May 7, 2020

Exploring Key Differences in Private vs. Public Board of Director Pay as the Market Turns

In light of the COVID-19 pandemic, companies are making significant changes to executive compensation and employee rewards, often with significant board of director oversight. Thus, we can expect boards to quickly come under the microscope for their own pay levels. This makes understanding today's baseline for pay all the more critical.

As the COVID-19 pandemic initially began to unfold, executive leadership teams and boards of directors were understandably focused on the humanitarian and business continuity impacts of the crisis. They had to keep employees safe, shift most operations to virtual and work-from-home settings, maintain supply chains and dramatically alter procedures for public-facing or manufacturing areas of the business that remained open. While this work continues, companies are shifting their focus to prepare for the long-term economic impact of the COVID-19 pandemic and a new normal for business operations.

In recent weeks, this shift is becoming apparent, as more companies take actions to manage costs via workforce reductions or cuts in pay. Given the impact of these policies on executives and employees, it is important to ensure board of director pay programs remain aligned to the rest of the business. This is true for private and public companies alike.

Yet, our analysis of recent public disclosures shows that while companies are adjusting executive pay at an accelerated rate, they are generally reluctant to adjust board of director pay. Given this trend, we decided to leverage our survey data and tools to understand today's baseline for private vs. public board of director pay and explore what this baseline might tell us about potential changes down the road.

Equity Sets the Stage for Differences in Pay

Generally, private companies[1] are unable to compensate outside directors with equity. At public companies, equity might make up to 50% of a director's compensation. Also, it is difficult to find information on what private companies pay their outside directors given the lack of disclosure. To address this, Aon's Private Company Total Compensation Measurement™ Survey collects data on the composition and compensation of the outside directors of private companies (excluding private equity-owned firms).

[1] Private companies in this analysis are closely held businesses that are not publicly traded. These are generally companies that intend to remain private (e.g. family owned businesses, S Corporations, non-profits, business units) rather than Private Equity or Venture Capital sponsored companies.

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This article reports on these findings and compares private company outside director pay to public company director pay to assist in developing private director pay programs that are competitive and appropriate. The public company board of director information is sourced from Aon's Compensation Governance Pro tool. Some highlights include:

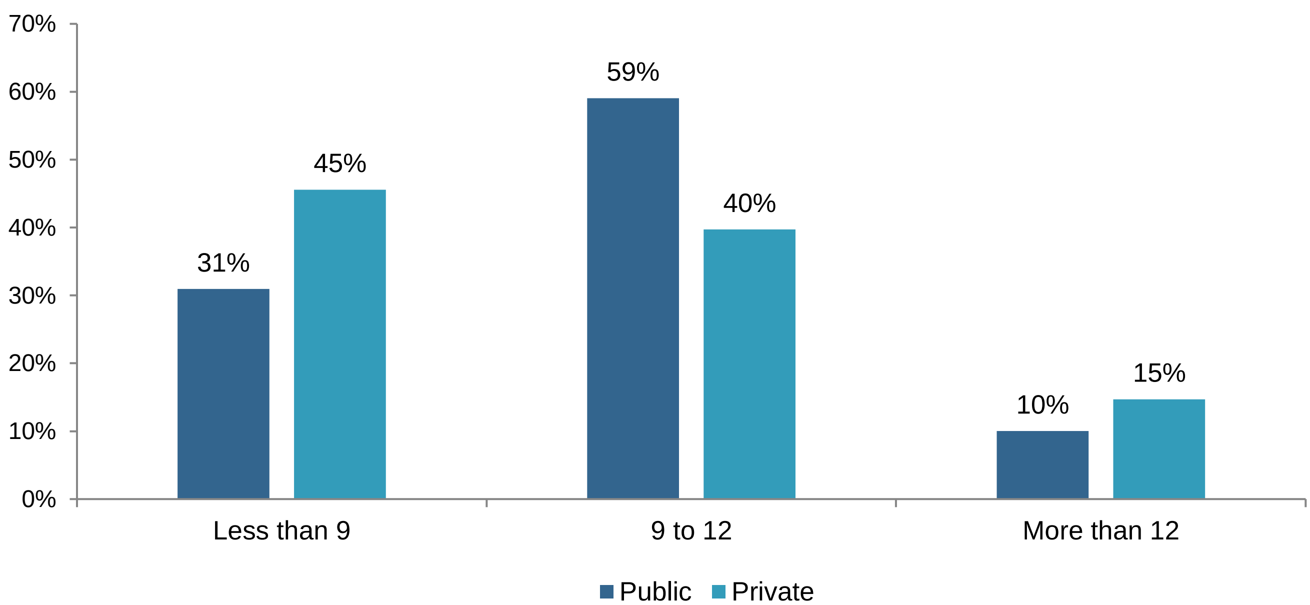
- Private board compensation trails public board compensation by 36%, driven mostly by lower amounts of long-term equity
- A higher number of board members, along with additional meetings at public companies, may contribute to higher compensation vs. private companies
- To offset the lack of equity compensation, private companies may provide higher committee retainers and fees to directors

Board Composition

The composition of a private board vs. public boards is one reason for their difference in pay. The median number of board members for public companies (10) is slightly higher than that of private companies (9), implying that there are more resources to share the workload. The median number of annual board meetings among public companies (7 per year) is 75% higher than that for private companies (4 per year). Also, 57% of public boards have more than 6 meetings compared to 17% of private boards.

