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OIL & GAS INDUSTRY OUTSIDE DIRECTOR COMPENSATION TRENDS

Meridian Analyzed 16 Oil and Gas Companies to Determine Key Themes in Compensation

Posted by Michael Brittian on December 6, 2013

There have been a number of studies released recently on the topic of outside director compensation, covering practices across industries. In this posting, we'll dig deeper into outside director compensation practices within the oil & gas industry. Meridian recently analyzed 2012 and 2013 disclosed outside director compensation practices for a group of 16 public oil & gas firms, with assets ranging from $6B-$63B. Below is a summary of key themes.

Overall, total director compensation increased modestly.

The median total director compensation grew by 2%, driven largely by a 7% increase in total cash compensation. Twenty-five percent of companies approved increases to the annual cash retainer. Other companies making increases to total cash compensation made modest adjustments to meeting fees and/or committee retainers.

While equity grant values only increased modestly (1%), half of the study companies reported making a change. Thirty-one percent of companies approved an increase to annual equity grant values, which was offset by lower reported grant values at three study companies (19%). For companies reporting decreases, two of the three were the result of approved decreases where companies were responding to recent shareholder criticisms on the amount of total compensation being awarded to outside directors.

Board meeting fees haven't gone away (yet).

More than half of study companies (56%) are still using board meeting fees; however, there continues to be some movement away from meeting fees and into a more simplified retainer-only structure. One study company approved the elimination of board meeting fees, and a number of companies have already made this structural change in the last several years, reinforcing that the role of a director extends beyond meeting attendance.

Committee compensation emphasizes supplemental pay for chairs.

The practice of providing supplemental cash retainers for the chairs of board committees is a continuing trend. Eighty-eight percent of study companies reported providing cash retainers to the chair for each of the Audit, Compensation, and Nominating/Governance Committees. Due to enhanced risk and greater time commitments, Audit continues to command the highest premium; however, as time commitments and increasing external pressures create enhanced focus on executive compensation, premiums for Compensation Committee chairs are on the rise.

Equity practices continue to become more homogenized.

While at one time it was common to see some variety in equity practices to outside directors, we now observe a much more standardized approach to granting equity in the oil & gas industry. The "new normal" has become an annual grant of full value shares, with a short (if any) vesting schedule, where the grant size is determined based on a targeted grant value (as opposed to a target number of shares). Prevalence of granting stock options to outside directors has dropped to 25% of study companies, consistent with the similar trend observed in equity grants for executives.

Meridian Comment

Outside director compensation in the oil & gas industry continues to evolve, and the trends thus far have been towards program simplification and homogenization. As industry dynamics change and external scrutiny continues, we may continue to see further *trends in this direction.*