2024 FALL DIRECTOR PULSE SURVEY

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Introduction

In 2024, organizations faced unprecedented challenges as the rapid emergence of artificial intelligence and shifting geopolitical landscapes placed significant pressures on Boards, demanding agile adaptation to an ever-more complex business environment. Hugessen's 2024 Director Pulse Survey builds on the insights of prior years, exploring how Boards are responding to these challenges. The survey examines the implications for incentive design, executive compensation, and overall Board effectiveness, shedding light on strategies for success defined by constant change.

Methodology

This briefing summarizes the responses of 62 director participants collected in the fall of 2024, representing a wide range of for-profit organizations across various industries and geographies. We note summary statistics may not add to 100% due to rounding.

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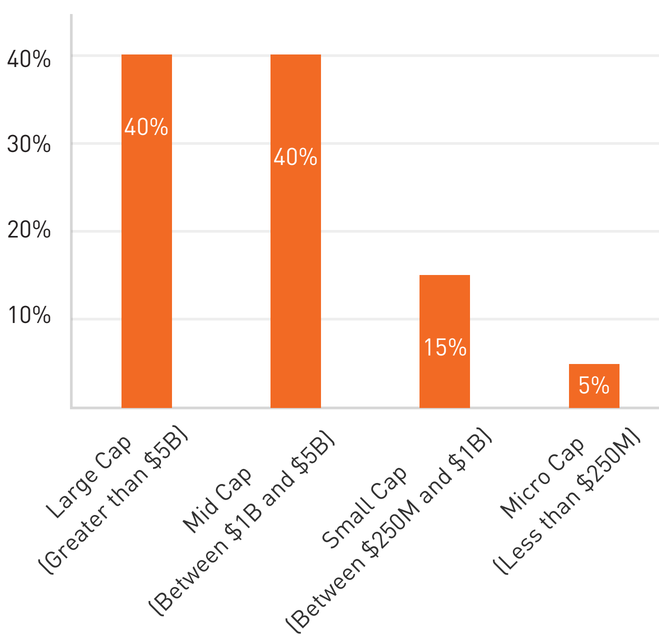
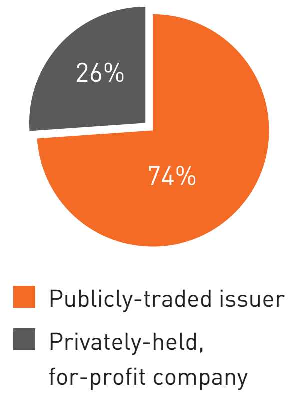


Geography	
Ontario 45%	United States 3%
Alberta 24%	
Quebec 10%	
British Columbia 8%	
Other Canadian Province or Territory 6%	
Outside of Canada or U.S. 3%	

Industry:

- 29% Energy
- 8% Materials
- 19% Financial Services
- 10% Real Estate
- 5% Consumer Goods/ Retail
- 8% Industrials
- 3% Technology and Telecommunications
- 18% Other

Ownership:



Key Takeaways:

- Despite evolving operating environments, most respondents had a modestly positive financial year, with 74% of respondents noting performance at or slightly better than expectations set at the start of the year.
- Salary budgets remain stable, with 73% of respondents expecting increases of 2-4%. The shift toward mid-range (i.e., 2-4%) increases reflects a normalization in the market post-pandemic.
- Talent management and retention and cybersecurity remain top-of-mind priorities for Boards in 2024. Enterprise risk management moved up to the third spot, replacing organizational culture from 2023.
- The prevalence of ESG in incentives has remained stable, with continued focus on short-term rather than long-term measures.
- In Canada, the ambiguity of Bill C-59[1] has prompted some Boards to review the use of ESG metrics in incentive programs, although most believe it is too early to determine what changes (if any) may be warranted.
- While most Boards highlighted their composition as a key enabler to have value-added conversations, only 1/3rd noted they invest their time and energy on the highest value areas.

