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Frequently Asked Questions
About Outside Board of Director Membership

What are typical outside (or independent) board director compensation components?

- **Fees:**
  - **Retainer** – Amount paid annually or quarterly to compensate members for attending scheduled (generally four or five per year) and ad hoc board in-person and phone meetings, committee meetings, and for being available between meetings to process and respond to requests by email or phone.
  - **Meeting Fees** – Amounts paid per board, committee, and ad hoc meeting.

  Generally about 40% of total board member compensation comes through fees.

- **Board Chair, Outside Lead Director, and Committee Chair Premiums:** The Board Chair, Lead Outside Director, and Committee Chairs often receive additional compensation to compensate for additional contributions in their associated leadership roles.
  - The Board Chair fee can be double the base retainer to cover added responsibilities such as: agenda setting, pre and post briefings with the CEO and other members, meeting facilitation, member feedback and development, checking-in with other members.
  - The Audit Committee Chair might receive from $10,000 to $25,000 in additional annual compensation.
  - Other committee chairs and members (Compensation, Governance, Nominating, etc.) might receive additional compensation but less than the more skill-demanding Audit Committee.

  Generally committee fees come to about 5% of total board member compensation.

- **Ownership:**
  - **Equity** – Shares of the company awarded may be restricted or not and may be vested or vest over time.
  - **Options** – Options awarded may be vested or vest over time or vest as performance thresholds are achieved. The option strike price is set at time of issue to permit holders to share in the value they help create.

  Generally ownership comes to about 45 - 50% of total board member compensation.

- **Consulting:** Incremental services may be provided for project or hourly rates though generally it is unwise for board members to also work for hire as personal interests can easily conflict with company interests. Board members who also charge project or hourly rates should do so with great care. When in doubt, share the particulars with other board members for their review and consent.

- **Expenses:** Typically travel expenses directly associated with meeting attendance and other activities performed at the request of the company are reimbursed as incurred with no mark-up. Significant expenses should be brought to light for approval before they are incurred.

- **Other:** Some companies provide board members with access to deferred compensation or pension programs, private air travel for board meetings and possibly for personal travel, access to company offices, and administrative services.

Does annual revenue correlate with board compensation levels?

Annual revenue is often a consideration but revenue alone does not correlate well with board compensation. Corporate margins, industry, stage of maturity, ownership structure, among other things also factor-in heavily.

Do some industries pay more for board service?

Board director compensation does vary by industry. The technology industry pays the most followed by healthcare. The least compensated, by a factor of 25%, are bank board directors. In terms of stock vs cash, technology and healthcare hold the highest percentages in stock while banks offer the least in stock. Regardless of industry, stock awards are generally preferred over stock options.

Is it better for board members to be paid more in cash or equity?

There is generally an overall greater compensation reward through stock options and full value stock awards than in cash. That said, many executives nonetheless prefer the certainty of cash now over the more uncertain upside through equity rewards later. Board members who do not see beyond the immediacy of cash compensation are generally perceived by other board members, owners, and management as less likely to see and relate to “shareholder” interests and so less likely to be high-functioning board members.

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Are board compensation and associated terms negotiable?

Board compensation fees and terms are generally not negotiable. Most firms have developed a compensation scheme that applies across board members and the scheme is implemented rigorously. This does not mean that all board members are paid the same as the scheme can accommodate differences in value from one member to another.

What is a good way to decide whether or not to serve on a particular board?

A good strategy is to serve on a board if you have strong interest in the company; are compelled by the opportunities and challenges; you get and give energy to company leadership, particularly the CEO, and other board members; can deliver differentiating value to the board; and are comfortable with the associated fiduciary responsibility. These means, it is more than a matter of compensation. It is critical to think deeply and come to a clear view as to why it makes sense to serve on a particular board and for what specific reasons.

Have board compensation programs changed much over the years?

Overall, there has been little change in board compensation over the past few years. The relative percentage of cash compensation vs. equity as also held steady at roughly 45%: 55% respectively.

Do board members need insurance?

Corporate board members have legal obligations and associated risks. To mitigate those risks, in addition to serving responsibly, companies protect their directors with adequate Directors and Officers insurance and Errors and Omissions insurance. It is essential that such insurance is in place before accepting board responsibilities.

Private companies have the option to set up an Accountability Board as an Advisory Board in order to skirt the legal liability and retain full control but get the benefit of a high functioning Board of Directors.

What is the right number of directors to have on a board?

The right number of directors to have varies considerably with stage of evolution, business complexity, size, number and type of investors, and any number of special circumstances. That said, an odd number is generally preferred to make tie votes less likely.

Early stage companies may have just a couple of outside directors; generally installed to represent the interests of the principal owners.
As a firm matures through stages of evolution, additional members with needed skills, perspective, experience, and connections will make sense to add.

Middle-market companies ($100M to $2B in annual revenue) have an average board of nine directors with approximately 80% of those being outside independent directors.

About the authors

Ms. Melissa Henderson founded Summit Executive Resources to help executive candidates find and secure the opportunities best suited to their skills and goals, and prepare and position them for success. The firm also helps companies, boards of directors, and private equity firms identify qualified talent without a lengthy or costly search.

These FAQs are based primarily on SER's Primer in Board of Directors Compensation.

Mr. Peter DiGiammarino founded IntelliVen to help leaders, teams, and organizations achieve their potential to perform and grow.