

BOARD SERVICES

# DirectorRem

## Benchmarking Review

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*Hallenstein Glasson Holdings Ltd*

**Executive Summary**

**Please note – this document is the executive summary of the full report prepared by the Institute of Directors (IoD) in August 2017**

*This report has been prepared as guidance for the board of Hallenstein Glasson Holdings Ltd (HGHL) and is not intended to be prescriptive or exhaustive or used or relied upon by any other organisation. It contains our benchmarking analysis using remuneration data provided by members in our annual survey on director remuneration, information supplied by HGHL and other publicly-available sources of information. The report is an independent assessment of appropriate fees for board members of HGHL and has been prepared free from any influence from HGHL management, any board member or any other party in relation to the services provided or outcomes of those services.*

*The IoD believes the information it provides about comparable entities is accurate at the time it is provided. The IoD provides no warranty (either expressed or implied) in relation to the completeness, accuracy or currency of any information provided about any comparator or third party organisation, and cannot be held liable for the consequences of any actions taken or not taken on the basis of such information.*

*The IoD encourages an open and transparent process in setting director fees. To meet the requirements and guidance contained in the NZX Corporate Governance Code 2017, HGHL may decide to share part or all of this report publicly.*

## Executive summary

### Introduction

You have asked the Institute of Directors in NZ Inc. (IoD) to undertake a formal benchmarking review and independent assessment of fees for the board of Hallenstein Glasson Holdings Ltd (HGHL).

### Approach

This document sets out the approach taken, the relevant background information and our independent assessment of appropriate fee range benchmarks for the members of your board. In carrying out this assignment, the IoD has considered the following:

- Information supplied by HGHL
- Data from the latest annual IoD/EY directors' fees survey – published in August 2017
- Data, where available, from similar organisations
- Data from organisations of similar size to HGHL
- Other data on relevant fees that the IoD holds confidentially
- Comparable remuneration reports and recommendations by the IoD

This report does not include an evaluation of specific constraints that may affect the organisation's final decision with respect to fee levels, such as available funds or the impact of fee levels on the ability to access appropriately qualified and skilled directors to your board.

### Relevant organisation background

HGHL is a clothing retailer listed on the NZX and focussing on women's (Glassons and Storm) and men's (Hallensteins) casual wear. It has an established presence in NZ with over 80 stores and is continuing its expansion into Australia. A new CEO took over earlier in the year and the organisation is seeing lifting profits after a difficult operating period.

In the organisations' latest financial report, revenue was \$224 million, with assets of \$79 million, and the organisation has over 1,250 full-time and part-time employees.

The organisation has a board of 6, including the Chair. Current fees are \$97,000 for the Chair and a base of \$68,000 for directors. It is unclear when these current fees were last set.

HGHL identified Kathmandu as a comparable organisation.

### Director fees - important considerations

New Zealand directors are performing in an increasingly volatile political and economic environment. Uncertainty is the new normal. Coupled with this are shareholders, customers and stakeholders who are demanding greater transparency and engagement.

A quality director brings business advantage and plays a central role in the economic health of our country. As the business environment increases in complexity, organisations need to attract board members with the right skills, capabilities and experience. Setting governance fees at the right level is essential to attracting and retaining board members who can deliver long term value.

The subject of director remuneration continues to be a subject of scrutiny and discussion, both in New Zealand and overseas. Few other professions face such sensitivity about their fees from stakeholders. That said, we should recognise a degree of scrutiny is justified as directors are critical fiduciaries of the interests of others.

The IoD encourages an open and transparent process with regards 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's annual survey collects fee data from its members and New Zealand organisations, and that survey data forms the basis of the analyses in this report. In addition we undertake further research to provide a broad view of the market. Our recommendations are informed by what organisations of similar characteristics would pay for similar duties.

Fee ranges are set with the assumption that board members have achieved a level of governance competency to undertake the critical director function. To command fees at benchmark level directors should have the appropriate skills, knowledge and training in governance as would reasonably be expected for people in their roles.

### Summary of approach to setting fees

The remuneration of directors should be transparent, fair and reasonable. In general the IoD favours fixed fees, set annually at a level that reflects the commitment and skills required as well as the liability and personal risk involved. The fee should also be at a level that gives the organisation the appropriate call on directors' time.

### Summary of comparator fee data

This table provides a summary of fee data presented in the full report.

Fee comparator category	Director fee or range	Chair fee or range
IoD Directors' Fees Survey – Listed organisations (median to upper quartile)	\$80,000 - \$100,000	\$140,000 - \$170,000
Kathmandu	\$126,368	\$241,553
Further comparators – other listed orgs various (average)	\$77,700 - \$79,700	\$165,875
<b>HGHL Current Fees</b>	<b>\$68,000 - \$75,000</b>	<b>\$97,000</b>

### Summary of time commitments

The estimated time commitments of the governance roles within HGHL show they are aligned above the upper quartile of the comparator data presented in the full report.

	Non-executive Director			Non-executive Chair		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Average time commitments in hours	77	127	238	96	165	304
HGHL annual time commitments	408 - 448			458		

### Summary of hourly fees

Due to the high time commitments of the roles at HGHL summarised above, the estimated hourly fees for board members align below the lower quartile of the data presented in the full report.

	Non-executive Director			Non-executive Chair		
	Lower quartile	Median	Upper quartile	Lower quartile	Median	Upper quartile
Average hourly fees (\$)	\$220	\$470	\$893	\$244	\$785	\$1,212
HGHL	\$157 - \$175			\$212		

### Summary of supporting commentary

A fair and appropriate annual fixed fee should reflect the commitment and skills required of the director, the liability and personal risk involved and take into account periods of heavy workload for the board.

It is unclear when HGHL's current board fees were set. IoD's analysis indicates that these current fee rates are falling behind benchmark.

With regards to the fee ranges recommended below, we have considered information provided by HGHL relating to the size and nature of the organisation and the high time commitments of the governance roles. In addition we take into account fees in other listed organisations, both from our annual fee survey and from a review of annual reports for other listed organisations.

### Fee range recommendations

The fees recommended below represent significant increases over these current levels. It is a decision for HGHL whether to opt for more moderate increases, whether to plan a timed transition to higher levels or HGHL may decide to implement fee increases above our recommended range.

If more moderate increases are implemented, the organisation should be mindful that the fee gap between current and benchmark fees may widen over time.

Fee Category	Recommended fee range
Base Directors' fee	\$80,000 - \$90,000
Chair fee	\$144,000 - \$162,000
Deputy Chair fee	\$100,000 - \$112,500
<i>Optional:</i>	
Committee Chair fee (Audit, H&S only)	An additional \$5,000 - \$10,000

- Please note that base fees include committee membership/attendance. We generally only recommend an additional fee for a committee chair
- The supporting information for these recommendations can be found in the full report

## Appendix – Understanding the data measures

### Lower Quartile

This represents the point at which, when ranked from the lowest value to the highest value, 25% of the sample is lower and 75% of the sample is higher. The Lower Quartile is also known as the 25th percentile.

### Median

When data is ranked from the lowest value to the highest value, the median represents the middle point of the data. At the median, 50% of the sample is lower and 50% of the sample is higher. The median is also known as the 50<sup>th</sup> percentile.

### Upper Quartile

This represents the point at which, when ranked from the lowest value to the highest value, 75% of the sample is lower and 25% of the sample is higher. The Upper Quartile is also known as the 75th percentile.

### Average

Indicates the average value of remuneration or benefit in any given sample. The average is calculated by adding the numbers in a sample and then dividing by the count of the sample.

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