Compensation Committee Priorities for 2026

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In the ever-evolving corporate landscape, organizations face transformational shifts driven by technological innovation, workforce expectations, and heightened stakeholder scrutiny. Compensation and human capital committees (CHCCs) play a pivotal role in driving value at this time, expanding their mandate to prioritize human capital evolution across all levels of the enterprise: ensuring talent development, engagement, and resilience, while continuing to uphold the critical responsibility of overseeing executive compensation.

Communicating Compensation Decisions: Who's Listening and Why it Matters

Attracting top talent requires effective incentive programs to recruit and retain skilled individuals from diverse backgrounds to achieve ideal outcomes and optimize value. Shareholders want to know about talent decisions and how these investments are driving value.

Recently issued SEC Compliance and Disclosure Interpretations (**C&DIs**) are affecting historical communication norms. The C&DIs clarified the scope and nature of activities that "influence control of the issuer," which are anticipated to significantly impact how investors are able to engage with public companies. Shareholder outreach previously consisting of conversations and clarification have become more "listening tours," while significant changes to proxy regulations, recommendations, and processes are making written disclosures even more important. Companies need to get creative to continue to optimize communications. This may include extending outreach to encompass a broader investor base, while also making shareholder outreach a more regular part of communication plans throughout the year.

Ongoing dialogue between regulators and stakeholders is crucial for shaping a more effective and less burdensome disclosure landscape. CHCCs should ensure their disclosures are descriptive and effectively communicate their decisions and intentions. CHCCs should also remain involved in regulatory discussions and requests for comments around future reporting requirements.

The way disclosures are being analyzed is increasingly important. Proxy advisors, portfolio managers, and shareholders are becoming more reliant on artificial intelligence (AI) to analyze corporate reporting. Consideration should be given to both who (e.g., proxy advisors and activists) and what (e.g., generative AI), are consuming available communications. CHCCs should ensure their content is readable both by humans and by AI and leverage this technology internally for benchmarking against competitors and industry standards.

Activist investors and proxy advisors continue to have significant interest in executive compensation decisions. While say-on-pay votes have remained relatively steady, there is a notable rise in shareholder proposals addressing remuneration-related issues such as severance reforms and clawback policies, all of which may extend beyond the SEC's rules to include state and local statutes. Activists often view compensation practices as a lever for governance change, and in some cases, may seek to replace directors, particularly those serving on the CHCC, to influence pay structures and accountability.

Proxy advisors are also not immune to scrutiny as federal regulators consider the role of proxy advisors within the capital markets. Stay tuned for more on this in our forthcoming 2026 Shareholder Meeting and Proxy Season publication and webinar this winter. In the interim, the two major proxy advisory groups are adjusting their processes and expectations in real time. For example, Glass Lewis announced significant updates to its proprietary pay-for-performance methodology for annual shareholder meetings beginning in 2026.

Key changes cited include:

- **Scoring and Concern Levels:** In the U.S., rather than a single letter grade of "A" through "F," a scorecard-based approach, consisting of up to six tests, will be used. Each test will receive a rating, which will be aggregated on a weighted basis to determine an overall score ranging from 0 to 100.
- **Evaluation Period:** Lookback period for key quantitative tests will be extended from three to five years.
- **New Quantitative Tests:** Incorporate additional tests beyond granted pay to include:
  - CEO Compensation Actually Paid ("CAP") vs. Total Shareholder Return (TSR)
  - Short-Term Incentive ("STI") payouts vs. TSR
- **Peer Group:** Peer selection will be updated to be more globally aligned and incorporate market capitalization bands and benchmarks
- **Performance Metrics:** Financial metrics will be broadened with a greater focus on revenue and other metrics beyond TSR – e.g., Return on Equity (ROE), Return on Assets (ROA), EPS, and Operating Cash Flow growth.

