Private company board pay: What an alternate universe

Our data prompts several questions: Are public company directors overpaid? Are private company owners cheap? Or, are they just better buyers of talent?

By Bernard H. Tenenbaum and Andrew Cornell

Over and above the shock felt by the general public, private company owners are often amazed at the compensation earned by public company directors. No peers are paying that much.

How much should we pay our directors?

We get that question all the time at business meetings. "Fiduciary or advisory board?" is usually our first reply. Then, how often will you meet? How much travel? Are you looking for a "roll up your sleeves" — or celebrity — director? Cash or stock compensation? Is the company on a track to an IPO, a private sale, or a more steady state? All of these factors and more come into play.

There is a wealth of compensation data for public company directors; private company data is a little more elusive. In advance of a Young Presidents Organization (YPO) seminar, we decided to research the registrants to get some indication of the range that directors of private companies are being paid today. This is not a statistically vigorous piece of research — rather it was an effort to get some indication of pay ranges for directors from a middle market sample.

Bernard H. Tenenbaum (left) is managing partner of China Cat Capital LLC, which invests in firms in the family consumer products arena and provides strategic guidance and consulting as part of the investment. He also serves as presiding director and audit committee chair on the board of Nasdaq-traded Syms Corp. and is a director or advisory board member at Yowie.com, Kidlandia.com, and Fan Stamp. **Andrew Cornell** is CEO of Cornell Iron Works Inc., the nation's largest producer of overhead coiling security doors, grilles and shutters. A fifth-generation successor of this business which was founded in 1828, he joined the company in 1992.

The 54 respondents were all CEOs and members of YPO's Public and Private Company Directors Group. Company sizes ranged from less than $10 million to over $1 billion, and were 95% U.S.-based; 78% of the respondents are running fiduciary boards. We eliminated all the public company responses.

The data provided some interesting insights:

- Compensation is mostly cash-based; stock is rarely used.
- Between $10 million and $250 million, the compensation primarily ranges from $10,000 to $30,000 annually; only 10% of the sample was above $250 million in revenues.
- Some notable exceptions were made for celebrity directors, revenue-generating directors, and consulting directors.
- Board chairs are paid a little more; and software and financial services companies pay directors more than manufacturers.

As the accompanying chart indicates, 48% of our YPO respondents with revenues between $10 million to $250 million paid $30,000 or less to their board members. If we exclude the directors whose compensation reflected additional services beyond governance, fully 83% paid less than $30,000.

How they match up

Compare this to the data reported in the BDO 300: 2009-2010 Survey of Board Compensation Practices of 300 Mid-Market Public Companies. The firm surveys director pay of publicly traded companies with revenues below $1 billion in a range of industries, including energy, financial services, manufacturing, real estate, retail, and technology.

Of the private companies in the YPO sample, 75% exclusively used cash as compensation. The BDO 300 companies paid 57% of director compensation in equity and only 43% in cash.

For those BDO companies with revenues less than $250 million, the average annual cash compensation was $29,201; of the 35 companies in the YPO sample, only 17%% paid more than $30,000 in total compensation. In addition. the BDO directors in the comparable size range received an average of $19,546 in stock awards and $7,800 in stock option awards, for a total compensation value of $56,547. This brings the total compensation to 52% cash, 35% full value stock awards, and 14% stock options.

Only three YPO companies paid between $40,000 and $50,000 in total compensation; the three companies that paid $50,000-plus all had their directors performing additional services beyond governance.

These results, while only directional and not statistically valid, suggest certain questions for further study:

• Are private company owners cheap, or are they just better buyers of talent?

• Why are directors willing to accept so much less from private companies for their board service?

• Are public company directors more valuable or better in some way that justifies their higher compensation?

• How important is the risk factor in the variance between public and private company director compensation? There is little doubt that a public company directorship exposes a director to greater risk, and deservedly greater reward. Is it worth twice as much?

