boardroom

DEC / JAN 2018

Magazine of the Institute of Directors in New Zealand

WHAT TO LOOK FOR IN 2018



THREE SENIOR DIRECTORS SHARE THEIR VIEWS ON THE EMERGING ISSUES FOR 2018


Build it right,
everytime.

A note from the editor.

As 2017 winds down, eyes are already turning to 2018.

In this issue, the IoD's Governance Leadership Centre (GLC) identifies the top five issues directors should keep front of mind over the next 12 months (*page 8*).

Drawn from feedback to our 2017 *Director Sentiment Survey* (*page 22*) and a review of the major issues globally, the five issues identified present a New Zealand-focused agenda for the coming year.

Trust and confidence heads the list. The GLC recommends boards foster transparency and engagement with stakeholders in order to build and sustain business legitimacy.

Up next, ethical behaviour is an ongoing focus for directors, and boards need to set the tone from the top.

A growing trend globally, shareholder activism is the third item to which boards should be, and in many cases are, turning their thoughts. The GLC advises that effective engagement with shareholders is the best starting point for meeting shareholder expectations.

Another challenge voiced by members in our *Director Sentiment Survey* is access to skills and talent. Boards in 2018 will need to be aware that skill shortages put the onus back on organisations to find ways to train and retain effective staff.

Lastly, data governance presents a challenge to directors. The imperative is to help their organisations realise the benefits of modern data collection techniques while ensuring personal information is appropriately protected

As General Manager GLC Felicity Caird says, 2018 will be a year in which boards will need to think beyond compliance in assessing risks and the drivers of business sustainability.

Aaron Watson
Acting *BoardRoom* editor

Institute of Directors

BoardRoom is the magazine of the Institute of Directors in New Zealand
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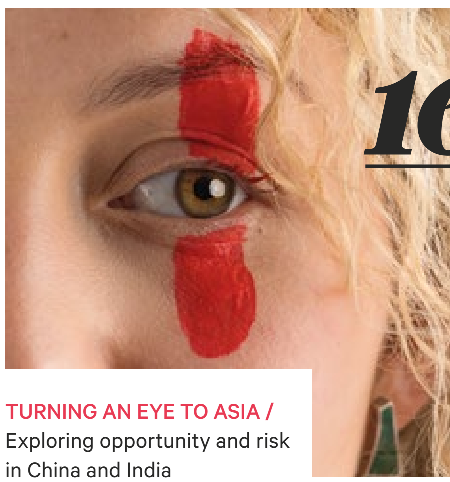

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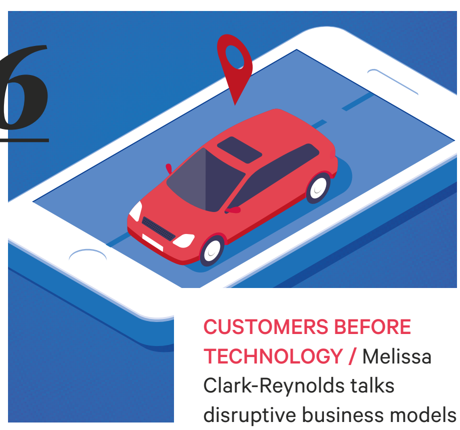

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FROM OUR PARTNERS

boardroom

BoardRoom is published six times a year by the Institute of Directors in New Zealand (IoD) and is free to all members. Subscription for non-members is $155 per year.

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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01

What it means **to do well and do good**

> **The contribution that NFPs make to New Zealand's economy is so significant that it is beginning to rival other sectors.**

KIRSTEN PATTERSON
CEO, INSTITUTE OF DIRECTORS

01 Read more about NFPs and the Governance with Purpose programme on *page 38*

Tēnā koutou katoa

As we approach the end of the year, thoughts turn from the activities and achievements of the year to reflections on the achievements and on our contributions to NZ Inc. Inevitably, reflections over the summer holidays also turn to any new year's resolutions for 2018.

For many of us, not-for-profit (NFP) involvement will be on our list of new year's resolutions – 51% of our members are engaged on NFP boards, many of them balancing their corporate or state sector efforts with the desire to contribute to their communities. For many of us reflecting over the Christmas break, the question will be how we can contribute in our NFP roles better.

