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The Board's Role in CEO and Director Compensation: Examining Leading Practices and Trade-offs

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Executive and non-employee director compensation are two of the most visible and scrutinized responsibilities of the board. Yet, even among the largest companies, governance practices diverge on two fundamental questions: Who approves CEO pay – the compensation committee or the full board – and who oversees director pay – the compensation committee or the nominating/governance committee?

To better understand prevailing practices, CAP examined governance disclosures among the 110 largest companies in the S&P 500 (the ten largest by market capitalization in each GICS sector). Our findings confirm that board practice is far from uniform. This article presents CAP's findings and explores the trade-offs between the various approaches.

Who Approves CEO Pay?

Among CAP's sample, 26% require the full board to approve CEO compensation, typically upon recommendation from the compensation committee, and 72% give final approval authority to the compensation committee itself, with the board informed through committee reporting and disclosure. Both approaches carry advantages and drawbacks, which help explain why practice remains split.

Reserving approval of CEO compensation for the full board emphasizes accountability and legitimacy. CEO pay is one of the most visible expressions of governance, and when every director votes, the board signals to shareholders that the decision reflects collective judgment. This practice also ensures that directors outside the compensation committee can contribute their broader strategic perspectives to the discussion, aligning pay decisions with long-term company direction. Yet this approach is not without its challenges. Full board approval can be cumbersome, particularly when compensation structures are complex or when pay adjustments are needed quickly. Directors who are not steeped in compensation issues may feel less prepared to engage, which in turn risks either diluting the quality of debate or reducing the exercise to a perfunctory endorsement of committee work.

By contrast, companies that empower the compensation committee to approve CEO compensation often cite efficiency and expertise. Concentrating decision-making in a smaller group allows for more focused deliberation, drawing on directors with compensation experience and consultant relationships. Committees can act more swiftly, which can be valuable in competitive talent markets. Moreover, when controversies arise, there is clarity about accountability: the compensation committee made the call. The trade-off, however, is one of optics and inclusiveness. Investors sometimes perceive committee-only approval as insulating the board from responsibility for its most important pay decision. Other directors may feel less invested in the design of the CEO's incentives and, by extension, less aligned around the performance expectations those incentives are meant to drive. Concentrating authority in three to five directors also magnifies reputational and liability risks for those individuals.

A small fraction of companies (2% of CAP's sample) utilizes a hybrid approach, where the full board, guided by the compensation committee's recommendation, approves the CEO's salary, while the compensation committee approves all other elements of pay. This approach is uncommon due to potential drawbacks, including the risk of misalignment among compensation elements and increased inefficiency from involving multiple decision-making groups.

Who Approves CEO Pay? % of CAP's Sample		
Compensation Committee	Full Board	Other
72%	26%	2%

Who Oversees Director Pay?

If CEO pay approval highlights the balance between accountability and efficiency, the allocation of responsibility for director pay approval highlights the balance between expertise and optics. Our analysis found that companies are split between assigning this role to the compensation committee (57% of CAP's sample) and assigning it to the nominating/governance committee (41%), though in both models, the full board almost always retains final approval (97% of CAP's sample)

When the compensation committee is tasked with reviewing director compensation, companies benefit from the committee's technical expertise. These directors are already familiar with compensation benchmarking, market practices, and regulatory standards, and are often supported by external consultants. Housing both executive and director pay under one umbrella can create coherence in the company's compensation philosophy, ensuring that principles such as competitiveness, fairness, and risk mitigation are applied consistently. At the same time, this consolidation is not without drawbacks. Because directors are, in effect, evaluating their own pay, concentrating oversight in the same committee that reviews executive pay can heighten concerns about conflicts of interest. Compensation committees also may face crowded agendas — from say-on-pay to pay-versus-performance disclosures — and may struggle to devote sufficient attention to director pay issues.

The alternative — placing responsibility with the nominating/governance committee — has its own logic. Director compensation is ultimately a governance matter, touching on independence, fairness, and shareholder trust, and therefore fits comfortably within that committee's remit.

In addition, the nominating/governance committee typically has a nuanced understanding of the board's structure, roles, and responsibilities, including the added time and leadership demands placed on committee chairs, the lead director, and other board leaders. This perspective enables the committee to calibrate compensation more appropriately to reflect workload and responsibility. Because the committee also oversees board refreshment, competitive director pay is an important tool in recruiting and retaining qualified candidates. Separating director pay oversight from executive pay decisions can further mitigate optics-related concerns by signaling that directors' compensation is not determined by the same group that negotiates management's incentives. Distributing responsibilities across committees can also help manage workload, particularly when the compensation committee faces heavy agendas. Still, this model is not without limitations.

Nominating/governance committees may lack the specialized expertise or consultant relationships of compensation committees, leaving them less well-equipped to scrutinize benchmarking or plan design. Splitting responsibilities can also risk inconsistency between how the board approaches executive pay and how it approaches its own compensation. Finally, governance committees also juggle critical responsibilities such as board succession and governance disclosures, and director pay may compete for limited agenda time.

One company in CAP's sample (1%) has a combined compensation and nominating/governance committee that oversees director pay.

Who Oversees Director Pay? % of CAP's Sample		
Compensation Committee	Nominating/Governance Committee	Other
58%	41%	1%

Practical Considerations for Boards

In deciding which approach to use, boards should weigh several practical considerations. Investor expectations remain paramount: proxy advisors and institutional shareholders value transparency and want to see clear board-level accountability for compensation decisions. Equally important is board composition and expertise. A board with several directors who have deep compensation backgrounds may feel comfortable with committee-only approval, while a board with fewer specialists may prefer to involve all directors. Workload is another factor; allocating responsibilities across committees is not only a matter of optics but also of sustaining effective governance.

