



*Meridian Compensation Partners, LLC*

# The Evolving Pay of Non-CEO Board Chairs

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## Executive Summary

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Non-CEO Chair (COB) roles and pay have been evolving, as illustrated by the results of this Meridian Compensation Partners' study of non-CEO Board Chairs at the 500 largest U.S. companies. The results provide insight into choices companies are making as to type of COB role (e.g., prior CEO vs. independent chair) and how the role will be paid (e.g., as an employee or as a director).

The trends noted below compare practices reported in 2011 public filings (representing 2010 practices) to similar filings in 2008 (reporting on 2007 practices). The data does not reveal exactly why some COBs are paid more than others, however. Thus, the survey data will need to be considered in the context of roles, circumstances and incumbents as companies make their own choices regarding non-CEO chair roles and pay.

In this material:

**Executive Chairs** are former executives of the companies they are chairing, and remain an executive of the same company, continuing to be paid as an employee. They are commonly founders or former CEOs.

**Director Chairs** are former CEOs or other senior executives of the company being chaired, but now paid as a director.

**Independent Chairs** had no prior executive role at that company and are paid as directors.

### Prevalence Trend

The prevalence of separated roles for Board Chair and Chief Executive Officer has risen to 181 (36%) of the 500 largest companies. While this represents a 5 percentage point increase since 2007, 27 companies from the 2007 study went the other direction, combining roles that had been separate.

Depending on the company, the COB role can be a transitional role or a permanent role.

### Trends in Types of COBs

There were far more Independent Chairs (up 75%) and far fewer Executive Chairs (down 30%) reported in 2011. Independent Chairs now represent more than one-half of all COBs. Since 2007, some additional companies separated the role, while others migrated from an Executive Chair to an Independent Chair.

### Pay Trends

- Almost all COBs receive compensation specifically for the role, with the exception of about one-fourth of Director Chairs.
- As was true in a prior study, Executive Chairs continue to earn considerably more than Director or Independent Chairs.
- Median Executive Chair pay has risen 8% since 2007, but has declined significantly as a percent of CEO pay (from a median of 82% down to 55%). Executive Chair pay at the 75<sup>th</sup> percentile also moderated significantly.

- For Director and Independent Chairs as a group:
  - Median total pay (which includes the regular Board pay package) has increased 18% since 2007.
  - Median incremental pay for the COB role has increased 36% since 2007 to \$150,000, and the 75<sup>th</sup> percentile has converged on \$200,000 and approximately 1.0 times the regular board package.
- Executive and Independent Chair pay varies by company size; not the case for Director Chair pay.

## Methodology

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We analyzed the 500 largest public U.S. companies (determined by 2010 revenues) at which the CEO did not also have the COB title. That list consisted of 181 COBs. For those companies, we consulted proxy statements filed through July 1, 2011.

For purposes of analyzing pay, we excluded COBs for the following reasons:

- Companies were master limited partnerships, bankrupt or had no proxy filings available;
- No chairman was named;
- The COB was paid as a consultant;
- The company was recently merged or acquired;
- The Executive Chair, paid as an employee, had been in the role less than one year; or
- The Executive Chair was paid less than the 5<sup>th</sup> highest paid proxy executive and thus pay was not disclosed (there were only 6 of these, down from 20 three years ago).

We analyzed the pay of the remaining 151 COBs, analyzing the data separately for each type.

To calculate pay opportunity for Executive Chairs and the CEOs at those same companies, we included base salary, target bonus (actual bonus if no target bonus was disclosed), and the grant value of long-term incentive opportunities granted in the prior fiscal year. We did not include values for benefits and perquisites.

To determine pay for COBs paid as directors, we calculated total compensation for an average director at the company, summing retainer, other board and committee fees, the face value of full share grants and an economic value for stock option grants. One-time equity grants were divided by 10, commensurate with typical board tenures. We valued incremental pay for the COB role by summing any additional cash or equity paid exclusively for service as COB.

Trends were developed from similar prior work done using fiscal 2007 data for the then-largest 500 U.S. companies. That research was published by Hewitt Associates in 2008.

