Executive Compensation in 2025:

Aligning Strategy with Emerging Trends

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Companies offer executive compensation, in the form of salary, benefits, bonuses, and equity, as a key inducement to hire and retain senior leaders. It works for both sides: aligning executive pay with company strategies often boosts individual and organizational performance.

However, even after an executive compensation plan is developed, maintaining it can still be a complex task. Changing environments and shifting trends can impact the effectiveness of a program.

With that in mind, compensation leaders should regularly assess their programs, identify and adjust to upcoming trends and new business objectives, and ensure their programs work for both the organization and the individuals.

As we look at the remainder of 2025, let's explore the top five executive compensation trends we're seeing, what these trends may mean for executive compensation programs, and how comp leaders can address these trends to yield a win/win benefit.

High Stakes, High Salaries

Executive compensation plans have been in existence for decades, and although they may have different components, they share the same primary objectives: to attract, motivate, and retain the most senior leaders within an organization.

As executives, the decisions they make shape the company's long-term direction, culture, and financial performance. It is a high-stakes role that requires consideration of strategic priorities, risk, and ensuring sustainable growth. Because of these factors, their compensation must reflect the complexity of their role as well as the impact of their leadership and decisions.

In 2023, for example, the typical CEO pay at S&P 500 companies was $17.7 million.[1] That amount has been escalating. Between 1978 and 2023, CEO compensation increased by 1,085%.

With such a significant investment in senior pay, it is crucial to ensure that executive programs are delivering the intended results. And in today's volatile environment, it is wise to understand some of the most significant trends that may impact these compensation plans.

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Typical CEO pay at S&P 500 companies in 2023.[1]

1,085%

Increase in CEO compensation between 1978 and 2023

[1] *Highest-Paid CEOs - 2024 | AFL-CIO.* (n.d.). https://aflcio.org/paywatch/highest-paid-ceos#:~:text=In%20the%20past%2010%20years, average%20just%20%2465%2C470%20in%202023.

5 Trends in Executive Compensation

1. Equity plans are now table stakes, but dilution can weaken their impact.

Deferrals, long-term incentives, and equity plans provide leaders with a long-term component of their compensation package, encouraging them to have a vested interest in the company's sustainable growth and success.

While equity was once reserved for senior executives, its use has expanded across the organization. Mikael Silegren, Senior Director of Product Management for HRSoft, the maker of a unified SAAS compensation solution, noted that many companies are now incorporating equity as part of compensation packages for middle management, in-demand roles, and as a broader retention strategy. "Receiving equity as an entry-level employee fosters a culture of ownership within your organization if handled correctly."

That approach needs to be handled carefully as it can dilute the value of the perk you're giving, explained Glizcel Ditto, Executive Director of Client Solutions at HRSoft. "It is encouraging some risk-taking, but it's not necessarily differentiating you anymore."

In addition to weakening the value of the benefit, the administrative burden is exponentially increased as the number of employees and awards you track grows. Silegren added that some companies are now rethinking the eligible population for equity due to the increased overhead and reduced value due to mass participation.

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Mikael Silegren
Senior Director of Product Management, HRSoft

2. Vesting schedules are becoming shorter and more frequent.

Vesting in employee rewards or benefits is a process in which an employee earns employer-provided benefits like those associated with stock options or company contributions to retirement, over time. Vesting is a tool to retain employees, since they would lose any company contributions to their benefits if they left before the vesting period ended.

Some plans restrict employees from vesting, or owning the benefits, until they've worked for three to five years. Other plans have graduated schedules, allowing for the employee to have a percentage of the benefit over time, such as 20% each year over five years.[2]

Now, however, companies are starting to shorten the vesting schedule to appeal to employees who are more likely to change jobs and therefore aren't as attracted to a long-term vesting schedule.

In addition to shortening the schedule to become fully vested, from five years to three, for example, companies are also making the schedule more frequent, even monthly. "There's a new generation of the workforce. They have grown up in a world where everything is real-time and instantaneous," Silegren said. "More frequent vesting aligns with the expectation of receiving value sooner."

[2] Team, I. (2025, May 8). *Vesting: What it is and how it works*. Investopedia. https://www.investopedia.com/terms/v/vesting.asp

Millennials and Gen Z employees comprise 54% of the workforce. With the oldest millennials at 44 and the oldest Gen Z at 28, workers in these demographics are in positions that will influence the vesting changes.

Although these changes can address employee preferences, they can come at a cost to the company, Ditto said. “The accelerating vesting almost borders between short-term and long-term incentives.” As a result, companies may lose out on rewarding executives for their long-term focus.

Ditto encouraged companies to explore alternatives. “Look at milestone-based bonuses instead, or consider spot equity grants to critical roles for retention purposes. Awards don’t have to be granted every year, and organizations can be more selective in their criteria for who is rewarded.”

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>
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> Executive Director of Client Solutions, HRSoft

3. The challenge of measuring performance in volatile times.

Since executive compensation is tied to the organization's performance, what happens to the compensation when external events impact the company's success? Silegren said that an uptick in recent macroeconomic headwinds, from Covid lockdowns to political uncertainty and tariffs, has increased volatility beyond an organization's control. This, in turn, makes assessing performance more complex.

