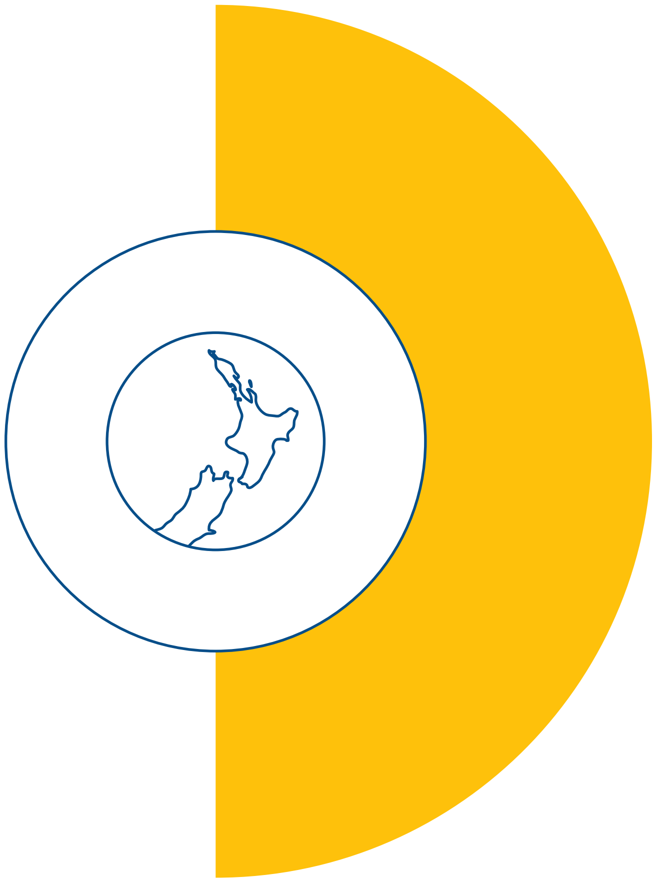

# Director Sentiment Survey 2022

ASB
ONE STEP AHEAD

Institute of DIRECTORS
NEW ZEALAND

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The Institute of Directors' (IoD) Director Sentiment Survey 2022 report was produced in association with ASB. The survey takes the pulse of the director community in New Zealand.

# SURVEY INSIGHTS

The Institute of Directors' annual *Director Sentiment Survey* takes the pulse of New Zealand's governance community to identify issues and challenges that matter to our members. It provides high-level views sourced from directors of a broad range of entities on economic, business and governance issues. During 2022, Covid-19 continued to have an impact as restrictions eased to some degree. Immigration settings remained relatively tight.

We carried out an online survey between 1 August and 4 September 2022. Thank you to the contributing IoD members for their valuable input. Continuing earlier strong responses to the survey, 2022 saw almost 1,000 directors provide their perspectives. This survey is the ninth annual survey and the seventh in which the IoD has partnered with ASB.

There is also a short accompanying report providing insights from respondents of not-for-profit entities.

## CUSTOMER AND COMMUNITY EXPECTATIONS

*Customer and community expectations are front of mind for directors and boards of all organisations as they navigate an increasingly uncertain future. As a result, a significant majority is focused on their organisations' social impact.*

Organisations are facing increasing expectations for transparency from stakeholders and shareholders in areas such as climate change reporting and supply chain transparency, as well as emerging issues around organisational culture, values and trust. Values and beliefs are increasingly influencing how and where people shop, who they work for, and where they invest. With changing customer and community expectations, particularly around climate change and environmental, social and cultural impacts and outcomes, organisations are reflecting on their purpose, value proposition, social license to operate and business model.

Reflecting these societal changes and the impact on their organisations, 60% of directors said changing customer expectations was the most important future trend their boards were paying attention to. Changing community expectations was third (47%). Signifying the importance of changing expectations, 69% of directors reported strategically discussing their organisations' social impact and values and 58% said their boards regularly discuss the alignment of board culture and organisational culture.

Converting discussions on these topics into action, however, requires directors and boards to lead their organisations in developing and maintaining trust. Globally, there has been a decline in trust in government organisations and the media (as measured in the Edelman Trust Barometer). Conversely, there has been an increase in trust in scientists and evidence-based decision-making. While undoubtedly brought to the fore by Covid responses worldwide, this presents an opportunity for businesses and not-for-profit organisations, as well as a challenge for government and media.

Waiting for the government to lead on issues such as climate change will not positively affect an organisation's social license to operate so organisations need to enhance their action, reporting and public storytelling. Trust is good for business and is a means to building long-term value. To earn trust, organisations need to meet, and be seen to meet, community expectations.

## PEOPLE ARE AN ASSET, NOT JUST A COST

*Boards have talent and people capability in their sights more than ever. Eighty-seven percent of directors say their boards are having strategic discussions on talent. There is growing recognition that staffing strategies need to be holistic, focusing on all aspects of staff wellbeing, not just remuneration.*

This year, labour quality and capability was again identified by a significant margin as the key impediment to both national economic performance and the biggest risk to organisations. Recruitment and retention challenges look set to continue for the next couple of years with unemployment at its lowest in 40 years and net migration flows outward (with consequent upward wage pressures).

The media has brought "the great resignation" and "quiet quitting" into public view. Research has found that less-engaged employees are more likely to quit, and that engaged employees produce better work. This is true across industries, company sizes and nationalities, in good economic times and bad. Importantly, our 2022 survey found 87% of boards were discussing strategic talent-related issues and risks, such as employee engagement, performance and retention. Further, 62% of boards were also regularly discussing succession planning of senior management team members, and 56% discussing CEO succession planning.

Directors should consider the impact of culture on staff engagement and wellbeing. Think beyond mental health to all measures that support engagement. Led by their boards to remain ahead of the talent and capability game, organisations need to focus on employee retention. While a moderate level of employee turnover is healthy and can provide opportunities to review organisational skills and gaps, turnover is expensive.

Employees don't just want to be a cog – they want to be a valued part of the team, encouraged, communicated with, listened to, and delivering on behalf of an organisation that has a vision, meaningful purpose and adds value. Above all, employees want to feel like they are contributing to something meaningful, which means that organisations with a clear purpose are more likely to attract and retain scarce talent and capability.

## READY FOR A DIGITAL FUTURE?

*A significant proportion of boards are not sufficiently prepared for a digital future and the change that will occur over the medium term. There is a "nothing to see here" and "it won't happen to us" sentiment evident from the survey.*

History has shown that disruption can be a force for good. For many organisations, Covid-19 forced changes in the use of technology, investment in emerging technologies and digital transformations. Despite this, the pace of technological change continues to outstrip the pace at which many organisations are adapting. Organisations need to renew their commitment to becoming more digitised and plan for, and embrace, the digital revolution and evolution of their organisations.

Fifty-two percent of respondents anticipated their industry would undergo major or disruptive change over the next two years. Forty-nine percent said their boards had assessed the impact of technology, automation and/or artificial intelligence on their organisations, workforces and future skills needs.

Technological disruption was only perceived as the biggest risk facing organisations by 8% of directors. Artificial intelligence ranked seventh on the list of future trends boards were paying attention to, with only 14% of respondents noting it.

Digital transformation is not driving conversations in many boardrooms. Just over half of directors (54%) reported their boards' regularly discuss cyber risks and are confident their organisation has the capacity to respond to a cyberattack. Only 46% are regularly discussing the organisation's privacy practices and risks. Further, only 37% of directors reported their boards have the right capability to lead their organisation's digital future.

Technological leadership is a critical competency that supports boards and organisations to prepare for digital transformation. Organisational preparedness starts at the top, so it is imperative that boards are well versed in how technology will disrupt and transform their operations.

## INCREASING ECONOMIC UNCERTAINTY

*Directors and their boards are facing significant economic uncertainty. Half of the directors surveyed think their organisations will weather this uncertainty well but more than two-thirds believe the economy will face major headwinds.*

Economic uncertainty has long been a fact of life, but the last few years have brought huge change, volatility and uncertainty to the economic environment. Covid-19 directly created huge economic upheaval, with flow-on effects continuing to bubble through. A lurch to record-low interest rates has been supplanted by rising interest rates. Inflation is back with a vengeance and wages are being driven up by labour shortages. Many effects are being felt globally, and global growth is slowing as a number of developed economies respond to inflation pressures by lifting interest rates. In New Zealand, the question of whether we are heading for a recession is increasingly asked.

Despite overall pessimism about New Zealand's future economic performance (with 68% of respondents expecting a decline during the next 12 months), directors remain optimistic about their organisations' performance for the next year. Fifty percent of directors expect their organisations' performance to improve, only slightly down from 54% in 2021 (and the same as 2020). While the range of global and national uncertainties influencing the New Zealand economy is broad, the range facing individual organisations is generally narrower. Directors tend to feel a greater degree of control and influence over their own organisations than over the country, which undoubtedly influences optimism levels.

For directors, it will be important to ensure organisations have strategies that are resilient to, or readily adaptable to, material changes in the economic environment.