Institutional Shareholder Services (ISS) Compensation Policy Changes include:

- **Tighten Oversight of Non Executive Director (NED) Pay:** Flag and challenge problematic NED pay practices, even if patterns occur over non-consecutive years; enforce adverse vote recommendations in egregious cases.
- **Extend Pay-for-Performance Horizon:** Shift evaluation from 3 to 5 years to strengthen alignment between CEO pay and long-term total shareholder return (TSR); prioritize sustained performance over short-term gains.
- **Demonstrate Shareholder Engagement**: Actively pursue meaningful outreach after low say-on-pay votes; showcase responsiveness even without direct shareholder feedback.
- **Promote Long-Term Equity Awards:** Favor time-based equity awards with extended vesting periods; adjust equity mix to align with ISS's evolving qualitative review standards.
- **Expand Equity Plan Scorecard Criteria:** Introduce a new scoring factor assessing disclosure of cash-denominated award limits for nonexecutive directors and adds a negative override for plans lacking sufficient positive features, with exemptions for certain smaller companies and special cases.

CHCCs should collaborate with the Nomination, the full board, and investor relations team to monitor developments, understand where the organization may fall in comparison to their peers, establish their positions on voting, and perform an activist vulnerability analysis.

Compensation Disclosures: Navigating Complexities

Few topics draw as much scrutiny from investors, regulators, and the public as how companies compensate their leaders, making disclosure practices a perennial area of intense curiosity and debate. SEC required compensation disclosures have become a complex patchwork of required information driven by various regulations and stakeholders. While the goal of these disclosures was to create transparency, equity, and fairness, their implementation has come with several challenges. On June 26, 2025, the **SEC hosted a roundtable** of preparers, investors, regulators and others to discuss and gather feedback regarding compensation disclosure requirements and concerns about their complexity, burden, and cost. The takeaways point to the need for further exploration of more flexible, principles-based frameworks that result in more meaningful, and possibly simpler disclosures, that can lead to more effective processes. This aligns with the SEC's objective to foster capital investment and rationalize disclosure practice within its current **Reg Flex Agenda**.

It is helpful to understand how current regulations developed. The SEC started with the Summary Compensation Table (SCT) which was basic. They next added in CEO pay ratio reporting, designed for transparency and to provide information as to compensation inequity within companies, but such disclosure has yet to prove impactful. Advocates identified gaps and blind spots in the SCT, and proposed the **pay-versus-performance** disclosures (P4P). Because each requirement was designed independently, the result is seen by many as overly complex and redundant, leading to confusion and lack of comparability or relevant decision-making information. Concerns persist that disclosure requirements, and the influence of proxy advisors, are shaping compensation decisions, when those decisions should be guided by company strategy and long-term value creation.

Ultimately, investors are interested in understanding the rationale behind compensation package design and decision-making. They seek explanations on how the CHCCs made decisions, who was consulted, what options were considered, and ultimately how these decisions will drive long-term value creation. This includes how metrics were selected and aligned with strategy, especially when discretionary or qualitative awards are granted. The proof is often in the results and investors also value an evaluation of the prior years' financial results and associated executive performance cycles, particularly how awards were paid out as compared to the overall performance of the company. Some companies do this well by disclosing compensation intentions beyond the scope of what's required by the SEC, to make the disclosures feel less "patchwork" and provide additional insight.

In times of economic volatility, transparent and timely communication about adjustments made to cope with current conditions, such as compensating for underwater options or shifting from options to restricted stock units (RSUs), resonates well with shareholders. Additionally, CHCCs are encouraged to have open discussions about company perks and associated disclosures, including safety and security spending, to balance the SEC's required disclosures with information that shareholders want.

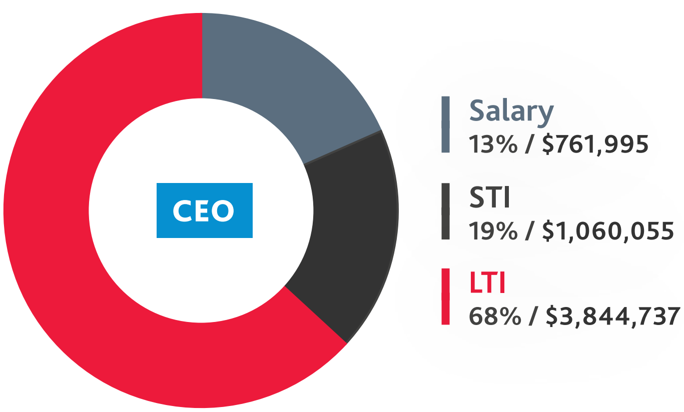
Compensation Design Trends and Considerations

