



# Board Remuneration Report

# 2018

# Foreword

In recent years we have observed an increasing frustration over the perceived imbalance between effort and reward within the board member community. We've arrived at this insight through continuous collaboration and discussion with board professionals, owners, and nominating committees.

To further understand this trend, we launched a research programme specifically targeting the issue, with the aim of understanding how much of a problem this is now – and how much it might become in the future. We examined what drivers there are and what the possible solutions could be. As we discovered, this is most definitely an issue – more than one third of our respondents were unsatisfied (or very unsatisfied) with their board remuneration.

# Approach

In Alumni's 2018 Board Remuneration Survey, over 200 board members from leading Nordic companies answered our questionnaire and shared their thoughts, providing a fascinating glimpse into how remuneration is currently perceived and what impact it might have upon the boardroom of the future.

When analysing the data, we have tried to look beyond simple numbers, putting the answers, where possible, into a broader context. We've been speaking to a range of industry professionals to get their insights, all the while considering two central questions:

**Where are we now?**

**And where are we going?**

# Table of Contents

How to determine remuneration?

Equal or separate pay?

Motivated or independent?

Tax regulations

Gender

Executive vs. Non-executive

Global Context

Conclusions

# How to determine remuneration?

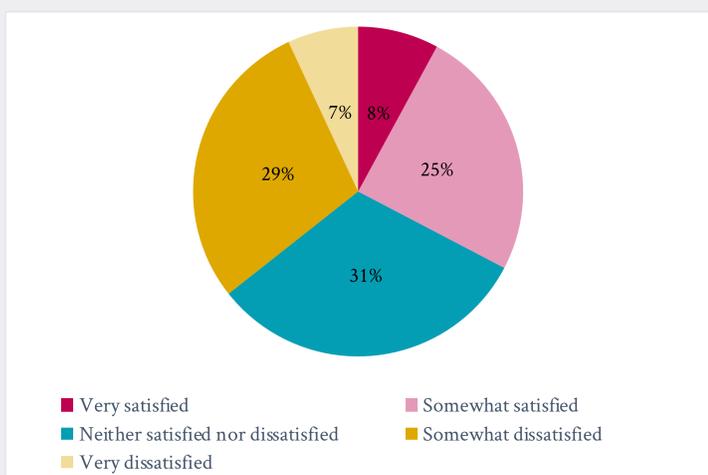
In declining order of importance, complexity, number of meetings, personal risk, and media/public exposure were seen as key determining factors when deciding remuneration. The idea of ‘complexity’ is problematic, since it is difficult to measure in an empirical fashion – how do we attach a numerical value to a concept? Annual remuneration is sometimes calculated as equivalent to the CEO’s monthly remuneration; this assumes that complexity is factored in when setting the CEO’s compensation and therefore that of the board.

Respondents’ additional comments indicated that functional expertise, experience and value added to the company were significant, closely followed by the regulatory effect of new tax rules for board members. Time spent on committees and on work outside of the boardroom also featured prominently, especially where the board member had a Chair role to play. More generally, our conversations with board members revealed concern that the payment base is the same as it was 10 years ago. Incremental increases have not kept pace with increased workload and responsibility.

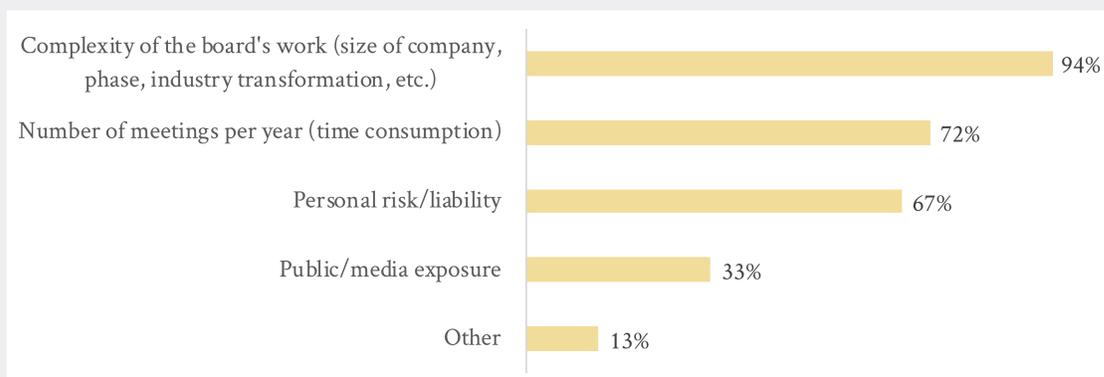
*“For committee members to have higher compensation than other board members is an established practice, objectively motivated by the higher number of meetings requiring attendance. Board Chair compensation is also significantly higher (in most cases), but often with a more subjective estimate of increased time spent on the role, including the fairly unusual ‘Executive Chair’”*