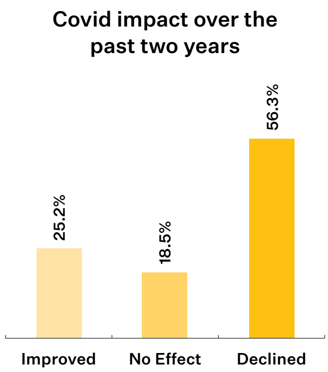
# SURVEY KEY FINDINGS

## QUESTION 1:

### *What impact has Covid-19 had on your organisation's performance over the past two years?*

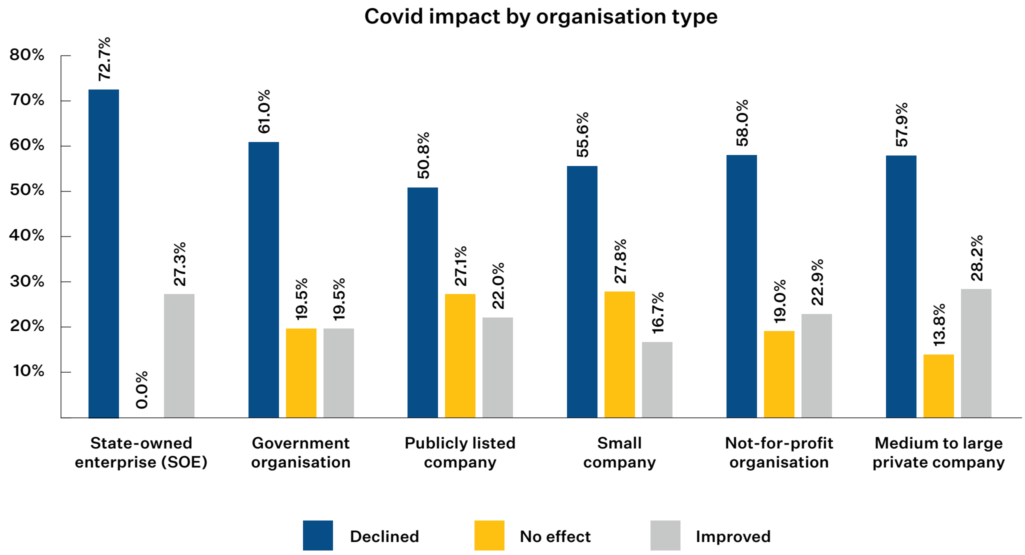
Unsurprisingly, Covid-19 has continued to have an overall negative impact on organisational performance over the past year. That period included parts of 2021's Delta-related level four lockdown, the gradual transition to the Covid-19 Protection Framework, the community spread of the Omicron variant and the workplace disruption caused by isolation requirements.

Overall, the results show some loosening of Covid's grip. Fifty-six percent of respondents said Covid had adversely affected their organisation's performance, down from 61% in 2021 and 60% in 2020. A quarter of respondents said Covid had improved their organisation's performance, up on 16% in 2021 and 22% in 2020.




The 2021 survey found the greatest degree of disruption from Covid. That survey was undertaken during the major lockdown imposed from mid-August.

The more recent Covid measures imposed by government were comparatively light, with the main direct impact being on workforce availability. This harmed the ability to deliver "business as usual" due to infections or isolation requirements, and resulted in some temporary closures. A positive among the Covid-19 difficulties is, our 2022 survey shows, 25% of organisations are either in sectors that benefitted directly from New Zealand's response to the pandemic (such as healthcare), found ways to turn Covid-19 impacts to their advantage, or have been spurred into making organisational improvements.



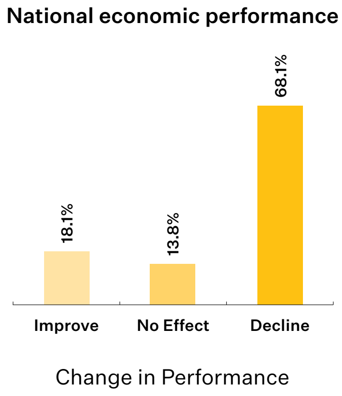

Seventy-three percent of directors of state-owned enterprises (SOE) and 61% of government organisations reported a negative impact due to Covid-19 over the past two years. On the lower end of the scale, 51% of directors of publicly-listed companies responded that Covid-19 had had a negative impact on their organisation's performance over the past two years. Similarly, on a net basis ("improve" responses minus "decline"), SOEs (46%) and government organisations (42%) were the most pessimistic about the impact of Covid-19 on their organisations overall.

While the results demonstrate an overall pessimism, they also reinforce the highly variable nature of the pandemic's impacts on industries and organisations.

## QUESTION 2:

*How do you expect performance of the New Zealand economy to trend in the next 12 months?*

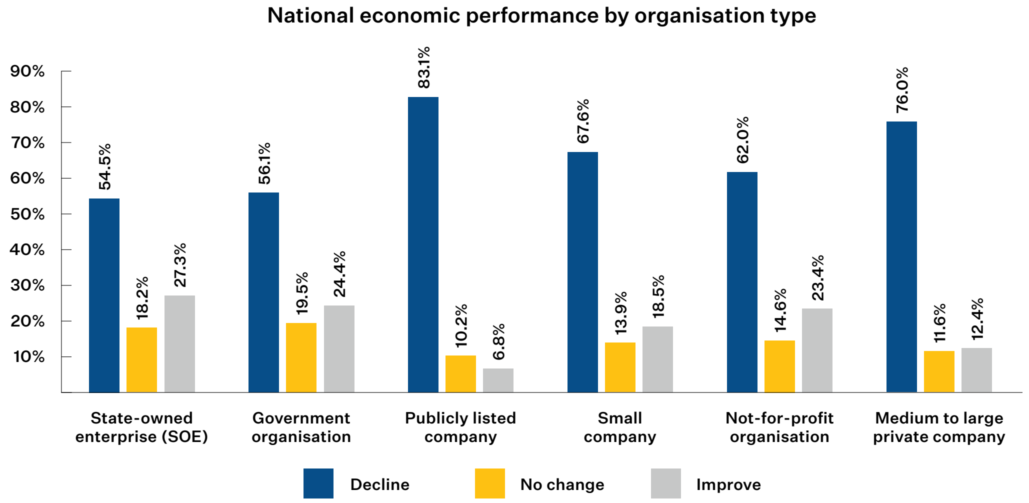
The 2021 survey was undertaken at a time when all parts of New Zealand had been operating under varying degrees of Covid-19 restrictions since mid-August, with little idea of when restrictions might ease. Nonetheless, and despite the comparative easing of restrictions when the 2022 survey was undertaken, directors' responses to this question were the most pessimistic since the survey began in 2014. Sixty-eight percent of directors expected New Zealand's economic performance to decline over the next year, which surpasses 63% back in 2020, and is a significant jump from 51% in 2021.




On a net basis ("improve" responses minus "decline"), 50% of directors expect the economy to decline over the next 12 months in comparison to only 22% in 2021 (and 39% in 2020). This is the strongest negative skew since the survey began, surpassing a net negative result of 45% in the 2019 survey. Overall, only 18% of respondents expect an improved performance of the national economy, a response that has only been lower in 2018 and 2019.

Factors that may be in play, including issues raised elsewhere in the survey, include:

- It is the most challenging time to recruit and retain staff in decades.
- Over the past year, unemployment has been at its lowest level in nearly 40 years.
- Although border restrictions have been lifted, net inflows of people remain negative.
- There has been a rapid lift in inflation from multiple sources.
- Businesses are dealing with a sharp lift in costs, and the challenges of passing them on or mitigating them.
- Interest rates have risen sharply to combat inflation.



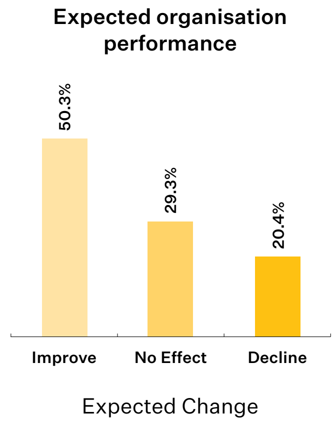

A whopping eighty-three percent of publicly listed company and 76% of medium-to-large company directors felt that the economy was going to decline over the next 12 months. SOE and government organisation directors were the least pessimistic, with 54% and 56% respectively expecting the economy to decline.

## QUESTION 3:

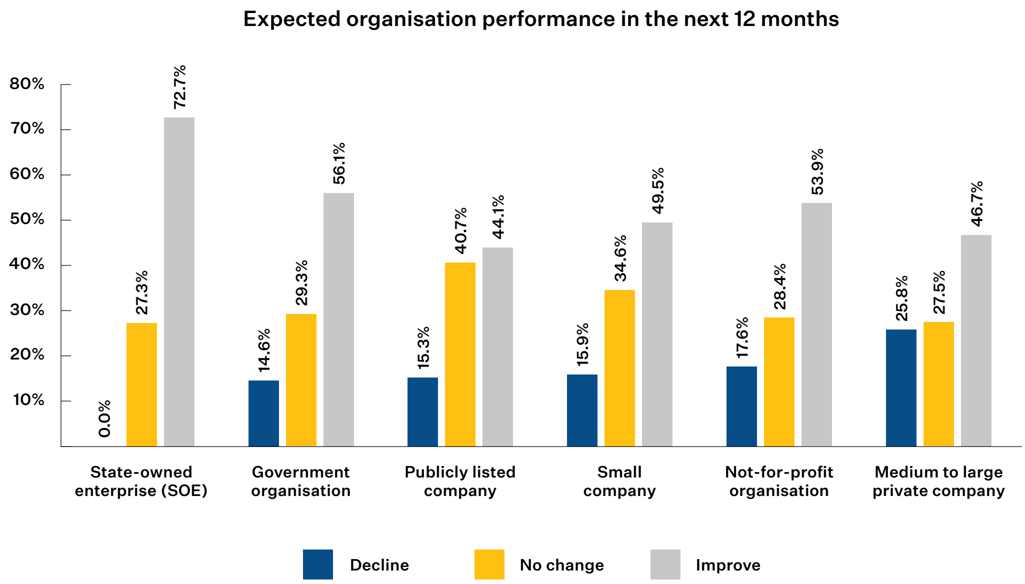
*How do you expect performance of your organisation to trend in the next 12 months?*

Remarkably, given the downbeat economic outlook, directors are quite upbeat about their organisations' performance for the next year. Fifty percent of directors expect an improved performance, only slightly down from 54% in 2021. That share is very consistent with the proportion in the surveys during the first two years of the pandemic and the two years immediately preceding it. The share of directors expecting a decline, at 20%, was steady on last year's survey.

On a net basis ("improve" responses minus "decline"), 30% of directors expect improved performance, down from 34% in 2021 but close to the 32% average of 2019 to 2021.




The pattern of expecting a more upbeat outlook at an organisational level compared to the economic backdrop has always been a feature of this report, and shows up in business surveys that ask similar questions about organisation and economy-wide outlooks. Nevertheless, the gap in the 2022 survey between net responses for the national economic outlook and for organisational performance is the largest (just) that it has ever been.




By a significant margin, 73% of directors of SOEs expected their organisation's performance to improve over the next 12 months. No SOE directors were expecting a decline. The next most optimistic group were directors of government organisations (56%) and not-for-profit organisations (54%). Publicly listed company directors were the least optimistic, with 44% expecting improvement in their organisation's performance over the next year.