1. *Bill C-59 is an act to implement the Canadian Federal Government's 2024 Fall Economic Statement, which included, among other things, "anti-greenwashing" provisions.*

2024 Performance & Incentive Discretion

In 2024, 74% of Directors expect financial performance of their organization to meet or slightly exceed expectations set at the beginning of the year (Figure 2). Compared to 2023, there is a notable reduction in the proportion of Directors who expect substantially better or substantially worse financial performance, signalling a shift toward a more "typical" performance year. This steadier financial performance is also reflected in incentive payouts, with 70% of Director respondents expecting them to be approximately or slightly above target levels.

How has the current year's financial performance compared to estimates / expectations at the beginning of the year?

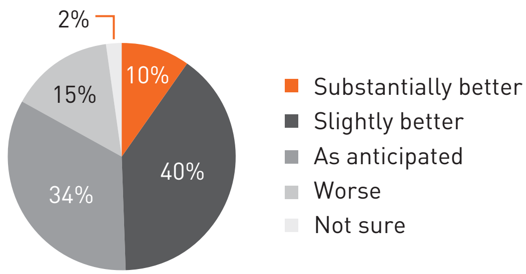


Figure 2

Aligned with a "normalization" in financial performance and incentive payouts, respondents also indicate a decrease in the expected use of discretion on incentive payouts—21% in 2024, down from 30% in 2023. Among those planning to apply discretion (n=13), a majority (62%) anticipate a modest positive adjustment, primarily through the formal discretionary component embedded within the incentive plan structure.

Salary Budgets

For FY2025, most respondents (73%) expect an employee salary budget of between 2% – 4% (Figure 3), with fewer anticipating budgets of >4% (7% this year, down from 28% last year). This normalization in budgets likely reflect more stable labour markets following the highs and lows of the pandemic and subsequent inflationary cycle.

What do you anticipate the employee salary budget increase to be for the upcoming year?

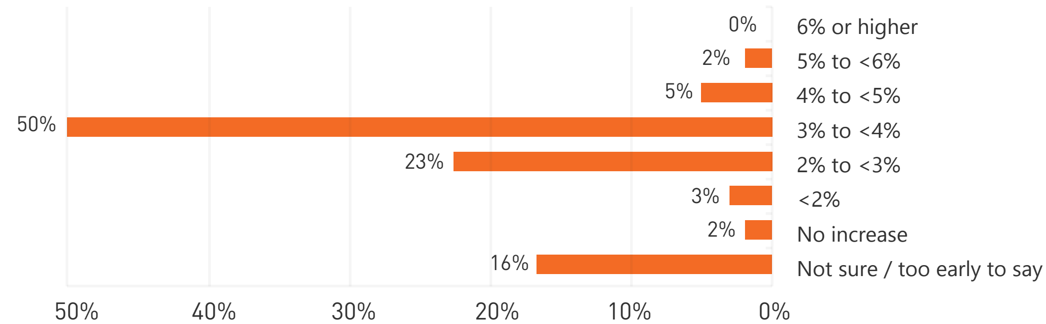


Figure 3

Top Board Priorities for 2025

Going into 2025, Directors identified talent management and retention, cybersecurity, and enterprise risk management as the top three priorities for their Boards, with the former two maintaining the top spots for a second consecutive year (Figure 4). Boards' focus on various aspects of risk is understandable, as 2024 saw several high-profile cybersecurity attacks[2,3] and substantial shifts in government policy following several major global elections. Looking forward, we expect a sustained emphasis on risk management and adapting business strategies to meet the demands of ever-evolving operating environments. Meanwhile, prioritization of Diversity, Equity and Inclusion has gradually decreased over the surveys conducted in the last several years.

Directors continue to highlight succession planning as the most challenging human capital issue facing Boards (Figure 5). As highlighted last year, this is not surprising, as 2024 saw the continued trend of significant CEO turnover in the US and Canada[4].

Going into 2025, please rate the importance (on a scale of 1-5) of the following topics to your Board in the coming year.

