Compensation Advisory Partners

Family Business

PRIVATE COMPANY DIRECTOR
THE MAGAZINE FOR PRIVATE COMPANY GOVERNANCE

Summary Report // 2024

Private Company Board Compensation and Governance Survey

This report is a summary analysis of a joint study by Compensation Advisory Partners, *Family Business* and *Private Company Director* magazines.

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REPORT

Introduction

Board members at privately held and family-owned companies play an important role in governance and oversight and should be appropriately compensated for their contributions and efforts. However, the appropriate amount of compensation is difficult to determine due to the lack of available market data on private company board pay.

To address this data deficiency, Compensation Advisory Partners (CAP) and Private Company Director and Family Business magazines conduct our annual survey of private company board compensation and governance. The survey database has grown to almost 2,000 company respondents across a range of company sizes and industries.

The new 2024 fifth edition of the survey focuses primarily on a robust dataset of 750 respondents who certified their data in May 2024, and provides an up-to-date analysis of director pay practices that reflects the current competitive environment. Changes were made to the 2024 survey questionnaire to increase the number of mandatory questions, which resulted in an extremely robust and high-quality dataset. Year-over-year comparisons are made in this report with respect to the 2023 survey results and to the overall sample.

About the Survey Participants

The survey respondents represent companies in diverse industries and span a variety of sizes as measured by revenue. Exhibit 1 shows the distribution of responses across revenue ranges. The average revenue size across the entire sample is $275 million. Exhibit 2 shows the prevalence of industries, with manufacturing being the most prevalent industry in the survey.

Of the participating companies, 61 percent are wholly or majority family-owned or controlled. The survey also drew participation from companies that are closely held, private equity-owned, and owned by employees through employee stock ownership plans (ESOPs). The business structures represented include S corporations, C corporations, limited liability companies (LLCs), partnerships, and other structures. (See Exhibit 3.)

Most participants are based in the United States, but the survey drew responses from all over the world. Of the respondents, 71 percent have fiduciary boards, while the remainder have advisory boards. Compensation for directors on advisory boards ranges from 60% to 75% of the compensation for directors on fiduciary boards, given less risk and legal obligations with advisory boards.

