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Company Focus Pay soars in the boardroom

Many corporate directors saw double-digit raises boost six-figure salaries last year, and the largess rolls on. That's for perhaps 12 meetings a year -- attendance optional.

By [Michael Brush](#)

At a time when many Americans are facing steep pay cuts as their jobs get outsourced, life has never been sweeter around the polished mahogany tables in corporate board rooms.

Corporate directors at **S&P 500** ([\\$INX](#)) companies got hefty 20% pay hikes last year, according to Equilar, a consulting firm that tracks executive compensation. The median pay for those directors was \$139,000, Equilar says.

Big pay hikes have rolled out again this year, though the exact numbers won't be known until proxy statements are filed in 2006.

Directors argue higher pay makes sense because regulators and lawyers for shareholders are making boards more accountable for what happens inside companies. But corporate-governance watchdogs don't buy it. Brandon Rees, an assistant director at the AFL-CIO, points out that boards are merely being asked to do what they were supposed to be doing all along: keeping an eye on the company for investors. So, he asks, why should they get paid more now?

It's not like board members were struggling before those recent raises. Many directors were already pocketing \$100,000 a year or more -- often much more -- for attending six to 12 meetings a year. Or not attending.

Company Focus

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Part-time pay: \$1.2 million a year

Many board members award themselves (yes, that's how it's done) gold-plated pay packages even though they regularly play hooky in ways that would get the average worker canned in a heartbeat. More than 520 directors from Equilar's database of about 4,000 companies missed 25% or more of their board meetings in the last two years. Most of those meetings last just two days.

For example, **Nabors Industries** ([NBR](#), [news](#), [msgs](#)) paid director Hans Schmidt more than \$1.2 million for his services as a director in 2004. Even so, Schmidt made only 70% of the energy drilling and exploration company's board meetings last year.

Despite Schmidt's attendance record, Nabors paid him an annual retainer worth \$50,000 and granted him 43,000 stock options with a strike price of \$45.91. Those options had a theoretical valuation of \$1.25 million when granted, according to a common model for valuing options called Black-Scholes. With Nabors' stock trading recently at \$76, the options had a real value of nearly \$1.3 million to Schmidt, though he has to wait two years to cash in two-thirds of that 2004 options package.

A Nabors spokesman says that Schmidt is a valuable board member. "To characterize Mr. Schmidt's role in the company as excessively compensated and less than fully engaged is not accurate," the spokesman says. Schmidt has spent "what amounts to several months in the last two years researching various alternative new pieces of equipment and helping select the best, most cost-effective equipment," according to the spokesman. On Schmidt's watch as a board member, the spokesman adds, Nabors stock has advanced to \$76 from around \$6.

\$727 an hour

That's the main defense companies offer for paying big dollars for board members: They're worth it.

Directors need sophisticated business management skills, the companies and board recruiters say. The board helps management plot strategy and is responsible for hiring -- and occasionally firing -- the CEO. And directors oversee financial reporting -- one of the many tasks that has gotten more difficult because of the Sarbanes-Oxley reforms and new standards put in place by stock

exchanges following the post-tech bubble business scandals.

The directors themselves think they're doing plenty of work for their pay: A National Association of Corporate Directors (NACD) poll of its membership found that 84% of directors say they are devoting the appropriate amount of time and attention to their duties, compared to 62% in 2001.

How much more work are directors doing? The NACD survey found that directors estimate they will spend 191 hours doing their work in 2005, compared to 156 hours in 2003. All those extra hours explain why directors' compensation is going up as much as it is, says Peter Opperman, a director compensation expert at Mercer Human Resource Consulting.

But even at 191 hours (or almost five 40-hour weeks), the average board pay of \$139,000 works out to \$727 an hour. Nice work if you can get it.

Board defenders also note that much of a board's work happens between scheduled meetings, when directors are sought out for advice and counsel. "If a company is involved in an acquisition or some sort of transaction, the directors are calling each other, and they are involved in this even if there is no meeting to attend," Opperman says.

Over-boarded

But isn't a lot of crucial work done at the meetings, which many members see fit to skip?

"A lot of important decisions get made at a board meeting, and it is the directors' chance to really question management," says Patrick McGurn, special counsel for Institutional Shareholder Services (ISS), which advises big investors how to vote at annual meetings.

"The first rule of director compensation should be that you have to show up to get paid," says Rees of the AFL-CIO. "Directors who miss more than 25% of the board meetings, frankly, shouldn't be renominated." Part of the problem, says Rees, is that many directors are "over-boarded" -- meaning they serve on so many boards they don't have time to do the job.

Health-insurance provider **UnitedHealth Group** ([UNH](#), [news](#), [msgs](#)) paid former New Jersey Gov. Thomas Kean more than \$650,000 to serve on its board in 2004. Despite a pay package that's more than four times the average, Kean's seat was empty at more than a quarter of UnitedHealth Group board-related meetings last year.

Company filings with the SEC say that Kean missed meetings in 2004 because he served as chair of the 9/11 Commission, a panel that investigated the terror strikes on the U.S. and made suggestions on how to prevent future attacks. But even without those responsibilities, Kean would look overbooked as a board member. In addition to serving as president of Drew University in New Jersey, Kean held at least six other board positions in 2004, according to UnitedHealth corporate filings. He served on the boards of **Amerada Hess** ([AHC](#), [news](#), [msgs](#)), **CIT Group** ([CIT](#), [news](#), [msgs](#)), **Aramark** ([RMK](#), [news](#), [msgs](#)), **Pepsi Bottling Group** ([PBG](#), [news](#), [msgs](#)), **Franklin Resources** ([BEN](#), [news](#), [msgs](#)) and the Robert Wood Johnson Foundation.

UnitedHealth paid Kean a \$30,000 cash retainer, more than \$10,000 in meeting fees and 40,000 options valued at more than \$600,000 by the Black-Scholes model. UnitedHealth, through a spokesman, declined comment. Kean also declined to comment.

VeriSign ([VRSN](#), [news](#), [msgs](#)) Chief Executive Stratton Sclavos also appears stretched, with board responsibilities at **Salesforce.com** ([CRM](#), [news](#), [msgs](#)), **Intuit** ([INTU](#), [news](#), [msgs](#)) and **Juniper Networks** ([JNPR](#), [news](#), [msgs](#)), a networking-equipment company. Sclavos received \$380,000 in cash and options from Juniper to serve as a director in 2004. Despite these rich fees, Sclavos missed nearly half his Juniper meetings.

A VeriSign spokesman said Sclavos attended 75% of the regularly scheduled meetings in 2004 but missed several "special call meetings" scheduled with little advance notice. In each case, says the spokesman, Sclavos spoke with Juniper Chief Executive Scott Kriens about his positions on the issues being dealt with at the special meetings.

In all, he attended five out of nine Juniper board meetings last year. This year, Sclavos has attended six of the seven Juniper board meetings, the spokesman said.

Some investor advocates simply think board members should honor all of their commitments. "It is very easy when one is a successful individual to get pulled in a number of different directions," says Eleanor Bloxham, chief executive of the Value Alliance and Corporate Governance Alliance, a corporate-governance advisory service based in Westerville, Ohio. "But as a true professional, you have to look at your time commitments, and you need to be able to devote the necessary time to the activities you engage in."

At the time of publication, Michael Brush did not own or control shares of companies mentioned in this column.

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