Compensation and Talent Governance Network

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Boards and compensation committees confront economic and political uncertainty

June 2025

On June 4, 2025, members of the Compensation and Talent Governance Network (CTGN) met virtually to discuss challenges raised by the current economic, geopolitical, and political climate as well as trends emerging this proxy season. Members shared approaches to executive compensation that they have found effective, including the integration of more strategic metrics into incentive plans and broadening ranges for target performance. The discussion also covered qualities needed in leaders today and highlighted the need for more robust scenario planning in the current environment. Members also tackled issues surrounding the changing status of diversity, equity, and inclusion (DEI) efforts.

Members were joined by Ed Steinhoff and Matt Turner, both managing directors at Pearl Meyer.

For a list of meeting participants, see page 6.

This *Summary of Themes*[1] highlights the following themes that emerged from the meetings and related conversations:

Effective approaches to executive compensation in a time of uncertainty

Economic uncertainty and market volatility associated with fluctuating economic policies, especially tariffs, raise acute challenges for executive compensation. With respect to tariffs, Mr. Steinhoff said, *"There will be winners and losers. Companies are trying to figure out the best way to recognize the uncertainty in the external environment in their incentive plan targets, metrics, and evaluation processes."*

Members drew parallels between today and the COVID-19 era, noting that the current environment is creating analogous operational disruptions and similar levels of uncertainty around planning and assessing performance. A member noted that the fact that companies rose to the challenge of the COVID-19 crisis was a *"double-edged sword,"* in that it raised expectations for what they can accomplish now. Mr. Turner said, *"In the COVID year, making a mistake towards the end of the year around executive compensation tended to be more forgivable. This year, however, even though the disruption is still pretty significant, I think the scrutiny by the institutional shareholder base is going to be a lot less forgiving than it was at the end of the first COVID year."* With that in mind, members and guests identified ways to align compensation and performance in the face of uncertainty and economic headwinds:

- **Broadening ranges for performance targets**. Mr. Steinhoff noted that broadening performance ranges builds in flexibility to accommodate the difficulty of forecasting fixed targets in an unpredictable environment: *"I've had some clients say the target performance is not a number, it's a range of numbers. And if we're falling within that range, we'll pay out at target to account for some of that external uncertainty in the environment. I've also had clients look at the range of performance from a threshold payout to a maximum payout and kind of broaden that range to account for some of that uncertainty."*
- **Deploying strategic metrics alongside financial ones**. In the face of economic uncertainty, companies are increasingly incorporating strategic performance metrics into their incentive plans. These may include progress on initiatives such as automating or reengineering core processes to improve efficiency, developing new products, or expanding into new markets or geographies. But one member cautioned that investors may question those kinds of metrics, warning that *"whatever you decide are these strategic metrics will come under scrutiny."* Mr. Steinhoff said, *"You have to determine whether the strategic metrics have meaningful weight and are measurable. The more measurable they are, the more they'll pass muster."* While strategic goals are almost by definition more long term in nature, Mr. Steinhoff noted that strategic metrics are typically incorporated into annual incentive plans: *"What companies are doing is they're defining the longer-term strategic directions and then*

they're taking it in more bite-sized pieces, saying, This is what we want to accomplish in 2025, and then we're going to accomplish this piece next year and this piece the following year."

- **Mitigating the impact of share price fluctuations on share awards**. Mr. Turner described several ways to reduce the impact of sharp share price fluctuations, including issuing equity on a quarterly basis instead of annually, using a mix of stock vehicles, and staggering grant dates throughout the year. Mr. Steinhoff added that many companies use a 20-day average stock price and incorporate relative performance measures tied to a carefully selected peer group, saying, *"A comparative peer group smooths out the extremes, which lessen the impact because the entire industry experiences that volatility*."
- **Increased use of discretion in incentive plans**. While members and guests noted an extreme reluctance to make changes to incentive compensation plans in the middle of the year, they acknowledged some scope for discretion and agreed that incorporating discretionary elements provides needed flexibility for responding to external headwinds. Mr. Turner advised, *"In plan design and administration, it's a best practice to think ahead about the kinds of exceptions your committee might need to make. Ideally, you want to build those guardrails into the plan from the start to minimize the need for judgment calls at year-end*."

Ultimately, committees will need to rely on their judgment, Mr. Steinhoff said. *"This is where your experience comes in as a director to be flexible, agile, and apply judgment to ensure you're comfortable with the amount of pay being given according to the company's performance*."