As the CEO of an NFP, I'm enormously grateful to the many volunteers who help the IoD promote excellence in governance. We are so fortunate to have so many people who understand how good governance benefits New Zealand as a whole by building stronger, more sustainable organisations.

Recently, I was invited to talk to the Public Relations Institute of New Zealand on what it means to "do well and do good". The opportunity to step back and think about the NFP sector as a whole got me thinking. How well are we doing at doing well and doing good?

At first glance, our NFP sector is hugely productive. New Zealanders are big on giving, and we have a vibrant NFP sector that contributes a significant amount to our economy.

A report published last year by Statistics New Zealand on the size of the NFP sector found NFPs contributed $6 billion to the economy in 2013, and more than 1.2 million New Zealanders contributed to the sector as volunteers. That's almost the population of Auckland engaged in doing great things for other people.

Two charities are established every day in New Zealand, and more than 114,000 organisations are engaged in the NFP sector.

The contribution that NFPs make to New Zealand's economy is so significant that it is beginning to rival other sectors. In 2013, this contribution was 3% of our GDP, but when volunteer labour is counted, this rises to 6%.

There's little doubt that us Kiwis are hugely passionate about NFPs. According to the Charities Aid Foundation, New Zealanders are the second most generous in the world, giving 0.7% of GDP to others. For NFPs, every little bit helps, and giving money or time helps these organisations stay afloat.

A recent report by Jo Cribb called *Governing for Good: The Governance Capacity of NGOs* interviewed 36 board members across 12 NGOs and identified many challenges. NGOs cited difficulty attracting and retaining good talent for their boards, particularly when based in the regions. The biggest challenge still for NFPs was securing funding, with 76% saying it was the greatest concern for their organisation. While there are a lot of donations going into the NFP sector, funding is still concentrated in the largest NFPs – 89% of the income for the sector was controlled by just 11% of the organisations.

Strengthening governance in this sector is a great step in addressing some of these challenges. Volunteering your governance skills is often more valuable than money. Every contribution by individual IoD members to better NFP governance makes a difference.

Ahakoa he iti he pounamu – although it is small, it is greenstone.

A special thank you to all of the IoD volunteers around the country both at council and branch level.

Safe and happy holiday season everyone!

Ngā mihi
Kirsten (KP)

UpFront

LOOKING TO THE FUTURE

As we head into 2018, what might our world look like in the future? Consider the insights produced by Future Agenda below:

A CONNECTED FUTURE

Today, over 3.3 billion people are connected to the internet, and at our current rate, an extra 1 billion are being added every 3 years

Predict 50 billion SIM cards in use by 2025

A GROWING AND AGEING POPULATION

We are adding an average of 60 million people a year to the planet between now and 2050

Population of 11 billion predicted by 2100

1.4 billion people aged over 60 by 2030

DWINDLING RESOURCES

1.6 equivalent planets of resources consumed each year

How do we manage 11 billion people with the same amount of water as for 1 billion?

SHIFTING POWER AND INFLUENCE

The economic centre of power is moving eastwards

25% of GDP growth accounted for by China on average over past decade (IMF)

India as a potential top three economy

FIND MORE AT **FUTUREAGENDA.ORG**

APPOINTMENTS

Alan Clarke
Chartered Fellow, has been appointed to the board of Cavalier Corporation

Murray Donald
Chartered Fellow, has been appointed to the Farmlands Co-operative board of directors

Christine Grice
Chartered Fellow, has been reappointed to the Council for Legal Education

James Ogden
Chartered Fellow, has been appointed chair of MMC fund administration

Hilary Poole
Chartered Member, has been appointed to the boards of Sport New Zealand and High Performance Sport New Zealand

James Sclater
Chartered Member, has been appointed to the board of TeamTalk

Erin Currie
has been appointed chair of the Medical Technology Association of New Zealand (MTANZ)

Miriam Deans
has been appointed to the board of the Real Estate Institute of New Zealand

Q: Can a robot be director of a New Zealand company?

