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CTGN SUMMARY OF THEMES

Strategic priorities for compensation committees in 2025

January 2025

In the face of tensions around environmental and social issues, the need to align talent and compensation strategies with business objectives, the challenge of retaining top talent, and the impact of artificial intelligence (AI) technology, compensation committees are adapting to meet the demands of a rapidly changing business landscape. On December 5, 2024, members of the Compensation and Talent Governance Network (CTGN) met to discuss key trends and priorities as committees look forward to 2025.

Darren Moskovitz and Virginia Rhodes, partners at Meridian Compensation Partners, participated in the discussion.

For a list of meeting participants, see appendix (page 6).

This *Summary of Themes*[1] highlights the following key themes that emerged during the discussion:

[Adapting approaches to environmental and social issues]

[AI considerations in human-capital strategy]

[Implications of an expanding mandate for the compensation committee]

Adapting approaches to environmental and social issues

As the public conversation around the role of business in advancing environmental and social goals has evolved and companies confront the complexities of operationalizing their objectives, members said their companies are adapting their strategies in several ways:

- **Sustaining environmental and social commitments while maintaining discretion.** In the face of increasing politicization around environmental and social issues, members' companies are maintaining their commitments to ESG goals while working to avoid public scrutiny. *"The commitment hasn't changed—it's about executing effectively while staying out of the headlines and not attracting undue attention,"* one director said. This is partly a change in language, as companies are avoiding using terms like ESG and DEI, which can be polarizing. *"The titles have changed in how we discuss these topics, but substantively nothing has changed in that regard. It's largely a matter of semantics."* Beyond semantics, members noted that avoiding unnecessary scrutiny can eliminate distractions and foster progress. *"Flying under the radar on this allows you to keep doing good work. It may not be the bravest move, but it's effective,"* one member said.
- **Aligning environmental and social goals with business objectives.** The way forward, members agreed, lies in ensuring that environmental and social issues are linked to operational and strategic priorities. One director explained, *"We recognized the importance of focusing on talent, since we serve a global audience. Our workforce must reflect the diversity of our consumer base."* Another member noted that their company is underperforming among diverse communities, even as their customer base is growing increasingly diverse, creating opportunities for growth. In addition, the director continued, *"Our employee base is more diverse than ever before, and our customers are asking us for more sustainable products—so we're focused on these critical business initiatives, and, it turns out, if we get them done, we'll have social impact."* For another member's business, a commitment to sustainability is a matter of effective risk management: *"We make long-term investments, so sustainability is core, and where we've been focusing most is in understanding the risk in the portfolio of investments."* Ultimately, members agreed that environmental and social commitments need to be integrated into the fabric of the business. *"The language of values has to guide action; it can't exist as a separate narrative,"* one director stated, adding, *"The chief diversity officer at a company has to be the CEO."*
- **Taking a global approach.** *"I do think where you sit in the world still makes a big difference on how you look at environmental and social issues. I think the debate is quite different, particularly on the other side of the Atlantic,"* one member pointed out.

Companies face different regulatory and disclosure regimes in Europe and Canada than in the United States, for instance, creating compliance challenges for companies that operate globally. And these differences may have fundamental implications for some businesses. *"The disparity in the requirements around ESG may lead to differences in cost of capital. We have to think about whether [non-US companies] will be at a disadvantage from a cost-of-capital standpoint when competing against US firms that may be operating in an environment where the requirements around sustainability are lower."* In addition, compensation practices vary across geographies, Mr. Moskovitz noted: "*In the US, ESG measures typically operate within the annual incentive bonus structure, whereas in the UK, investors have pushed, and UK PLCs have responded, by including some of these types of metrics in their long-term incentive plans*."

- **Refining ESG integration into compensation plans.** Members' committees vary in their approach to integrating environmental and social concerns into compensation plans. Some have quantitative metrics and others include modifiers, while some do not incorporate such metrics at all. Ms. Rhodes noted that while most companies have integrated ESG measures into compensation over the last few years, *"we may see this momentum plateau, with some scaling back in incentive plans, but not significantly."* She continued, *"Many companies that already have an ESG metric in their incentive plans are considering moving to more of a balanced scorecard approach, focusing more on progress across various metrics versus trying to get to a specific point with any single metric."* Mr. Moskovitz agreed that approaches may change, but ESG issues will remain crucial to firms' operational planning. *"We might see a flatlining of the word 'ESG,' but key strategic issues will continue to be included in plan designs going forward. It will likely be framed differently."*

AI considerations in human-capital strategy

The rapid proliferation of AI, with its potential to both disrupt and create opportunities in almost any business, is raising strategic and operational questions. Members highlighted a few key considerations:

- **The workforce implications of AI are not the focus of board conversations—yet.** Member companies are still in the early stages of implementing AI, and board conversations concentrate on how AI can drive productivity gains and revenue growth, rather than the large-scale implications for the workforce. *"There's a lot of experimentation and piloting going on around both cost savings and growth,"* one director said, *"but we have not reached the point where we have explored scenarios where we think we can reduce our workforce by X percent."* Another member agreed that despite AI's disruptive potential, *"it's slightly premature to understand what the total workforce impact will be*." However, members acknowledged that disruption could be on the horizon: *"There's no doubt that if most of our companies* *implemented AI, we could eliminate a lot of people, a lot of jobs, and we could probably drive growth. The question is, How do you get it done?"*