## All COBs

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The following findings are for all three types of separate Board chair roles.

### **The number of non-CEO COBs has grown since 2007.**

There were 181 non CEO COBs in 2011 filings vs. 172 in 2008 filings, a 5% increase.

### **Not all companies with a separate 2007 role still had it in 2010.**

Counter to the overall trend, there were 27 companies with a separate COB role in 2007 that by the end of 2010 had moved to a combined CEO/COB role. This illustrates that the COB role can be transitional and incumbent-driven. Situations included all of the following:

- An Independent Chair gave up Chair responsibilities to the CEO once the CEO gained a few years of tenure, but stayed on the Board in a Lead Director role.
- An Executive Chair (former CEO) retired from the Company but remained on the Board as a regular director and the new CEO took the combined CEO/COB role
- The existing Chair terminated his or her role on the Board.
- M&A activity, spinoffs or going-private transactions led to a shuffling of roles.
- A Director Chair or Executive Chair (both former CEOs) reassumed the combined CEO/COB role.
- A founder Chair became Chairman Emeritus and a new CEO became combined CEO/COB.

### **Independent Chairs are a fast-increasing percentage of all COBs.**

There were 30% fewer Executive Chairs and 75% more Independent Chairs in 2011 filings vs. 2008 filings—one of the most important trends we found. A few other companies signaled changes for 2011, all of which will further reduce the number of Executive Chairs, either through retirement or through changes in employee status and resulting pay approach.

The prevalence of each type of COB is shown in the table below.

### ***Prevalence of Each Type of COB***

| Type of Non-CEO Chair   | Relationship With Company | Form of Pay    | No. of Companies | % of Pay Sample |
|-------------------------|---------------------------|----------------|------------------|-----------------|
| Executive Chairs        | Current executive         | As an employee | 27 <sup>1</sup>  | 18%             |
| Director Chairs         | Former executive          | As a director  | 35               | 23%             |
| Independent Chairs      | None                      | As a director  | 89               | 59%             |
| <b>Total Pay Sample</b> |                           |                | <b>151</b>       | <b>100%</b>     |

<sup>1</sup>Plus 6 additional Executive Chairs not listed in the proxy top five and 7 with less than 1 year tenure. This compares to 57 total in 2007, a 30% decline.

### **New Independent Chairs were often, but not always, added during a CEO change.**

There were 34 new Independent Chairs in this study. In 22 of those cases (65%), the Chair role was given to an independent director during a CEO change.

### **The Executive Chair role can be either transitional or permanent.**

The reduction in the number of Executive Chairs above suggests the role often can be a transitional one. While the median tenure for Executive Chairs was only 4 years (similar to 2007), the 75<sup>th</sup> percentile was 8 years and the high was 28 years (representing a founder). This suggests the role can also be viewed as a permanent one.

### **The type of COB, once chosen, does not remain static.**

There was considerable movement from one category of COB to another. Within a constant sample consisting of the 88 companies represented in both the earlier and current sets of data, 23 companies (26%) maintained the Chair role but changed its type during the three-year period. Details follow.

- Seven companies with Director Chairs and six companies with Executive Chairs moved to having Independent Chairs (15% of the sample).

Of the latter group, situations varied. In one case, an Executive Chair retired and the role was transferred to an independent director. In another, the Chair was an interim employee but then again became independent. In a third case, the Board intentionally made the change to an independent chair.

- Three companies with Independent Chairs moved to having Director Chairs, and five incumbents designated as Executive Chairs in 2007 had become Director Chairs by 2010 (9% of the sample). The latter included three companies where founders changed roles.
- Two companies moved to an Executive Chair (2% of the sample):
  - One Independent Chair incumbent became an employee of the company and an Executive Chair after 2007. This remained the situation for three years, but that company has signaled it plans to reverse that process in 2011.
  - One company changed from having an Independent Chair to having an Executive Chair when the CEO retired. That company has signaled that the Executive Chair will become a Director Chair in 2011 and will only serve as COB until the 2012 annual meeting.

