# Compensation Committee Priorities for 2025

BDO's Compensation Committee Priorities for 2025 outlines key areas of focus in the evolving landscape of executive compensation, including the pressing issues surrounding executive pay, the profound impact of technology on human capital, and the critical oversight of talent strategy. As organizations and their Compensation and Human Capital Committee of the board navigate the complexities of modern business environments, understanding the trends and considerations in compensation practices and talent strategy and management becomes paramount for attracting and retaining top talent to support long-term company goals.

## TRENDS IN EXECUTIVE COMPENSATION

The foundational remit of the compensation and human capital committee (CC) focuses on executive pay and disclosures. The ***2024 BDO Board Survey*** indicated that executive compensation strategy was one of the highest priorities for boards in 2025, strategically falling behind technology, cyber, and raising capital.

### Compensation Considerations

***The BDO 600*** annual study of compensation practices of mid-market public companies revealed increases of 4.2% in total direct compensation for CEOs and 0.7% for CFOs, but the real story here was the increase in long-term incentives (LTIs) as a percentage of pay, which is a practice consistent across companies of all sizes. LTI as a percentage of total compensation increased 5.9% for CEOs and 15.2% for CFOs, and accounted for 69% of CEO pay and 62% of CFO pay, respectively. Most of this compensation was granted in the form of full-value stock. While this information is based on past events, CCs need to continue to consider a variety of factors that may impact LTI that include evolving economic and industry landscape, company performance, regulatory changes, and talent objectives, among others.

The shift in LTI is generally driven by the desire to align executives' interests with the long-term goals of the company. Performance-based LTIs (as opposed to time-earned LTIs) are becoming more prevalent, reflecting the emphasis on sustainable growth and shareholder value. Consideration should be further given to the balance between well-defined, quantifiable targets and realizable pay. Performance indicators leveraging recognized and measurable metrics, such as earnings per share (EPS), are better received than qualitative metrics that may be more judgment based. Although, with the current fluctuations in the economy and stock market, considerations should be made with respect to relative stock price and performance outcomes over time.

There is also a larger gap in incentive strategies relative to company structure. **Private companies** and private equity companies not only have less disclosure scrutiny as compared to public companies but also engage in a greater variety of exit strategies and compensation considerations.

Overall, there is a disconnect between the talent markets and traditional compensation, and CCs are reexamining performance metrics and incentive plans in light of uncertain operating environments. Executive turnover is also reaching new highs, and compensation packages are intentionally being designed to attract and retain the best talent for the company while continuing to align with performance goals. At the same time, investors and proxy advisors are closely scrutinizing and questioning those decisions, and resolution is often being found in transparent disclosures and proactive conversations around such decisions.

### Reporting Considerations

The statistics evaluated by the BDO 600 study were curated from public company proxy statements. Compensation disclosures continue to increase, with two years of "pay versus performance" data and over a decade of "say-on-pay" data, as well as evolving information being shared within a company's Compensation Discussion & Analysis (CD&A). Compensation actually paid (CAP) tends to correlate more closely with total shareholder return (TSR) than summary compensation table (SCT) information, which does not account for realized compensation or variations in stock price.

The number of failing say-on-pay votes was less than 1% in 2023 (a historic low) and pertained to unique situations. The increase in considerations and process around compensation packages in public disclosures has been well received by investors. Companies have the opportunity to take advantage of disclosures to provide perspective in the compensation decision-making process.

CCs are encouraged to keep an eye on evolving changes in legislation associated with the post-U.S. election cycle and transition of power. Corporate and individual **tax changes**, tariffs, and other legislation may each have direct and indirect impacts on corporate compensation packages.

Companies are further urged to review their **internal controls** and **data governance** around compensation metrics to ensure reporting is verifiable. Consistency and accuracy of data is critical, and compensation and human capital disclosures often originate outside the rigor of the control environment that supports the financial reporting and disclosure system.

## HUMAN CAPITAL OVERSIGHT AND WORKFORCE STRATEGY

The mandate of the CC is expanding to include the oversight of human capital (HC) and talent management. A recent **study by Farient Advisors** indicates a migration from companies using the traditional "compensation committee" moniker to those incorporating this broader mandate, with approximately 60% of S&P 100 companies renaming their CC. In general, people are considered the greatest business asset, and companies are navigating a highly disruptive environment influenced by factors such as a rebalancing of power in the labor market, hybrid workplaces, increasing M&A activity, geopolitical tensions, and the impact of having a multigenerational workforce. These issues highlight the importance of including HC considerations into the larger enterprise risk management (ERM) mandate.

### Workforce Reimagined

Today's environment requires deliberate employee retention and attraction efforts with people-centric governance oversight. A recent report, ***How Boards Can Champion Talent Strategy***, shows that most U.S. public company boards now discuss workforce matters at least quarterly (58%), with another 24% saying they do so at least twice a year. However, despite this increased time investment, directors' confidence in their understanding of employee sentiment is relatively low. When asked whether their board has the insights it needs to understand the issues prioritized by employees, directors overall gave an average of 3.6 out of 5 (5 is "strongly agree"; 1 is "strongly disagree"). When asked whether they agree that the board has a strong pulse on employee sentiment among frontline workers, that average ticked down to 3.2 out of 5. Further, 1 out of 3 directors said they strongly disagreed with that statement — and 8% said it did not apply because their CCs do not discuss data or insights related to the experience of employees.