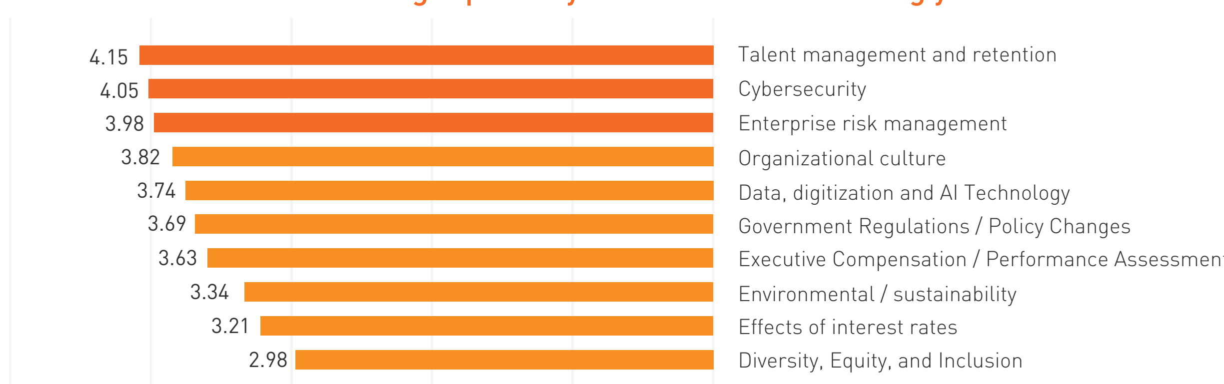


Figure 4

2. T-Mobile hacked in massive Chinese breach of telecom networks, WSJ reports (Reuters)
3. The Snowflake Attack May Be Turning Into One of the Largest Data Breaches Ever (Wired)
4. From Nike to Intel, CEO Departures at U.S. companies hit a record this year (NBC)

Please rate how challenging (on a scale of 1-5) each of the following human capital management issues are to your company.

Figure 5

Environmental Social & Governance ("ESG") in Compensation

ESG metrics in incentive programs remain prevalent among respondent organizations (74% indicate inclusion of an ESG metric within their company's incentive plans), with the most common recently added measures relating to climate / environment and human capital (Figure 6). Consistent with prior years, ESG metrics are far more common in short-term incentives vs. long-term incentives, with only 6% indicating their companies are planning to adopt such metrics in LTIPs, with 33% having already. This likely reflects the difficulty noted by Directors in setting and calibrating measures, especially over a multi-year period (Figure 7). See our 6 part[5] ESG in Compensation series for our thoughts on selecting and ESG metrics and setting targets.

If your board is considering adding next year or have added ESG metrics this year into any executive incentive program, what metrics categories would these fall under?