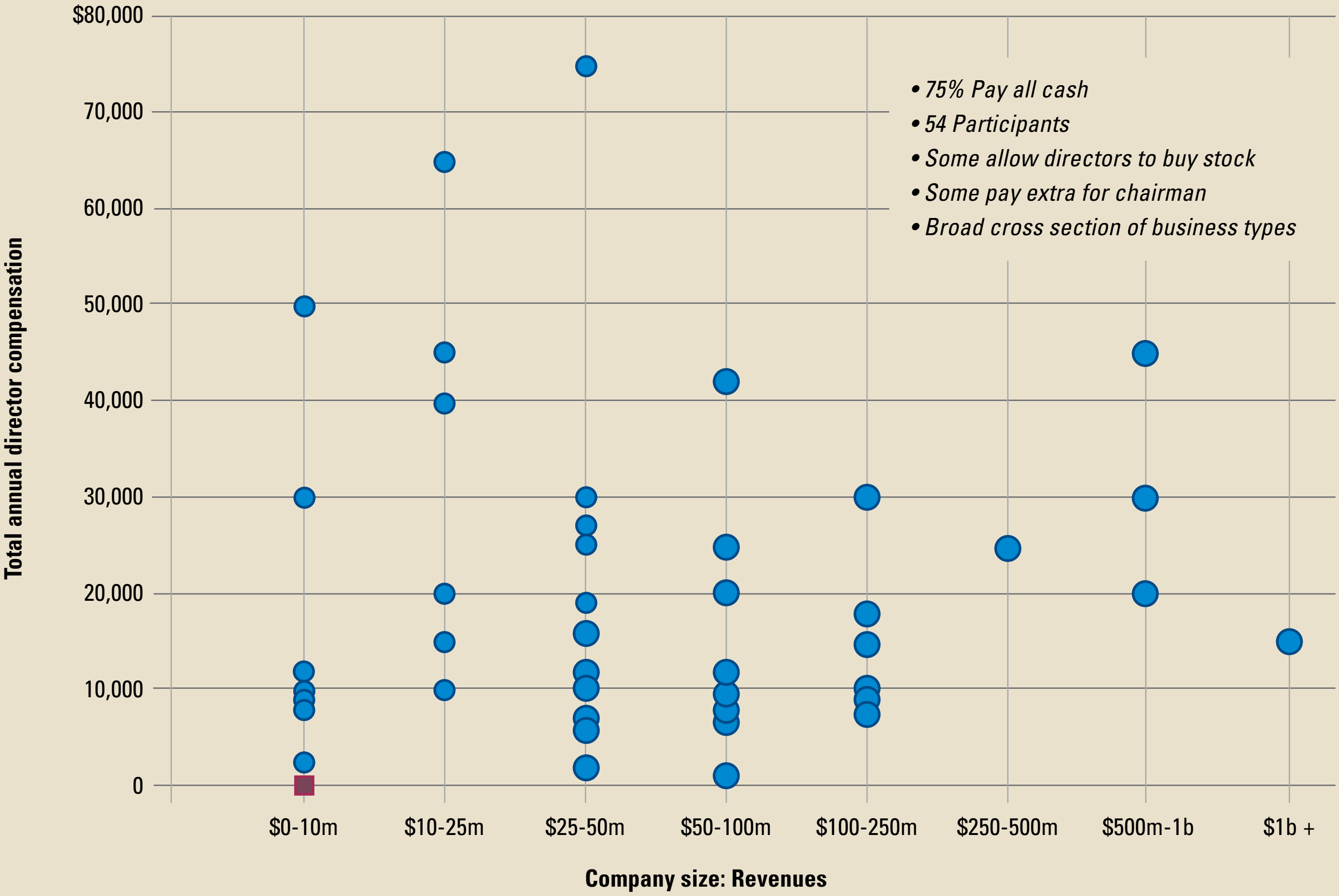
The data suggests that public company directors of companies with revenues less than $250 million are likely to be paid almost twice as much as private company directors of companies in the same size range. Are public company directors overpaid? Because public company data is available, and since compensation committees often rigorously review peers, or use consultants, there may be unnecessary inflation in public company director fees. Since public companies obviously have marketable stock, they have an advantage over private companies in available compensation tools. The YPO results suggest that it is not necessary to use company stock for director compensation.

Finally, through compensation committee discipline, it is likely that public companies more systematically and frequently review director compensation. For the private companies where we serve as directors, compensation is less frequently reviewed, and rarely the subject of the same scrutiny that public company director compensation receives. ■

The authors can be contacted at bernie@btenenbaum.com and andrewc@cornelliron.com.

2010 Director Compensation Survey

of YPO Members



Each dot represents a compensation level for an individual company. The data above represent a wide range of industries, including manufacturing, financial services, software, IT services, distributors, retail, real estate, banking, insurance, and construction.

Source: YPO Member Board Study by Bernard Tenenbaum and Andrew Cornell, 2010