

# New Year, New Data: Digging into the Latest Director Compensation Study

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*A Compensation Committee Series Webinar*

Presented by NACD and Pearl Meyer

February 27, 2024

# Housekeeping



- Submit a question and receive your answer directly from the presenters, either during today's webinar or as a follow-up. You will also be opted-in to receive future executive compensation thought leadership from Pearl Meyer.
- Presentation slides are available today at [www.pearlmeyer.com/2024-director-compensation-report](http://www.pearlmeyer.com/2024-director-compensation-report) and within the webinar console.
- The replay will be available early next week at [www.nacdonline.org/webinars](http://www.nacdonline.org/webinars) and [www.pearlmeyer.com/driving-board-excellence](http://www.pearlmeyer.com/driving-board-excellence).

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# Presenters



## **Jeri Isbell**

Chair, HR & Compensation Committee, SiteOne Landscape Supply  
Chair, Nominating & Governance Committee, Atkore International  
Chair, Board of Directors, Eastern Kentucky University Foundation



## **Ryan Hourihan**

Managing Director, Pearl Meyer



## **Tim Dupuis**

Principal, Pearl Meyer

# The Environment



- The complexity and time commitment associated with board membership has increased significantly due to an expanding remit that includes monitoring and oversight of:
  - Environmental, social, and governance (ESG) issues;
  - Diversity, equity, and inclusion (DEI) initiatives;
  - Cybersecurity and artificial intelligence considerations; and
  - Human capital, talent management, and leadership development
- Board must ensure that they are agile enough to adapt and keep pace with shifting organizational needs, which is dependent on directors having a robust mix of institutional knowledge, evolving experience and skills, and fresh insights
- Despite the increased scrutiny around human capital management and more complex agendas, coupled with greater competition to recruit qualified candidates, director compensation levels continue to see modest year-over-year growth

# Polling Question #1

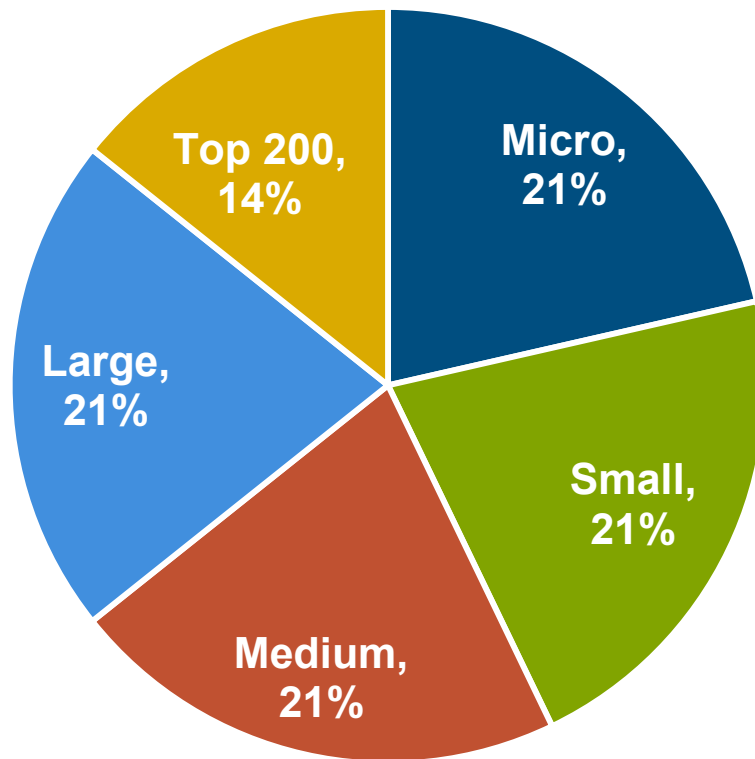


To what extent is your board discussing cybersecurity and artificial intelligence strategies?