- Catharina Mannerfelt, Partner & Head of Board Services, Alumni

**Question:** How satisfied are you with the compensation you receive for your board assignments?



**Question:** Which aspects should nominating committees take into consideration when recommending board compensation?



## Equal or Separate Pay?

---

*“Pay should generally be equal. Having said that, sometimes members have specific knowledge or expertise, such as M&A, and might devote more time as a result. In these cases there should be additional reward. It all comes down to the amount of time dedicated to the board assignment.”*

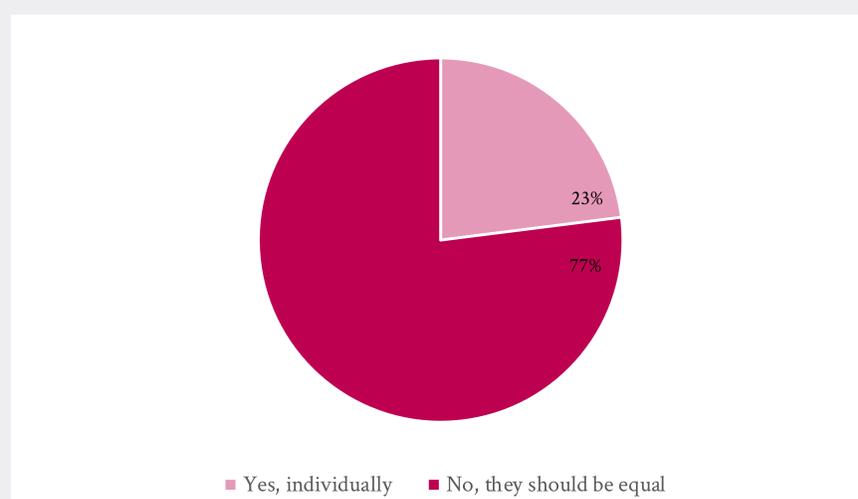
- Board Professional, based out of Denmark

The issue of whether to set pay equally or individually elicited some of the most extensive and impassioned answers. While three-quarters champion equal compensation, certain reservations were expressed. First and foremost, while the fundamental principle of shared responsibility was key, certain roles, notably those of Chair or committee positions, demanded extra time and dedication, justifying extra remuneration. Additionally, amongst those receptive to individual compensation in principle, the issue of how to measure contribution or effort of the different members was raised. As one respondent phrased it, “Board work is a team effort – the most visible work is not always the most important”, and elsewhere, “it is very demanding, not to say impossible, for the nomination committee to understand actual work and value created on an individual level.”

*“While we concur with the respondents that board work is a team effort, equal pay (by definition) eliminates the ability to make individual allowances for highly sought-after talent. In privately-owned companies, there are attempts to circumvent this by allotting different shards of equity available for investment for different board members.”*

- Catharina Mannerfelt, Partner & Head of Board Services, Alumni

**Question:** Do you believe board compensation should be set individually or should all board members be compensated equally (excl. compensation for chair or committee roles)?



