Good money – but don't rely on it

By Dina Medland

They are not in it for the money – and it is best if they are not, because non-executive directors need to be able to walk away if they feel things are not right in the boardroom.

But while experienced boardroom headhunters say non-executives of UK companies rarely take on the role because they need the money, the rewards can still be substantial.

Directors' fees for FTSE-100 companies – both for chairmanships and non-executive roles – have been rising steadily over the past three or four years. But with executive remuneration rising even faster, the gap between executive board members and non-executives continues to widen, according to Peter Waine, boardroom specialist at Hanson Green, the headhunter.

"It is really quite surprising that the trend in remuneration at FTSE-100 companies has been steadily upwards, given the economic climate and the fact that it's probably easier to sit on FTSE-100 boards than FTSE-250 boards in many cases," he says.

But do non-executives really need to be of independent means in order to be genuinely independent in their work – which would inevitably limit the supply of candidates?

David Peters, managing partner of the chief executive and board of director practice in the Emea region for search firm Heidrick & Struggles, says: "I don't think we should be excluding candidates of quality and suitability – but at the same time part of the importance of being truly independent on a board is the ability to walk away."

The suggestion is that non-executives cannot be hampered by concerns about mortgage payments at vital moments: "You're there to road-test the strategy, to make executives responsible, to suggest alternatives. But if as a matter of honour you feel isolated then you absolutely must be able to walk away," he says.

Clearly, this could hamper attempts to widen the pool of potential non-executives.

Headhunters agree that the remuneration of non-executives, committee heads and chairmen varies according to the organisation, its sector, and the time and commitment demanded by the role. As an average figure, Mr Peters suggests between £350,000 and £450,000 a year for a non-executive chairman at a FTSE-100 company (based on two or three days a week) and between £150,000 and £200,000 for the same role at a FTSE-250 company (for one or one and a half days a week).

For a senior independent director at a FTSE-100 company, pay would be about £90,000, while the same role in the FTSE-250 would be between £50,000 and £60,000. A non-executive in the FTSE-100 might earn "north of £70,000" and at a FTSE-250 company, "north of £45,000".

Chairing a committee as a non-executive will add more. “A company might want someone in particular and we then suggest they can pay more if that person chairs a committee,” says Mr Waine.

On average, he suggests that a non-executive at a FTSE-100 company on about £65,000 would get an additional £4,500 for chairing a committee – be it audit, remuneration or nominations – while a FTSE-250 non-executive would receive the same amount added to a base of about £40,000.

Mr Peters reckons the extra payment for chairing a committee would be slightly higher – an extra £5,000 to £10,000 a year – depending on the size and scale of the company. All figures are averages and estimates.

Whatever the agreed rate for a non-executive role, it will not be adjusted if there is a sudden crisis. “Rates are set by Remcom [remuneration committee] and are pretty inflexible,” says Mr Peters. “It would be most unusual for anyone to ask for more money – there is an expectation that you take the rough with the smooth when it comes to time demanded.”

Director’s fees are “massively under the microscope” he suggests, and companies are concerned about having to pay more than they need to.

Headhunters are reluctant to place a limit on the number of boards any one individual should sit on at any time, because it depends on the board, the nature of the commitment, the complexity of the business, the individual, and so on.

But Mr Waine says: “We feel nobody can hold down more than the chairmanship of a committee and up to three other non-executive positions. Some get away with it but it’s due to luck rather than judgment.”

Mr Peters adds: “If we look at non-executives from our clients’ point of view and see that a candidate has at least three other large plc boards we would consider that to be pretty tight.”

Even so, an estimated £80,000 for chairing a committee and £60,000 each for three non-executive positions could amount to a portfolio salary of £200,000. Mr Waine says that as most people in this position “do not need the money”, it means that, in practice, they are deferring dipping into their pensions.

Headhunters point out that individuals with portfolio careers tend to be classified as self-employed and VAT-registered for tax purposes. And even those with three FTSE-100 non-executive directorships could still sit on a utility board, for example, and perhaps on an investment trust board.

Non-executives are not expected to stay in roles beyond nine years, or three terms of three years. Mr Peters says: “Generally, at the end of the second term of three their status as ‘independent’ is considered to be somewhat reduced.”

Other options include private-equity portfolio company boards where, unlike listed companies, it is commonplace to offer equity as part of remuneration. Simon Bartholomew, of boutique headhunter The Miles Partnership, says: “Private equity sometimes pays more but it’s because they want more: a chairmanship can be closer to an executive chairman in a listed company. There is usually an equity kicker in there which makes it interesting to the person concerned."

Advisory boards – whether for private equity, family companies or professional services firms among others – are another way to contribute as an independent director. "The risk factor here is less," says Mr Bartholomew. The pay might also be excellent.

Professional services firms are increasingly developing such boards for networks and business development, says Mr Waine, who points out they often meet only two or three times a year. They therefore tend to command a high daily rate, which Mr Peters suggests is likely to be equivalent to about £5,000 a day.

Niche areas – such as boards of Russian companies with London listings – can command huge premiums. "There is a premium – and a reason for it – but if it becomes excessive it begins to undermine the independence of the individual," says Scott Eversman, partner in Heidrick & Struggles' industrial practice in London. But, he says, "special advisers" on these boards can command separate compensation for extra time on consulting. There are also sectors – such as pharmaceuticals, oil and gas and mining – that might need to pay more, adds Mr Bartholomew.

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