A: No. Section 151 of the Companies Act 1993 requires directors to be natural persons.

NEW COURSES FOR 2018

DIGITAL GOVERNANCE MASTERCLASS

Check out our interview with Melissa Clark-Reynolds on *page 26* ahead of this class launching in Auckland on 14 March 2018.

Other new courses include Foresight and Innovation.

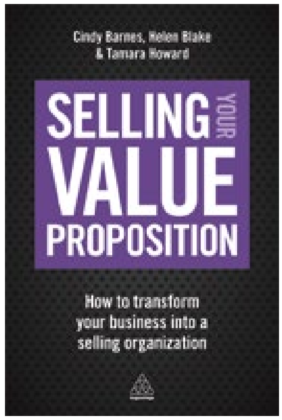
TURN TO THE EVENTS DIARY ON *PAGE 46* FOR DATES FOR THE START OF 2018, OR HEAD ONLINE TO FIND OUT MORE, **IOD.ORG.NZ/DIRECTORDEVELOPMENT**

FEAST YOUR EYES

Looking for something to read over the summer?

Try *Selling your Value Proposition* by Cindy Barnes, Helen Blake and Tamara Howard

IF YOU HAVE READ A GREAT BOOK LATELY AND WANT TO RECOMMEND IT TO OTHER DIRECTORS, SEND A NOTE TO **BOARDROOM@IOD.ORG.NZ,** OR YOU CAN REACH OUT THROUGH TWITTER **@IODNZ**



IoD NATIONAL OFFICE SHUTDOWN PERIOD

The IoD national office in Wellington, Auckland office and branches close for the holiday season on 22 December. All offices reopen on 8 January 2018.

slide to shutdown

PONDER THIS

A Hong Kong venture capital firm, Deep Knowledge Ventures, became the first organisation to appoint an AI machine to its board in 2014.

[GLC Report]

Top five issues for directors in 2018

Directors operate in a complex and dynamic environment that features rapid technological change and increasing scrutiny of social, political and corporate behaviour. Global trends show stakeholder values and expectations are increasingly focused on social and environmental issues and licence to operate. Under the new government we can expect to see more change, including a focus on reducing disparities.

Felicity Caird, GM Governance Leadership Centre, identifies five issues that should be top of mind for directors, and we ask three senior directors for their views on the issues for 2018.

01

Trust and confidence

Foster transparency and engagement with stakeholders to help build trust and business legitimacy.

Trust in business and society is vital to New Zealand's prosperity. Businesses and leaders are increasingly under public scrutiny, particularly due to the use, speed and ubiquity of social media. Reputations and trust can take decades to build and just seconds to destroy.

The 2017 Edelman Trust Barometer reveals a global crisis in trust in business, government and the media. In New Zealand, only 47% trust business, 46% the government and 29% the media. Of real concern, nearly half of New Zealand respondents (47% compared to 53% globally) believe the system is failing them.

Reasons for the decline in trust are wide ranging: repercussions from the global financial crisis, technological disruption, digital connectedness, social media (including fake news), privacy breaches and corporate failures. Parts of society feel left behind and disenfranchised due to growing inequalities and income disparities.

We are seeing a convergence of commercial and social drivers in progressive companies, with a greater focus beyond profit to purpose, people and planet. Proactive engagement with the community and stakeholders helps build (or rebuild) trust and business legitimacy and licence to operate.

It's important to tell your story. Frameworks and expectations of corporate reporting are evolving, but regulatory settings can be slow to change. Governance leadership is about thinking beyond compliance and acting on what's relevant and meaningful.

The 2017 NZX Corporate Governance Code steps up expectations of disclosure and transparency on a broader range of environmental, social and governance matters. Many boards are already meeting these requirements, for example, by producing integrated reports (NZ Post, Sanford, Z Energy and Meridian).

TIPS FOR DIRECTORS

Tell your story in a holistic and transparent way – meaningful reporting helps build trust and confidence.

Engage with the community and other stakeholders to build and protect business legitimacy and licence to operate.

Be prepared to **respond quickly and constructively** to public scrutiny and criticism, including in social media.

