Annotated Summary of:

Montemayor, Edilberto F. (1996), "Congruence between Pay Policy and Competitive Strategy in High-Performing Firms." *Journal of Management* 22(6): 889–908.

Chapter 5: Multiple Discriminant Analysis and Logistic Regression
***Multivariate Data Analysis*, Sixth edition**
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Through the use of discriminant analysis, this article examines seven theoretical propositions concerning the matching of business strategy with pay policy. Specifically, the author examines under which business strategy does pay policy have a positive relationship with high-performing organizations. The three strategic types are identified: cost leadership, differentiation, and innovation. The author identifies ten measures representing five aspects of pay policy, which serve as the independent variables: (1) compensation philosophies, (2) external competitiveness, (3) incentive-base mix, (4) individual (merit) pay increases, and (5) pay administration. From a multi-industry pool of organizations, a random sample of 282 respondents was gathered. Data analysis consists of multivariate analysis of variance (MANOVA) followed by multiple discriminant analysis (MDA). Due to sample considerations and to extend the generalizability of the results, the author uses the averages from 26 jackknife pseudosamples to represent the discriminant coefficients and standard error estimates.

The three-group discriminant analysis (based on strategic types) results in two canonical discriminant functions used to differentiate the three groups. Only high performers were used for the discriminant analysis, which consisted of 104 of the respondents. The first discriminant function separates high-performing cost leaders from high-performing innovators, whereas the second discriminant function separates high-performing differentiators from high-performing innovators. The authors obtain a 56 percent hit rate. Based on a maximum chance criterion of 33 percent, the model is good. Although the jackknife procedure allowed for a rigorous approach and sought to account for the small sample size (20 observations for each predictor variable), the author did not provide for a holdout sample, which may have led to an upward bias in the hit ratio. The results indicate that there is a link between pay policy and business strategy and that where there is a mismatch performance suffers.