

# ON POINT

TIMELY, ACCURATE, INSIGHTFUL

## **2012 Board Pay and Governance Practices Survey**

### Executive Summary

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## Introduction

Pearl Meyer & Partners' ***On Point: Board Pay and Governance Practices Survey*** is designed to provide needed insight to how Directors think about their own compensation, including how their pay programs should be targeted and structured.

This survey was conducted online between February 10, 2012 and March 26, 2012. Participants included 125 Board members, 28 executive officers and 10 employees in the compensation function. Respondents addressed a range of pay and governance topics including:

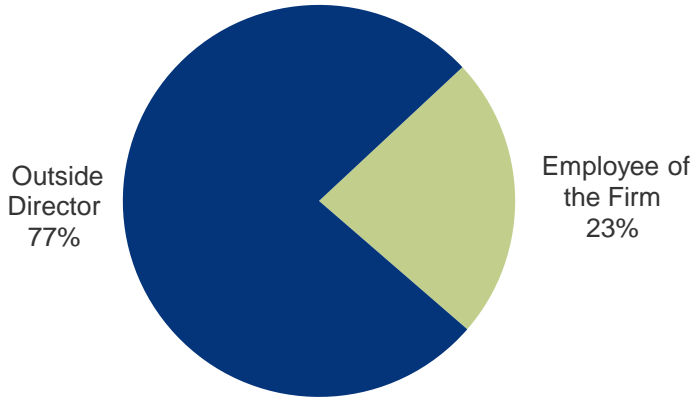
- Board diversity
- Board education and Human resources/compensation experience
- Directors' time commitments
- Compensation Philosophy
- Reviewing and adjusting Board pay
- Factors in setting Board pay
- Board and committee compensation vehicles
- Premium compensation for Board leadership
- Special Board payments

The complete results from PM&P On Point: ***2012 Board Pay and Governance Practices Survey*** are available for purchase at: <http://www.pearlmeyer.com/Boardpaygovernancereport>

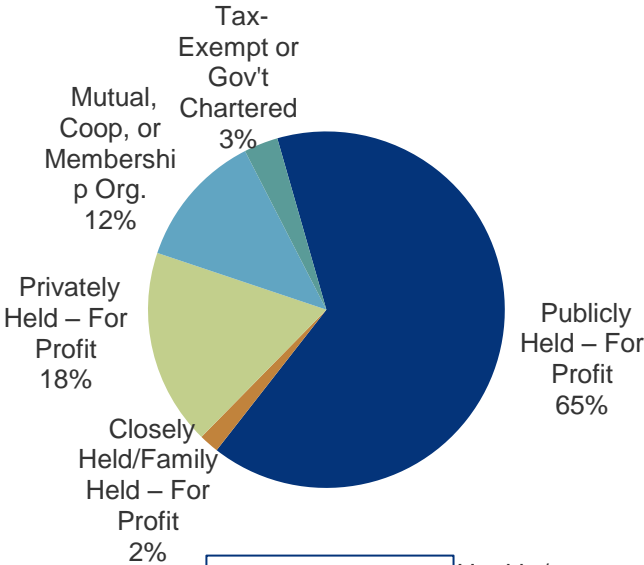
We are hopeful you will find this information useful. If you would like to discuss any aspect of the findings, please contact Pete Lupo at [peter.lupo@pearlmeyer.com](mailto:peter.lupo@pearlmeyer.com) (212-407-9509) or Lianne Chew at [lianne.chew@pearlmeyer.com](mailto:lianne.chew@pearlmeyer.com) (212-407-9513).