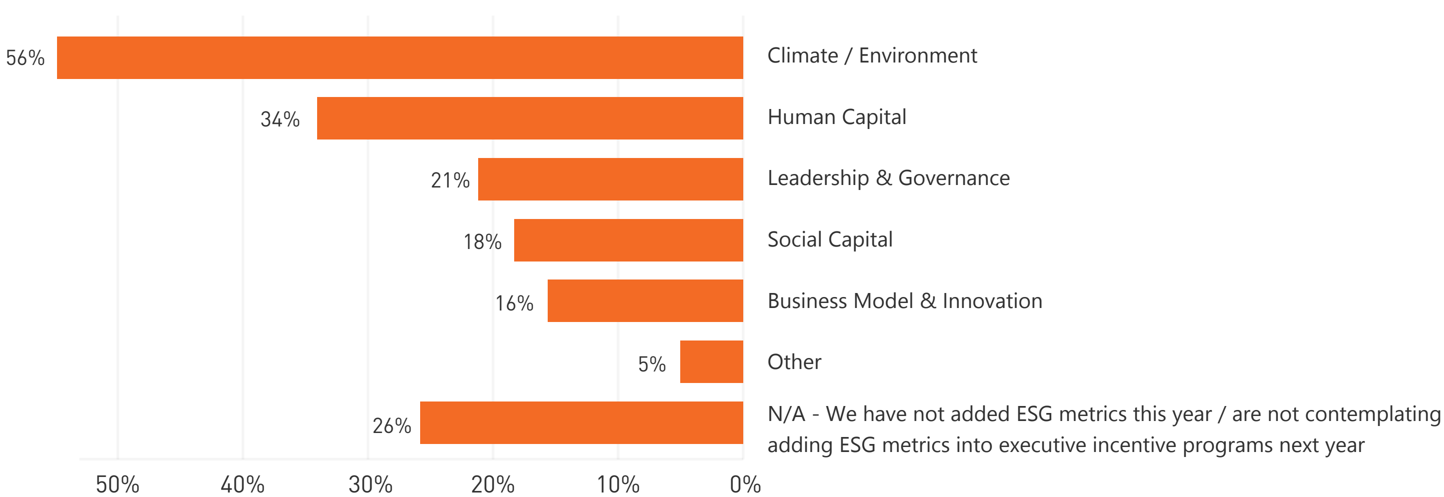


Figure 6

5. ESG IN COMPENSATION SERIES 6 OF 6: Target Setting: Considerations For ESG Metrics

On a scale of 1 to 5, please indicate how challenging each of the following ESG in compensation issues is to navigate. 1 signifies an issue of minimal difficulty, while 5 indicates a very challenging issue.

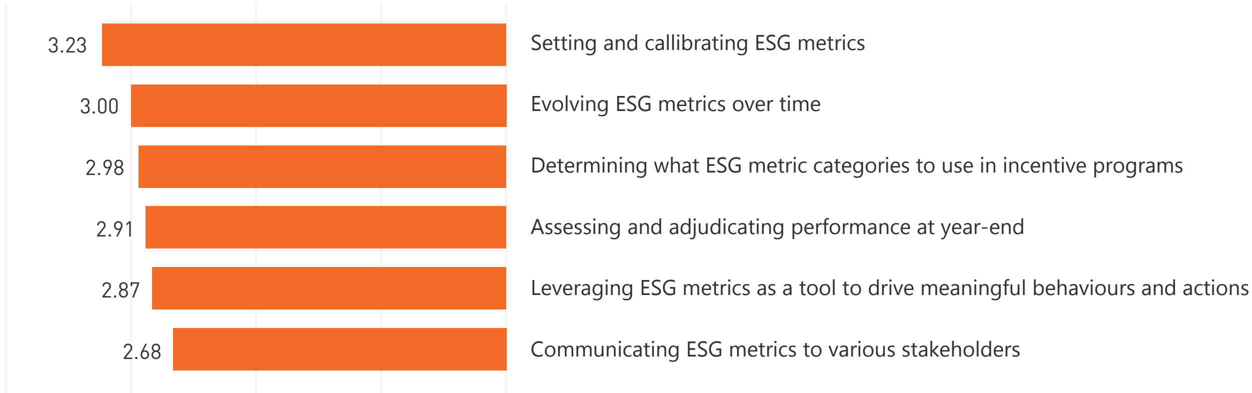


Figure 7

In June 2024, Bill C-59 received royal assent, which included, among other things, new rules to combat "greenwashing" by organizations. The ambiguity of the law has sparked concerns among some Boards about the potential impact on ESG metrics, including those used for incentives. At this time, Hugessen has not observed any material movement on this front among our clients, which is consistent from the observations among Director respondents whereby less than half (38%) have discussed Bill C-59. Among the respondents who have discussed Bill C-59, the majority (56%) are making no changes or believe it is too early to determine what changes, if any, may be required (Figure 8). Interestingly, among the respondents who have made or are contemplating making changes, most are tweaking measures or targets, rather than removing them. As the further details around Bill C-59 become clearer, Hugessen anticipates deeper conversations among Boards on the use of ESG measures, however we do not anticipate a wholesale shift (e.g., metric removal) at this time.

If your Company is discussing or contemplating changes to ESG incentive design metrics considering the Royal Assent of Bill C-59, what changes (if any) has your Company made / is contemplating making?