From the survey, we are unable to garner exactly why there is such a wide gap between directors' expectations for their organisations versus the economy as a whole. However, there are a number of likely factors:

- Directors have much more complete information about their own organisation's recent and expected performance than they do about the wider economy, with a potential bias to being less optimistic about the broader (and less clear) picture.
- Directors have much more influence over the direction that their organisations will take, so may judge that they can guide their organisations to mitigate adverse influences or exploit identified opportunities.
- Directors may (collectively) view their sector as faring relatively better, especially government agencies or government-funded organisations.
- Directors' focus on long-term strategy and risk management has already been heightened and they may consider their organisations to have robust planning and systems in place.

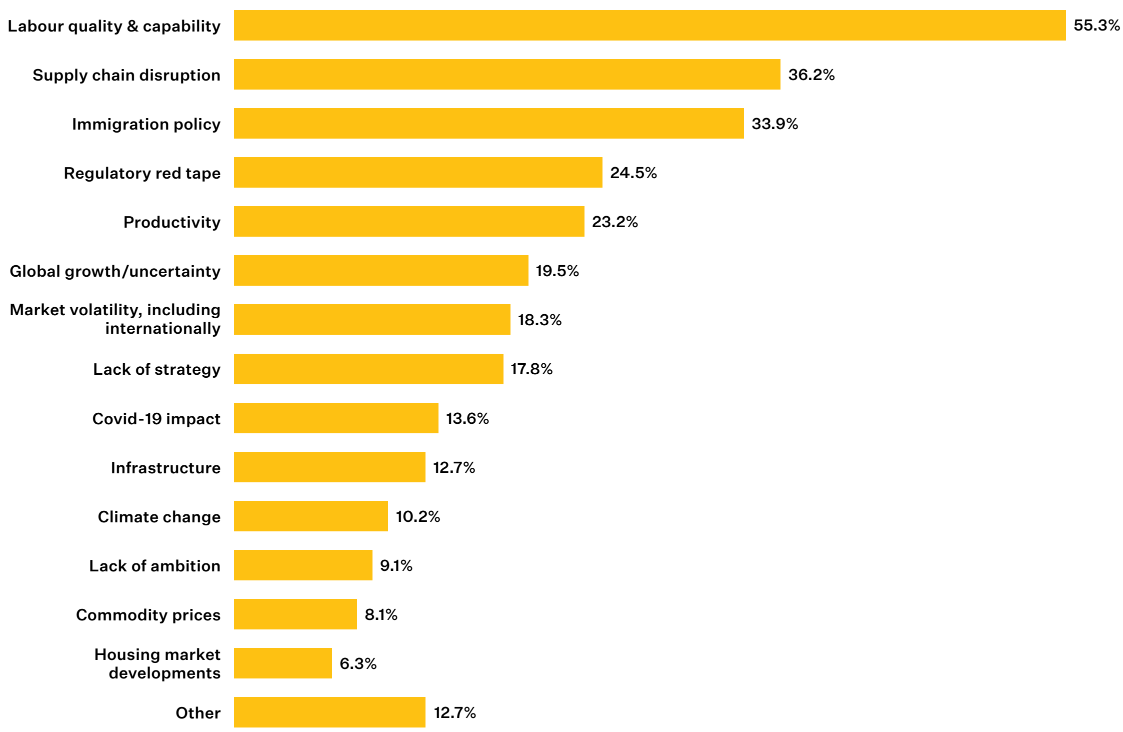
While it is still regarded as an overall disconnect, to the extent that the gap is driven by differing degrees of knowledge and understanding, the organisational outlook may be more instructive about the national economic outlook.

## QUESTION 4:

## *What, in your view, are the biggest impediments to national economic performance (you can choose up to three)?*

Directors chose up to three factors that they saw as being the biggest impediments to national economic performance. The choices were tweaked compared to last year to be more relevant to recent circumstances. Last year's options of "border restrictions" and "effectiveness of vaccines" were dropped, and new factors such as "immigration policy", "Covid-19 impact", "supply chain disruption", and "housing market developments" were added. As with last year, labour quality and capability, and the related issue of immigration policy, were high up the list – at first and third respectively.

**Impediments to national economic performance**




Labour quality and capability was cited by 55% of directors (marginally down from 57% last year). Labour quality has been a perennial impediment in directors' eyes, a view that has been reinforced since the pandemic started, with quality and quantity both an issue.

Supply chain disruption, newly added to the options but a rapidly increasing problem for organisations, ranked second, cited by 36% of directors. Related to labour, immigration policy was in third place at 34% (lower than the 54% who cited "border restrictions" in the 2021 survey). Regulatory red tape, which has often featured among the top issues, ranked fourth (25%) and steady on 2021. Productivity as an issue was cited by 23% of directors (ranking fifth), up from 16% in 2021.

Most of the top-cited economic impediments are ones for which government policy choices can make some difference. The verbatim question responses suggest a broad desire for the government to work on removing key impediments and focus on the big picture to help manage the country through the current challenges. In contrast, some current government priorities, such as infrastructure (13%) and climate change (10%), remain low down the list of economic impediments, despite them being important and long-term in their impacts.

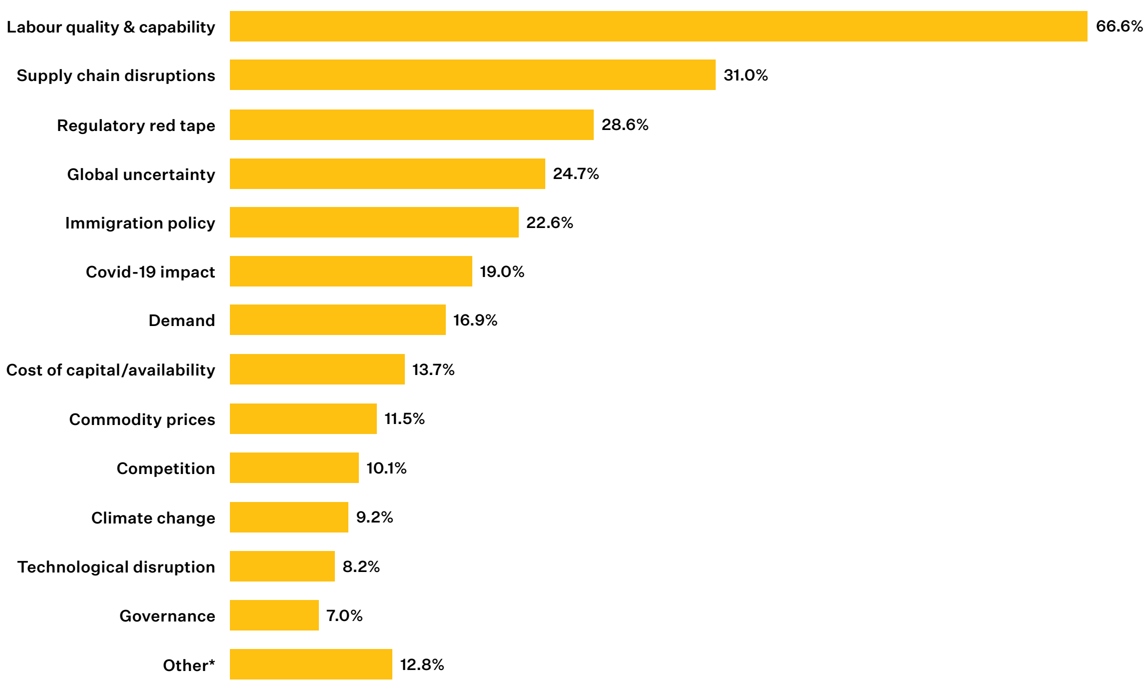
## QUESTION 5:
## *What, in your view, is the single biggest risk facing your organisation?*

Directors were asked to choose up to three risks facing their organisations. This years' survey changed the available choices to include "competition", "demand", "supply chain disruption", "immigration policy", "cost/availability of capital", and "Covid-19 impacts".

As with national economic performance, the responses were very much around labour and other supply challenges. Labour quality and capability was the clear number one concern, chosen by 67% of directors and was also identified as the biggest single risk factor by each organisation type. That is the highest response since the survey began, with the risk rising sharply since 2020. Related, immigration policy came in at fifth place (23%), deemed less of an issue than border restrictions were last year (54% in 2021). As with the economy-wide question, supply chain disruption came second, chosen by 31% of directors.

Regulatory red tape (29%) was the third most cited risk, and has consistently been one of the major concerns for organisations. Global uncertainty (25%) lifted into fourth spot, unsurprising given the run of events such as rapid lifts in interest rates, Russia's invasion of Ukraine and volatility in financial markets and commodity prices.

**Biggest risks facing organisations**




**"Other" primarily relates to significant government policy changes and approaches.*

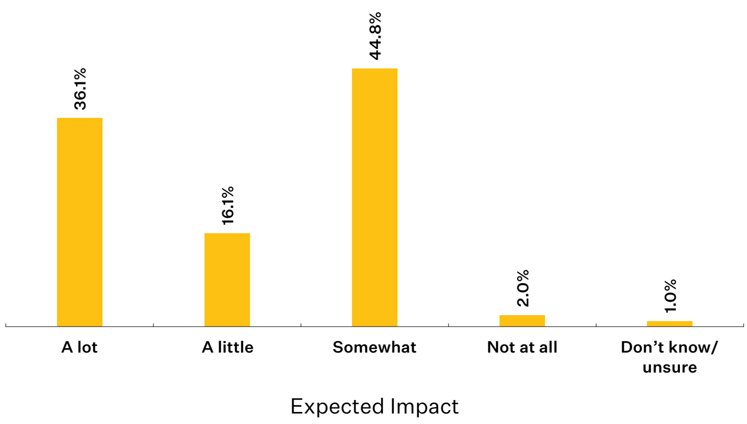
Similar to additional responses given for the economy-wide challenges, "other" comments from directors highlight the role of government actions in influencing the environment that organisations are navigating through, along with difficulty engaging with the public sector and being listened to or even considered by political decision-makers. Directors also flagged cost of living/inflation impacts and the interest rate environment.

