

## Director Compensation

# Are You Paying Your Lead Director Appropriately?

**Boards may need to rethink pay practices as the role of the lead director evolves.**

**By Bob Romanchek**

Looking at larger companies' practices for compensating outside directors, lead directors are typically provided a cash retainer of approximately \$30,000 for performing this role in addition to the regular outside director pay package. This retainer is oftentimes the same or slightly higher than the extra retainer provided to the audit committee chair. In comparison, the non-executive chair typically receives a considerably higher extra retainer. Where the situation is not a phased CEO retirement—where the executive retires from the CEO role but maintains the chair role for a short period of time—the additional retainer for a non-executive chair can be in the ballpark of \$150,000 or more. (It should be noted, however, that there is considerable variation in pay for these directors.) The large pay difference between the lead director and the non-executive chair is often due to the differences in duties and responsibilities.

Looking back, the Sarbanes-Oxley Act of 2002 required companies to hold an executive session of the board without management present. In many cases, since the chair was also the CEO, and consequently had to leave the meeting, this triggered the emergence of the lead director role. Initially, the lead director's primary duty was simply to manage the executive session. This simple administrative task was not sufficiently material to require extra pay, and the lead director role was oftentimes rotated among directors.

More recently, many companies have found it useful to have a specific outside director, such as the lead director, designated to take on important roles on the board. This may include becoming the liaison between the board and executive management; attending all meetings of the audit, nominating and governance, and compensation committees to coordinate the full board; coordinating CEO performance reviews and related pay change decisions; and leading some aspects of the company's shareholder outreach efforts.

Today, many companies have added significant

duties and responsibilities to the lead director role. This may be the case whether or not these boards also have a non-executive chair. Some companies use the titles "non-executive chair" or "lead director" interchangeably. It can therefore be concluded that in many cases the lead director role is no longer simply an administrative job to run the executive sessions.

---

**Many market surveys continue to report lead director pay based on the historic scope of the position.**

---

Because the lead director role is oftentimes interchangeable with the non-executive chair role in terms of duties and responsibilities, benchmarking lead director pay requires additional thought. Many market surveys continue to report lead director pay based on the historic scope of the position, with few extra duties and responsibilities. This data does not reflect the increased requirements of the job.

There are, however, a few general guidelines. An incremental retainer of \$30,000 is entry-level pay for being lead director, which is why compensation should be increased to reflect the additional material duties and responsibilities that are often assigned to this role.

An immediate action step for boards should be to consider the full range of duties and responsibilities of the lead director and determine if that person is really performing a role that is close to a non-executive chair. If so, chances are that a pay increase is warranted.



Bob Romanchek is a partner and consultant at the executive compensation consulting firm Meridian Compensation Partners LLC, in Lake Forest, Illinois.