

# The “High-Road” Approach to Compensation and Benefits Practices: Enhancing Competitive Advantages

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## ABSTRACT

High-road approach organizations deploy commitment-based/high-performance working HRM systems and see employees as a sales driver rather than a cost driver. They have a long-term perspective and make more investment in their HR by paying them above the industry average and implement policies and practices that focus on employee engagement, satisfaction, and service orientation to enhance organizational performance. This research views compensation and benefits practices through the lens of a high-road approach and provides various frameworks to emphasize the role of the high-road approach in enhancing employee commitment, engagement, loyalty, productivity, and retention, thus leading to healthier organizational growth. The research provides various illustrations to explain how companies have initiated a high-road approach to compensation and benefits practices and improved their overall performance. Research also discusses the barriers to high-road approach adoption and identifies prerequisites for its successful implementation.

## KEYWORDS

Benefits, Compensation, Engagement, Financial Rewards, High-Performance Work Systems, High-Road Approach, Human Resource Management, Motivation, Non-Financial Rewards, Turnover

## 1. INTRODUCTION

The compensation and benefits practices can influence a company’s strategic advantage by positively influencing organizational outcomes through costs, identity, and reputation and affecting employee attitudes and behaviors, including retention, attraction, and motivation. Changing employee attitudes and behaviors can increase levels of attracting and retaining employees; enhance employee well-being, facilitate more strategic and organizational citizenship behaviors, leading to improved employee performance, all of which positively influence organizational outcomes. Organizational citizenship behaviors lead to higher productivity, reduced costs, greater customer satisfaction, and lower turnover (Jackson et al., 2018). Although deploying industry norms or best practices of compensation and benefits can be positive for an organization in the long term, it is not likely to lead to a sustainable competitive advantage, because other organizations can do the same thing. Thus, such practices

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have to be non-imitable to lead to a sustained competitive advantage. This is achieved by adapting practices to an organization's business environment as well as organizational factors (Jackson et al., 2018). When an organization adapts its strategies to its unique capabilities and business environment, imitation by other companies does not lead to the same outcomes. A company's policies and practices for compensation and benefits can support its strategy and strategic goals. A company's business strategies should then drive its human resources as well as compensation, and benefits strategies.

When organizations in specific industries (i.e. retail, leisure, healthcare, and personal services in the service industry) face diminishing profits, many would cut employee costs as a potential solution, falling into a vicious cycle: lower labor budgets lead to decreased employee engagement, more operational problems, and higher employee turnover which in turn reduce employee productivity, sales and profits, and that often compel organizations to cut their labor budget further, perpetuating the cycle. Hence, organizations find themselves in a vicious cycle of lower employee engagement, poor operational performance, a decline in sales and profits, and high employee turnover. Hence, there is a need to look into such issues and suggest other alternatives to achieve sustainable business performance. In this context, this research explores a high-road approach (i.e. commitment-based or high-performance HRM systems) to compensation and benefits strategies for enhancing business performance and achieving sustainable competitive advantages.

The major objectives of this research are first, to introduce the concept of high-road approach in HRM systems and extend it to compensation and benefits practices; secondly, identify various programs related to work-life balance, recognition, performance management, talent development, and working environment for deployment of high-road approach; thirdly; to develop a research framework of high-road approach to segregate relevant elements of compensation and benefits practices and finally provide various illustrations of successful deployment of high-road approach to compensation and benefits practices of the organizations.

## **2. TYPES OF HRM SYSTEMS: CONTROL-BASED VERSUS COMMITMENT-BASED SYSTEMS**

Organizations can vary in the focus of their HRM systems and whether an organization emphasizes control or commitment. Control-based HRM systems as a traditional HRM approach involve an emphasis on rules and procedures, punishment, and close employee monitoring whereas commitment-based HRM systems or high-performance work systems reflect investing in training, career opportunities, higher wages, and employee benefits (Madhani, 2021b). Low-road approach organizations adopt high control-based HRM systems and are thus stuck in a "vicious cycle", where employers are constrained with labor budget, and hence they are hesitant to invest in employee training or other benefits that increase employee engagement and retention and boost organizational performance. Low morale and high rates of turnover further reduce sales and profitability; thus, the vicious cycle continues. Organizations with commitment-based systems capitalize on improving employee skills, motivation, and opportunities to contribute, to improve organizational performance on measures such as turnover (Lepak et al., 2006). When employees see their jobs as long-term career opportunities, rather than short-term stints, their satisfaction with their organization increases which, in turn, reduces turnover rates (Grewal et al., 2017)

High-road approach organizations deploy high commitment-based HRM systems and see employees as a sales driver rather than a cost driver therefore investment in HR is a priority for them. They invest heavily in their HR by paying them above the industry average and implement policies and practices that focus on employee engagement, satisfaction, and service orientation to enhance organizational performance. Such companies establish a "virtuous cycle", where employees are not viewed as a cost to be minimized but as a driver of sales and profits. "Satisfied owners are more likely to invest in the company's human resources, not necessarily by paying employees more, but by providing the training, the equipment, and the conditions to make the work more productive and

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