Pearl Meyer

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Compensation's Role in Board Refreshment and Diversity



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One of the more important trends we have observed in board governance has been the increasing emphasis on board refreshment and diversity. Many boards are actively seeking diverse candidates to fill open board positions, and some states have even codified into law requirements for gender diversity on boards. This is an extremely positive development, and one we expect to continue going forward.

It does raise two interesting topics related to board compensation: First, how does an organization attract best-in-class candidates in an environment where there is competition for the best director candidates? Second, how does a board fairly treat individual directors who will be leaving the board as a result of a refreshment exercise? We know that compensation can play a key role in attraction, but it is also important to recognize its potential role in creating smooth transitions between outgoing and incoming directors.

We believe that the work to answer these questions must be performed at both the strategy and policy levels. From a strategy perspective, it will be important to understand which elements of the director compensation program can be flexed, and to what extent, to create competitive advantage for recruiting new director candidates. For example, perhaps an outsized initial appointment equity award with a longer vesting tail to induce qualified candidates to join could be implemented. Similarly, for outgoing directors, ensure that the treatment of outstanding unvested equity awards is fair to the director. For companies that have a one-year vesting on awards, should the director receive a prorated portion of the award based on their departure date? For companies that grant stock options to directors, should the post-separation exercise period be longer than the traditional 60 to 90 days? Consideration of these items, if they do not already exist, helps treat directors fairly as they leave board service.

Once the strategic design principles have been defined, an organization can move to the policy perspective, ensuring that the principles are translated to actual features and are applied consistently through a written statement and award agreements as appropriate. Compensation is only one tool for accomplishing board refreshment and diversity goals, but it is an important one that should be well thought out and considered as an organization goes through the process.

About the Author

Terry leads the Life Sciences practice and advises companies from venture-backed to multinational on executive compensation strategy, incentive design, governance/disclosure, and transaction-related arrangements.

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.