



**GUBERNA**  
INSTITUUT VOOR BESTUURDERS  
INSTITUT DES ADMINISTRATEURS

Centre

Listed  
Companies

Governance

# Remuneration of non-executive directors

Highlights of the research report

## Why such a study?

Remuneration policies have more and more been the subject of considerable debate. There has been a pronounced increase in attention towards the remuneration policy of listed companies and there is every indication that this will continue. Whereas mainly the topic of executive compensation has been scrutinized, the remuneration of non-executive directors has not been left untouched. Not only the level of remuneration, but also the structure has taken a prominent place in remuneration committee's discussions and shareholder agendas.

Since the role of non-executive directors has grown in complexity and importance, this leads to a considerable increase in time to be invested in a listed board mandate. However, one should not forget that time has its price and that higher availability and time commitment (will) need(s) to be compensated by a higher remuneration.

Attracting external and independent directors has become a necessary and obligatory step in the corporate governance of a company. 93% of the listed companies have at least three independent directors on board. Awarding correctly is definitely an important step to attract the right people and achieve a balanced board composition.

GUBERNA (Belgian Governance and Director's Institute) brings out this research on the remuneration of non-executive directors to provide an overview of the package and level of director remuneration in listed companies. During the past years, many corporate governance rules have been established as well at national as international level. Through research of this representative sample of listed companies GUBERNA hopes to help companies better benchmarking to reach the right remuneration for their board members.

## Sample highlights

- A sample of 83 companies (representing 95% of the total market capitalization of Euronext Brussels) listed on the NYSE Euronext Brussels Stock Exchange
- Companies listed on BEL 20 (19), BEL Mid (31) or BEL Small (34) on 31<sup>st</sup> December 2011
- Only companies according to Belgian Law were withheld
- Research based on the annual reports of 2011 (published in 2012)
- Only public information; no personal information was collected from the companies
- 733 seats (out of the 875 board seats) were paid for serving on the board
- In 90% of the cases, non-executive directors are paid for their board mandate
- Independent directors are always paid for their mandate

## Director compensation proves to be complex when observing the different possibilities in remuneration packages for board members

Quite a lot of combinations exist as to director remuneration, with elements such as an annual fixed remuneration for the board mandate and eventually for membership of board committees; a variable remuneration in function of the 'performance' of the board member in the form of an attendance fee for participation in board and eventually in committee meetings and a distinct remuneration package for the chairman of the board and the chairman of the board committees; a variable share-based remuneration linked to the corporate performance; and eventually other forms of compensation.

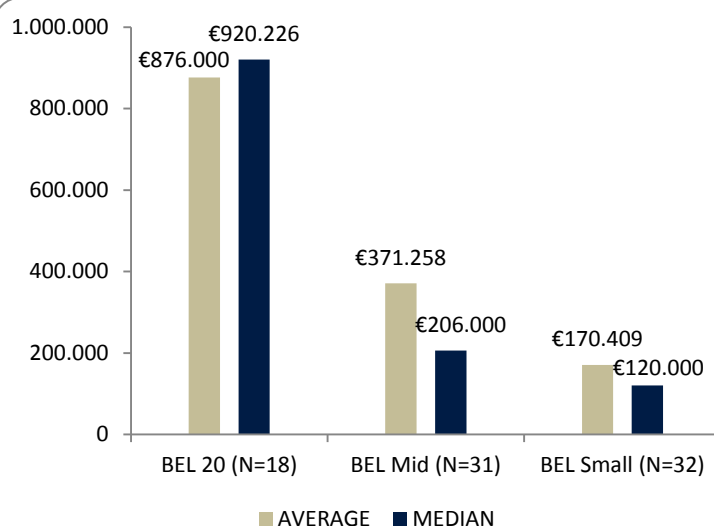
90% of the companies grant a fixed annual compensation to board members, whether or not accompanied by an attendance fee. Variable remuneration is less common. BEL 20 companies opt more for a combination of a fixed annual remuneration with a fee per meeting. The smaller companies opt more for a fixed annual remuneration, eventually coupled with a variable share-based remuneration. In exceptional cases the non-executive directors are only rewarded with a variable share-based remuneration.

