reasons, including to fulfill a sense of service, challenge themselves with new thinking, and make connections with other smart businesspeople. However, like all of us, directors want to have the sense that they're treated fairly and compensated appropriately for their time, trouble, and the risks they assume. While director compensation rose steadily in the early 2000s, one could argue that more recently director pay has not kept pace with the demands of the role.

Coupled with the limitations many companies have placed on the number of outside boards active CEOs may serve on, the added scrutiny and risks of the role may mean that the demand for qualified directors increasingly outstrips the supply, putting further upward pressure on compensation. And, with experienced candidates increasingly scarce, companies may turn to other potential sources of talent (e.g., lawyers, consultants, and other advisors) to fill the role. At contemporary hourly rates charged by leading professional service firms, assessing the cost of directorship on a time-and-expense basis might well exceed current market norms for directors.

Thus, it could be argued that, at slightly over $200,000 at the median, corporate directors today are a bargain in view of the changing nature of the role, the constraints on the supply of available candidates, and the cost of alternative sources of talent. As with all such analyses, however, the talent equation varies depending on the individual. Experienced directors who perform their roles in a highly engaged and productive manner are a good value for shareholders, while others may be overpaid for their contributions on multiple levels.

It's difficult to see exactly where director pay trends will head in the future. However, the evolving governance environment is certain to play a key role in the process.

Danger: Directors are underpaid

Let us count the ways — all 10 of them — that board pay may be seriously out of whack.

By Allan Grafman

Outside the Fortune 200, most directors are underpaid, especially when compared to 10 years ago. Any doubts? Look at this list — in reverse "Letterman" order — of increased responsibility, work, and risk exposure.

10. Board director expectations by groups like RiskMetrics continue to raise the bar for performance. Given recent catastrophic board failures, this is understandable and likely to continue into the foreseeable future.

9. Liability issues remain significant and increasingly widespread. Recent court decisions (e.g., *Schoon v. Troy*, which calls into question the ability of directors to be indemnified for legal fees in defense of lawsuits) open new vistas for director exposure.

8. Shareholder activism by large groups ("inbound") is increasing. "Outbound" shareholder communications needs and expectations are increasing, within and beyond the proxy and annual meeting process.

7. Time demands and workloads are increasing, requiring a greater number of hours from effective directors. (See also "Weekly Is the New Quarterly," an article by this author on the rationale for more frequent board interaction, in *Directors and Boards*, First Quarter 2009).

6. Regulatory framework and attendant burden are increasing, courtesy of Dodd-Frank et al.

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5. Risk oversight presents a growing array of concerns that directors must address.

4. Say-on-pay and proxy access issues are working their way through boardrooms.

3. Reputation risk to directors for corporate mishaps is increasing, as bankruptcies expand dramatically.

2. Ongoing education requirements are greater than ever if one is to be an effective director.

1. And the most important — the **value to companies** provided by independent directors. When the board *as a group of five to 10 members* is paid less than a modest consulting assignment, they are underpaid.

Boards and the CEO balance each other and share the responsibility for a company's progress and success. Directors must often make hard decisions for the benefit of shareholders, sometimes against the wishes of entrenched management. Properly compensated and emotionally invested directors are more likely to do the 'heavy lifting,' while poorly compensated and less committed directors often merely show up and go through the motions.

Directors' compensation as a group must be in balance relative to the CEO compensation. If not, directors are underpaid.

Shareholders benefit when they compensate effective directors what they are worth to a company.