boardroom

OCT / NOV 2020

Magazine of the Institute of Directors in New Zealand

TAHITO

Investing with a Māori worldview

No end to COVID? An NFP perspective

Fit to lead in the new economy

Institute of DIRECTORS NEW ZEALAND

boardroom

Boardroom is published six times a year by the Institute of Directors in New Zealand (IoD) and is free to all members.

Boardroom is designed to inform and stimulate discussion in the director community, but opinions expressed do not reflect IoD policy unless explicitly stated.

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A note from the editor

Our cover story is an interesting take on sustainable investment in the form of a Kiwi company that uses a traditional Māori worldview to inform its investment decisions.

Since the article was written, TAHITO Te Tai o Rēhua trans-Tasman fund has released a quarterly report marking a year since launch. It shows Tahito outperforming a benchmark portfolio index of 50% NZX and 50% ASX firms by 3.8% for the year.

This suggests that it is possible to invest with strong ethical, cultural and sustainability convictions and make a competitive return.

It remains to be seen what impact the COVID-19 pandemic will have on global investment but if there is a shift towards "green" investing then funds like TAHITO will be well-placed to take advantage of it.

Could New Zealand's clean, green image – enhanced by appreciation for our efforts to contain the virus - one day become a significant asset to our financial services industry?

Aaron Watson
Boardroom editor

BoardRoom is the magazine of the Institute of Directors in New Zealand iod.org.nz

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Interesting times

KIRSTEN PATTERSON
CEO, INSTITUTE OF DIRECTORS

Tēnā koutou katoa

How are you finding the "new normal"?

At the IoD, we are faring in much the same way as many SME and NFP enterprises as we seek to re-establish our courses and events after the lockdowns, manage a budget that took an unexpected hit and improve our ability to deliver members services and support online.

Our response will probably be familiar. Non-essential spending has been curtailed. Our focus on staff health and wellbeing has been heightened. Our people work from home on a regular basis. And across the organisation we are reconsidering what we do and how we do it as we prepare for 2021. Technology is likely to play a big part in this.

While great economic and public health uncertainties remain – particularly on the global stage – we can reflect on the fact that we have become more nimble and open to change this year. That can only help as we meet new challenges arising from the pandemic.

THE CURRENT LANDSCAPE

In this issue of *Boardroom* we look at some of the areas that may need attention from the board as the pandemic rolls on. The relationship with the CEO is one of those – addressed in "CEOs adapting to COVID-19" - and it would behove boards to take the time to understand the challenges their chief executives are facing and to recalibrate how they assess performance. This may be even more important for organisations facing the prospect of bringing a new CEO on at this time, as a US perspective on "Six challenges facing insider CEOs" explores.

We also look at the skills directors need to build in order to help their organisations reset for growth and success in "Fit to lead in the new world economy".

Alongside that, we take a fresh look at some of the non-COVID-19 issues facing boards around the world, including brand and reputation management, and the opportunities to be found as we move towards a low-carbon economy.

SOMETHING OLD, SOMETHING NEW

Despite the pressure facing boards, we have many members who are continuing to innovate and explore uncharted areas. Our cover story this issue is with Chartered Member Temuera Hall, co-founder of an investment fund based on Māori values.

His Tahito fund takes the concept of sustainable investing and puts a unique lens over it, a lens that could only come from New Zealand/Aotearoa. Interestingly, the values-based approach he describes is very similar to many purpose-based concepts around the world supported by the Wold Economic Forum and this year advocated the US Business Roundtable.

And closing the magazine, we have some reflections from Sir Colin Maiden, a leading Kiwi director who was prominent in the 1980s and 1990s. His "Lessons learned" in governance will likely contain many ideas relevant to the new cohort of directors entering the profession today.

Finally, I would like to share that we are very close to returning *Boardroom* to print. Like many SMEs, we have had to be prudent with our spending since lockdown and that has included providing *Boardroom* in an exclusively digital format. But we will return to print for the December/January issue, something which many members have asked for.

Ngā mihi, Kirsten (KP)

Create your future

Just 50% of directors agreed that their board has the right capabilities to deal with increasing business complexity and risk.

(*Director Sentiment Survey 2019*)

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Up**Front**

Directors' *leave of absence* **dilemma**

A lack of clarity around directors' personal liability while on extended leave means they're more likely to resign than take leave of absence. This diminishes New Zealand's pool of strong, experienced directors and potentially poses a challenge to board diversity, according to *Should I Stay or Should I go?*, our recent paper released in association with MinterEllisonRuddWatts.

"There is nothing to stop a director requesting leave of absence when they need extended time off, whether for parental or health reasons. However, New Zealand's law does not explicitly address the process, nor what happens when they take such leave. A director is not automatically absolved of personal liability if something goes wrong in the organisation while they're absent," says MinterEllisonRuddWatts Partner and Head of Corporate, Silvana Schenone.

"The onus would be on them to defend themselves against liability, if it came to that," Schenone says. "And with recent high-profile court decisions putting directors' duties in the spotlight, and liability insurance becoming costlier and harder to come by, directors will be particularly wary of the risks."

When faced with the dilemma, many directors will take the "safe" option and simply resign, with no promise of a role when they are ready to return. This has important implications for the strength and diversity of our governance talent pool, according to the IoD's Principal Governance Advisor Selwyn Eathorne.

"The issue is not limited to women who have or plan to have children. However, they are by far the largest cohort who are likely to seek extended leaves of absence. If directors do not feel there are structures in place to support such leave, they may be compelled to hang up their governance hats, taking their valuable skills and experience with them – possibly to never return," Eathorne says.

"New Zealand's future wellbeing and prosperity relies on a diversity of highly skilled and experienced individuals choosing to serve as directors," Eathorne says. "They should be actively encouraged, not deterred."

Read the full report at iod.org.nz

APPOINTMENTS

Carl Carrington
Chartered Member, has joined the board of Mt Cook Alpine Salmon Ltd.

Carol Cheng
Chartered Member, has been appointed to the board of merged council-controlled organisations Regional Facilities Auckland (RFA) and Auckland Tourism, Events and Economic Development (ATEED).

Toni Kerr
Member, has joined Raukawa ki te Tonga AHC Limited (AHC) board as a non-executive director.

Rod Snodgrass
Member, has been appointed to the board of investment company Forsyth Barr.

Ross Buckley
Chartered Member, has joined the board of ASB Bank Limited.

Going concern disclosures

The External Reporting Board (XRB) wants directors to ensure their assumptions about their organisations being a going concern and deliberations about the impact of COVID-19 are clear in company reports.

XRB Chief Executive April Mackenzie says investors need to understand the thinking behind the assumption a business remains a going concern when the level of uncertainty is so high at this time.

"We would like to see more fulsome disclosure of the material uncertainties that directors have discussed and get an understanding from financial statements of what directors are doing to mitigate those uncertainties," Mackenzie says.

"So we have clarified our guidance in relation to those matters.

The requirement is not new, but the XRB is asking boards to be more specific about their going concern assumptions with reference to uncertainties in areas such as supply chain disruption, border restrictions and the potential for future lockdowns.

"We are seeing disclosures of this type but we would like to see more consistent and comparable information across financial statements so that investors can make reasonable comparisons between companies," Mackenzie says.

Guidance on the type of information that should be disclosed is available at **xrb.govt.nz**

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Market for D&O insurance **hardest in living memory**

Directors in New Zealand and Australia are facing the most volatile and restrictive liability insurance market in living memory, according to a report we released in association with Marsh and MinterEllisonRuddWatts.

The report, *Under Pressure: D&O Insurance in a Hard Market*, found that regionally, D&O claims payments have dwarfed the total insurance premium pool as litigation funders become more commonplace and as New Zealand's regulatory environment, particularly the class action regime, evolves.

As a result, insurers are increasingly cautious when considering renewals or applications, often requiring greater access to organisations and their boards. Premiums and excesses are climbing and some insurers are exiting the market altogether.

As directors and entities come under economic and structural pressure amid a more litigious backdrop, D&O insurance is more crucial than ever, says IoD Governance Leadership Centre and Membership General Manager Felicity Caird.

"Good governance is integral to successful, sustainable organisations. Strong directors leverage their experience and professional instincts to move an organisation forward; it requires focus and often courage. This is difficult if they're constantly looking over their shoulder, worrying about personal liability," Caird says. "And it's not just an issue for listed or private companies. Not-for-profits (NFPs) are also vulnerable, with many already facing financial challenges as fund-raising opportunities shrink due to COVID-19 effects," she says.

