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Incentive reward with organizational life cycle from competitive advantage viewpoint

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Abstract. This paper develops a framework of incentive reward match to organizational life cycle from the viewpoint of competitive advantage. Different strategy, such as differentiation, overall cost leadership and focus, can create different competitive advantage in each stage of organizational life cycle. Implementing different types of incentive reward strategy to motive unique human resources to execute the corresponding strategy and then competitive advantage can be built. Three types of incentive reward strategy, human capital, output and position, are proposed respectively in each stage of organizational life cycle to attract, nurture, and retain distinctive manpower. It will create and sustain competitive advantage in the long run.

Keywords: Competitive advantage, generic strategies, organizational life cycle, inventive reward

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1. Introduction

Many companies are beginning to appropriately view employee rewards as an important investment, rather than one of their largest expenses. Linking rewards, result, and employee motivation may be most value-added human capital strategy. In the meantime, every financial institution on the basis of its mission is unique, and one approach to rewarding and motivating employees does not fit all organizations forever [8]. Therefore, one type of reward does not fit all stages of an organization in its life cycle.

Some researchers suggest that each business faces different challenges and issues, and they hypothesizes these challenges require different goals and strategies [29]. Appropriate incentive reward can motive employees to achieve the performance standard and meet the organizational goals and strategies. Therefore, it is important to identify the business mission and business strategy, and then determine the human resources philosophy including incentive reward strategy [8]. Also, an assessment of the business culture, environment and processes is critical in preparation for designing and implementing a total reward strategy plan [21]. And the key drivers of executive reward programs are competitiveness and alignment with the corporate business plan [17]. Therefore, to ensure an incentive plan continues to support the needs of the business, it is critical to understand how the business itself is evolving over time [12].

In the 21st century, whether in domestic or international, competitive conditions grow ever more

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turbulent. It is fairly important to set different goal and mission in each life stage of an organization in order to create competitive advantage. By implementing different types of incentive reward to get unique, inimitable, and valuable manpower is the key to succeed. When the appropriate foundation and framework for incentive reward is established in organizational life cycle, the mission of human resource management can be achieved, and then competitive advantage will be properly built and sustained.

2. Literature review

2.1. Competitive advantage and strategies

Recent years have witnessed a growing intensity of competition in virtually all areas of business, whether at home or abroad, in markets upstream for raw materials, components, supplies, capital and technology as well as in markets downstream for consumer goods and services [32]. This has resulted in greater attention to analyzing competitive behavior and competitive strategies under different environmental conditions [32].

As competitive conditions grow ever more turbulent, the importance of developing and sustaining competitive advantage appears to be increasing exponentially. The intensifying significance of establishing or exploiting competitive advantage is apparent in the rapidly expanding body of practitioner-oriented tests and theoretical treatise that expound the merit of acquiring or securing a sustainable competitive advantage [14].

According to Porter [25], the notion underlying the concept of generic strategies is that competitive advantage is the heart of any strategy, and in order to attain competitive advantage the organization has to make a choice about the type of competitive advantage. Barney [3,6] argues that organizations are said to exhibit a competitive advantage when they are "implementing a value creating strategy not simultaneously being implemented by any current or future competitors". Peteraf [28] defines competitive advantage as "sustain above normal returns". Ghemawat and Rivkin [28] say "A firm that earns superior financial returns within its industry or its strategic group over the long run is said to enjoy a competitive advantage over its rival". Furthermore, research in the field of strategic management suggests that firms obtain sustainable competitive advantage by implementing strategies that exploit their internal strengths, while neutralizing external threats and avoiding internal weaknesses [3,28]. Resource-based theory has emerged which offers a different perspective, arguing that sustainable advantage derives from unique, inimitable competences possessed by firms [5,9]. The capability-based theory suggests that a firm can achieve competitive advantage through the distinctive or core-capabilities possessed by the firm [30].

