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Six Ways Compensation Committees Can Drive Technology Governance



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The 2024 *Report of the NACD Blue Ribbon Commission on Technology Leadership in the Boardroom: Driving Trust and Value* brought forward six fundamental business dilemmas that are emerging as a result of the rapid pace of technological change.

Perhaps surprisingly, each of those enterprise-level challenges leads to corresponding ways that compensation and human capital committees can expand their thinking and help the wider organization better meet the moment. These are not solutions or “cure-alls” for the radical transformations taking place but rather nuanced shifts that can lead to the committees approaching issues in a new way without straying dramatically from their core responsibilities. Ultimately, the companies that follow a model that balances look-back financial metrics with leading-indicator strategic milestones are better positioned to maintain flexibility and encourage transformation. Below are the six governance challenges noted in the report and ideas that compensation and human capital committees can consider in this period of rapid technological transformation.

1. A confluence of advancements ups the stakes.

NACD characterizes this as increasing enterprise risk based on interdependent technology trends. Many companies will face irrelevance, but that is likely to come quicker for those that are not well adapted to thinking several steps ahead in their technology journeys.

Proactivity is crucial, but sustainability is the true key to success. The idea is not to chase the “shiny new object” but instead to assess the impact of emerging technologies on the company’s business strategy and incorporate the key metrics into an incentive framework that capitalizes on that impact in a sustainable way.

A compensation committee that can become more adept at evaluating executive compensation and succession plans by assessing both longevity and unintended consequences can better exercise its “if, then” muscle. For example, the committee may put forth an aggressive annual goal that rewards handsomely for new subscriptions. In doing so, the committee should think through multiple executive reactions to that goal, including whether they’ll meet or exceed the target; whether they’ll do so at the cost of

paying attention to another, more strategic goal; or even whether they could be inclined to inflate numbers.

Beginning to model a way of thinking that anticipates both short- and long-term cause and effect increases the likelihood that the organization more broadly begins to evaluate decisions in this way and thus that it can better navigate intertwined market conditions and make more informed decisions on resource allocation.

2. Strategy timelines are compressed.

The 2024 Blue Ribbon Commission spoke at length about how technology advances can make the best-laid plans obsolete and that today there is less time than ever to set a business strategy, execute it, and create the anticipated value without disruption. It's not uncommon that, due to the pace of change, companies may be in a position in the third quarter to question the importance of metrics and goals established in the first quarter. Doing the work to anticipate such obsolescence can unlock a company's ability to press its competitive advantage.

Historically, incentivizing executives for short- and long-range business goals has been structured in the majority of public companies in one- and three-year ranges. Because of the increasingly rapid pace of change, that standard may no longer be appropriate and, in extreme cases, may even constrain progress.

For some organizations, a reframing may be in order, which can include categorizing incentives into three buckets rather than two: short term (up to one year), medium term (up to three years), and long term (five years or more). This might mean short-term incentive goals are set in a more aggressive manner—possibly quarterly or biannually—which sometimes happens today at high-growth companies in technology or research and development-intensive industries. Furthermore, significant strategic change that accounts for technology or research-fueled transformation could require that at least a portion of the business goals are set on extended periods of five or 10 years. (One "if, then" consideration might be how much of an extended horizon is too long for incumbent executives to reach a goal and its corresponding award.)

3. Competitive advantages are shifting.

The Blue Ribbon Commission highlighted bygone industry titans who simply couldn't see an erosion of their existing market dominance. These organizations and their investors quickly discovered that operating models are not set in stone and that what was innovative yesterday is unlikely to remain so today.

One small, but beneficial action at the committee level is to ensure the annual compensation risk assessment is a dynamic tool rather than a regulatory exercise. Consider the implications of compensation plans that emphasize metrics that reward too heavily for the status quo, thereby stifling technology advancements. Conversely, watch for

plan designs that push too far into a risk-taking posture that might jeopardize near-term success.

The compensation committee can also evaluate market-based pay benchmarking against emerging and aspirational competitors, even if those companies are not formally included in the peer group. For growth-focused companies, consider two peer sets: a “current-state” mix of size-calibrated companies with a sprinkling of aspirational companies and a second group focused exclusively on aspirational and “future-state” companies. The committee should rigorously evaluate each set on an annual basis to ensure comparability that reflects the reality of the company’s growth trajectory with the knowledge that the second, informational or aspirational group is the committee’s own construct and may not inform pay outcomes. This helps keep up-and-coming innovators in sight.

4. Innovations are outpacing board member experience.

The commission made a significant statement in noting that executives and directors who came into leadership even five years ago may be behind the curve in understanding many of the technology-driven models that currently create value.

This is one area compensation and human capital committees can lean into heavily. The committees can expand formal leadership requirements to encompass technological acumen. However, the likelihood of finding the right person with the technology expertise an organization might need is very slim. Even then, the pace of advancement will mean that the threshold experience level is quickly outdated. Instead, companies should look for management and board leaders with a certain set of characteristics, such as agility, an ability to manage risk and capitalize on opportunity, and, most important of all, a continuous-learning mind-set. The committee can also explore ways to develop mentoring and reverse mentoring across generations within the organization to facilitate an organic and dynamic learning culture.

5. A focus on trusted technology and data use is growing.

The ever-growing universe of information and accessibility has transformed the relationships between companies and their customers, investors, and employees. Operating within a culture that emphasizes transparency and data security is the best way to build trust with these constituencies over time.

The opportunity for the compensation committee is to model transparency and accuracy in its compensation and human capital disclosures and encourage management to be as open and clear as possible internally when it comes to issues of pay and human resources. Both investors and employees need a greater understanding of the links between compensation structures and the company’s go-forward business strategy. A reasoned communications strategy that bridges the divide allows everyone to be on the same page

and builds trust.

6. There is a patchwork of uneven regulation.

The intricate networks of data and technology regulations appear to be outpacing the complex regulation around executive compensation and human capital management. This brings massive management and governance challenges. One important action for boards is to request the maintenance of a live inventory of the data and technology regulations impacting the organization across all geographies and the associated impact of the regulations on the company's human capital risk profile. An actively maintained inventory with an associated risk assessment will enable the committee to consider the degree of impact, if any, on talent management and compensation structures.

The compensation committee is already navigating continual add-ons, updates, revisions, and fresh new laws from myriad lawmaking bodies. One of the soundest ways to address this issue holistically and encourage strict adherence is to rely on experts and advisors. Attempting to manage all or part of this complexity internally can result in errors or omissions, and, perhaps even worse in this fast-moving environment, it could result in confusion, analysis paralysis, and emphasis on something other than creating value.

About the Author

Aalap specializes in executive compensation strategy—governance, pay-for-performance, and incentives—helping companies align business, people, and compensation strategy for effective programs.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.