Figure 1

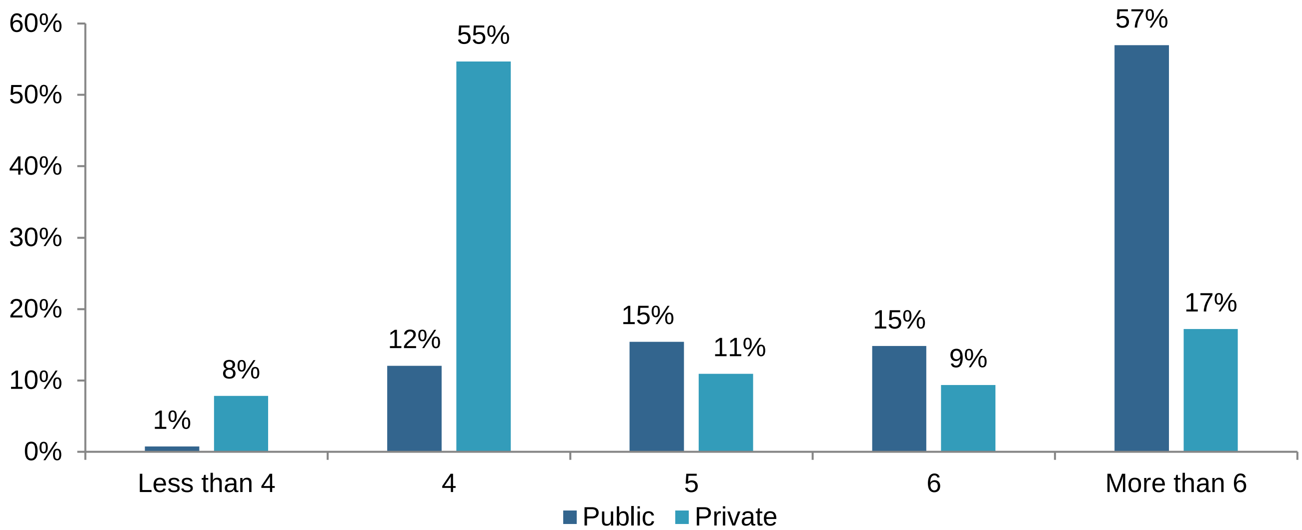
Size of Boards for Public vs. Private Companies



Source: Aon's Private Company Total Compensation Measurement™ Survey; Aon's Compensation Governance Pro tool

Figure 2

Number of Board Meetings for Public vs. Private Companies



Source: Aon's Private Company Total Compensation Measurement™ Survey; Aon's Compensation Governance Pro tool

Board Compensation

Total compensation for outside directors at private companies is about 36% lower than their public company peers. As you would expect, most of the difference is driven by significantly lower long-term incentive (LTI) awards among private companies. Almost all public companies offer LTI (96%) compared to private companies (20%). Given the lower LTI, private companies address the shortfall with significantly larger retainers and competitive meeting fees.

Approximately 20% of public and 12% of private companies provide additional meeting fees to their board members, with the median value for public companies being $12,250 and $9,000 for private companies. Public boards meet far more often than private boards, which is another reason why meeting fees are higher. Since public companies face greater regulatory and disclosure requirements, there is more time and effort needed on the part of public board directors.

Figure 3

Board Compensation for Public vs. Private Companies (Figures are not additive[2])

Board Members (Median[1])	Total Compensation	Retainer	Total Meeting Fees		Total Cash	Long-term Incentives
			Prevalence	Value		
Public	$231,000	$75,000	20%	$12,250	$75,000	$135,000
Private	$125,000	$100,000	12%	$9,000	$100,000	$100,000

Source: Aon's Private Company Total Compensation Measurement™ Survey; Aon's Compensation Governance Pro tool

[2] Median percentile results are independently arrayed

Overall, private companies provide higher committee retainers and fees as a way of offsetting the lack of an equity opportunity. Compared to public board total compensation, private board pay lags by $106,000.

Board Leadership

Compensation for either a non-executive chair or a lead director is higher at public companies. Chairs on average receive a retainer of $127,500 and lead directors receive a retainer of $110,000 at public companies compared to $95,500 and $35,000, respectively, at private companies. These roles are also more common at public companies.