Ethical behaviour

Ethical behaviour and a healthy corporate culture are critical to current and future business success.

The board has a core role in overseeing corporate culture, conduct risk and setting high standards of ethical behaviour. It means, thinking beyond compliance, taking the lead and setting the tone for the organisation.

The digitally connected world means workers and stakeholders (investors, employees, consumers and media) have instant access to information about an organisation and its activities. Social media has changed the game, and corporate behaviour and practices are in the spotlight. And the lens is wide, extending to how diversity and inclusion is promoted and the organisation's approach to social and environmental issues.

Conduct risk, such as fraud, corruption, bribery and unethical behaviour, can cause significant financial and reputational damage. The 2017 *Director Sentiment Survey* found that only 40% of boards

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[Director Speak]

JOANNA PERRY CFInstD

Change up

"There is a tsunami of change coming, and boards need to be ready for it," suggests Joanna Perry MNZM.

Perry currently holds directorships on a number of organisations including Genesis, Trade Me and Regional Facilities Auckland. She argues boards in 2018 need to focus strongly on the strategic opportunities – and challenges – that are emerging rapidly in the business environment.

"Boards need to ask: What are these changes? What is our business?" she says.

"And boards need to say, 'We need to be nimble. We need to be agile. We need to be change oriented. We need to have a growth mind set.'

"It's a joint management and director responsibility to make sure our agendas are focused on the future."

New ideas

On a recent tour of Australia and New Zealand to meet key institutional stakeholders, it was driven home to Perry how valuable it can be for a board to leverage the knowledge of its investors.

"Some of them have great ideas. They look across the industry. They look across the world. I'm not saying we have to follow their advice, but let's engage with them on the things that are happening and find out what some people are doing in a better way."

Perry suggests boards invite investors and talk about where the organisation is heading at a formal investor strategy day. However, she says there are members of both boards and management who are reluctant to "show our hand".

"It takes people around the board table to be brave, quite frankly.

"One of my companies has done it – we did it last year, and the investors really engaged. They are trying to understand. They are not trying to second guess us or criticise us. The reason they invest is they believe in the company."

Being more transparent about strategy can make it easier for stakeholders to see when plans go awry. But that is just part of the business of governance, Perry says.

"What if we don't achieve it? Well, we have to talk about it and look at the options. We can't be scared of not achieving our goals. We adopt a strategy because we believe in it. Why don't we share it so others can believe in it as well?

"You do it at a level that is not giving away anything to your competitors. You don't give away your tactics. The investors love it. They absolutely love it."

Trust issues

While building trust among stakeholders is important, Perry argues there is a broader societal-level issue with trust that business needs to be cognisant of. And here again she sees opportunity in disruption.

"Technology and digitisation are driving change. People are scared of the changes that are coming and what it means for their jobs, for their livelihoods.

"Education is one area where this is clear – what our kids are learning today will not be what is needed when they leave school. What should they learn? Nobody knows the answer. But that says to me that we should be teaching them how to be curious."

As strong corporate citizens, businesses must work with government to ensure our systems, such as education, change in ways that benefit business and society, she says.

Access to talent

"Business wants its people to be curious, agile and nimble. How do we get there? We need to help our kids develop the ability to pick up ideas and skills and be interested in things.

"That is one of the roles business can have with government, to help government think like that. It's not lobbying, it's collaboration."

Perry describes the strategic issue facing business as posing much larger questions than businesses have traditionally tried to deal with.

"It's not about business skills per se or environmental issues per se. It's much wider than that. It is a societal change that business can be part of. That's what I truly believe."

<<

receive comprehensive reporting from management on ethical matters, and just 44% assessed ethics risks in the past 12 months. Less than two-thirds discussed whistleblowing.

Boards need to insist there is an effective whistleblowing culture and mechanisms are in place to support it. We don't have to look far to see why – Harvey Weinstein, Fuji Xerox and the Ministry of Transport fraud case. A good indicator of an effective culture, and that systems are working, is when the board hears about incidents and bad news. Decisive leadership in following up on incidents and potential risks is critical.