- A. Not at all, we let senior management handle
- B. Not much, but we are having informal discussions/updates with senior management
- C. These are regularly discussed topics at the board level with senior management
- D. This is now a major focus for our board and/or we have identified a committee to oversee these areas

# Director Compensation Data

Five Size Categories  
Based on Annual Revenue



- All companies are publicly traded
- Information is collected across 24 industries based on GICS at the group level
- Source: [Main Data Group](#)
  
- Micro: \$50M - \$500M
- Small: \$500M - \$1B
- Medium: \$1B - \$2.5B
- Large: \$2.5B - \$10B
- Top 200: Largest 200 companies in the S&P 500

# Total direct compensation increased by +4% relative to 2022 levels



	Total Direct Compensation		Annual Growth in Median Total Direct Compensation									
	2023	2022	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Micro	\$150,000	\$140,609	7%	6%	7%	-0%	5%	-3%	2%	4%	9%	4%
Small	\$198,583	\$199,000	-0%	10%	2%	2%	3%	2%	6%	5%	3%	1%
Medium	\$223,681	\$213,406	5%	-0%	5%	2%	4%	-0%	6%	-1%	1%	5%
Large	\$262,278	\$254,000	3%	0%	3%	2%	3%	1%	4%	1%	3%	5%
Top 200	\$322,611	\$313,258	3%	1%	1%	4%	3%	2%	3%	3%	3%	2%
<b>All Firms</b>	<b>\$234,132</b>	<b>\$225,750</b>	<b>4%</b>	<b>2%</b>	<b>3%</b>	<b>3%</b>	<b>2%</b>	<b>2%</b>	<b>4%</b>	<b>3%</b>	<b>1%</b>	<b>3%</b>

Source: Main Data Group



# As boards look to stay agile, the prevalence of mandatory retirement age requirements and female board members continues to increase



	Organization Size						Prior Year
	Micro	Small	Medium	Large	Top 200	All Firms	All Firms
Median No. of Directors (a)	8	9	9	10	12	9	9
Median Director Age (yrs)	63	62	64	64	64	63	63
Median Director Tenure (yrs)	6.1	5.7	6.7	6.4	6	6.2	6.3
% with 1 year term	56%	54%	65%	76%	93%	67%	68%
Mandatory Retirement Age (yrs)							
Prevalence of disclosure	26%	33%	47%	56%	75%	45%	48%
Median Retirement Age	75	75	75	75	75	75	75
<u>Gender Diversity</u>							
% of companies with ≥ 1 female director	90%	97%	97%	99%	100%	96%	96%
% of companies with ≥ 2 female directors	59%	84%	85%	94%	99%	83%	80%
% of companies with ≥ 3 female directors	25%	45%	50%	67%	90%	53%	48%
Combined CEO/COB Role	31%	34%	26%	37%	51%	35%	36%
Median No. of Board Meetings	7	6	6	7	7	6	7

(a) Includes non-employee and employee directors

≥ +10% pts. Higher than last year

> +5% pts. Higher than last year

Source: Main Data Group

# Polling Question #2



What does your board have in place to enhance board refreshment?

- A. We have established age limits
- B. We have established tenure limits
- C. We have both age and tenure limits
- D. None of the above

# To simplify administration, boards continue to rely less on meeting fees and more on annual retainers and committee service compensation