### **Almost all companies provide incremental pay for the COB role.**

Of the 151 COBs in the pay sample, 139 (92%) received COB-specific pay. The remaining 8% are typically founders or family members.

The table below shows pay by type of COB. Pay for Director Chairs and Independent Chairs includes the regular Board pay package.

#### ***Total Compensation by COB Type***

| Category                  | Median Revenues | N          | 25 <sup>th</sup> %ile | Median           |                   | 75 <sup>th</sup> %ile |
|---------------------------|-----------------|------------|-----------------------|------------------|-------------------|-----------------------|
|                           |                 |            |                       | Amount           | Change Since 2007 |                       |
| Executive Chairs          | \$8.6           | 27         | \$2,375,000           | \$3,751,000      | + 8%              | \$6, 217,000          |
| Director Chairs           | \$8.4           | 34         | \$223,000             | \$293,000        | + 18%             | \$444,000             |
| Independent Chairs        | \$8.7           | 90         | \$262,000             | \$363,000        | + 18%             | \$451,000             |
| All former CEOs           | \$8.3           | 62         | \$279,000             | \$533,000        | - 3%              | \$3,443,000           |
| All paid as directors     | \$8.6           | 124        | \$253,000             | \$350,000        | + 18%             | \$446,000             |
| <b>All Non-CEO Chairs</b> | <b>\$8.6</b>    | <b>151</b> | <b>\$272,000</b>      | <b>\$398,000</b> | <b>+ 6%</b>       | <b>\$572,000</b>      |

### **COB pay has increased, but the high end has moderated since 2007.**

Median pay has increased since 2007 for all three primary categories of COB. The highest levels of pay for Executive Chairs moderated, however, the 75<sup>th</sup> percentile having declined considerably from \$9.1 million in 2007 to \$6.2 million currently.

## COBs Paid as Executives

Following are findings regarding the pay of Executive Chairs.

### Executive Chairs continue to have the highest total compensation.

Median Executive Chair total compensation is 10 times the median total compensation of Independent Chairs. That figure would be increased further if retirement or welfare benefit programs were counted.

In addition, 44% of Executive Chairs have change-in-control severance protection and 56% have guaranteed regular severance; not at all common provisions for either Director Chairs or Independent Chairs. Executive status also likely adds significant value via continued vesting of equity incentives.

It is understandable that Chairs who were CEOs of their companies are paid substantially more if they have regular executive duties or bring their knowledge of the company or industry to bear in high value ways. In some cases, however, such pay may simply be the result of a negotiation by an outgoing CEO, or a board not comfortable with dramatic reductions in CEO pay during a relatively short transition period.

### Executive Chair pay varies by company size.

Similar to CEO pay, the Executive Chairs at the larger companies tend to have higher total compensation than those at the smaller companies for each element of pay. The table below provides details. (However, we found no demonstrable correlation between tenure and pay level.)

