



Frontis Governance
independent, local, **expert**

Non-Executive Directors' Compensation

A Comparative Analysis of Market Practices in Europe

2025 Proxy Season

Executive Summary

- ▶ Frontis Governance analyzed “NED” compensation in 160 European listed companies to assess alignment with key governance principles such as adequacy and proportionality to safeguard Board’s independence.
- ▶ Results show strong heterogeneity across markets, driven by differences in market culture, ownership structure, and independence levels. Notable polarization emerges also comparing NED average pay to average employee salaries.
- ▶ Overall, the study highlights that NED compensation structure often do not fully reflect workload and responsibilities, and that excessive equity components may threaten independence, stressing the need for transparent and balanced policies to ensure effective governance.



Compensation policy's components	Avg.	Max.	Upper boundary
Non-executive Chair total fees	674.477	5.843.604	1.159.133
Director's base retainer	119.920	487.583	170.537
Additional fees for the position of:			
Lead Independent Director	46.621	250.000	64.618
Audit Committee - chair	66.935	516.265	104.408
Audit Committee - member	35.426	400.000	57.816
Remuneration Committee - chair	47.406	516.265	70.980
Remuneration Committee - member	24.666	300.000	42.615
Nomination Committee - chair	30.571	440.000	47.100
Nomination Committee - member	22.593	300.000	37.500
Sustainability Committee - chair	42.592	440.000	65.374
Sustainability Committee - member	20.360	100.000	41.335



Overview of NED compensation components, outlining benchmark values applied to identify the “upper boundary”.

Introduction

- Non-executive directors are a critical safeguard for shareholders. Their oversight quality directly affects strategic discipline, risk management, and long-term value creation.
- In today's European market environment characterized by rising complexity, heightened regulatory expectations, and increased ESG and audit workloads, NED remuneration has become a material governance factor.
- Their underpayment undermines Board effectiveness and talent retention, while excessive or performance-related compensation can compromise independence and raise red flags for investors.
- The report equips investors and Remuneration Committees with actionable insights to evaluate whether NED pay supports robust oversight and protects shareholder interests ahead of the 2026 AGM season.

Best Practices: Regulatory Framework and Governance Codes

- ▶ OECD Principles provide the foundation for balanced NED compensation across jurisdictions, recommending pay that is adequate, proportionate to role complexity, and structured to preserve independence and transparency.
- ▶ National codes adopt these principles but some diverge significantly on variable pay e/or equity components.
- ▶ These local variations, shaped by cultural and governance norms, materially influence both the structure and magnitude of NED compensation across markets.

Country	Key National Principles
UK / Ireland	Fully fixed remuneration; no variable pay; no stock options; strong independence requirements.
Netherlands	No equity compensation; encourages personal long-term shareholding by NEDs.
France	Equity allowed but uncommon; strong emphasis on attendance fees as the main component.
Germany	Fixed pay preferred; long-term performance component allowed; equity possible with holding periods.
Spain	Variable pay prohibited; equity allowed only with mandatory holding until end of mandate; avoid excessive pay.
Denmark	No stock options/warrants; fixed shares allowed at market value; focus on protecting independence.
Italy	Small variable component allowed; no explicit long-term orientation; flexible approach.
Switzerland	Equity component explicitly recommended; no limit on its significance.
Finland	Entire remuneration may be paid in fixed shares, with mandatory holding period to end of mandate.
Sweden	No guidance provided; Nomination Committee has full discretion on compensation.