Porter [26,27] considered that in the long-term the extent to which the firm is able to create a defensible position in an industry is a major determinant of the success with which it will out-perform its competitors. If the primary determinant of an organization's profitability is the attractiveness of the industry in which it operates, an important secondary determinant is its position within that industry. Any organization can position itself by leveraging its strengths appropriately [27]. Porter [25] has argued that an organization's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: differentiation, overall cost leadership, and focus. Organizations following the differentiation strategy try to be unique in a way that is valued and important for its marketplace of customers. Such uniqueness will be rewarded by the ability of the organization to charge higher prices. The organization can achieve and maintain superior returns if the price premium is greater than the cost involved becoming unique. The overall cost leadership organization serves a broad industry segment, and its strategy is to be the lowest cost producer. Low-cost producers frequently sell a standard product and place an emphasis on exploiting scale and absolute cost advantages. An organization will be a superior performer if it can maintain the cost advantage and charge prices at the industry norm. The focus strategy selects a segment of the industry and develops a specialized strategy to serve that segment only. It succeeds by taking advantage of an underserved niche in the market [25]. These three generic strategies differ in dimensions other than the functional differences. Implementing these three generic strategies successfully requires different resources and skills [25], imply differing organizational arrangements, control procedures and incentive systems.

In this paper, we define the competitive advantage as the ability of an organization to add value in the relative market. We expect organizations maximize their value from Porter's three generic strategies [26] by implementing human resource management strategies appropriately.

2.2. Organizational life cycle

The organizational life cycle concept is not new. Since the early work of Haire [13] in organizational analysis, the concept of modeling life cycle stages has been linked with various organizational processes. The life cycle analogy is developed in order to explain the development of organizations over time [4]. The earlier literature on organizational life cycles is theoretical rather than empirical, and authors differed about the number of stages of the life cycle [2,13]. Different authors emphasized a unique set of characteristics found in each stage of their life cycle models. However, what is important is that, regardless of the numbers, these stages are: (i) sequential in nature; (ii) occur as a hierarchical progression that is not easily reversed; and (iii) involve a broad range of organizational activities and structures [2,13].

The organizational life cycle describes the stages of growth and development of an organization. In general, organizational life cycle models assume that an organization goes through inception to growth, maturity and decline or redevelopment. And a specific critical issue that requires decisive action from management and results in the transition from one stage to the other categorizes the life cycle stages. The manner in which the organization addresses these critical issues can play a key role in the success or failure of the organization [22].

During inception and early growth, the organization is a single product company and is characterized by a "one man show", with the founder bearing the responsibility of managing all aspects of the company. The organization has just come into existence and established its position in the market place, usually through technological advances, innovation or entrepreneurship [2,13]. The prime concern at this stage is to secure its financial resources in order to ensure its survival [11]. In this stage, possessing obviously different technology or product, it will be the chief incentive to attract the financial sources.

During the growth stage, rapid expansion takes place. The organization is now capable of producing more than one product. More emphasis is placed upon establishing rules and procedures and maintaining stability of the organizational structure [2,13]. In this stage, the organization is distinguished by a more formalized structure; focus on task performance, functional specialization and departmentalization. Such organizational feature exactly supports mass-produce and cost advantage becoming. Moreover, when an organization has successfully experienced the first stage and gotten existence position, it also needs more low-cost advantage than before to hold the competitiveness and market share in the industry.

The organization enters the maturity stage because of rapid growth and expansion. As the organization matures, this very same process of formalization reduces innovativeness and flexibility, and the ability to adapt to turbulent environments in the future. Another problem is that organizations tend to develop activity programs that replicate earlier successes, but the very existence of such programs creates enormous inertia. At this point, it is imperative for the founder to be able to delegate responsibilities in order for the company to survive [13]. Therefore, the key point of an organizational strategy should focus effort and resources on one particular segment of a market/product, and adequately delegate particular market/product managers to stand continuously in the industry.

As the organization enters the decline or redevelopment phase, the organizational climate is characterized by unrealistic optimism, poor communication, commitment to past strategy, conformity, group think, over-conservatism and mistrust [2,13]. The organization's rigid structure, resistance to change and political climate make it impossible to perceive important environmental changes. Moreover, the organizational structure, decision-making process and information management procedures no longer fit the organization's need.

For any organization, under the concept of going-concern, it won't sit watching and let it move into decline even death position. An organization should try to restructure and reform it and look for the new incepting stage of next life cycle. For this reason, it is also called redevelopment stage.

2.3. Organizational contingency theory

Mintzberg [5] argued the case for a contingency theory of structure: there is no one best way to structure an organization; it all depends on the particular contingent circumstances facing the organization. These contingency variables included: the age and size of the organization; the dynamism of the environment; the complexity of the tasks being performed; the technical systems used in the core of the business; and the power relationships (particularly external) affecting the organization. Different and coherent combinations of these variables would mean that certain organization forms would be more effective than others [5].

