Pearl Meyer

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Aligning Executive Compensation and Strategy Execution Shifts

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Editor's Note: Pearl Meyer is a strategic content partner for the National Association of Corporate Directors (NACD), an active participant each year on the NACD Blue Ribbon Commission (BRC), and a contributor to its annual BRC reports—signature publications that propose new principles and practices to address the most critical boardroom issues. This article was published in the director's toolkit for adopting recommendations in the 2026 BRC report: Board Oversight of Strategy Execution.

Start With The Alignment Question

When strategy execution shifts, the committee does not need to revisit the entire compensation philosophy. It does need to ask a direct question: Do current incentive plans reflect what executives are being asked to do *now*?

That question should anchor the boardroom discussion. The original plan may still be the right answer if the strategy remains intact and management is accountable for the results. But if the board has approved a meaningful change in the operating plan (e.g., a significant acquisition or divestiture, reshoring plan, entering a new business or geography), the committee should test whether the current plan would reward behavior the board no longer wants or penalize actions the board has just asked management to pursue.

This is where compensation can either support alignment or become a flashpoint. Public companies face more disclosure, shareholder, and proxy-advisory scrutiny when they change incentive plans midstream. Private companies may have more flexibility to make mid-cycle adjustments, but they still need a clear rationale, owner alignment, and a view on retention and leadership accountability.

The committee’s task is not simply to “fix” a payout that seems misaligned. It is to determine whether the change in business strategy triggers a disciplined discussion about

executive compensation: what changed, whether the plan still does what it was intended to do, and what response is proportionate and defensible.

Two Tensions to Manage

A strategy shift creates two related compensation tensions for the board and the management team:

- Executives as plan participants: The committee must decide whether the current plans produce a payout that is fair and defensible, given the revised priorities and what leaders could anticipate or influence.
- Executives as execution leaders: The committee must decide whether current and future incentives will give executives the tools they need to focus the organization on executing the revised priorities.

The goal is not to protect management from underperformance. The goal is to distinguish a controllable execution miss from a board-approved change in direction and then align pay with the strategy the board actually wants executed and rewarded.

Trigger, Test, Act Framework

A Trigger, Test, Act discussion can help the committee avoid two common traps: treating the formula as untouchable when the strategy has changed or using discretion after the fact without a clear rationale.

The committee should also ask whether the issue is structural and likely to recur. Repeated misses, repeated maximum payouts, frequent use of discretion, or a major company change may suggest that the current plan is not just producing an uncomfortable result; it may no longer fit the business.

Stage	Board Focus	What to Request

Trigger	Identify the signal that warrants committee attention.	▪ Describe the triggering event, including: • what changed • what factors precipitated the change (e.g., is it a response to shifting market conditions or the result of poor execution of the prior strategy) • which strategic assumptions or metrics may no longer apply • do existing plans appear misaligned with performance, shareholder or owner experience, or new execution priorities ▪ Determine which outcomes were driven by board-approved changes or external shocks, and which were controllable misses.
Test	Diagnose whether the plan is still fit for purpose.	▪ Inventory affected pay programs, including current-year STI*, in-flight LTI** cycles, future grants, special awards, and retention arrangements. ▪ Project payouts under the current plans and assess whether the goals remain rigorous, externally grounded, and aligned with new strategy.
Act	Determine a proportionate response.	▪ Depending on the degree of change and the assessment of management accountability, actions could vary from no action to mid-year changes to incentive metrics and/or goals, to year-end discretionary adjustments. ▪ Document the decision-making process including the business rationale for any changes, executives affected, payout impact, and any required disclosure or owner communication.

*STI: Short-term incentives | **LTI: Long-term incentive

Case Study: Public Company Retreats From Expansion

A public retailer launched a country expansion, and executive incentives were tied to revenue growth and operating income. Mid-year, after continued losses and operational issues, the board and management decided to exit the market. The strategic priority shifted from growth to controlling cash burn, retaining core customers, and executing the exit without further value leakage.

