

# Time to have a say on pay

Company shareholders can decide if the directors are adequately compensated for their roles



**By Rita Benoy Bushon**  
Chief Executive Officer,  
Minority Shareholder  
Watchdog Group (MSWG)

IN many developed markets globally, the “appropriateness” of executive- and non-executive board compensation has rightly come under the close scrutiny of shareholders.

These developments came in the wake of massive and systemic abuses. It appears that Malaysia too could be facing a similar situation at this stage if the board and shareholders ignore the problem of excessive executive compensation. Thus, there is a need to highlight the matter although it can be sensitive and unpopular.

In the midst of the current AGM season, the MSWG has witnessed instances where resolutions on directors’ remuneration proposed were substantially higher. In some cases, it was an increase of almost 100%.

From statistics compiled by MSWG, the average total remuneration of over 800 public-listed companies’ non-executive directors was in the region of RM90,000 to RM100,000 a year for the past two years. The finance sector topped the averages when you take out the outliers. But this figure appeared reasonable when compared to regional averages.

However, this year the amount surpassed RM600,000 per director in some of the finance companies. There is no clear justification for the increase. Some went as high as RM800,000!

Typically in the finance industry, a non-executive director would devote

around 60 days in a year to the company. This is assuming that there are 15 meetings a year with about four days for reading the board papers for each meeting. When annualised this average surpasses RM3 mil a year if they were full-time employees.

We would think that this kind of compensation would be appropriate for executives whose role amongst others would include the day-to-day operations of the business encompassing marketing and bringing in the top line and bottom line numbers in a highly competitive environment. A non-executive director is not expected to undertake this role. They are appointed to the company to provide the oversight role in the company with a check-and-balance function.

We acknowledge that being a director in the finance sector is a complex one. Thus, scouring for talent is tough. Hence, a fair remuneration is critical to attract, retain and motivate directors so that they work for the betterment of the company.

Similarly, the said remuneration packages must also appropriately reflect the extent of the responsibilities, requisite expertise and technical complexity the director brings to the role.

The subject of appropriate compensation goes far beyond merely justifying a fee increase. It also calls for a need towards the disclosure of each individual director’s compensation.

The reasons are quite simple. Company shareholders can decide if the directors are adequately compensated for the role he or she is fulfilling.

Where external consultants are deployed to manage this key function, the recommendation ought to be

provided and fees adequately justified. A proper rationale must be offered, with detailed information on the parameters and benchmarks proffered in its decision on the director’s compensation package.

Special consideration is given to a company chairman for his leadership role in the board and the company. And more so if in the finance sector where he or she is expected to be devoted to one specific financial institution.

Special consideration is also given to directors who sit on the boards of group subsidiary companies or committees and, therefore, entitled to higher compensation for these additional duties.

However, the requisite procurement of shareholder approvals on the total compensation ought to be tabled for good governance practices and not just the fee in the holding company. We observe that in several cases the bulk of the non-executive directors’ total remuneration reside in the subsidiaries where approval was not sought from shareholders.

One more thing also requires attention here. Financial entitlements like bonuses and ESOS (employee share option scheme) ought not be given to non-executive directors including independent directors whether in the Main Market or subsidiaries.

Why? The reason is simple. Independent non-executive directors (INEDs) are supposed to remain exactly that: independent.

They are present to oversee the governance aspects of the company and must therefore at all times remain independent. This includes endeavouring to negate any conflicts of interest that may arise.

We reiterate that INEDS should instead be paid a fee that commensurates their role and responsibilities, and the size and operation of the company.

In summary, the message is that there must be adequate disclosure of directors’ compensation and justification for any substantial increase.

A reasonable trade-off must, therefore, be achieved between paying directors a fair compensation, while attractive enough to retain and attract talents. This prevents them from retreating into a “comfort zone”, that can impair or be perceived by shareholders to impair their independence. **FocusM**