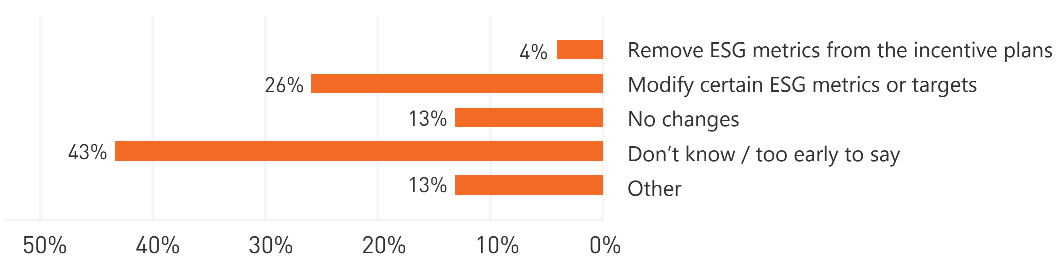


Figure 8

Board Effectiveness

Regular Board effectiveness evaluations are useful to identify opportunities, improve Board functionality, and foster better decision-making. Continuing the trend from last year, Directors increasingly see Board evaluations—or similar interventions—as a valuable tool, with 79% of respondents reporting that they conduct an annual evaluation, up from 73% in 2023. The use of third-party evaluators remains consistent, with 65% of directors indicating that an external party adds value to the process, mirroring last year's results.

Many respondents indicated that they were well positioned from a composition perspective to have value-added conversations, (Exhibit 9) however, only 1/3rd of Directors noted that they invest their time and energy on the highest value areas. Nonetheless, many Directors indicate that their Boards are at least relatively prepared to deal with disruptive issues of the future (Exhibit 10). Overall Boards appear to be well positioned, however they can continue to look inwards and focus their energies on the highest value areas including the disruptive issues of the future.

Does your Board include the diversity of perspective warranted to appropriately oversee the strategy and create value for the organization?

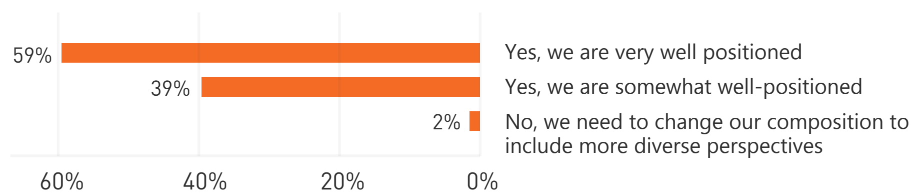


Figure 9

How prepared is your Board to deal with disruptive issues of the future (e.g. climate, AI, geopolitical unrest, cybersecurity threats, etc.)?

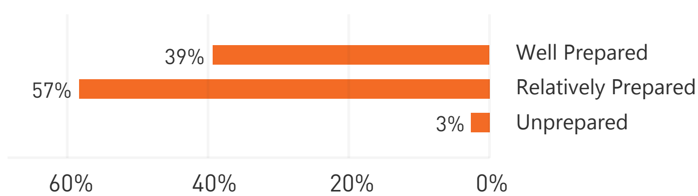


Figure 10

Conclusion

2024 was a year of both change and normalization. While operating environments evolved and cybersecurity risks increased, financial performance and incentive pay stabilized from the highs and lows of the past 3 – 5 years. Looking forward, Boards will continue to face a range of new challenges, but by focusing on the highest priority items and ensuring they have the right tools and processes around incentives, Directors can help position their organizations for success in 2025 and beyond.

For those with questions or who are interested in more in-depth and customized analysis, please contact John Skinner—jskinner@hugessen.com, Michael Small—msmall@hugessen.com

Hugessen Consulting helps Boards make the right decisions on executive compensation and its governance and Board effectiveness within an environment of heightened complexity and scrutiny. With offices in Toronto, Calgary and Montreal, the firm's mission is to be the leading provider of advice on executive compensation, director compensation, performance measurement and assessment, and related governance to the compensation committees of companies in Canada and the U.S.