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Director Essentials: Oversight of Executive Compensation



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Executive compensation is one of the board's most visible and consequential responsibilities, connecting business strategy, performance, leadership, talent, governance, and stakeholder trust. When designed effectively, executive pay reinforces strategic priorities, strengthens accountability, and helps attract and retain the leadership needed to create long-term shareholder value. Achieving these outcomes requires a disciplined approach to compensation decisions that balances market practices with the company's unique business objectives and long-term priorities.

Developed by Pearl Meyer and the National Association of Corporate Directors (NACD), *Director Essentials: Oversight of Executive Compensation* provides directors and compensation committees with a practical framework for making informed, defensible, and well-documented executive pay decisions. At its core is one essential question: What are we paying executives to do?

This question should guide every major aspect of executive compensation, from establishing the compensation philosophy and evaluating market data to designing incentive plans, setting performance goals, assessing results, and communicating decisions. By keeping the intended business outcomes and leadership priorities in focus, directors can distinguish between prevailing market trends and compensation programs

that are truly fit for purpose.

The report explores five key areas of executive compensation oversight:

- Governance, Role, and Decision-Making Framework: Establishing the responsibilities, processes, and decision-making discipline needed for effective oversight.
- Establishing the Compensation Philosophy: Aligning pay practices with business strategy, organizational priorities, and talent needs.
- Incentive Compensation and Performance Measurement: Designing incentives and evaluating performance in ways that reinforce desired outcomes and accountability.
- Making and Communicating Pay Decisions: Applying sound judgment and communicating compensation decisions clearly and effectively.
- Navigating Complexity and Future Challenges: Addressing special situations and emerging issues that require thoughtful, context-specific decisions.

Throughout the report, questions, tables, and scenarios help directors evaluate compensation proposals and prepare for discussions about plan design, performance goals, payouts, special awards, and other material compensation actions.

To help boards and compensation committees put these principles into practice, Pearl Meyer and NACD developed a companion Executive Compensation Decision-Making Framework. This practical tool helps structure deliberations, strengthen governance, and support executive pay programs that advance long-term organizational success.

View the Full Resource on NACD's Site >

About the Authors

Brett advises boards and management on executive compensation, including performance measurement, incentive design, and technical matters spanning tax, accounting, and SEC requirements.

Jan brings 30+ years of executive compensation and governance experience, advising boards and management on strategic human capital decisions tied to long-term value creation.

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.