CAPflash
CAP Compensation Advisory Partners NEWSLETTER | ISSUE #43 | MARCH 20, 2013

Board Leadership Compensation Trends

■ By **Kevin Scott**, **Melissa Burek**, **Margaret Engel**

OVERVIEW

Board leadership is a key issue. While the majority of large U.S. public companies combine the roles of Chair and CEO, many shareholder advisory groups, investors, and governance "watchdogs" believe that separating the two roles is a better approach. Some of the advantages cited for having a separate Chair and CEO include improved governance through stronger "checks and balances" on the authority of the CEO, improved regulatory compliance and clearer focus on succession planning.

If a separate Chair role is desired, the position may be occupied by either an executive or a non-executive. An Executive Chair is frequently a founder or a recently retired CEO who continues on as Chair for a transition period. In a few cases, particularly where a high level of Board independence is necessary, an outsider is hired into the role. In contrast, a non-executive Chair is often a sitting member of the Board whose role is expanded.

At companies where the roles of Chair and CEO are combined, the Lead Director position has become common. In CAP's annual survey of director compensation at the 100 largest U.S. public companies, the percentage of companies with a Lead Director increased from 38% to 47% in three years, from 2009 to 2011. The percentage of companies reporting a separate non-executive Chair has stayed more stable over the period, at approximately 20%. (In public companies where there is not an independent non-executive Chair or Lead Director, there will be an independent Presiding Director, at times a rotating position.)

When determining the appropriate Board leadership structure, directors must consider which structure will be optimal for their company and its culture. If a Lead Director or a separate Chair is elected, it is essential that the separate roles are clearly defined. This will allow the Board to work more effectively with the CEO and other members of the management team, as well as to best determine the appropriate compensation for the role.

> It is essential that roles are clearly defined… to best determine the appropriate compensation… As the typical responsibilities and related time commitment can vary substantially, so does the typical compensation for each role.

TYPICAL RESPONSIBILITIES OF VARIOUS BOARD LEADERSHIP ROLES

Typical responsibilities are summarized below. As the typical responsibilities and related time commitment can vary substantially, so does the typical compensation for each role.

ROLE	RESPONSIBILITIES
Executive Chair	· Provides counsel to the CEO on organization structure, financial structure and related topics · Plays integral part in strengthening relationships with external stakeholders, including shareholders and regulatory bodies · Develops and executes the company strategy with the CEO
Non-Executive Chair	· Takes primary responsibility for shaping Board agendas, with input from the CEO · Facilitates discussions between independent directors on key issues outside of Board meetings · Has a critical role in succession planning · May represent the organization to external stakeholders and employees (at the board's discretion) · Does not typically have a direct role in the company's operations
Lead Director	· Chairs executive sessions of the Board · Works with the Chairman & CEO to set agendas for Board meetings · Serves as liaison between the Board and the CEO · Facilitates discussions between independent directors on key issues outside of Board meetings · Does not typically represent the company to external stakeholders · Does not typically have a role in the company's operations

EXECUTIVE CHAIRMAN

The role of Executive Chair is often viewed as a transitional role. The role's influence on the business can vary dramatically from company to company. As such, compensation practices vary widely across companies and will reflect each company's specific circumstances, including:

- Balance of responsibilities between the CEO and the Executive Chair
- Time commitment/involvement (e.g., 1 vs. 3 days per week)
- Expected tenure of the Executive Chair
- Tenure and experience of the CEO
- Equity ownership – equity grants are less likely if the Executive Chair already has a large ownership stake or if the position is viewed as short-term in nature
- Founder vs. non-founder status

For an Executive Chair, compensation levels often reflect the individual's prior pay package as CEO, as well as the compensation program and pay levels of the current CEO.

- Typical pay elements include base salary, annual bonus opportunity and long-term incentive awards
- Base salary levels may reflect the salary earned in the individual's prior position. If the time commitment is reduced, a salary reduction may also apply
- Long-term incentive opportunities of an Executive Chair are normally lower than what the CEO receives
- Long-term incentive vehicles granted may vary from the company's core executive compensation program, due in part to the expectation of a shorter tenure and less ability/time to impact long-term results

CAP consultants reviewed compensation data among 57 general industry companies with an Executive Chair, comparing Executive Chair pay to that of the CEO. We found that, at median, Executive Chair compensation (including salary, bonus and long-term incentives) was approximately 70% of the CEO's compensation.

The role of Executive Chair is often viewed as a transitional role. The role's influence on the business can vary dramatically from company to company. As such, compensation practices vary widely across companies and will reflect each company's specific circumstance.

