Pearl Meyer

ADVISOR BLOG | APR 2022

Attracting Healthcare Board Talent with Competitive Compensation



Ed Steinhoff

MANAGING DIRECTOR

Among publicly traded companies, including those in the healthcare industry, pay for non-employee directors is very common and serves to recognize that directors have significant responsibilities and accountabilities as shareholder representatives overseeing the governance, strategy, and leadership of the organization. The most prevalent pay components for directors of publicly traded companies are an annual cash retainer for board service, an annual cash retainer for committee service, and an annual equity grant, most commonly in the form of full value shares, thus reinforcing alignment of director pay with shareholder interests. Board and/or committee meeting fees might also be paid, although these elements of pay are much less prevalent than annual retainers.

Among for-profit private companies in the healthcare industry, director pay is also quite prevalent, with directors accountable to the owners of the organization, and their pay is similar to pay for public company directors although commonly without an equity component.

Historically director pay among not-for-profit healthcare organizations has been very uncommon. Indeed directors were often seen not as individuals who should be paid for their service to the organization but individuals who were expected to make personal financial contributions to the organization and provide leadership in ongoing fundraising activities in the communities in which the organization operated. Not-for-profit healthcare industry directors therefore essentially volunteered their time to further the mission of the organization they served.

In today's hyper-competitive environment, however, all organizations, including not-for-profit healthcare organizations, recognize the significant value that highly qualified, experienced, and diverse directors bring to the organization. Healthcare organizations find themselves competing for director talent very broadly—with other not-for-profits, with private for-profit companies, and even with publicly traded companies. In order to attract these highly qualified individuals into director roles, healthcare organizations are finding that they need to offer competitive director compensation packages, typically comprised of the most common director pay elements—an annual cash retainer and committee pay, either in the form of an additional cash retainer or in the form of meeting fees. The level of

pay for not-for-profit healthcare directors varies by organization but is typically set between the 25th percentile and median of the cash compensation elements of other similarly sized companies in the industry. We often see consistent competitive positioning between senior executives and directors (e.g., if senior executive pay is set at the market median, then director pay is also set at the market median).

Compensating directors in a competitive manner for their expertise and their commitment to the organization—in terms of time and ensuring achievement of the organizational mission—will facilitate the ability to attract qualified director talent to ensure business success. Those organizations today which choose to not pay their directors may quickly find themselves at a competitive disadvantage in their ability to compete in a very complex and ever- and quickly-evolving environment.

About the Author

Ed is a consulting team leader with 25+ years advising boards and senior management on executive compensation for public and private companies to help design pay programs aligned with performance, governance, and stakeholder expectations.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.