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Why Sound Judgment Matters More Than More Data

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Compensation committees have access to more information than ever before. Market benchmarking, peer group analyses, pay versus performance tests, investor feedback, proxy advisor guidelines, and increasingly sophisticated AI research tools are providing greater visibility into executive pay decisions.

Collectively, these resources have improved the quality of information available to directors and helped establish a more rigorous governance process. But better access to information does not necessarily make the committee’s role easier. In some cases, the same issue may look different depending on the data source, methodology, peer group, or time period being considered. Committees need a disciplined process for separating the information that is critically relevant from information that is merely available.

While market information can narrow the range of reasonable outcomes, it rarely identifies a single correct answer. The most impactful decisions a compensation committee makes continue to require directors to contextualize information, deliberate, and exercise sound judgment.

More Data Does Not Mean a More Clear Answer

Executive compensation is seldom a mechanical exercise. Although compensation committees should be guided by data and market practice, their responsibility extends well beyond determining where pay falls relative to a peer group or whether a particular incentive design reflects prevailing practice.

Judgment remains so important because compensation decisions are made within the context of a company's unique circumstances. Two companies may have similar revenues, market capitalizations, and business models, yet face very different strategic priorities, competitive challenges, or leadership needs. For instance, a company emerging from a difficult transformation may need to think differently about retention risk than a company with stable performance and a deep internal succession bench. On the surface, market data may suggest a similar approach for both, but whether that approach is appropriate for each company needs to be considered in context.

When Judgment Still Matters Most

The need for judgment is most apparent when committees consider issues that fall outside the routine annual compensation cycle. A committee may need to determine whether a retention award is justified, whether a newly appointed executive should be positioned differently from the market, or whether an incentive outcome accurately reflects management's contribution during an unusual year.

These situations are not uncommon, particularly in industries experiencing rapid change or significant business transformation. Leadership transitions, acquisitions, strategic repositioning, significant regulatory developments, or unexpected changes in business performance all introduce circumstances that may not have been anticipated when the program was originally designed.

Market data can provide useful perspectives, but determining the appropriate course of action requires directors to also consider the company's specific circumstances and the broader interests of the company and its shareholders.

Better Questions Help Committees Apply Judgment

Experience suggests that the strongest compensation committees approach these situations by asking deeper questions rather than searching for quick answers. They seek to understand what the organization is trying to accomplish, whether the proposed compensation approach supports those objectives, and what unintended consequences may result from a particular decision.

Useful questions may include:

- What business issues are we trying to address?
- Where does the market data provide useful guidance, and where does company-specific context require a different conclusion?
- What is appropriate for this company and this leadership team, at this moment in time?
- How does this align with our pay philosophy and talent strategy?
- What tradeoffs are we making, and what are the potential unintended consequences?
- Could this create a precedent that will be difficult to manage in the future?
- Are we solving a compensation issue, or are we using compensation to address a broader leadership, performance, or retention issue?
- What message will this approach send about performance, accountability, and fairness?
- Can we explain the rationale clearly and defensibly to shareholders, management, and employees?

Equally important, they recognize that different companies facing similar facts may reasonably arrive at different conclusions, and that compensation cannot solve every challenge facing an organization. Compensation is an important tool available to the board, but it is only one of many factors that influence organizational performance and leadership effectiveness.

Using Compensation Advisors to Interpret Conflicting Information

This is also where experienced compensation advisors can provide meaningful value. While consultants are responsible for bringing objective market information, independent perspective, and technical expertise to the committee, their role is not to replace the committee's judgment.

Rather, it is to help directors understand the available alternatives, evaluate the associated tradeoffs, and appreciate the implications of different decisions. That may include:

- Explaining why data sources can conflict, and how much weight to place on each.
- Providing context from similar situations and how other companies have handled comparable issues.
- Evaluating the potential impact on executive motivation, retention, and perceived value.
- Identifying governance, shareholder, and precedent-setting risks.
- Distinguishing between situations where data provides clear direction and those requiring greater business judgment.

That perspective is especially important when committees are evaluating incomplete, inconsistent, or potentially misleading information, including AI-generated summaries or market narratives that may not fully reflect the company's facts. Ultimately, the committee must determine which approach is most appropriate given the company's circumstances. An effective compensation advisor helps directors reach a more informed conclusion.

Looking Ahead: Judgment in an AI-Enabled Environment

Executive pay has become increasingly sophisticated over the past two decades, and that evolution has generally strengthened compensation governance. Even so, the compensation committee's role has not fundamentally changed. Directors remain responsible for making informed decisions in situations where there is often no single correct answer.

Data should inform those decisions, and market practice should provide context. As AI continues to make market information more accessible and easier to synthesize, the role of the compensation committee is likely to remain as important. If anything, it will become even more valuable for directors to determine which information is relevant and reliable, interpret it thoughtfully, and apply it to the company's unique circumstances.

Sound judgment will continue to distinguish the most effective compensation committees.

About the Author

Rob has 15 years experience in executive compensation and finance, specializing in life sciences and technology—especially emerging, high-growth companies navigating M&A and IPOs.

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.