

The Changing Nature of Compensation

Pete Lupo, *Managing Director*



Pete Lupo, senior managing director and head of Pearl Meyer's Atlantic Region, talks about some of the current shifts happening in executive and broad-based compensation.

Q. As we look to 2022, what trends are taking shape that compensation committees should be aware of?

A: It all comes down to some pretty significant changes emerging in how executives get paid. We don't yet know what the long-term results will be in terms of pay practices, but I believe many corporations are sensing they need to go head to head with private equity firms, which administrate equity very differently. They may give a sizable chunk of equity on day one and although the executive may not realize value for five to seven years, it is an equity award with significant potential value exceeding typical public company practices. This trend also goes beyond the CEO. There are overall concerns about retaining executives through substantially more aggressive pay practices, and can the economics of the business support elevated equity grants? This is a hot topic I don't see abating anytime soon.

Q. Is this also being influenced by the tech industry?

A: I am seeing many companies work hard to make transformative changes, particularly related to their technology. We know tech pay practices, even for public companies, can be heavily weighted to equity even for junior positions. For example, there may be smaller bonus opportunities, with all employees eligible for equity grants. For this reason, more traditional industries are having a very hard time understanding how to create a company-wide pay philosophy when technology pay practices vary so much from the mainstream. Do organizations that acquire technology companies need to create bifurcated pay philosophies?

Q. How are directors successfully dealing with these emerging issues?

A: These changes and challenges I'm describing are so new that, frankly, we're in uncharted territory. I foresee compensation and human capital committees having to partner much more closely with the senior HR executives to arrive at solutions unique to each company.

Ultimately, we come back to our recurring advice to each and every client: spend sufficient time to deliberate and truly understand if the design of the compensation plan is aligned with the long-term, evolutionary business and leadership strategies of the organization.

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About Pete Lupo

Pete Lupo is a senior managing director and head of Pearl Meyer's Atlantic Region. Pete works extensively with compensation committees and management covering a variety of needs including the development of total compensation programs covering the senior leadership team, aligning pay to performance, designing annual and long-term incentive plans, developing board of director pay programs, and advising on change-in-control, executive benefits, perquisites, and governance-related matters.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Rochester, and San Jose.