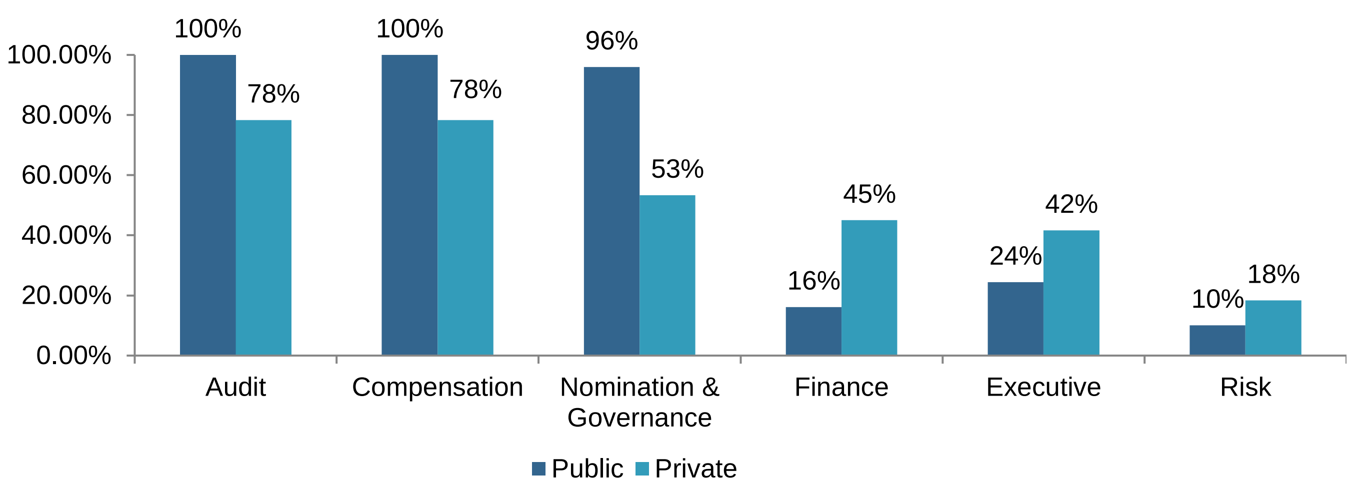
Board Committees

Committee Prevalence

Listing standards require that all non-controlled public companies have an audit, compensation and nominating and governance committee comprised of independent directors. Private companies are under no requirements and as a result, they are less likely to report having an audit, compensation or nominating and governance committee. Conversely, they are more likely to have a finance, executive or risk committee where some of the former committee tasks may be addressed.

Figure 4

Committee Prevalence for Public vs. Private Boards



Source: Aon's Private Company Total Compensation Measurement™ Survey; Aon's Compensation Governance Pro tool

Audit and Compensation Committee Compensation

Like the board retainer, audit and compensation committee retainers are higher among private companies. Chairs of the two major private committees (i.e., audit and compensation) receive $25,000 and $20,000 at median respectively, compared to $20,000 for public audit committee chairs and $15,000 for public compensation committee chairs. Committee member retainers are also greater at private companies.

Total meeting fees are higher among the public committees for both chairs and members. However, meeting fees are more prevalent among private committee members.

Unlike private companies, some public companies also offer long-term incentives as part of committee compensation.

Figure 5

Audit and Compensation Committee Compensation for Private vs. Public Companies (Figures are not additive[3])

Committee Chair Premium (Median)		Total Compensation	Annual Retainer	Total Meeting Fees		Long-term Incentives	
				Prevalence	Median	Prevalence	Median
Audit	Public	$20,000	$20,000	2%	$12,250	3%	$20,899
	Private	$20,000	$25,000	14%	$7,500	--	--
Compensation	Public	$12,500	$15,000	1%	$9,000	3%	$17,500
	Private	$20,000	$20,000	24%	$6,750	--	--

Committee Member Premium (Median)		Total Compensation	Annual Retainer	Total Meeting Fees		Long-term Incentives	
				Prevalence	Median	Prevalence	Median
Audit	Public	$11,000	$10,000	19%	$10,000	1%	$12,500
	Private	$12,000	$15,500	43%	$4,300	--	--
Compensation	Public	$9,250	$9,250	19%	$7,500	1%	$10,000
	Private	$12,000	$15,000	36%	$6,750	--	--

Source: Aon's Private Company Total Compensation Measurement™ Survey; Aon's Compensation Governance Pro tool

Key Takeaways

Our research confirms that private company board members *do* earn less than their public company peers. However, it is important to note that private boards also meet less frequently, have fewer board members and, generally speaking, face less liability and public scrutiny. Private companies also structure director pay differently due to the lack of equity available for most of these firms. So, while private board pay is significantly lower, it appears to be appropriate given the time commitment required and the complexity of the public director's role.

For more details and to participate in Aon's Private Company Total Compensation Measurement survey, please contact one of the authors or write to rewards-solutions@aon.com. All companies completing the board compensation section of the survey are eligible to receive a free copy of the full private board results.

[3] Median percentile results are independently arrayed

To read more articles on how rewards professionals can respond to the COVID-19 pandemic, please click here.

Use our dynamic reporting tool to download and view results of our latest pulse survey on Adjusting Total Rewards Programs and Workforce Strategies in Response to COVID-19 in North America and Europe.

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