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Non-Employee Director Compensation Practices: Large-Cap vs. Mid-Cap

In this CLEAR*thinking* article, we at ClearBridge look to explore the impact that company size may have on non-employee director compensation programs. Specifically, we provide a 10-year overview of non-employee director compensation trends, highlighting notable distinctions between large- and mid-cap companies.

Additional detail on the data presented in this article, as well as on non-employee director compensation programs overall, can be found in our *ClearBridge 100* reports on compensation program trends for non-employee directors at 100 S&P 500® and 100 S&P 400® companies, which provide a broad-market view of practices at large-cap and mid-cap companies, respectively.

Compensation Levels *(Board Service, Committee Service, Board Leadership)*

- Not surprisingly, large-cap companies pay directors more than mid-cap; however, director compensation levels have increased at a faster rate at mid-cap companies
- Over the past ten years, the spread in director compensation has narrowed, with the range between the 25th and 75th percentiles decreasing at both large- and mid-cap companies

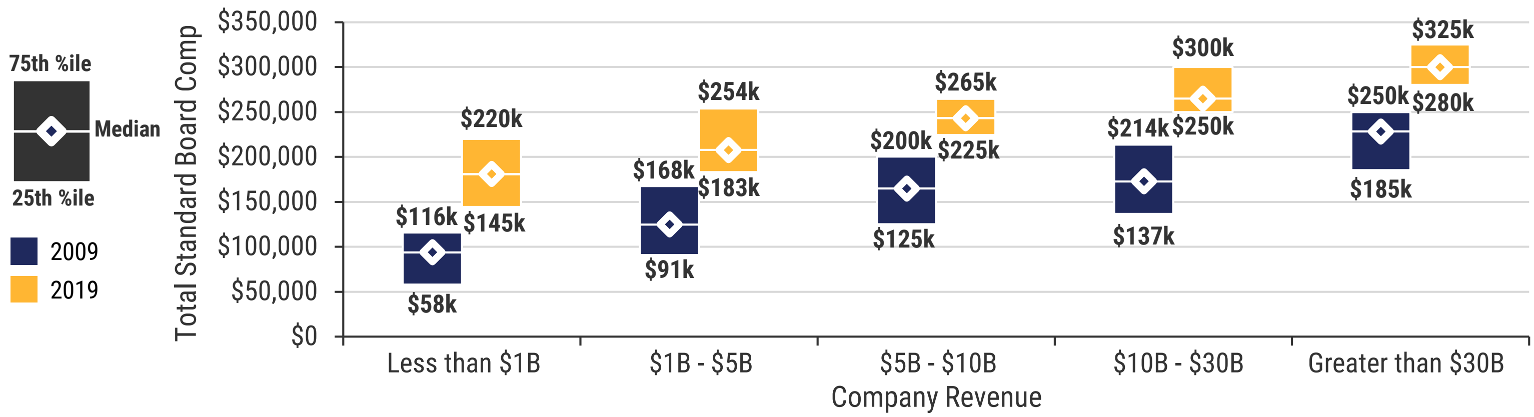
Role		Median Total Additional Compensation Value(1)					
		Large-Cap			Mid-Cap		
		2009	2019	CAGR %(2)	2009	2019	CAGR %(2)
Standard Board Member		$183,013	$275,000	**4%**	$106,750	$202,500	**7%**
Audit Committee	***Chair***	$24,000	$29,250	**2%**	$20,500	$25,000	**2%**
	Member	$13,500	$15,000	**1%**	$10,500	$10,350	**0%**
Comp Committee	***Chair***	$16,500	$20,000	**2%**	$13,500	$20,000	**4%**
	Member	$9,000	$10,000	**1%**	$7,500	$8,125	**1%**
Nom & Gov Committee	***Chair***	$12,250	$20,000	**5%**	$9,500	$15,000	**5%**
	Member	$6,000	$7,500	**2%**	$4,500	$6,000	**3%**
Lead Director		$20,000	$30,000	**4%**	$15,000	$25,000	**5%**
Non-Executive Chair		$124,414	$157,500	**2%**	$55,000	$100,000	**6%**

(1) Reflects cash retainers, meeting fees, annual equity grants, & annualized value of initial equity grants
(2) Reflects compound annual growth rate of median values

Director compensation levels are generally driven by company size, resulting in higher compensation levels among large-cap companies. The higher growth rates among mid-cap companies may be partially driven by the following: (i) today's mid-cap companies had higher revenue growth trajectories over the past decade and (ii) many large-cap companies already compensate directors toward the higher end of market, which limits significant increases as to avoid scrutiny, as no company generally wants to be the "highest" payer in the market.

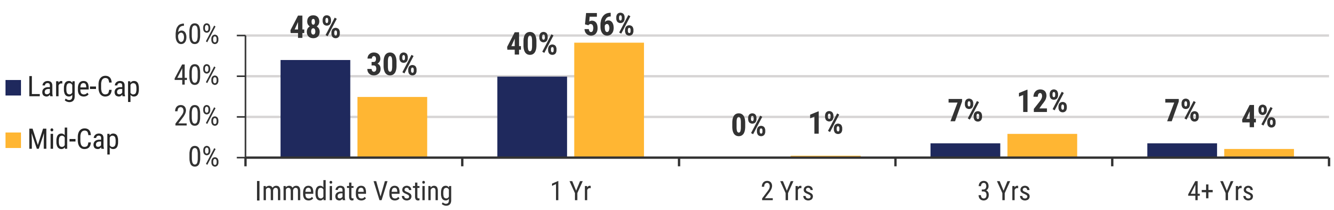
Furthermore, directors are now generally being compensated for their engagement both inside and outside the board room, causing the 25th percentile to increase significantly. Meanwhile, shareholders and proxy advisory firms have also increased their scrutiny of excessive director pay levels, resulting in a smaller increase of the 75th percentile.

