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The Data Confirm It: Director Service is Changing

Ryan P. Hourihan

MANAGING DIRECTOR

Ryan Hourihan is a managing director at Pearl Meyer and author of the 2022/2023 Pearl Meyer/NACD Director Compensation Report. He was recently interviewed about his findings.

Q: This is your second year authoring the Director Compensation Report. In reviewing the data, what year-over-year change surprised you?

Ryan: I am surprised that despite the significant increase in complexity and time commitment associated with board membership, director compensation levels continue to see modest year-over-year growth.

Today's directors face expanding scope in areas that now include monitoring and oversight of environmental, social, and governance (ESG) issues; diversity, equity, and inclusion (DE&I); and human capital, talent management, and leadership development. Despite these additional responsibilities that layer on top of their traditional duties, total director compensation levels only increased two percent over the prior year across all firms, which is a slight decline from last year's increase of three percent. Given their rapidly expanded roles, one could argue that directors are underpaid.

Q: We know that the role of a director for a public company is evolving. Is there any data that can help individual boards gauge their experience against others?

Ryan: Two evolving trends for public company directors center around ESG issues and board DE&I initiatives.

In 2022, we saw an increase in companies that had a "stand-alone" ESG-related committee, especially in the Large and Top 200 size categories. ESG issues continue to be hot topics and boards are responding to pressure from numerous stakeholders by expanding their charters to ensure key ESG initiatives are getting sufficient coverage at the board level.

DE&I initiatives among boards continue across all company size categories. The percentage of firms with multiple female directors in 2022 increased by seven percent year-over-year. Our data collection primarily focuses on gender, as it is the only diversity category universally discernible from required proxy disclosure, but ethnic diversity is also rapidly increasing at the board level. In fact, the Nasdaq recently passed a board diversity rule requiring listed companies to have (or explain why they don't) at least one member who self-identifies as an underrepresented minority or LGBTQ+. The proxy advisors are tracking diversity as well. I expect we'll see the data indicate further improvements over the next few years.

About the Author

Ryan Hourihan is a managing director with Pearl Meyer. He has over ten years of experience advising boards and senior management on incentive compensation design, corporate governance, and performance measurement with the objective of supporting business strategy, value creation, and shareholder interests. Ryan is particularly experienced in compensation challenges unique to privately held firms seeking to compete with publicly traded firms. His clients have included Fortune 500 organizations, privately held companies, and pre-IPO ventures across an array of industries.

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.