## QUESTION 6:

## *To what extent are rising global tensions, supply chain issues, labour shortages and other factors likely to impact on your organisation over the next 12 months?*

For the first time, this year we sought insights into how current major disruptive factors or uncertainties may affect organisations. There was a very high skew towards anticipating some degree of impact: 36% of directors anticipated a lot of impact; 16% a little impact; and 45% somewhat of an impact. In total, only 3% either did not anticipate or were unsure about the degree of impact from global tensions, supply chain issues and labour shortages.

**Impact of global tensions, supply chains issues and labour shortages**




The responses appear realistic. Labour shortages look set to linger for the next couple of years at least. Unemployment over the past year has been the lowest since the mid-1980s. And, with net migration flows outward, it appears unlikely there will be a significant lift in the availability of workers. Supply chain challenges should gradually unwind as global demand moderates and shipping and port capacity improves, though New Zealand has its own logistics challenges.

The global environment looks set to remain uncertain with potential challenges for New Zealand to navigate. Rising global interest rates, the likelihood of war in Ukraine continuing into 2023, China's zero-Covid policy, and potential for government debt positions to come under scrutiny (as the UK's has), suggest plenty of factors for directors to take into account.

## QUESTION 7:

## *What are the top five things that will be of primary focus for your board through to the end of 2023?*

*In the short-term, directors and their boards expect to be preoccupied with labour challenges. Continuing supply chain disruptions, shoring up input deliveries and getting products and services to market will also be an ongoing preoccupation. Both will be considered in a wider strategic context by boards. Helping management to navigate immediate threats in cybersecurity, financial pressures and senior level succession are also on the radar.*

Unsurprisingly, and consistent with director feedback on the economy and their organisations, **labour challenges** feature prominently in the areas of near-term focus for directors – recruitment, retention, capability, quality, quantity and productivity. With historically low unemployment, significant skills shortages, and an increasing national and international market for talent, boards are going to need to think more strategically about the factors that impact their ability to recruit and retain staff, from wages to changes in demographics, flexible working conditions and organisational culture.

**Supply chain** disruptions also feature highly, with global pressures continuing to have a significant impact. Organisations are having to think more actively about sourcing of inputs, holding more inventory, and looking for local or national suppliers. Boards are increasingly having to consider the relationships they have with suppliers and customers to mitigate and minimise these disruptions. However, in many cases these relationships are with international parties, so geopolitical considerations loom large.

**Strategy** was highlighted as a focus area for directors. Boards are increasingly seeing the need to undertake a first principles review, with directors evaluating purpose, values and impacts in order to adopt and adapt strategy accordingly. Similarly, with the number of operating environment changes organisations are facing, directors are revisiting existing approaches to a raft of issues including labour, IT, investment and growth. Further, despite the number of issues demanding short-term attention, boards are continuing to monitor long-term trends and expanding their planning horizons.

Preparing for, and enabling long-term sustainable **growth**, including through financing, infrastructure investment, staff capacity and capability, market identification and product development, as well as realising revenue gains, was top of mind for a large proportion of directors. While some industries saw improvement during the pandemic, and others experienced healthy rebounds making up for sharp declines, Covid-19 impacts remain a key concern.

**Risk management** in areas such as cyber threats, finances (including investments, cash flows, and balance sheet sustainability), health and safety, and succession planning, as well as change management and the structure and capability of senior management teams, were front of mind for many directors. Reflecting the ongoing operating environment and legislative changes organisations are grappling with, a strong focus on risk management is essential including meeting increasing compliance requirements.

## QUESTIONS 8 AND 9:

## *What future trends are your board paying attention to now (choose three)? What approach is your board taking to ensure that it is well-placed to support implementation of its medium-to-long-term strategy?*

*Directors' sense of future trends differs from their short-term focus. A significant proportion of them and their boards are taking a long-term perspective, seeking new information and viewpoints, and proactively managing risk to prepare their organisations for the future. The predominant future trends most directors and their boards are preparing for relate to customer and community expectations, and water, climate change and resource management issues.*

Governance is about tūpuna pono (being good ancestors) – planning for and shaping the future. Whether it is planning strategy or setting budgets, directors need to keep a focus on the future, but also on the impacts of what they do now.

Directors were asked to choose up to three future trends they were currently paying attention to, with changing customer expectations (60%) topping the list. Aligned with this, changing community expectations (47%) was third on the list.

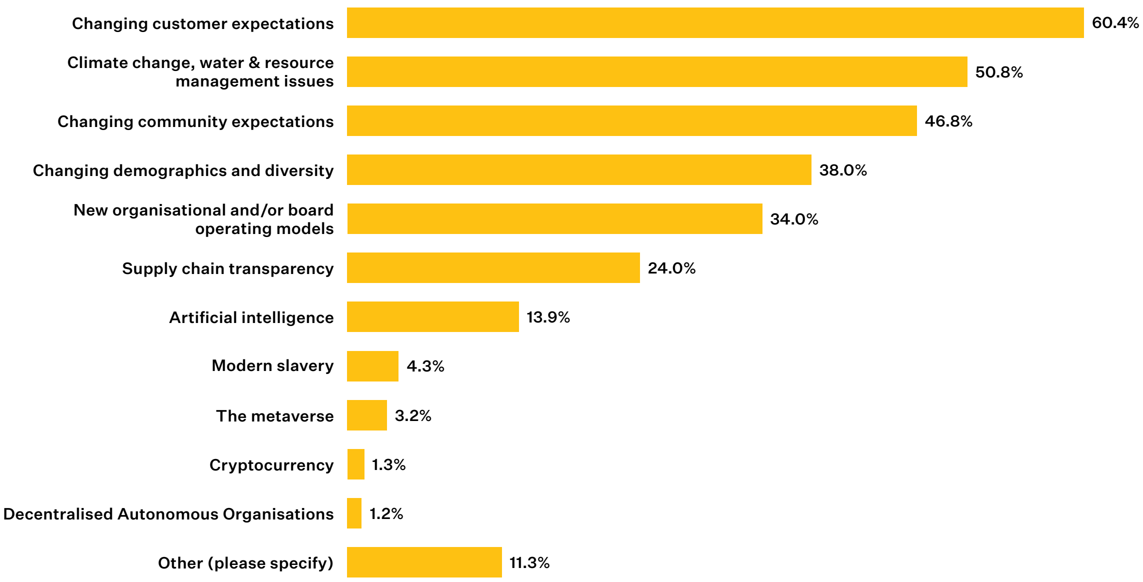
Changing expectations, particularly around climate change, environmental, social and cultural impacts and outcomes, are causing boards to reflect on their organisations' purpose, value proposition and business model. Boards and directors play a key role in supporting the transition to the future of business and achieving purpose-led goals alongside financial/investment outcomes.

It wasn't surprising that second on the list was climate change, water and resource management issues (51%). Organisations were needing to make changes as to how they were governed and how they operated today, while keeping the future impacts of climate change foremost in their planning. Similarly, government reforms such as Three Waters, repeal and replacement of the Resource Management Act, and the Review into the Future for Local Government were also considered key issues that had a dual focus for directors.

The next three future trends were changing demographics and diversity (38%), new organisational and/or board operating models (34%), and supply chain transparency (24%). With unemployment the lowest since records began in the mid-1980s, and the changing picture of migration and immigration policy, labour shortages look set to continue for the next couple of years. Board leadership and best practice governance are critical to ensuring long-term success.

The operating model of boards is set for a refresh, with boards seeking to address changing expectations, the need for greater diversity, and evaluating the role of technology and innovation in the boardroom. Ethical supply chains and procurement are increasingly important for boards and has a strong impact upon consumer and community expectations. While modern slavery was only discussed by 4% of boards, it is inextricably linked to supply chain transparency.

Future trends



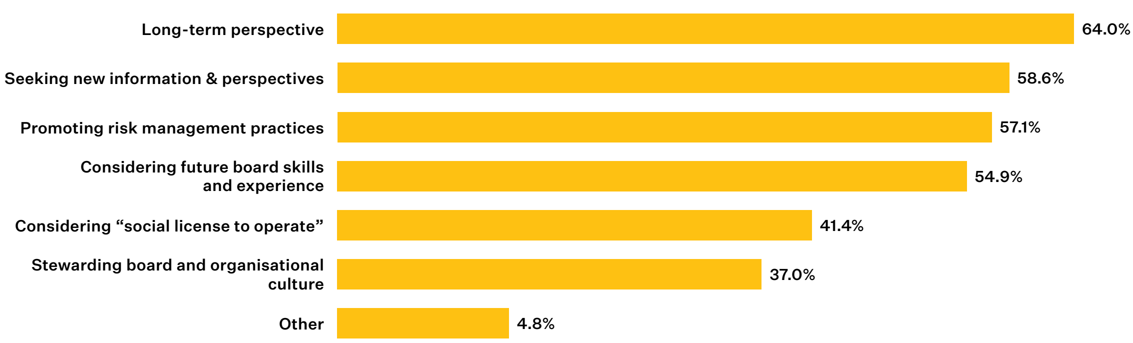

## Boards preparing for the future

Finding time for long-term thinking is critical for boards in an environment dominated by short-term pressures. With technology disruptions and evolutions, working from home and hybrid working arrangements, supply chain constraints and transparency, and changing customer and investor expectations to name but a few, boards need to ensure that their organisations are well-placed to support implementation of its medium- and long-term strategy.

Sixty-four percent of respondents identified taking a long-term perspective as the number one way boards can support organisational strategy. Fifty-nine percent reported actively seeking new information and perspectives, 57% actively promoting risk management practices, and 55% actively considering the future board skills, experience and knowledge needed to adapt to change and meet new challenges.

High quality decision-making starts with good quality information. Getting the right information from management (and other sources) to effectively oversee an organisation is critical.

