

## FIVE EXECUTIVE COMPENSATION TRENDS THAT WILL SHAPE 2026

January 2026

Each year, we like to reflect upon the issues being discussed at Human Resources Committee (HRC) meetings across the country and amongst other interested third parties, such as the proxy advisors, regulators and governance groups, to identify emerging trends for ongoing review and monitoring.

Looking ahead to 2026, we expect ongoing challenges related to economic growth, driven by both geopolitical and technological developments. Current projections indicate that salary budgets for 2026 may be lower than those of previous years and fall short of initial estimates. Labour markets remain relatively flexible, with most organizations reporting low to modest levels of voluntary turnover. These factors are collectively contributing to the emergence of distinct compensation challenges.

### OUR 2026 PREDICTIONS

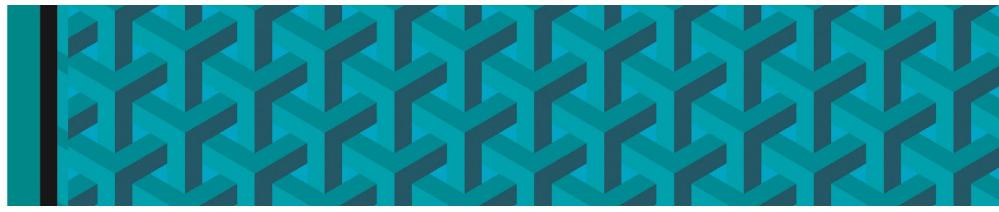
- **Customized executive compensation packages** — Growing focus on varying compensation arrangements within senior leadership teams to recognize differentiated talent markets.
- **Individual investors becoming more influential** — The role of the traditional proxy advisor (ISS/Glass Lewis) is changing.
- **Distinct compensation for technology roles** — Recognition that tech-related positions require unique compensation packages to attract and retain top talent.
- **More emphasis on entry and exit pay** — Increasing scrutiny and structure around onboarding and severance compensation for executives.
- **Ongoing debates over one-time awards** — Continued discussions between companies, investors and proxy advisors about the purpose, size, and transparency of exceptional, non-recurring compensation awards.

### RECAP OF 2025 PREDICTIONS

2025 Predictions	Our Assessment of 2025
<b>Greater risks and uncertainties affecting incentive designs</b>	Despite the geopolitical turmoil, the stock market and financial performance outcomes remained strong in 2025. While there were limited changes to compensation programs to reflect what was anticipated, we will likely see a slight uptick in the application of discretion for 2025 performance given the unpredictability of the year.



2025 Predictions	Our Assessment of 2025
<b>Integrating talent management with compensation</b>	<p>There is a continuing evolution of talent management oversight by HRCs. Leading HRCs are starting to more effectively consider the compensation implications associated with talent decisions to address critical skills, succession candidates and/or other areas of talent risk.</p>
<b>Pressures on executive pay levels</b>	<p>We continue to see increases in executive compensation across the Canadian market. Within the S&amp;P/TSX 60, CEO compensation for 2024 performance was up by another 8% YOY to \$11.5M (driven by higher bonuses and LTI awards) and NEO compensation was up 17% to \$4M. In reviewing the data, we see a desire to make larger less frequent changes to executive salaries as the standard 3% budgetary increases are not sufficient to keep pace with market, particularly for incumbents growing in role and/or fast-growing companies.</p> <p>When reviewing YOY changes for the same CEO/CFO incumbent in both years, we found greater pressures at the top end of the market with a 25% to 33% increase in compensation at the 75<sup>th</sup> percentile, suggesting a broadening in market pay levels with the top end of the market being increasingly influenced by higher pay in the U.S. market.</p>
<b>Maturing ESG incentive measures</b>	<p>For 2024, ~60% of the S&amp;P/TSX 60 companies continued to disclose ESG-related incentive goals which is flat on a YOY basis. Based on our discussions with Canadian companies, we do not anticipate much change in the prevalence (up or down) with more changes to refine/adapt the measures to align with business priorities.</p>
<b>Going outside of established compensation norms</b>	<p>Say-on-pay voting results remain robust in both Canada and the U.S., with average approval rates exceeding 90%. Achieving these outcomes typically requires organizations to implement standard compensation programs that target the market median, offer a typical pay mix, and incorporate widely accepted performance-based compensation elements.</p> <p>Companies are increasingly willing to tailor their programs to align more closely with corporate strategies. This includes introducing stock options in cases where they were not previously granted, differentiating pay levels within the compensation framework (such as setting some roles at the 75th percentile), and making intentional shifts to prioritize long-term incentives over cash compensation.</p> <p>Companies are being challenged for taking unique positions given the rigidity of the proxy advisor evaluation frameworks, requiring companies to clearly disclose their rationale and invest time for proxy advisor and more direct investor outreach.</p>