Organizational contingency theory suggests that an organizational outcome is the consequence of a "fit" or match between two or more factors. Since organizations are in a continuous process of adaptation, and organizations exhibit a unique set of characteristics in each developmental stage; having the ability to recognize an organization's particular stage of development would help the formulation of its strategies, identification of risk and opportunities and management of organizational change [13]. As companies struggle to meet the growing challenge of survival in the marketplace, they often experience periods of significant, even radical, organizational change. Although each company is unique, careful study and an insider's view can provide valuable insights into understanding the dynamics of how these organizations cope with both the positive and negative aspects of organizational change [22].

The contingency perspective provides a framework to examine how organizations adapt to changes in their external and internal environments. It takes a macro-perspective on viewing organization systems such as the compensation system. The contingency perspective predicts that no single set of organization systems is effective in all cases [2]. The organization must adjust its systems to fit with the changed environment [2]. When an organization experiences a change in the environment, it will adjust its strategy and structure to fit with the new environmental conditions. Rightly, compensation systems should in turn be adjusted to support the changes strategy and structure of the firm [2]. In the scope of compensation system, incentive reward practices play an important role in motivating employees to perform. Most researchers agree that they logically serve as motivators in shaping the behavior of employees and motivating them to perform at higher levels, and the use of proper rewards can culminate in improved firm performance at the organizational level. Therefore, from the contingency viewpoint, incentive reward should be varied and adapted to changing external and internal environments then support these corresponding human resource management and organizational strategies.

2.4. *Incentive reward*

Maslow's hierarchy of needs includes physiological, safety, belonging, esteem and self-actualization needs, and everyone is motivated by different needs. Prochaska says that everyone is at different readiness levels [16]. Skinner concluded that everything we do and are is shaped by our experience of punishment and rewards and believed that rewarding parts of the wanted behavior would lead to the final wanted behavior [16].

Reward plans can be powerful tools for helping employees connect corporate citizenship and performance improvement [23]. Kauss and James [18] said that an incentive compensation program can be a powerful motivational tool for employees, but only it is implemented correctly. Incentive system is strategically designed when rewards are linked to activities, attributes and work outcomes those support the organization's strategic direction and foster the achievement of strategic goals [18]. Strategic compensation theory proposes that such linkages lead to increased employee knowledge or skill development, flexibility, commitment, retention and productivity [15]. Incentive plans serve as cost-effective compensation vehicles that focus employees on key business objectives while creating meaningful links between results and rewards [12]. The type of incentive reward practices used by an organization plays an important role in motivating employees to perform. This ultimately affects the performance of the organization. More and more companies are attempting to identify innovative incentive rewards strategies that are directly linked to motivating to improve the organization's performance [1].

Traditional employee incentives based on position and longevity have been replaced or augmented by other types of rewards. Rewards are now commonly based on a host of qualitative and quantitative recognition measures including customer satisfaction and market share [1]. Organizations must choose among several incentive tools, including bonuses, stock options, and other contingent rewards, as well as base salary increases and non-financial incentives. The right pay-for-performance model will depend on your company's culture structure and overall strategy [24].

Total rewards are everything employees perceive to be of value resulting from the employment relationship. This primarily includes cash compensation, benefits, and other non-cash forms, and the work experience [8]. According to strategic compensation theory, in order for reward systems to influence goal attainment, incentive rewards must be tied to some identifiable attribute, activity or output. Howard and Dougherty have labeled some reward strategies such as individual output, group output, human capital, position and market reward strategies [15]. Different incentive reward strategies are likely to have different effects on organizational outcomes. (1) An individual output reward strategy will improve productivity. (2) A group output reward strategy is used to encourage cooperation and collaboration among workers and to enlist commitment to a higher level of goals. (3) A human capital reward strategy encourages people to develop their human capital and entices them to use it. This leads to increased skill scope and level as well as effort. Skill-based pay is often also used to develop flexibility in work scheduling because workers become generally more qualified. (4) A position reward strategy encourages a worker to assume responsibility for greater job depth. The strategic consequence of a position reward strategy is greater technical competence within the specialized role described by the worker's job description. (5) A market reward strategy that pays these individuals at or above the market rate can prove to be a wise investment, especially if their replacement would be particularly expensive or disruptive. It ensures that the firm's pay levels are at least competitive with the labor market.

In the conclusion, we group incentive reward strategy into three types. Human capital reward strategy, it emphatically rewards people to develop and own their human capital and entices them to use it. Output reward strategy, it is used to arouse employees potential and get higher level of output. Position reward strategy, it encourages employees to assume responsibility for greater job depth.

