

# 1 Executive summary

## Introduction

Now more than ever New Zealand needs empowered directors to govern organisations for the benefit of our country's wellbeing and prosperity.

In the COVID-19 global pandemic, organisations have had to step up, adapt and operate in new ways amidst very uncertain times. Given the increased complexities, regulatory compliance and personal risk New Zealand directors face in their roles, setting fees at the right level is essential.

Organisations need to attract progressive and effective directors who go beyond compliance, who aspire to meet the highest standards and are rewarded appropriately for their expertise and commitment.

Organisations should support and justify their board fee decisions with good disclosure, governance and accountability practices. This means demonstrating that fees have been set using robust processes and data.

## Purpose and scope

Scott Technology has asked the Institute of Directors in NZ Inc. (IoD) to undertake a formal review of board fees. This document sets out the approach taken, the relevant background information and our independent assessment of appropriate fee range benchmarks for your directors. In carrying out this assignment, the IoD has considered the following:

- Information supplied by Scott Technology
- Data from the latest available annual IoD Directors' Fees survey
- Data, where available, on fees in organisations of a similar type or size
- Other confidential sources of fee data that the IoD holds

Our recommendations are formed from our considered judgement, and are provided as guidance. The final decision on fees is the ultimate responsibility of the organisation.

## Summary of approach

Directors' fees are a 'fee for service' rather than a salary. In line with the principle of collective responsibility, base fees should be shared equally as a rule, except in the case of additional responsibility of workload such as the chair.

The IoD encourages an open and transparent process to setting director fees. A fee benchmarking exercise is a suitable approach to determining whether your organisation's director fees are fair and appropriate, and it is important to review benchmarks across a wide range of relevant criteria.

The IoD provides a recommended range of fees for your board roles based on:

- data from our latest directors' fees survey, giving a broad picture of fees in the market relevant to your organisation type, industry and size
- additional research of fees in comparative organisations (where available)
- information provided by you on the scope and time commitments of the roles; and
- the nature and complexity of your organisations' industry or operating environment.

Before reaching a final decision, the IoD recommends that Scott Technology also considers shareholder expectations; your own view on appropriate fee levels, as well the level of remuneration required to attract, motivate and retain appropriate candidates.

## Relevant organisation background

Scott Technology is a world leader in automation and robotics, designing and building production line machinery. It has diversified and expanded its business by way of acquisitions, and has five main streams of operation around the globe. The company operates in New Zealand, Australia, Germany, France, Czech Republic, China and the United States.

The current board consists of seven members – the independent chair, two independent directors, three directors appointed from the controlling shareholder and the CEO (Executive Director). There is also one alternate director.

The fee recommendations in this report relate to the chair and independent directors only.

Fees were set at the current level in 2018, following an earlier review by the IoD. The organisation sees itself at the upper quartile in terms of the level of fees it would want to pay its board members.

## Summary of fee research

THIS TABLE PROVIDES A SUMMARY OF THE FEE RESEARCH PRESENTED IN THIS REPORT

FEE COMPARATOR CATEGORY	DIRECTOR FEE OR RANGE (\$)	CHAIR FEE OR RANGE (\$)
IoD Directors' Fees Survey: comparator dataset – median to upper quartile	53,981 – 76,964	91,656 – 131,000
IoD Directors' Fees Survey: deeper segmentation – listed companies in similar industries – average fee	74,252	138,158

IoD Directors' Fees Survey: deeper segmentation – listed companies, similar size by revenue – average fee	86,609	161,750
Further research – organisations of a comparative size by market cap – average fee	72,959	140,168
<b>SCOTT TECH CURRENT FEES</b>	52,500	105,000

## Summary of time commitments

This table shows the estimated time commitments of the governance roles in Scott Technology against our comparator survey data. It indicates that the time commitments for non-executive directors align at the lower quartile of our comparator data. The estimated annual time commitments for the chair align at the upper quartile.

	NON-EXECUTIVE DIRECTOR			NON-EXECUTIVE CHAIR		
	LOWER QUARTILE	MEDIAN	UPPER QUARTILE	LOWER QUARTILE	MEDIAN	UPPER QUARTILE
Average time commitments in hours	127	192	262	147	240	355
<b>SCOTT TECH ANNUAL TIME COMMITMENTS</b>	<b>84 – 92</b>			<b>336 - 368</b>		

## Benchmark fee ranges and supporting commentary

We have taken into account information provided to us about the organisation's nature, complexity and risk profile as well as the duties and time commitments of the board roles.

Current fees align at the median of our overall comparator dataset. However, when we segment our data further to research fees in other listed companies operating in similar industries, or other listed companies of a similar size by revenue, it appears that current fees are below average market levels.

Further research using NZX listings to identify organisations of a comparative size by market cap, also indicates current fees to be lower than market average.

The base director benchmark in the table below aligns between the median and upper quartile of our overall comparator dataset. The chair fee aligns at the upper quartile and in line with further market research.

THE FOLLOWING TABLE PROVIDES BENCHMARK FEE RANGES FOR YOUR BOARD MEMBERS.

We consider these fee ranges reflect fair remuneration for the indicated governance commitments of the roles, and to be more representative of the wider market.

FEE CATEGORY	BENCHMARK FEE RANGE
Base Directors' fee	\$65,000 - \$75,000
Chair fee	\$130,000 - \$150,000

### Notes

- Base fees include committee attendance.
- We have used a standard chair premium of x2. A higher loading would also be appropriate considering the significant time commitments of this role over the other members of the board.

THE SUPPORTING INFORMATION FOR THESE RECOMMENDATIONS CAN BE FOUND ON PAGES 21 AND 22.