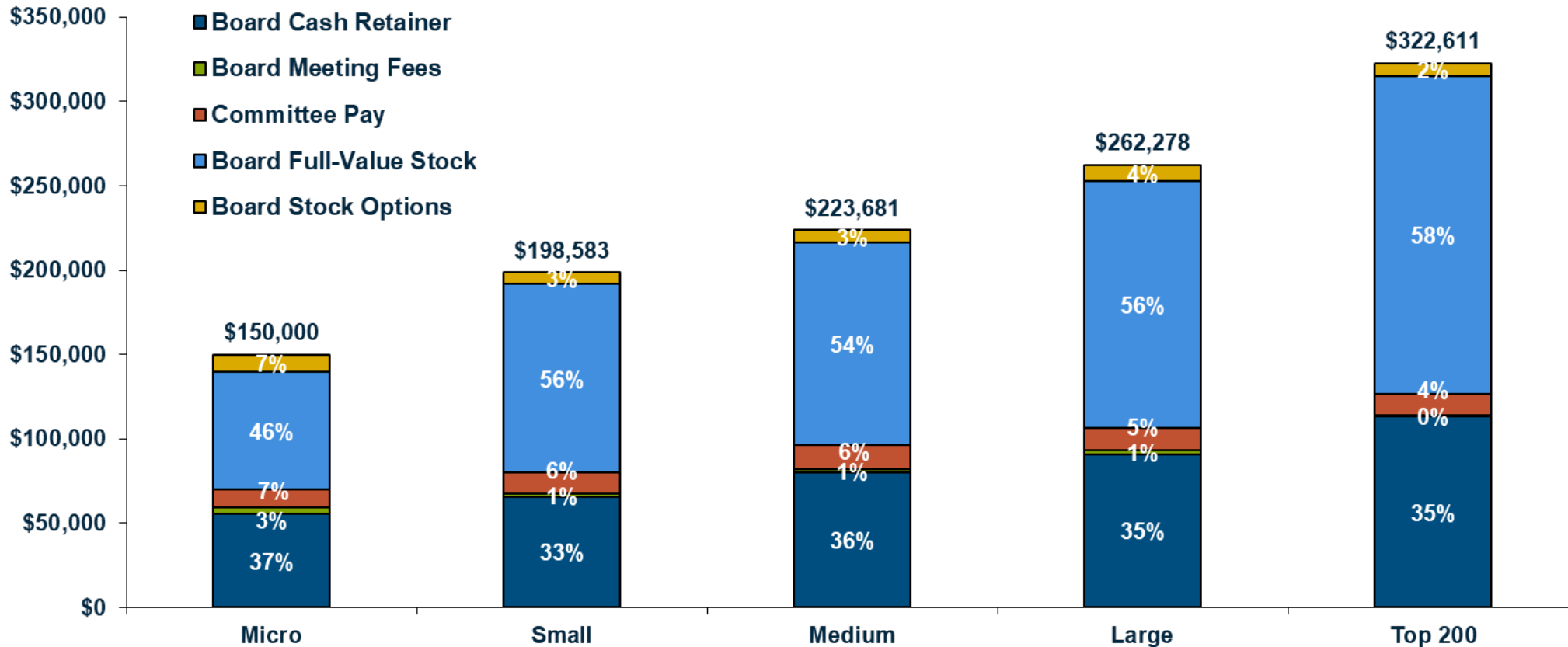
		All Firms						
		2023	2022	2021	2020	2019	2018	5-year Change
Cash	Median Annual Cash Retainer	\$75,000 0%	\$75,000 0%	\$75,000 4%	\$72,000 3%	\$70,000 6%	\$66,000 6%	14%
	Median Average Committee Compensation	\$10,000 4%	\$9,600 2%	\$9,410 -2%	\$9,640 -4%	\$10,000 0%	\$10,000 -13%	0%
	Prevalence of Board Meeting Fees	10% -4%	14% -3%	17% -2%	19% -2%	21% -2%	23% -4%	-13%
Equity	Median Equity Award	\$145,000 7%	\$135,000 4%	\$130,000 4%	\$125,000 0%	\$125,000 4%	\$120,000 0%	21%
	Median Total Direct Compensation	\$234,132 4%	\$225,750 2%	\$221,557 3%	\$214,115 3%	\$207,938 2%	\$203,031 2%	15%
	Median Total Board Cost	\$1,786,512 4%	\$1,710,366 0%	\$1,702,500 4%	\$1,644,472 3%	\$1,596,250 3%	\$1,555,393 0%	15%