**Total cost of corporate boards: €920.226 for BEL 20 companies, €206.000 for BEL Mid companies and €120.000 for BEL Small companies**

This chart excludes a possible variable remuneration.

It is obvious that BEL 20 company boards imply a higher cost for the company. This can be explained by two reasons:

- when looking at company size, larger companies tend to pay their directors more.
- larger companies tend to have larger boards



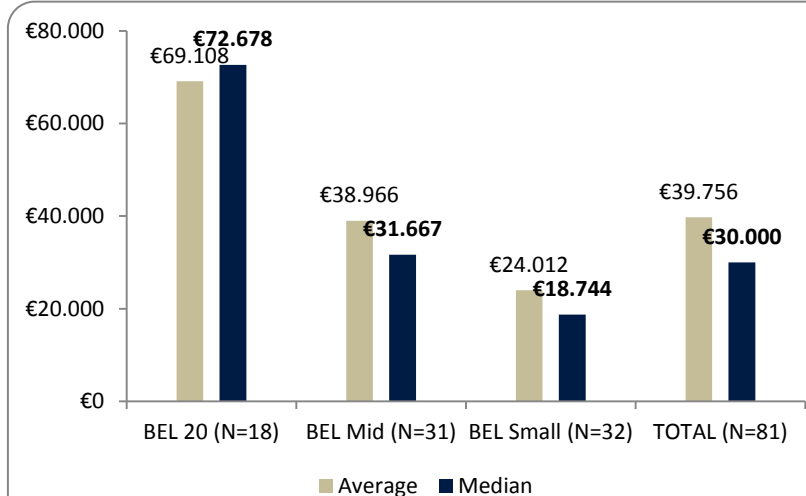
When including variable remuneration (granted to directors in only 11 companies), the median grows by 3% in the BEL 20 index and by 34% in the BEL Mid. In the BEL Small index, the median remains the same. If the average is taken into account, the total cost of the board is doubled in the BEL 20 index, increases by 25% in the BEL Mid and by 15% in the BEL Small. The impact of share-based pay is rather complex.

### Note:

Given the wide variance between the amounts, the average, does not seem to be the most reliable indicator. Therefore the study focuses on the median values (which is the middle number separating the higher and lower half of a sample).

**A director (regardless of his function) costs in total about €30.000 per year in a company of the Euronext Brussels main indexes (with a large variance between €72.678 and €18.744)**

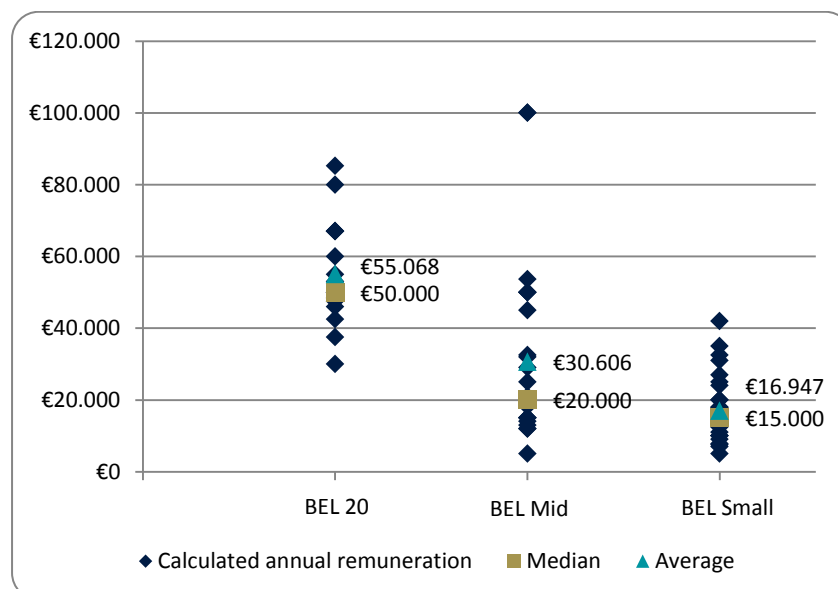
When considering the three indexes together, the median cost of a board member amounts to €30.000. This amount is calculated by dividing the total cost of the board (without possible variable part) by the number of paid directors in the board.