Approaches to support organisational strategy




** "Other" included a focus on strategy and management by boards*

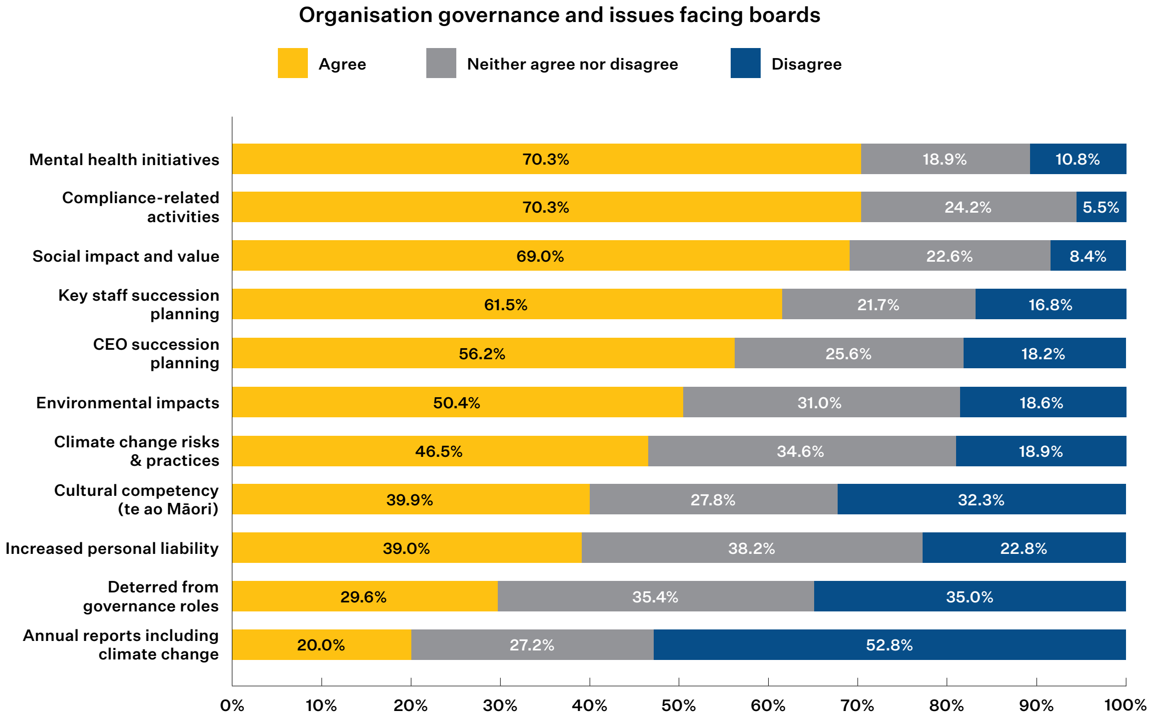
Forty-one percent of boards were actively considering their organisation's social license to operate. Social licence to operate is increasingly important for boards. In its simplest form, it means having the legitimacy, credibility and trust to operate, but within a New Zealand context, it includes consideration of te Tiriti o Waitangi and co-governance.

Thirty-seven percent had an active interest in stewarding board culture and organisational culture. Having an effective governance culture is one of the four pillars of governance best practice and helps position boards to adapt and respond to changes, including effectively applying new and different perspectives. Boards set the tone for the culture of an organisation.

## QUESTION 10:

### *Please indicate whether you agree or disagree with the following statements about governance in your organisation and issues facing boards.*

*Boards continue to address the Covid-19 aftermath, notably with four out of five boards focussed on employee mental health. Labour capacity and capability, their organisation's social impact, and an increasing focus on cultural competency were also front of mind for boards.*




Mental health issues have been on the radar for the past two years; 85% of directors in 2021 and 81% in 2020 reported regularly discussing workplace mental health and wellbeing. This year, 70% of those surveyed approved initiatives to help address workplace mental health issues (slightly down from 72% in 2021).

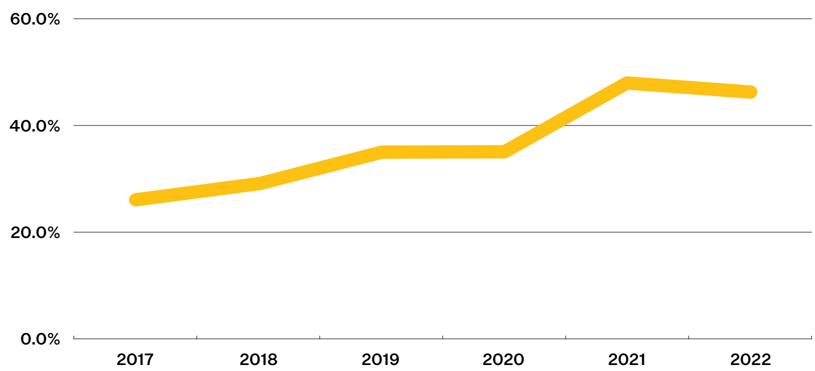
Seventy percent of directors reported compliance-related activities took an increasing amount of board time (down from 76% in 2021).

In a new issue measured this year, 69% of directors reported strategically discussing their organisation's social impact and values. With employees increasingly seeking purpose-driven organisations with a strong social and environmental conscience, an organisation's social impact and value are considered key calling cards for talent attraction and retention.

CEO and senior executive succession planning is critical for business continuity and navigating change. Sixty-two percent of boards regularly discussed succession planning in relation to key staff other than the CEO, and 56% of boards regularly discussed succession planning in relation to the CEO.

Board-level discussion on environmental and social matters, including climate change risks, remained relatively static despite increased customer and community expectations and calls for enhanced reporting and transparency. Board engagement on climate change risks and practices was 47% (slightly down from 48% in 2021). Climate change reporting remained static at 20%, possibly reflecting the more dynamic environment organisations have found themselves in over the past two years, but may also reflect that climate change was only considered the biggest impediment to national economic performance by 10% of directors, and the biggest risk to organisations by 9%. However, with the Government passing legislation making climate-related disclosures mandatory for some organisations, and ongoing pressure from shareholders and stakeholders for organisations to increase their transparency, some significant changes are forecast.

**Boards engaged and proactive on climate change risks**




The percentage of boards engaged and pro-active in developing cultural competency in respect to te ao Māori increased this year to 40% (up from 36% in 2021). Developing cultural competency and increasing diversity are important for enhancing board effectiveness.

This year 39% of directors (well down from 45% in 2021 and 47% in 2020) agreed that increased personal liability has made them more cautious in business decision making. In line with this, and despite director roles expanding to include areas such as mental health, climate change reporting, and crisis preparation and response, only 30% of directors were likely to be deterred from taking on a governance role, a significant reduction from 38% in 2021.

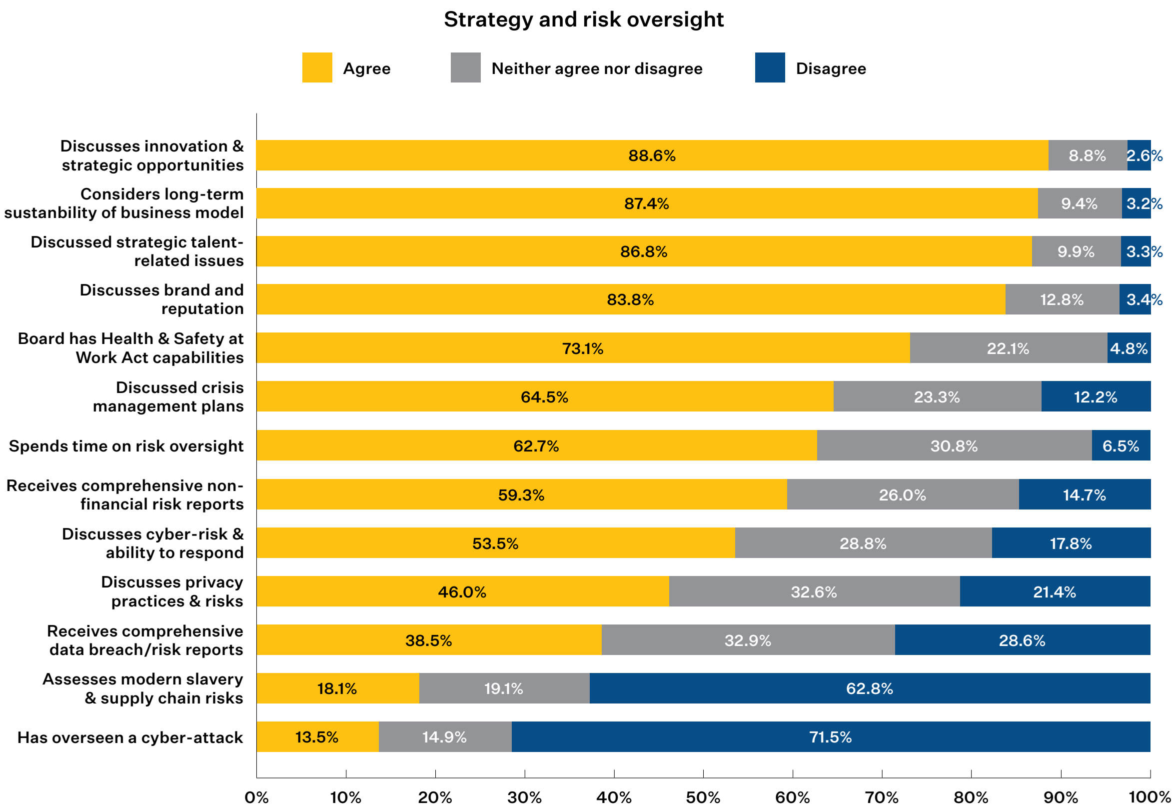
### QUESTION 11:

## *Please indicate whether you agree or disagree with the following statements about strategy and risk oversight.*

*Almost all boards are preparing for the future by leading their organisations to seek innovative and strategic opportunities, along with considering long-term business model sustainability. Brand and reputation are also a driver for four out of five boards. However, given the significant uncertainties facing organisations, the reduction in the oversight of short-term risks is concerning.*

*"In preparing for battle I have always found that plans are useless, but planning is indispensable."*

- Dwight Eisenhower, 34th President of the United States




A high number of directors reported their boards continue to focus on innovation and strategic opportunities (89%), as well as the long-term sustainability of their business model (87%).

Mirroring concerns about labour and talent shortages, 87% reported discussing strategic talent-related issues including employee engagement, performance and retention. With the increasing risk this poses to organisations, considering the strategic changes needed to address the many interwoven labour challenges is critical.

Organisational brand and reputation (84%) was also seen by directors as a key area of discussion for their boards. Your reputation is one of your greatest assets. When an organisation comes under fire for anything from workplace bullying to sexual harassment, underpaying staff or offensive advertising, boards need to have a plan in place to respond. Better still is having a culture that reduces the risk of these issues arising. Despite this, only 59% of boards reported receiving comprehensive reports from management about non-financial risks such as culture, reputation and social media.

