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2026 Proxy Season Shows Shift in Board Thinking



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The 2026 proxy season unfolded against a backdrop of shifting investor expectations, evolving governance priorities, economic uncertainty, regulatory change, and geopolitical instability. While many of the fundamentals of executive compensation remain intact, this year's filings revealed meaningful change in how boards and compensation committees approach pay design and disclosure and shareholder engagement.

For directors, the implications are straightforward: Executive compensation programs must remain competitive and aligned with performance, as boards face more pressure to explain

how pay decisions fit the business and its strategy.

A Fragmented Governance Environment

The shareholder voting landscape continues to transform. For years, compensation committees operated in an environment heavily influenced by proxy advisors Institutional Shareholder Services and Glass, Lewis & Co.

While these firms remain important voices in the ecosystem, their influence appears to be waning as institutional investors develop their own voting frameworks and compensation governance policies. Renewed regulatory scrutiny of proxy advisors and early moves by large investors, including J.P. Morgan Asset Management's use of artificial intelligence to support proprietary proxy voting analysis, suggest this trend may accelerate.

This shift gives boards greater flexibility to tailor compensation programs to the business strategy, but it also makes shareholder voting less predictable. Faced with a more fragmented investor audience, compensation committees need a deeper understanding of investors' perspectives on executive compensation. Organizations should emphasize company-specific disclosure, direct shareholder engagement, and a clear, compelling pay-for-performance narrative.

Volatility Drives Greater Flexibility

Macroeconomic uncertainty remained a defining theme throughout 2025. Tariff disruptions, geopolitical tensions, elevated borrowing costs, market volatility, and sector-specific disruptions complicated planning and performance measurement for many companies.

Compensation committees responded by introducing greater flexibility into incentive plans. While companies largely maintained existing metric structures, many also widened payout curves, revisited performance slopes, or added "strike zones"—a range around a target, such as 95 percent to 105 percent of goal, that still pays at 100 percent to account for goal-setting uncertainty. Rather than relying on a single measure, some organizations incorporated additional metrics to balance performance assessment and reduce pay outcomes influenced by external factors.

Tariffs provide a useful example: According to Pearl Meyer's research, approximately 10 percent of S&P 500 companies disclosed tariff-related adjustments to incentive plans. When discretion was used, companies generally applied it sparingly to recognize extraordinary impacts without fully insulating executives from business realities.

Boards should not interpret this as an endorsement of routine incentive adjustments; the distinction between well-reasoned discretion and arbitrary decisions lies in consistently applying sound judgment, maintaining alignment with shareholder interests, and clearly

explaining the rationale.

Pay Levels Rise, Structure Remains Stable

Despite economic uncertainty, executive pay levels continued to increase. Pearl Meyer's analysis of compensation components for incumbent S&P 500 CEOs showed that median base salary, target annual incentives, long-term incentive (LTI) awards, and target total direct compensation all rose from 2024 to 2025.

S&P 500 Median Pay Levels for Incumbent CEOs in 2025

Base Salary	Target Annual Incentive	LTI Awards	Target Total Direct Compensation
$1.33 million	$2.19 million	$13.14 million	$16.5 million
+1.9 percent from 2024	+4.4 percent from 2024	+11.2 percent from 2024	+6.8 percent from 2024

While total direct compensation rose nearly 7 percent from 2024 to 2025, reaching a median $16.5 million, the largest percentage increase was in LTI awards. This trend reflects a continued emphasis on tying executive pay to long-term shareholder value, retention concerns in key industries, and efforts to address volatility-related declines in stock-based compensation value.

Despite higher pay levels, the overall structure of executive pay experienced little change. Performance-based LTIs remain the dominant component of CEO compensation. The pay mix data show there is not yet a meaningful shift toward time-based equity awards with extended vesting or holding requirements, despite some investors and governance observers becoming more open to them.

Incentive Metrics Show Remarkable Consistency

Despite broader market turbulence, incentive metrics remained surprisingly stable. Profitability measures such as operating income; earnings before interest, taxes, depreciation, and amortization; margins; earnings per share; and net income continue to dominate annual incentive plans because they provide a direct connection between management actions and company performance.

Strategic and individual performance measures also continue to support annual incentive plan design. These measures help boards incorporate leading performance indicators, such as operational execution, customer outcomes, innovation, and workforce initiatives, into the broader executive performance assessment.

For LTIs, relative total shareholder return is still the most prevalent performance metric, largely because it avoids the need to develop difficult, multiyear financial forecasts. Yet

compensation committees increasingly recognize its limitations: While relative total shareholder return is an effective measure of shareholder alignment, it is less effective as a day-to-day incentive because executives cannot know where they stand until the end of the performance period, limiting its motivational value. As a result, some companies are exploring complementary financial measures or more tailored peer groups to better align with business realities.

The Next Frontier: Better Storytelling

As proxy and investor voting becomes more individualized, boards should devote as much attention to telling their companies' pay-for-performance stories as they do to designing the compensation program itself.

Average say-on-pay support remains strong, reaching an average of 91 percent in 2026, compared with 89 percent average support between 2021 and 2025. The influence of negative proxy advisor recommendations appears to be declining. Investors are increasingly evaluating not just what performance goals were set but whether those goals were challenging given the business environment.

Companies that communicate effectively will be better positioned to earn investor support. Sharing compensation committee letters before the Compensation Disclosure and Analysis (CD&A) in the proxy statement is an effective way for directors to explain the context behind pay decisions. Meanwhile, effective CD&A executive summaries can clarify pay-for-performance rationale, company performance, the environment in which those results were achieved, and why incentive outcomes were appropriate.

AI is changing how investors evaluate proxy disclosures by enabling near-instantaneous year-over-year comparisons of proxy statements. Boards should expect greater scrutiny of changes in incentive metrics, goal rigor, or compensation design—and proactively explain the rationale behind those changes.

The 2026 proxy season underscores the need for more deliberate, well-documented decision-making in a less predictable operating environment. Compensation committees should balance pay-for-performance discipline with practical flexibility and ensure that evolving practices are grounded in business rationale. As investors rely more on individualized analysis, the committee's ability to explain why its decisions were appropriate will be critical to maintain credibility and support.

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About the Authors

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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.