## 2026 PREDICTIONS

We continually monitor the market for emerging trends and best practices and gather insights from our clients. Our top five predictions for 2026 include:

### 1. Customized executive compensation packages

With the growing variability in executive compensation across industries and regions, organizations are increasingly utilizing multiple reference points to address the unique talent markets relevant to their leadership teams. For instance, certain positions may be more closely aligned with industry demands on a global scale, while others require skills that are more transferable within local labour markets.

Additionally, access to talent insights enables companies to differentiate compensation for executives possessing critical expertise, demonstrating higher performance, exhibiting greater future potential (such as succession candidates), or occupying roles with significant value creation opportunities.

Our proprietary compensation databases further indicate that market premiums can vary by job function. For example, there is frequently a premium for operational or divisional executives due to their broader scope of responsibilities, whereas many corporate functions tend to have narrower and more specialized roles.

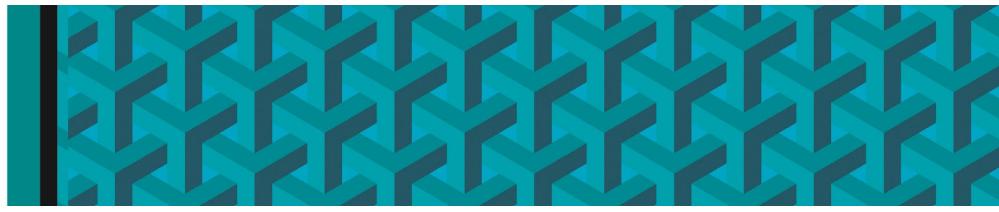
### 2. Individual investors becoming more influential

There is growing regulatory attention on the influence proxy advisors wield within the market, particularly with respect to issues related to Diversity, Equity, and Inclusion (DEI) and Environmental, Social, and Governance (ESG) criteria. This follows increased direction from the U.S. administration to moderate the role of proxy advisors in shaping market practices and outcomes.

In October 2025, Glass Lewis announced two critical changes to its proxy voting practices that are expected to shape how institutional investors approach governance decisions in the coming years.

- Glass Lewis will support clients in transitioning from benchmark policies to tailored voting policies that more accurately reflect their individual investment philosophies. While many Glass Lewis clients currently use customized or thematic guidelines, the company's stated goal is to enable all clients to vote in accordance with their own, distinct policies.
- The firm will also move away from single-policy research and recommendations, instead providing multiple perspectives that resonate with the diverse viewpoints of their clients. Starting in 2027, clients will be able to access these various viewpoints to inform their proxy voting decisions.

Institutional investors are increasingly adopting more individualized approaches to proxy voting. While they continue to rely on proxy advisors for research and data, many are developing customized policies that allow for independent vote recommendations, especially in unique or contentious situations. This trend is indicative of a broader shift towards more nuanced and context-specific decision-making in proxy voting.



These changes collectively point to a greater emphasis on investor engagement and transparent disclosure by companies. There is an increasing focus on clearly articulating the rationale behind decisions, particularly when those decisions deviate from established norms or benchmarks. Companies must be prepared to explain the “why” behind their actions, reinforcing the importance of proactive and strategic communication with investors.

### **3. Distinct compensation for technology roles**

The technology sector consistently ranks among the highest paid industries worldwide. Recent research released by the GECN Group indicates that median CEO compensation in this sector reaches \$16.8 million, compared to approximately \$9 million in other sectors. Beyond executive roles, technology-related positions—especially those focused on business technology and transformation initiatives such as AI—typically command higher compensation than traditional hardware and software roles.