When looking into the different functions of board members, the charts below specify the average amounts of each specific board function. In a stepwise approach we differentiate the payment of board members (#1), chairmen of the board (#2), committee members (#3) and committee chairmen (#4).

### #1. Board members (not in a committee / not chairmen)

**The median level of the annual remuneration for board members ranges from €15.000 with BEL Small, to €20.000 in BEL Mid and in €50.000 BEL 20 companies**



A board member (non-chair/non-committee) of a BEL 20 company earns about €50.000 a year for his board mandate (additional board committee remuneration not included). Whereas the spread in BEL Mid companies is wide, the median value is €20.000. BEL Small board members are awarded an annual board remuneration of €15.000

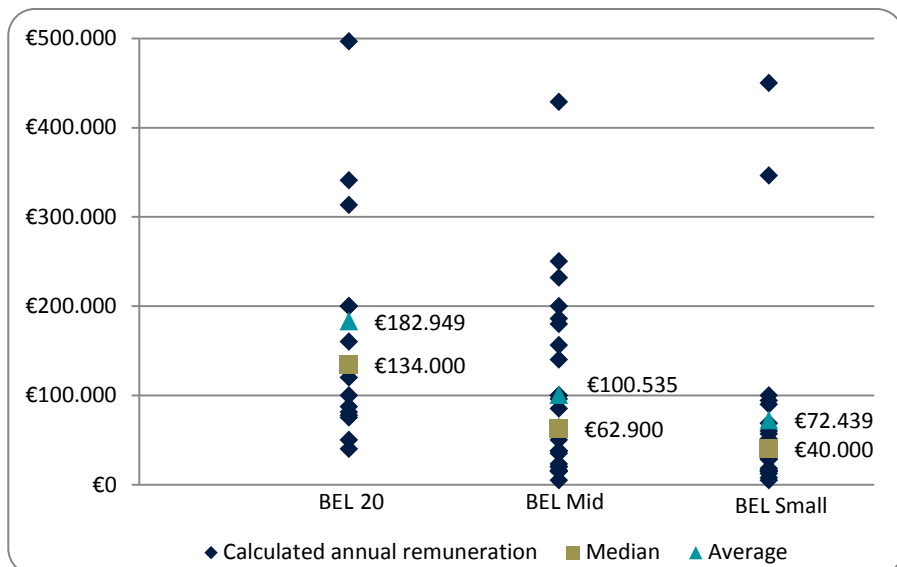
## #2. Chairmen of the board

### Remuneration packages seem to be less complex for non-executive chairmen

In more than half of the companies (52%) the chairman receives only a global remuneration package for the time he devotes to the board.

**A chairman of a BEL 20 company earns about €134.000 a year for his leadership. In a BEL Mid company, he earns €62.900 while in a BEL Small company, he earns €40.000**

This remuneration is calculated by adding the fixed annual remuneration to the meeting fees (where the fees are multiplied by the actual number of meetings hold in 2011 for those companies effectively paying an attendance fee)



When comparing the **median** of the chairman's remuneration to the one of the board member, it appears that the chairman earns twice the remuneration of his board member. When comparing the **average** remuneration for chairmen and for other non-executive directors, we can observe that the chairmen's remuneration varies between 3 to 5 times the average of the remuneration of other non-executive directors. However, this comparison is hampered through the difference in remuneration structures, with chairmen receiving relatively more a fixed remuneration only while non-executives often also receive an attendance fee. Globally we can conclude that chairmen are rewarded substantially more, reflecting their larger time investment and involvement with the company.