Read the full report at iod.org.nz

Director Vacancies

Director Vacancies is a cost-effective way to reach our extensive pool of membership talent. We will list your vacancy until the application deadline or until you find a suitable candidate. A full list of vacancies can be viewed at iod.org.nz

Research for Life
Location: Wellington
Role: Board member
Closes: 20 November

Little Company of Mary Foundation
Location: Canterbury
Role: Trustee board member
Closes: Applications will remain open until position is filled

Thomsons Timber Supplies Ltd
Location: Waikato
Role: Director
Closes: 6 November

Nelson Airport Te Papa Waka Rererangi o Whakatū
Location: National
Role: Director
Closes: 6 November

Life Education Trust Heartland Otago Southland
Location: Otago Southland
Role: Trustee - general and treasurer
Closes: Applications will remain open until position is filled

Five questions with...

Hannah Doney CMInstD
Canterbury branch committee

Why did you join the IoD?

I wanted to be a part of the industry body that was leading the thinking in governance in New Zealand.

How did you find yourself on a branch committee?

I was approached by a committee member who was retiring. They knew I was interested, had time and would make a strong contribution to the existing committee.

Why do you feel it is important to give back to the IoD?

When I commenced my governance journey I didn't know anyone in Christchurch, particularly. The IoD has opened doors to so many opportunities, connections, friends and networks. Being part of the committee has certainly helped but the IoD as a whole is supportive and has helped me to develop as a governor.

If you had one tip for a person interested in a governance career, what would it be?

Calculate how much time you have available, halve it and then take off an hour. Good effective governance is time consuming. Board papers are not just "read once the night before the meeting". Board meetings are not just something you go to. You have to be present all of the time for all of the boards, committees and governance roles you hold.

What's the most significant change for directors as a result of the COVID-19 crisis?

I think it's different for everyone. But I would say one change would be the effective management of board culture via technology. It is easy for directors who are not confident – or who tend to listen first, speak later – to get swept up in the conversation because distance, technology issues and sound dropouts make it very hard to participate. The role of the chair becomes critical at this point. Chairs have to adapt and become champions of the technology they are using.

What will your branch look like in 2023?

More diverse in terms of age, gender, skill and outlook. At a recent new members' lunch, I was really impressed with the different people joining. Not just age, gender etc but the businesses they were from and the skills they were bringing. There was real diversity in the room. There were business owners really considering governance as a core skill to make their business effective. Good governance may be a key difference in a situation like the one we are currently faced with.

Proposed new duties for directors of deposit takers

Treasury has been consulting on proposed changes to the prudential framework for deposit takers in New Zealand. This includes a proposal to decouple key director responsibilities from the existing disclosure requirements and the attestation process. This will be achieved through the creation of new high-level director duties to the Reserve Bank of New Zealand that will apply in an ongoing manner. The following proposed duties for directors would be included in a new Deposit Takers Act (which will replace the requirements in the Reserve Bank of New Zealand Act):

- to act with honesty and integrity, and with due skill, care and diligence
- to deal with the Reserve Bank in an open and honest manner
- to take reasonable steps to ensure that the deposit taker is being run in a prudent manner.

A shift in the individual liability framework, away from criminal penalties as the primary redress towards civil penalties has also been proposed (with criminal penalties reserved for very serious cases of recklessness or intent).

Alongside this, there will be an "executive accountability regime" that extends the individual accountability framework beyond directors to senior employees. This regime will apply to deposit takers and insurers, and will cover both prudential and conduct matters. This is being developed outside of the Treasury's current consultation.

The IoD has submitted on the proposal to introduce new director duties and related matters. The submission is available at iod.org.nz

In memoriam

Robert (Bob) Stannard,
Distinguished Fellow of the IoD

The IoD would like to offer condolences to the family of Robert (Bob) Stannard DFInstD who passed away in June.

An accountant by training and a keen Rotarian, Bob had an extensive governance career and served across a range of industries including tourism, the primary sector and the public sector.

His most public role was as statutory manager of the Public Service Investment Society (PSIS). When the organisation got into financial difficulty, its board was dismissed and members' funds were frozen. Stannard helped the organisation navigate is way out of trouble and ensured members funds were gradually unfrozen.

Debut Homes webcast available

On 24 September the Supreme Court released its decision in Debut Homes Ltd (in liquidation) v Cooper. The judgment is relevant to directors of all companies in New Zealand.

The primary issue in the case was whether a director was in breach of his directors' duties under the Companies Act 1993. This is the first time that the Supreme Court has considered these duties in detail.

A webcast on the decision featuring MinterEllisonRuddWatts Partner Sean Golin is available at iod.org.nz

Welcome

Congratulations to our newest Chartered Members and welcome to our new Members and Associates.

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Ko wai a TAHITO

(about TAHITO)

Chartered Member Temuera Hall has co-founded a unique investment fund based on Māori values.

AUTHOR
AARON WATSON

"What we are doing in our work at TAHITO is setting up a framework, a way of thinking and a decision-making process using indigenous value. That should be an Aotearoa thing, a New Zealand Inc thing. Not just a Māori thing" — *Temuera Hall*

When Temuera Hall CMInstD answers the phone with "kia ora", the common Kiwi greeting feels like the rub of the TAHITO story - the Māori way becoming mainstream.

Hall is co-founder (with Chris Winitana) of investment fund TAHITO, which applies Māori ancestral knowledge and values when selecting investments.

It is part of the Investment Services Group whanau – alongside Devon Funds, Clarity, JMI Wealth and Select – and its first product, the TAHITO Te Tai ō Rehua (trans-Tasman) Fund was launched in October 2019.

It currently has around NZ$3 million in the fund, can hold 20 to 30 companies that meet its demanding indigenous values and has outperformed its Trans-Tasman benchmark in the first full year of operation. But the simple "kia ora" from Hall speaks to something more than the business proposition. It is a reminder that Māori language is now acceptable in business – something less likely for the generation that came before him.

"I see many corporates using works like whānangatanga [close connection, kinship] and manaakitanga [hospitality, generosity to others]. We have words like aroha and whānau, words that are generally accepted at a national level. We are on a good trajectory. But is Taupō where I was raised and many people who have lived there their whole lives can't say Taupō (Toe-paw) properly. Some of my aunties and uncles – Māori – can't say Māori words correctly because it got smacked out of them," Hall says [his parents' generation would be caned for speaking te reo at school.]

"That is where we are at the moment. It is a big shift just to get place names like Taupō, Rotorua - you name it all up and down the country - pronounced correctly.

"What we are doing in our work at TAHITO is setting up a framework, a way of thinking and a decision-making process using indigenous value. This should be an Aotearoa thing, a New Zealand Inc thing. Not just a Māori thing."

A MĀORI WORLDVIEW FOR THE MODERN WORLD

Sustainable investment funds are not new. Globally, US investment company BlackRock – with more than US$7 trillion in assets – leads the way. In January 2020, the firm announced it would stop investing in industries that "present a high sustainability risk". For BlackRock CEO Larry Fink, that means reducing – but not stopping – investment in fossil fuel companies that are driving climate change.

Many New Zealand firms offer sustainable investment options that avoid investment in fossil fuels, weapons companies or other industries that investors are not comfortable supporting. But TAHITO takes the idea a step further.

Hall seeks to move beyond that "exclusion" approach – avoiding hot button issues such as fossil fuels, tobacco or gambling, for example – to enabling what is more commonly known of as impact investing and positive screening.

But this is not impact investing in the sense of solving a problem.

"While we look for impactful outcomes, we are not starting with sustainable development goals, for example, as problems we are trying to solve. Which is how impact is defined at the moment," he says.

The approach is to reflect cultural values rather than aim for outcomes. For example, Hall notes that the Māori worldview people are "not the centre, the environment comes first". This dictates behaviours that prioritise the environment, rather than promoting a specific environmental target.

"As soon as you take the view that there are Papatūānuku [Earth mother] and Ranginui [sky father] whom we are dependent on and we are just their descendants in between wit the responsibility to protect our eco-system for future generations, then that drives all your policies or your decision making.

"When you put this cultural lens on it, we cannot actually own land, we simply have a use right. It's a taonga [treasure] for us to look after."

DUE DILIGENCE

To identify appropriate investments, TAHITO has nine indigenous value statements, from these they have derived over 50 measures with which to test a business. These include concepts of ethics, transparency and connectivity between people.