"In today's world, everyone is globally connected and things unfold much faster. Global economic events have a broader and more immediate impact on many organizations," he added.

These unforeseen unknowns forced people to be more flexible when developing performance metrics.

To address this, many organizations have adopted performance scorecards with a broader range of KPIs. "You may be measured on five or more metrics, each evaluating different aspects of your role, your team, and the business," said Silegren.

He added that companies can also assign different weights based on the executives' ability to influence outcomes. "At the executive level, performance scorecards are an incredibly powerful tool because KPIs can be customized to the individual."

4. Stronger ties between compensation and ESG goals.

There is a growing connection between executive compensation and environmental, social and governance (ESG) objectives. Silegren noted that across many industries, executives are increasingly being held accountable for the environmental and social impact of their companies. "It's not just about building shareholder value," he explained. "Investors are now conscious about whether that value was achieved at the expense of environmental or social responsibility."

The public, including customers, is demanding greater transparency and accountability. "People want to invest in companies that reflect their values, whether that be environmental, social or ethical," he said.

In 2024, 58% of companies from the S&P Composite 1500 Index added ESG into the performance metrics of their CEO, more than doubling the percentage of companies that included that metric in 2019.[3]

[3] Bhattacharyya, S. (2024, May 8). More companies are tying ESG metrics to executive compensation: WTW. *ESG Dive*. https://www.esgdive.com/news/more-companies-tying-esg-metrics-to-executive-compensation-wtw/715530/

5. Continued need for communication and education about executive compensation.

As executives advance within a company or from one industry to another, a lot of communication—and miscommunication—is shared about the different programs that various companies offer. “People assume that everybody receiving any kind of equity grant will understand what that means and its benefits,” Ditto said. But that’s not necessarily true. Across the board, companies need to communicate their executive compensation benefits more transparently and educate the recipients more thoroughly.

Clear communication and ongoing education is essential, even for seasoned executives. Ditto said that without executives understanding their rewards packages, even the most generous plans will not have the desired effect.

“The explanation of rewards and benefits can sound like a foreign language with all the intricate details and terms,” she said. “If you’re not going that step further to make sure that you’re communicating the value of the rewards that you’re giving, the reasoning behind it, the types of goals that you’re trying to achieve, it’s very difficult to motivate somebody without that clear communication.”

Mikael Silegren echoed this sentiment, noting a persistent gap between perception and reality in how executives understand their total compensation. "When people think about compensation, they tend to focus on their salary," he said. "But at an executive level, there are often short-term bonuses, equity, benefits, and perks that may not have a clear present-day monetary value but still represent significant opportunity and investment by the organization."

He emphasized the importance of sustained communication. "A once-a-year paper statement doesn't cut it anymore; it's about creating an ongoing experience where you can continually engage, educate, and motivate your employees throughout the year."

Ditto added that solutions like HRSoft's compensation management platform include a self-service portal that gives users access and information on demand. "In addition to understanding the compensation strategy, leaders also need to see their potential rewards and connect those rewards to the company's goals. This combination is critical in helping leaders understand their total compensation package and why it matters," she said.

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Mikael Silegren
Senior Director of Product Management, HRSoft

With complexities and trends evolving, purpose creates the foundation

As trends, volatility, and employee and customer expectations impact the success of executive compensation plans, Ditto and Silegren emphasized the keys to developing and managing an effective strategy.

- Be clear on the purpose of the compensation plan. Understand who the key talents are that you're trying to attract and what's important to them.
- Ensure the plan rewards both short and long-term goals.
- Continually educate about the plan and communicate the details of the plan.
- Engage users with self-serve options.
- Create milestones that maintain accountability but also flexibility for the unknown.
- Review the plan regularly to ensure it is working.
    - Examine the retention of high performers, turnover rates, and the ability to fill roles. Are the executives achieving their goals?
    - Assess whether the executives are achieving their goals, if those goals are the correct ones, and if the bar for attaining them is set appropriately.
    - Then, determine whether the achieved goals align with the organization's growth and success.

An executive compensation plan has the potential to be a powerful motivator and reward for the company's leadership, but only if it's designed to adapt and evolve. Emerging technologies, particularly AI, are already reshaping the workforce and redefining performance expectations. The speed at which AI is changing highlights the need for companies to be agile and pivot to stay ahead. To remain competitive, executive compensation plans must have a clear purpose, supported by a strong structure, and governance. They must be flexible enough to adjust to changing conditions while still delivering on their intended outcomes.

Keep your executives invested in their roles—and in the organization—with a compensation strategy that clearly communicates when and how they will be rewarded. Learn how HRSoft can help.

HRSoft is the pioneering force in compensation lifecycle management software, offering an unmatched portfolio of compensation-focused solutions designed to simplify and optimize intricate compensation management, including:

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- **Total rewards communication** – understand the full value of employment
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