Board Remuneration In the Top Twenty-Five (25) Capitalised Companies on the Nigerian Stock Exchange

December 2017

Introduction

Corporate Governance remains a frontline subject as businesses strive for sustainability and the need to be seen as market leaders in today's global economy. More so, good corporate governance principles position an organization as an attractive investment destination. The quality of the Board is, therefore, critical in achieving the foregoing and Board Remuneration can be leveraged to ensure that an organization is well-positioned to attract the right people to sit on its Board and steer the affairs of the organization in the right direction.

The importance of reliable and accurate market data in developing a Rewards Strategy that aligns with corporate objectives and competitive practice cannot be over-emphasised. Armed with the right information, not only can Shareholders, acting through their Boards, save money, but gain valuable insight into various options available for meeting their Non-Executive Directors' (NEDs) pay expectations.

KPMG People Services Practice, through its various survey initiatives, assists companies to bridge the information gap created by a continuously evolving business and employee rewards landscape by providing reliable and accurate pay information, without compromising on confidentiality. In this publication, we have provided key highlights from the 2017 survey of Board Remuneration in the top twenty-five (25) capitalised companies on the Nigerian Stock Exchange (NSE). The objectives of the survey are to:

- provide valuable information on remuneration levels and related practices in the selected companies
- enable Management meet corporate governance requirements on NED pay
- contribute to the development of reward practices in Nigeria.

The survey also provides the basis for companies to undertake a periodic peer review of compensation and remuneration levels based on the provisions of the SEC Code of Corporate governance. This will enable the Boards of Directors to ensure the remuneration of their Directors remain competitive.

This publication focuses on remuneration levels and practices for the Board Chairman and Other Non-Executive Directors across the participating companies.

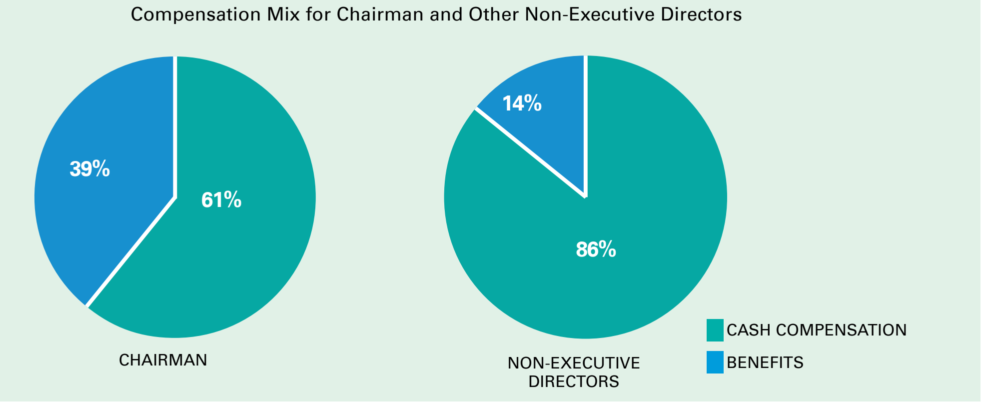
Profile/Demographics of Survey Participants

- Twenty (20) of the targeted twenty-five (25) companies participated in the survey exercise, representing an 80% participation rate.
- Participants cut across the Consumer Markets (50%), Financial Services (30%) and Oil and Gas sectors (20%).
- Market capitalisation for the survey participants ranged between ₦40 billion and ₦3.7 trillion. Staff Strength ranged from 225 to 13,500 employees.

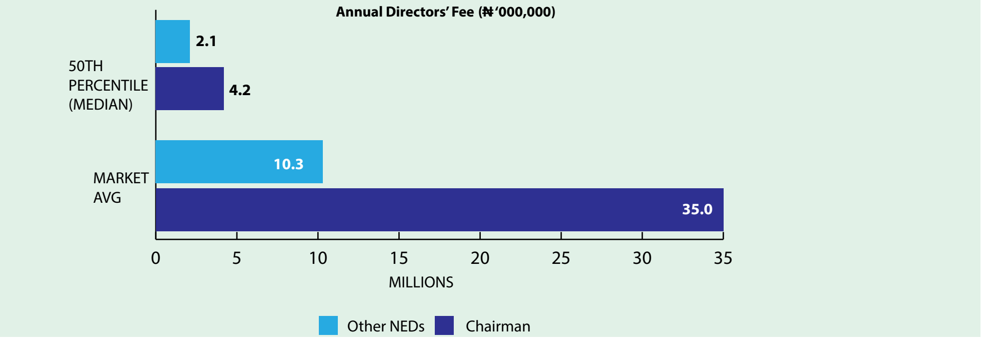
Summary of Survey Findings:

Board Remuneration comprises Directors' Fees, Sitting allowances for Board and Board Committee Meetings, Benefits, Per Diem and other forms of cash payments.