"We look to see if they are they are signed up to global reporting standards," Hall says, noting that Kiwi companies such as Katmandu and Synlait have signed up to B Corporation , which has one of its aims to reduce global inequality, while Tourism Holdings has adopted the Future-fit Business Benchmark.

"They are showing commitment to ambitious environmental and social targets within the business."

TAHITO uses the environmental, social and governance (ESG) data reported by businesses on a values basis to evaluate them but also goes further to try and ensure their reports are not just greenwashing.

"You look at their policies, code of conduct, their structures. Do they have a focus on sustainability and community or measuring their externalities, as the industry says, that shows they are genuine about caring about their full, wider balance sheet? Then you look at their messaging and see if there is consistency between what they say and they show in their sustainability reports."

"We equally look at what they do in the community space. A lot of companies are good at talking about the community but you have to look through it to see whether it is just their internal community or if they are genuinely interested in the communities that they impact through where they are located or their supply chain."

> *"When you put this cultural lens on it, we don't actually own the land. It's not an asset for us to sell. It's a taonga [treasure] for us to look after"*
> *— Temuera Hall*

WORLD'S VIEW BECOMES MĀORI

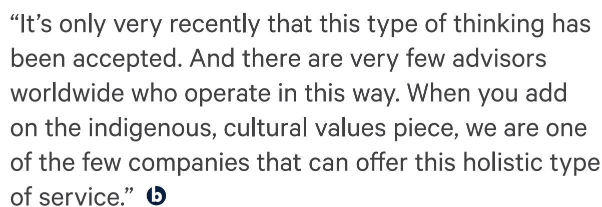
If that sounds like a lot of work, it is. But Hall notes there is growing global will to understand the way business activity impacts on communities and the environment and rethink how business and society are interrelated.

Globally, this new thinking – which includes the World Economic Forum Inclusive Development Index, the concept of a sustainable "circular economy", and accounting initiatives such as integrated reporting that measure more than financials – is increasingly aligned with the cultural worldview the firm is based on.

Closer to home, the Wellbeing Budget in 2020 introduced the idea our government should monitor the human and environmental impact of policy – via ideas of natural capital, social capital, human capital and financial and physical capital – as well as look at GDP-type measures.

In a sense, the world's view is gradually becoming a little more Māori, Hall says.

"It's only very recently that this type of thinking has been accepted. And there are very few advisors worldwide who operate in this way. When you add on the indigenous, cultural values piece, we are one of the few companies that can offer this holistic type of service."



Is there a Māori form of governance?

"My personal view is we have blindly adopted the democratic popular vote method for many Māori entities. That can be to our detriment because it is not skills-based, it is popular-vote based. You could end up without the level of skill or the diversity of thinking on the boards that you need," says Temura Hall CMInstD

But there is a fundamental difference in the governance approach of boards in iwi or hapu organisations when compared with mainstream corporate governance, he says.

"Particularly in the iwi/hapu based entities, or trusts with thousands of beneficial owners, the bulk of your balance sheet cannot be traded or put at risk. That changes your whole thinking – your risk profiles become quite different."

The challenge for Māori organisations is to find people who can span both worlds and bring thinking from both cultures to drive governance. And that can be seen in the approach of the younger generation of Māori directors, he says.

"They haven't been restricted like my parents' generation of having your identity as a yoke on you. They have been brought up to live and be proud of being Māori and also be involved in mainstream thinking – and to see the benefits of both. You can see the improvements coming through.

"In my view it comes down to values, the values that are believed and taught to the next generation so they grow up with a more intergenerational view. It is writing up your vision and mission statements that start from that basis and having a decision-making framework that aligns with that. It takes strong leadership to embed that longer-term view."

Renovation time

Governance culture needs a "renovation" if Australian companies are to avoid the public backlash and internal ructions experienced this year by Rio Tinto and AMP, says Greame Samuel AC.

> “Those who are currently entrenched in board seats are just not recognising that there needs to be renovation.”
> — *Graeme Samuel AC*

Corporate governance failings have been in the news in Australia recently following scandals at **Rio Tinto** and **AMP**.

Rio Tinto received widespread condemnation for destroying Aboriginal heritage sites, thought to have been inhabited more than 40,000 years ago, in Western Australia. The board received flak from shareholders for initially recommending cuts to the short-term bonuses for the executives responsible. Subsequently, the chief executive has announced he will step down.

AMP lost its chairman in 2018 after shareholder disquiet over financial irregularities, including charging fees without providing a service. In August 2020, replacement chairman David Murray and board member John Fraser resigned due to pressure from shareholders when an executive previously disciplined for sexual harassment was put in charge of AMP’s capital business division.

The initial failure of the boards in these cases to recognise the risk to their brands and to react strongly reveals a culture of complacency in Australian governance, says Graeme Samuel AC. A professorial fellow in the Monash Business School, director and governance commentator. Samuel, who sat on the inquiry into the Commonwealth Bank of Australia in 2018, was the opening speaker at the IoD New Zealand’s Audit Chairs’ Forum in November 2019, in association with Chartered Accountants Australia and New Zealand.

"Those who are currently entrenched in board seats are just not recognising that there needs to be renovation," says Samuel.

"It doesn't help that in the financial services area we have had a pause – I put that politely – on the issue of corporate governance culture and accountability due to COVID-19. But that hiccough has now passed and we need to get back to the issue of governance culture and accountability."

> "It is almost impossible for people at the top to acknowledge that they have got it wrong and to be prepared to change dramatically. It takes a real strength of character to do that."
> — *Graeme Samuel AC*

With regulators prioritising financial stability in the face of the pandemic, Australian boards have moved back to a business-as-usual approach rather than focussing on improving governance, he says.

"The regulators need to keep the pressure on because, fundamentally, corporate Australia does not recognise the failings that were exposed in Hayne [the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry], or the aged care Royal Commission.

COMPLACENCY

The complacency among many Australian directors is based on a misunderstanding of changing attitudes to governance, Samuel says. Many directors simply don't see a problem with the status quo.

"Our inquiry into CBA, the leading corporation in this land, revealed fundamental failings that were shocking," he says. These included inadequate oversight by the board of emerging non-financial risks to the business and a remuneration structure that did not promote good outcomes for the bank's customers.

"That the leading corporation of this land, apparently led by the elite of corporate directors, showed such obvious failings as demonstrated in the report is a flashing red light. But directors don't recognise the problem. And why would they acknowledge that they are the fulcrum of the problem?

"It is almost impossible for people at the top to acknowledge that they have got it wrong and to be prepared to change dramatically. It takes a real strength of character to do that. You not only have to acknowledge your failings but you have to convince those who work for you that you were wrong in the past. That's a fundamental problem."

NEW IDEAS

Samuel's solution is to bring new people with new ideas into the top ranks of Australian governance. That is what worked at CBA, where the board was rejuvenated with fresh faces.

"Catherine Livingstone, the sole surviving director at CBA appointed people from left field. She has done a terrific job restructuring that board."

As a person often asked to recommend people for board appointments, Samuel says there remains a tendency to choose "names" as directors rather than fresh faces with new skills and ideas.

"I have tried on several occasions to introduce people to boards who are outstanding strategic thinkers, people who have adjusted to the new world of industry, technology and customer expectations, of dealing with suppliers and community expectations. The problem is they are not names and because they are not names they get overlooked."

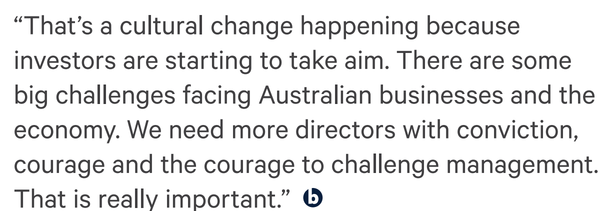
CONVICTION AND COURAGE

Stakeholder and shareholder pressure on companies is rising in Australia, but a "renovation" of governance culture is needed if future scandals of the Rio Tinto and AMP type are to be avoided, he says.

"Stakeholder pressure tends to emerge after a crisis. Rio Tinto was a crisis - gradually the Australian investors picked up on it and as a result you got a change of executives. What seemed to escape attention was that there was a board that presided over this."

By contrast, BHP backed away from plans that would have damaged heritage sites and pledged to consult more carefully with indigenous landowners, he says.