EXHIBIT 1

Annual Revenue of Participants

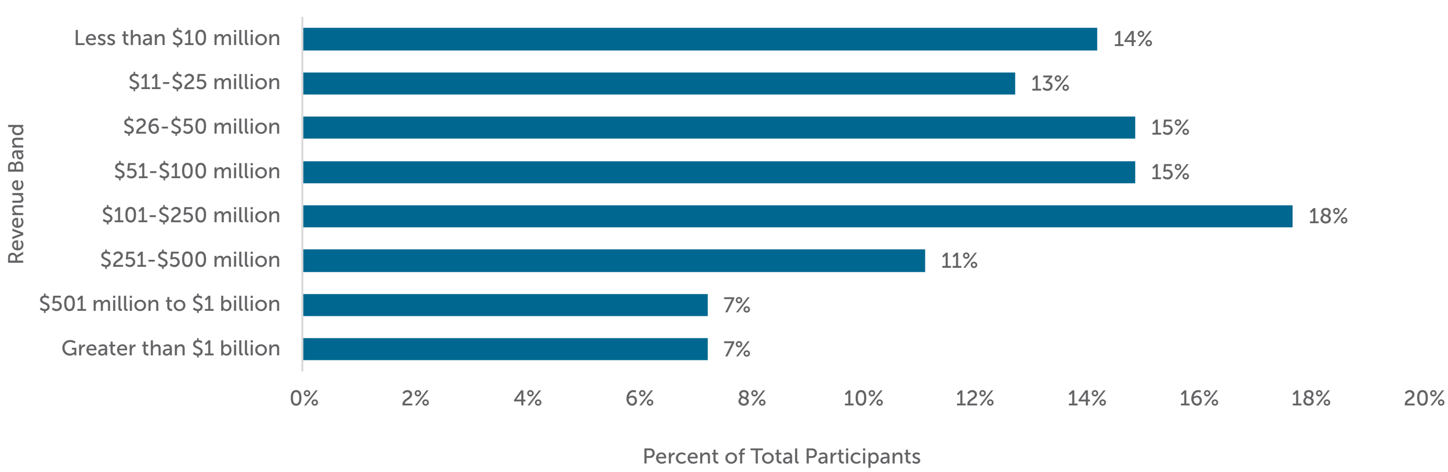


EXHIBIT 2

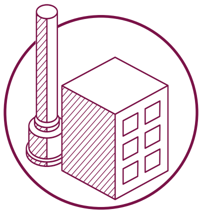
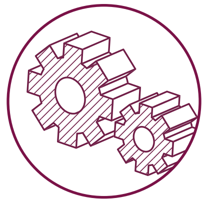
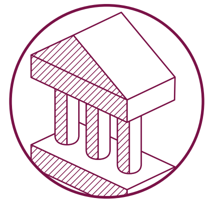
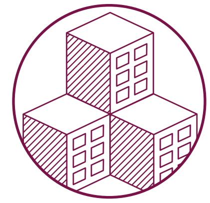
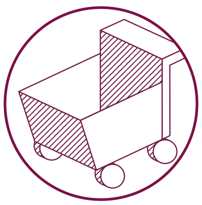
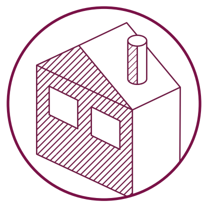
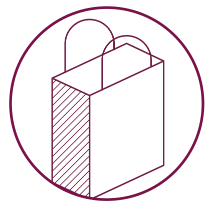
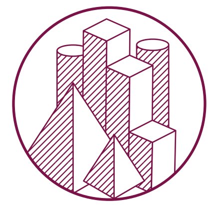
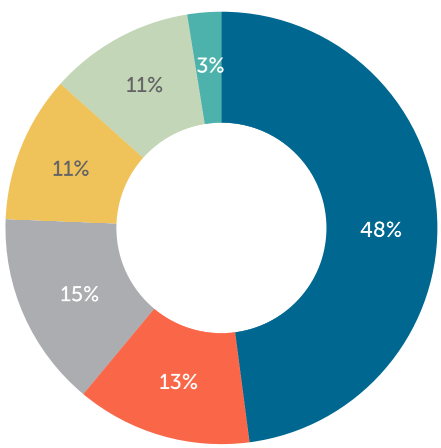
 Manufacturing 25%	 Professional, Scientific, & Technical Svcs. 14%	 Finance & Insurance 8%	 Construction 7.5%
 Wholesale Trade 5.5%	 Real Estate & Rental & Leasing 5.4%	 Retail Trade 5.2%	 All Other Industries Combined 29%

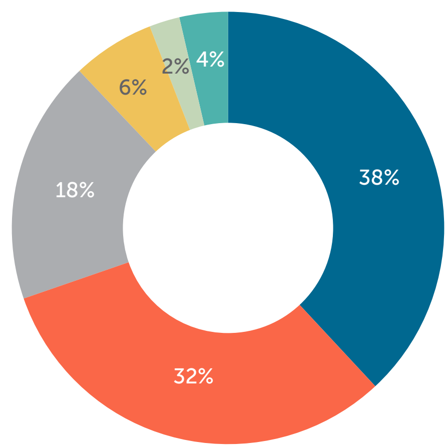
EXHIBIT 3

Company Ownership



■ Family-owned 100% ■ Majority family-owned/controlled
■ Closely-held (unrelated owners) ■ Private equity-owned or invested
■ ESOP-owned ■ Other

Corporation Type



■ S Corporation ■ C Corporation
■ Limited Liability Company (LLC) ■ Non-US Corporation
■ Partnership ■ Other*

*Other includes Sole Proprietors, Mutual Companies, B Corporations, and Cooperatives

Compensation Components

As private company board governance continues to evolve, the complexity and time commitment associated with board service has increased due to a broader mandate of work being expected of board members. The additional responsibilities, coupled with greater competition to recruit qualified candidates and an inflationary economic environment, resulted in a 14 percent increase in total compensation per director from 2023. Table 1 summarizes board compensation levels for the total sample at median, if the participant reported data for that element.

