Re-Aligning for the Future: 2026 Priorities for Compensation and Human Capital Committees

A Compensation Committee Series Webinar

December 4th, 2025

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Housekeeping

- Submit a question and receive your answer directly from the presenters, either during today's webinar or as a follow-up. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.
- Presentation slides are available today at ;
  - www.pearlmeyer.com/re-aligning-for-the-future-2026-priorities-for-compensation-and-human-capital-committees
- The replay will be available early next week at:
  - www.nacdonline.org/webinars
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Agenda

Boards and compensation committees face another year of turmoil. The global business environment continues to evolve, with implications for incentive design, talent strategy, and CEO succession planning. Today we'll talk about 5 key themes:

1. Recalibrating pay-for-performance amid shifting investor and proxy advisor expectations
2. Reviewing use of discretion guidelines to ensure a balance of retention, motivation, and affordability
3. Renewing the focus on succession planning in light of the rise in CEO and C-suite transitions—both voluntary and involuntary
4. Reacting in real time to multiple external factors/stressors that need to be managed
5. Revisiting ESG in the current environment

Recalibrating Pay-for-performance

Most companies continue using performance-based equity as the anchor of a pay-for-performance philosophy. To cope with uncertainty, companies are:

- Balancing relative total shareholder return (“rTSR”) with line-of-sight financial measures for accountability
- Mixing measurement periods to reflect operating reality — e.g., shorter-term financial goals in cyclical sectors counterbalanced by longer-term rTSR
- Changing the pay-performance “slope” to so that goals are rigorous but achievable
- Rationalizing LTI participation and vehicles at different employee levels

Committees should keep equity programs flexible yet disciplined — maintaining alignment with business strategy, shareholder expectations, and evolving market conditions

Polling Question #1

Are you using performance-based equity in your pay-for-performance philosophy?

1. Yes
2. No

Reviewing Use of Discretion

Even well-designed incentive plans can produce misaligned results. Committees must decide when and how to exercise discretion

- The “Four Ts” framework provides structure:
  - **Thoughtful:** Consider rationale and alternatives
  - **Transparent:** Communicate both “what” and “why”
  - **Timely:** Act at the appropriate moment
  - **Tailored:** Ensure adjustments fit unique circumstances
- External optics matter: shareholders scrutinize positive discretion far more than negative
- Strong plan design (e.g., broader ranges, inclusion of non-financial metrics) can reduce the need for later adjustments

Discretion, when applied judiciously, reinforces the credibility of incentive programs. Used too liberally, it risks undermining stakeholder trust

Polling Question #2

Do you feel you have a good succession plan in place?

1. Yes
2. No

Renewing the Focus on Succession

CEO turnover is accelerating as the job grows more complex and pressurized. Average tenure now hovers around 7 years, amplifying the importance of continuous, forward-looking succession planning

- Boards should begin planning on Day 1 of a new CEO's tenure, linking succession to future business strategy
  - Define the competencies and experiences needed for tomorrow's leadership, not yesterday's: i.e., agility, stakeholder management, digital fluency, learners
  - Engage early with internal candidates; leverage third-party assessments for objectivity
- Extend the lens to the broader leadership pipeline; boards that know their next generation are better positioned for continuity
- Transparency in succession efforts signals strong governance to investors and enhances internal retention

Succession planning is not a reaction; it's a continuous strategic process that strengthens leadership, stability, and investor confidence

Polling Question #3

What external factors are you most concerned about?

1. The impact of AI
2. Tariffs
3. Regulatory Pressures
4. DEI and Social Pressure

Reacting to External Factors

Boards/ Committees face new external factors/stressors that need to be actively managed, e.g., the impact of AI and the changing role of work, regulatory issues/tariffs, and growing stakeholder influence

- AI presents both an opportunity and a challenge as work is redefined, requiring rethinking of how to best compensate the workforce and its leaders
- Board stressors that require more attention include: geopolitical issues, increased compliance and regulatory scrutiny, DEI and social pressure, growing stakeholder influence (activists) as well as ransomware attacks
- This broader scope brings bigger workloads, longer meetings, and increased information demands
  - Committees under such strain should reassess whether they have the expertise, resources, and structure to deliver effectively
  - Some boards are introducing new standing committees (e.g., risk, technology, finance) to balance oversight and workload

The best Boards/Committees proactively work on creating alignment, especially during polarizing times. They also keep up with practical matters: realign agendas, ensure the right expertise is in the room to manage an evolving governance landscape.

Committees need to move beyond political rhetoric to pragmatic governance

- Not all ESG measures are created equal
  - “Legacy” ESG measures (e.g., safety, customer satisfaction, employee engagement) are longstanding and widely accepted performance indicators
  - “Emerging” ESG measures (e.g., DEI and climate-related measures) are more controversial, and their prevalence in incentive plans has fluctuated sharply in recent years
- Committees should apply a disciplined test when considering any ESG metrics in incentive design:
  - Is the metric a leading indicator of long-term value creation?
  - Can it be measured objectively and consistently?
  - Does it align with shareholder and organizational priorities?
  - Is the metric more appropriately used as a criteria for hiring, promotion, or leadership decisions beyond pay design?

A balanced, evidence-based approach to ESG helps ensure the board’s focus stays on performance, value creation, and enterprise integrity — not politics

Polling Question #4

Are you considering taking DEI language out of goal setting?

1. Yes
2. No
3. I already have

Q&A

Please submit your questions in the Q&A box below.

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