Pearl Meyer

ARTICLE | AUG 2025

One-Size Doesn’t Fit All: Customizing Executive Compensation Across Diverse Tech Business Models

Eric Myszka

MANAGING DIRECTOR

When it comes to executive compensation, technology companies are too often painted with the same brush. However, under the surface, a software-as-a-service (SaaS) platform, a cloud infrastructure provider, and a hardware manufacturer operate in entirely different economic environments. Effective compensation strategies must begin with an understanding of how the business generates value, and this article reasons that using a single compensation playbook across technology sectors is a strategic mistake. Instead, pay design should be grounded in business model fundamentals, such as growth profile, capital intensity, margin structure, and valuation drivers. Boards and compensation committees that fail to differentiate based on their company’s business model risk misaligning executive incentives, diluting shareholder value, and eroding retention in a highly competitive market.

Dissecting the Tech Sector by Business Model

Compensation committees and advisors often classify companies by sector rather than operating model. However, the term "tech" has become so broad, spanning software, hardware, fintech, semiconductors, cloud infrastructure, and more, that it's nearly meaningless from a compensation standpoint. A few examples of business model diversity under the “tech” umbrella include:

Business Model	Economic Profile
Enterprise Software-as-a-Service (Saas)	Recurring revenue, high margins, predictable growth
Consumer Tech/Platforms	Ad-driven, user scale, high volatility
Cloud Infrastructure	Capital-intensive, sticky contracts, uptime-critical
Semiconductors/Hardware	Long R&D cycles, heavy capex, margin cyclicality
Emerging Tech (AI, Web3, Quantum)	Pre-revenue, speculative, high burn rates

Each of these business models has different growth profiles, capital requirements, and valuation drivers. Boards and compensation committees should think beyond generic practices and key performance indicators (KPIs), such as revenue growth and total shareholder return, when considering executive compensation design.

Business Model Differences Should Influence Pay Design

A company's business model and economic profile influence all aspects of executive compensation design, including pay mix between cash and equity incentives, type of equity incentives, performance metrics, and vesting time horizons. It is critical that boards and compensation committees understand how different business models prioritize executive compensation design alternatives when identifying the most appropriate group of peers to benchmark against and deciding on the right compensation program.

- **Cash vs. Equity Mix:** Early-stage or pre-profit companies may rely more heavily on equity incentives due to capital constraints. Alternatively, late-stage firms with strong cash flow may use deferred cash bonuses or hybrid long-term incentive (LTI) plans to balance burn rate of the LTI share plan reserve with participant retention.
- **Equity Mix and Structure:** Share-based incentive plans are not one-size-fits-all. For fast-growth companies seeking scale, stock options offer leverage and upside. By contrast, restricted stock units (RSUs) can provide stability and retention for mature cash-generative businesses. Lastly, performance stock units (PSUs) tied to objective metrics offer a compelling alignment tool for businesses with clear value drivers.
- **Performance Metrics That Matter:** Boards should start with how the business creates value, not what other companies measure. Selecting the wrong metrics can do more harm than good. Common financial and operating KPIs across the broader "tech" sector include:
    - *Annual Recurring Revenue (ARR):* The value of predictable, contracted revenue that recurs annually, typically from subscriptions. ARR measures revenue durability and is critical for SaaS and subscription-based models.
    - *Active Users*: The number of unique users who engage with a product or service daily (DAUs), weekly (WAUs), or monthly (MAUs). DAU, WAU, and MAU are core engagement metrics for consumer tech and platforms. High numbers of regular active users often drive ad revenue and retention.
    - *Net Revenue Retention (NRR):* The percentage of recurring revenue retained from existing customers over a period. NRR is a key performance indicator for enterprise software and demonstrates customer retention.
    - *Service Level Agreement (SLA) Compliance*: The degree to which a company meets its contractual uptime or performance standards. SLA compliance is essential in infrastructure and cloud businesses.
    - *Gross Margin (GM):* Revenue minus cost of goods sold, expressed as a percentage. GM is especially relevant in hardware, semiconductors, and SaaS as it is an indicator of scalability and profitability potential.
    - *Customer Acquisition Cost (CAC):* The total cost of acquiring a new customer, including marketing and sales expenses. CAC is important for consumer tech and early-stage companies.
- **Vesting and Time Horizon:** Companies with short product cycles should consider front-loaded and more frequent vesting schedules. Whereas those with long development times should consider longer vesting periods to align with R&D milestones and capital return windows.

