Pearl Meyer

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Director Compensation: Communicating A Board's Worth



Sharon Podstupka

MANAGING DIRECTOR

It's imperative that companies explain the principles and objectives of their director compensation program, and how that pay program aligns with shareholder interests. Content based solely on compliance and numbers won't cut it.

You know that if your CD&A doesn't provide a strong and clear rationale for the executive compensation program's design and the decisions made by your compensation committee, you're behind the curve. A focus on compliance and numbers alone leaves your compensation story open to misinterpretation and the risk of low shareholder support.

Smart companies won't take that gamble, nor should they, when it comes to effective communication about director compensation. Today's most impactful CD&As have evolved into useful communication tools that strike the right balance between marketing an executive compensation program and satisfying critical SEC reporting rules. Think of your director pay disclosure in similar terms.

As with executive pay, stakeholders want to be reassured that the board members who are responsible for setting NED pay are doing so in the best interests of shareholders. Your company's narrative must demonstrate that decisions about director compensation have been made in a holistic framework that ensures board members are being paid competitively, appropriately, and responsibly based on the unique and high value they bring to the boardroom.

Companies have to demonstrate that the dots can be connected between the traditional SEC-tabular disclosures found in "Director Compensation" sections of the proxy statement and the directors' qualifications, responsibilities, and experience. Robust narratives should also be developed around board responsiveness and diversity in "Corporate Governance" sections of the proxy statement.

Building out the narrative to support your director pay tables is pretty straightforward. Follow the core guidelines you've been using for your CD&A:

1. Outline the philosophy, guiding principles, and objectives that drive the program design;

2. Provide an overview of the pay mix structure and explain why it aligns with shareholder interests;
3. Summarize the compensation governance features of the program (e.g., “what we do/what we don’t do”); and
4. Explain how decisions are made.

It’s increasingly important to appropriately articulate these messages beyond the proxy to investors and other stakeholders. The role of board members grows more complex annually and so do their responsibilities and visibility. With that increased visibility comes the need for increased dialogue and disclosure about director pay.

About the Author

Sharon brings 25+ years guiding executive and broad-based pay communications and disclosure, helping boards and management manage change and respond to investor and proxy advisor scrutiny.

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.