TABLE 1

Summary of Private Company Board Compensation Levels (Total Sample)

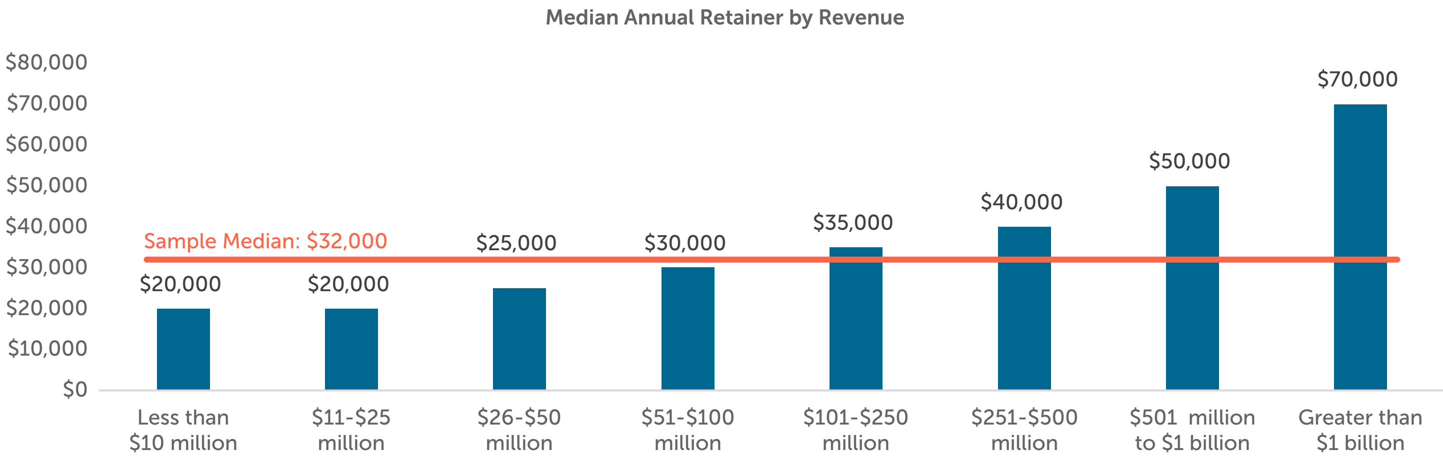
	Prevalence (% of Total Comp)	2024 Median	2023 Median	% Change
Board Member Base Cash Compensation				
Annual Retainer	75%	$32,000	$30,000	7%
Per-Meeting Fee	45%	$2,500	$2,500	Flat
Board Chair Additional Cash Compensation				
Annual Retainer	40%	$20,500	$20,000	2.5%
Lead Director Additional Cash Compensation				
Annual Retainer	41%	$17,375	$12,000	45%
Committee Chair Additional Cash Compensation				
Annual Retainer	39%	$7,500	$6,000	25%
Committee Member Additional Cash Compensation				
Annual Retainer	33%	$5,000	$5,000	Flat
Long-Term Incentive Value (Restricted Stock, Options, Cash)				
Total Sample Value	28%	$60,000	$50,000	20%
Average Annual Total Compensation				
Average Pay to One Director		$40,000	$35,000	14%

Notes: Data reflect the median of all companies reporting data for each pay component. Median figures are non-additive due to varying prevalence of each pay component.

Annual Retainer

Annual cash retainers are part of most directors' compensation packages. The median cash retainer for the entire sample is $32,000 for 2024, which is up 7% from 2023. Board retainers are highly correlated with company size as shown in Exhibit 4.