#### Pay for Executive Chairs

| Range  | Median Revenues | N         | 25 <sup>th</sup> %ile | Median             | 75 <sup>th</sup> %ile |
|--|-----------------|-----------|-----------------------|--------------------|-----------------------|
| <i>Base Salary</i>   |                 |           |                       |                    |                       |
| \$8.6B–\$129B  | \$13.8          | 14        | \$1,024,000           | \$1,210,000        | \$1,363,000           |
| \$3.9B–<\$7.8B   | \$5.4           | 13        | \$500,000             | \$733,000          | \$1,250,000           |
| <b>All Executive Chairs</b>  | <b>\$8.6</b>    | <b>27</b> | <b>\$605,000</b>      | <b>\$1,096,000</b> | <b>\$1,325,000</b>    |
| <i>Target Bonus as % of Base Salary (Actual bonus substituted when target not available)</i> |                 |           |                       |                    |                       |
| \$8.6B–\$129B  | \$13.8          | 14        | 84%                   | 200%               | 245%                  |
| \$3.9B–<\$7.8B   | \$5.4           | 13        | 75%                   | 103%               | 200%                  |
| <b>All Executive Chairs</b>  | <b>\$8.6</b>    | <b>27</b> | <b>77%</b>            | <b>164%</b>        | <b>241%</b>           |
| <i>Long-Term Incentive Grant Values (Represents pay opportunity)</i>                         |                 |           |                       |                    |                       |
| \$8.6B–\$129B  | \$13.8          | 14        | \$1,165,000           | \$2,286,000        | \$3,203,000           |
| \$3.9B–<\$7.8B   | \$5.4           | 13        | \$0                   | \$1,290,000        | \$2,158,000           |
| <b>All Executive Chairs</b>  | <b>\$8.6</b>    | <b>27</b> | <b>\$292,000</b>      | <b>\$1,829,000</b> | <b>\$2,665,000</b>    |
| <i>Total Compensation (Not including benefits and perquisites)</i>                           |                 |           |                       |                    |                       |
| \$8.6B–\$129B  | \$13.8          | 14        | \$3,735,000           | \$5,195,000        | \$13,432,000          |
| \$3.9B–<\$7.8B   | \$5.4           | 13        | \$1,416,000           | \$3,321,000        | \$3,908,000           |
| <b>All Executive Chairs</b>  | <b>\$8.6</b>    | <b>27</b> | <b>\$2,375,000</b>    | <b>\$3,751,000</b> | <b>\$6,217,000</b>    |

**Note:** All statistics above are independently derived, and the components of pay will not sum to the totals.

### **Executive Chair pay has declined as a percent of CEO pay.**

As in 2007, the relationship of Executive Chair pay to CEO pay varies widely. At the median, Executive Chairs earn about 55% of CEO pay, with a 75<sup>th</sup> percentile of 87%, considerably lower than 2007 when the median was 82% and the 75<sup>th</sup> percentile was 115%.

Fewer Executive Chairs are now eligible for short-term incentives (89% vs. 97% in 2007), but more receive long-term incentives (81% vs. 74% in 2007).

### ***Relationship between Employee Chair and CEO Pay***

| <b>Category</b>                    | <b>25<sup>th</sup> %ile</b> | <b>Median</b> | <b>75<sup>th</sup> %ile</b> |
|------------------------------------|-----------------------------|---------------|-----------------------------|
| <b>All Executive Chairs (N=27)</b> | <b>40%</b>                  | <b>55%</b>    | <b>87%</b>                  |

## COBs Paid as Directors

Following are findings regarding the pay of Director Chairs and Independent Chairs.

### **Independent Chairs are paid somewhat more than Director Chairs.**

As illustrated in the table below, incremental pay for Independent Chairs is higher than pay for Director Chairs. This seems counterintuitive since Director Chairs had a prior executive role with their companies. Thus, lower pay of Director Chairs likely has to do with the wishes of the individual Director Chairs involved, company history or family relationships. Some Director Chairs may also have consulting arrangements with their former companies that provide additional compensation.

### **Incremental Pay for Director and Independent Chairs**

| Category                          | Median Revenues | N          | 25 <sup>th</sup> %ile | Median           |                    | 75 <sup>th</sup> %ile |
|-----------------------------------|-----------------|------------|-----------------------|------------------|--------------------|-----------------------|
|                                   |                 |            |                       | Amount           | Increase from 2007 |                       |
| Director Chairs                   | \$8.4           | 34         | \$11,300              | \$112,500        | + 17%              | \$200,000             |
| Independent Chairs                | \$8.7           | 90         | \$77,500              | \$150,000        | + 20%              | \$200,000             |
| <b>All COBs paid as directors</b> | <b>\$8.6</b>    | <b>124</b> | <b>\$72,000</b>       | <b>\$150,000</b> | <b>+ 36%</b>       | <b>\$200,000</b>      |

### **About one-fourth of Director Chairs receive no COB compensation.**

In our analysis, more Director Chairs (8 of 35, or 23%) than Independent Chairs (4 of 89, or 4%) received \$0 for their COB role. Four of the unpaid Director Chairs were members of founding families.