Technology organizations generally:

- Emphasize equity-based compensation for employees at both startups and established firms
- Allocate a smaller proportion of total compensation to cash payments
- Provide increased flexibility and contemporary benefits packages
- Exhibit significant variation in pay levels, offering substantially higher rewards to top talent

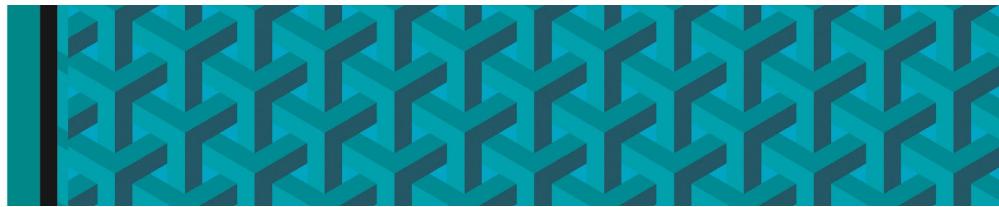
As a result, companies are exploring segmenting their technology workforce to better tailor compensation programs and strategies. This approach is especially relevant when specialized roles require unique skill sets unavailable elsewhere within the organization. Often, these teams may operate as separate divisions and be managed under distinct expectations.

### **4. More emphasis on entry and exit pay**

The executive lifecycle starts with selection and hiring and concludes with termination and offboarding. Upon hiring, contracts are negotiated to establish the terms and conditions that will govern the entire duration of that lifecycle. When challenges arise later in the employment relationship, the costs associated with hiring (such as sign-on incentives) and termination (including severance packages) can be substantial. At these critical moments, the underlying terms are often scrutinized, though opportunities for meaningful adjustment may have passed.

HRCs are placing increasing emphasis on all aspects of employment terms and conditions, including:

- Implementing more tailored severance provisions that account for individual circumstances and evolve over time, rather than relying on standard multiples that may exceed common law benchmarks for specific executive positions.
- Establishing clearer termination language within incentive plans that distinguishes between termination without cause and retirement, with the aim of promoting genuine retirements. There is a prevailing issue where executives anticipate being “terminated” upon retirement to secure severance and preferential long-term incentive plan (LTIP) treatment.



- Structuring sign-on awards as equity with multi-year vesting schedules to align with share price performance and promote share ownership. The award amounts should closely correspond to what is forfeited and remain distinct from ongoing compensation. Organizations may wish to consider extending beyond the standard three-year period by utilizing treasury-issued shares and potentially structuring these as “inducement awards” under TSX guidelines in order to bypass shareholder approval requirements.

## 5. Ongoing debates over one-time awards

HRCs face a variety of internal and external factors that can influence executive team retention and engagement. Sometimes, the standard executive compensation program may not suffice, presenting an opportunity to implement a special or one-time award in addition to regular compensation.

Because such awards are often met with skepticism by investors and their advisors, organizations should be prepared for scrutiny of the rationale and circumstances surrounding their use. In 2025, the CCGG issued additional guidance regarding special awards in its Executive and Director Compensation Guidebook. The guidance recommends that special awards:

- Should be tied to company and/or individual performance
- Be avoided during periods of industry-wide cyclical downturn
- Promote long-term strategic focus, utilizing higher performance targets, extended vesting periods, and settlement in DSUs or shares to be retained until retirement

Given the current environment of increasing geopolitical uncertainty and the need for companies to make bold changes, it is anticipated that companies will more frequently consider using special awards to facilitate business transformation initiatives, support executive retention, further differentiate compensation for key roles and foster greater share ownership.

## ABOUT US

Southlea Group is a national independent compensation advisory firm that provides global perspectives as a GECN Group company working with over 150 compensation professionals across 6 continents. We are headquartered in Toronto with offices in Montreal, Calgary, and Vancouver, and clients across Canada, representing all industries and organization structures. Our team of advisors is multi-disciplined with diverse backgrounds and experiences. We are proud to be a certified Women’s Business Enterprise by WBE Canada and to be Rainbow Registered as an LGBT+ friendly organization.