

Do South African organisations pay enough to retain Non-Executive Director skills?

With the numerous governance scandals which have rocked both the local and international business communities in the past few years, organisations have to look very closely at their board composition and retention strategies for their board members.

The publication of the two King reports, the first one in 1994 and the second in 2001, has ensured that South African organisations are increasingly focusing on corporate governance and the fiduciary responsibilities of Non-Executive Directors. Given the fact that Non-Executive Directors can, and will be held legally liable for failure, the possibility of spending time in jail is forcing non-executives in South Africa to take stock of their involvement and contribution on the various directorships that they hold.

Board Charters are being included in Corporate Governance Manuals to ensure that the board members behave in a responsible manner with due regard for the interests of shareholders and stakeholders alike. Directors are being provided with training to ensure that organisations can conduct business ethically and that directors are aware of their legal liability, statutory and fiduciary duties. It is vital that the consequences of unethical behaviour and failures are understood. The Board Charters have an additional benefit in that they provide organisations with an opportunity to formally evaluate the performance of the board of directors.

There are a number of performance elements which need to be addressed in a formal evaluation of the board:

- Do all the directors fully understand their roles and responsibilities?
- Does the board understand its accountability for risk?
- Are board meetings well structured and effectively conducted?
- Are the committees of the board effective?
- Is the board providing strategic leadership?

Organisations such as the Institute of Directors have provided professional development for directors and boards since the beginning of 2001. The development comprises a range of presentations which equips directors with the required skills to provide immediate benefits for the organisations.

The shortage of skills and the demands for Black Economic Empowerment and gender equity in South Africa makes it increasingly difficult for Non-Executive Directors to spread themselves too thinly. Huge commitment is required in terms of both time and effort to ensure that the contributions made at board level are based on extensive knowledge of the organisation and the overall business strategy. Gone are the days where a board pack could be opened at the board meeting or even the night before. Since Non-Executive Directors are not involved in the day to day running of the business, they must spend considerable amount of time acquainting themselves with the responsibilities attached to their directorships.

All these factors have an impact on the remuneration of Non-Executive Directors. Companies rely on sound benchmark information to determine whether their Non-Executive Directors are being paid enough for the scope and liabilities of their responsibilities.

Recent research conducted by Remchannel for eight African countries indicated differentials of up to 4000% for the fees paid to the Board Chairperson for the attendance of each board meeting. Given that the number of meetings ranges between 4 and 10 per annum, the wide range spread of the remuneration for Non-Executive Directors is astronomical. Additional benefits such as reimbursement of travel and accommodation costs, group life membership and subsistence allowances were reported for the Board Chairperson.

For Non-Executive members of committees the participants reported that the number of required

meetings to be attended ranges between 4 and 6 meeting per annum. The differentiation in the fees paid per meeting is approximately 600% and in 12.5% of cases an additional retainer is paid to the committee member.

Anticipated increases of between 2% and 20% were reported for Non-Executive Directors. In the majority of cases these were linked to the inflation rate in the particular African country.

Do South African organisations do enough to retain Non-Executive Director skills? What are the differentials in pay for these sought after skills? To test these questions, Remchannel will publish research results, for South Africa, in September 2006. The research will cover all areas of Non-Executive Director Remuneration. For more information call 012 6622403 or visit www.remchannel.co.za. The research will be led by René Richter. René is the Managing Director of

Remchannel and an Executive Director on the board of Remchannel (Pty) Ltd.

René is also an Executive Committee member of the South African Reward Association (SARA). To further highlight the corporate governance topic, the SARA conference which takes place on the 10th and 11th November 2006 will focus on all aspects of reward, including corporate governance.

SARA is also well known for acknowledging the contributions of reward strategists and practitioners in South Africa. The annual awards event is scheduled for 12th November 2006 and provides excellent networking and recognition opportunities for reward specialists. Further information can be obtained from the SARA website www.sara.co.za