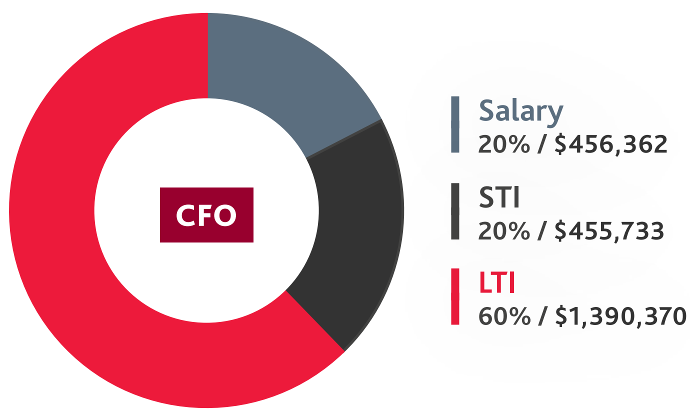
Executive Compensation

As detailed in ***The BDO 600 2025 Study of CEO and CFO Compensation Practices of 600 Mid-Market Companies***, executive pay continues to increase with total direct compensation (TDC) for CEOs and CFOs increasing by 2.3% and 5.8%, respectively. Similarly, Equilar 500 data, which looks at the largest 500 U.S. public companies based on revenue, also showed an increase of 3.8% for CEO TDC. Additionally, the BDO 600 study showed that pay is strongly correlated with company size, a trend that is consistent with the Equilar data.

Allocation of direct compensation continues to be weighted heavily towards long-term incentives (LTI) with CEO and CFO LTI making up 68% and 60%, respectively. And these awards were primarily in the form of full value stock. This approach is designed to align skills and company priorities with rewards and performance.

All Companies Combined: Composition of Total Direct Compensation (TDC) per BDO 600





Additionally, short- and long-term incentive-based compensation packages have become increasingly complex. According to WTW research, approximately 60% of organizations now include three or more metrics in yearly bonuses, with the most common being operating income and revenue growth.

Long-term incentives have largely remained focused on pay-for-performance, ensuring a strong and meaningful alignment with shareholder interests, but the methods of measurement have become more detailed. Almost 70% of organizations that offer LTI now use absolute or relative total shareholder return (TSR), and 20% are using both.

Boards have a number of important considerations they must make in award design. These include economic uncertainty, market volatility, and government and regulatory actions. Tariffs and inflation have also made incentive plan goals difficult to estimate.

The 2025 BDO Board Survey shows that only around **half of directors (51%)** think the board is highly effective in evaluating executive compensation strategy.

Market timing has proven to be volatile, resulting in pay variations even in circumstances when individuals meet their performance targets. Because of this, poorly defined TSR benchmarks can reward or penalize individuals due to market volatility rather than being directly influenced by company or individual performance. CHCCs also need to consider how personal taxes can be affected by performance-related compensation, tailoring packages in such a way that they avoid creating onerous tax burdens for individuals.

To help improve the evaluation process, there are several solutions CHCCs can consider. Exploring different offerings with flexibility in incentive structures, such as stock options and time vesting, provide committees with various alternatives when constructing awards packages. They want to incorporate incentives for risk mitigation for executives focused around rewarding adaptability and crisis management. This may be achieved with one-time adjustments, which allow for discretionary payments and can help address circumstances beyond management's control, such as tariffs or M&A costs. However, boards should remain cognizant that adjustments of this nature are often scrutinized by investors.

Other elements being considered include:

- Diversifying equity incentives to mitigate volatility, including stock options, full-value stock/RSUs, and relative measurement
- Setting long-term performance goals during times of market volatility and policy sensitivity to offset short-term disruptions (e.g., offering multiple incentives, widening the incentive curve, and increasing the use of non-financial objectives)
- Aligning compensation strategies with competitors, as those companies will be similarly affected by economic volatility

The average CEO pay ratio disclosures appear to indicate a lack of movement toward pay equity. Equilar's report shows that the pay ratio between CEOs and employees continues to climb. Since 2020, CEO median compensation has grown 31.7%, while employee compensation is up only 13.4%. There are some efforts being made to improve these statistics. Evolving state and local laws support greater pay transparency by requiring pay ranges to be disclosed in job postings, including non-salary elements of compensation (e.g., cash bonuses and LTI). Outside of the C-suite, smaller increases in compensation align with economic uncertainty and a slowing of expected growth. According to Pearl Meyer, the U.S. planned salary increase is 3.7% for the broad population.