Source: Main Data Group

# Full-value stock continues to account for the largest portion of director pay



## Median TDC and Pay Mix by Company Size

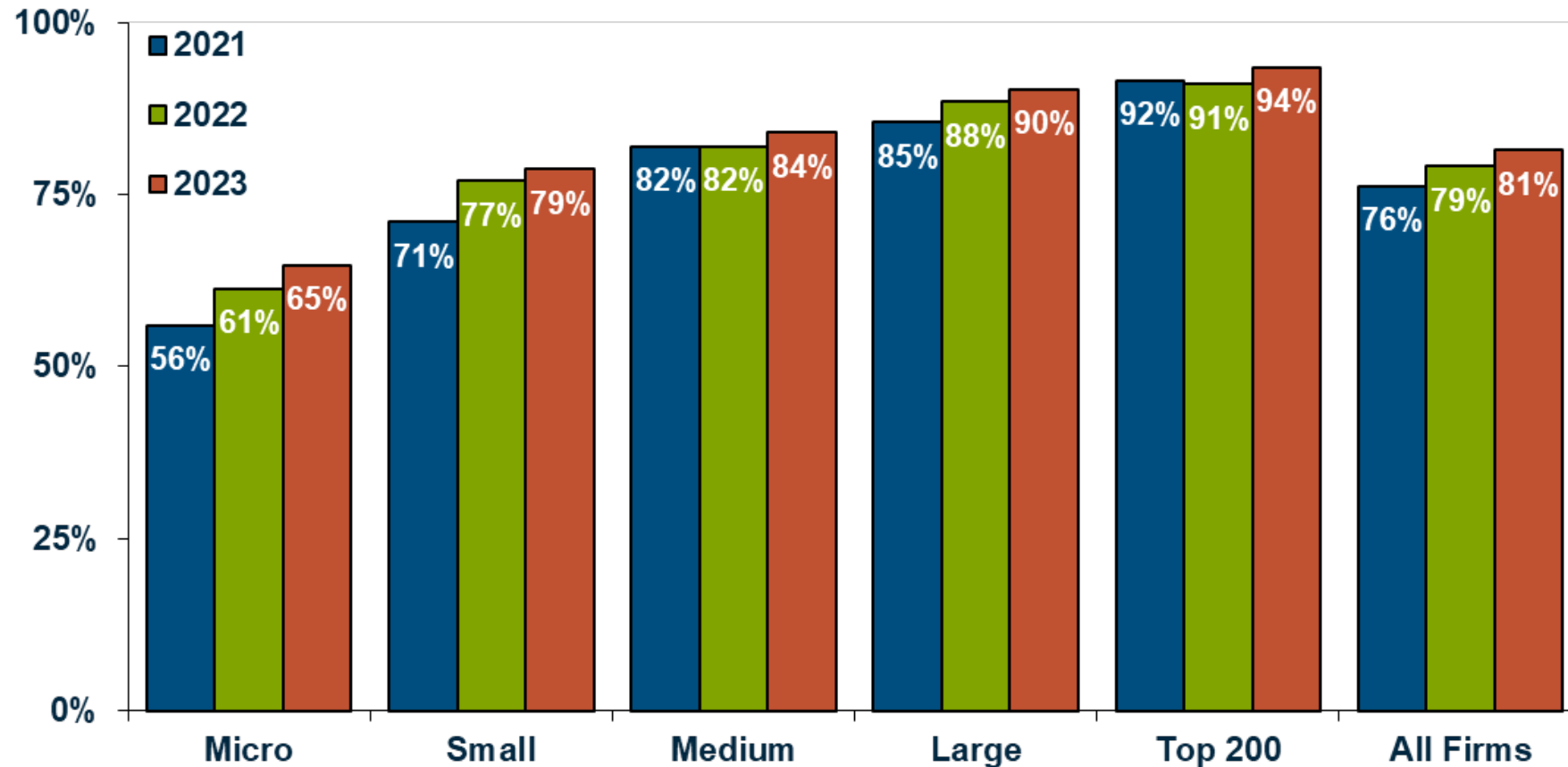


Source: Main Data Group

# Equity compromising over 50% of the total director pay package has grown across all size categories



### Prevalence of Companies Delivering $\geq 50\%$ of TDC in Equity



Source: Main Data Group

# Most companies set equity awards as a fixed value because it enables more precise control over total compensation



Equity Grant Practices: Fixed Values vs Fixed Shares							
	Micro	Small	Medium	Large	Top 200	All Firms	Prior Year All Firms
<b>Total Firms Providing Equity</b>	90%	97%	95%	97%	98%	95%	94%
<b>Grant Determination</b>	%	%	%	%	%	%	%
Fixed Value	75%	90%	89%	96%	96%	89%	85%
Fixed Shares	20%	9%	7%	4%	2%	9%	12%
Combination	5%	1%	4%	1%	2%	2%	3%

Source: Main Data Group

# Polling Question #3



How has stock price volatility impacted the way you think about the board's annual equity grant?