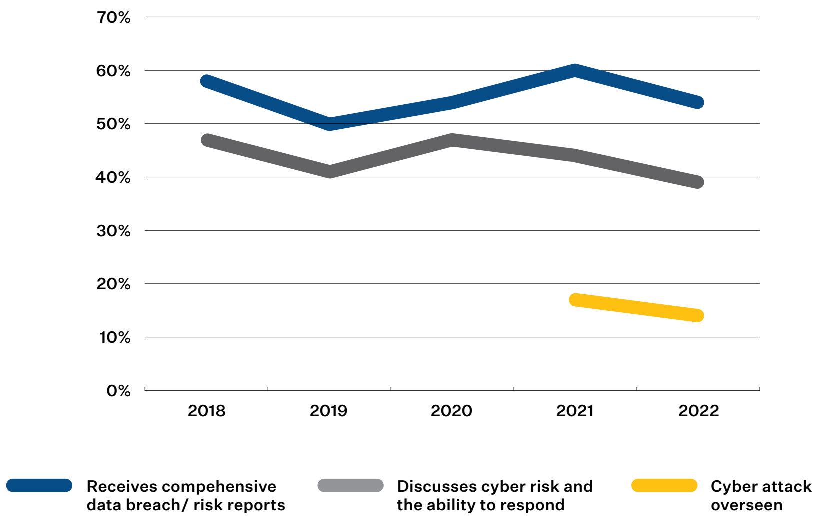
Sixty-five percent of directors reported their boards are spending time on their crisis management plans, a relatively significant drop from 73% in 2021. With natural disasters being a recurring and exacerbating feature of business operations due to climate change, an enhanced focus on business continuity appears to be needed to ensure sustainable organisations over time.

The number of directors reporting their boards have the right capabilities to fulfil their health and safety obligations (73%) is slightly up from 2021 (68%) and possibly demonstrates a maturing of organisations' health and safety reporting and monitoring.

Only 63% of directors assessed themselves as having spent time on risk oversight throughout the year, down from 68% in 2021. Despite this, risk management was identified by directors as one of their top five issues in question seven.

Just 54% of directors say their boards regularly discuss cyber risk and are confident their organisations have the capacity to respond to a cyberattack or incident, down from 60% in 2021. Contrary to the increased number of cyber incidents being reported, a smaller share of directors say their boards have overseen a cyberattack affecting their organisation in 2022 (14%, down from 17% in 2021).

**Declining data breach and cyber security**



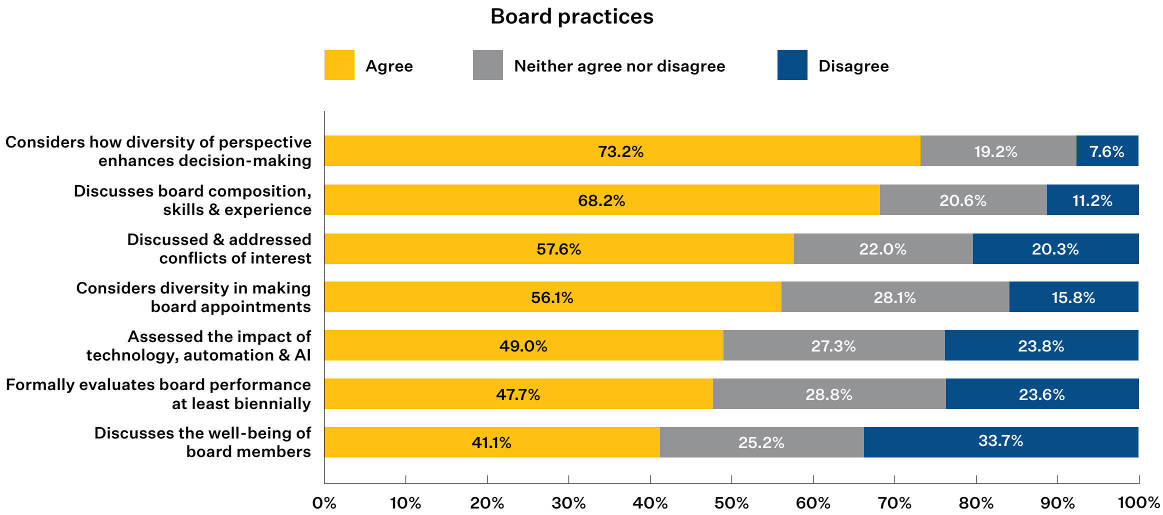

Slightly fewer directors than 2021 reported their boards regularly discuss the organisation's privacy practices and risks (46% in 2022, down from 51%) despite, as noted above, reduced confidence in their organisation's capacity to respond to a cyberattack. Similarly, only 39% of directors reported receiving comprehensive reporting about data breach risks and incidents, down from 44% in 2021. This is despite the Privacy Commissioner reporting that one of the leading privacy issues of concern for New Zealanders is "businesses sharing personal information without your permission".

One area that organisations have not yet turned their minds towards is modern slavery and worker exploitation issues; only 18% of directors reported their boards have assessed the risks within the last 12 months. This indicates organisations are unlikely to be able to respond to any modern slavery regulatory requirements that may be introduced in the immediate future.

## QUESTION 12:

## *Please indicate whether you agree or disagree with the following statements about current board practices.*

*Three quarters of directors see better decision making coming from a diversity of views and ideas around the board table. It is not surprising a majority of boards regularly consider board composition, although only a third are planning for organisational cultural change. Fewer than half of boards are considering the impact of artificial intelligence and other technological change.*




Seventy-three percent of directors saw the benefit of enabling diversity of views and ideas on their boards to enable better decision making. Of note, while diversity is a key factor in high-functioning boards, so too is having a boardroom culture that supports realisation of the diversity of thought, noting only 37% of directors were planning for organisational culture change (see question nine).

Closely aligned with this result, 68% considered their board regularly (at least annually) discusses board composition and make-up to identify areas of gaps in skills and experience, both now and in to the future. Despite this, only 55% reported actively considering the future board skills, experience and knowledge needed to adapt to change and meet new challenges (see question nine). Further, only 56% of directors reported diversity was regarded as a key consideration in making board appointments, suggesting that perhaps directors were considering “relevant” skills and experience more valuable than diversity of ideas and perspectives.

The proportion of boards that had discussed and challenged board member conflicts of interest in the past 12 months increased slightly to 58% (from 56% in 2021). Conflicts of interest are a key risk that boards need to have clear processes in place to manage. If handled well, a conflict does not pose a problem, but lack of good governance practices in place can lead to significant consequences, including reputational damage and loss of shareholder and stakeholder value.

Over the past 12 months, fewer boards (49% in 2022 compared with 58% in 2021) had considered the impact of technology, automation/AI on their organisations, workforce and future thinking. This downward trend is reinforced by the decrease in boards discussing cyber risk (see question 11). With the rapidly changing pace of technology and technological disruptions such as cyberattacks increasing, and disruptive technology such as virtual and augmented reality and robotics causing major change in the way consumers, businesses and industries operate, an increasing focus on technological impacts would have been anticipated.

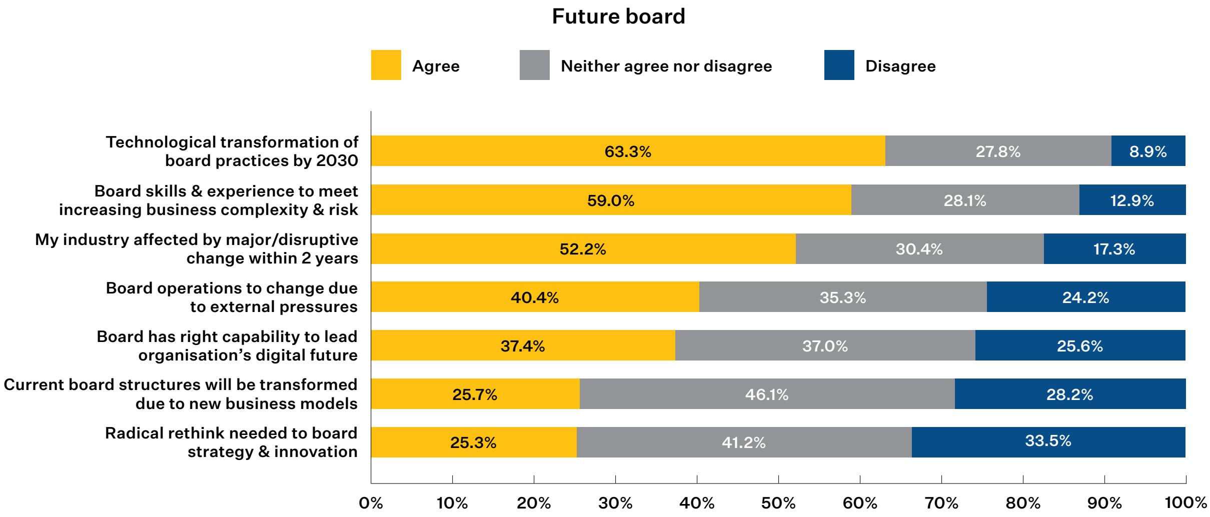
The number of boards completing a regular (at least every two years) formal board evaluation decreased slightly (48% in 2022 down from 51% in 2021). Regular board evaluation is best governance practice and helps identify gaps in experience, knowledge, skills and backgrounds, and highlights any weaknesses or problems.

Perhaps surprisingly, the percentage of boards discussing the wellbeing of board members decreased significantly to 41%, down from 62% in 2021. This contrasts with a clear majority of boards paying attention to staff mental health, with 70% of directors approving initiatives to help address workplace mental health issues in the last 12 months.