It is crucial boards get robust reporting from management so they can effectively oversee direction and risks. Internal audits can provide independent assurance to the board through testing controls for culture such as complaints processes and follow through. External sources of information (for example, social media monitoring and independent reviews) can also help the board gain assurance.

Having a discussion in board-only time, as well as with management, provides a good opportunity for free and frank discussion about corporate culture and ethical behaviour and to consider any potential red flags.

TIPS FOR DIRECTORS

Set the tone – promote, inspire and embody organisational values and expected behaviours. Oversee conduct risk and drive expectations about high standards of ethical behaviour.

Ensure there is an effective whistleblowing culture and systems in place and monitor them.

Ensure there is comprehensive and timely reporting from management. Utilise internal audits and board-only time to ensure robust scrutiny and discussion.

[Director Speak]

MARK CROSS CMInstD

Board responsibility

Z Energy, Chorus, Genesis, and Argosy Property director and Milford Asset Management chair Mark Cross addressed shareholder activism on the MinterEllisonRuddWatts Corporate Governance Symposium panel earlier this year. "It's on people's minds," he says.

Globally, shareholder activism is on the rise with activist hedge funds such as Pershing Square Capital and Elliott Advisors making headlines through public attacks on board performance.

"In New Zealand, it is more subtle than that," Cross says.

"We don't tend to see specialist funds taking a 3% position then trying to take the board down. Activism is typically more behind the scenes."

A common concern of shareholders in New Zealand is perceived shortcomings in performance or governance. This may result in larger institutional investors making contact with board or management.

The purpose of that contact is primarily collaboration and communication to acknowledge and address issues, Cross says.

"The preference of all the institutions I speak to would be to collaborate in a way that achieves both parties' aims.

"That's certainly the aim – although I suspect if you ask the boards on the receiving end they probably wouldn't feel like it is collaborative."

Engagement works

Managing shareholder activism effectively starts with engagement, Cross says.

"They [institutional investors] would rather be engaging with the company all along than simply when there is a problem."

Cross notes an overseas

Shareholder activism

trend, typified by the Stewardship Code maintained by the UK Financial Reporting Council, to encourage institutional investors to promote long-term profitability in the companies in which they invest.

"It's turning it around so that it's not just boards that have a responsibility to investors. Under the concept of stewardship, investors, usually larger institutional shareholders, have a responsibility to engage with boards in a constructive way and to not pressure a company to deliver short-term returns."

Issues for activist investors

"Typically, I would say it starts with the share price – poor performance relative to an index or relative to an industry," Cross says.

"The next popular area is remuneration. That's right at the top of the list. Particularly if you look at Australia, it is remuneration that evokes the ire of shareholders – remuneration of CEOs, sometimes boards, where there is perceived to be a lack of alignment between remuneration and performance.

"I've yet to hear a consensus view on what a proper remuneration structure looks like, but the investors certainly know what they don't like."

There is also increasing activism around governance and management weaknesses. Cross cites the Commonwealth Bank of Australia case in which money was being laundered through the bank's ATM system.

"You get investors following up and asking, 'How did this happen, and what are you going to do about it?'

"You could broadly group that into ESG-type concerns – environmental, social and corporate governance – that are an increasing trigger for activism.

"If you draw ESG activism back to its origins, it is often the smaller retail investors into the large institutional funds who are demanding that the funds take responsibility. So it is client-driven activism in many respects."

Engaging with the future

Cross argues boards in 2018 should be developing strategies to maintain their companies as sustainable entities. A sustainable strategy should acknowledge the aims of a very broad stakeholder group and take into account the position of the business in society. Developing this is a big task, he says.

"Ultimately, it is boards that have to decide to do that. Shareholders can buy and sell shares and don't have a fiduciary obligation to the companies they invest in. But directors do have a fiduciary responsibility to the company and have to make the ultimate calls."

03

Understand shareholder expectations and have a continued focus on how to improve effective engagement.

Shareholder activism is not new to New Zealand, but it is increasing in line with global trends.

Institutional investors are pushing strongly on governance, social and environmental issues to help enable better performance and long-term sustainability. Two key areas of focus include board composition (diversity, tenure, director independence) and remuneration (director fees and in particular executive pay).