## Motivated or Independent?

---

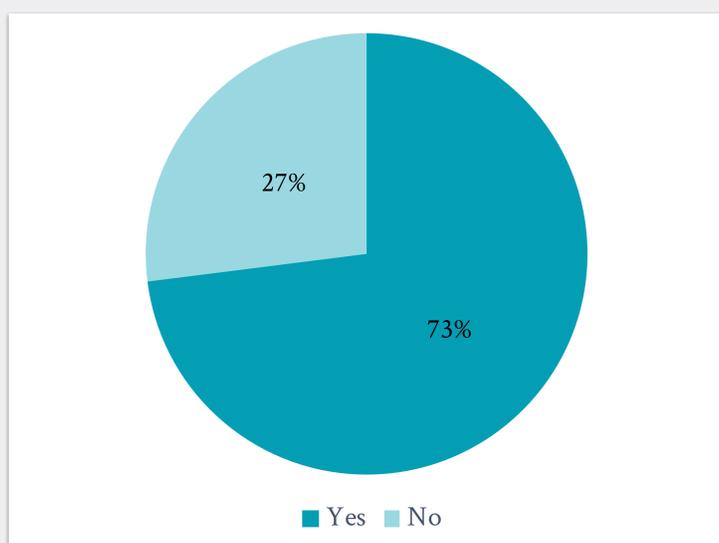
Regarding shares and options, the majority of respondents stated that ‘having some skin in the game’ (a phrase that occurred a number of times), strengthened the bond between board members and company, increasing the commitment to raise shareholder value, and “making you more committed to the overall success of the company”. A common motif was the idea of aligning the interests of the board members with those of the shareholders. Dissenting voices (for there were a few) pointed to the need for the board to maintain independence and integrity. Furthermore, many felt that financial incentives might encourage riskier behaviour, undermining the board’s focus on long terms objectives in favour of quarterly returns. Our discussions also suggested a rethinking of the way in which shares and options might be delivered, with a move towards an assessment of the value contributed over the longer term, rather than on a simple annual basis.

*“One should definitely be involved in the company, if only to ensure alignment of interest with shareholders. I would prefer to have as flexible compensation as possible - with only fixed compensation, the control function does not work, as interests risk becoming too short-term.”*

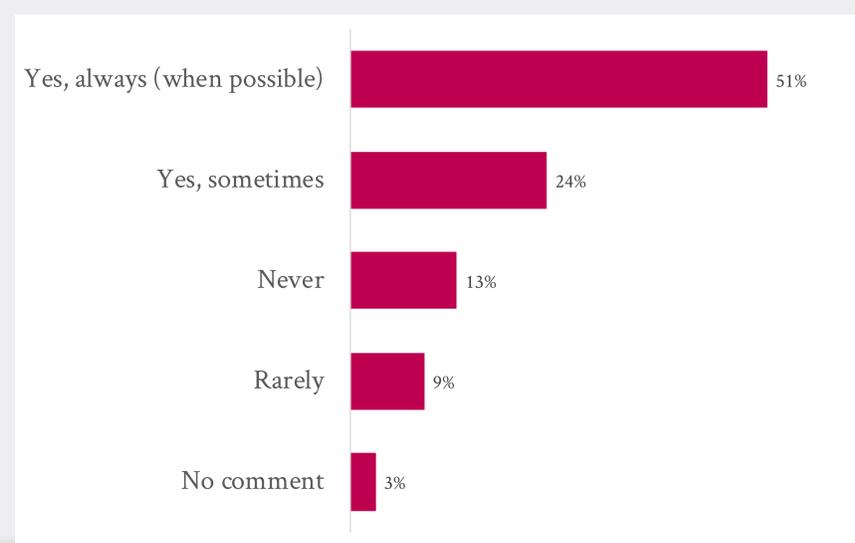
- Board Professional, based out of Sweden

There was further comment on the relative attractiveness of private equity backed and listed companies, with the former offering greater possibility to invest one’s own money in the share program.

