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Activists now have director pay lined up in their sights

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Just as the 2007 proxy season winds down and investors, activists and lawmakers begin to cool off from the pitched battles over executive compensation, a quick look at director pay is likely to get their blood boiling again.

Although the average total compensation for an entire board of directors at a Russell 3000 company is \$1,136,338, the Corporate Library has identified 30 companies that last year each paid more than \$5 million for their roster of directors. The average board size is currently about 10, which means each official at these companies pocketed, on average, something north of \$500,000.

What are companies getting for their money? Influence in Washington is a biggie, as are business acumen and connections to other top-flight executives.

Half a million may be chump change compared with the multimillion-dollar packages earned by many, if not most, top executives, but a closer examination of the numbers reveals some truly cushy deals. In addition, for directors sitting on multiple boards, that low pay can add up fast.

Atop the list of highest-paid boards is Valero Energy, a company that showered its nine board members with a total of \$30.2 million in 2006, or an average of \$3.4 million per director. Endo Pharmaceuticals Holdings paid \$20.1 million last year to its seven directors, an average of \$2.9 million each, while shoemaker Crocs paid its six directors \$19.6 million, or an average of \$3.3 million each.

Executives contend that they don't serve on boards to get rich. Sitting CEOs and other C-level officers say they take on outside directorships to broaden their experience and connections, while recently-retired executives join boards to keep active in the business world.

"I've never come across a director who's doing it for the money," said Scott Simmons, vice president and founding partner of Crist Associates, a recruiting firm.

Still, it's an especially lucrative part-time gig when one considers that the average director worked 210 hours last year, according to the National Association of Corporate Directors. Add up the numbers and the average director at these 30 companies made a minimum of about \$2,400 an hour.

"When you look at it on an hourly basis, it's a pretty good deal," said Pearl Meyer, senior managing director of Steven Hall & Partners. "I'm sure this will become a hot-button issue once every one is finished with CEO pay."

Eleanor Bloxham, CEO of the Value Alliance, a governance consulting firm, said many companies are not being "creative enough" in reaching out to untapped pools of executives and are therefore paying top dollar for big-name directors. "There just hasn't been a lot of scrutiny of pay packages, so there's a lot of variability from company to company," she said. "The board [its compensation committee] is deciding its own pay." A rule of thumb is that the greater the market capitalization of the company, the higher the director pay, said Ms. Meyer, and 28 of the 30 companies—which include heavyweights like Bank of America, Citigroup, General Electric and Google—have market caps greater than \$1 billion. The only small-cap to make the list was tiny metal fabricator Wolverine Tube, which paid its eight-member board \$6.4 million last year, equal to one-quarter of its \$25 million market cap.

Financial services, energy, and health care and pharmaceutical companies accounted for 19 of the 30 names on the list.

That's no surprise, said Ms. Meyer, because these types of companies tend to require experts who can handle more

complicated business issues, as well as power brokers with ties to Washington.



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PEDDLER Former Sen. Don Nickles joined Valero Energy's board.

For example, No. 1 Valero Energy two years ago nabbed former U.S. Senator Don Nickles for his political background and connections. Similarly, defense company Lockheed Martin, which paid its board \$5.3 million last year, elected E.C. "Pete" Aldridge Jr. in 2003, shortly after he retired from his position as undersecretary of defense.

At least shareholders aren't paying the bulk of these packages in cold, hard cash. Coventry Health Care paid the most in total cash fees—\$1.8 million—with most of the remaining companies paying under \$1 million.

Virgin Media, for instance, paid \$703,995 in cash, but shelled out another \$7.7 million in stock and options, while Ryland Group paid \$747,000 in cash, and another \$6.0 million in stock and options. FW

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