What is Trending in ESG?

We remain in a highly contentious politicized environment when it comes to the "E" (environmental) and "S" (social) components of ESG. For example, 2025 U.S. Presidential Executive Orders (EOs) have led many companies that do business with the U.S. government to temper language used in disclosures and/or in corporate policies to ensure compliance against potential discriminatory practices outlined by such EO's.

With respect to incentive plan goals related to ESG and, in particular, diversity, equity and inclusion (DEI), Pearl Meyer survey findings released in October 2025 indicate a significant decline in companies with such stand-alone goals in incentive plans for 2026.

Highlights shared noted:

- Only 22% of public companies and 13% of private firms include stand-alone ESG metrics in incentive design.
- About 15% of respondents have eliminated DEI metrics or folded them into broader strategic categories.
- Approximately 4% continue to use DEI or other ESG-related metrics but have adjusted the way they communicate about them externally.
- None of the respondents indicated recently adding stand-alone DEI metrics.

However, despite a perceived pullback on ESG-incentive goals, 90% of directors indicate that they are continuing to increase (34%) or maintaining current levels (56%) of ESG investment for the next 12 months.

This shows how much ESG and sustainability are being incorporated into broader business goals to support growth, innovation, risk management, and operational excellence, rather than existing as standalone programs.

This is an evolving landscape that comes down to how companies integrate ESG and whether they tie actions into executive performance metrics by establishing stand-alone goals or incorporating them within broader strategic scorecards. Please refer to our forthcoming 2026 Shareholder Meeting and Proxy Season publication and programming for further discussion on this and other topics.

Director Compensation and Alignment with Corporate Strategy

At the board level, the ***The BDO 600 2025 Study of Board Compensation Practices of 600 Mid-Market Companies*** reveals several key trends in director compensation, aligning closely with executive compensation trends. Biennial pay rose by 7.7%, which equates to an annualized increase of 3.8% for mid-market companies. Equity remains the dominant component of director pay, accounting for 62% of total fees, while the use of stock options has declined significantly, with only 7% of companies including them during the time of the study. Additionally, approximately 75% of companies have implemented director stock ownership guidelines, and compensation generally scales upward with company size.

There is a certain philosophical question to board pay established by the board themselves. Unlike executive management compensation and performance metrics that are both established and overseen by the board and voted on by shareholders, director compensation is established by the board, yet shareholders do not vote directly on director pay. What results is a complex analysis balancing skills, experience, risk, time, and market norms.

Boards deliver significant value by providing informed oversight, strategic guidance, and accountability that drive long-term company performance and shareholder returns. Director compensation should reflect the quality and impact of their contributions—not just time spent—by recognizing ability to exercise independent judgment, effective risk management, and adaptability to challenges. Financial acumen and technological literacy are essential in today's environment, and board composition should be further tailored to the company's needs. Director compensation should reflect how well the board executes upon its charters and considers the quality and unpredictability of the work in risk mitigation and optimization of opportunities, not just hours contributed. Aligning board pay with directors' actual contributions helps ensure ongoing commitment to sustainable growth and shareholder value.

Executive Management Retention and Succession Planning

One of the board's primary responsibilities is the appointment, retention, and succession planning for the CEO. Challenging conditions have led to high CEO turnover and competition, resulting in S&P companies spending an average of nearly $15 million in cash plus equity sign-on bonuses paid to new CEOs in 2024, according to Diligent.

Retention is a balancing act for companies, and it's essential for boards to have both a continuous and robust leadership development strategy as well as a succession planning process, given not simply the high cost of employee turnover, but the significant disruption to the business that occurs with the departure of significant leaders. While CEO turnover is at a record high, with the average global CEO tenure at 7.4 years as of Q3 2025, turnover is not reserved solely for the chief executive. According to additional data collected from the *2025 BDO Board Survey*, directors report their CFO has been in the job for just one to five years. Executive compensation considerations go hand in hand with additional benefits that incorporate both the continued development and well-being of key employees in mitigating risk of losing key executives, particularly during economically difficult periods.

