the base salary setting.

- The compensation strategy is the strategy, which is approved by the **Board of the organization**.
- The owner of the compensation strategy is always the **top executive management** of the organization.
- The compensation strategy has a huge impact on the costs of the organization and that is the main reason for the top management approval. The rest of managers are the **users of the compensation strategy**.
- Defines the basic compensation components used in the organization and the standard rules applied to each compensation component.
Compensation Strategy and HR Strategy

• The HR Strategy always defines the basic principles for the compensation scheme in the organization and the compensation strategy defines the details for the components and when and how they will be introduced or redesigned.

• The compensation strategy should be updated, when Human Resources makes significant changes to the HR Strategy or the organization changes its business strategy.
Aligning Compensation Strategy with Business Strategy

• Compensation systems should align with the organization's business strategy

• When business strategies change, Compensation systems should also change

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>Compensation Strategy</th>
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<tr>
<td>Achieving competitive advantage through innovation</td>
<td>– Provide financial incentive/reward and recognition for innovation</td>
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<tr>
<td>Achieving competitive advantage through quality</td>
<td>– Link reward to quality performance</td>
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<tr>
<td>Achieving competitive advantage through low costs</td>
<td>– Review all reward practices to ensure They provide value for money</td>
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