### **Incremental pay is delivered primarily in cash.**

Incremental director pay for the COB role is delivered 65% of the time solely in the form of additional cash retainer, 24% of the time in both cash and equity, and 11% of the time solely in equity.

### **Pay has increased since 2007, but has become more standardized at the high end.**

The incremental pay figures on the next page represent significant increases from three years ago for the 25<sup>th</sup> and median. However, the 75<sup>th</sup> percentile figures now converge on \$200,000, whereas in 2007 the Independent Chair 75<sup>th</sup> percentile was \$258,000 and the Director Chair 75<sup>th</sup> percentile was only \$135,000.

### Incremental COB pay varies widely as a multiple of regular board pay.

We found no clear relationship between incremental COB pay for Director Chairs and Independent Chairs as a multiple of the regular Board pay package. Such incremental pay ranges from a 25<sup>th</sup> percentile multiple of 0.3 to a 75<sup>th</sup> percentile of 1.0 times regular Board pay. The median multiple does not differ substantially for Director Chairs and Independent Chairs.

Similar to the conclusion above regarding 75<sup>th</sup> percentile incremental pay for Director and Independent Chairs, the 75<sup>th</sup> percentile multiple of a regular director pay package has converged on 1.0, vs. figures from three years ago of 0.9 for Director Chairs and 1.4 for Independent Chairs.

### Incremental Pay as a Multiple of Regular Director Pay

| Category                          | N   | 25 <sup>th</sup> %ile | Median | 75 <sup>th</sup> %ile |
|-----------------------------------|-----|-----------------------|--------|-----------------------|
| Director Chairs                   | 35  | 0.1                   | 0.6    | 1.0                   |
| Independent Chairs                | 89  | 0.5                   | 0.7    | 1.0                   |
| <b>All COBs paid as directors</b> | 124 | 0.3                   | 0.7    | 1.0                   |

### The impact of company size on COB pay is mixed.

The table below shows that Director Chair pay does not vary much by company size, but Independent Chair pay does, with smaller companies paying considerably less.

### Incremental Pay by Company Size

| Category                          | Revenue Range (\$B)  | Median Revenues | N          | Median Incremental Pay | Median Multiple of Regular Board Pay |
|-----------------------------------|----------------------|-----------------|------------|------------------------|--------------------------------------|
| <b>Director Chairs</b>            | <b>\$3.6–\$96.4</b>  | <b>\$8.4B</b>   | <b>34</b>  | <b>\$112,500</b>       | <b>0.6</b>                           |
| ▪ Larger one-half of companies    | \$8.6–\$96.4         | \$20.1B         | 17         | \$105,000              | 0.7                                  |
| ▪ Smaller one-half of companies   | \$3.6–\$8.1          | \$6.1B          | 17         | \$120,000              | 0.5                                  |
| <b>Independent Chairs</b>         | <b>\$1.9–\$134.2</b> | <b>\$8.7</b>    | <b>90</b>  | <b>\$150,000</b>       | <b>0.7</b>                           |
| ▪ Larger one-half of companies    | \$7.2–\$134.2        | \$13.4B         | 45         | \$170,000              | 0.8                                  |
| ▪ Smaller one-half of companies   | \$1.9–\$8.6          | \$5.6B          | 45         | \$100,000              | 0.7                                  |
| <b>All COBS paid as directors</b> | <b>\$3.6–\$134.2</b> | <b>\$8.6B</b>   | <b>124</b> | <b>\$150,000</b>       | <b>0.7</b>                           |
| ▪ Larger one-half of companies    | \$8.6–\$134.2        | \$18.1          | 62         | \$160,000              | 0.7                                  |
| ▪ Smaller one-half of companies   | \$1.9–\$8.6          | \$5.7           | 62         | \$102,500              | 0.6                                  |

## Summary

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The past three years saw:

- Movement toward a separate COB role, though some companies trended in the opposite direction;
- Substantially more Independent Chairs and fewer Executive Chairs; and
- Increases in COB pay along with moderation at the high end.

Corporate governance pressures seem likely to foster a continuation of these trends.

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