Building resilience in a disruptive workforce landscape is strengthened by board oversight of HC. This includes inquiries into employee satisfaction, talent management, and the factors behind successes and failures, such as high turnover. It starts with overseeing **company culture** and establishing a tone of transparent communication from the top. For more ideas, refer to the **2023 NACD Blue Ribbon Commission report on culture**.

Intentional talent strategies should support a culture of employee development. CCs should look for evidence of management providing clear career paths supported by a pipeline of identified high-potential future leaders. According to the *How Boards Can Champion Talent Strategy* report, most U.S. public company boards are not discussing talent identification or gathering data on engagement and retention.

To identify and support evolving workforce needs and employee expectations, engagement with stakeholders is necessary to gain important perspectives, both quantitative and qualitative. Information may be obtained through a variety of sources, such as reporting from the Chief Human Resources Officer (CHRO), employee pulse surveys, employee ethics hotlines, and exit interview data. This can be further verified through direct employee engagement and dialogue with individuals via town halls and site visits. While the audit committee is often tasked with oversight of ethics hotlines and whistleblower report investigations, noted HC trends and risks identified through this process should be shared with the CC.

As data is being collected, CCs should also be reviewing the associated HC policies to ensure they align with the company's mission and values. For example, a culture that supports diversity and pay equity, should be supported by policies that provide for management accountability to avoid "check-the-box" endeavors. Successful recruitment and retention of younger generations is increasingly reliant upon prioritization of diversity and innovation along with other sustainable practices, such as hybr id workplaces.

**Human Capital Disclosures**

HC disclosures are becoming increasingly important. The SEC's Investor Advisory Committee unanimously voted to recommend the mandate of certain disclosures, including increased workforce demographic data. However, given the anticipated changes to political appointments following the Republican party taking control of both the White House and Congress during the 2024 U.S. election cycle, it remains to be seen whether the SEC will continue to include additional HC disclosures in their 2025 regulatory agenda.

## THE IMPACT OF TECHNOLOGY ON HUMAN CAPITAL

Emerging technology is transforming business operations. Understanding the impact technological implementation has on workforce strategy, employee sentiment, furthering education, and the protection of employee data has become part of the broader remit for many CCs that have taken on HC oversight.

### Safeguarding Employee Data and Compliance

**Data privacy and governance** oversight of HC information is an evolving area for the CC. Ensuring data integrity and security, especially with sensitive personnel information, is paramount to maintaining stakeholder trust and regulatory compliance and requires collaboration with the organization's broader **data protection** mandates. Such data controls go beyond employee privacy to include taxation obligations and ERISA compliance, educational and licensing requirements, and other employee protections.

Additionally, use of advancing technology aligned with a sound foundation built upon reliable data allows organizations to maximize tax benefits of HC programs by following guidelines and strategies outlined in resources like the ***BDO Tax Strategist Survey***.

### Technology Adoption Considerations

One of the main risks of implementation, aside from the technology itself, is the people using it. Directors must ensure the organization is ready before adopting any new technology and that management has specifically assessed its impact on the workforce. For example, emerging technology may replace some traditional roles, while other roles will be enhanced. CC members should ensure management has designed robust change management plans, ensuring they include transparent communication, education, and employee support.

A strong organizational culture is crucial for successful change management. Recent union strikes highlight the importance of gaining employee trust for timely and successful implementation of large-scale changes. Employees need to understand the tools and the benefits they are being offered to secure buy-in for appropriate use. Directors must stay attuned to employee sentiment and ensure management is deploying appropriate training in new technology usage, such as generative AI. Directors should also oversee implementation efforts, focusing on transformational shifts designed around effective cost-cutting, revenue growth, and profitability.

With increased use of technology comes increased cybersecurity risk. Companies need to continually review and update cyber policies and plans and communicate updates to employees. With the SEC's new cybersecurity disclosure rules in effect, BDO asked directors what change, if any, was driven by the enhanced disclosure requirements. The top response was that cyber responsibility has shifted to a whole company responsibility, not just an "IT issue," which includes creating internal processes and improving communication channels to report on cyber risk. While oversight of cybersecurity does not generally fall to the CC, all directors are encouraged to be current on significant risk issues and understand where they may intersect with other responsibilities of the board.

**Questions to ask in considering how implementing new technology will affect the company's workforce:**

- What is the anticipated impact of new technologies on the workforce, and what is the detailed change management plan?
- Do leaders have change management experience?
- Do our employees have the proper skill sets to carry out company strategy and drive innovation? Can our current workforce be upskilled? Where are the gaps and how do we fill them?
- What is employee sentiment around adopting technology?
- How will we handle employee transition from roles that may become obsolete with the introduction of new technology?
- When were our technology and cybersecurity policies last reviewed and revised?
- What are our ethical use policies? How will compliance be monitored?
- What training is being offered?
- What system controls are in place around the use of employee data and reporting?

### Conclusion

Effective oversight of HC matters, including compensation considerations, is crucial in managing today's workforce complexities. By fostering a culture of transparency, diversity, employee development and a reward and benefit structure that includes embracing emerging technology and long-term value creation, CCs can significantly contribute to organizational resilience and success. Comprehensive engagement with both internal and external stakeholders, alongside robust data analysis, help ensure that decisions are well-informed and aligned with the broader company mission and values. As the landscape continues to evolve, the commitment to these principles will be crucial in meeting the expectations of stakeholders and maintaining a competitive edge in the market.

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