Methodology

Sample & Scope

- 160 large-cap European issuers
- Sector mix aligned with GICS

Comparative Inputs

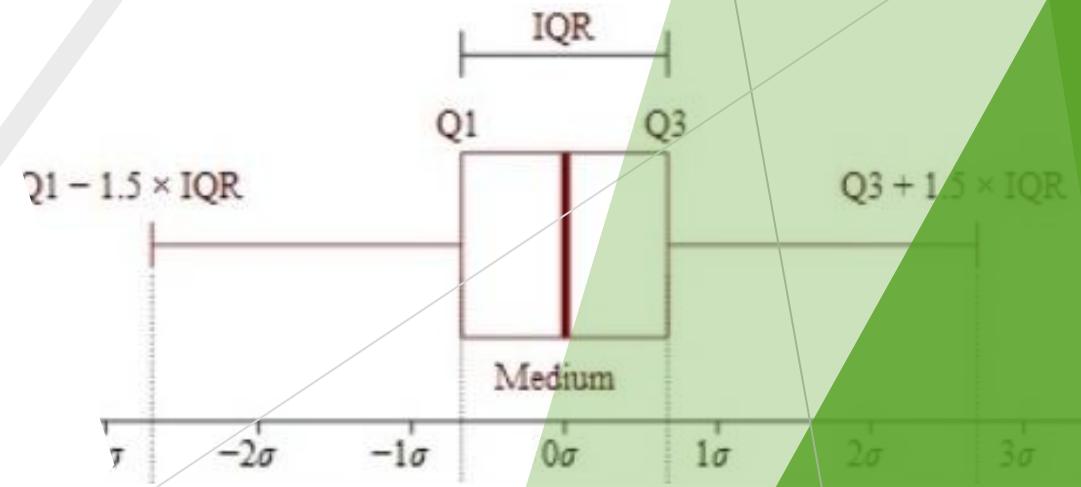
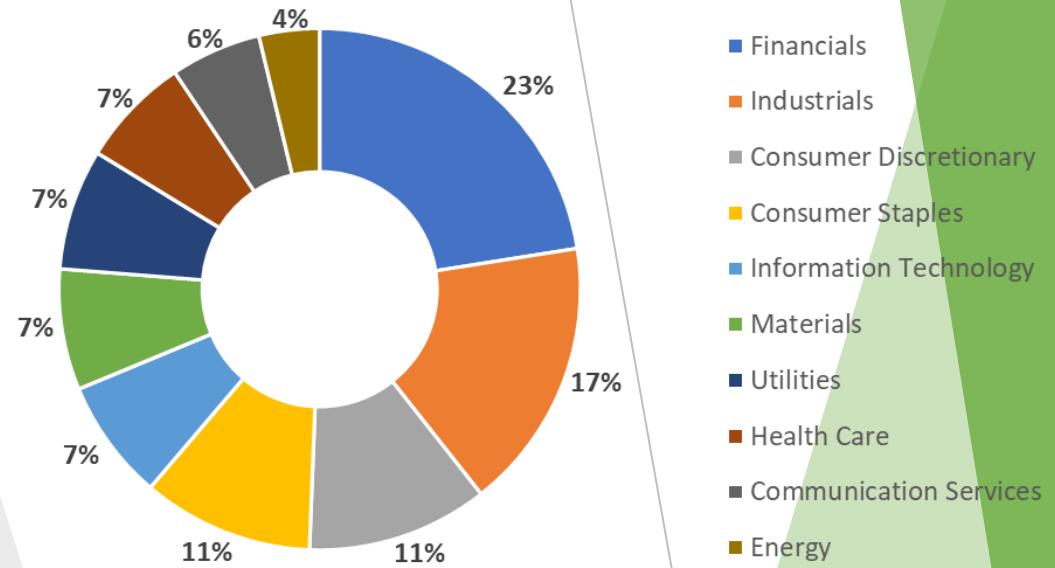
- Size & adequacy: market cap & average salaries
- Workload: Board & committee meetings

Governance variables

- Ownership variable
- Independence variable

Outlier Detection:

- IQR-Tukey approach
- Only **upper boundary** used (right-skewed data) to assess safeguard of independence principle



Remuneration Policy Structure

Fixed Base Compensation

Mean: €119.920

Range: €10.000 – € 487.583

Primary component across all markets.

Equity Components

30 companies (19%)

Avg 47% of total NED compensation

Mostly in Switzerland & Finland.
Ireland driven by US-based groups.

Attendance Fees

61 companies (38%)

Most frequent: France (96%)

Rare in Switzerland and Ireland.

