

The compensation of some board members is too low

Matthew Tebeau:

– It is obvious that committee members should be paid on the basis of their committee work. There are some real differences in the time commitments of committee members and in the kinds of challenges that face the different committees.

Because of the different challenges and issues facing the committees, there is also a question of qualifications required as well as – particularly in Poland – a real question of what is appropriate pay to get the experience necessary.

When we start to look at qualifications and experience, we should not forget that qualifications are just the „entry” point, not the key success criteria. Success as a non-executive director is defined by judgment above all. Sound judgment is the result of experience and the ability to address complex situations with clear insight, strong support, good questions and well-communicated decisions.

The compensation question becomes more complex when we start to consider variable compensation or long-term incentives like shares. Share or option based incentives help align management and the board but also create a risk that the board is motivated too much by share price. This is fundamentally not an issue in Poland where Non-executive compensation is still too low in comparison to expectations and value added. In fact in Poland we should be asking whether the compensation of some board members is too low – is it enough to reward them properly for the job that they do. One of the signs, for instance, that an Independent Board member is not truly independent is very low compensation (often such board members are sitting as a „favor” to an owner-shareholder who may be a friend or colleague).

We should also remember that the supervisory board must weigh the „risk” vs. „rewards” of different decisions and situations. In Poland there is a strong tendency towards „risk avoidance” at the board level which can be just as damaging in the long-run as taking on too much risk. We must remember that „no decision” is also a decision, and one that may not reflect the wishes of shareholders (who may be willing to take more risk – which is particularly clear with public companies that have state control).

The ideal non-executive knows that the two main tasks of the Board are to select the Chief Executive and agree the strategy for the business. Other duties around safeguarding the reputation of the company – like assuring the soundness of the financial results, etc. – are also essential. However, these become risks only if the Board has not done its proper job in the other two areas (selection of the CEO and agreeing a strategy).

If we think of compensation as a way of „measuring” the performance of the board, then share value is clearly an appropriate reward tool. A good Board can increase the value of the company – directly – by about 20% (according to various studies). They actually create value indirectly through the selection of the right CEO, managing success, working with the CEO on strategy and using their influence at the right times and in the right places in the market.