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Beyond the Proxy: Why Compensation Peer Group "Disclosure" Matters Internally

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Most public companies disclose their compensation peer groups in the Compensation Discussion & Analysis (CD&A) section of their proxy statements. The goal is to demonstrate to investors that decisions around setting compensation levels, particularly for executives, are grounded in market data and guided by a thoughtful, disciplined process. The role of these peer groups is rarely explained beyond the compensation committee and a limited group of HR and senior executives.

Most employees don't know that compensation peer groups exist, let alone understand how they influence decisions about C-suite pay. And even fewer know that similar peer group market comparisons influence decisions about their own pay. When employees lack this context, pay decisions across the organization are at risk of being perceived as arbitrary, inconsistent, or even biased, which can fuel distrust and disengagement.

Why Compensation Peer Groups Are Worth Explaining to Everyone

Compensation peer groups play a central role in how companies evaluate and set executive pay. They provide a structured basis for assessing market competitiveness and guiding decisions on pay levels, incentive plan design, and overall compensation strategy. Externally, they're disclosed in CD&As to support the narrative around how executive pay is determined.

However, the influence of market comparisons is not limited to executives. While the data sources and peer sets used for broad-based compensation may differ, the same underlying logic—market positioning, competitiveness, and pay philosophy—often informs how salary structures, job architecture, and incentive plans are developed across the organization.

The challenge is that most employees are unfamiliar with what a compensation peer group is, which companies are included, or how peer comparisons factor into the broader pay-setting process. Simply providing a definition and a list of peers isn't enough. Without context, employees are left to fill in the gaps with assumptions that may not reflect the company's actual approach. Further, even well-considered peer choices may not make intuitive sense—especially if they include companies from different industries or with different customer bases or brand identities.

Additionally, employees tend to assess their pay through the lens of their own contributions, job responsibilities, and how others in similar roles are paid, both inside and outside the company. In the absence of clear information about who the company actually considers its compensation peers, external comparisons are often based on perception rather than fact. This can lead to confusion or skepticism, especially when expectations don't align with internal decisions.

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As new pay transparency laws raise the bar for communication and employees ask more questions about how pay is set, it has become even more important to explain how compensation peer groups factor into the broader decision-making process. When companies take the time to clarify why certain comparisons are used and how they work alongside internal considerations, it reinforces that pay decisions are thoughtful and structured. It also helps make future conversations about compensation more constructive and less uncomfortable. Whether a company is stable or going through change, a basic understanding of peer group logic can reduce confusion, set more realistic expectations, and strengthen perceptions of fairness across the organization.

Earn Internal Trust the Same Way You Earn Investor Support

Just as investors expect a clear explanation of compensation peer groups to understand executive pay, employees deserve a basic understanding of the comparisons that influence compensation across the organization. Bringing peer group rationale into internal compensation conversations starts with answering a few essential questions:

- What is a compensation peer group?
- Who are the peer companies in our compensation peer group?
- Why were they selected?
- How do they influence compensation decisions?

Being more transparent about these choices isn't just about sharing information—it's an important part of managing change. As companies face growing expectations around fairness, equity, and transparency, helping employees understand how compensation decisions are made has become essential to maintaining alignment and trust. That includes helping employees understand how external comparisons fit into a broader internal pay strategy guided by the company's compensation philosophy, talent priorities, and approach to attraction, motivation, and retention.

Providing this kind of context not only improves understanding, but it also makes future compensation conversations more effective. It gives managers a stronger foundation for addressing questions, reduces confusion, and reinforces that compensation decisions are guided by structure and intent. Over time, that kind of transparency helps shift culture from one where compensation is seen as a mystery to one where it's understood as a structured process with well-defined guidelines.

About the Author

Sharon Podstupka is a managing director at Pearl Meyer. She is a trusted advisor to boards and executive management teams in the areas of executive and broad-based employee compensation communication and change management. With over 25 years of consulting experience, she is one of the original pioneers of executive compensation disclosure best practices and has proven success in creating effective strategies and delivering content in challenging business environments and under intense scrutiny from investors and proxy advisory firms. Sharon has extensive experience in a broad range of industries, including financial services, manufacturing, oil and energy, retail, biopharma/biotech, and healthcare.

About Pearl Meyer

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