Remuneration policy: the “Chair premium”

Switzerland	7,4
United Kingdom	7,0
Spain	6,3
Italy	5,5
Ireland	4,3
Sweden	3,9
Denmark	3,3
Netherlands	2,7
Germany	2,6
Finlandia	2,6

Financials	6,2
Consumer Staples	5,9
Energy	5,7
Health Care	5,7
Consumer Discretionary	5,1
Materials	4,9
Utilities	4,9
Communication Services	3,9
Industrials	3,5
Information Technology	2,3

Definition & overall level

- Ratio of non-executive Chair pay to standard NED fee, reflecting the additional responsibility premium
- On average, Chair's total compensation equals 5x standard NED fees across 125 companies.

Geographical differences

- The premium varies sharply by market: ~2.6× in Finland, Germany and the Netherlands, but >7× in Switzerland and the UK. Lower premiums typically reflect a Board role focused on oversight; higher premiums indicate greater involvement of the Chair in supporting the management.

Sector patterns

- Financials show the highest premium (6.2×, rising to 6.7× in banks), consistent with heavier regulatory burdens, hence, higher meeting frequency (24 meetings/year vs. 16 for the full sample).

Overview of total NED fees paid in FY 2024

- The analysis of NED compensation includes all components (cash retainer, equity-based, committee and attendance fees) and applies both mean/median indicators and the IQR-Tukey method to identify excessive values; any amount above the upper Tukey threshold is classified as an “anomaly” (upper boundary).
- Significant cross-market differences emerge, with the highest average NED fees observed in Switzerland and Spain. Proportionality relative to market capitalisation is generally respected, the compensation-to-average-salary ratio shows anomalies especially in Switzerland, Spain, Ireland and the United Kingdom.
- Compensation misalignment is driven by governance culture rather than wage levels, with France showing the most moderate fees thanks to wide use of attendance-based remuneration, whereas limited use of attendance fees and heavier reliance on equity components explains many of the excessive values seen in Switzerland and Spain.

Indicator	Mean	Median	Min	Max	Upper boundary
NED compensation	€ 243.932	€ 200.586	€ 50.066	€ 1.133.305	€ 377.635
NED compensation per meeting	€ 17.221	€ 14.613	€ 3.990	€ 53.188	€ 32.165
NED compensation / Market cap (€ mln)	7,9	5,6	0,2	56,3	12,83
NED compensation / Employee average salary	3,7	2,8	0,5	19,1	6,0

Country	NED compensation	NED compensation / Market cap (€ mln)	NED compensation / Average salary	NED compensation per meeting
Switzerland	515.921	9,6	7,7	33.826
Spain	394.219	12,5	7,4	19.442
Ireland	323.622	4,7	5,4	26.916
United Kingdom	262.766	11,0	4,0	21.542
Germany	218.227	6,6	2,8	18.943
Netherlands	196.154	7,3	2,7	14.756
Denmark	193.461	7,7	2,7	11.961
Italy	188.204	8,5	2,8	7.152
Finland	173.566	10,1	2,5	9.989
Sweden	148.314	5,1	2,5	8.081
France	135.200	3,5	2,1	9.442

Overview of total NED fees paid - Sector level

- ▶ Sector comparison shows greater uniformity and proportionality than country-level results, with the financial sector confirming the highest average NED compensation levels (€343.294 for banks), and no average sector-level “anomalous values” identified using the IQR-Tukey method.
- ▶ Local market practices and governance structures, rather than industry characteristics, appear to be the primary drivers of NED pay differences, as sector-level aggregates do not reveal the same distortions observed at the country level.
- ▶ Despite overall alignment, some disproportions remain: NED compensation appears slightly high relative to market capitalisation in Communication Services (10,7 per € million market cap) and Energy (9,5), despite otherwise moderate absolute and salary-adjusted levels.