A typical executive has an annual bonus target of $1 million. The original formula is 60 percent revenue growth and 40 percent operating income. After the exit decision and related charges, the formula would pay 25 percent of target, or $250,000. In-flight PSUs (performance stock units) have a $3 million target value tied to relative total shareholder return and are in year two of a three-year performance period. Announcement of the retrenchment sent the stock price tumbling—at current levels, the PSUs would not vest.

The committee's question is whether the current estimated results reflect management's failure to execute or the board's decision to stop pursuing the original geographic expansion. The answer should drive whether the board leaves the formula unchanged, adjusts for approved exit costs, uses a stub-period scorecard, or applies limited discretion.

Current-Year STI Decision	Illustrative Payout	Pros	Watch-Outs
Leave current-year bonus formula unchanged	25% = $250,000	Preserves formula integrity; easiest to explain as no adjustment	May punish an approved strategic retreat; may not reinforce exit execution
Adjust formula for approved exit costs	80% = $800,000	Recognizes that the board changed the playbook; preserves some formula discipline	Could appear to insulate management from a failed initiative; needs a strong rationale
Use stub-period scorecard	H1 old plan: 50% x 25% = 12.5% H2 exit scorecard: 50% x 80% = 40% Total 52.5% = $525,000	Pays for what management was asked to do before and after the pivot	More complex; requires clear, preapproved measures for the second half
Apply informed discretion	50% = $500,000	Useful if the formula no longer reflects reality	More subjective; may draw greater scrutiny in CD&A*** and investor engagement

***CD&A: Compensation Discussion and Analysis

In-Flight LTI Decision	Illustrative Outcome	Pros	Watch-Outs
Let PSUs run	Projected 0-25%	Preserves original terms	May have little retention or alignment value after the exit
Modify remaining performance period	Projected 60-80%	Can tie pay to cash, cost-to exit, core market growth, or other revised priorities	Requires plan, tax, accounting, disclosure, and governance review
Do not modify PSUs; add future transition award	Amount and metrics TBD	Avoids changing in-flight awards and can be transparently future-focused	May be viewed as a make-whole unless performance-conditioned

Board Questions to Close the Discussion:

- What did the board ask management to stop doing, and what did it ask management to do instead?
- Which exit outcomes are within executive control?
- What would the selected actions communicate to investors, employees, and the leadership team?
- How should future incentive metrics be adjusted to reflect revised strategic priorities?

If this case were applied to a private or family-owned company, it would include the same decision arc but with different emphasis. The absence of public disclosure does not reduce the need for process discipline. In fact, it often increases the need for clear internal communication about goal setting, target determination, and what types of adjustments will be considered in future periods.

Applying the Tool in the Boardroom

Compensation alignment should be reviewed at three natural points in the strategy execution cycle: before the year begins, when assumptions shift, and when results are certified. Each point raises a different question.

Point in the Cycle	Critical Questions
At goal setting	Do the CEO's and senior team's performance measures align with the company's key financial, operational, and strategic objectives?
When assumptions shift	Does a meaningful change in the operating plan, such as an acquisition, divestiture, restructuring, reshoring plan, or change in business model, require a review of incentive plan measures or goals?

At certification	Is actual payout well aligned with performance, leadership accountability, and the board's decisions during the year?

At each point, the committee should run "what-if" scenarios before results are known, including the formula outcome, likely investor or owner reaction, retention implications, and whether the committee could defend the payout if company performance, shareholder experience, or strategic progress diverge.

The committee should avoid making the compensation decision first and then justifying it with a subsequent rationale. Instead, it should use the strategic narrative, original plan, available data, and alternatives modeled above to show how the decision reinforces execution going forward.

Documentation Checklist

- Strategic change, timing, and board-approved priorities
- Original incentive formula and projected payout before adjustment
- Alternatives considered and why the board rejected them
- Final decision, executives affected, payout impact, and future-plan implications
- Required disclosures and communications to owners, employees, or investors

Looking Ahead

When strategy execution priorities change, compensation committees should not start with the payout answer. They should start with the trigger, test whether the plan still supports the strategy, and then act in a way that is proportionate, documented, communicable, and defensible.

About the Author

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.