- **Change management is crucial in driving innovation.** Members noted that employee anxieties and fears can slow the adoption and innovation of potentially disruptive technologies like AI. *"When a new, disruptive technology comes into the market, the top leaders understand it and buy into it and the most junior people in the companies clearly get it, because they're on the cutting edge and it creates new opportunities for them. But then the whole messy middle does a lot to slow things down, because it's not to their advantage in most cases to jump in and adopt,"* said one director. In the face of reluctance, tackling questions of culture and change management become as important as addressing the technical and operational challenges of implementation.
- **Boards are confronting their responsibility to upskill their workforce.** Although it may be early to have detailed conversations about the overfall implication of AI for the workforce, members recognize that talent questions are emerging. *"In our committee, we are explicitly having conversations about what's our role and our philosophy as a company in leading the education, the reskilling, and the transformation of our workforce. Is it the company's responsibility to upskill, or are we looking at the individuals to take responsibility to upskill?"* Another director stressed the board's responsibility to tackle these questions: *"In our talent management and compensation committee, we are asking, Are you being a responsible business if you are not having the conversation about your responsibility to upskill, to reskill your people? As we move into this space, how do we address it from a business perspective, and have we considered our social responsibility and the social impact as it relates to the impact of AI and machine learning?"* As an example, a director explained, *"In the food industry, machines haven't yet matched humans in precision, but AI will likely close the gap. The key question is, How do we upskill talent to ensure they're digitally prepared for the technology and aren't left behind?"*

Implications of an expanding mandate for the compensation committee

As compensation committees expand their focus to include oversight of human-capital priorities like talent management, corporate culture, and leadership development, directors discussed several implications of their increasing responsibilities:

- **Committee ownership helps drive the talent agenda.** *"Having a home for talent on the board is critical,"* said a member, highlighting the benefit in cost savings with increased prioritization of talent development. As committees assume a greater role in talent oversight, it encourages management to focus on leadership development, often by nurturing talent two to three levels down within the organization. Another director said, *"Engaging with talent on a deeper level helps to inform succession-planning strategy and ensures long-term organizational stability when you have visibility into the skills of your leadership pipeline."*

- **Committees must be intentional in ensuring adequate time for agenda issues.** As mandates have expanded, *"what has been the challenge for most committees is ensuring that there is enough time and attention to the various topics that you're adding to the agenda,"* said Ms. Rhodes. Committees have found success by being thoughtful about arranging the annual calendar to allow for in-depth discussions. *"The agenda for our November through February meetings is very comp focused, but we assign themes to the other meeting agendas. Comp flows through all of them, but we purposely make sure that the other meetings are focused on topics such as talent, succession, risk, and so forth,"* one director said. *"Many clients are using their summer meetings, where there are often not many compensation issues to discuss, to provide updates on the broader human capital management topics," Ms. Rhodes noted*. It is also important to create opportunities for the committee to engage with key stakeholders. *"One key to success has been creating an informal meeting with our chief people officer. Apart from all the details that go into preparing for a board meeting, we make sure that off cycle, we hold an informal luncheon with no agenda, which has allowed us to create a really good relationship that helps shape a forward-thinking agenda,"* said one director.
- **Informing and educating the full board on compensation.** Compensation committees face challenges in integrating their work into that of the full board and keeping them informed. Other board members may have only limited exposure to key compensation issues, a director noted, and *"it's hard to present the committee's conclusions on compensation to the full board because you can't do the deep dive at the board meeting."* This can leave other board members feeling like they don't have enough information to evaluate final compensation plans. *"When we got to final approval of the comp package for the CEO and senior leadership team, one board member complained, 'I don't know what I'm voting for,'"* one director noted. While the formal report-out from the committee is crucial, it can also be helpful to bring other board members into the committee's annual compensation-setting process. One director said, *"I encourage board members to attend our committee meetings and ask questions about any details they may not fully understand."*

Participants

The following members participated in all or part of the meeting:

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Tapestry Networks

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Executive Director
Tapestry Networks

Marjorie Rodgers Cheshire
Compensation Chair
Exelon

Stephanie Coyles
Management Resources Chair
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Jonathan Day
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Jevin Eagle
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Carter's

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Carolyn Everson
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Coca-Cola

Lisa Gersh
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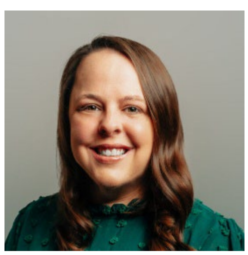

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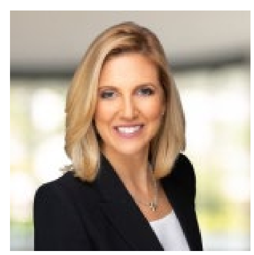

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Endnotes

[1] *Summary of Themes* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.