Sector (Gics 1)	NED compensation	NED compensation / Market cap (€ mln)	NED compensation / Average salary
Financials	304.436	7,6	4,1
Materials	286.851	7,5	4,3
Health Care	265.718	6,4	2,7
Energy	256.324	9,5	3,3
Industrials	232.830	6,8	3,6
Consumer Staples	214.135	9,2	4,2
Consumer Discretionary	207.954	8,8	4,1
Utilities	206.453	8,9	3,0
Information Technology	203.930	6,2	3,4
Communication Services	187.769	10,3	2,7

Voting rights of major shareholders	Average NED compensation	NED Compensation / Market cap (€ mln)	NED Compensation / Average salary
< 10%: public company	286.639	8,8	4,3
10 - 19%: significant influence	240.063	9,4	3,5
20 - 39%: considerable influence	172.513	6,5	2,5
40 - 85%: control	169.825	5,1	2,9

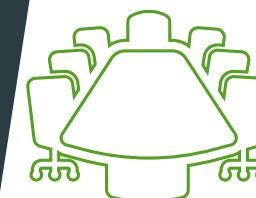
Voting rights of major shareholders	Average NED compensation	% Indipendent directors (average)
< 10% - public company	286.639	78%
10 - 19% - significant influence	240.063	70%
20 - 39% - considerable influence	172.513	65%
40 - 85% - control	169.825	56%

NED compensation vs. Ownership concentration

- ▶ NED compensation decreases as ownership concentration increases, with public companies (<10% controlled) showing the highest average fees and controlled companies (40-85%) the lowest. This trend reflects both greater Board influence in widely held companies and stronger cost-containment by controlling shareholders.
- ▶ Higher ownership concentration correlates with lower Board independence: as controlling shareholders appoint more representatives (often remunerated outside the listed company), the percentage of independent directors declines from 78% in public companies to 56% in controlled firms.
- ▶ No relevant correlation emerges between ownership structure and respect of proportionality principles, measured by the ratios of NED compensation to market capitalisation or to average employee salaries, indicating that deviations relate more to governance composition than to company size or wage levels.

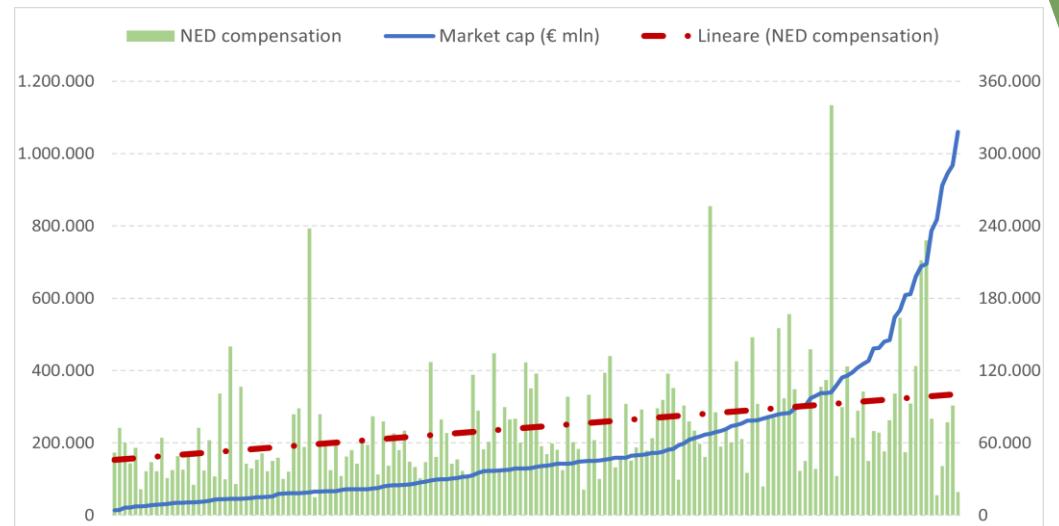
Alignment with Proportionality and Adequacy Principles - absolute values

- Before analysing proportionality-adjusted metrics, the study first identifies absolute outliers – cases where NED compensation appears unusually high in nominal terms.
- Using the IQR-Tukey method, 22 companies report NED compensation above upper boundary values, compared to the overall distribution of the sample.
- These absolute outliers serve as a preliminary list to investigate whether seemingly high pay levels may still be justified once **size, complexity and workload** are taken into account.