3. A framework of incentive reward in organizational life cycle

From the viewpoint of contingency, there is no one best way to manage an organization; it all depends on the particular circumstances the organization facing. A number of researchers have proposed that organizations progress through various stages in a life cycle as they grow and develop [20]. Therefore, different strategies can be considered in each stage of organizational life cycle respectively. Also, businesses paid more attention to analyze competitive strategies to face the challenge of different competitive environment recently. Possessing unique, inimitable competences is the source of competitive advantage, it is essential to match different types of incentive reward to the each stage of organizational life cycle to create and sustain competitive advantage.

In general, compensation includes financial and non-financial payment that employee perceives from the employer. Financial payment includes both direct payments: wages, salaries, commissions, bonus and indirect payment: insurance plan, social assistance benefit, paid absences. Non-financial payment includes something got from the job and job environment. In this paper, excluding wages and salaries, incentive reward strategy extensively means every manner that can motivate employee in order to reach some specific objective or performance.

According to Porter [26] notion, (i) differentiation, (ii) overall cost leadership, and (iii) focus strategies can develop competitive advantage and create defensible position. Here, incentive reward will be categorized by human capital, output, and position reward strategies respectively to support three generic strategies. A human capital reward strategy encourages people to develop their human capital and entices them to use it. This leads to increased skill scope and level as well as effort; an output reward strategy either individual or group-based will improve productivity and arouse potential. It is also used to encourage cooperation and collaboration among workers and to enlist commitment to a higher level of goals; and a position reward strategy encourages a worker to assume responsibility for greater job depth. It ties reward to the job expresses the expectation that the worker will take ownership of his/her job and role. These adoptable strategies and characteristics how to match within different stages of organizational life cycle are explained as follows:

3.1. Inception stage

During the inception stage, an organization is just getting started and would be similar to entrepreneurship. The organization is involved in activities such as creating a formal business plan, searching for capital, and developing a product or service. Organizations at early stage of their life cycle face strong cash demands to finance capital expansion. This emphasis of human resource management is attracting manpower. Just a start-up, because the status of competitive is weak, differentiation is the best strategy to create competitive advantage among Porter's generic strategies.

A differentiation strategy [10,31] calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. With a differentiation strategy the organization aims to focus its effort on particular segments and charge for the added differentiated value. Firms that succeed in a differentiation strategy often have the following internal strengths: access to leading scientific research; highly skilled and creative product development team; strong sales team with the ability to successfully communicate the perceived strengths of the product; and corporate reputation for quality and innovation. The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Therefore, a human capital reward strategy should be the most reasonable incentive reward in this stage.

The criterion of a human capital reward strategy is based on skill, ability, education level, knowledge, and experience of employees. While employees get higher education level, skill, experience, and knowledge, they can contribute to the organization and provide resource to the organization during the inception stage. In order to carry out the differentiation strategy, an organization will reward to those who possess distinctive competency. It encourages people to develop their human capital and entices them to use it. It also used to develop flexibility in work scheduling because workers become generally more qualified and leads to increased skill scope and level as well as effort. It is feasible to exert human capital-based pay to recruit and attract outstanding and excellent employees in order to accomplish differentiation strategy, and then to create competitive advantage.

3.2. *Growth stage*

During the growth stage, organization focuses on producing, selling, and distributing its products for an increasing demand in the market. The organization is growing both in sales volume and in the number of employees, giving rise to a hierarchy and functional specialization in which employees' roles are more differentiated from each other. When an organization is rapidly expanding and growing, an overall cost leadership is the most suitable strategy in this period.

An overall cost leadership strategy [10,31] involves the organization aiming to be lowest cost producer for a given level of quality within its industry. The organization aims to drive cost down through all the elements of the production. The firm sells its low cost products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. The cost leadership strategy usually targets abroad market; so sufficient sales can cover costs. Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, and vertical integration decisions. Firms that succeed in cost leadership often have the following internal strengths: represents a barrier to entry that many firms may not overcome; skill in designing products for efficient manufacturing, high level of expertise in manufacturing process; efficient distribution channels. In this stage, the size and complexity of operation increase obviously, so an organization needs many-sided, versatile, and high performance employees. The emphasis of human resource management strategy is nurturing manpower. To sum up, the overall cost leader in any market gains competitive advantage from being able to produce at the lowest cost, thus an output reward strategy is the most feasible way in the same time.