Conclusion

CAP's review of the 110 largest companies in the S&P 500 shows that there are no "right" answers to the questions of who approves CEO pay and who oversees director pay. Practices vary widely — and for good reason. Each approach carries benefits and trade-offs in terms of accountability, expertise, efficiency, and optics.

For boards, the most important step is not to follow prevailing practice but to adopt a structure that reflects their governance philosophy, addresses investor expectations, and empowers directors to exercise informed, independent judgment. Clear disclosure of both process and rationale reinforces stakeholder trust.

As compensation and governance issues continue to evolve, boards that periodically re-examine their committee structures — and openly communicate their reasoning — will be best positioned to demonstrate strong stewardship and adapt to changing expectations.

Appendix

CAP's Sample

GICS Sector	Companies		
Energy	• Chevron Corporation • ConocoPhilips • Diamondback Energy. Inc. • EOG Resources, Inc.	• Exxon Mobil Corporation • Kinder Morgan, Inc. • ONEOK, Inc.	• Phillips 66 • Schlumberger Limited • The Williams Companies, Inc.
Materials	• Air Products and Chemicals, Inc. • Corteva, Inc. • DuPont de Nemours, Inc. • Ecolab Inc.	• Freeport-McMoRan Inc. • Linde plc • Martin Marietta Materials, Inc.	• Newmont Corporation • The Sherwin-Williams Company • Vulcan Materials Company
Industrials	• Automatic Data Processing, Inc. • The Boeing Company • Caterpillar Inc. • Eaton Corporation plc	• General Electric Company • Honeywell International Inc. • Lockheed Martin Corporation	• RTX Corporation • Uber Technologies, Inc. • Union Pacific Corporation
Consumer Discretionary	• Amazon.com, Inc. • Booking Holdings Inc. • Chipotle Mexican Grill, Inc. • The Home Depot, Inc.	• Lowe's Companies, Inc. • McDonald's Corporation • NIKE, Inc.	• Starbucks Corporation • Tesla, Inc. • The TJX Companies, Inc.
Consumer Staples	• Altria Group, Inc. • The Coca-Cola Company • Colgate-Palmolive Company • Costco Wholesale Corporation	• Mondelez International, Inc • PepsiCo, Inc. • Philip Morris International Inc.	• The Procter & Gamble Company • Target Corporation • Walmart Inc.
Health Care	• Abbott Laboratories • AbbVie Inc. • Danaher Corporation • Eli Lilly and Company	• Intuitive Surgical, Inc. • Johnson & Johnson • Merck & Co., Inc. • Pfizer Inc.	• Thermo Fischer Scientific Inc. • UnitedHealth Group Incorporated
Financials	• American Express Company • Bank of America Corporation • BlackRock, Inc.	• The Goldman Sachs Group, Inc. • JPMorgan Chase & Co. • Mastercard Incorporated • Morgan Stanley	• S&P Global Inc. • Visa Inc. • Wells Fargo & Company
Information Technology	• Accenture plc • Apple Inc. • Broadcom Inc. • Cisco Systems, Inc.	• International Business Machines Corporation • Microsoft Corporation • NVIDIA Corporation	• Oracle Corporation • Salesforce, Inc. • ServiceNow, Inc.
Communications Services	• Alphabet Inc. • AT&T Inc. • Charter Communications, Inc.	• Comcast Corporation • Electronic Arts Inc. • Meta Platforms, Inc. • Netflix, Inc.	• T-Mobile US, Inc. • Verizon Communications Inc. • The Walt Disney Company
Utilities	• American Electric Power Company, Inc. • Constellation Energy Corporation • Dominion Energy, Inc.	• Duke Energy Corporation • NextEra Energy, Inc. • PG&E Corporation • Public Service Enterprise Group Incorporated	• Sempra • The Southern Company • Vistra Corp.
Real Estate	• American Tower Corporation • CBRE Group, Inc. • Crown Castle Inc.	• Digital Realty Trust, Inc. • Equinix Inc. • Prologis, Inc. • Public Storage	• Realty Income Corporation • Simon Property Group, Inc. • Welltower Inc.

Results by Sector

GICS Sector	Who Approves CEO Pay? % of CAP's Sample		
	Compensation Committee	Full Board	Other
All GICS Sectors	72%	26%	2%
Energy	70%	30%	0%
Materials	80%	20%	0%
Industrials	70%	30%	0%
Consumer Discretionary	90%	10%	0%
Consumer Staples	80%	20%	0%
Health Care	60%	20%	20%
Financials	70%	30%	0%
Information Technology	60%	40%	0%
Communications Services	70%	30%	0%
Utilities	50%	50%	0%
Real Estate	90%	10%	0%

GICS Sector	Who Oversees Director Pay? % of CAP's Sample		
	Compensation Committee	Nominating/Governance Committee	Other
All GICS Sectors	58%	41%	1%
Energy	60%	40%	0%
Materials	70%	30%	0%
Industrials	20%	80%	0%
Consumer Discretionary	60%	40%	0%
Consumer Staples	56%	44%	0%
Health Care	60%	40%	0%
Financials	40%	60%	0%
Information Technology	70%	30%	0%
Communications Services	70%	20%	10%
Utilities	60%	40%	0%
Real Estate	70%	30%	0%