## #3. Committee members

### The remuneration policy for committee participation is still more divergent than the one for the board mandate

Practices are quite different from one company to another and this holds for the remuneration structure as well as for the remuneration levels. While some companies do not reward the membership of board committees separately, most do foresee a specific remuneration, mostly under the form of an attendance fee, while some (only/also) foresee a fixed annual fee. Every listed company has an audit committee within the board of directors and 93% provided information on the remuneration of audit committee members in their annual report.

A member of the **audit committee** earns annually **€12.000** in the BEL 20, **€5.000** in the BEL Mid and **€4.750** in the BEL Small index

	BEL 20 (N=16)	BEL Mid (N=23)	BEL Small (N=24)
Quartile 1	€8.663	€4.000	€3.713
<b>Median</b>	<b>€12.000</b>	<b>€5.000</b>	<b>€4.750</b>
Quartile 3	€17.125	€12.000	€6.000

As for board members and chairmen, annual fixed remuneration and board meeting attendance fees are not always combined in the remuneration package. This remuneration is calculated by adding the fixed annual remuneration to the meeting fee

The median values for annual fixed remuneration of **remuneration committee members** vary from **€4.500** in BEL Small companies, to **€3.175** in BEL Mid companies and **€7.500** in BEL 20 companies

Here again, we observe the rather complex remuneration policies used by BEL Mid companies, with a median lower than that of the BEL Small companies, but a much wider spread of remuneration levels than in any other index

	BEL 20 (N=15)	BEL Mid (N=24)	BEL Small (N=21)
Quartile 1	€6.000	€2.500	€2.000
<b>Median</b>	<b>€7.500</b>	<b>€3.175</b>	<b>€4.500</b>
Quartile 3	€10.000	€9.475	€5.000

When comparing the remuneration of the audit committee and remuneration committee members, we can observe that, in 63% of the cases, audit committee remuneration is higher than in the remuneration committee. The median between both committees within the BEL Small index is less apparent with a difference of only €250. The conclusions that can be drawn from this are various. Firstly, it is less common within the BEL Small index that remuneration committee members are awarded a lower remuneration. Furthermore, it is noticeable that the BEL Small companies have clearly fewer meetings (minus 1/3) with remuneration committees than audit committees. The difference between these meetings is less obvious within the BEL 20 and BEL Mid companies.

#### #4. Committee chairmen

**A chairman of an audit committee in a BEL 20 company earns €15.300 annually while a chairman of a remuneration committee earns €12.000**

	Audit committee (median)	Remuneration committee (median)
BEL 20	€15.300	€12.000
BEL Mid	€8.000	€4.375
BEL Small	€5.000	€4.500

When comparing these figures to the remuneration of audit committee members, we can conclude that also here the total annual compensation for being the chairmen of a committee, especially in the two largest indexes, is significantly higher than for audit committee members.

The trend is less obvious in the remuneration committee. We can also notice a higher remuneration for being the chairman of the committee in the BEL 20 and the BEL Mid indexes, but to a lesser extent. In the BEL Small index, it is less common to foresee higher remuneration for committee chairmen.

#### Benchmarking director remuneration should be developed with great care

Not only should we clearly distinguish between executive and non-executive directors, but also within the category of non-executive directors careful analysis of the statistics is necessary. It is clear from our research that limiting the research to the BEL-20 is a dangerous exercise, because of the large differences according to the size of the company. But even within the index categories, averages can hide a great dispersion. This is not only relevant when analysing the BEL 20 with one company as a real outlier in size (market cap), but also within the BEL Mid substantial differences exist as to remuneration practices. Abstracting from the one outlier of the BEL 20, we can even conclude that the largest dispersion as to remuneration practices exists within the BEL Mid companies. Moreover, the averages hide a quite dispersed landscape in commitment demanded from directors. This has been clearly shown when comparing the remuneration for board chairmen, committee chairmen with those of the other non-executive board and committee members.

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