



Board Members' Compensation and Governance: Issues and Challenges

Research study by the Institute for Governance (IGOPP)

Montreal, May 28, 2014 – The requirements in credibility, availability and legitimacy of board members have increased substantially since 2000. In that context, directors' compensation and its impact on their conduct and decisions become salient issues. Yet, directors' compensation remains a little examined topic of governance. This is why the Institute for Governance (IGOPP) has produced a report prepared by Dr. Michel Magnan, Professor and Stephen A. Jarislowsky Chair in Corporate Governance from John Molson School of Business at Concordia University, to provide a general survey of the issue and propose some recommendations.

This IGOPP report highlights some important findings:

- Over the 10 year period from 2001 to 2010, the average annual fees received by directors of Canadian public corporations have increased of 465%. However, this significant increase is not uniform among all corporations since the most substantial raises have occurred in the large financial institutions and in corporations in the oil and mining industries.
- The level of compensation paid to directors of Canadian corporations remains below that of comparable corporations in the United States.
- Directors' compensation has not attained levels that can be considered excessive after taking into account the growth in institutional and regulatory requirements during the same period.
- The debate over directors' compensation and independence should be seen as an issue of board composition and functioning. If cases arise in which directors' compensation is considered excessive, it only reflects more serious underlying governance problems that undermine the legitimacy, and possibly the credibility, of the board.

- We are in a context of fiduciary governance. The directors will therefore concern themselves with legislative and regulatory compliance and with the implementation and monitoring of the mechanisms and systems governing the controls, incentives and accountability. Their remuneration is thus a function of this role.

The analysis shows that directors' compensation is only one facet of the board of directors' governance and is not necessarily the most strategic since it only adds little to the processes for the appointment and assessment of directors, which are already rigorous. The directors' compensation should reflect the fact that their responsibility is joint, continuous and focused on the long-term oversight of the corporation's interests as a whole, and not just the short-term interests of some shareholders. Consequently, this report propounds several recommendations, among which the following stand out:

- The board's priority in governance matters is to maintain and increase its legitimacy and credibility through rigorous practices and processes.
- Directors' compensation should not be based on the achievement of short-term objectives or goals.
- Directors' compensation must be sufficiently high to attract credible candidates that have integrity and specific skills corresponding to the corporation's objectives.
- The directors should hold a significant long-term investment in the corporation's shares.
- The directors' compensation should be uniform across individuals with similar tasks.
- Directors' compensation must rationally reflect the specific risks they face.

Investors are not hesitating to challenge the skills of directors and their decisions. In this context, their compensation could become a major governance issue. Hence, this IGOPP report frames the debate with an analysis of the potential determining factors of directors' compensation and suggests principles and recommendations which will serve as guides for the boards' working on this issue.

[Download the full report \(PDF\)](#)



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