Pearl Meyer

ARTICLE | JUN 2026 | HARVARD LAW SCHOOL FORUM ON CORPORATE GOVERNANCE

AI in Incentive Plans: Opportunity, Risk, and the Role of the Compensation Committee



Patrick Haggerty
MANAGING DIRECTOR

AI investment is accelerating across industries, while only a limited number of companies have chosen to reflect it in their incentive frameworks. For many committees, the question is not whether AI matters, but how its impact is captured within existing performance measures.

Companies are moving quickly to deploy AI to improve productivity, reshape cost structures, and position for future growth. Most, however, continue to rely on traditional financial and strategic metrics in their incentive plans. This creates a practical challenge: not simply whether to incorporate AI into incentive plans, but whether organizations are prepared to measure and govern it in a way that supports sound pay decisions.

Recent research reinforces this tension. Pearl Meyer's Q1 2026 Leadership Quick Poll, based on a survey of 108 executives and board members, finds that while AI is advancing, leadership systems are not evolving fast enough to support either strategy or AI. For most companies, the question is not how to design AI metrics, but whether AI is sufficiently central and measurable to warrant inclusion in incentive plans at all.

Our research suggests that AI's growing importance has not yet translated into widespread changes in incentive design. Based on a review of approximately 2,500 public company proxy statements filed in 2026, we identified 58 companies that incorporate AI into executive incentive programs through formal metrics, strategic objectives, or executive performance assessments—just 2%. Of those, only 12% use an explicit AI metric. Instead, most organizations are embedding AI within broader transformation initiatives, strategic priorities, workforce objectives, and executive performance evaluations.

What We Are Seeing in the Market

Current disclosures, as well as our experience with clients, suggest that market practice is still evolving, with companies taking a range of approaches and no clear standard emerging.

In practice, companies are taking three distinct approaches to incorporating AI into incentive plans. While the structures differ, the underlying objectives generally fall into three categories: encouraging adoption, improving efficiency, or driving measurable business outcomes.

1. Explicit AI Metrics

A small group of companies has introduced discrete AI measures, typically with modest weighting.

For example, one industrial company has replaced a prior ESG component in its annual incentive plan with a roughly 5% AI adoption and utilization metric focused on enterprise deployment. In another example, a large retailer has taken a different approach, incorporating AI into long-term incentive awards tied to digital tools and technology experience, linking AI to customer engagement and operational execution over a multi-year period.

These approaches reflect different priorities. Some companies are emphasizing adoption and deployment as leading indicators, while others are attempting to tie AI more directly to longer-term performance outcomes.

2. AI Embedded in Broader Goals

Sixty percent of the public companies we identified are incorporating AI within broader technology or transformation objectives focused on execution and efficiency.

Companies are embedding AI within broader transformation objectives in several different ways. For example, a specialty insurance company incorporates AI-related objectives into its short-term incentive plan through operational efficiency and technology deployment goals, with achievement directly influencing payout levels. A life sciences company includes AI within broader workforce and enterprise transformation initiatives tied to training, governance, and adoption. Similarly, a financial services organization links AI governance, adoption, and deployment milestones to a broader multi-year transformation strategy.

This approach provides flexibility and reflects the reality that AI is often part of a broader transformation effort. At the same time, it can make it more difficult to isolate AI’s specific

contribution to performance.

3. Qualitative and Individual Performance Considerations

A third group of companies (28% of the identified public companies) addresses AI through individual performance assessment rather than formal metrics.

In these cases, compensation committees consider leadership in advancing AI initiatives, enterprise adoption, and contribution to innovation. For example, one organization includes AI usage and governance as part of an executive's individual performance goals, such as establishing guidelines for AI use and managing associated risks. Another incorporates AI-driven productivity and insights into broader executive performance evaluations.

This approach is practical in early stages, where measurement is still evolving, but it introduces greater reliance on judgment in determining outcomes.

Despite these emerging examples, adoption remains limited overall. Across all three approaches, one point stands out: many companies with meaningful AI investment have not yet reflected it directly in incentive plans. While AI is frequently referenced in strategy, governance, and board oversight discussions, far fewer companies have incorporated it into compensation design.