# Participant Demographics – Total Respondents: 163

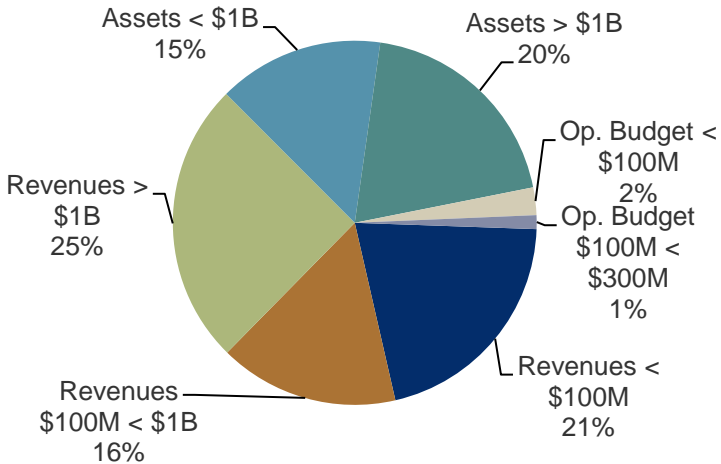
**Role of Respondent**



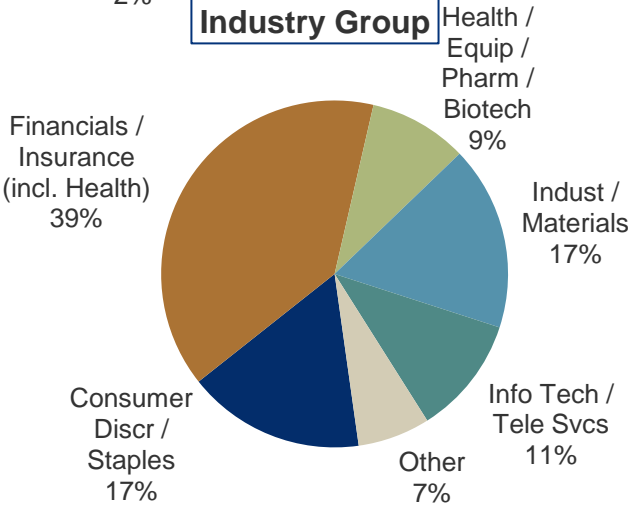
**Form of Ownership**



**Firm Size (By Revenues, Assets or Op. Budget)**

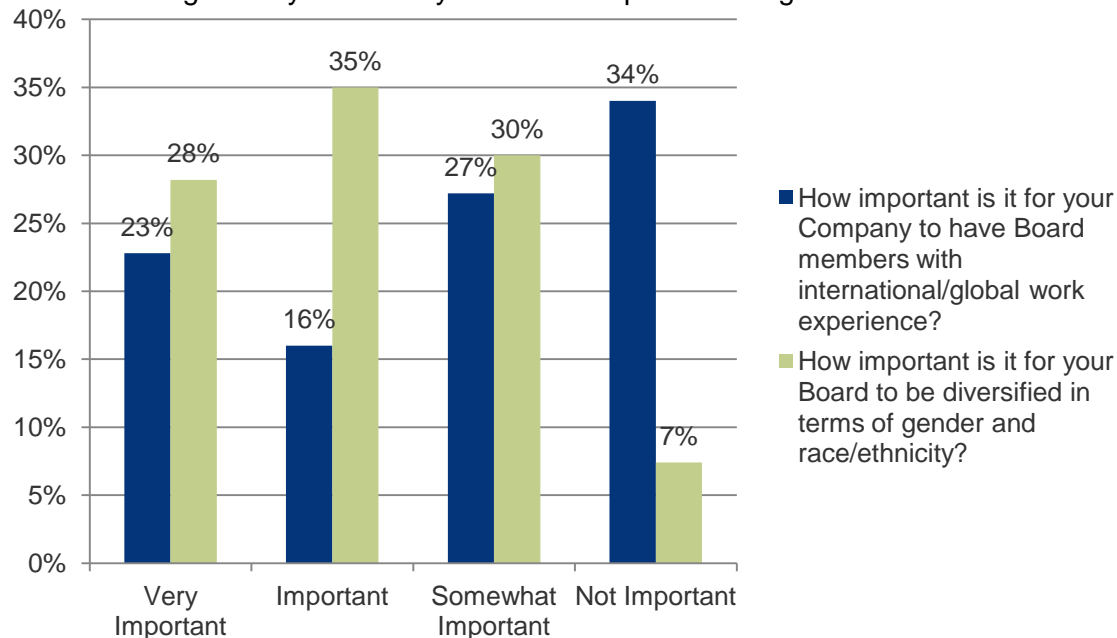


**Industry Group**



## Board Diversity

- About the same number of respondents rated it Important or Very Important (39% combined) to have Board members with global work experience as those who said such diversity is Not Important (34%)
  - Industrial/Materials and IT/Telecommunication services firms assigned the most importance to global experience
- Participants gave more priority to gender/racial diversity, which 28% rated Very Important and 35% rated Important vs. 7% who rated it Not Important
  - Larger organizations were generally more likely to cite the importance of gender and race/ethnic diversity on Boards