"That's a cultural change happening because investors are starting to take aim. There are some big challenges facing Australian businesses and the economy. We need more directors with conviction, courage and the courage to challenge management. That is really important."



CEOs adapting to COVID-19

AUTHOR
MATT PRICHARD

KPMG's Executive Chairman Matt Prichard reflects on the fascinating shift in priorities revealed in its latest CEO Outlook survey and pulse-check.

CEOs around the world are grappling with the operational, market and financial impacts of the COVID-19 crisis. Thanks to a CEO Outlook survey conducted at the beginning of 2020 and a subsequent pulse-check survey conducted mid-2020, KPMG has had the unique opportunity to understand how CEOs' priorities have evolved as a result of the pandemic.

CEOs globally are saying their focus on purpose is helping them make decisions in a crisis.

Talent risk has become the highest priority for CEOs globally.

New Zealand CEOs are more confident about their supply chains than their global and Australian peers.

Dealing with the crisis has pushed climate risk down the immediate priority list.

New Zealand CEOs are surprisingly confident about their rapid digitisation.

PURPOSE IN A CRISIS

CEOs reported becoming more purpose driven in the face of COVID-19 and the associated economic crisis, with KPMG's CEO Outlook pulse-check showing nearly 80% of global and New Zealand CEOs surveyed feel a stronger emotional connection to their organisation's purpose since the crisis began.

Purpose-driven organisations have a clear sense of why they do the things they do. We've always associated that with better long-term strategic decision making, brand building and customer loyalty. However, the latest KPMG CEO Outlook pulse-check also shows the benefit of a strong purpose for shorter-term decision making in the face of a crisis.

When surveyed in July, 80% of New Zealand CEOs reported that their purpose provided a clear framework for making quick and effective COVID-19 related decisions, and 72% reported their purpose was helping them drive immediate actions to address the needs of their stakeholders.

> "CEOs rely on top talent to execute change. What we're seeing and hearing from CEOs in the face of the current crisis is that they're making decisions in days that previously would have taken months and that they're executing change in a matter of weeks that previously would have taken years"

TALENT RISK THE NEW HIGHEST PRIORITY

Talent risk has dramatically increased as a perceived threat to organisational growth. Globally, CEOs ranked it as their top risk, while for New Zealand CEOs it's now ranked as their second greatest threat behind cyber security.

This is a seismic shift given that prior to COVID-19 talent risk hadn't even registered in the top 10. We believe it's likely that this shift in perception reflects major changes in both demand and supply.

CEOs rely on top talent to execute change. What we're seeing and hearing from CEOs in the face of the current crisis is that they're making decisions in days that previously would have taken months and that they're executing change in a matter of weeks that previously would have taken years. For many organisations, the pace and scale of this kind of change requires a different set of skills than those possessed by the incumbent team, which creates a talent gap.

Pre-COVID, New Zealand CEOs were able to source experienced talent with applicable skill sets both locally and globally, with Australia, South Africa, Asia and Europe proving particularly fertile grounds for recruiting. But border closures have completely cut off the international talent channel and we expect to see an increase in tension in the domestic market for rare skill sets, creating a supply challenge.

We are also starting to see more acceptance of a true global virtual market, where businesses are open to key roles being filled by a person working virtually from somewhere else in the world.

CONFIDENCE IN OUR GLOBAL SUPPLY CHAINS

Our survey results indicate that, by mid-year, New Zealand CEOs had become much more confident about managing the risk in their supply chains than their Australian or global peers.

The detailed results of the pulse-check indicate that by this time, New Zealand CEOs had taken actions which justified their confidence. Two-thirds of New Zealand CEOs said that the global pandemic caused them to rethink their global supply chain approach. Whilst their Australian and global peers then rated it as one of their highest risks, Kiwi CEOs' confidence meant it didn't make their top 10 perceived threats.

That difference to the Australian attitude is interesting. New Zealand is currently in a less challenging geopolitical environment than Australia in key markets such as China. The volatility of that Australian position, and the possibility of action and reaction between governments, is likely to be driving Australian business concerns about supply chain risk. Another core difference to Australia is that iron ore, gas and coal make up the bulk of their trade and are seen as more correlated to economic activity in those key markets than our food and fibre base.

Our conversations with New Zealand exporters indicate they are acutely aware of the level of dynamic risk at play and how their supply-chain performance is reliant and dependent on other interrelated industries, be it pallet manufacturers, container availability, air-freight volumes, insurance, logistics or other.

THE URGENT TRUMPS THE IMPORTANT ON CLIMATE CHANGE

Prior to COVID-19, over half of New Zealand CEOs told us that their growth will be determined by the ability to transition to a low-carbon and clean technology economy. Several months later, our survey results show the number of New Zealand CEOs that perceive environmental and climate risk as the greatest threat to growth has halved. It is, however, still considered a key organisational and individual material risk.

Climate change may not be the greatest threat to short-term growth right now, but global challenges like climate change are still considered the predominant threat to long-term growth and company value. The fact that climate change still features so prominently in KPMG's pulse-check as a significant factor for global and local CEOs is remarkable given our current context of COVID-19. This combined perspective on short- and long-term risk provides an opportunity for organisations to plot their course with a more comprehensive perspective on risk, opportunity and resilience.

Pre-COVID, New Zealand CEOs generally agreed that business growth would significantly depend on ethical conduct and that long-term sustainable success requires more than financial growth. However, it appears to be easier said than done, with 52% of CEOs surveyed feeling they lack support from board and investors to do this and 54% struggling to link societal purpose to their organisation's growth strategy.

Managing environmental, social and corporate governance (ESG) risks and opportunities is critical for long-term growth and our CEOs are feeling the pressure to act from both employees and customers. KPMG's CEO Outlook pulse-check shows New Zealand CEOs are feeling three times as much pressure for greater ESG transparency and reporting from employees than their global counterparts and our consumers expect higher standards of sustainability from corporations.

SURPRISING KIWI CONFIDENCE ON DIGITISATION

Half of New Zealand CEOs surveyed told us that the digitisation of operations and the creation of a next-generation operating model has sharply accelerated, putting them years ahead of where they expected to be – a result which shows a much higher degree of confidence than their global peers.

Since our government announced the first move to alert level three lockdown on March 23, CEOs tell us their technology teams have been pulling rabbits out of hats to enable organisations to continue to operate and transact, with technology innovation being introduced at speed.

However, it's unclear whether the change we're seeing in the New Zealand market warrants the confidence shown by our CEOs compared to their global peers.

While achieving years' worth of progress in the space of four months is unlikely, we understand the basis for the optimism. The technology is working. Cloud technology is delivering rapid value. Customers and staff are online and have been forced to change their behaviour because of COVID restrictions. Many organisations that had digital capabilities as a small part of their delivery model are now using digital as the primary (or only) delivery model.

Progress is definitely good. However, it feels like there is much to be done, particularly when it comes to operating models. There's a big difference in the operating model of a business with 5% of its revenue from click and collect to a business with 25%. The latter business might, for example, need to switch its technology focus from order generation to fulfilment automation.

With 82% of New Zealand CEOs surveyed stating they are personally leading the technology strategy for their organisation, and 80% stating that they are partnering much more closely with their CIO to ensure they harness the potential of emerging technology, it makes us optimistic that this progress can be sustained.

KPMG's global CEO Outlook survey covered 1,300 CEOs from 11 key industry sectors. Further details about survey findings are at kpmg.co.nz

Fit to lead in the new world economy

What qualities do directors need, and what questions should they be asking, to help their organisations reset for growth and success?

AUTHOR
SILVANA SCHENONE, PARTNER AND HEAD OF CORPORATE, MINTERELLISONRUDDWATTS

There can be few tougher tests of leadership than the ones that 2020 has thrown at company directors and leaders. The days of worrying about disruption driven by technology seem like a dream in comparison with the urgency, pace, breadth and scale of the challenges that have pounded companies and sectors up and down New Zealand – and around the world.

As business models and entire sectors have been thrown into disarray, directors and leaders have been tested by unimaginable change and relentless decision making – and new opportunities. And here comes opportunity. Almost overnight, entirely new strategies have been required, driven by significantly reduced (or in some cases vastly increased) demand, a more mobile workforce, questions of bricks versus clicks, and major decisions about portfolios and resource allocation.

