Independent director pay continues to rise

Steady growth in the number of companies paying a sitting fee of ₹100,000 or more per board meet

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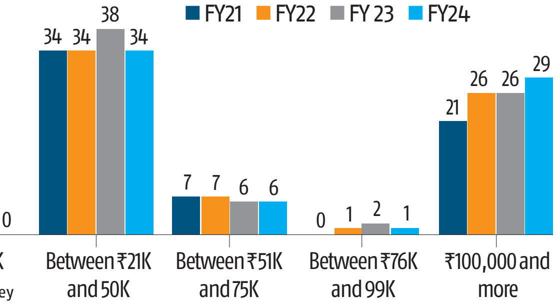
SITTING FEES PAID FOR BOARD MEETINGS

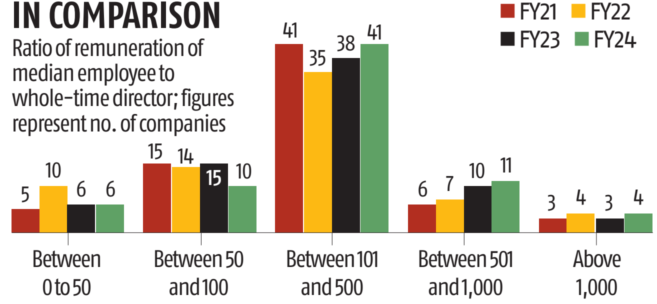
Figures represent number of companies



Source: Excellence Enablers' Survey

IN COMPARISON

Ratio of remuneration of median employee to whole-time director; figures represent no. of companies



Compensation paid by companies to their directors has become cause célèbre because boards are getting larger, with more independent directors (IDs) and non-executive directors (NEDs).

According to the 2024 edition of Excellence Enablers' Survey on Corporate Governance, there has been a steady rise in the number of companies paying ₹1 lakh or more per board meeting.

However, those paying ₹50,000 or less number the highest, says the survey. In FY24, 29 companies from the Nifty 100 paid a sitting fee of ₹1 lakh or more for each board meeting, up from 21 in FY21 and 26 in FY23.

In comparison, 36 paid ₹50,000 or less in FY24, down from 42 in FY21 and 40 in FY23.

This indicates a 5.4 per cent compound annual growth rate in sitting fees per meeting paid by companies in the last three years.

The annual rise in fees is largely in line with the underlying retail inflation rate during the period. This growth is based on a rough calculation and is not a definite number. According to rough estimates, a typical company paid a sitting fee of around ₹63,500 per meeting in FY24.

According to regulations of the Securities and Exchange Board of India, sitting fees will not exceed ₹1 lakh per meeting of the board or committee. According to the 2013 Companies Act, firms can distribute up to 1 per cent of their net profits as profit-linked compensation (PLC) to non-executive directors. However, the survey found most Nifty 100 companies were using only part of that amount for compensating their IDs.

According to the Survey, 53 companies paid 51-100 per cent of distributable profits as PLC to IDs in FY24, down from 57 in FY22. Another 22 distributed less 50 per cent of their distributable profits as PLC to IDs, up from 13 such companies in FY22.

"Good IDs, who commit valuable time to the company, need to be appropriately compensated, in the interest of the firm. From the amounts derived as a percentage of profit, a significant amount should be set apart for compensating IDs, so that their involvement in the affairs of the company can be ensured," says the survey.

The survey hints at a widening gap between employee remuneration and the compensation of wholetime directors such as managing directors and finance directors.

In FY24, there were 56 firms with ratio of median employee remuneration and that of wholetime directors of 101 or more, up from 50 such firms in FY21 and 51 such firms in FY23.