The chart below shows total director compensation by company revenue, illustrating how pay levels correlate with company size.

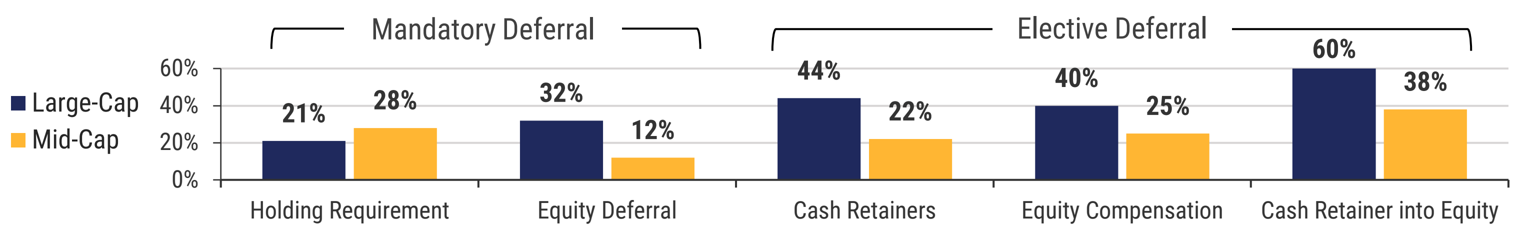


Notable Differences Between Large- and Mid-Cap Practices

- Among mid-cap companies, it is most common to deliver equity awards with one year of vesting; among large-cap companies, delivering equity awards with vesting requirements is a mixed practice



- Large-cap companies are generally more likely to provide equity retention features to their directors, including stock holding requirements, mandatory equity deferral programs, and/or elective compensation deferral programs



While granting immediately vested equity is more common at large-cap companies, this is balanced by retention features being more prevalent at large-cap companies as well, which promote a long-term ownership mentality in the company.

Notable Trends *(Consistent Among Large- and Mid-Cap Companies)*

- For both standard board and committee service, meeting fees have significantly decreased in prevalence from 2009 to 2019 (for standard board service: in 2009, 48% for large-cap and 66% for mid-cap; in 2019, 15% for large-cap and 23% for mid-cap)
- Stock options have decreased significantly in prevalence from 2009 to 2019 (in 2009, 36% for large-cap and 45% for mid-cap; in 2019, 11% for both large- and mid-cap)
- Director compensation limits, or limits on the amount of cash, equity, or total pay that can be delivered to a director in a given year, have increased dramatically (in 2009, 6% of large-cap and 4% of mid-cap; in 2019, 71% of large-cap and 62% of mid-cap)

Director pay limits became more prevalent in recent years following several board compensation-related shareholder lawsuits, as they serve as a measure of good governance by allowing shareholders to approve a cap on director compensation.

- Stock ownership guidelines have become a commonplace practice (in 2019, 94% of large-cap and 84% of mid-cap)
- Independent board leadership has increased over the past decade, with almost all companies having either a Non-Executive Chair or Lead Independent Director in 2019 (in 2009, 75% of large-cap and 74% of mid-cap; in 2019, 98% of large-cap and 96% of mid-cap); Non-Executive Chair prevalence nearly doubled since 2009 for both large- and mid-cap companies

The increase in Non-Executive Chairs reflects the trend towards independent board leadership, as the role is increasingly considered to be a good governance practice by shareholders/proxy advisory firms, as opposed to a combined CEO/Chair role.

- Gender representation on boards is significantly weighted towards men, particularly for leadership positions

	% Female Representation			
	Standard Board	Non-Exec Chair	Lead Director	Committee Chairs
Large-Cap	**27%**	**2%**	**3%**	**26%**
Mid-Cap	**25%**	**2%**	**9%**	**22%**

ClearBridge Compensation Group is an independent consulting firm providing advice to boards of directors and senior management on executive and board compensation and incentive plan design with a focus on alignment with shareholders, linkage with business strategy, and adherence to strong governance standards.

Our Partners and team of consultants work together to provide sound advice based on each company's unique situation. Companies choose ClearBridge for:

Our tailored approach and emphasis on advice, not just data

Our focus on long-term sustainable shareholder value creation

Our rigorous approach to pay-for-performance

Our highly collaborative and exceedingly responsive approach

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As advisors to Compensation Committees and management, we provide an array of services to meet the individual needs of our clients. A sample of our consulting services includes:

Total Compensation Review & Design

Annual Incentive Design

Long-Term Incentive/Equity Compensation Design

Board of Directors Compensation

Pay-for-Performance Assessment

Proxy/CD&A Disclosure

Say-on-Pay Preparation & Shareholder Engagement

Employment Agreements, Severance, & Change-in-Control Arrangements

Transactional Compensation Design (e.g., IPOs, M&A)

Contact Us

This CLEAR*thinking* article was authored by **Natalie Smyth** and **Cole Joyce**. For questions specific to this CLEAR*thinking* article, or for more information on ClearBridge Compensation Group or any of our services, please visit our website or contact our New York City office at:

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