Non-Executive Directors' Fees - Is Now The Time For A Significant Increase?

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Consultants have a tendency to give broad direction rather than committing to verifiable predictions; we try not to. In this article, we will be bold and make a specific forecast: over the next two years, the fees paid by most Singapore listed companies to their non-executive directors will increase by twenty percent or more.

Analysis Thus Far

In our last full review of NED fees, we analysed fee levels in 330 Singapore listed companies paid in respect of the years ending in 2010. A summary of the results is shown in Table A.

TABLE A

		% Increase p.a.				% Increase p.a.		
Percentile	**Total Cash Fees (S$)**	**1 yr**	**Avg 2 yrs**	**Avg 3 Yrs**	**Average Cash Fees (S$) per NED**	**1 yr**	**Avg 2 yrs**	**Avg 3 Yrs**
P10	112,000	-5%	-7%	-7%	31,253	-13%	-10%	-8%
P25	158,750	0%	0%	0%	40,000	0%	-1%	0%
Median	231,000	4%	5%	5%	53,333	2%	4%	4%
P75	398,286	16%	12%	12%	75,400	18%	15%	10%
P90	698,620	39%	29%	20%	111,214	42%	23%	18%

The median level of total fees paid in cash (i.e. not including equity or option grants) was S$231,000 with the median average fee for each NED was S$53,333. Over the last few years, the median rate of increase in both total fees and average fees per NED has been running at around 4 to 5% but with some increases substantially higher.

So what leads us to predict that future increases will be higher? We consider three factors:

- Increasing workload and commitment will be needed from directors, especially independent directors.
- The changing nature of independent directors.
- General economic conditions.

The Increasing Workload Of Directors

We see that some directors are beginning to question whether they are being adequately remunerated for their responsibilities and the associated liabilities. More directly, with changes to the Code of Corporate Governance, there will be a further increase in the work of directors in the following areas:

- In many cases, companies will have to appoint a lead independent director who, amongst other duties, will lead separate meetings of all the independent directors. We expect that many companies will make a specific payment for this role.
- The specified role of nominating committees is significantly expanded with particular emphasis on succession planning and board evaluation including assessing whether directors are independent. The fees paid for nominating committee work have typically been the lowest when compared to other roles reflecting the often lighter workload. We expect that this will change.
- The board will need to take on a more direct role in the management of risk. This will require time and, perhaps, directors having to devote time and effort to increase their knowledge in this area.
- In our area of remuneration, the Code encourages companies to disclose more information on pay including how pay and performance are linked and also to consider how risk and remuneration should be related. This and other disclosure requirements will oblige remuneration committees to be in a position to justify their policies and outcomes from those policies.
- All directors are expected to engage and maintain a dialogue with shareholders beyond attending annual general meetings.

TABLE B

Percentile	Singapore Companies Average Fees (S$)			U.K. Companies Estimated Average Fees (S$)		
	Large	Mid	Small	Large	Mid	Small
P25	46,843	41,000	37,768	162,500	87,500	51,833
Median	73,564	54,987	48,682	207,500	108,667	69,667
P75	105,900	70,000	62,813	291,667	135,833	79,167

Directors can make their own assessment of the time that they commit to a particular board and then determine if the fees are appropriate compared to other remunerated activities.

Independent Directors

It is not the purpose of this article to comment on the changes to the Code relating to the independence of directors. However, we do think these changes will have an impact on directors' fees in two ways:

- Many directors, who either are substantial shareholders or who have a direct association with a substantial shareholder, could be expected to be willing to serve for lower remuneration than someone who is completely independent of shareholders. There may be other sources of remuneration or long standing relationships that would act as a barrier to increasing fees.
- One criticism of the changes to the Code is that companies will not be able to find enough qualified independent directors. Also, recent cases highlighting directors' liabilities are likely to make independent directors more cautious in accepting nominations. If there is an increase in demand and a shortage of supply then fees should rise.

The board structure of UK companies has some similarities with Singapore with these becoming more so with the new code particularly in the area of director independence. We have compared average NED fees in similar sized UK and Singapore companies with these set out in Table B.

The fee rates in the larger Singapore companies do lag the UK comparators; with some being only a third to a quarter of the amount. However, we are starting to see independent Chairman of larger companies drawing fees significantly higher than the rest of the board and this could be part of a trend.

The comparison for small companies is closer with UK companies only being some 50% higher than Singapore.

Economic Conditions

Our analysis of fee increases dates from the time of the financial crisis. At that time, it was quite reasonable to expect companies to be cautious in all areas of spending including directors' fees. Since then, both price and wage inflation have been at significant levels and fees would have needed to increase at around 3-5% each year just to keep up.

General economic conditions have been positive over the last two years and companies have been able to harness these for increased profits; higher directors' fees should be affordable and, with increasing share prices, comparatively easy to justify to shareholders.

Reviewing fee requests from recent AGM's, we are already seeing signs of higher increases. Our prediction of twenty percent increases over two years in most companies is looking a safe bet. We aim to publish our 2012 review of fees in June this year and then we can see how our prediction is shaping up. ■