2012 EXECUTIVE CHAIR DATA	EXEC CHAIR SALARY AS % OF CEO BASE SALARY			EXEC CHAIR TCC AS % OF CEO TCC			EXEC CHAIR TDC AS % OF CEO TDC		
	25TH	MEDIAN	75TH	25TH	MEDIAN	75TH	25TH	MEDIAN	75TH
57 General Industry Cos. (Median Revenues of $2.4B)	70%	90%	100%	65%	85%	105%	35%	70%	100%

For reference, below is a breakout of the pay package for three recent, high profile Executive Chairs.

RECENT EXECUTIVE CHAIRMAN COMPENSATION PACKAGES AT LARGE ORGANIZATIONS			
COMPANY	**HEWLETT-PACKARD**	**KRAFT FOODS INC.**	**SARA LEE**
Revenue	$127.2B	$54.3B	$8.7B
Executive Chairman	Raymond J. Lane	John T. Cahill	Jan Bennink
Date Hired as Executive Chairman	September 2011	January 2012	January 2011
Previous Role	Non-Executive Chair	Outside / New Hire	Non-Employee Director
Base Salary	None	$0.75M	$1.00M
Target Bonus	None	$0.75M (100% of base)	$1.75M (175% of base)
Long-Term Incentives	$8.44M [1]	$4.50M	$5.25M
Target Total Direct Compensation (TDC)	$8.44M	$6.00M	$8.00M
TDC as a % of CEO	46%	97%	129%
LTI Award Vehicle	20% Time-Based Stock Options 80% Performance-Based Stock Options	75% RSUs 25% Stock Options	50% RSUs 50% Stock Options
LTI Grant Frequency (annual, one-time)	One-Time[2]	Not disclosed	Not disclosed
Vesting	Time-Based: 3 Year Ratable Vesting Performance-Based: Requires 120-140% price appreciation	3 Year Cliff Vesting (RS) 3 Year Ratable Vesting (SO)	2 Year Cliff Vesting
LTI Award Vehicles Different from Executive LTI Program	Yes	Yes	Yes

1. Excludes fees as non-executive Chair, including $2.19M RSU award

2. 1M stock options were awarded (200,000 options with 3-year ratable vesting; 400,000 options vest upon stock price appreciation of 120% from grant price; 400,000 options vest upon stock price appreciation of 140% from grant price).

NON-EXECUTIVE CHAIRMAN / LEAD DIRECTOR COMPENSATION

Compensation packages for non-executive Chairs and Lead Directors typically consist of the core compensation program for non-employee directors along with an additional stipend (or premium) that reflects the responsibilities and time commitment of the role. This approach appropriately recognizes the differential between a leadership position and other directors, with the magnitude of the premium reflecting the additional responsibilities.

CAP's market data indicates that all companies with a non-executive Chair provide a premium for the role, and 69% of companies provide a pay premium for the Lead Director role.

Non-executive Chair pay is typically delivered in one of two ways:

- An additional retainer paid in cash or stock, in addition to the regular outside director pay program
- A separate fixed dollar amount provided in cash, stock or a combination, in lieu of the regular outside director pay program

As indicated below, the premium provided to a Lead Director is often much smaller than the premium provided to a non-executive Chair. Our data indicates that a non-executive Chair receives a median premium of +65% compared to a regular outside director's package. For a Lead Director, the median premium is +10%.

CONCLUSIONS

The structure and amount of compensation paid to Executive Chairs differ from non-executive Chairs and Lead Directors, a direct reflection of the roles, duties and time commitment required for each position.

Executive Chairs participate in the company's executive compensation programs. Base salary, annual incentive and long-term incentives are commonly offered, yet pay programs are situation-specific and frequently transitional in nature. The Executive Chair's expected tenure and perceived ability to influence longer term results are considerations that impact the amount and form of incentive compensation used.

Executive Chairs participate in the company's executive compensation programs. Base salary, annual incentive and long-term incentives are commonly offered, yet pay programs are situation-specific and frequently transitional in nature.

As companies increasingly focus on improving Board independence, it will be important to evaluate whether or not separate Chair and CEO roles are appropriate. Companies should assess which organization structure makes sense given its unique circumstances. Companies anticipating a transition period due to executive turnover, the need to improve governance or a corporate transaction should re-assess the appropriate structure necessary to best navigate through turbulent times.

	NON-EXECUTIVE CHAIRMAN AND LEAD DIRECTOR PREMIUM COMPENSATION GENERAL INDUSTRY COMPANIES WITH MEDIAN REVENUES OF $2.3B				
Leadership Position	**No of Cos.**	**Prevalence of Cos. Providing Additional Compensation**	**Multiple of Non-Employee Director Compensation (Median)** *Primary Reference*	**Additional Premium - Median**	**Additional Premium - Range**
Non-Executive Chairman	42	100%	**1.65x**	$100,000	$20k - $577K
Lead Director	114	69%	**1.10x**	$20,000	$5K - $140K

CAP

Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at www.capartners.com for more information on executive compensation.