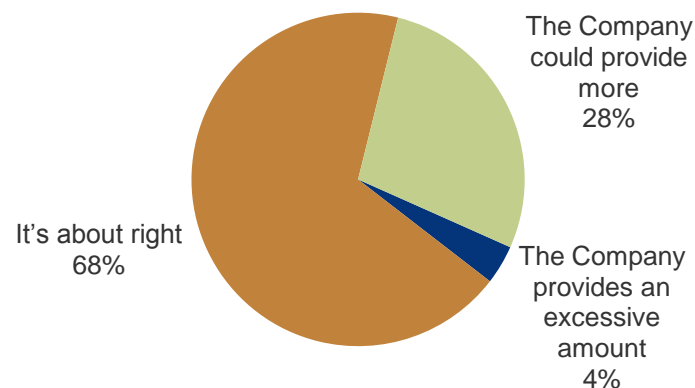


**PM&P Observations:** There has been extensive public attention to the issue of promoting diversity in corporate Boardrooms, but the survey participants generally indicated such initiatives were not a top priority.

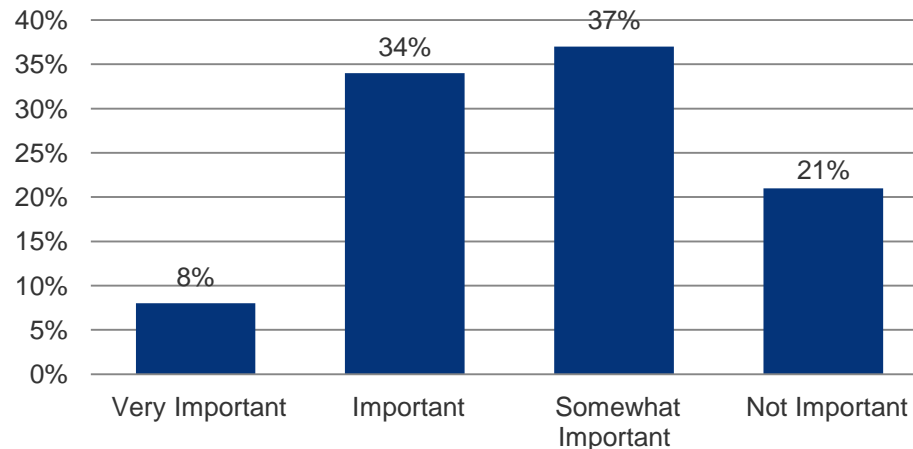
## Board Education and Human Resources/Compensation Work Experience

- Ongoing Director education and the need for at least some Directors to have working knowledge of specific topics (finance, accounting or executive compensation) is of growing importance in a more complex regulatory and governance environment:
  - 68% of Participants believe the level of Board education being provided to members is appropriate

**Level of Education/Updates/Information Provided to Board Members by Company**



**Importance of HR or Comp. Work Experience for Comp. Committee Members**

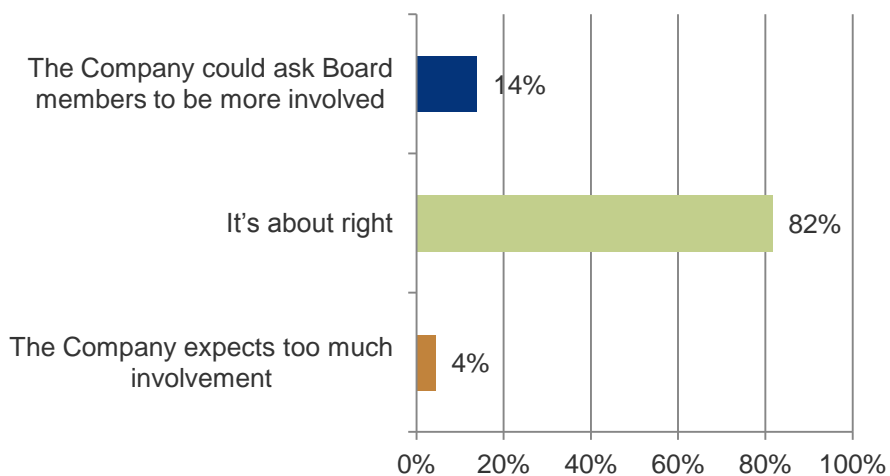


**PM&P Observations:** Interestingly, participants generally do not consider it critical to include a member with human resources or executive compensation background on the Compensation Committee. This suggests Board members feel comfortable structuring executive compensation programs with the help of the company's human resources group and outside advisors.

