

What You are Likely to Hear in the Boardroom

Part 2: Boardroom Decisions Shaping Compensation Strategy



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Key Takeaways

Compensation committees are increasingly focused on how executive compensation programs support talent, leadership, and long-term business strategy given the volatile external environment. This Part 2 of our two-part Viewpoint series explores several emerging trends shaping boardroom discussions, including:

Compensation Design and Program Evolution

6. Stick with PSUs or “Go Long”?
7. Evolution from ESG Metrics to Broader Human Capital Focus

Talent, Governance, and Organizational Priorities

8. Differentiating High Performers and Top Skills
9. Navigating Shifts to Split Leadership Structures
10. Continued Focus on Executive Security

Introduction

While regulatory developments and investor expectations continue to shape the governance environment, compensation committees are equally focused on critical strategic decisions within their organizations. Questions surrounding long-term incentive design, talent retention, CEO succession, and executive security have become central to boardroom discussions.

Building on the external trends explored in Part 1 of this series, this installment examines how boards are adapting their compensation programs and governance practices to address changing workforce dynamics, evolving leadership models, and emerging organizational risks. These topics reflect the practical decisions compensation committees are making as they position their organizations for long-term success, and committees should determine appropriate courses of action to ensure programs support the best interests of their companies and shareholders.

Key Developments

Compensation Design and Program Evolution

6. Stick with PSUs or “Go Long”?

Both ISS and Glass Lewis have retreated from their long-held stance requiring at least 50% of long-term incentive award value be delivered in the form of performance shares / performance share units (PSUs). Glass Lewis will continue to evaluate long-term incentive programs on a case-by-case basis. Both advisors are now supportive of the use of time-vested shares that have lengthy vesting and holding periods, such as a combination that yields at least a five-year restriction period.

Views on the use of PSUs are mixed, but general market trends and many institutional investors continue to favor at least 50% weighting in PSUs. A 2025 Pay Governance survey of more than 100 institutional investors indicated a strong preference for PSUs and a minimum weighting of 50% of long-term incentive value allocated to PSUs ([*Are Investor Preferences for Performance-Based Equity Really Diminishing in Favor of Time-Based Shares?*](#)).

7. Evolution from ESG Metrics to Broader Human Capital Focus

ESG-related metrics gained prominence in incentive plans during the COVID period, with adoption accelerating in 2021 as companies responded to heightened stakeholder focus on environmental and social issues. In recent years, however, momentum has reversed amid increased regulatory scrutiny, political pressures, and evolving investor perspectives, leading many organizations to reduce the use of traditional ESG measures such as carbon emissions and diversity-related goals.

Rather than abandoning strategic measures altogether, many companies have shifted toward broader human capital-focused priorities in incentive programs. Metrics such as employee engagement, recruiting, retention, turnover, and talent development have remained prevalent. At the same time, traditional ESG metrics continue to be more widely utilized in Europe and other select international markets, where stakeholder expectations and regulatory frameworks are more supportive.

For compensation committees, the implication is not simply replacing one set of metrics with another, but ensuring incentive plans continue to reinforce the strategic drivers of long-term value creation.

Talent, Governance, and Organizational Priorities

8. Differentiating High Performers and Top Skills

The emergence of AI and ongoing workforce reconfiguration has contributed to an increasingly bifurcated labor market. Automation and restructuring have softened demand for certain roles, while competition remains strong for top performers and employees with critical, hard-to-replace skill sets. In response, many organizations are increasingly differentiating compensation outcomes, with larger merit increases and special incentive opportunities for high performers, while delivering more modest adjustments, including reductions in some cases, to mid-level contributors and employees in more readily replaceable roles.

At more senior levels, these decisions are often closely linked to succession planning priorities, with organizations emphasizing the retention of future leaders and pivotal roles. From a compensation committee perspective, this is also a risk management consideration. Committees are increasingly focused on identifying critical skill gaps and ensuring that compensation programs effectively retain employees in roles where external supply remains constrained. At the same time, broader moderation in the labor market is influencing pay practices, reinforcing a more targeted and performance-driven allocation of compensation resources.

Boards increasingly recognize that broad-based pay programs may no longer be sufficient in a labor market where critical skills, not simply executive titles, are becoming the primary source of competitive advantage.

9. Navigating Shifts Toward Split Leadership Structures

Amid elevated CEO turnover, some boards are adopting split leadership structures that pair a new CEO with an executive chair. Historically less common, this approach is gaining traction as boards seek to balance continuity with leadership renewal. In many cases, retiring CEOs transition into executive chair roles to provide near-term stability and institutional knowledge. These roles are typically designed to be transitional, with a defined time horizon and clear objectives tied to CEO onboarding and succession support. Effectiveness depends on clearly delineated responsibilities to avoid overlap in authority.

This structure also has implications for compensation committees and board leadership. Committees must design differentiated, market-aligned pay programs for both roles. At the same time, the presence of an executive chair reinforces the importance of strong independent oversight, often supported by an active Lead Independent Director.

Overall, the shift reflects a deliberate, risk-aware approach to CEO succession, with boards emphasizing continuity, clarity, and governance discipline.

10. Continued Focus on Executive Security

Executive security has remained an elevated priority for public and private organizations. Unfortunately, multiple high-profile incidents of violence against corporate leaders have reinforced concerns that threats targeting corporations and executives have become more frequent and, in some respects, normalized. Leadership teams and boards are increasingly grappling with how best to protect their people. Accordingly, discussions regarding executive security benefits have become a standing agenda item for many compensation committees, which typically review related protections at least annually.

Regulatory perspectives are also evolving. The SEC has signaled an intent to modernize its approach to executive security disclosures, reflecting a view that comprehensive, 24/7 protection may, in certain circumstances, be viewed as a necessary business expense rather than a superfluous perquisite. In parallel, some companies are expanding security coverage beyond the CEO – and, in some cases, beyond the C-Suite – to include other key or highly visible employees. We expect physical security to remain an evolving governance priority over the next several years.

Closing Remarks

As compensation committees look ahead, success will depend not only on responding to changing external expectations, but also on ensuring that executive compensation programs continue to support business strategy, leadership continuity, and long-term value creation. The themes discussed in this Viewpoint demonstrate that compensation decisions are becoming increasingly integrated with broader governance, talent, and organizational priorities.

At Pay Governance, we continue to work closely with boards and management teams to navigate these evolving challenges by combining market insight, practical experience, and independent advice. As board priorities continue to evolve, compensation committees that proactively align pay programs with strategy, leadership, and risk management will be best positioned to support sustainable long-term value creation.

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