## QUESTION 13:

## *Please indicate whether you agree or disagree with the following statements about the future board.*

*Boards will be transformed by 2030, but not just yet, according to directors. New technology will play a part, even if directors don't currently have the skills or see it as a major future trend to pay attention to (relative to other trends). And despite the significant shifts Covid-19 required of boards and the way they operated, radical change and innovation by boards seems unlikely to more than two-thirds of directors.*

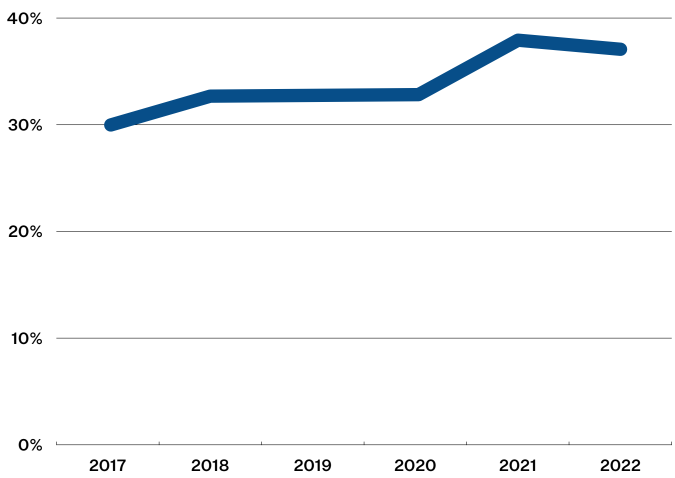



Directors expect boards to undergo transformative change by 2030 but, in the meantime, a far lower level of change is expected in terms of how the board operates. The catalyst for change is expected to be new technology with over half of respondents (63%) agreeing that technology will transform how the board is operating by 2030. While this result is unsurprising, given that boards are having to come to grips with the rising use of real-time data, interactive data, and artificial intelligence within organisations, and the accompanying challenges they bring to extract real value, it doesn't align with the future trends boards are paying attention to. While many boards undertook rapid changes to meet the needs of a Covid-19 operating environment, the technological advancements coming down the line reflect exponential change that will significantly alter the landscape.

More than half of directors (59%) are confident they have the right capabilities around the table to deal with increasing business complexity and risk. Yet there is far less confidence (37%) that boards have the right capability to lead the organisation's digital future. This highlights a need for capability building within the director community.

Despite over half of directors (52%) expecting their industry to undergo major or disruptive change over the next two years, directors are largely unsure whether their board structure will be totally transformed in the wake of new business models (26%), and whether their boards need to rethink their approach to strategy and innovation (25%).

Low but increasing director capability for a digital future



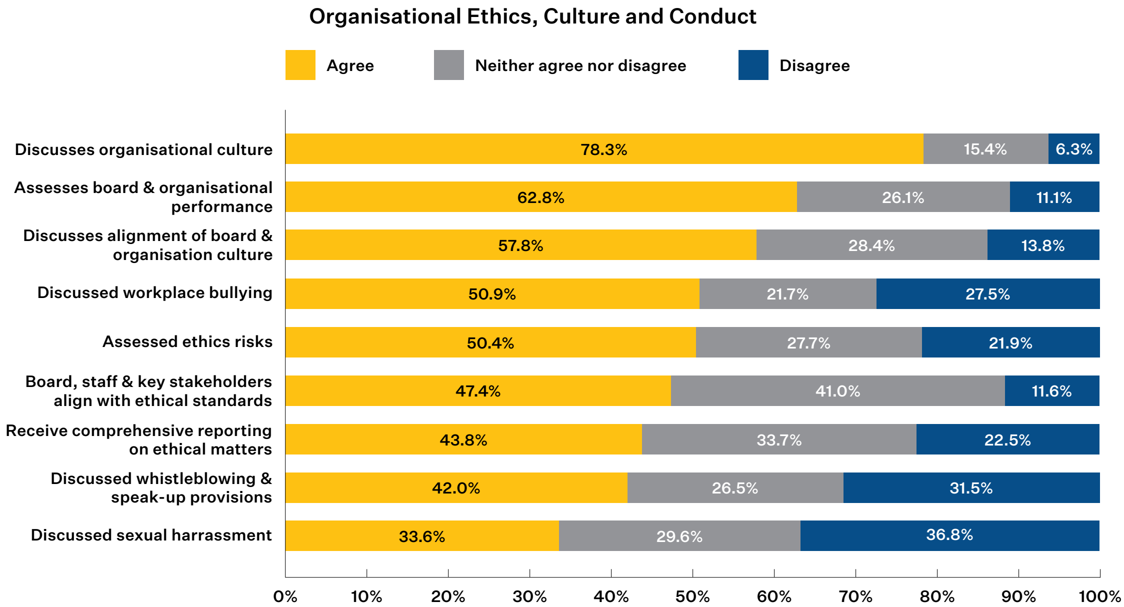

A change to the way the board operates over the next three years is not featuring so much in the minds of directors (40%). While many boards reviewed the way they operate as a result of Covid-19, which saw boards adopting virtual meeting options, those changes may be insufficient to address future needs. With the critical role boards play, the future board will need to be adaptable, agile and embrace change in order to respond to the major transformations ahead of them, and to provide the effective governance that is needed to shepherd organisations to ensure they are around for the long term.

## QUESTION 14:

## *Please indicate whether you agree or disagree with the following statements about ethics, culture and conduct in your organisation.*

*Organisational culture is a major focus of four out of five boards, as is consideration of the best interests of the organisation.*

A healthy board culture is increasingly recognised as a key component of board performance. Board conduct underpins board leadership and sets the tone for an organisation. Similar to last year's results, the majority of directors reported regularly discussing and monitoring the culture of their organisation; this was also the most-agreed statement last year (78% in 2022, slightly down from 80% in 2021). Board culture and leadership impact on the entire organisation, with tone and culture of an organisation starting at the top.




Second most agreed, 63% of directors reported their boards regularly assess whether the board's and organisation's performance was serving the best interests of the organisation. The best interests of an organisation can depend on your vision and objectives, the expectations of your shareholders and stakeholders, but also your operating environment.

Ranked third was whether the board was regularly discussing the alignment of board and organisational culture (58%). Because culture has such a pervasive impact, directors need to be aware of the way culture cascades throughout the organisation, and that culture needs to be set from the top. Perhaps surprisingly, fewer than half of boards (44% in 2022, a slight decrease from 46% in 2021) received comprehensive reporting from management about ethical matters and conduct incidents, and the actions taken to address them. Despite the high ranking of organisational culture, significantly fewer directors said their boards assessed ethical risks in the previous 12 months (50% in 2022, down from 58% in 2021). Consideration of ethics risks dropped to be the fifth most important issue for directors in this category, down from second last year.

Unchanged from last year, only 51% of directors reported discussing workplace bullying in the past 12 months. Notably, ethics and bullying are generally considered critical elements of culture, which can severely impact on an organisation's performance, staff retention and recruitment, employee mental health, and organisational reputation. Workplace bullying is often associated with higher levels of racism, migrant exploitation and sexual harassment. It is concerning that only 34% of boards discussed sexual harassment in the last 12 months, unchanged from 2021 but seemingly trending down (35% in 2019 and 39% in 2018).

Slightly reduced from last year's results, 47% of directors were confident their board, staff, business partners and supply chains were familiar with, and adhered to, the organisation's ethical standards (compared with 52% in 2021 and 53% in 2020). Over and above any regulatory approaches to address modern slavery, an ethical approach is important because it is more likely to lead to, and embed, wider cultural and behavioural changes.

While only a negligible change this year (42%), there is an upwards trend in boards discussing whistleblowing (41% in 2021, 40% in 2020, and 35% in 2019), and how the organisation makes "speak-up" provisions effective. Under the *Protected Disclosures (Protection of Whistleblowers) Act 2022*, making disclosures about an organisation's wrongdoings will be easier and whistleblowers will receive increased protection. The new Act came into force on 1 July 2022 and is seen as a mechanism to both enhance New Zealand's international reputation as a transparent and honest society, and support and protect people who expose criminal, fraudulent or other serious misconduct in their workplace.

# SURVEY QUESTIONS AND RESULTS

The online survey was conducted from 1 August to 4 September 2022. Results are summarised from 964 responses. Not all questions were answered by all respondents (the average skip rate per question for the 2022 survey was 3.3%). Percentages may not add up to 100% due to rounding.

### Q1. What impact has Covid had on your organisation's performance over the past two years?

| | |
|---|---|
| Improve | 25.2% |
| No Effect | 18.5% |
| Decline | 56.3% |

### Q2. How do you expect the performance of the New Zealand economy to trend in the next 12 months?

| | |
|---|---|
| Improve | 18.1% |
| No Effect | 13.8% |
| Decline | 68.1% |

### Q3. How do you expect the performance of your organisation to trend in the next 12 months?

| | |
|---|---|
| Improve | 50.3% |
| No Effect | 29.3% |
| Decline | 20.4% |

### Q4. What, in your view, are the biggest impediments to national economic performance (you can choose up to three)?

| | |
|---|---|
| Labour quality and capability | 55.3% |
| Supply chain disruption | 36.2% |
| Immigration policy | 33.9% |
| Regulatory red tape | 24.5% |
| Productivity | 23.2% |
| Global growth/uncertainty | 19.5% |
| Market volatility, including internationally | 18.3% |
| Lack of strategy | 17.8% |
| Covid impact | 13.6% |
| Infrastructure | 12.7% |
| Climate change | 10.2% |
| Lack of ambition | 9.1% |
| Commodity prices | 8.1% |
| Housing market developments | 6.3% |
| Other | 12.7% |

**Q5. What, in your view, is the single biggest risk facing your organisation?**

| | |
|---|---|
| Labour quality and capability | 66.6% |
| Supply chain disruptions | 31.0% |
| Regulatory red tape | 28.6% |
| Global uncertainty | 24.7% |
| Immigration policy | 22.6% |
| Covid impact | 19.0% |
| Demand | 16.9% |
| Cost of capital/availability | 13.7% |
| Commodity prices | 11.5% |
| Competition | 10.1% |
| Climate change | 9.2% |
| Technological disruption | 8.2% |
| Governance | 7.0% |
| Other | 12.8% |

**Q6. To what extent are rising global tensions, supply chain issues, labour shortages and other factors likely to impact on your organisation over the next 12 months?**

| | |
|---|---|
| A lot | 36.1% |
| A little | 16.1% |
| Somewhat | 44.8% |
| Not at all | 2.0% |
| Don’t know/unsure | 1.0% |

**Q7. What are the top five things that will be of primary focus for your board through to end of 2023?**

Directors provided their views of the top five issues that directors should be paying attention to in 2023. Drawing on these responses, a commentary on the top five issues for directors for 2023 is outlined in a separate document.

