

# EARLY CONVERSATIONS, BETTER OUTCOMES: A Q2/Q3 AGENDA FOR HR COMMITTEES

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Canadian businesses are facing unprecedented uncertainty, driven by shifting trade dynamics, increasing geopolitical turbulence, and broader economic pressures. When it comes to executive compensation, Boards are tasked with navigating this complex environment and making thoughtful decisions that **balance accountability to their shareholders with fairness to their management teams**. Boards may find themselves questioning the resilience of their organization's incentive programs and scorecards (many of which were just approved a few months ago) in light of the shifting economic and geopolitical realities.

Proactive and frequent dialogue between the Board and Management on the state of the organization and its compensation programs is always good practice, and becomes essential when facing challenging market conditions. Engaging early and often on tough compensation matters can help manage expectations and gives companies time to take a thoughtful and measured approach, avoiding any knee-jerk decisions on compensation.

**Below, we provide a set of questions to support HR Committees and management teams as they plan for summer HR Committee meetings.** These questions may guide areas for more detailed discussion and analysis over the coming months. Your organization may not have a definitive answer to each of these questions at this time, and that's okay – the key here is to begin engaging in thoughtful dialogue well in advance of fiscal year-end.

## Step #1: Align on the Business Facts

**Objective:** All parties have a current, nuanced, and robust shared understanding of the business, its performance to-date, and the impacts of the current market environment.

*Key questions:*

- *Do the Board and Management have a view on the macroeconomic drivers behind the organization's success (e.g., GDP, interest rates, commodity prices)? Is there a shared understanding of the extent to which these drivers affect company performance? Has Management conducted modelling that can be shared with the Board?*
- *Do we have a clear view on how the current market environment will impact our business relative to our competitors and/or close industry peers?*
- *Can we isolate Management's performance from external headwinds (or tailwinds) outside of their control?*
- *Do we believe that the current market conditions will have short, medium, or long-lasting effects on our business?*

## Step #2: Align on the Compensation Facts

**Objective:** All parties have a shared understanding of the current incentive plan design and anticipated impacts to in-flight incentives programs well in advance of year-end.

*Key questions:*

- *What is the latest tracking for in-flight incentive programs (including forecasted payouts)?*
- *To what degree are different employee groups being impacted by recent events? Are there any meaningful retention concerns or other challenges?*
- *Have scenarios been stress-tested to gauge potential outcomes under continued volatility?*

- *What are the key events or priorities this year that could significantly influence the organization's success (either positively or negatively) based on how they unfold? Are the incentives designed to reward for successful execution against these priorities? Are there any unintended disincentives that the HR Committee should be aware of (e.g., investments in the business that are the right thing to do, but may impact achievement of profitability targets in the STIP)?*

### Case Study: Incentive Design in Response to Uncertainty

A Canadian public company anticipated significant direct and indirect tariff-related impacts to its business, and made changes to incentive design at the beginning of the year to address target-setting uncertainty:

**STIP:** *identified a macroeconomic indicator (GDP) that is highly correlated with business performance. 2025 STIP targets were set based on best information available at the time, with an agreement to review them (though not necessarily to take action) should forecasted GDP growth fall below an agreed threshold.*

**LTIP:** *used relative performance metrics for PSUs (rather than metrics that require 3-year financial forecasts), while maintaining minimum absolute performance thresholds on those metrics within the design.*

## Step #3: Consider Philosophy, Historical Approach, and Key Learnings

**Objective:** Ground discussions in the organization's compensation philosophy and decisions made during past periods of uncertainty (e.g. COVID) to inform and provide context for decisions in today's environment.

*Key questions:*

- *What is the organization's philosophy regarding compensation program impacts due to extraordinary events or economic cycles?*
- *Does the existing compensation philosophy and strategy continue to make sense in light of the changing market conditions?*
- *What actions have we taken during past periods of uncertainty, and has there been consistency in the approach applied? Have we done a retrospective review on those decisions – did we get it right?*
- *What was Management's experience as a result of the actions taken (or lack thereof)?*
- *How did shareholders (and other key parties) respond to these actions?*

## Step #4: Determine Next Steps

**Objective:** We have a game plan for continued dialogue leading up to year-end.

In times of significant uncertainty, most Boards will take a "wait and see" approach to incentive compensation by evaluating outcomes at year-end once the full picture of performance is known. In these instances, using informed judgement, if deemed appropriate, can help strike the balance in aligning pay outcomes with Management's performance and the overall shareholder experience.

Engaging in meaningful dialogue well before year-end will ensure that key issues are surfaced early and allow ample time for thoughtful analysis and deliberation ahead of decision-making. Q2/Q3 HR Committee meetings present a good opportunity to begin these conversations and scope out how decisions will unfold closer to year-end. These discussions may also surface more meaningful questions related to incentive design, including potential changes to consider for implementation in future years.

### Additional Information

If you are interested in how Hugessen can support your Board as you navigate this complex environment, please contact Bridget McKellar ([bmckellar@hugessen.com](mailto:bmckellar@hugessen.com)), Camille Jovanovic ([cjovanovic@hugessen.com](mailto:cjovanovic@hugessen.com)) and Miles Fazzalari ([mfazzalari@hugessen.com](mailto:mfazzalari@hugessen.com)).