- A. We have recently moved, or are discussing moving, from a fixed share approach to a fixed value approach
- B. We have recently moved, or are discussing moving, from a fixed value approach to a fixed share approach to conserve shares
- C. No impact, we're comfortable with our current approach, or our stock price volatility has not been an issue

# Holding requirements increases in prevalence as shareholders look to ensure directors financial interests are tied to company performance



Prevalence of Stock Ownership Guidelines (SOG)							
	Micro	Small	Medium	Large	Top 200	All Firms	Prior Year All Firms
% of Companies with Any Form of SOG	59%	73%	86%	92%	96%	80%	79%
% of Companies with a Multiple of Retainer SOG	52%	65%	77%	82%	81%	71%	71%
Median Multiple of Retainer Requirement	3.0	4.0	5.0	5.0	5.0	5.0	5.0
% of Companies with Share SOG	6%	4%	5%	4%	9%	5%	6%
% of Companies with Dollar SOG	4%	6%	5%	8%	12%	7%	6%
Median Dollar Value Requirement	\$200,000	\$327,600	\$455,000	\$400,000	\$637,500	\$400,000	\$375,000
Median Time Frame (yrs)	5	5	5	5	5	5	5

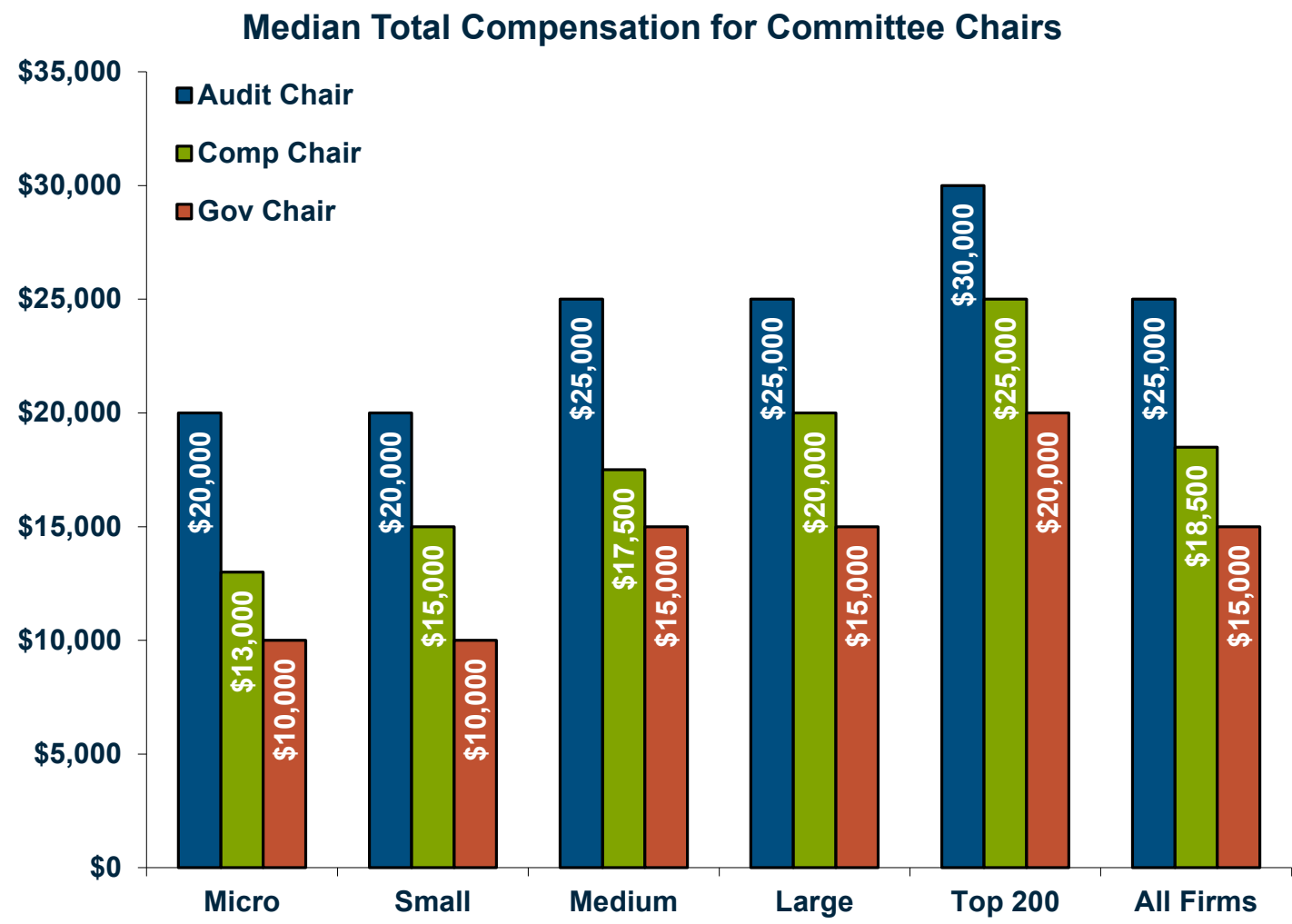
Holding Period Requirements							
	Micro	Small	Medium	Large	Top 200	All Firms	Prior Year All Firms
% with Holding Requirements	30%	28%	36%	39%	41%	34%	35%
Type of Holding Guideline							
Until or Beyond Retirement	18%	21%	16%	17%	40%	22%	23%
Until Ownership Guideline Achieved	58%	70%	64%	72%	45%	63%	65%
Other / Unknown	24%	9%	21%	11%	15%	16%	13%