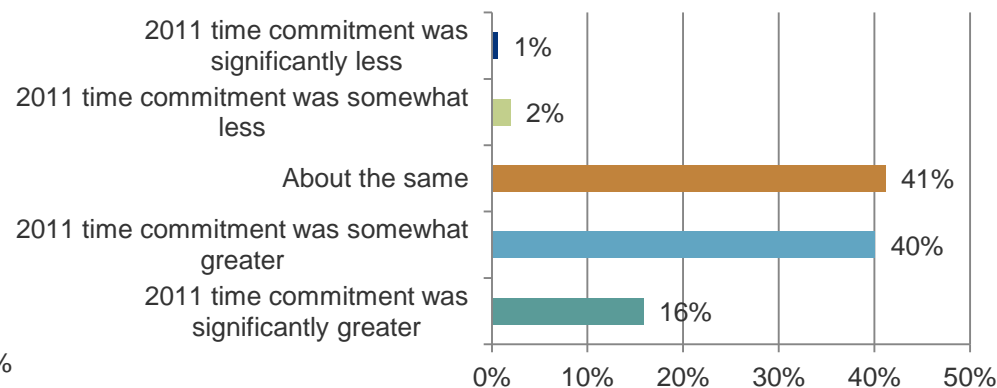
## Director Time Commitments

- While 40% of participants said Directors are spending somewhat more time on Board service in 2011 than in previous years, 82% believe the level of Directors' time commitments is about right:
  - Only 4% said the Company expects too much involvement
  - Very few participants – 16% – said their Board time commitments in 2011 were significantly greater

Current Annual Director Time Commitments



Director Time Commitments in 2011 Compared to Previous Years

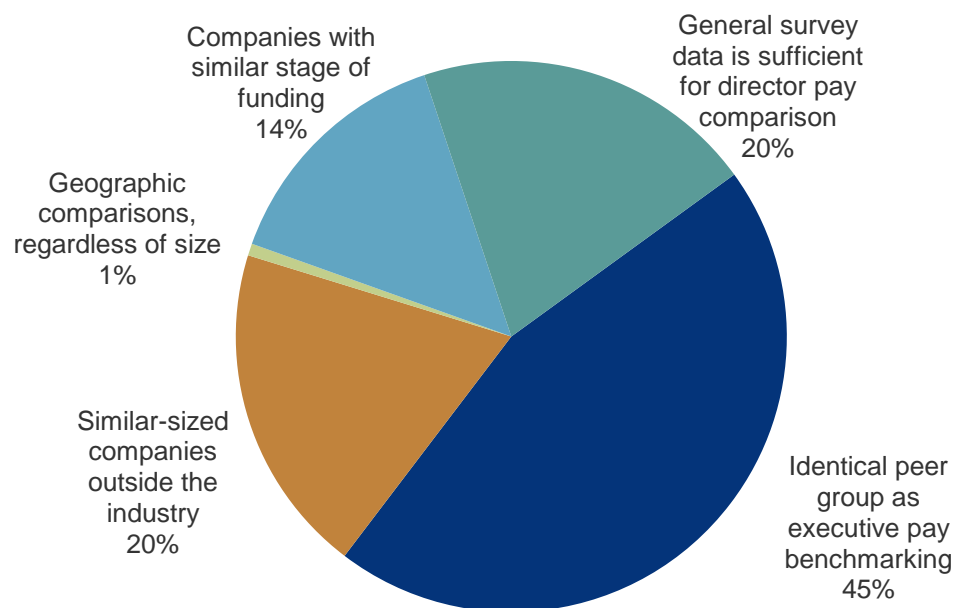


**PM&P Observations:** The survey suggests that, despite the growing complexity of the governance environment, Directors' time commitments have been stable and members continue to view their commitments as reasonable. However, in our experience, Directors dealing with special situations (e.g., a company crisis) will spend significantly more time on their responsibilities – in many cases with little or no additional pay.

