

Pearl Meyer

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Compensation for Special Board
Committees: What to Consider

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Today's Speakers



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Introduction

As the purview of the board has grown in recent years so has the need for special committees to meet and address specific topics, often on a temporary basis. What are the common governance practices for these committees and how should members be compensated?

Today we will review:

- Circumstances that require a special committee
- Best practices for special committees
- Factors to consider when compensating members of special committees (time commitment, roles, etc.) and different fee structures to consider
- Recent proxy data on disclosed special committees and their pay

Circumstances that Require a Special Committee

Special board committees are generally established to manage specific issues that demand focused expertise, independence, or confidentiality, including:

- **Complex Transactions:** Special committees are commonly formed for mergers, acquisitions, or divestitures to ensure objective evaluation and negotiation
- **Conflicts of Interest:** When directors or executives may have conflicting interests, a special committee with independent members can mitigate bias
- **Investigations and Crisis Management:** Special committees provide oversight in response to internal investigations, legal disputes, or reputational risks
- **Strategic Initiatives:** For major projects like restructuring, capital allocation, or leadership transitions, a dedicated committee can streamline decision-making
- **Regulatory Compliance:** Special committees may be required to demonstrate diligence in meeting fiduciary duties or legal obligations

Best Practices for Special Committees

Best practices for special board committees should focus on independence, clear objectives, expert guidance, transparent communication, defined timelines, and meticulous recordkeeping to ensure effective governance and decision-making

Area of Focus	Pearl Meyer Recommendation
Committee Composition	<ul style="list-style-type: none">• Appoint independent directors with relevant expertise• Ensure members have no conflicts of interest related to the committee's purpose
Clear Charter and Scope	<ul style="list-style-type: none">• Define the committee's purpose, authority, and responsibilities• Establish clear reporting lines to the full board
Engage Experienced Advisors	<ul style="list-style-type: none">• Engage legal, financial, or industry experts as needed for specialized guidance
Transparent Communication	<ul style="list-style-type: none">• Maintain regular updates with the full board and document key decisions• Ensure stakeholders are informed when appropriate
Defined Timeline and Milestones	<ul style="list-style-type: none">• Set clear timelines for the committee's objectives and deliverables• Establish regular checkpoints to review progress
Independence and Objectivity	<ul style="list-style-type: none">• Ensure decision-making is free from internal pressure or undue influence
Proper Recordkeeping	<ul style="list-style-type: none">• Maintain thorough documentation of meetings, decisions, and rationale

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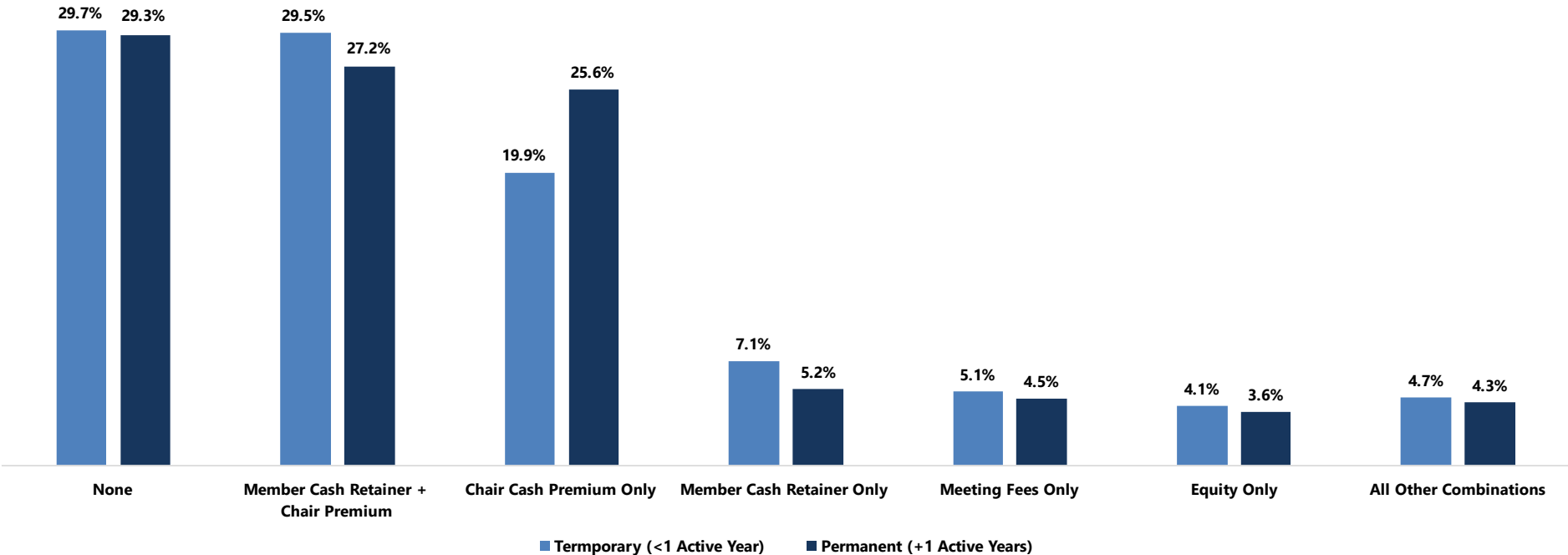
Factors to Consider when Compensating Members of Special Committees and Different Fee Structures to Consider

Aligning special committee compensation with workload, risk, and market norms ensures fair compensation which is necessary to attract qualified directors

