

# LENS ON

## Aligning Executive and Employee Reward

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In many organisations, executive and employee reward systems operate in isolation of the other. This potentially gives rise to confusion, inconsistency, and a potential loss of trust. Aligning reward systems to a shared definition of performance, fairness and purpose is becoming increasingly important to help drive business success and compete for talent.

### Two approaches, one business

Executive remuneration practices have evolved over time as a result of shareholder scrutiny, regulation, and evolution of the competitive landscape. Packages are highly structured, performance-oriented, and disclosed in detail. Meanwhile, employee reward is typically shaped by factors such as affordability, internal equity, and, historically, by line manager judgement.

Both reward systems aim to drive performance, yet their performance linkage often emphasises different priorities. Executives are typically incentivised on 'bottom line' output metrics like profit growth or total shareholder return; the linkage of employee reward tends to be more weighted to input measures within their span of control, e.g. customer experience, efficiency, or collaboration.

This disconnect in performance orientation can blur the definition of success, and can result in the breakdown of a unified performance culture. It also creates a 'them vs us' divide, with different performance drivers rewarding different outcomes and, often, behaviours.

### Fairness builds credibility

Perceptions of fairness are now a strategic issue and increasing levels of regulation are demanding attention in the boardroom. Pay ratio disclosures and growing transparency levels enable employees to assess firsthand and with increasing ease how their own reward packages and outcomes compare with those in the boardroom.

Misalignment breeds cynicism. When executive pay outcomes rise while employee bonuses remain flat, it erodes trust and engagement — even if the data is defensible. Similarly, when organisations talk about a struggle to progress employee salaries, it can cause concern and division if employees see Executive salaries move or the reported value of share packages increasing. Conversely, when employees see leaders sharing the same performance journey, it builds credibility.

This does not mean that executive and employee reward systems need to be identical, but there is significant benefit to be had from applying shared principles and foundations that are based on a consistent logic and accountability.

### Different scales, same challenges

The alignment challenge is not simply philosophical, it is also practical. Many of the issues that dominate executive pay debates are echoed lower down the organisation: unclear metrics, overreliance on external benchmarks, limited differentiation, and poor communication.

## Reward as a cultural indicator

Reward can also be an effective communication tool. Misalignment in messaging can be challenging and cause frustration and damage to the business. For example, if executives are rewarded for financial efficiency while employees are told to prioritise service or growth, the messaging can be confusing for employees.

Reward is a powerful communication tool and needs to be treated with due care and consideration. There are few other tools that send out such powerful messages about an organisation's values and culture at the same time as its performance orientation.

When executive and employee reward reinforce the same values and outcomes, they become a hugely powerful lever for cultural alignment. When they do not, reward can undermine the very culture it is meant to support.

### Ellason commentary

New transparency and pay equity rules are forcing organisations to connect the dots across all aspects and at all levels of pay. However, beyond compliance, alignment is becoming a marker of organisational maturity.

Progressive employers are now building integrated reward frameworks — simple, transparent, and strategically connected — that link the boardroom to the frontline through shared purpose and measurable outcomes.

The starting point for all of this is the development of a consistent set of underlying reward principles that provide the foundation for reward strategy design at both executive and employee levels. It is reasonable for this to manifest in different ways at different levels, but a common set of principles can reinforce the right behaviours consistently throughout the organisation, to help ensure ambition and aspirations are aligned, and that everyone is driving the business in the same direction.

When reward alignment improves, so do trust and engagement levels. This can give an employer a competitive edge in the ongoing talent war and, ultimately, underpin success longer-term.

Please do not hesitate to contact any of the Ellason team should you wish to discuss this issue further.