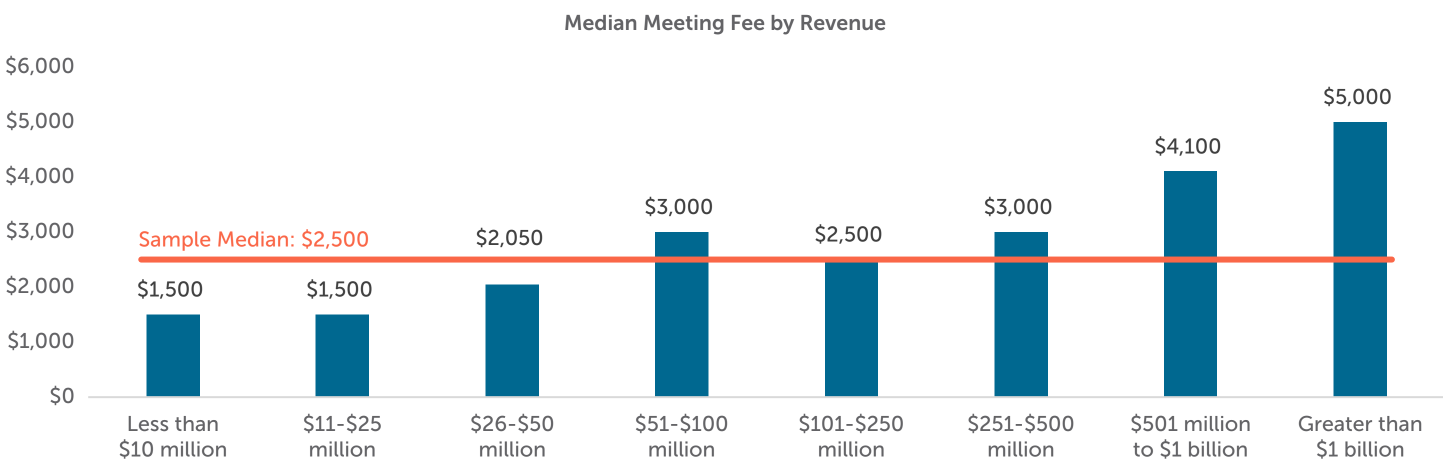
EXHIBIT 4



Meeting Fees

Meeting fees continue to be used by private companies, while most publicly traded companies have migrated to retainers only. Of the private companies surveyed, 18 percent use meeting fees as their only form of cash compensation. As with retainers, meeting fees increase with company size. (See Exhibit 5.)

EXHIBIT 5



Long-Term Incentives

The prevalence of long-term incentives (LTIs) for private company board service continues to be a minority practice, with 28 percent of respondents offering LTIs to directors. The prevalence of LTI use ticked up from 26 percent in the 2023 survey, which is notable given that private companies do not have stock liquidity and ownership is not widely held, making LTIs more complicated to implement. This contrasts with public-company practice, where over 90% of companies grant equity to their directors. Publicly traded firms provide more than half of a director's total compensation in the form of equity, typically full-value shares or units.

Of the private companies offering LTIs to directors, stock options and restricted stock/units ("real equity") are the favored vehicles. Typical practices for private company LTI awards are to grant either annually (52%) or when the director is appointed to the board (39%), and to have awards subject to vesting. Given the multiple time frames that awards cover, LTI grant values vary significantly. The total sample median award value is $60,000, which is a combination of annual, ad hoc, periodic, and one-time/up-front grants.

The use of LTIs indicates that private companies are working to retain and align board members with the company's overall success. CAP expects the use of LTIs for director compensation to continue to gradually increase over time, especially at larger private companies, due to competition for specialized board talent with public companies.

Other Key Components

Compensation to Family Members

Of the participants, 51 percent provide compensation to shareholders and family members who serve on the board. The decision to compensate shareholders and family members is a philosophical one; for some companies, the rationale for not paying directors is due to such directors benefitting from the company through shareholder distributions. Other companies believe in the importance of recognizing the contributions, skills, and time for all directors, regardless of family or shareholder status. For these companies that compensate shareholders and family members, more than 70 percent compensate them on the same basis as the independent directors.

Travel Reimbursement

The prevalence of travel reimbursements is 73 percent. Companies that do not reimburse travel expenses may recruit directors from local areas or hold meetings virtually.

Board Leadership Retainer

Approximately 40 percent of private companies provide additional compensation for board leadership roles. When the incremental leadership retainers are considered as a multiple of regular board member retainers, the median multiple is 0.64x for the incremental board chair retainer, a level that has remained stable over time. The median multiple is 0.54x for the incremental lead director retainer, a significant increase from 2023 when the multiple was 0.4X. The lead director pay increase indicates that private companies value sound governance practices by using lead directors more and paying them a premium for their board leadership.

Committee Retainers

About 40 percent of private companies provide additional compensation for committee chairs with an incremental retainer of $7,500 at median. Most companies do not differentiate pay between types of committees.

A 2024 survey trend is that committees have become more prevalent at privately held companies, with about three-quarters of survey respondents reporting they have committees. Three main committees reported are Compensation (85% of respondents), Audit (80%), and Nominating/Governance (67%). Typically, each director serves on one or two committees as a requirement of board service.

Summary of Board Pay Models

As shown in Table 2, there are several models for how private companies are combining the various pay components mentioned above to create a total compensation package for directors.

TABLE 2

Board Pay Model	Prevalence	Rationale
Annual Cash Retainer Only	48%	Simple to administer. Good structure for frequent interactions/meetings. Prevalent among public companies.
Per-Meeting Fees Only	18%	Work is tied to meetings, and pay is automatically work-load adjusted
Combination of Annual Retainer and Per-Meeting Fees	27%	Incentivizes meeting attendance, while recognizing work completed outside of meetings
Equity Retainer Only	5%	Designed to share company success with board members. Typically for start-ups or private equity/venture capital owned companies.
Other	2%	Hourly rate for board service to compensate for workload Only reimburse for travel expenses

Governance Findings

In addition to benchmarking compensation levels and practices, the survey covers many governance issues, including board size and composition, independence, workload, term limits and diversity.