**Q8. What future trends are your board paying attention to now (choose three)?**

| | |
|---|---|
| Changing customer expectations | 60.4% |
| Climate change, water and other resource management issues | 50.8% |
| Changing community expectations | 46.8% |
| Changing demographics and diversity | 38.0% |
| New organisational and/or board operating models | 34.0% |
| Supply chain transparency | 24.0% |
| Artificial intelligence | 13.9% |
| Modern slavery | 4.3% |
| The metaverse | 3.2% |
| Cryptocurrency | 1.3% |
| Decentralised autonomous organisations (DAOs). | 1.2% |
| Other (please specify) | 11.3% |

**Q9. What approach is your board taking to ensure that it is well-placed to support implementation of its medium-to-long-term strategy?**

| | |
|---|---|
| Taking a long-term perspective to anticipate and respond to future change and opportunities | 64.0% |
| Actively seeking new information and perspectives | 58.6% |
| Actively promoting risk management practices (including in health and safety) that are linked to organisational outcomes and assure compliance | 57.1% |
| Actively considering the future board skills, experience and knowledge needed to adapt to change and meet new challenges | 54.9% |
| Actively considering the organisation's "social licence to operate" and factors that could have a reputational impact | 41.4% |
| Actively planning for, stewarding and monitoring progress with board and organisational culture | 37.0% |
| Other approaches (please specify) | 4.8% |

**Q10. Please indicate whether you agree or disagree with the following statements about governance in your organisation and issues facing boards:**

| | Agree | Neither agree nor disagree | Disagree |
|---|---|---|---|
| In the past 12 months my board has approved initiatives to help address workplace mental health issues. | 70.3% | 18.9% | 10.8% |
| Compliance-related activities have increased in the past 12 months. | 70.3% | 24.2% | 5.5% |
| My board regularly spends time strategically discussing our organisation's social impact and value (eg, for customers, employees or the wider community). | 69.0% | 22.6% | 8.4% |
| My board regularly (at least annually) discusses succession planning in relation to key staff other than the CEO. | 61.5% | 21.7% | 16.8% |
| My board regularly (at least annually) discusses succession planning in relation to the CEO. | 56.2% | 25.6% | 18.2% |
| My board regularly spends time strategically discussing the environmental impacts of our organisation. | 50.4% | 31.0% | 18.6% |
| My board is engaged and proactive on climate change risks and practices in our organisation. | 46.5% | 34.6% | 18.9% |
| My board is engaged and pro-active in developing its cultural competency in respect of te ao Māori (eg, tikanga and mātauranga Māori). | 39.9% | 27.8% | 32.3% |
| Increased personal liability has made me more cautious (risk adverse) in business decision making in the last 12 months. | 39.0% | 38.2% | 22.8% |
| The scope of director responsibilities is more likely to deter me from taking on governance roles now than 12 months ago. | 29.6% | 35.4% | 35.0% |
| Our latest annual report included disclosures on climate-related risks and/or the impact of climate change on our organisation (eg, using the TCFD or other frameworks). | 20.0% | 27.2% | 52.8% |

**Q11. Please indicate whether you agree or disagree with the following statements about strategy and risk oversight:**

| | Agree | Neither agree nor disagree | Disagree |
|---|---|---|---|
| My board regularly (at least annually) discusses innovation and strategic opportunities. | 88.6% | 8.8% | 2.6% |
| My board regularly (at least every two years) considers the long-term sustainability of our business model. | 87.4% | 9.4% | 3.2% |
| In the past 12 months my board has discussed strategic talent-related issues and risks, such as employee engagement, performance and retention. | 86.8% | 9.9% | 3.3% |
| My board regularly (at least annually) discusses the organisation's brand and reputation. | 83.8% | 12.8% | 3.4% |
| My board has the right capabilities (skills and experience) to comply with director obligations under the Health and Safety at Work Act. | 73.1% | 22.1% | 4.8% |
| My board has discussed crisis management plans (eg, in the case of natural disaster, emergency CEO, viral social media incident) in our organisation in the last 12 months. | 64.5% | 23.3% | 12.2% |
| The time my board spends on risk oversight has increased in the past 12 months. | 62.7% | 30.8% | 6.5% |
| My board receives comprehensive reporting from management about non-financial risks (eg, culture, reputation, social media), and has discussed actions to address them in the past 12 months. | 59.3% | 26.0% | 14.7% |
| My board regularly discusses cyber risk and is confident our organisation has the capacity to respond to a cyberattack or incident. | 53.5% | 28.8% | 17.8% |
| My board regularly (at least annually) discusses the organisation's privacy practices and risks. | 46.0% | 32.6% | 21.4% |
| My board receives comprehensive reporting from management about data breach risks and incidents, and the actions taken to address them. | 38.5% | 32.9% | 28.6% |
| In the past 12 months my board has assessed risks and issues associated with modern slavery and worker exploitation in our organisation and supply chain. | 18.1% | 19.1% | 62.8% |
| In the past 12 months my board has overseen a cyberattack affecting our organisation. | 13.5% | 14.9% | 71.5% |

**Q12. Please indicate whether you agree or disagree with the following statements about current board practices:**

| | Agree | Neither agree nor disagree | Disagree |
|---|---|---|---|
| My board regularly considers how a range of different views and perspectives around the board table supports better decision making. | 73.2% | 19.2% | 7.6% |
| My board regularly (at least annually) discusses board composition/renewal and the skills/ experience we need now and for the future. | 68.2% | 20.6% | 11.2% |
| My board has discussed and challenged board member conflicts of interest in the past 12 months. | 57.6% | 22.0% | 20.3% |
| Diversity is a key consideration in making board appointments. | 56.1% | 28.1% | 15.8% |
| In the past 12 months, my board has assessed the impact of technology, automation and/or artificial intelligence (AI) on our organisation, our workforce and our future skills needs. | 49.0% | 27.3% | 23.8% |
| My board regularly (at least every two years) makes a formal evaluation of its performance. | 47.7% | 28.8% | 23.6% |
| In the last 12 months, my board has discussed the wellbeing of its board members. | 41.1% | 25.2% | 33.7% |

**Q13. Please indicate whether you agree or disagree with the following statements about the future board:**

| | Agree | Neither agree nor disagree | Disagree |
|---|---|---|---|
| I expect technology will transform how my board is operating by 2030 (eg, using real-time, interactive data in the boardroom, artificial intelligence). | 63.3% | 27.8% | 8.9% |
| My board has the right capabilities (skills and experience) to deal with increasing business complexity and risk. | 59.0% | 28.1% | 12.9% |
| I think my industry will be affected by major/ disruptive change in the next two years. | 52.2% | 30.4% | 17.3% |
| I expect my board to change the way it operates over the next three years as a result of the impacts of Covid and other pressures (eg, supply chains, geopolitical tensions and legislative change). | 40.4% | 35.3% | 24.2% |
| My board has the right capability (skills and experience) to lead our organisation's digital future. | 37.4% | 37.0% | 25.6% |
| I think current board structures (including committees) will be totally transformed in the wake of new business models. | 25.7% | 46.1% | 28.2% |
| I think the board approach to strategy and innovation needs a radical rethink. | 25.3% | 41.2% | 33.5% |

**Q14. Please indicate whether you agree or disagree with the following statements about ethics, culture and conduct in your organisation:**

| | Agree | Neither agree nor disagree | Disagree |
|---|---|---|---|
| My board regularly discusses and monitors the culture of the organisation. | 78.3% | 15.4% | 6.3% |
| My board regularly assesses whether the board's and organisation's performance serves the best interests of the organisation. | 62.8% | 26.1% | 11.1% |
| My board regularly discusses the alignment of our board culture and organisational culture. | 57.8% | 28.4% | 13.8% |
| My board has discussed workplace bullying in the past 12 months. | 50.9% | 21.7% | 27.5% |
| My board has assessed ethics risks in our organisation in the past 12 months. | 50.4% | 27.7% | 21.9% |
| I am confident that our board, staff, business partners and supply chains are familiar with and adhere to our organisation's ethical standards. | 47.4% | 41.0% | 11.6% |
| My board receives comprehensive reporting from management about ethical matters and conduct incidents, and the actions taken to address them. | 43.8% | 33.7% | 22.5% |
| My board has discussed whistleblowing, and how the organisation makes speak-up provisions effective in the past 12 months. | 42.0% | 26.5% | 31.5% |
| My board has discussed sexual harassment in the past 12 months. | 33.6% | 20.6% | 36.8% |

**Q15. Please indicate the organisational category to which your most substantial directorship belongs (this is the organisation in respect of which you have answered the questions above):**

| | |
|---|---|
| Medium-to-large private company (>$10 million turnover or 20+ employees) | 43.5% |
| Not-for-profit organisation | 25.2% |
| Small company (<20 employees) | 13.3% |
| Publicly-listed company | 7.3% |
| Government organisation | 5.0% |
| State-owned enterprise (SOE) | 1.4% |
| Subsidiary of a publicly-listed company | 0.9% |
| Other | 3.4% |

## About the Institute of Directors

The IoD has almost 11,000 members, is New Zealand's pre-eminent organisation for directors and is the heart of the governance community. We believe in the power of governance to create a strong, fair and sustainable future for New Zealand.

Our role is to drive excellence and high standards in governance. We support and equip our members, who lead a range of organisations from listed companies, large private organisations, state and public sector entities, small and medium enterprises, not-for-profit organisations and charities.

## About ASB

ASB Bank is a leading provider of integrated financial services in New Zealand including retail, business and rural banking, funds management and insurance. A member of the Commonwealth Bank of Australia (CBA) Group, ASB has carved a name for itself in the New Zealand banking landscape, looking after the financial wellbeing of more than one million customers. Committed to being an unbeatable team providing an unbeatable customer experience, ASB staff are passionate about helping our customers stay one step ahead.

In keeping with this spirit, the ASB Economics Team is focused on providing quality research and commentary on the New Zealand economy and financial markets. Led by Chief Economist Nick Tuffley, the team aims to deliver timely analysis and up-to-the-minute accounts of market trends and developments.

## Authorship

This report has been jointly prepared by the IoD and ASB.

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