

Does your board compensation reflect board value?

What is the purpose of this article?

Enable investors, the board directors, and management to discuss the board's impact on value creation and related compensation.

This article is focused on for-profit company boards, not: charities, government entities, or not-for-profit organizations.

What are the critical learnings in this article?

- 1) The board of directors' impact on value creation is unclear.
- 2) The relationship between director compensation and value creation is unclear.

Let's assume your company has the principle that value creation is reflected in compensation.

Many CEOs, C-suite, and senior executive appear to create massive value. CEO compensation can range up to \$100 of millions per year. Many C-Suite and senior executives make millions of dollars a year.

What does board compensation look like in one of Canada's largest public companies?

This is a typical situation. I won't mention the company name, which could distract the conversation.

- 1) The CEO compensation is more than \$10 million per year.
- 2) The CEO compensation is about three times the total compensation of the board.
- 3) The average director compensation in this company is what a successful MBA graduate would make in their third year in tier 1 strategy firm.

What is the relationship between board compensation and value creation?

I don't know. Do the differences between board compensation and management compensation reflect:

- 1) The board has little impact on value creation?
- 2) The board has decided to allocate the bulk of its value creation impact to others in the company's ecosystem e.g. executives?
- 3) The boards of large companies view their contribution as charitable or giving back to society?
- 4) Or something else?

The ability of talent to create value in a specific company is impacted by several factors, including:

- 1) The company's brand or reputation.
- 2) Intellectual property.
- 3) Technology.
- 4) Processes.
- 5) Partners
- 6) Capital.

What are your next steps?

Discuss and agree upon:

- 1) Does the board of directors have ultimate authority? If not, who does?
- 2) Does the board of directors have ultimate accountability for your company's performance? If not, who does?
- 3) Does the board of directors have ultimate accountability for your company's value creation? If not, who does?
- 4) What is your company's overall value creation plan and metrics? Your company may not always provide value to every member of your ecosystem. E.g. Cutting employment in one country as part of moving jobs to a lower cost country. The overall value creation plan includes board and management. The board and management will have more detailed individual value creation plans.
- 5) What are the principles used to determine the value creation of each person in the company, including board directors?
- 6) What are the principles used to determine how much of each person's value creation should be in their compensation?
- 7) Based upon the above, discuss the compensation of the board relative to their value creation.

What further reading should you do?

Professor Dieder Cossin and Estrelle Metayer "Does your board really add value to strategy?", IMD Global Board Center

First sentence in the article is "Boards are ultimately responsible for the long-term success of their organisations."

<https://www.imd.org/research-knowledge/articles/board-strategy/>

“Traditional corporate governance dooms your company to failure”, Koor and Associates
<http://koorandassociates.org/corporate-governance/5786-2/>

“Is your company planning to fail?”, Koor and Associates
<http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/>

DRAFT