

New skills lift independent directors' pay

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Compensation for independent directors has tripled over the last couple of years as companies scramble to get niche and skilled individuals who fit the bill. The demand for specialist directors is especially strong from medium- and small-scale enterprises and mid-tier firms willing to pay more for their expertise.

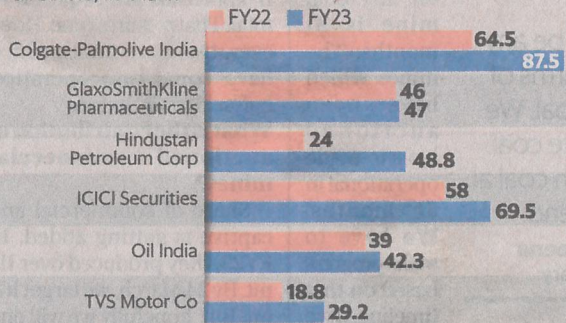
"Companies are rebooting their boards with skilled independent directors, and they need to up the fees offered. There are regulations around what remuneration can be offered depending on the sector, but the unicorns, non-listed firms and MSMEs (micro, small and medium enterprises) are all willing to offer a premium for the statured, credible and effective board members

who can truly be a strategic asset to the organization," said Monica Agrawal, managing director for financial services in the Asia-Pacific region and India lead, board and CEO services, at Korn Ferry, a global organizational consulting firm. India Inc. has sector-wise regulations for listed compa-

nies on how much directors can be paid. Typically, the fee is capped at ₹1 lakh per sitting, and in many cases, there is a profit-linked commission paid to non-executive directors, which can be an incentive to attract more skilled and reputed individuals. Compensation can vary from ₹20 lakh to

Bigger packages

Sitting fees received by non-executive independent directors, in ₹ lakh



List includes select midcap companies.

Source: Company filings

₹1 crore-plus per director, depending on the size of the company, the industry and profit-linked commissions.

A Mumbai-based headhunter specializing in board member searches noted a tripling in compensation over the past two years. According to *primedatabase.com*, 1,551 independent directors in 825 companies listed on the National Stock Exchange will complete their tenures in 2024.

"Smaller firms which are not in the top 100 listed firms in India want to expand their businesses, attract investments, and they need a board that will improve governance," said the headhunter, who did not want to be named.

He noted that firms which were earlier unwilling to pay the capped amount as sitting fees are now willing to stretch their budgets to get niche talent

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in digital and consumer behaviour, and understanding of generative artificial intelligence.

Compensation is an incentive for senior industry executives who otherwise would prefer to join "brag value boards" or boards of established companies.

K. Sudarshan, managing partner at executive search firm EMA Partners, said companies have fees for various committees apart from board sitting fees, and that adds to the overall compensation for independent directors. "People accepted more board positions during the pandemic since meetings were virtual. But now that firms prefer physical interactions, directors are limiting the number of board positions they could accept," he said.

However, some search firms said companies must raise their compensation package for board members.

"India Inc. needs to rethink its risk-reward relationship for independent directors, which is not in sync. This is why directors often decline board roles, more so when you factor in the time commitments, and the opportunity cost," said Pankaj Arora, managing director of executive search firm Russell Reynolds Associates.

Arora noted that firms have to do a reverse calculation with the given budget to fit in a director rather than the latter quoting a price. "Compensation for directors is derived from the company's budget to pay, and that is then structured within the permitted components and parameters such as sitting fees and commission on profits," he added.