**Question:** Do you think board compensation should include share/options programmes?



**Question:** Do you own shares in the companies of which you are a board member?



# Tax Regulations

---

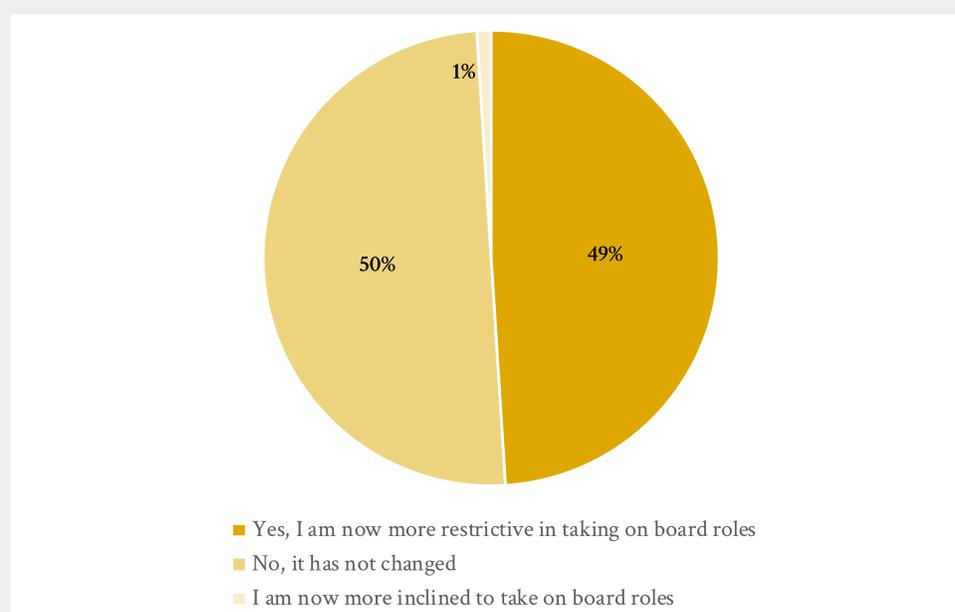
For the many who felt that the change in Swedish tax regulation would make them less likely to take on roles, there was frustration regarding the inability to invoice for board work. There were concerns that the commensurate tax burden (not just individually, but for the company) would have a profoundly negative impact on companies attracting and retaining the very best candidates. “We are losing top international and domestic talent across all boards where we have invested.

Compensation levels on Swedish company boards were already low before – it’s now below the threshold to attract competence.” Tellingly, the phrase ‘you pay peanuts, you get monkeys’ occurred in three separate comments. Several high profile board members questioned why holding board assignments could not be classed as a business in Sweden, whereas other professions, such as the law, could.

*“Currently there is no debate concerning the drawbacks of the new regulations in Sweden. The belief is that there is no benefit in voicing that it is very negative to no longer be able to invoice board assignments and that capable people may cut back on their involvement. Everybody is aware of it, but nobody wants to discuss it due to the risk of being perceived as purely financially driven.”*

- Board Professional, based out of Sweden

**Question:** Has the recent change in Swedish regulations for board compensation affected your inclination to take on board roles?





## Gender

---

Men and women demonstrated broadly similar responses to how remuneration might affect willingness to accept or devote time to board roles, with just over half men and women stating that remuneration would affect their choices (58% against 54%). Forty per cent of the respondents were women, a figure in line with the Swedish Corporate Governance Board June 2018 survey<sup>1</sup>. Several respondents, however, looked to the issue of broader cultural diversity, seeing the benefits of a wider range of backgrounds, as opposed to simply viewing the issue upon gender lines.

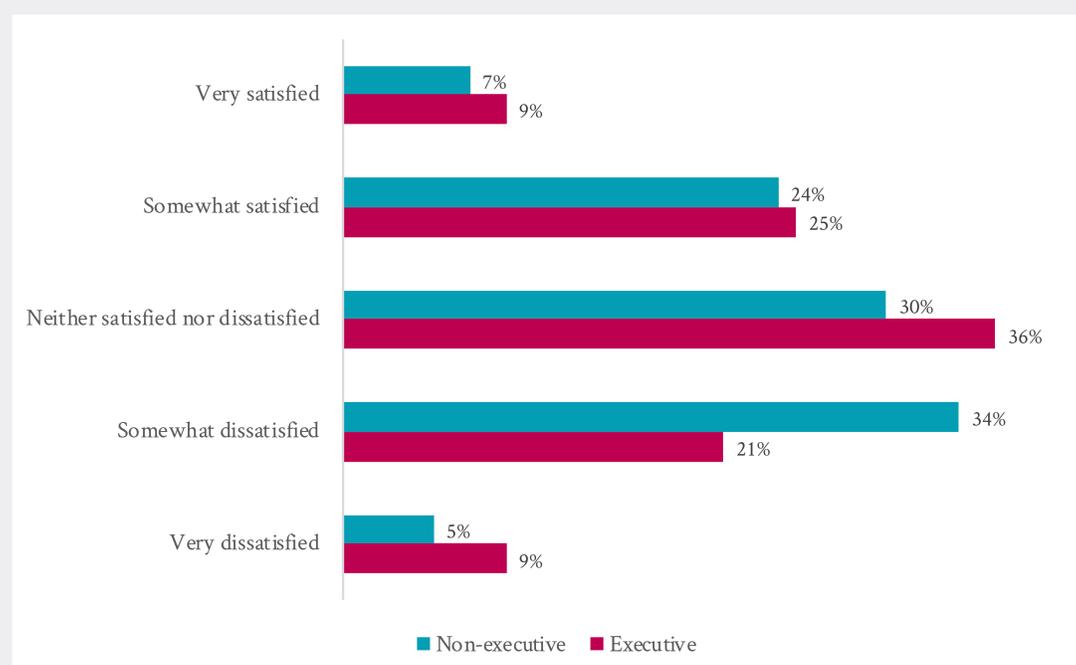
<sup>1</sup>34.1% female board membership of listed companies, with 39% for large companies. The target (defined in May 2014) is for 40% representation of listed companies by 2020 (with a figure of 35% for larger companies). What is of concern is the speed of change – the 2018 study shows no change for larger companies, with an incremental increase of just 1.1% for smaller companies, year on year.