The research also suggests that most companies are rewarding AI adoption, capability building, and transformation efforts rather than measurable AI-driven financial outcomes. Only a small subset of organizations currently tie compensation directly to AI-specific revenue, earnings, commercialization, or other financial performance measures.

At the same time, the absence of explicit AI metrics does not necessarily mean AI is absent from incentive outcomes. Many organizations likely expect the benefits of AI investments to be reflected indirectly through existing financial and operational measures such as revenue growth, profitability, or strategic execution. In these cases, companies may view AI as an enabler of performance rather than a standalone metric requiring separate treatment.

How AI May Change What Incentives Measure

Used thoughtfully, incentive design can reinforce the role of AI in a company's business. Most organizations expect AI's earliest impact to first appear in enhanced productivity and cost efficiency, rather than revenue growth, and traditional metrics may not fully capture that shift.

In practice, this may shift focus toward measures such as productivity per employee, margin expansion, or cost efficiency, rather than traditional revenue and earnings growth. As AI changes how work is performed, incentive plans may need to evolve to reflect these

emerging drivers of value.

More fundamentally, AI may challenge whether traditional incentive frameworks fully capture how value is created. Productivity improvements, scalability, and operating leverage may become increasingly important indicators of performance, even when revenue growth remains unchanged. As organizations adopt AI unevenly across functions and business models, compensation committees may need to reconsider whether existing metrics appropriately reflect emerging drivers of enterprise value.

Where value is being created through efficiency gains, committees may need to reconsider how performance is measured.

Why Measuring AI Performance Is Difficult

Measurement is the primary hurdle. Scorecards and qualitative approaches trade precision for flexibility, but introduce subjectivity and increase reliance on management judgment.

Metrics tied to adoption can encourage activity without ensuring results. For example, a metric based on AI deployment may reward the rollout of tools, even if those tools are not meaningfully used. Readiness also remains uneven, with many organizations still in pilot stages and 77% reporting they have not yet scaled AI enterprise-wide.

Time horizon misalignment can further complicate design. AI investments may take time to produce results, while annual incentive plans emphasize near-term performance. Governance risks around data, models, and compliance also warrant consideration.

AI-driven productivity gains may outpace leadership capability and workforce readiness, creating additional complexity for compensation design.

Governance Considerations for Compensation Committees

Incorporating AI into incentive plans is a governance decision.

As compensation committees evaluate whether and how AI fits into their incentive plans, a set of core governance and design questions can help guide the discussion.

Board Consideration	Design Implications
Is AI central to the business model?	Existing financial metrics may already capture AI’s impact if AI is not yet a primary value driver.
Who is accountable for AI execution?	Clear ownership is critical for incentives to drive behavior, and organizations need to align on who is responsible for successful AI implementation.
Can AI results be measured credibly?	If not, qualitative assessment may be more appropriate in the near term, with a focus on meaningful business impact rather than simply deployment or activity.

Has AI moved beyond experimentation?	Expect a slow burn on adoption; if deployment remains uneven, formal metrics may be premature.
Do incentives align with value realization?	AI investments may require multi-year evaluation periods to demonstrate impact.
How is AI changing value creation?	Productivity, scalability, and operating leverage may become more important performance indicators.
How quickly should plans evolve?	Compensation committees should move deliberately as market practices and measurement approaches mature.

Looking Ahead: AI Impacts on Incentives

AI is reshaping how companies operate, and compensation design should reflect that reality. Current market practice suggests that companies are not converging around standalone AI metrics. Instead, most organizations are embedding AI within broader business transformation goals, technology initiatives, workforce objectives, and executive performance assessments.

As AI becomes increasingly embedded in how companies operate, incentive plans will evolve in response, though not uniformly.

At the same time, the research indicates that AI is amplifying leadership and execution challenges. For compensation committees, the immediate task is not to redesign plans around AI, but to determine where AI is already influencing performance and whether existing metrics reflect that shift. Incentives should align with how value is created, while maintaining discipline around measurement and governance.

This article was originally published by the Harvard Law School Forum on Corporate Governance.

About the Author

Pat has 25+ years advising boards and senior management on incentive design, performance measurement, and corporate governance, with deep experience supporting both private and public companies.

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.