

LENS ON:

Pay Transparency and Executive Remuneration

October 2025

Pay transparency is transforming how organisations approach reward. While much of the debate has centred on the wider workforce, the implications for executive pay also need careful consideration. One of the most significant shifts is the erosion of discretion, a common and valuable necessity in executive remuneration. Where boards once had the freedom to exercise judgement in setting or adjusting pay, transparency regulations like those in the EU are steadily narrowing the space for flexibility. Regulators, investors, and employees now expect greater visibility not only of pay outcomes but also of the processes that determine them. For remuneration committees, this presents a significant governance challenge: how to balance transparency with the need for informed judgement.

Discretion Under Pressure

Historically, discretion has been a valued tool in making decisions on executive pay. Committees could adjust incentive outcomes to reflect exceptional leadership, unforeseen circumstances, or long-term strategic delivery not fully captured by formulaic measures. This flexibility recognised that highly structured remuneration frameworks struggle to anticipate and incorporate the complexity of business performance.

However, in today's environment, discretion is harder to exercise. Shareholders, proxy advisers, regulators, and even employees are increasingly demanding clear, objective explanations for any deviation from pre-set outcomes. What was once accepted as informed board judgement is now often perceived as arbitrary or opaque. As a result, many committees are becoming increasingly cautious about applying discretion, even when it might be warranted.

The Formulaic Trap

The logical response to transparency pressures has been to design pay systems that rely on objective, formula-driven metrics—financial results, total shareholder return, or ESG outcomes. While these create predictability and defensibility, they can also lead to excessive rigidity.

Boards risk situations where strong executive performance in challenging market conditions is not recognised, or where windfall gains occur simply because of favourable external factors. Without a clear framework for the use of discretion, committees may feel compelled to allow formulaic outcomes to stand—even when they do not reflect underlying performance or the shareholder experience.

This creates a risk that reward outcomes lose credibility, damaging both executive motivation and stakeholder trust.

Impact on Executive Engagement

Executives themselves are highly sensitive to this shift. In a world of rigid, transparent frameworks, leaders may well react to their contribution being reduced to a formula, with little scope for recognition of exceptional effort or long-term value creation.

This dynamic may affect retention, particularly in competitive global talent markets. When leadership roles carry increased levels of personal scrutiny but decreasing flexibility in reward, some executives may see the risk-reward balance as less attractive. Boards must be alert to this cultural undercurrent, which can have real implications for succession planning and leadership stability.

Redefining Discretion

The challenge, therefore, is not to abandon discretion but to redefine it and reshape it. Committees need to demonstrate that discretion can be exercised within a transparent and structured framework. This means developing guidelines and parameters for discretion that include:

- **Pre-defining boundaries:** setting out in advance the circumstances where discretion may apply (e.g., extraordinary market events, M&A, or regulatory changes).
- **Clear governance:** documenting the rationale for adjustments, supported by robust data and consistent application.
- **Transparent communication:** explaining to shareholders and, increasingly, employees how and why discretion has been applied.

Handled in this way, discretion becomes less about boardroom subjectivity and more about sound governance.

Ellason commentary

For remuneration committees, the loss of discretion is one of the most significant unintended consequences of the global pay transparency agenda. Yet the complete removal of judgement should be approached with caution and in many cases, would be a mistake. Formulaic outcomes alone cannot always deliver fair or credible results.

The challenge is to preserve an appropriate scope for discretion—narrower, more codified, and more transparent than before, but still sufficient to ensure that executive reward outcomes reflect real performance and long-term value creation.

In the age of transparency, discretion must evolve from quiet judgement to structured, defensible governance.

Please do not hesitate to contact any of the Ellason team should you wish to discuss this issue further.