Amid this turbulence, the hot topic is how company directors and boards can reset for growth and success. What qualities do directors need, and what questions should they be asking, to discharge their responsibilities and duties? There are **five core questions** that company leaders should be asking themselves and their businesses:

1 DO YOU KNOW YOUR BUSINESS WELL ENOUGH?

At this time of unrelenting scrutiny, directors and senior executives should be considering if all the parts of the business model they have been operating under still hold true? Are the basics robust and appropriate for the new world? And how do you get comfort that you have properly considered the existing matrix and your options?

To gather the evidence and examples required, every stone needs to be overturned. You can't make assumptions about previous plans still being relevant. Now is the time to truly understand the business, its

true impact and scope, and to get the right information – from inside the company as well as from stakeholders and shareholders.

Question whether you have stress-tested your board on issues of strategy and model appropriately. It's important to shake the process, as you don't want to be sitting on the other side of it. Walking the floor, doing your own research and getting appropriate advice would allow directors to maximise knowledge of the business enabling more effective decision making.

Getting the right information from management, stakeholders and shareholders is now more important than ever. As was highlighted earlier this year at MinterEllisonRuddWatts' Corporate Governance Symposium, it is vitally important to sort the signal from the noise. This is an issue of quality, not quantity: information needs to be sufficient, accurate and timely, without adding to the burden of management.

2 IS IT TIME TO REFOCUS AND/OR REINVENT FOR THE FUTURE?

A major question is whether the company is refocusing for the future or just dealing with the now. If you are constantly just reacting to the challenges, or filling in the gaps, then you are probably not taking a sufficiently future-focused approach.

This is a great time to ensure your business model is future fit by asking what does our organisation need to look like to thrive now?

> "This is a great time to ensure your business model is future fit by asking what does our organisation need to look like to thrive now?"

Ironically, amid a period of turbocharged change, it has never been easier to try new ways of doing things. Directors should be thinking about what they are going to do to transform the business so it can not only survive, but thrive.

Transformation is linked to peoples' behaviour and actions, so people must make the change. The challenge is that most people often prefer the status quo.

3 DOES YOUR BUSINESS HAVE THE RIGHT CULTURE, MINDSET AND COMMUNICATION FOR CHANGE?

It is important that boards challenge themselves to understand how the new business environment might have changed their views on the people and culture markers that were previously considered standard, and to think about what new questions and insights are required from management.

A steady-as-she-goes mindset is unlikely to drive transformational change, so investing in culture and building trust should be at the forefront of the future-focused board. An organisation needs to trust and empower its people, and this is a great time to find out whom among your people can really thrive with the opportunities presented.

Boards should be thinking about how to build the organisation's cultural reference for their people through internal communications, in a world where remote teams might not meet face-to-face as frequently as they did in the past. Communications need, therefore, to be more deliberate than ever. Change and culture require more communication, with boards identifying what investments (likely involving technology) are needed to ensure that communication remains open, and that effective mechanisms for receiving feedback are in place.

4 DO YOU UNDERSTAND WHAT YOUR STAKEHOLDERS, INVESTORS AND SHAREHOLDERS NEED FROM YOU?

Modern principles of corporate governance now require boards to consider broader stakeholder interests, and investors' perspectives are shifting. While it is natural to concentrate on the short-term amid tough times, investors increasingly want to see companies turn their focus onto the longer term.

Investors in local capital markets have, overall, been supportive of the changes to the rules around capital raising, reporting timeframes and directors' duties safe harbours introduced by the Government and regulators. But they still require accountability and results. So how is your board engaging with them to ensure that their questions and concerns are being listened to, and what are you doing to keep them abreast of the changes

you're seeing in your operating environment, and the plans you are making?

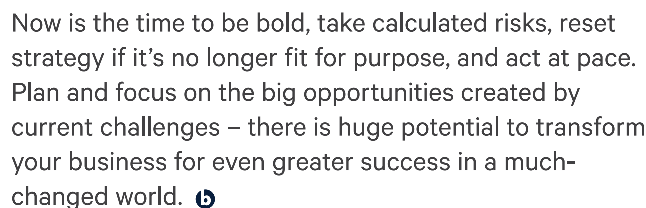
5 ARE YOU SUFFICIENTLY FOCUSED ON ESG?

As the operating environment evolves at a time when stakeholder expectations and accountability for performance have never been sharper, a big challenge for directors is to consider the social aspects of their business, including environmental and sustainability initiatives, as well as preserving and creating jobs if possible – as the government may not be able to deal with those left behind after the effects of relief measures fade.

It is right to anticipate that the focus on the "S" (social) in ESG will remain – and come into sharper focus – for investors when considering investments. Stewardship is the key term here, so time spent clarifying a company's purpose and developing its strategy will be time well spent.

IN CONCLUSION

Now is the time to be bold, take calculated risks, reset strategy if it's no longer fit for purpose, and act at pace. Plan and focus on the big opportunities created by current challenges – there is huge potential to transform your business for even greater success in a much-changed world.



MinterEllison RuddWatts

Some practical questions to ask:

- What does our organisation need to look like to thrive in the new world?
- How can we transform the business to ensure that it evolves appropriately to remain successful?
- What are the societal and customer trends that could arise in the new world and how will they impact our business?
- Do we have the right leadership team in place to lead in these times/through transformation?
- Does the organisation's current culture hinder or help transformation?
- How do we take our people with us in this journey/show them the future?
- How are we training and developing our people to meet current and future challenges?
- Are we marketing well to existing and new markets, consumer and investors?
- How is the future of work changing the way we engage with our business partners?
- Are we investing in technology to the optimum level?
- Are our current premises still needed/ a good idea?
- Are we going fast enough and bold enough on ESG?

Will we ever be post-COVID?

Community Trust leaders look at the impact of COVID-19 through a lens that may be useful for directors across many organisations – commercial or not-for-profit alike.

AUTHOR
AARON WATSON

What if COVID-19 is here to stay and there is no going back to "normal"? Three Community Trust leaders – Jonathan Bell, Christine Korako MInstD and Caren Rangi MInstD – considered the possibility as part of an Institute of Directors panel discussion on the challenges faced by trusts and the NFP sector. The full discussion is available as a webcast at iod.org.nz

One of the most immediate impacts on the NFP sector was the abrupt reduction in income, says Bell, general manager of the Eastern and Central Community Trust.

"The organisations we deal with suddenly had all their funding lines reduced or cut. They weren't able to hold events to raise funds or undertake their normal work, their normal mahi," he says.

Christine Korako, chair of the Rata Foundation, also noted that cash was suddenly even more scarce. "The NFP sector is being affected by event cancellations, donors tightening their belts and reduced cohesion in the community," Korako says.

> "It's always about people. It's about our staff at Rata and ensuring that their wellbeing is at the forefront of everything we do. Ensuring we have in place resources to support them and to continue to monitor their wellbeing... working from home and the challenges that imposes"
> — *Christine Korako*

"The challenges have certainly escalated. Many charities do not carry significant reserves so they don't necessarily have a lot to fall back on."

A further troubling aspect of the pandemic is that it appears to have a greater negative effect in the communities that have traditionally been reliant on support from NFP organisations, Korako says.

"Inequality has been highlighted. When we look at COVID-19, it is certainly having a disproportionate impact across the vulnerable parts of our community, particularly for Māori, our youth and our elderly. Certainly for those who are poor, it has impacted far more."

PEOPLE BEFORE PROCESSES

The response at a Community Trust level was initially driven by a need to look after their own people.

"It's always about people. It's about our staff at Rata and ensuring that their wellbeing is at the forefront of everything we do. Ensuring we have in place resources to support them and to continue to monitor their wellbeing... working from home and the challenges that imposes," Korako says.

But very quickly, the Trusts began working closely with the NFP sector to find ways to help organisations survive. That has meant increased communication as NFPs identify their own particular challenges and solutions.

"Our go-to was that 'we are here for the long haul' so that the sector would understand - we are here for them," Korako says.

"We haven't changed our funding at all and we haven't set up a special fund, as we did after the [Christchurch] earthquake. We are seeing if and when that might be required. We are not prescriptive as to what the sector needs."

Caren Rangi, deputy chair of the Eastern and Central Community Trust, says Trusts are now looking closely at their own assumptions as they seek to meet the new needs in their communities head on.

"That means testing whether or not your strategic priorities are still relevant – and how do you know they are relevant?," Rangi says

"This really is the time to engage more with the communities that you are serving to understand the impact of COVID-19 on them."