- ≥ +5% pts. higher than last year
- ≥ -5% pts. lower than last year

Source: Main Data Group



# Committee chair premiums are commonly used to acknowledge the increased time commitment and additional responsibility of the role

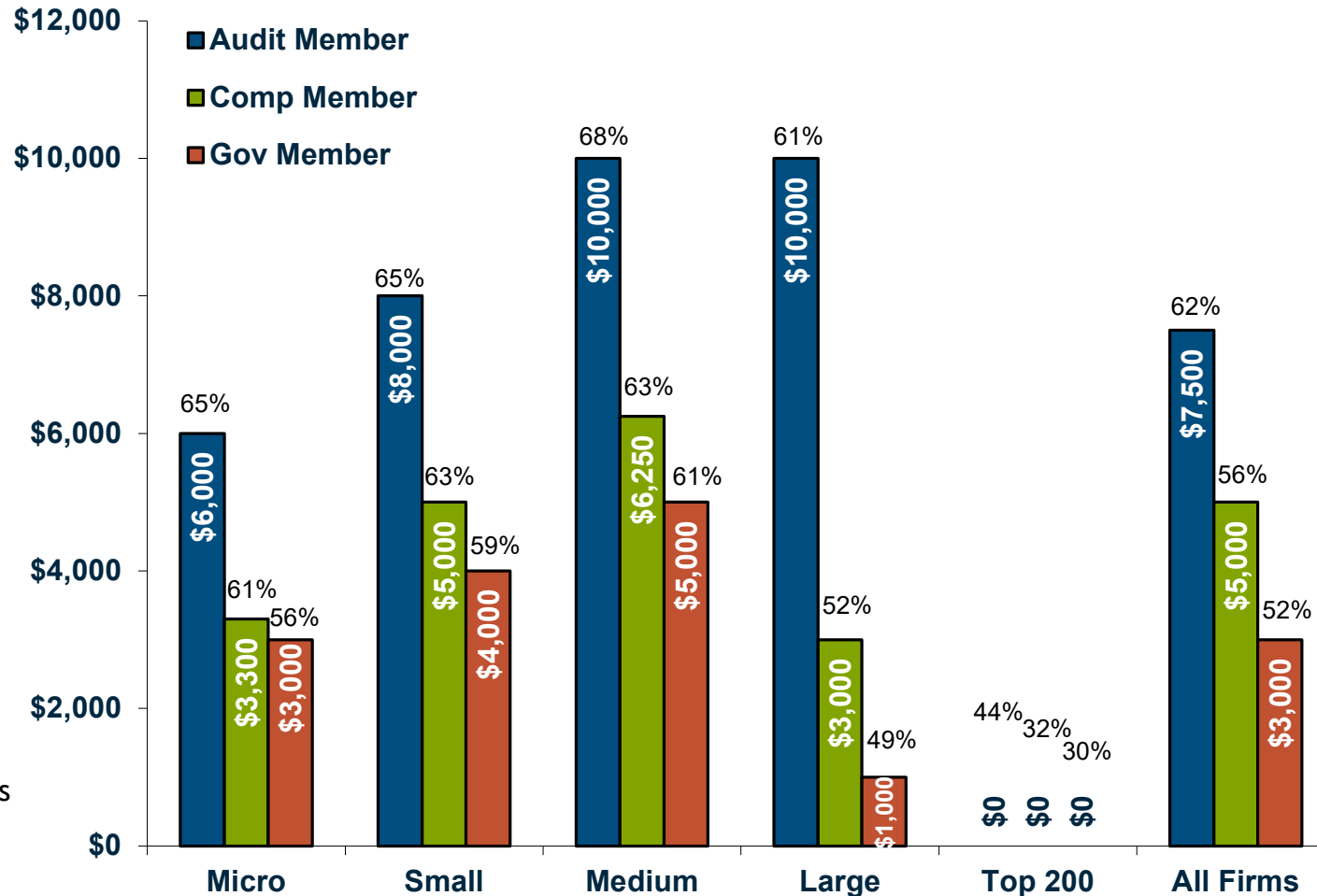


Source: Main Data Group

# Incremental committee member compensation is declining in prevalence as the workloads between committees continues to even out



Median Total Compensation for Committee Members



Note: prevalence percentages displayed above dataset

Source: Main Data Group

# Polling Question #4



Given the increased areas of responsibilities and oversight of the board, what is your board's current thinking as it relates to its established committees?

- A. We have recently created new committees to focus on some of these areas
- B. We are discussing the potential need for new committees
- C. We are currently able to effectively oversee all areas with our current committee structure

# Given the additional liability, a larger premium is typically provided to non-executive board chairs relative to other types of leadership



Compensation for Non-Exec Leadership				
	Median TDC for Board Leadership		Median Board Leadership TDC as a Multiple of Board Member TDC (a)	
	Non-Executive Chair	Lead/ Presiding	Non-Executive Chair	Lead/ Presiding
<b>Micro</b>	\$210,000	\$137,385	1.33x	1.13x
<b>Small</b>	\$275,000	\$200,000	1.38x	1.13x
<b>Medium</b>	\$312,500	\$237,500	1.45x	1.13x
<b>Large</b>	\$378,000	\$288,750	1.51x	1.12x
<b>Top 200</b>	\$500,000	\$357,500	1.63x	1.14x
<b>All Firms</b>	\$306,000	\$265,000	1.45x	1.13x

(a) Excludes fees for committee service.

## Private company director pay

- Private company boards are equally concerned about appropriate director pay and recruiting high-caliber board members who represent diverse backgrounds and possess industry and technical expertise
- Larger private companies are often competing with public companies for director talent
- Many private company boards look to public boards as a “best practice” blueprint
- With a lack of high-quality private company director compensation survey data, many turn to the Pearl Meyer/NACD report as their primary data source for setting director pay levels
  - May use a data cut that is similar in industry and size
  - Typically, will target their director pay, depending on their philosophy, somewhere between the 25th percentile and the 50th percentile of the cash compensation of public company directors
  - This targeted positioning reflects the differences in responsibility (largely governance) between private and public company directors.

# Future Planning



- Director responsibilities continue to evolve and expand, which can put pressure on the need for board refreshment
  - Does your board pay program allow for healthy turnover at the committee level? Should board term limits or mandatory retirement policies be explored to stimulate board refreshment?
- Proxy advisory firms are looking for more and more disclosure on the board's role in oversight of various issues spanning from cybersecurity to climate, which can impact voting recommendations
- Diversity is and continues to be a top priority for boards as diversity requirements adopted by stock exchanges and proxy advisory firm expectations evolve

# Q&A

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Please submit your questions in the Q&A box below.

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