Factors to Consider	Fee Structures
<ul style="list-style-type: none"> • Time Commitment: Consider the additional hours required for meetings, preparation, and decision-making • Complexity of the Issue: Higher fees may be justified for committees handling intricate matters like mergers, investigations, or litigation • Expertise Required: Specialized knowledge or skills may warrant higher compensation • Duration of Service: Short-term versus long-term committee involvement may influence fee structure • Risk and Liability Exposure: Committees addressing high-risk situations may require increased pay • Market Benchmarking: Align compensation with industry norms and peer practices 	<ul style="list-style-type: none"> • Per-Meeting Fees: Common for short-term or ad-hoc committees; compensates directors based on actual participation • Retainer Fees: Provides consistent pay for ongoing involvement and responsibilities • Hourly Fees: Suitable for specialized roles requiring significant time investment • Success-Based Fees: Incentivizes performance outcomes, often used in strategic transactions or negotiations • Combination Approach: Blends retainers with per-meeting fees to balance fixed and variable pay

Special Committee Compensation

- To understand the various approaches to special committee compensation, we analyzed the pay practices of both permanent special committees (1+ years active) in addition to temporary special committees (<1 active year)
- Like most established Board committees, both permanent and ad-hoc special committees are typically compensated through a fixed membership cash retainer plus an incremental chair premium



Special Committee Compensation Levels

- Temporary special board committees are paid more than permanent special board committees because they are generally handling more urgent, high-risk, and complex matters that require intensive time commitments, specialized expertise, and greater liability exposure

Special Committees - Member Cash Retainer				
	Average	Percentile		
		25th	50th	75th
Temporary Committee (1 Active Year)	\$19,013	\$5,000	\$7,500	\$15,000
Permanent Committee (+ 1 Active Years)	\$10,981	\$5,000	\$7,750	\$10,000

Special Committees - Member Equity Retainer				
	Average	Market Percentile		
		25th	50th	75th
Temporary Committee (1 Active Year)	\$50,500	\$10,000	\$15,000	\$70,000
Permanent Committee (+ 1 Active Years)	\$11,072	\$5,375	\$7,640	\$10,000

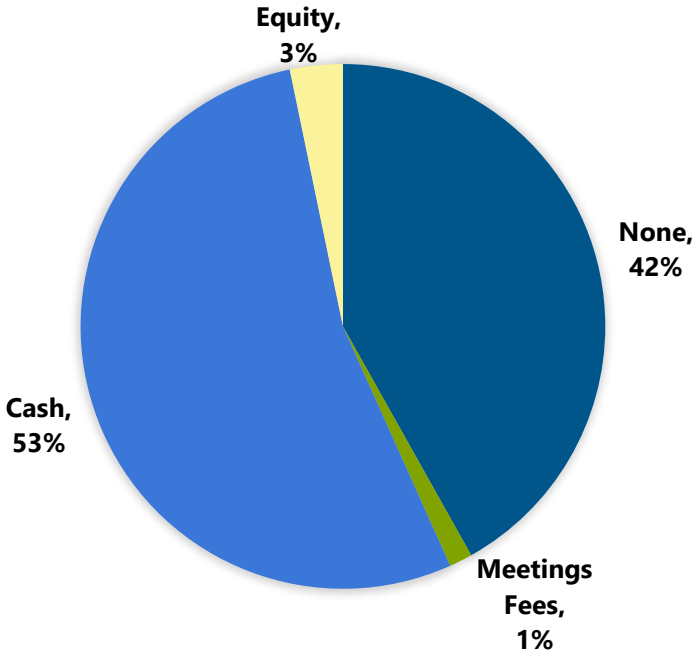
Special Committees - Chair Cash Retainer				
	Average	Percentile		
		25th	50th	75th
Temporary Committee (1 Active Year)	\$20,904	\$10,000	\$15,000	\$20,000
Permanent Committee (+ 1 Active Years)	\$18,737	\$10,000	\$15,000	\$20,000

Special Committees - Chair Equity Retainer				
	Average	Percentile		
		25th	50th	75th
Temporary Committee (1 Active Year)	\$19,643	\$7,500	\$10,000	\$16,250
Permanent Committee (+ 1 Active Years)	\$15,692	\$7,500	\$11,500	\$20,000

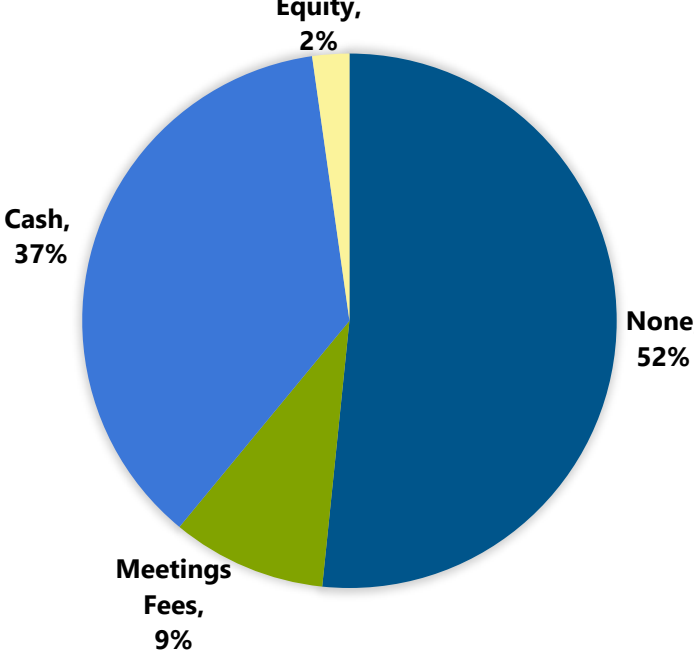
Special Committee Pay Mix: Chair vs. Member

- Cash is by far the most prevalent vehicle used to compensate special committee chairs and members
- Slightly less than half of special committee members receive any type of additional compensation

Chair Pay Mix



Member Pay Mix



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Thank you