

## **Introduction**

The Directors of a company play a very important role - especially in performing oversight functions - in the success or failure of a company. A challenge to Good Corporate Governance Practices however, is in ensuring that only individuals that are competent and experienced in the company's specific industry are appointed, retained and reasonably remunerated for the services that they render to the company.

What constitutes a reasonable, fair and adequate remuneration to pay to the Directors of a company, for the services that they render to the company, remains a challenge.

## **Directors' Remuneration ? Corporate Law**

The Companies and Allied Matters Act (CAMA) describes a Director as a person duly appointed by the Shareholders of a company, to assist in directing and managing the affairs of the company. The remuneration for the services that a Director renders, which are usually in the form of sitting allowances for attending Shareholders, Board and Committee Meetings, is determined by the Shareholders of the company at a Shareholders' General Meeting (GM). The remuneration of the Managing Director of any company is required by CAMA to be determined by the Board of Directors of the company.

The Directors of a company are also entitled to be paid travel, hotel and other out-of-pocket expenses that they properly incur in attending and returning from Board, Shareholders and Committee Meetings. It is however unlawful for any incorporated company to pay to its Directors any remuneration, whether in cash or in kind, free from any applicable Income Tax provisions.

Lastly, every incorporated company must keep a register of all the financial interests that its Directors hold in the company. Examples of such financial interests include the number of shares held, debenture or loan interests, emoluments, compensation and any contract or proposed contract of the company in which a Director has a personal interest. These financial interests are also required to be disclosed in the company's annual audited Financial Statements and Reports.

## **The Remuneration Committee Option**

In 2016, the Financial Reporting Council (FRC) published various Codes on Corporate Governance, some of whose provisions were very controversial. The FRC National Code of Corporate Governance 2016, attempted to harmonise and unify all the existing sectoral Codes of Corporate Governance in Nigeria. Examples of such sectoral codes are the ones for the banking and other financial services, telecommunications, stock market, pensions and insurance operators. Though the FRC National Code of Corporate Governance is still suspended, one of its recommendations regarding Directors' remuneration is for every company to establish a Remuneration Committee, which Committee should be composed of a majority of the company's Non-Executive and Independent Directors. As CAMA is now about three (3) decades in existence, with no robust statutory protective oversight criteria for determining the remuneration that the Directors of a company should be paid; and with multiple codes of corporate governance for different sectors of the economy; voluntarily creating a consultative Remuneration Committee of which non-executive Directors are in the majority, is in line with present day best corporate governance practice.

## **Conclusion**

Numerous studies have remained inconclusive in providing some standard minimum criteria for determining the quantum of the remuneration to be paid to the Directors of a company, for the services that such Directors render to a company. Also, how the returns on such remuneration should be measured in terms of the Directors' performance of their duties to the company is also inconclusive.

There is however a consensus that the remuneration for the services that the Directors of a company render to the company must be relative to the company's size or turnover, affordability and profitability, the company's industry specific corporate culture on this subject, the complexity of its operations, etc.

## **Disclaimer**

~~This free educational material does not serve as a source of solicitation, advertisement or the offering of legal services or advice of any kind. No Client/Attorney relationship is therefore created. Readers are strongly advised to always seek from qualified Legal Practitioners, competent legal counselling to their specific factual situation.~~

## **Intellectual Property Protected!**

This material is protected by International Intellectual Property Laws and Regulations. This material can therefore **only** be reproduced or re-distributed for non-profit educational purposes under the strict condition that our Authorship of this material is explicitly acknowledged, and our above Disclaimer Notice is prominently displayed.