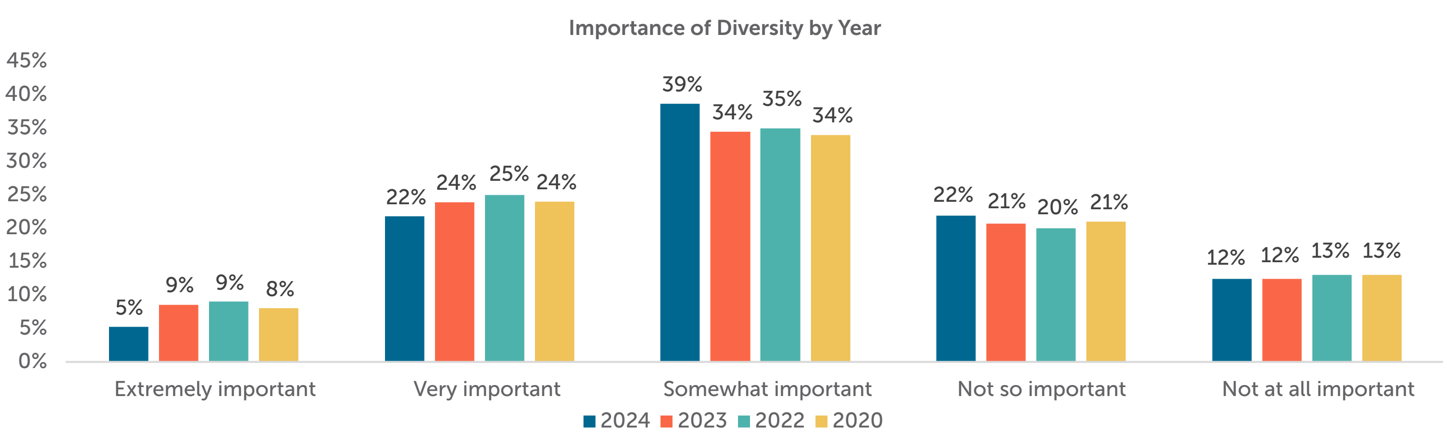
Board Size and Composition

Typical private company board size ranges from five to eight directors, with a median of seven directors. The median increased by one director from the 2023 survey. Board composition for 2024 continues to be half inside directors and half independent/outside directors.

Board Diversity

Two-thirds of survey respondents indicate that diversity is somewhat to extremely important for their board composition. Exhibit 6 shows the reported importance of board diversity compared to previous iterations of this survey. The distribution of survey ratings has remained mostly similar over time. Private companies often recruit board members for particular skills or experiences, or to fill specific company needs. As a result, gender and ethnic diversity have not had the same level of focus for board recruitment as at publicly traded counterparts.

