

COMMENTARY

## Crisis of the Week: Executive Pay Packages Bring Bombardier Turbulence

By **BEN DIPIETRO**

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A plane flies over a Bombardier plant in Montreal, in this file photo taken in January 2014. PHOTO: REUTERS

**This is a weekly commentary by external experts.**

*Canada-based transportation equipment maker*

*Bombardier Inc. finds itself under the crisis magnifying lens after Canada's prime minister, Justin Trudeau, publicly called out the company after its board awarded large raises to company executives after the government in February gave the company money to support its operations.*

*Bombardier's executive chairman, Pierre Beaudoin, requested his compensation remain at 2015 levels, saying the issue "has become a distraction." A second statement from the company spelled out reasons the compensation package is fair and in line with company performance. A statement from Chief Executive Alain Bellemare said more than half of the compensation to the six executives would be deferred until 2020, and will be payable only "if we achieve our performance directives."*

*The experts analyze what was good and bad about the company's handling of this issue from a communications standpoint.*

**Judy Phair, APR, Fellow PRSA, president at Phair Advantage**

**Communications:** "Before making its salary announcement, Bombardier should have anticipated possible negative public reactions and government sensitivities and developed a strategic plan for dealing quickly and consistently with both. Its announcement might have incorporated a pre-emptive approach, acknowledging possible concerns about linkages between the loans and raises, and making a strong case for why the compensation change was important and why the two were not connected."

“Unfortunately, the timing and content of Bombardier’s subsequent responses to public concerns has kept it running behind, rather than ahead of, the story. First, the chief executive announced he would decline the compensation increase. Then, a Bombardier officer issued a defense of the ‘appropriate alignment’ of its compensation philosophy and structure with value-creation—a story that should have been told much earlier. Finally, Bombardier decided to defer more than half of the total executive compensation to 2020, thus implicitly reinforcing earlier questions about the reasons for the raises.

“It’s time for Bombardier to push the reset button and gain control of the conversation. Quick responses are not always good responses. Before making any more statements, Bombardier should take the time and effort to develop a short- and long-term communications plan, with the goal of regaining public confidence and understanding of the critical role its business success will play in benefitting Canadian citizens and the economy. Some fence-mending with its government benefactors would be a good idea, too.”

**Ira Kalb, assistant professor of clinical marketing, USC Marshall School of**

**Business:** “In response to the public outcry...the company issued a series of communications in an effort to repair the damage. The chair of the compensation committee defended the pay increases as necessary to hire and retain ‘a world-class leadership team.’ His defense does not seem to be working to sway public opinion. Canada’s prime minister, Justin Trudeau, publicly voiced displeasure with the large increases and a poll commissioned by Quebec’s TVA network showed 93% were in opposition to the compensation changes.

“Bombardier’s chief executive took a more effective step by acknowledging the company’s close relationship with the Canadian public and the need to be ‘sensitive to the public reaction to our executive compensation practices.’ The most effective comment came from Bombardier’s executive chairman, who requested the board roll back his 2016 compensation to his 2015 pay. While this is a move in the right direction, it should be followed by a solution so this is not likely to reoccur if Bombardier wants to restore the public trust and borrow future public funds.”

**Shannon Wilkinson, chief executive, Reputation Communications:** “In

Bombardier’s first response, Pierre Beaudoin, the manufacturer’s executive chairman, said after listening to the recent public debate he asked the board of directors to reset his 2016 compensation, ‘reducing it to the 2015 level.’ The next day, Jean C. Monty, chair of the Human Resources and Compensation Committee, issued a statement explaining the soundness of Bombardier’s compensation practices—and 24 hours later CEO Alain Bellemare announced he had requested the board defer the payment of more than half of the total planned 2016 compensation for its six named executive officers until 2020.

“Bombardier’s knee-jerk responses—made by three different executives on three consecutive days—indicates the firm failed to undertake a reputation risk assessment of how its substantial pay raises would be perceived by Canadians, including the prime minister. Going forward, Bombardier would be well-served to be more attuned to public perception and the impact on its shareholder value before rewarding its leadership for jobs reportedly well done.”

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