> “Those organisations will face significant challenges now. In this new environment, those boards are going to have to sit down and ask some really hard questions. Some of the questions, they may not even know how to ask.”
> — *Jonathan Bell*

SUSTAINABLE APPROACH

Rangi notes that Community Trusts are required to operate in perpetuity, so their strategies must balance serving the current generation with responsibility to future generations.

“I think that is putting some pressure on Trusts. There is a real challenge there to resist the need to over cater to what is happening right now.”

Bell says the Eastern and Central Community Trust was confident its grassroots funding would be able to fill some of the gaps created by the pandemic. However, the organisation also sought the return of grants for events that were not going ahead.

“We have seen some positives ,”Bell says. “We saw people on the wage subsidy volunteering. Lockdown brought families together.”

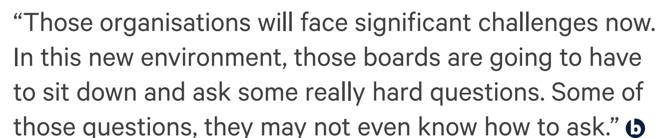
Korako adds that Rata has observed a much higher level of collaboration across the NFP sector since COVID-19 emerged.

But the decrease in funding – combined with ongoing uncertainty around the future effects of the pandemic – means many NFPs are operating in a “crisis limbo”, Rangi says.

“That’s because of the uncertainty that lies ahead for all of us,” she says. “The crisis tested the strength of the relationship between boards and management. It particularly tested how well boards understand and trust management to do the right thing in an environment, where for some of the impact of COVID-19, there is no right answer.”

“We are going to listen to our communities because they know what they need,” says Bell. “We will develop an action plan for the COVID-19 world - I don’t think there is such a thing as a post-COVID-19 world.”

But Bell is worried that, even before COVID-19, there were some NFPs that were really struggling.



“Those organisations will face significant challenges now. In this new environment, those boards are going to have to sit down and ask some really hard questions. Some of those questions, they may not even know how to ask.”

The IoD has guidance and resources for NFP boards at iod.org.nz

What is a Community Trust?

New Zealand’s Community Trusts emerged from the savings banks that flourished during the late 19th and early 20th centuries.

After corporatisation in the 1980s, former trustee savings banks were transferred into the ownership of 12 Community Trusts. By 1996, most had sold their bank shareholdings to Westpac but continued to operate as investment agencies that provide community grants.

They are governed by boards of trustees appointed by the Minister of Finance.

Today, the 12 Community Trusts hold a combined approximately $3.9 billion in assets and make grants of more than $100 million each year.

Great boards don't just happen, they are created.

Bringing the skills, input and experiences of each director together in the right way isn't always easy. Get help from someone you can trust and build a strong future for your organisation.

EVALUATE and fine tune your board performance

TRAIN together for your unique needs

FIND the right skills and experience for your board

MOTIVATE and **RETAIN** your directors

SOLVE specific challenges

Let us help you find the solutions

iod.org.nz/services-for-boards

Governance services

Get up to cyber speed with CyberWise Essentials for Boards

The Institute of Directors listed cyber security as one of the, 'Five issues directors can't ignore in 2020'. Be that as it may, the IoD's 2019 Director Sentiment Survey found only half of boards are discussing cyber risk and are confident in their organisation's capacity to respond to a cyberattack or incident.

Directors don't have to be cybersecurity experts in the same way you don't need to know how IT really works. What you do need to understand about cybersecurity is your role and responsibility as a Board.

This includes knowing the company's information assets, who has access to those assets, the compliance obligations and implications of a breach, and the company's readiness to deal with a breach.

You also need to stay on top of developments like the new Privacy Act 2020, and international regulations such as in Australia (Notifiable Breaches Act) and the European Union (GDPR).

For many directors, the issue isn't whether cybersecurity is something you need to be across. It's an issue of 'where do I start?'

That's why Aura Information Security has developed the Cyber Wise Essentials for Boards course. The online training is specifically designed for directors and leverages Aura Information Security and Kordia's expert knowledge of digital risk and information security.

It sharpens focus for strategic decision-makers and provides you with a robust knowledge of cyber security frameworks and concepts. This helps Boards understand what questions to ask management teams, equipping you to accurately assess the maturity of your organisation's cyber security posture.

"These days, cyber-attacks and data breaches are a matter of 'when' not 'if' they happen. There is no question boards need to develop their own and their organisations digital capability to handle these issues."

KIRSTEN PATTERSON,
Chief Executive, Institute of Directors.

CyberWise Essentials for Boards pairs e-learning with an interactive 90 minutes face-to-face session with one of our most senior cyber security experts – Peter Bailey, General Manager at Aura, or Hilary Walton, Chief Information Security Officer at Kordia. This session allows directors to delve into the key takeaways from the e-learning and discuss how they can apply these to their unique contexts and organisations, as well as answer broader questions about managing risk.

PETER BAILEY
General Manager,
Aura Information Security

HILARY WALTON
Chief Information
Security Officer,
Kordia

By completing this essential course directors will be confident to evaluate the cyber risks faced by your organisation, with the knowledge to review security performance against targets at Board meetings. You'll have the know-how to seek assurance from the executive teams that security and cyber risk management systems are in place and effective. You'll be positioned to review the outcomes of assurance activities and drive continuous improvement in security.

If you recognise these issues as crucial to the effective stewardship of your organisation, now's the time to sign up for CyberWise Essentials for Boards training.

FIND OUT MORE:
AURAINFOSEC.COM/EDUCATION/CYBERWISE-LEARNING

CyberWise™
Essentials for Boards

BY AURA INFORMATION SECURITY
AURAINFOSEC.COM

COURSE OUTLINE:

MODULE 1
WHAT IS CYBER SECURITY

An introduction to the basic concepts of cyber security and threats.

MODULE 2
MANAGING CYBER SECURITY RISK – THE 5 PRINCIPLES

A more detailed examination on how businesses develop a good security posture.

MODULE 3
PLANNING FOR AN INCIDENT

How to respond and prepare for incidents to ensure businesses recover quickly.

MODULE 4
TAKE OWNERSHIP

The role of the board in developing a robust cyber security strategy.

90-MINUTE INTERACTIVE SESSION

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Six challenges facing insider CEOs in 2021

Research in the US suggests boards should think carefully before appointing an "insider CEO" to guide an organisation through the impact of COVID-19.

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Insider CEOs are often a natural choice when companies are creating CEO succession plans: CEOs promoted from within have typically run a large division or served in the C-suite already.

They're familiar with the organisation's key players and culture. They're well-versed in the direction, problems and opportunities of the business, and they're invested in its continuing success. Through prior performance, they've earned a reputation for accomplishment that's led to their promotion.

Insider CEOs are known to the board and other executives, so they're perceived as less risky. In 2019, 79% of S&P 500 boards found the next CEO from within their ranks.

Still, insider CEOs often encounter challenges just as significant as those facing externally hired CEOs. Additionally, risk and uncertainty about the COVID-19 recovery compounds the regular challenges facing insider CEOs in 2021.

Below are six of the most common challenges to newly promoted insider CEOs, as well as best practices for addressing them. Often, it's a combination of imagination and determination that will help surmount many challenges facing insider CEOs in 2021.

If you are considering appointing an insider CEO, have you asked them how they will deal with the following challenges?

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1 REPUTATION

Reputation is the first and often most immediate challenge facing the insider CEO. She’s familiar with the organisation, and the organisation is familiar with her. Naturally, there’s history: accomplishments and failures; relationships that are trusting or testy. The board, peers and employees have already formed expectations.

Best practice: The new insider CEO can make a conscious break with her old role. If her background includes finance, for instance, she can focus on areas where her credentials have yet to be established. This approach demonstrates a well-rounded orientation and skill set, and demonstrates competency in other functions of the organisation.

2 PERCEPTION OF BIAS

Demonstrating commitment to, and appreciation of, all the organisation’s functions may mean choosing a course that’s unpopular with former allies.

Those who supported the new insider CEO might consciously or unconsciously expect to benefit from his promotion. Refusing to favour any set of interests — and avoiding any perception that he does — may be a challenge. Often, he feels pride of ownership in initiatives whose success helped earn him the promotion. Temptation is strong to favour familiar causes or groups; it’s a real test of character to avoid favouritism.

