Pearl Meyer

ADVISOR BLOG

Private Company Director Compensation: Securing High-Caliber Board Members

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While the focus of the NACD Director Compensation Report is publicly traded companies, private company boards are equally concerned about whether they are paying their directors appropriately given that private companies also require high-caliber board members who represent diverse backgrounds and possess industry and technical expertise in key areas of importance to the strategy of the company. In addition, private company boards have needs equal to public companies for directors who are experts in general topics such as information technology, cybersecurity, mergers and acquisitions, diversity, equity and inclusion, risk management, audit, and executive compensation. Indeed, most private companies—and particularly those with revenue of $500 million and above—find that they are competing for director talent directly with publicly traded companies. Typically, the primary differences in responsibility between public and private company directors are that:

- Public company directors are responsible for representing the interests of shareholders, which typically include a very broad set of institutional and individual investors; and
- Public companies and their directors are subject to greater regulatory filing requirements and the additional scrutiny that accompanies these filings.

While private company directors are also responsible for representing the interests of shareholders, these shareholders tend to be much smaller and have less-diverse interests than those of a public company.

As the roles and responsibilities of private company directors tend to be similar to those of public company directors, so too is the structure of private company boards, which tend to be structured similarly to public company boards with audit, compensation, and nominating and governance committees, along with additional committees which the board and senior management find to be beneficial to the organization. In this regard, private company boards tend to view public company board structures and operations as market best practice, and many private company boards emulate public company structures and operations.

Given the number of private company boards in existence and private companies' strong interest in ensuring that their directors are paid appropriately in order to attract and retain qualified board talent, it is quite surprising that there are not more robust private company director compensation data sources. The few private company director compensation surveys that do exist tend to focus on companies in a specific industry or they are limited in terms of the number of participants such that more specific industry or size cuts are not available. The inability to gather industry- and size-specific data cuts is a significant shortfall of these surveys as director compensation levels are highly correlated with company size, as we also see with executive compensation levels.

With this lack of high-quality private company director compensation survey data, many private companies turn to the NACD Director Compensation Report as their primary data source for setting director pay levels. In using this public company data, most private companies will use a data cut that is specific to their company in terms of industry and size and then target their director pay, depending on their director compensation 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 as described above between private and public company directors. Additionally, most private companies do not provide equity compensation to their directors and therefore exclude equity grant levels from their analysis of public company director pay practices. A notable exception here would be that directors of private-equity backed companies often do receive equity grants as part of their overall director compensation package.

Both public and private companies want to ensure that their directors are paid appropriately. The NACD Director Compensation Report can be used as a primary data source for both types of organizations. As always, market data is a starting point for companies and their boards to then apply judgment to determine how to set pay relative to the available market data.

About the Author

Ed Steinhoff, a managing director in Pearl Meyer's Chicago office, has more than 25 years of experience in executive compensation. He works with the boards of directors and senior management teams of public and private companies, ranging from small and middle-market firms to multi-billion dollar corporations, to design pay programs that drive business performance and value creation, secure high-performing executive talent, and withstand external scrutiny.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Baltimore, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Rochester, and San Jose.

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