Beyond retention, succession planning needs to be proactive and should extend beyond the CEO, developing or recruiting talent across all levels to support sustainable growth while creating career paths for future leaders. Only 39% of board members feel that they are highly effective at robust and timely C-suite succession planning. These efforts are often a coordinated approach between the CHCC and the Nominating and Governance Committee.

Director Pay: Investor Concerns

The ISS Policy survey identifies several interesting findings concerning top investor concerns related to non-executive U.S. director pay:

- Inadequate disclosure of unusual payments (34%).
- Excessive perquisites or retirement benefits (32%).
- Non-executive director pay exceeding that of executives (33%).
- Some non-investors (25%) believe no single-year issue should trigger negative voting recommendations

The ***2025 BDO Board Survey*** found that 30% of directors indicated **M&A** was the area of growth they were most focused on in the upcoming year, with 53% indicating they would increase investment in M&A transactions over the next year. **Post merger integration** will require early board involvement and the CHCC, in particular, to oversee **culture and workforce integration**, which includes **communications** and implementation of necessary **change management** strategy, support for current and new employees, retention of key talent, and alignment of **culture**, values, governance, and compliance.

Elevating Human Capital: Prioritizing Trust, Talent, and Transformation

With technological change accelerating and economic conditions in flux, boards are tasked with delivering effective oversight to ensure organizational resilience and sustained competitiveness. Despite this imperative, the ***2025 BDO Board Survey*** reveals that human capital oversight remains an area with significant room for improvement.

As a strategic priority, only 3% of directors believe that optimizing culture and workforce management will require the most board attention in the next year and only 25% identified people and culture as the most critical skillsets and experiences needed to enhance the composition of the management team. However, the changing workforce landscape and retention of talent ranked in the top 5 business risks that will require the most board time and effort. This aligns with director sentiment that only 42% of their management team is highly effective at talent oversight and workforce development, with the majority (58%) indicating there is work to be done. These conflicting findings are further exacerbated by 44% of boards ranking operational transformation and change management as the most in demand skillsets for the management team. These findings underscore the need for boards and management teams to potentially re-evaluate their focus and elevate human capital oversight as a strategic priority.

Setting the Tone: Stewarding Trust, Accountability, and Resilience

With these evolving roles and strategies, boards must also focus on building organizational trust, accountability, and resilience. To do this, boards should move beyond traditional change management, focusing instead on conditioning resilience and fostering psychological safety to support adaptability. **Deep Trust and High Expectations®** cultures are critical here: When employees trust leadership and believe in the organization's vision, they are more likely to embrace change and rise to new challenges. Effective communication is also essential, as gaps between the workforce, management, and the board can undermine cohesion. Boards must set the tone at the top and demonstrate self-awareness through evaluative practices that reinforce cultural integrity. The ***2025 BDO Board Survey*** revealed only 40% of directors feel their board is highly effective in this area. The **NACD's annual Blue Ribbon Commission Report** highlights this issue, offering recommendations for boards and CEOs to "unlock the full value of their relationship."

Oversight of the broader workforce is equally important. In a stagnant labor market, "job hugging" reflects a risk-averse yet dissatisfied workforce, increasing the need for engagement strategies. Directors should challenge management on transition strategies and identify areas where coaching and guidance could be beneficial.

CHCCs should leverage both quantitative and qualitative insights to understand organizational trust, accountability, and resilience. Annual deep dive surveys and quarterly pulse engagement surveys, analyzed by function and by leader, can pinpoint strengths and areas for improvement. Balancing these metrics with qualitative feedback from "skip-level" or "ask me anything" conversations help to ensure a comprehensive view. Additionally, CHCCs should move beyond sanitized reports to examine response rates, demographic cuts, and alignment with other health indicators to allow more nuanced oversight.

Fit-for-Purpose Workforce: The Impact of Technology and AI

Building on these survey insights, it's clear that technology—especially AI—is fundamentally altering the relationship between talent and organizational strategy. The lines between technology and workforce are increasingly blurred, and boards must encourage management to view this transformation as an opportunity to maximize human potential, not simply as a means to boost productivity or reduce headcount.