Best practice: An insider CEO faced with this challenge might ask: “How would my attitude be different if I had no history here?” It’s a mental exercise that can refresh his perspective on functions, initiatives, and personalities. Regardless of in the priorities in his previous job – and regardless of the views and attitudes that went along with those priorities –the CEO works for the good of the whole company, and must detach from any past agenda.

3 A NARROW VIEWPOINT

If one were to ask any executive what they'd do if they were CEO, they'd be ready with their list of actions. Imagine, then, the new insider CEO's dilemma: a long list of fixes informed by their former, narrower scope of responsibility.

Unlike the "perception of bias" challenge, this one concerns throwing one's weight around: targeting the most irksome issues faced in the insider CEO's prior position instead of adopting the farther-ranging perspective appropriate to a good CEO.

Best practice: Prioritise an objective review of all processes soon after promotion. Use this exercise as an opportunity to build relationships with executives from all functions. Ask them for their candid assessments of the organisation's performance. Balance the views of close colleagues with the broadest possible range of new perspectives.

4 DOING TOO MUCH, TOO SOON

If the narrow viewpoint challenge is not kept in check, the insider CEO might choose to pursue fixes for all the problems on her list. She might see resolution of these problems as the quickest way to make her mark. But if too much change comes too soon, she'll introduce the risk of change fatigue, which could limit agility if an urgent challenge were to confront the business.

Best practice: Avoid the temptation to do too much early on. Consider how rapidly the business can absorb change. Gauge the appetite for change and risk among board directors and executives. Do they want to retrench, or simply sustain current success? Keep actions in sync with these attitudes.

5 THE EXITING CHIEF EXECUTIVE

Many new insider CEOs have assistance from the exiting chief executive who can impart observations and knowledge about the challenges of the role. That said, any de facto "co-CEO" situation must be avoided. This is especially true when the exiting chief executive is conflicted about departure or having difficulties detaching.

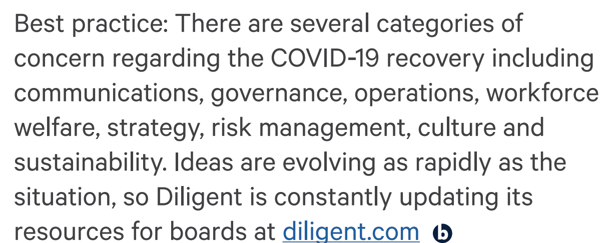
Best practice: The new insider CEO must clarify the timing and approach for the exiting chief executive's departure and ensure stakeholders are clear about who's running the business at all times. All parties will benefit from a graceful transition. Include a celebration of the exiting chief executive's achievements, but mark the new insider CEO's leadership at the same time.

6 THE UNCERTAIN COVID-19 RECOVERY

One of the greatest challenges facing insider CEOs in 2021 is risk and doubt about the COVID-19 recovery. CEOs are considering what comes after current outbreak conditions.

Most are already anticipating a different world once the outbreak is under control, but can't predict changes with certainty. And while many CEOs believe that the business environment will return to pre-pandemic conditions by the end of 2021, 27% don't foresee full recovery next year.

How does the insider CEO, faced with all the preceding challenges, define the organisation's approach to resilience, renewal and success?



Best practice: There are several categories of concern regarding the COVID-19 recovery including communications, governance, operations, workforce welfare, strategy, risk management, culture and sustainability. Ideas are evolving as rapidly as the situation, so Diligent is constantly updating its resources for boards at diligent.com

Realising the climate opportunity

AUTHORS
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The transition to a low-carbon economy will create new revenue streams and provide avenues to reduce costs. Boards should ensure opportunities that support long-term-value are identified in their climate strategies.

While it is often discussed in boardrooms as a major risk, climate change is also a business opportunity. The low-carbon transition creates opportunities for efficiency, innovation, and growth that extend beyond high-carbon industries like energy and transport to all sectors.

Companies can save energy and materials costs, serve new customer needs, enhance their reputations, and better attract and retain talent — all as a consequence of working to reduce their emissions and those of their customers and suppliers.

Through their governance role, boards can help to ensure that climate opportunities are captured by reviewing corporate strategy and focussing on long-term value.

This is truer than ever before as companies navigate the fallout from COVID-19 and plan for recovery: executive teams are occupied with the "here and now" of operational and financial management and boards will need to keep the pressure on management teams to engage with the strategic questions of what comes next. As we show below, those that apply a "green" lens to recovery planning could uncover trillions of dollars in low-carbon opportunities.

COST MANAGEMENT

Green operations are lean operations, and companies with sufficient capital expenditure flexibility to make smart green investments can reduce their costs at a time when every dollar counts.

Research undertaken by Oliver Wyman and CDP, a nonprofit that runs the leading global climate-related disclosure system, found that European corporations are realising significant operating cost savings from comparably modest spending on emissions reductions. Investments last year in low-carbon projects such as renewables and energy efficiency were expected to net companies US$45 billion over the investments' lifetimes — a savings of US$20 for every metric ton of carbon dioxide equivalent avoided.

The same is happening in the United States, where Fortune 500 companies were saving $24 per metric ton (in 2017). Last year, US corporations signed power purchase agreements with renewables developers that will bring 13.6 GW4 of clean energy into operation. This is equivalent to almost two thirds of the generation capacity added in the United States last year (20.7 GW5) — renewables, fossil fuels, and nuclear energy included.

Greener operations can also reduce capital costs. The rapid growth in green lending (where use of proceeds is tied to specific low-carbon projects) and sustainability-linked lending (where borrowing costs are linked to sustainability performance, but with flexibility as to how proceeds are used) provides new opportunities to access cheaper finance. US banks are targeting this new market for growth.

CAPITALISING ON CHANGES IN BEHAVIOUR

The pandemic has imposed changes in working arrangements and lifestyles that may create opportunities to increase green efficiency savings. For example, a shift to remote working may provide opportunities to reduce travel and cut office use and energy costs. However, more fundamental shifts in attitudes may also be underway.

Research firm IPSOS Mori found that more than half of Americans (59%) think that climate change is as serious a problem as COVID-19 and want to see it prioritised in recovery planning – a finding replicated across the world.

Companies that capitalize on these attitudes may be able to enhance brand loyalty and increase market share among concerned consumers. Research by New York University's Stern Center for Sustainable Business has found that sustainable brands have increased their share of the US market during the pandemic — demonstrating this trend.

These dynamics are also relevant to workforces. Strong corporate environmental performance is associated with increased staff satisfaction and attractiveness to talent, with the most popular companies producing significantly lower emissions per dollar of revenues than their peers.

Put another way, companies with leading environmental credentials will be at an advantage when recovery takes off and the competition for talent heats up. The benefits will continue to increase well after the pandemic has waned, as the labour force becomes increasingly dominated by millennial and the Gen Z cohort who place a higher premium on employers' climate credentials.

NEW REVENUE OPPORTUNITIES

The low-carbon transition is creating demand for new sustainable goods and services worth trillions of dollars across all sectors.

The transportation sector has seen rapid growth in zero-emission vehicles and the explosion of new mobility services. By 2030, electric vehicles may account for 28% of global passenger vehicle sales; this year, Tesla became the most valuable carmaker in the world, despite generating less than one-tenth of the revenues of the second-most-valuable company.

In the United States, the green economy is already worth US$1.3 trillion and it is growing at over 20% a year.

Even before the coronavirus hit, the multitrillion-dollar scale of the low-carbon business opportunity was abundantly clear. In 2018, 225 of the world's largest companies reported over US$2 trillion of climate-related opportunities from low-carbon goods and services, shifting consumer preferences, and the potential to gain new forms of competitive advantage. Last year, European companies alone identified US $1.4 trillion of opportunities — more than six times the cost to realise them.

This is an extract from "Realising Climate Opportunity", an in article in Climate Change: The Implications for Boards produced by Marsh & McLennan and the US National Association of Directors.

Fisher & Paykel New Zealand

Board of Farmers

Lessons learned

AUTHOR
AN EDITED EXTRACT FROM THE MEMOIR *AN ENERGETIC LIFE REVISITED* BY SIR COLIN MAIDEN

Kiwi director Sir Colin Maiden talks about the lessons he learned in a governance career that spanned academia, energy, healthcare, the media and a variety of trading companies.

I was a director of New Zealand and Australian companies for nearly 40 years – 1972 to 2011. During this time the economies of both countries experienced much change. I got to know all the New Zealand Prime Ministers, some more so than others, from Norman Kirk to Helen Clark and many Cabinet Ministers. I was appointed to government positions by both Labour and National governments.

