

The Changing Nature of Compensation



Pete Lupo

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Pete Lupo, senior managing director and head of Pearl Meyer's Atlantic Region, talks about some of the current shifts happening in executive and broad-based compensation.

Q. As we look to 2022, what trends are taking shape that compensation committees should be aware of?

Pete: It all comes down to some pretty significant changes emerging in how executives get paid. We don't yet know what the long-term results will be in terms of pay practices, but I believe many corporations are sensing they need to go head to head with private equity firms, which administrate equity very differently. They may give a sizable chunk of equity on day one and although the executive may not realize value for five to seven years, it is an equity award with significant potential value exceeding typical public company practices. This trend also goes beyond the CEO. There are overall concerns about retaining executives through substantially more aggressive pay practices, and can the economics of the business support elevated equity grants? This is a hot topic I don't see abating anytime soon.

Q. Is this also being influenced by the tech industry?

Pete: I am seeing many companies work hard to make transformative changes, particularly related to their technology. We know tech pay practices, even for public companies, can be heavily weighted to equity even for junior positions. For example, there may be smaller bonus opportunities, with all employees eligible for equity grants. For this reason, more traditional industries are having a very hard time understanding how to create a company-wide pay philosophy when technology pay practices vary so much from the mainstream. Do organizations that acquire technology companies need to create bifurcated pay philosophies?

Q. How are directors successfully dealing with these emerging issues?

A: These changes and challenges I'm describing are so new that, frankly, we're in uncharted territory. I foresee compensation and human capital committees having to partner much more closely with the senior HR executives to arrive at solutions unique to each company. Ultimately, we come back to our recurring advice to each and every client: spend sufficient time to deliberate and truly understand if the design of the compensation plan is aligned with the long-term, evolutionary business and leadership strategies of the organization.

About the Author

Pete Lupo is the president of executive compensation and leads the executive and broad-based compensation consulting practices at Pearl Meyer. In this role, Pete works closely with the firm's senior leaders helping clients build innovative compensation programs that retain, motivate, and reward senior leaders and employees. Pete has worked extensively with compensation committees

and management teams on a variety of strategic needs including the development of total compensation programs for the senior leadership team, aligning pay to performance, designing annual and long-term incentive plans, developing board of director pay programs, and advising on change-in-control, executive benefits, perquisites, and governance-related matters.

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