Company	Country	Sector	Average NED compensation
UBS Group	CH	Financials	1.133.305
Banco Santander	ES	Financials	854.477
Aercap Holdings	NL	Industrials	793.360
Nestlé	CH	Consumer Staples	760.512
Novartis	CH	Health Care	704.658
Iberdrola	ES	Utilities	556.250
HSBC Holdings	UK	Financials	545.849
Zurich Insurance Group	CH	Financials	517.818
Richemont	CH	Consumer Discretionary	491.990
Repsol	ES	Energy	467.000
ABB	CH	Industrials	458.457
Sika	CH	Materials	448.263
Barclays	UK	Financials	440.451
AON	IE	Financials	426.101
Standard Chartered	UK	Financials	423.453
Givaudan	CH	Materials	423.055
Linde	IE	Materials	413.068
Rio Tinto	UK	Materials	411.583
Glencore	UK	Materials	393.697
BBVA	ES	Financials	392.043
Lloyds Banking Group	UK	Financials	391.643
Deutsche Bank	DE	Financials	388.750

Alignment with Proportionality and Adequacy Principles in relative values - Market cap



Partial correlation 

Geographical concentration:

27% of UK companies, 22% of Spanish ones and 17% of Swiss ones report anomalous ratios, while France shows the opposite pattern, with a high share of companies paying exceptionally low compensation relative to size.

Sector neutrality:

There is no sector-based pattern in the emergence of anomalies. Misalignments occur uniformly across all industries.

Company size effect:

Disproportionately high NED compensation is far more common in smaller companies, whose average market cap (€12bn) is well below the sample mean (€60bn). This suggests that even smaller issuers tend to align pay levels upward toward broader market benchmarks.

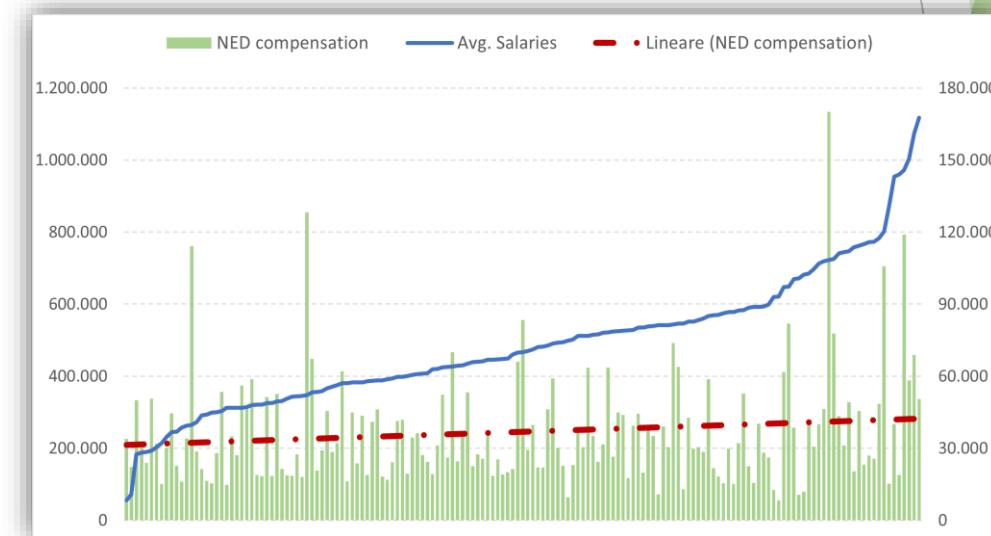
13%
of
total

Company	Country	Sector	NED compensation / Market cap (€ mln)
Reckitt Benckiser	UK	Cons. Staples	56,3
Burberry	UK	Cons. Discretionary	42,9
Aercap	NL	Industrials	42,2
Repsol	ES	Energy	34,5
Kingfisher	UK	Cons. Discretionary	31,5
Logitech	CH	IT	25,9
Sainsbury (J)	UK	Cons. Staples	25,5
Genmab	DK	Health Care	25,4
Redeia	ES	Utilities	24,0
Scout24	DE	Comm. Svcs	22,6
WPP	UK	Comm. Svcs	22,2
United Utilities	UK	Utilities	17,7
Banco BPM	IT	Financials	17,5
Smith & Nephew	UK	Health Care	16,3
SGS	CH	Industrials	16,2
Stora Enso	FI	Materials	15,9
FinecoBank	IT	Financials	15,9
Aviva	UK	Financials	15,3
Standard Chartered	UK	Financials	14,6
Legal & General	UK	Financials	14,2
Zalando	DE	Cons. Discretionary	14,2

