

# The Future of Director Pay in Canada

The majority of major organizations generally provide cash compensation to directors in the form of both retainer and meeting fees. This is delivered either as cash, or some combination of cash and stock (priced at fair market value). Current levels of compensation vary depending upon the corporate size and stage of corporate development – the larger and more complex the organization the higher the pay.

Recent survey data and analyses of proxy data information of Canadian companies with annual revenues in the range of \$100 million to \$1 billion indicate the following:

Annual Retainer	\$15,000 to 20,000
Meeting Fee	\$1,000 to 1,500

Teleconference fees tend to be approximately 50% of meeting fees with personal attendance.

Additional compensation is sometimes provided for committee membership (annual retainer \$2,500 – 3,500) with meeting fees normally somewhat less than full Board meeting fees.

The most highly paid position is that of the Non-Executive Chairman of the Board, which can be highly variable between companies. These individuals can receive 2 –4 times the retainer of a Board member and sometimes receive a higher rate for meeting fees.

Most companies do provide some form of long-term incentives to directors in the form of stock options, or some other form of equity-based compensation.

Over the past 2 years with increasing emphasis placed upon good corporate governance, the following is taking place:

- Increasing emphasis upon the competencies and independence of Board directors e.g. knowledge of accounting and compensation for the audit and compensation committees respectively.
- Increasing liability of board members and a reluctance on the part of professional directors to be on more than 5 or 6 boards, because of the enhanced risk, heavier time commitment and relatively low pay.
- Much more will be expected of Boards and Committees in the future in terms of representing the needs of shareholders.
- Board members will be expected to have “*skin in the game*” and purchase real common shares of the company. Targets will be established for directors e.g. to own shares worth at least one times annual remuneration.

Against this background, one would expect that an increasing number of professional independent competent directors would emerge! However, this is not the case at present - perhaps the issue is that the reward – risk equation is out of balance, as the risk increases so will time commitment and so should the reward.

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Assuming we have a fully competent director, who is prepared to sit on 5 Boards, based on current market and assuming attendance at 8 Board/Committee meetings for each company, he/she would receive approximately the following:

Retainers	\$ 75,000 – 100,000
Meeting Fees	<u>40,000 - 60,000</u>
Total	\$115,000 – 160,000

The director would also likely be provided with a provision of stock options from each of the 5 companies.

In effect this Professional Director has a full time job serving five companies with annual revenues in the range of \$100 million to \$1 billion. One can present an important argument that this position should be paid at or close to a senior executive (perhaps not at the CEO level), but certainly at the Senior Vice-President level. Chief Financial Officers are typically at this level and receive cash compensation (salary plus bonus) in the range of \$200,000 – 300,000 . In addition CFOs are normally provided with a full range of benefits and perquisites.

Clearly then, to continue to attract qualified independent directors, companies must be prepared to pay more. In this way we will see the emergence of a new profession of qualified directors, who will make a significant contribution to good corporate governance.

However, before we simply radically increase their pay, we will need to put in place a system of performance assessment of directors to make sure we get value for what we are paying for.

Pay for performance is the key to the future success of governance and directors will have to be included. Shareholders will want assessments of the total Board performance, as well as of individual directors, especially if they are paying more for their services.

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