And it's not just institutional investors. The New Zealand Shareholders' Association (NZSA) has been increasingly active over the past year, including on virtual-only AGMs, getting enough proxy votes from Rakon shareholders to vote out one of the directors and surveying members ahead of the Fletcher Building AGM to add weight to issues (such as performance and director remuneration) it was pushing with the board.

Scrutiny of CEO pay is increasing in New Zealand (for example, at Fonterra, Sky City, Fletcher Building, NZ Super Fund and TVNZ), again following global trends. More questions are being asked about how pay aligns with company performance, including the CEO's contribution, and about disparities with workforce pay.

Open disclosure by boards of CEO remuneration, and the rationale behind it, is important. The NZSA Framework for Reporting of CEO Remuneration in New Zealand Companies provides a useful framework for boards.

This year, 67% of boards in the *Director Sentiment Survey* said they discussed how they could engage more effectively with shareholders. It's important to keep up with shareholder expectations. Technology and digital connectedness enable more diverse and direct engagement, for example, through social media, roadshows, websites and electronic briefings, and more use of virtual AGMs, often in conjunction with a physical meeting.

TIPS FOR DIRECTORS

Have regular discussions about how to engage more effectively with shareholders.

Consider what opportunities (and risks) technology offers for better engagement, including getting more out of AGMs and social media.

Provide open and understandable disclosure of director and executive remuneration (use the IoD and NZSA guides). Provide a rationale and context about alignment with strategic objectives and performance.

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04

Data governance

Maximise the benefits from data and prioritise protecting personal data.

Cyber security is on the agenda for many boards (50%, up from 32% in 2016) and is recognised as a core risk for organisations. Another aspect of data governance is the use of data analytics to drive innovation and business performance and the protection of personal data.

Managing this unlimited and valuable resource is a growing challenge presenting major opportunities and risks in a digital global environment without borders.

More large organisations are taking advantage of big data, which is defined by the Oxford Dictionary as “extremely large data sets that may be analysed computationally to reveal patterns, trends, and associations, especially relating to human behaviour and interactions”.

Possible uses include the development and personalisation of new services and products driven by machine analysis of detailed information about consumer behaviours, preferences and needs.

Although some commentators may say privacy is dead in a online world, privacy is a current and real issue. Regulatory environments are evolving, and we can expect to see more change.

Europe’s General Data Protection Regulation (GDPR) comes into effect in May 2018 and aims to better protect data privacy in the digital world. Boards and executive management will be held responsible, and regulator breaches and non-compliance can have high costs (fines up to €20 million or 4% of global turnover). The regime has global reach, applying to any company handling EU citizen data.

The NZ Data Futures Partnership is working to strengthen our data ecosystem and drive more effective, trusted data use. Guidelines released in August aim to help users develop social licence for their data activity to gain community acceptance.

The Privacy Act 1993 is being reviewed to ensure it is fit for purpose in a modern world and is expected to include mandatory reporting of data breaches.

TIPS FOR DIRECTORS

Align insights from data analytics with business strategy. Use data to support innovation and decision making, for example by better understanding consumer behaviours, patterns and risks.

Understand what and where your data is, how it is collected, used and shared and the applicability of global regimes such as the GDPR.

Ensure transparency about how data will be used and protected and aspects such as anonymity, consent, who benefits and how.

[Director Speak]

MARK VERBIEST CFInstD

Building trust

Mark Verbiest sits on the boards of Meridian, ANZ and Freightways and the advisory board to NZ Treasury. He is the immediate past chair of both Spark and Transpower and chair of Willis Bond Capital Partners Limited.

For Verbiest, the issue of trust and confidence goes broader than business.

“It is trust across a number of entities,” Verbiest says.

“Underlying that is an increasing level of uncertainty in society as to what the future holds.”

“At least two of the boards I am on have specifically considered the Edelman Trust Barometer, and there have generally been discussions around it. I think what you are seeing, particularly at the top end of town, is that business leaders are taking the lead on some of the broader issues at play.”

Verbiest says New Zealand is fortunate to have a group of CEOs prepared to take on issues such as societal trust.