Alignment with Proportionality and Adequacy Principles in relative values - Average employee salaries

Company	Country	Sector	NED compensation/ Average salary
Nestlé	CH	Consumer Staples	19,1
Banco Santander	ES	Financials	16,4
TE Connectivity	CH	Information Technology	12,1
Inditex	ES	Consumer Discretionary	11,7
UBS Group	CH	Financials	10,5
Sika	CH	Materials	8,4
BBVA	ES	Financials	8,2
SGS	CH	Industrials	8,1
Prosus	NL	Consumer Discretionary	8,0
Iberdrola	ES	Utilities	8,0
Logitech International	CH	Information Technology	7,8
Repsol	ES	Energy	7,3
Linde	IE	Materials	7,2
Kingfisher	UK	Consumer Discretionary	7,1
Natwest Group	UK	Financials	7,1
Eaton Corporation	IE	Industrials	7,0
Compass Group	UK	Consumer Discretionary	7,0
Johnson Controls	IE	Industrials	6,8
Barclays	UK	Financials	6,3

19 cases where
NED pay surpasses
6x employee
salary levels



No correlation!

Alignment with Proportionality and Adequacy Principles in relative values

- Workload and responsibilities

- ▶ **Methodology:** NED compensation was normalised by the number of Board meetings plus the *average* number of meetings of key committees (Audit & Risk, Nomination, Remuneration, Sustainability) to obtain a consistent “compensation per meeting” metric across companies and markets.
- ▶ **Findings on workload:** Governance systems differ sharply in meeting frequency – UK/Ireland/Germany/Netherlands meet less (~8 Board + 5 committee meetings), while Italy and Spain meet far more (~14-13 Board + 13-9 committee meetings). Regulated sectors (especially Financials) also show higher workloads.
- ▶ **Outliers:** 15 companies show **excessive compensation relative to workload**, heavily concentrated in **Switzerland** (6 cases) and the **Materials** sector (5 cases). Spain does not appear among the outliers, indicating its higher pay levels are partly justified by higher meeting intensity.

Company	Country	Sector	NED compensation per meeting
Richemont	CH	Consumer Discretionary	53.188
Glencore	UK	Materials	52.493
Aercap Holdings	NL	Industrials	48.573
Linde	IE	Materials	43.481
Nestlé	CH	Consumer Staples	42.846
Novartis	CH	Health Care	42.280
Eaton Corporation	IE	Industrials	36.681
Rio Tinto	UK	Materials	36.585
AON	IE	Financials	36.523
ABB	CH	Industrials	35.266
E.On	DE	Utilities	34.226
Givaudan	CH	Materials	33.399
Prosus	NL	Consumer Discretionary	33.246
BASF	DE	Materials	33.132
Zurich Insurance Group	CH	Financials	32.364

Conclusions

1. Country effects dominate:

National governance cultures drive the largest differences in NED pay, with markets like Switzerland, Spain and the UK showing significantly higher levels contrary to France and Italy.

2. Ownership structure is decisive:

Public companies with dispersed ownership and more independent Boards provide higher, more structured compensation, while controlled companies keep remuneration lower and more cost-focused.

3. Proportionality is inconsistently applied:

Pay is only loosely aligned with company size, complexity, meeting workload, and employee salary benchmarks, revealing significant deviations from the principles of proportionality and adequacy.

Implications

Overall, the European system of NED compensation remains in a transitional stage.

For investors, Remuneration Committees and policy makers, this underscores the need for a more integrated approach that combines:

- 1. A deeper qualitative assessment** of the NED role and its actual contribution to oversight and value creation.
- 2. Greater transparency** in the criteria and rationale used to define compensation levels.
- 3. Stronger alignment between responsibilities**, time commitment and economic recognition.
- 4. A long-term perspective** on the implications for governance quality and sustainable value creation.

A shift in this direction is essential to ensure that NED compensation is not only competitive, but also coherent with the quality of governance oversight and with long-term corporate performance and sustainability goals.



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Thank you !!

Link to the full report: Non-Executive Directors' Compensation
(Italian language only)

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