## Reviewing Pay

- Not surprisingly, about half of participants rely on their companies' executive compensation peer group to benchmark Director pay

**Primary Consideration in Peer Group Selection for Benchmarking Director Pay**



**PM&P Observations:** It is not unusual for smaller public companies to use survey data, in part to minimize the cost of conducting a peer group study. Larger public companies typically benchmark Director pay using the executive compensation peer group, supplemented with other data sources.



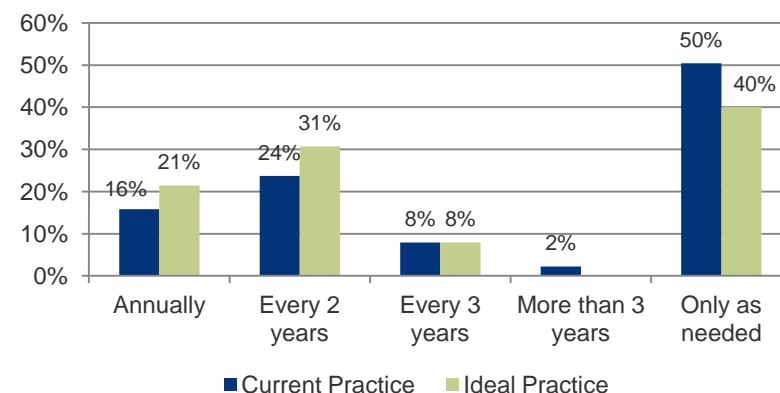
## Adjusting Pay

- 37% of participants benchmark Director pay annually, with 48% saying they consider that an ideal practice
  
- 50% of participants adjust pay only as needed, while 40% consider that an ideal practice:
  - Adjusting Board pay every year is a minority practice, reported by only 16% of participants

Frequency of Board Pay Review



Frequency of Board Pay Adjustment

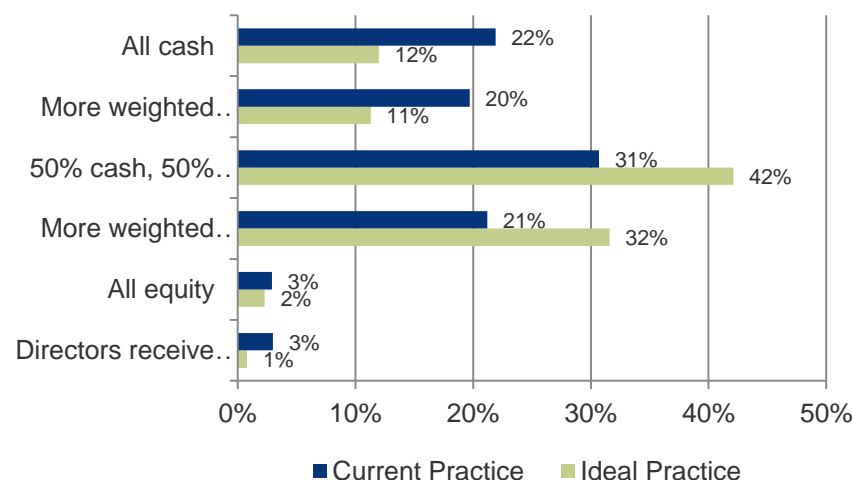


**PM&P Observations:** The survey results show that most Boards adjust their pay only as needed. Although this practice is reasonable, Boards might find a better route is a bi-annual pay adjustment, which keeps Board pay current and competitive, especially for those Boards somewhat gun-shy with even modest pay adjustments. This approach avoids the need for larger “catch-up” adjustments, which may not disclose well in a proxy statement even if the adjustments are fully warranted.