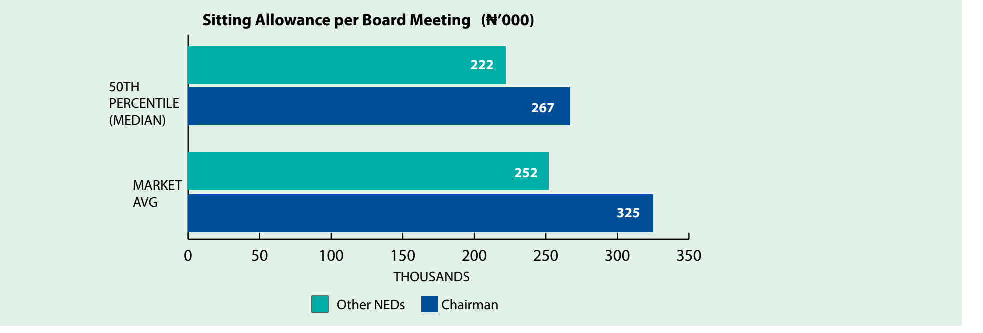
- Cash compensation forms a higher proportion of NED pay as presented in the chart below:

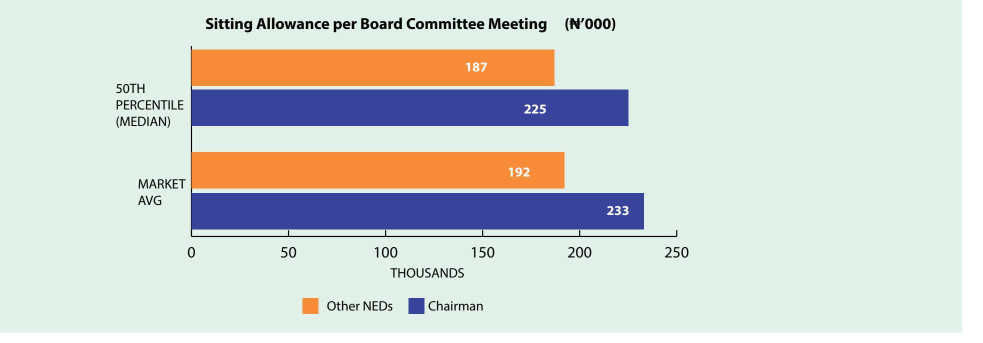


Directors' Fees: is an annual amount paid to NEDs, usually on a quaterly basis, for services rendered to an organisation as a Board member. Directors' Fees for the Chairman of the Board typically differ from those paid to Other NEDs. The median Directors' Fees for the Chairman in the top 25 companies is almost twice that for the Other NEDs. The median fees are ₦4.2 million and ₦2.1 million for the Chairman and Other NEDs, respectively as shown below:



Sitting Allowances for Board and Board Committee meetings – These are allowances paid for attendance at Board and Board Committee meetings. The allowance paid to the Chairman also differs from what is paid to Other NEDs / members of the Board Committee. However, some companies pay all NEDs the same amount as sitting allowance. The median sitting allowances per Board and Board Committee meeting are presented in the charts that follow:





- **Status Car and Related Benefits (including Fuelling, Maintenance and Driver)** are provided by over 50% of the companies to the Chairman of the Board only. In very few companies, all Board members get this benefit.
- **Medical Cover / Check-up** –companies provide a cash allowance, reimburse medical expenses to a defined limit or provide international / local medical insurance.
- **Passage/Ticket Allowance for Holiday Travel for Self and Spouse** – over 50% of companies provide this to NEDs to cater for holiday travel. It typically includes cost of ticket and a cash allowance. While some companies define a monetary limit in foreign currency (dollars or pounds), others provide the actual ticket and a cash allowance annually.
- **Per Diem:** Over 50% of companies provide a per diem to cover for living expenses and out-of-pocket expenses during official trips. This amount may be sufficient for accommodation, feeding and / or transportation in situations where the Company does not directly provide any of these.
- **Severance Pay:** None of the participating companies has a documented severance policy in place for exiting Board members. However, over 50% of the companies either provide a discretionary amount or hold a dinner in honour of the exiting Board member.
- **Training Programmes:** Over 50% of participating companies provide training programmes for their Board members on a need basis.

Corporate Governance Trends on Board Remuneration

The financial crisis of 2008/09 attracted a lot of attention to corporate governance and risk management in various aspects of organizations, including Board remuneration. Various codes of corporate governance exist in different jurisdictions to regulate / guide Board activities and remuneration. In Nigeria, the Securities and Exchange Commission (SEC), Nigerian Stock Exchange (NSE) and Central Bank of Nigeria (CBN) are championing the corporate governance crusade by issuing codes for companies to adopt. Companies would need to align their Corporate Governance framework with the provisions of these codes.

In the global market, key trends include mandatory stock ownership, in order to align NED interests to that of shareholders. About 50%-75% of the annual Directors' Fees are payable in shares while the balance is payable in cash. The NEDs may elect to receive all of the fees in shares. Also, Severance Pay is not common upon Directors' disengagement from the company and every company is required to make full disclosure of the remuneration payable to all the NEDs. This is one area that Nigerian companies need to learn from.

Conclusion

The key considerations for fixing NEDs' Remuneration are the size, span and complexity of a company's business. Also, the risks associated with decisions taken by the Board as well as performance conditions expected would typically be considered. Therefore, achieving the right compensation mix is critical to enhancing an organisation's value proposition. Companies would need to adapt their reward strategies to ensure that the pay levels reflect the duties and the responsibilities of their NEDs.

KPMG's People Services Practice, among other service offerings, provides Board Remuneration Support Services that cover the following:

S/N	KPMG Board Remuneration Support Services
1	Executive Directors' Remuneration Benchmarking
2	Review of Executive Directors' Incentive Schemes
3	Corporate Governance, Directors' Remuneration Strategy and Policy Documentation
4	Performance Measurement and Target-Setting
5	Review of Severance Policy

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