

PRIVATE COMPANY BOARDS

A snapshot of what their directors are paid (underpaid?)

By Bernie Tenenbaum

Ed. Note: There is a wealth of compensation data available for public company directors, but private company board data remains much more elusive. One of the few specialists in private company director compensation is Bernie Tenenbaum. He is managing partner of Lodenstone Global, a firm that provides strategic guidance to chief executives of private and family-controlled enterprises considering forming or adding members to a fiduciary or advisory board (www.lodenstoneglobal.com). He has deep roots in the Young Presidents' Organization, from which he draws to compile his proprietary data on private boards. Lodenstone Global recently released its 2013 Private Company Board Compensation Survey and he reviews a few highlights from the survey in the following article.



Bernie Tenenbaum: Private companies paid their directors \$30,000.

One of the most common questions that companies ask me about their board is, "How much should we pay our directors?" The simple answer is, "It depends." There are many variables that determine director compensation: Do you have a fiduciary or advisory board? How many times a year do you meet? What industry are you in? What business structure do you have?... and other considerations.

Lodenstone Global's 3rd Annual 2013 Private Company Board Compensation Survey analyzes current board practices and compensation around the world. It includes 203 companies across 10 different industries. All the respondents were members of the Young Presidents' Organization (YPO-WPO), an international group of presidents and CEOs. The organization unites

approximately 20,000 business leaders in more than 120 countries. The 203 respondents were all CEOs of companies ranging from \$10 million to over \$1 billion in revenues.

With nearly 30% of the respondents representing 30 different countries, this survey is one of the first attempts to explore the variances between domestic and international private company director compensation. In fact, the results showed that domestic companies paid their directors 12.7% more than their international counterparts (see Exhibit 1). So one might ask: Why are international directors paid less?

Are they significantly less effective at driving corporate strategy? Do they just work more cheaply?

Also of note, the 2013 compensation statistics continue to suggest that public directors are paid *more than triple* their private peers. Public director compensation in the 2012 BDO 600 survey of companies — representing respondents between \$25 million and \$325 million in revenues — totals \$102,164. Of that total fee, 43% represents the annual retainer, 31% full value stock awards, 19% stock options, and 7% committee retainers and fees (see Exhibit 2). This compensation represents a 340% variance with their private peers.

The results of the survey do not necessarily prove that private company directors are underpaid; rather, they underscore compensation trends around the world. The significant increase in number of respondents, from 54 in 2012 to 203 in 2013, indicates that board compensation is becoming an even more important topic of discussion for many private and family-run companies.

As one would expect, board member compensation is directly correlated with size and complexity of the company. The survey set generally showed this trend, with median retainer and meeting fees rising in line with revenue size (see Exhibit 3).

When comparing the 2013 results with 2012 we saw a slight decrease in the median compensation. Private companies paid their directors \$30,000, down from \$31,500 last year. Most of this discrepancy can be explained by per meeting fees, where domestic companies paid double their international peers in this category.

EXHIBIT 1 Private director compensation

Source: Lodenstone Global

U.S. Data	Average	Median	2012	International Data	Average	Median
Annual Retainer	\$14,158	\$20,000	\$20,000	Annual Retainer	\$16,675	\$20,900
Per Meeting Fee	\$1,479	\$2,500	\$2,500	Per Meeting Fee	\$2,153	\$1,250
Per Teleconference	\$939	\$1,000	\$750	Per Teleconference	\$1,250	\$1,250
Total Compensation	\$21,952	\$32,000	\$31,500	Total Compensation	\$27,778	\$28,400

Domestic companies clearly place a different value on per meeting fees than their international counterparts. There was no obvious explanation for this differential, but we intend to continue to explore this discrepancy in future research. If you compare only domestic companies year over year, compensation increased 2%. One should expect this small upward trend to continue in 2014.

Also to be noted, 45% of the survey respondents were family-owned companies. The increase in family company participants highlights the importance to family companies of more professional corporate governance. The median number of board members was 6, with 3 independent directors. This has not changed over the three years the survey has been running. A significantly larger board leads to inefficiencies, while a smaller board risks limiting diversity of perspective so essential to driving effective strategy.

Interestingly, 84% of the respon-

dents say board compensation is not linked to performance. Without the pressure of public scrutiny, private companies seem immune to this concern that is roiling their public company counterparts.

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EXHIBIT 2 Public director compensation

U.S. Data	Average
Board Retainers and Fees	\$43,292
Committee Retainers and Fees	7,422
Full Value Stock Awards	32,005
Stock Options	19,445
Total Compensation	\$102,164

Source: 2012 BDO 600 Survey

EXHIBIT 3 Private board pay

Median annual retainer by revenue



Median per meeting fee by revenue



CARDTRONICS INC.

Houston, TX

has added to its board:

Julie Gardner

Bio Notes: She previously was president and chief marketing officer of Kohl's Department Stores, where she spent 14 years. Prior to that she was CMO at Eckerd Corp., where she also spent 14 years. In 2005 she was inducted into the Retail Hall of Fame and in 2012 *Forbes* cited her as the 11th Most Influential CMO in the World.

Cardtronics operates ATMs in U.S. and international locales. Revenues are \$833 million.

CHARLES RIVER LABORATORIES INTERNATIONAL INC.

Wilmington, MA

has added to its board:

Craig B. Thompson
President and CEO

MEMORIAL SLOAN-KETTERING CANCER CENTER
New York, NY

Bio Notes: He joined Sloan-Kettering in 2010. He had held various management roles at the University of Pennsylvania. He currently is a member of the medical advisory board of the Howard Hughes Medical Institute and serves as a member of the Lasker Prize Jury. Also is a director of Merck & Co. Inc.

Charles River is engaged in drug discovery and development. Revenues are \$1 billion.

CHEVRON CORP.

San Ramon, CA

has added to its board:

Jon Huntsman Jr.
Chairman
HUNTSMAN CANCER FOUNDATION
Salt Lake City, UT

Bio Notes: He joined chemicals company Hunstman Corp. in 1983 and served in a variety of senior positions, including vice chairman, before his 2005 resignation. In 2011 he was a candidate for the Republican nomination for U.S. President. Also is a director of Caterpillar Inc., Ford Motor Co., and Huntsman Corp. Age 53.

Chevron is an energy company. Revenues are \$214 billion.