While all businesses are unique, the table below summarizes how pay-mix, equity structure, performance metrics, and vesting time horizons can differ across business models:

Business Model	Equity Mix	PSU Appropriate?	Performance Metrics/KPIs	Individual Metrics	Vesting Time Horizons
Enterprise Saas (Software-as-a-service)	Mix of RSUs and PSUs	Yes—Mature and forecastable metrics, aligned to value	ARR, NRR, Gross Margin	Bookings, Churn %, Upsell	Neutral: 3-4 years vesting
Consumer Tech/Platforms	Options and RSUs	Limited—Volatile or indirect metrics; KPIs better for STI use	DAU, CAC, Ad Revenue	Product Adoption, Feature Release, User Growth	Short: 2-3 years to match product cycles
Cloud Infrastructure	RSUs and PSUs	Yes—Strong metrics tied to scale, uptime, and retention	SLA Compliance, Gross Margin	Uptime %, Incident Response, Deployment Frequency	Long: 4+ years
Semiconductors/Hardware	RSUs and PSUs	Yes—clear milestones over 3-5 years; good PSU alignment	Gross Margin, Product Milestones	Cost Reduction, Yield Targets, Engineering Timelines	Long: 4+ to align with R&D/Product life cycles
Emerging Tech (AI, Web3, Quantum)	Heavily option-based or RSU-heavy	No—high uncertainty; KPIs better suited for STI use	Milestones, DAUs	Hiring, Product Delivery, Investor Engagement	Short: Frequent vesting tied to milestone achievement

Strategic Recommendations for Boards and Compensation Committees

It is easy for boards and compensation committees to fall into the trap of treating executive compensation within the technology sector as a formulaic exercise, comparing to a broad peer group, defaulting to generic common metrics, and over-relying on equity without context. But this one-size-fits-all approach can lead to real missteps. Peer groups that ignore differences in revenue models, capital intensity, or company maturity are likely to produce irrelevant benchmarks. Compensation plans that chase metrics like DAUs or ARR without regard to whether they actually reflect how the company creates value may end up driving the wrong behaviors. Lastly, equity-heavy plans in capital-intensive or slower-growth businesses often result in excessive dilution with little retention or performance impact. In these situations, cash-based LTI, such as multi-year performance cash or deferred cash bonuses, can preserve ownership structure and provide clearer line of sight to value-creation goals.

Strategic, forward-thinking boards and compensation committees are taking a different approach. They start with the fundamentals (growth drivers, business risk, and operating models) to guide peer selection and incentive design. They demand more from their advisors through deeper analysis of performance levers, not just surface-level comparisons. Lastly, they actively educate themselves on equity economics, dilution thresholds, and the capital model their business operates in.

In a Sector as Fast-Moving and Diverse as Tech, Precision Matters

The compensation committee's responsibility isn't just to match market practice, it's to create a pay strategy that aligns leadership behavior with long-term value. That means understanding the company's unique DNA and resisting the urge to imitate those who may play an entirely different game. If an executive pay plan could just as easily apply to a social media app as to a chip design firm, it's probably time for a rethink.

About the Author

Eric Myszka is a Managing Director with Pearl Meyer. With over 20 years of experience in executive compensation, Eric works with Boards of Directors and management teams of public and private organizations, ranging from early-stage start-ups to Fortune 500 organizations, designing compensation programs that are both market competitive and align with strategy, all while ensuring compliance with regulatory standards and stakeholder expectations. Eric is a frequent speaker on pay for performance, corporate governance, and tax implications of executive compensation pay 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.