Today's leadership needs

Members emphasized that today's economic and geopolitical landscape require not only strong operational skills, but also leaders who can provide long-term perspective and strategic clarity. *"If we think about the six to ten key skills of an executive, managing through ambiguity and uncertainty has risen to the top of the list. It has historically been about short-term execution, but now we're looking for strategic thinkers*," said Mr. Steinhoff. Mr. Turner added, *"Times like this need an inspiring leader. It's not just about operations; it's about someone who embodies the company's values.*"

Members noted that the current environment is stressing organizations in ways that are similar to the way COVID-19 did, and the response is similar too, especially the phenomenon of overworking and hyperproductivity to keep pace. *"The hours that leaders are putting in don't seem sustainable,*" one member said. Boards are increasingly concerned about the impact on mental health and employee morale. One member noted that the pandemic made boards and leadership teams more empathetic toward employee challenges. *"Companies are more geared towards being* *understanding of personal issues. We've seen more use of hotline resources as well*," they said. Mr. Steinhoff noted that prior to COVID-19, it was uncommon for chief human resources officers to share results of employee engagement surveys with compensation committees, but now boards routinely ask for that information.

Planning for a wide range of scenarios

While companies have always used scenario planning, today's environment demands more frequent modeling and exploration of a wider range of scenarios. Members' companies are increasingly incorporating multiple scenarios into their strategic planning and frequently updating those scenarios. *"In addition to three-year plans, we now consider three to five scenarios for those plans, especially when it comes to tariffs,"* one member noted. That includes accounting for more extreme scenarios. One member suggested taking a lesson from banking: *"We can learn from the extreme stress testing that the regulators force onto banking, which seems silly in normal times because they sort of load the kitchen sink in. But it's a kitchen sink moment, and so I and other directors who come from banking are encouraging nonbank CEOs to explore the tail risks and really stress your pro forma, your projections, your strategic options, to make sure that you're accounting for things that seem improbable. It's a moment where we're coaching CEOs to be a little more pessimistic."* In particular, members emphasized the need for careful attention to the company's capital structure and balance sheet in the face of significant downside risk. *"As a board, you have to understand what the highest risk scenarios are and ensure your capital structure can support the business if conditions worsen,"* one members said.

DEI concerns

Members and guests agreed that this has been a relatively uneventful proxy season, with only modest changes in CEO compensation levels, incremental developments from ISS and Glass Lewis, few changes in plan design, and a continued focus from investors on linking pay with performance. Mr. Steinhoff noted one exception: *"Proxies have been business as usual besides the DEI concerns that many companies tried to get ahead of in January."* He observed that companies have been *"modifying disclosures to reflect changes in terminology. There's more of a focus on inclusion and belonging rather than DEI*." Mr. Turner noted that *"for the first time, this year there is a decline in the presence of DE&I explicitly in incentive compensation programs"* as companies home in on financial performance metrics.

Even as organizations modify the language they use publicly around DEI to avoid legal and reputational risk, they are aware of the impact of those changes in language on their employees. Mr. Turner said, *"The words matter to your employees as well, so simply changing the language but staying the course in terms of the programs probably isn't good enough. The conversation inside the organization needs to be pretty sharp as well* *to make sure that people understand that the programs are staying in place and that the company is adhering to its values. It's a tough task, but you can't ignore the conversation within the organization even as you pay close attention to the conversation outside the organization."* A member stressed the need to attend to company culture: *"Our discussions have been around the impact of the DEI pullback on morale. Boards are asking about CEOs and C-suite executives checking in with their teams because people are watching to see what this means for the culture and the values of the organization*."

Participants

The following individuals participated in all or part of the meeting:

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Tapestry Networks

Eric Baldwin
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Marjorie Rodgers Cheshire
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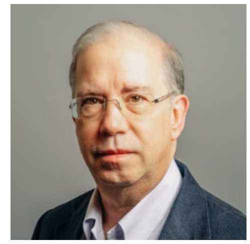

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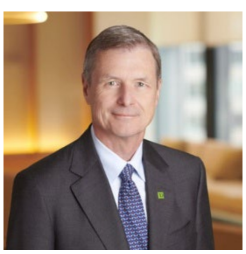

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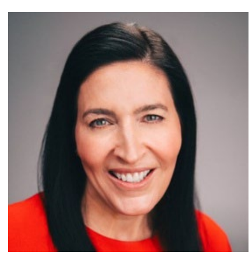

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Matt Turner
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Endnotes

[1] *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with network members and guests in connection with the meeting.