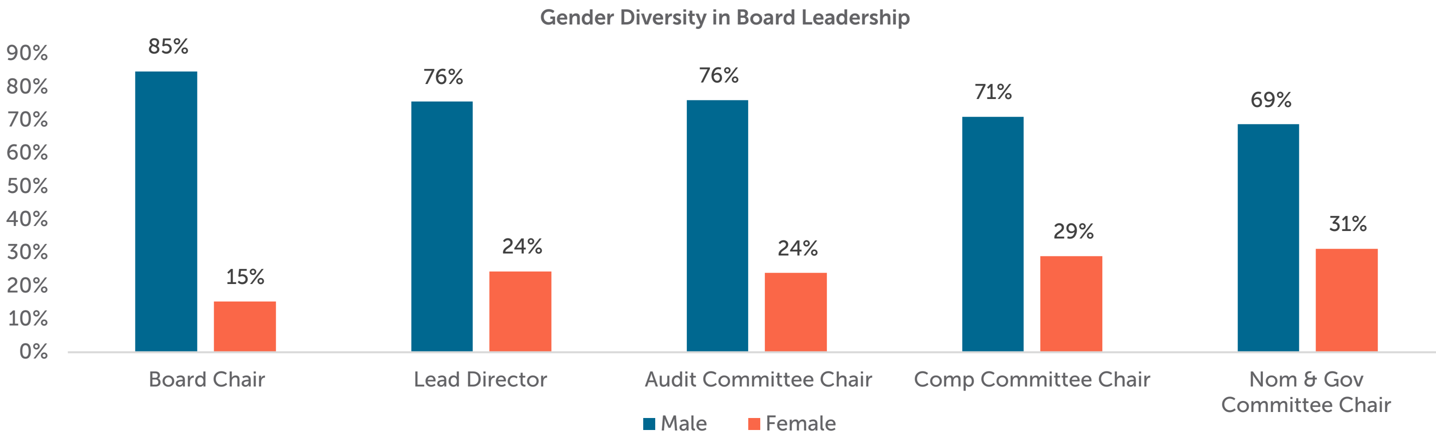
EXHIBIT 6



In the total survey sample, respondents indicated that 73 percent of their boards include women, while only 29 percent include minority members. In contrast, publicly traded companies are often encouraged by institutional investors to have diverse boards. More than half of private equity- and venture-backed companies reported that women and minorities are included on their company boards. In addition, larger private companies with more than $500 million in revenue are more likely to have greater board diversity relative to the entire sample.

The survey asked about gender diversity in board leadership. Women are less prevalent in board and committee leadership roles, as shown in Exhibit 7.

EXHIBIT 7



Other governance findings are limited to survey participants.

Board Effectiveness

Privately held companies create boards to provide structure around accountability and sound governance. Directors bring specialized skills and expertise to the company, serve as sounding boards and advisors to owners and management, provide unique perspectives and ideas, and leverage their professional networks on behalf of the company. At times, directors also assist with transactions and special situations.

The survey asked respondents about the effectiveness of their boards. Respondents overwhelmingly reported that their boards are effective, with 86 percent rating them effective to extremely effective. The survey asked participants about ways to improve board effectiveness and the board's biggest impacts on the company. Each question garnered two prevalent responses, as shown in Table 3.

TABLE 3

	2024	2023
Top ways to enhance board effectiveness:	**% of respondents**	
Adding specific expertise (e.g., industry, operations, finance, etc.)	48%	46%
Increasing interactions with management	48%	51%
Biggest impacts of the board:		
Serving as a sounding board for management	39%	37%
Enhancing company governance	30%	34%

Total Director Compensation Cost

To understand the total costs to private companies of having a board, the survey asked participants to calculate the average annual total compensation paid to ONE director and to ALL directors on the board (See Table 4). Total compensation includes the annual board cash retainer, board meeting fees, long-term incentives, committee service retainers and meeting fees, and leadership premiums for non-employee directors.

TABLE 4

	Total Compensation for ONE Director	Total Compensation for ALL Directors
Median	$40,000	$178,000
# of Orgs	649	649

Total board cost is correlated with company size. This relationship is driven by differences in the amount of compensation paid to individual directors, as well as differences in the size of the board. As a company's revenue increases, the complexity of operations, regulatory requirements, and the responsibilities of the board also increase. To deal with this greater responsibility, larger companies may have a larger board and separate committees. Higher compensation is needed to attract qualified talent and reward them for a more considerable time commitment. The 2025 survey iteration will gather data for family councils to arrive at the true total cost of governance for family businesses.

Looking Ahead

Previously, changes in board pay levels emerged slowly with flat or modest year-over-year growth. CAP expects to see the pace of change increase, but with more modest and steady year-over-year growth versus the spike we saw in 2024. The talent market for directors is tight, with publicly traded and private companies competing for the same group of qualified candidates. The overlap in the market for talent is causing pressure on private companies to increase pay levels and be more creative in their pay structures to support their recruitment efforts. It is becoming more difficult to find the right board candidates who also have the cultural fit required by privately held and family-owned companies.

CAP expects to see other changes emerge in the coming years, including:

- Increased emphasis on long-term incentives (either real stock or cash-based), as they better align compensation with shareholder returns over a director's tenure. CAP has received increased interest from larger private company clients in implementing long-term incentive plans to compete for high-caliber directors with public companies.

- Increased emphasis on annual board retainers in lieu of meeting fees and committee compensation. Bundling compensation for all board activities in the form of an annual cash retainer is a simpler way to compensate time and effort and easier to administer. Additionally, as the workload across committees continues to normalize due to expanding shareholder expectations of board members, many companies have focused on increasing annual board retainers instead of providing separate committee compensation.

Survey Contacts

The full survey results are limited to participants. Please contact CAP if you are interested in a compensation assessment based on the survey data or are interested in participating in the survey in the future.

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