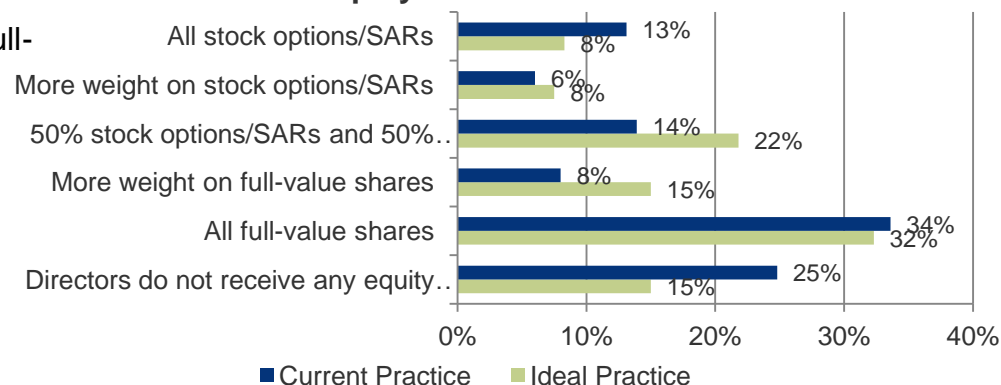
## Director Compensation Pay Mix

- Among 31% of participants, Board pay is equally divided between cash and equity
  - 42% of participants said they would prefer this approach
  
- 21% of participants reported their Board pay plan is weighted toward equity compensation
  - 32% of participants preferred this approach
  
- 14% of participants reported their plan delivers 50% of Board pay in options/SARs and 50% in full-value shares
  - 22% of participants preferred this approach

### Cash and Equity Mix for Directors



### Equity Mix for Directors

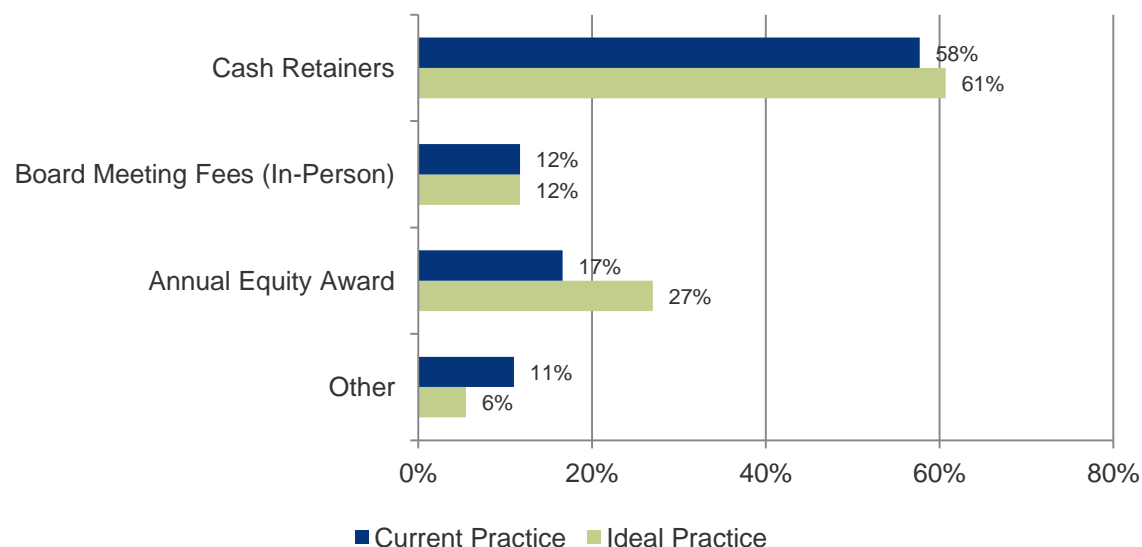


**PM&P Observations:** From a best practice perspective, many governance experts recommend providing at least half of Board pay in the form of equity. A program with an equity/cash mix in the range of 60%/40% or vice versa is also a widely supported practice. The data suggest most Directors generally agree with these best practices.

## Premium Compensation to Non-Executive Board Chairs

- 61% of participants believe premium compensation should be provided as a cash retainer, with 58% of respondents currently maintaining such a practice