An output reward strategy is linking reward to output performance including individual-based and team-based. It is the most incentive method to improve productivity. A team output reward strategy is sometimes more appropriate in situation where workers are highly interdependent and individual contributions are more difficult to discern. It is useful to encourage cooperation and collaboration among workers and to enlist commitment to a higher level of goals. The criterion of an output reward strategy is based on unit productivity, unit growth, unit profit, and effort. It motivates employees to express the higher performance and develop the infinite potential, and further, an organization will execute the overall cost leadership mission successfully. Do not ignore to nurture and cultivate them while rewarding employees, because it is important to have and nurture superior and capable employees to deal with a variety of condition and difficulty in this stage.

3.3. *Maturity stage*

An organization at the maturity stage of the life cycle is experiencing slower and more consistent growth in its market. The organization has achieved its greatest size in its life cycle, which translates into steady and predictable profits. As the organization matures, the rules and procedures created have led a rigid structure that inhibits the organization's adaptability to changes in the market environment [11,13]. At this time, internal senior and professional employees are important because they understand the evolution and problems of the organization. An organization should rely on this

Table 1
A framework of incentive reward in organizational life cycle

Stage	Inception	Growth	Maturity
Source of competitive advantage	Differentiation	Overall cost leadership	Focus
Mission of human resource management	Attracting	Nurturing	Retaining
Incentive reward strategy	Human capital reward strategy	Output reward strategy	Position reward strategy
Criterion of incentive reward	Human capital-based: Skill, ability, education level, knowledge	Output-based: Productivity, effort, growth, profit	Position-based: Title, seniority, status

distinctive manpower to improve present situation and reconstruct the next life cycle. Therefore, the emphasis of human resource management is to retain original competent employees. As to competitive strategy, focus is suitable.

The focus strategy [19] is known as a niche strategy. When an organization focuses effort and resources on a narrow, defined segment of a market/product, competitive advantage is generated specifically for the niche. An organization could use either a cost focus or a differentiation focus. With a cost focus a firm aims at being the lowest cost producer in that niche or segment. With differentiation focus a firm creates competitive advantage through differentiation within the niche or segment. Focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well. Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even well. Here the organization focuses its effort on one particular segment and becomes well known for providing products/services within the segment. However, how to implement this strategy effectively via incentive reward? Position reward strategy does. These former and experienced employees who understand the characteristic and strength of the organization are able to excavate future direction.

A position reward strategy encourages a worker to assume responsibility for greater job depth. A job evaluation expresses the value-added of the individual's role in the organization, and tying rewards to the job expresses the expectation that the worker will take ownership of his/her job and role. The strategic consequence of a position reward strategy is greater technical competence within the specialized role described by the worker's job description. It means that awarding those who wholly exert and accomplish their mission of position. The criterion of a position reward strategy is based on title, seniority, status and so forth. Table 1 summaries the whole concept of this paper.

4. Conclusion

During the last decade, the literature on competitive advantage has increased in significance. It reflects the increasing importance of competitive advantage to the business. A growing number of researchers suggest that strategic human resource management leads to business competitive advantage. Understanding what employees want from employment is key to developing and sustaining a competitive advantage [7]. However, the literature linking reward strategy, organizational life cycle, and competitive advantage is fragmented. This paper attempts to develop a framework of incentive reward match to organizational life cycle from the viewpoint of competitive advantage. Through implementing different types of incentive reward strategy within organizational life cycle to motive unique human resources to execute the corresponding strategy and then competitive advantage can be built.

In this paper, we adopt the general accepted classification of organizational life cycle that is, inception, growth, and maturity stage. According to the nature of these three stages, we adopt Porter's generic strategies: differentiation, overall cost leadership, and focus orderly to build and sustain competitive advantage. Also, in order to achieve the mission of human resource management, we propose three types of incentive reward strategies: human capital, output and position reward; moreover, the criterions of each incentive reward strategy are described. Applying different types of incentive reward strategy can get different degree of motivation and then achieve different organizational strategy.

In this paper, we have not mentioned the corresponding incentive reward strategy in the decline stage because we assume any organization would rebuild the other life cycle before it enter the decline stage. An organization should devote itself to building and sustaining competitive advantage on the premise that it will live forever so we omit the contents of decline stage. Additionally, different incentive reward strategies suggested above in each stage only reflects its relative importance, but does not mean that others are not adopted absolutely. Future work might make greater efforts to integrate theoretical and empirical in order to verify the practicability of this framework.

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