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Business Strategy Chapter 4 Abstract

BUSINESS STRATEGY

Understanding your business strategy, and aligning that business strategy with your executive total rewards program, is a key element when it comes to gaining competitive advantage for the organization and its shareholders.

When designing executive reward strategies, a company must never overlook the important linkage between business strategy and total executive rewards. And make sure that executive reward strategies focus on the future challenges and expectations.

Business strategy is complex, but decoding an organization's strategy for purposes of designing an executive reward strategy is the responsibility of the management team, the board of directors, or the outside consultant. There *is* no "best practice" or "one size fits all" approach that will fit the unique needs of any particular organization.

Over time we have developed a straightforward approach to decoding business strategy for the purpose of developing a total executive reward strategy. In this approach, we look at strategy in three levels: general business strategy, value chain strategy, and specific business strategy. The key to designing an effective executive compensation program lies at each of these levels.

The general business strategy is typically the longest form of directive, after vision, mission, and values, when it comes to developing an executive total rewards strategy. General business strategy can be divided into three distinct and separate classifications: cost based, differentiated, or focused. Each of these three general business strategies have significant implications for the design of executive reward strategies, as each calls for different skills and requirements for success.

The value chain strategy plays into the heart of executive reward strategy in very straightforward ways. Certain job families are clearly associated with creating and maintaining competitive advantage. As a result, the executives heading up those job families should be highly compensated, and the performance factors inside their executive reward performance program should be specifically and directly related to their success in managing those key strategic functions.

The third layer of business strategy that we believe should play into total executive reward strategy is what we call specific business strategies. Specific strategies can be thought of in a more operational short-term manner than the types of operational strategies employed to reinforce or execute value chain or general business strategies. These types of strategies usually run in the six-month to three-year timeframe. While they are different in time frame, it is not the time frame, *per se*, that makes these strategies a different animal than general or value chain strategies.

Specific business strategies such as growth through merger, grow market shares, retain market shares, increase profit regardless of market shares, optimize margins, expand operations geographically, expand sales force, decrease

production capacity, etc. all have in common a very operational imperative. These are the types of strategies at which executives and designers should be targeting substantial short-term compensation. There is no need for the strategies and the resulting rewards to be annual. We are a major proponent of milestone incentives. This means that these incentives are tied to the accomplishment of goals and are paid in cash when the goals are accomplished—regardless of the time of year.

Understanding your organization's business strategy—and aligning that strategy with your executive rewards program—is a necessary step for any organization that hopes to gain competitive advantage.