The ***2025 BDO Board Survey*** shows that directors see the greatest opportunities for AI in product/service development (41%), customer experience (34%), finance and accounting (30%), and fraud/cybersecurity breach detection (29%). With only 5% of directors reporting no planned AI use cases in the next year, it's clear the pace of adoption is accelerating. As implementation progresses, boards should advocate for evidence-based discussions that link technological investments to business outcomes, such as revenue growth or faster product introductions, and challenge management to quantify productivity gains with data.

To keep pace, CHCCs must continually assess evolving skill requirements, support ongoing training, reskilling, and upskilling, and confirm robust change management programs. These efforts should be complemented by a strategic approach to talent acquisition, informed by compensation trends, benefit benchmarks, and regulatory developments like U.S. government **enforcement** of H-1B visas. Embedding processes to further a culture of **Deep Trust and High Expectations** ® is also essential, as they empower employees to take ownership of their growth and performance, while also holding themselves and others accountable for achieving ambitious goals.

Empowering Employees to Embrace AI: A Key to Transformation

As organizations implement AI, employee adoption becomes a critical factor. BDO's research study, ***Winning on the People Side of Business:™ Unleash the Human Advantage in the Age of AI***, found that the more employees use the technology, the more likely they are to believe in its potential. This insight highlights the importance of fostering a culture that encourages experimentation, continuous learning, and a growth mindset. Boards and CHCCs should help to ensure that management is not only providing the necessary tools and training, but also creating an environment where employees feel safe to experiment, learn and stretch their capabilities.

Additionally, **Human, Compelling, Visual Communications**™ play a vital role in driving adoption and engagement by using clear, relatable, and visually engaging messaging, organizations can demystify AI, inspire curiosity, and help employees envision the positive impact of technology on their work and the organization's future.

Sample questions CHCCs should be asking about technology implementation and the workforce:

- What issues and opportunities is the organization addressing through AI, and what are the anticipated success metrics?
- What are the company's values and philosophy around AI adoption?
- What is the organization's AI governance structure?
- What is the current cultural change management plan?
- Is AI being leveraged to support employee well-being?
- How is the company using data-driven performance evaluation?
- How is the organization leveraging AI for reporting?

Unlocking Value: The CHRO as a Strategic Board Partner

As technology and workforce strategies evolve, so too must the relationship between the Chief Human Resources Officer (CHRO) and the board. The CHRO is vital as a facilitator and co-partner in corporate transformation, supporting project management, change management, and organizational design. Their connectivity with the board is essential for aligning human capital strategies with broader business objectives.

Regular, transparent communication between the CHRO and the board enables directors to ask probing questions about management's approach to change, trust, and resilience. Clearly defining and documenting within board charters the board's role and responsibilities with respect to engagement with the CHRO leadership fosters cross-functional collaboration, strengthens oversight, and supports effective talent management, succession planning, and cultural development. CHCCs should ensure CHROs are included in board agendas and providing regular informal updates.

