



**GRAHALL**

845 Third Avenue, 6<sup>th</sup> Floor  
New York, NY 10022

Phone: (646) 290-5129  
Fax: (646) 290-5001  
Online: [www.grahall.com](http://www.grahall.com)

## Total Reward Strategy

### Chapter 6 Abstract

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It is important to clearly outline the various levels of reward strategy. The Executive Total Reward Strategy components bring the design process down to the separate design aspects of each reward component.

An organization's reward strategy must be specific about who it wants to attract, as well as how it will motivate and retain. The most effective total reward strategy considers *all* of the factors.

When all is said and done, the design team must identify and understand the organization's environment, key stakeholders, and business and people strategies in order to put into place an effective executive total reward strategy. While all of these things are important to the organization's success, some are more important than others. It is the duty of the design team to figure out where along the value chain each of these things lie, and to structure the total rewards program so that it is properly aligned with each business dimension.

The only way to ensure the "appropriateness" of executive pay is for firms and boards to begin thinking about an executive's total compensation opportunity. In other words, what an executive could earn based on company and stock price performance under all possible scenarios. Grahall has developed a program called the grahall Economic Impact Analysis (gEIA), a new process that reviews an executive's total potential compensation and its relationship to all relevant performance factors that provides a comprehensive analysis of potential executive payouts between the 10th and 90th percentile performance over time, incorporating historical performance as a predictor of future performance. It also compares potential total payouts to incremental market value delivered to shareholders.

Among the benefits of this broader and longer-term look at pay and performance is an understanding of plan leverage: in other words, the degree to which possible payouts are affected by incremental changes in stock prices or company performance.

The end result is that the numbers on the gEIA will help determine if incentive programs, as designed, help support the business strategy and its corresponding time horizon for the firm.

The analysis is based on certain assumptions. The assumptions change based on the executive, the company, and the features of the compensation plan, but may include:

- Annual base salary increases estimates.
- Annual bonus payout estimates.
- Annual stock price growth assumptions.
- Assumed age of retirement.

In the end, it's all about "how," and not "how much." Aligning the reward strategy to an organization's challenges is far more important than the value of the reward itself. As a matter of fact, the more the reward programs are customized to the organizational unit, job family, or individual, the greater the influence in driving results.