Premium Compensation to Non-Executive Board Chairs\*



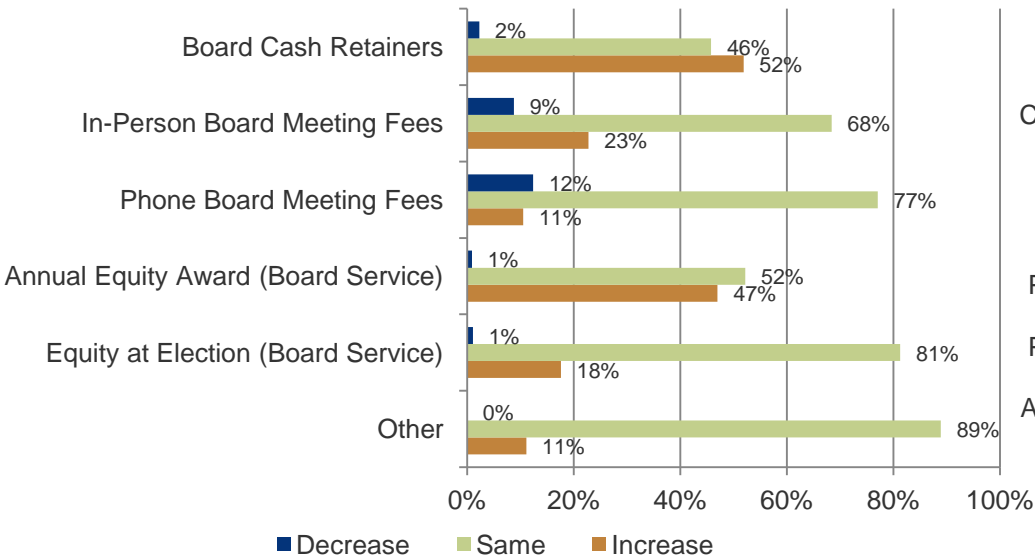
\* Figures do not add up to 100% since participants were asked to "check all that apply".

**PM&P Observation:** Only 17% provide premium compensation in equity, while 27% consider that an ideal practice. PM&P has not observed a trend toward paying a greater portion of premium pay in equity, although such an approach should be considered.

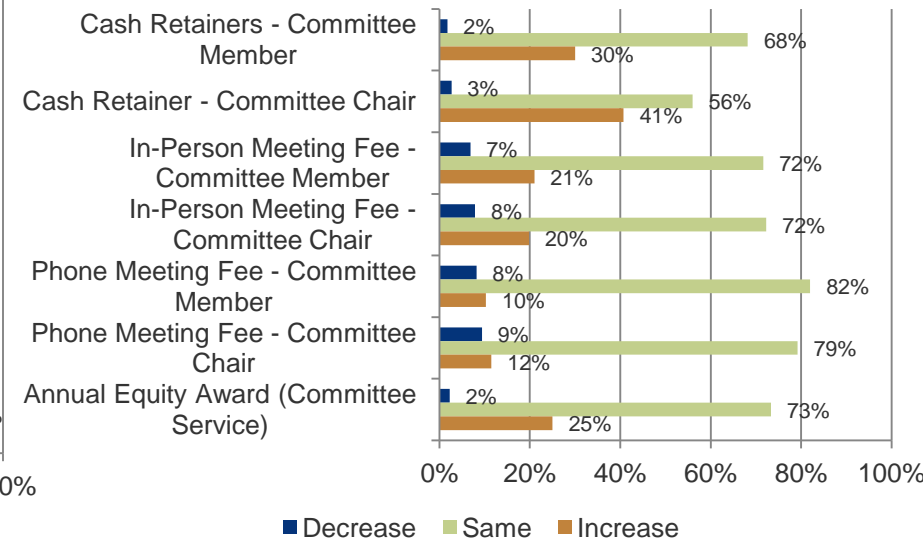
## Expected Changes in Pay over the Next 1-2 Years

- Except for potential increases in the annual Board cash retainer and equity award, participants do not expect much movement in Board and committee pay:
  - 52% and 47% of participants believe Board cash retainers and annual equity awards will increase, respectively
  - 41% of participants believe Committee Chair cash retainers will increase

**Expected Change Over the Next 1-2 Years  
- Board Pay -**



**Expected Change Over the Next 1-2 Years  
- Committee Chair and Member Pay -**



- Participants believe pay for phone meetings will decrease, which is consistent with current trends in Board pay

**PM&P Observations:** Although Director pay has not increased much over the past several years, it is somewhat surprising that more participants did not project significant growth in Board and committee pay. The data also confirms Directors are somewhat conservative when it comes to giving themselves pay increases.

## About Pearl Meyer & Partners

*For more than 20 years, Pearl Meyer & Partners ([www.pearlmeyer.com](http://www.pearlmeyer.com)) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges for multinational companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop global programs that align rewards with long-term business goals to create value for all stakeholders: shareholders, executives, and employees. Pearl Meyer & Partners maintains U.S. offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose, as well as an office in London.*

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