## Executive vs. Non-executive

---

We might assume that those who drew a significant (or main) income from salaried executive roles would be less inclined to feel strongly about board remuneration. However, with roughly half of respondents currently employed in an executive position, attitudes between executives and non-executives were broadly similar. This indicates that the 'fairness' of the remuneration is key – 'board members do not feel they are being properly rewarded for their contribution towards the success of the company'.

**Question:** How satisfied are you with the compensation you receive for your board assignments?



## Global Context

---

So how does the view of remuneration from the Nordics compare with other regions? While the issue of tax regulation change is a major Swedish preoccupation, the UK, for example, is focusing on what is perceived as an increasingly skewed risk/reward model. Non-executive board members are being asked to commit ever more time to boards and Corporate Governance (since they are legally accountable) without a commensurate increase in financial compensation. While UK non-execs feelings are broadly in line with the survey's conclusions, there is a greater tendency to set remuneration levels based on individual contribution.

*“Agreed remuneration is linked to directors' individual characteristics as well as the business's profile. Age, tenure, network size – all indicate the non-executive director's ability to contribute to the board. Their individual set of skills and resources are valued and remunerated accordingly”*

- Christine de Lary, Chair, Board Services Alumni / Harvey Nash UK

Equity based compensation is discouraged (according to guidance from the Governance Institute), but shareholding itself is encouraged, providing it is aligned with the shareholders' long-term interests and does not impact on independent judgement.

# Conclusions

The scale and detail of the responses demonstrates the depth of feeling that this topic evokes, making this survey all the more relevant and timely. Certainly, there is a sense that we are at a delicate turning point, especially regarding the issue of Swedish tax regulations and their potential impact upon the future makeup of the boardroom. The change in regulations has brought the issue of remuneration to the fore, making it more acceptable (and urgent) as a discussion point in Sweden. Follow-up discussions with respondents revealed a profound concern that attracting quality members to Nordic boards, particularly from overseas, will become increasingly difficult.

It is telling that there were very few questions that elicited unanimous responses one way or another – opinions were sharply divided throughout and the comments impassioned on both sides.

What we have listened to in this specific report are the voices of board members – the owners and nominating committees have so far been quiet. What is their response and is the sentiment expressed in this paper starting to have a real impact on the ability to attract the necessary talent?

So, where does this discontent leave us? When asked, close to one third of the respondents state that they are likely to decline board roles because of low compensation, something that we qualitatively can confirm from our board recruitment discussions. The question is whether the feelings voiced will result in tangible effects on available board talent.

# Authors



**Catharina Mannerfelt**  
Partner &  
Head of Board Services - Nordics



**Ulrike Rummler**  
Research Consultant,  
Board Services - Nordics

# Alumni Board Services

Alumni is one of the most experienced Nordic firms in the field of non-executive board composition and dynamics. Our clients are to be found amongst the largest institutional owners, as well as PE/VC firms and private ownership spheres. Our services include board recruitment, board review, and board development.

[Get in touch](#)