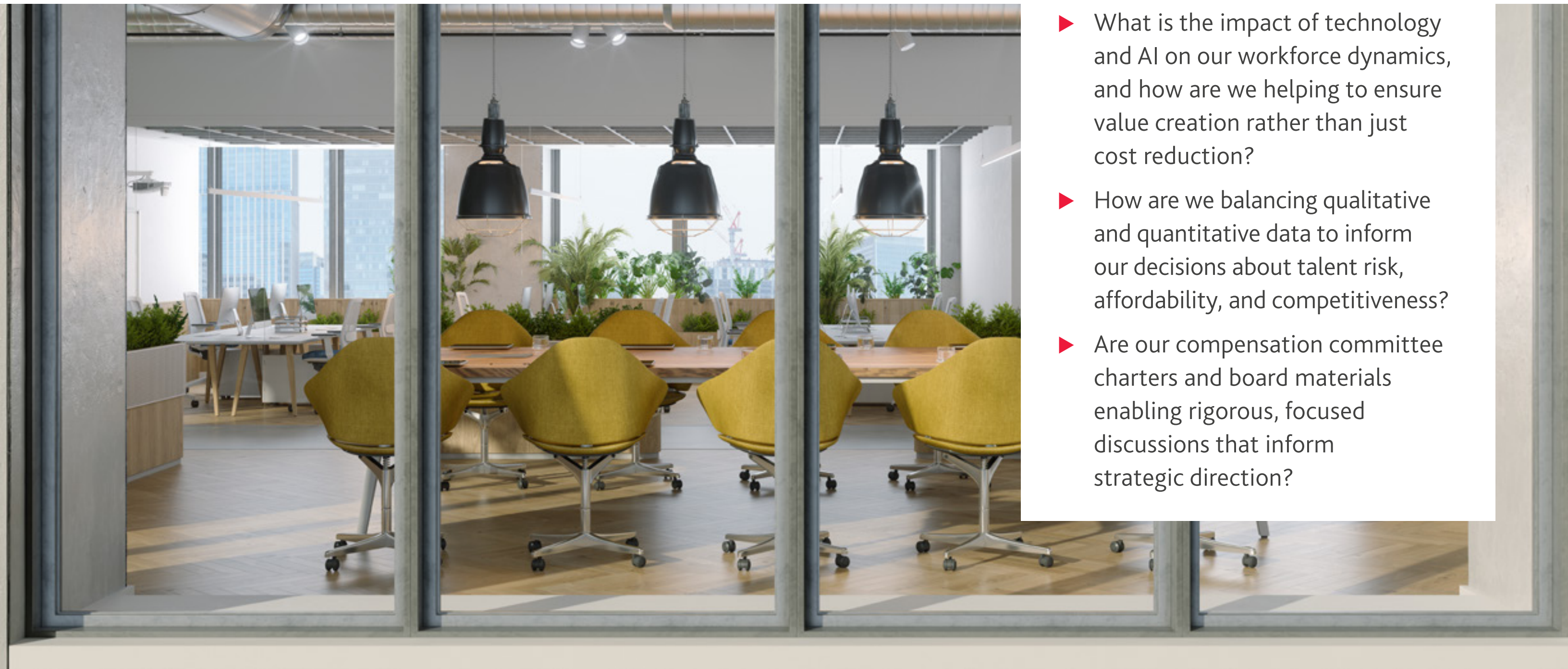
Rethinking Rewards: Comprehensive Strategies for Workforce Engagement

Finally, boards must recognize that compensation alone is no longer sufficient to attract and retain top talent. Organizations are adopting holistic benefit strategies, prioritizing mental health, education, career paths, and flexibility through customized approaches. Clear communication about the value of these benefits is essential, alongside continued workforce flexibility such as hybrid and remote options. The diverse needs of a multigenerational workforce are driving demand for benefits tailored to individual preferences and life stages. Employees who **feel trusted and challenged** are more likely to engage with and benefit from holistic workforce strategies.

In summary, boards that prioritize human capital oversight, helping to ensure robust strategy, transparent communication, and holistic workforce practices, will be best positioned to guide their organizations through ongoing technological and economic change. By challenging management, leveraging data, and fostering trust and resilience, directors can unlock the full potential for their workforce and drive sustainable success.

Sample questions CHCCs should be asking in their oversight of human capital:

- How is the organization fostering a culture of trust, accountability, resilience, and engagement, and what metrics or feedback mechanisms are used to assess employee sentiment?
- How does the CHRO collaborate with other executives and committees and business units to ensure human capital risks and strategies are addressed holistically?
- Do we have a robust, regularly updated succession plan for the CEO and other critical roles, and how are potential successors being identified and developed?
- What risks do we face if key executives leave unexpectedly, and how does our human capital strategy align with business priorities and technological change?
- How is coaching being implemented as a positive, developmental norm throughout the organization?
- What strategies and incentives are in place to attract, retain and integrate diverse talent, especially in light of talent scarcity?
- What is the impact of technology and AI on our workforce dynamics, and how are we helping to ensure value creation rather than just cost reduction?
- How are we balancing qualitative and quantitative data to inform our decisions about talent risk, affordability, and competitiveness?
- Are our compensation committee charters and board materials enabling rigorous, focused discussions that inform strategic direction?



CONCLUSION

As CHCC members navigate evolving priorities, boards and committees must remain agile, informed, and proactive in addressing emerging risks and opportunities. Transparent communication, robust strategy, and holistic workforce practices are essential for guiding organizations through ongoing technological and economic change. Directors are encouraged to share perspectives with fellow board members and management to actively engage in ongoing dialogue. For further guidance and actionable insights, stay tuned for upcoming resources from the [BDO Center for Corporate Governance](), including our 2026 Board Committee Priorities series, designed to support continued success by board committees in the year ahead.

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