

AN INCONVENIENT QUESTION: HOW MUCH IS A DIRECTOR PAID?

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Probing how much individual professionals earn is usually not kosher. A recent poll of 1,000 Americans revealed that 53 per cent considered discussing their income at a dinner party taboo, second only to “the sex lives of those present” (59 per cent).

Taboos may vary from culture to culture, but it would appear we have a similar discomfort around director remuneration disclosures in Singapore, based simply on the low level of such disclosures by listed companies.

DISCLOSING DIRECTORS' REMUNERATION

The Code of Corporate Governance requires that companies fully disclose the remuneration of individual directors on a named basis (Guideline 9.2). According to the SID-ISCA's *Singapore Directorship Report 2014*, only 31 per cent of all the 717 listed entities on the Singapore Exchange precisely disclosed directors' annual fees and remuneration.

So, how much are directors in Singapore paid anyway?

According to Handshakes, which compiled the data for the *Singapore Directorship Report*, the average annual fees for non-executive directors for FY2013 is S\$68,250 for small-cap companies (those with a market capitalisation of less than S\$300 million), S\$77,806 for mid-cap companies (market capitalisation of between S\$300 million and S\$1 billion), and S\$143,096 for large-cap companies (market capitalisation of more than S\$1 billion).

For executive directors (chief executives and senior management), the numbers are much higher. The average annual remuneration for executive directors is S\$465,930 for the small-cap companies, S\$827,587 for the mid-caps, and S\$2,686,028 for the large-caps.

Before we get too excited about these numbers, let us not forget that they reflect only 1,049 out of 4,839 non-executive director (independent and non-independent) seats where specific director remuneration data is available – a mere 21 per cent of total board seats. Clearly we have some way to go.

Companies need to recognise that the “new normal” of governance requires full disclosure. This includes a rigorous discussion of remuneration in the boardroom, proof of pay-for-performance linkage, and responsible long-term incentives. Shareholders have a right to know the financial decisions a company makes, and executive and director remuneration are key expenses that should

be disclosed in more detail.

Remuneration disclosure is not, as some may claim, a uniquely Western construct. Several countries in Asia, including Hong Kong and Japan, have made pertinent strides in the direction of greater transparency, partly spurred by the Financial Stability Boards' guidelines for financial institutions. Variations of these good corporate governance practices have had a subsequent spillover effect on regulators and boards of companies in other industries.

RATIONALE FOR NON-DISCLOSURE

The main reason companies cite for not disclosing individual directors and senior executives' remuneration is typically tied up with the sensitivity of how such disclosures could result in poaching of senior executives, including executive directors. Detractors also claim that increased disclosure exerts upward pressure on compensation levels.

Certainly, increased disclosure leads to greater public awareness which helps to regulate and control pay. Admittedly, the side effect is potential inflation of pay. This underscores the need to use disclosed data with caution, to interpret the disclosures carefully, and to adopt a responsible approach to managing executive remuneration.

That said, the most important compensation consideration from an incumbent's perspective is a sense of fairness and equity (rather than just wanting more). Increased pay disclosures may actually help with assessing fairness and equitableness. By withholding information, we actually make it easier to perpetuate anomalies and mistrust.

I believe that another common, mostly unspoken, reason for not disclosing remuneration is rooted in behavioural economics: what matters to most individuals is knowledge of a higher relative income

rather than the absolute income level. In other words, we cannot help but compare ourselves to others. We are afraid of discovering how much more a peer makes compared to ourselves. Or we feel bad for making our peers feel bad that we earn more than they do.

Such scenarios are more likely when inadequate explanations are provided as the basis for remuneration decisions. In fact, remuneration disclosures out of context are not dissimilar to advertising a vehicle for sale but specifying only the price. Without knowing the make, model, year, mileage and other relevant factors, it is impossible to ascertain if the price is fair and appropriate.

FAIR REMUNERATION AND DISCLOSURE

This brings us to the proverbial elephant in the room: absolute levels notwithstanding, are directors fairly paid? While that is a subject for another day, suffice to say that besides disclosure of each individual director's remuneration on a named basis, companies should also explain how the pay is determined, and what benchmarks are used. This helps investors to understand the link between the remuneration paid to directors and the company's performance.

Asian companies generally lag behind their Western counterparts when it comes to remuneration-related disclosures. Relevant remuneration disclosures go a long way towards bridging the gap, enhancing corporate reputation, and bolstering shareholders' confidence regarding the governance of Singapore-listed companies.

After all, Singapore is among the highest-rated countries for corporate governance standards across the world. The present low level of disclosure on directors' remuneration is a black mark on our sterling image.

It is time to address the inconvenient question. ■