First, I should say that most major New Zealand companies are governed much better today than they were when I started as a director in 1972. Primarily this is because the various legislation and regulations covering a company's behaviour are more extensive and clearer than in the past. In addition, all major companies now have an Audit or Audit and Risk Committee within their boards.

I believe that it is imperative to have experienced and ethical men and women as directors and that a board should have an appropriate balance of skills and knowledge around the table. Also, I am of the view that it is most useful to have some former chief executives or finance directors of other companies as independent directors. Such individuals have "been there, done that" and understand what a chief executive is going through in his or her daily work. Former executives of a company should become directors of that company only under exceptional circumstances.

It is often said that the most important function of a board of directors is to appoint the right chief executive. I agree with this sentiment.

Board of NZRC – 2004

In appointing a chief executive a board must determine an appropriate and transparent remuneration package based on fixed, annual variable and long-term elements. However, it must be borne in mind that most companies appear to have taken the view that their chief executive is well above average, therefore he or she should be rewarded at the 75th percentile level. Also important with respect to setting the remuneration of a chief executive is to make sure that the annual variable incentive is based predominantly on a challenging "stretch budget", rather than a soft self-serving one determined mainly by management.

It is important that boards primarily discuss the details of the business at their meetings and do not spend excessive time on discussing corporate governance, secretarial matters or other topics. I do not like having too many presentations from management at board meetings. Too often such presentations are time-consuming and stifle discussion and questions on a subject. It is much better to have the appropriate material in the board papers, assume it has been read, and then have a vigorous and probing question and answer period.

Sometimes it is important for the board to "flush out" management by asking questions they would rather not be asked.

I support the development of annual budgets and three-year rolling plans for a company, but am sceptical about the production of a large strategic plan that sits on a shelf somewhere. To me it is important that a board thinks strategically and commercially on a continuous basis. Today the economic and business environments are changing so rapidly that a company needs to be fast on its feet in order to survive and prosper.

I am wary of the overuse of consultants by a board or management. Consultants have their place, particularly with respect to temporarily providing a necessary expertise that does not reside within an organisation or an objective strategic review of a company's performance. However, too often they become a prop for a board or management and an excuse for not making hard decisions.

I have bad experiences with subsidiary boards of Transpower and Tower that contained a number of non-executive directors with one of them chair. Both subsidiary boards took away responsibility from their chief executives, assumed a life of their own and acted as information filters to their main boards. In the case of Transpower the problem was corrected quickly, however, with Tower Australia the consequences were very severe, leading to a large loss in shareholder value and the resignation of the managing director, the chairman and a number of executive directors, including myself.

Occasionally directors have to be bold in making an acquisition even though they do not know as much as they would like to about the target company. If they are not prepared to be bold, particularly after entering into discussions with a target company, they can suddenly find the roles reversed and their company taken over. Also directors should be aware that the retention of an investment bank for an acquisition or any other purpose will more often than not lead to major changes in the company. This is because investment banks generally earn huge fees from such transactions.

It is most important to make sure that the basic tasks of an organisation are performed well. This attention to detail can make a big difference to the performance of a company, without a lot of additional recurrent or capital expenditure. I am a strong advocate for a company treating its staff well. A lot of the art of good management is getting the best out of people. Expect a lot from staff and reward accordingly. The customer is king and queen and everything within reason should be done to keep them happy.

I am very sceptical of curves of projected financial benefits that rapidly go up and up. A sound method of curbing such over-enthusiasm is for the board to put in place a rigorous system of post-capex reviews, where

actual results, say one and three years after completion of a project, are compared with the original projections. On the other hand, it is sometimes necessary for a board to have patience with a new development before an adequate financial return is obtained. The developments of respiratory humidifiers at Fisher & Paykel and satellite digital technology at Sky TV are cases in point.

Most of the companies I was associated with as a director did little original research or development, although they conducted studies and compared their activities against world's best If New Zealand wants more high-tech growth companies, with significant export potential, then it must graduate and employ more high-quality engineers and scientists capable of original research and development from its universities and some polytechs. In a high-tech company with the right culture, engineers and scientists stimulate and feed off each other with respect to developing new and innovative ideas. I lived in such an environment for some 10 years in the US in the 1960s while I was employed by General Motors. We continually asked ourselves, "What if we do this or do that?" and the new ideas and innovations flowed. It was very stimulating and exciting. The Fisher & Paykel companies are the only ones of which I have been a director that have this sort of culture.

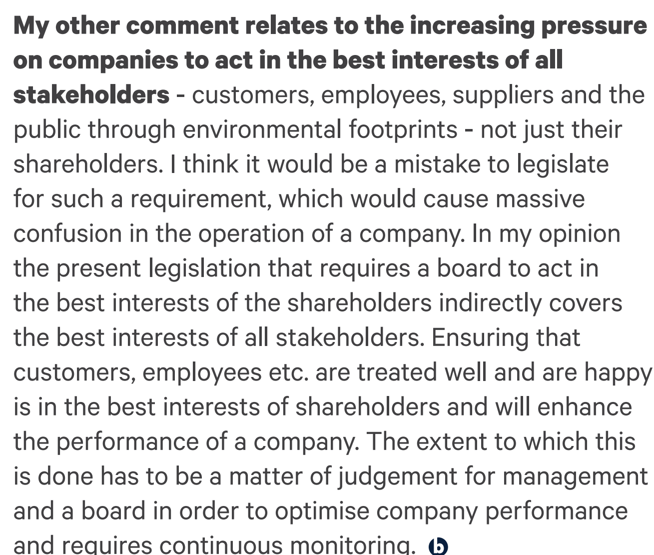
I do not rule out the possibility of governments being involved in starting up new industries in New Zealand. Without such assistance this country would never have had a steel industry. Largely I prefer governments to stay out of business as much as possible, but there will be unique situations where they are required to help the development of a major new activity.

A few words about entrepreneurs. I have worked with a number of such individuals on the boards of companies – Peter Francis, Bruce Judge, Bruce Hancox, Paul Collins, Allan Hawkins, Craig Heatley and others. Society needs such people. They take risks and are highly motivated to succeed. Often they are single-minded in pursuing their own interests and like doing deals. For these reasons the number of entrepreneurial-type directors on a board should be limited, otherwise they can tend to be a destabilising influence.

> "Perhaps this was the kiss of death, because within a year I was caught up in the problems of Tower."

I have been far from the perfect director, but I did become Chairperson of the Year in the 2001 Deloitte/ Management magazine awards. Also, in early 2002 Brian Gaynor wrote an article in the NZ Herald entitled "A decade of change in the boardroom". In this article he ranked directors in the years 1992, 1997 and 2002. He concluded that "Sir Colin is the only director to be ranked in all three periods. Arguably, he has been the country's best professional director over the past decade". Perhaps this was the kiss of death, because within a year I was caught up in the problems of Tower.

The liabilities of directors seem to be increasing to the point where they are expected to know more and more about the details of a business. This can lead to boards of directors interfering with management and second-guessing the Chief Executive, all of which is detrimental to the performance of a company. On the other hand the rapid development of digital technology requires directors to keep up to date and understand these changes. For instance it appears that big data and artificial intelligence will have a very significant influence on the performance of large companies in the future



My other comment relates to the increasing pressure on companies to act in the best interests of all stakeholders - customers, employees, suppliers and the public through environmental footprints - not just their shareholders. I think it would be a mistake to legislate for such a requirement, which would cause massive confusion in the operation of a company. In my opinion the present legislation that requires a board to act in the best interests of the shareholders indirectly covers the best interests of all stakeholders. Ensuring that customers, employees etc. are treated well and are happy is in the best interests of shareholders and will enhance the performance of a company. The extent to which this is done has to be a matter of judgement for management and a board in order to optimise company performance and requires continuous monitoring.

106 HOURS 2017 $44K

127 HOURS 2018 $45K

140 HOURS 2019 $46K

147 HOURS 2020 $46.7K

Get the full picture

Institute of Directors Directors' Fees Report 2020/21

The Institute of Directors (IoD) with EY has released its 2020 IoD Directors' Fees Report. The report is a key source of information on director remuneration trends in the New Zealand market. The result of the survey of 1,202 directorships, overs 674 members and 1,830 organisations.

If you would like to purchase the full report from our survey partner EY please call EY on (09)377 4790, email survey@nz.ey.com or call IoD 0800 846 369.

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