TOPIC: EXECUTIVE COMPENSATION & CORPORATE GOVERNANCE

2026 Compensation & Governance Update:

Key Questions & Considerations for Effective Board Oversight

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The governance landscape heading into 2026 is evolving faster than most planning cycles are designed for. Boards are navigating shifting geopolitical dynamics, rapid technological change, and rising shareholder expectations, all while being called on to demonstrate greater foresight and the courage to move beyond business-as-usual.

This article highlights Laulima's view on key trends shaping executive compensation and governance practices in 2026, paired with guiding questions and considerations to help boards prioritize what matters most amid ongoing uncertainty and accelerated change.

Key considerations include:

1. How does cross-border uncertainty impact target setting?
2. What are the implications of AI on executive talent & compensation governance?
3. How do evolving ESG expectations influence compensation design?
4. How do evolving talent dynamics affect succession planning?
5. How can pay-for-performance be strengthened and clearly disclosed?

1 How does cross-board uncertainty impact target setting?

Escalating U.S.-Canada **trade tensions and shifting tariff regimes are making both annual and long-term planning more unpredictable**. For organizations with global operations, planning cycles now carry heightened uncertainty, **challenging both management and boards to set performance targets** that remain fair, rigorous, and credible.

Key Considerations:

- Companies may widen performance ranges, conduct additional scenario-based target modelling, or adopt a blend of relative and absolute metrics to manage uncertainty.
- An increased emphasis on short-term, internally "controllable" metrics (e.g., productivity, operational efficiency) may reduce reliance on performance outcomes driven by macroeconomic factors such as tariffs or regulatory shifts.
- If adjustments or discretion is applied, maintaining discipline through year-over-year consistency in approach, application, and disclosure, supported by transparent rationale, is critical to avoiding credibility risks.

2 What are the implications of AI on executive talent & compensation governance?

Artificial intelligence (AI) is reshaping how organizations operate. While the content and key accountabilities of executive roles may not change immediately, **the expectations of leadership are evolving**. Boards will increasingly consider whether they and their executives have the foresight, strategic agility, and risk awareness to guide AI-driven transformation. Companies are determining where AI may be a tool to meaningfully enhance performance, while at the same time considering where the **governance or ethical risks** may outweigh the benefits.

Key Considerations:

- Boards may increasingly factor leadership foresight, digital fluency, and risk awareness into executive performance assessments and succession planning.
- Incentive programs designed with flexibility and scalability in mind may help as AI use-cases evolve.
- If implementing AI- or technology-related metrics into incentive plans, consider whether they are appropriately measurable and clearly tied to strategic outcomes, and if they encourage responsible and well-governed adoption.

3 How do evolving ESG expectations influence compensation design?

Amid changing disclosure expectations in both Canada and the U.S., companies are reassessing how ESG fits within executive pay. In Canada, the Canadian Sustainability Standards Board (CSSB) released its final sustainability disclosure standards in December 2024.[1] In the U.S., the changing political landscape, particularly around diversity, equity, and inclusion (DEI), has prompted some organizations to reconsider how

[1] Fasken Martineau DuMoulin LLP, "The CSSB Has Released Its Final Standards: Mandatory Rules for Climate Disclosure Are Coming Soon," Fasken Knowledge Bulletin, December 23, 2024.

ESG measures are positioned. Against this backdrop, the trend is **shifting toward including fewer, higher quality measures** that are clearly aligned with corporate strategy and long-term value creation, and **away from broad or overly diluted scorecards**. This reflects heightened board accountability to ensure ESG measures are defensible, measurable, and aligned to long-term organizational success.

Key Considerations:

- With views on ESG diverging across markets, companies may consider whether to keep ESG metrics as-is or reposition them within broader business priorities to align with shifting expectations among U.S. investors and regulators.
- Organizations may choose to focus on fewer ESG measures that tie directly to core priorities, such as climate transition milestones or human capital outcomes.
- Explicit targets, strong disclosure, and transparency of metric selection remain essential to the defensibility of ESG-related metrics and to meeting shareholder expectations.

4 How do evolving talent dynamics affect succession planning?

Shorter CEO tenures, demographic shifts, and rising geopolitical uncertainty highlight the importance of ongoing succession planning.[2]

Succession planning is now a continuous discipline, not a contingency exercise, particularly as organizations require leaders who can navigate digital transformation and external shocks. **Bench strength and retention risk are now, more than ever, top governance priorities**. For many boards, this shifts succession planning from a periodic review to an ongoing governance responsibility.

Key Considerations:

- Some organizations integrated talent development or turnover-related metrics more directly within incentive programs, recognizing that succession planning is increasingly viewed as a core part of executives' roles.
- Discussions between the board and the CEO regarding the strength of the leadership talent pipeline should be a regular agenda item.
- Thoughtful and transparent communication about the board's approach to succession planning can help ease investor concerns on the risk of turnover.

5 How can pay-for-performance alignment be strengthened and clearly disclosed?

Expectations around pay-for-performance alignment continue to rise as proxy advisors and governance bodies, such as the Institutional Shareholder Services (ISS), Glass Lewis, Canadian Coalition for Good Governance (CCGG), along with investors, intensify their scrutiny, raising the stakes for **boards to demonstrate clear alignment between performance, outcomes, and pay decisions**. The board's decision on compensation matters such as target calibration, metric selection, and peer group integrity are under the microscope more than before.

[2] Russell Reynolds Associates, *Global CEO Turnover Index – The Transformation of the CEO Annual Report*, 2025.

Key Considerations:

- Regular reviews of realized and realizable pay levels and stress-testing incentive plan designs to validate continued appropriateness and alignment to compensation are viewed as standard oversight accountabilities.
- Clearer explanation of the target setting and performance evaluation processes, as well as application of any discretion, are increasingly expected in proxy disclosure.

For further information on 2026 proxy advisor updates, refer to a recent article linked here.

2026 will demand sharper foresight, tighter alignment, and more frequent dialogue between boards and management. *While each board's path will differ, the themes are consistent: greater volatility, faster disruption, and rising expectations for clarity and accountability in executive pay. As a result, boards that ask the right questions and remain adaptable can strengthen governance and strategic resilience – reflecting a broader shift toward more active oversight, sharper judgement, and the willingness to engage in difficult, but necessary, discussions about compensation and governance.*

For more information on how we can help, contact us at info@laulimaconsulting.com.