“That being said, they won’t be able to do it alone. Policy makers, government, educational institutions ... everyone has a role.”

At a minimum, businesses in 2018 need to recognise that the age of social media is the age of customer power, he says.

“The company’s approach to issues such as the environment, sustainability, more generally what the values of the company are, how transparent it is and how it operates in favour or not of the customer are going to be critical to a company’s licence to operate.”

Shareholder activism

A corollary of the rise of customer power is a rise in shareholder activism and company transparency, Verbiest says.

“You are finding an increase in transparency, and that is ultimately a result of shareholder activism. Probably the most obvious example of that is around executive remuneration and the appropriateness of the structure that a company might have in place.

“I have to say that, on ESG [environmental, social and corporate governance] matters, more generally there is a mixed response from investors. All investors will tell you these matters are important, but some still make decisions based primarily on financial metrics

Access to skills and talent

05

Ensure the organisation's talent strategy is adaptive and fit for future needs.

For the fourth consecutive year, labour quality and capability has been identified in the 2017 *Director Sentiment Survey* as the top risk for businesses.

A tightening labour market saw the unemployment rate at 4.6% in September, the lowest in 9 years.

Challenges for boards include labour shortages and changing skills needs. We are also hearing about more boards struggling to attract executive talent due to global shortages, competition and greater mobility of executive skills and experience.

Technology is fundamentally changing how we live, work and relate to each other. Workforces are becoming more transient and mobile. Deloitte's 2017 Global Human Capital Trends describes our changing workforce as "more digital, more global, diverse, automation-savvy, and social-media proficient".

A job for life has become a rare (perhaps extinct) concept. The 40-hour week is also declining as the default option, with many workers opting for greater flexibility of hours and roles.

We can see this in the growth of the gig economy. It means significant change to the composition of the workforce and the nature of work. Gig or independent, workers take on (contract) temporary, specialist, often part-time work and sometimes multiple jobs at a time. Workers cover the spectrum from low to highly skilled.

This type of work/worker isn't new, but the growth and extent of it is. McKinsey & Company (2016) estimates 20–30% of the working-age population in Europe and the United States is in the gig economy, with about two-thirds doing it through choice, preferring the independence and flexibility. This preference is evident from millennials seeking greater work-life balance to older workers phasing their approach to retirement.

It's widely accepted that pay is only one of many drivers of worker engagement and satisfaction. Workplace culture, fairness, business values and societal contribution are also of key importance and can be the point of difference in attracting and retaining talent. Embedding an adaptive and learning culture to help develop new worker skills can help enable workplace transformation in a rapidly changing and disrupted world.

TIPS FOR DIRECTORS

Prioritise strategic discussions about disruption, innovation and future workforce and skills needs.

Understand worker (as well as organisational) needs and how flexible workplace practices can enable participation and enhance productivity for your business.

Ensure the organisation is **adapting its talent strategy** to a transforming workforce and future needs.

(less so those investors who are longer-term holders).

Skill shortage

Issues included in this space include the impact of technology on the workplace and how expectations of work are changing and how that effects culture, engagement and hiring and retention.

"The nature of work is changing. A lot of that is technology driven. There is a growing recognition of the need to train people with relevant skills and, just as importantly, to look at potentially retraining people who are capable of moving into different roles with more relevant skills.

"I think that, among business leaders, there is a growing recognition business has to be a part of, and lead, the conversation about the future of work. A cultural mantra is developing along the lines of 'no one should get left behind'. Everybody has to be catered for. That isn't something business can solve alone, but it is something that everyone should be concerned about."

Part of maximising talent in an organisation is considering diversity and inclusion policies, he says.

"It's the need to make sure that we're maximising access to talent, for example, through outside partnerships with the likes of TupuToa (internships with young Pasifika) and starting to consider what kind of vocational retraining we should be looking at.

"I think it is worth acknowledging and recognising that we are genuinely quite fortunate in New Zealand to have a group of CEOs who are concerned about broader issues around sustainability, around work, around the environment, and they in conjunction with government and policy makers

actually can make a real, positive difference to New Zealand."

This could happen partly because of our small population, Verbiest says, but predominantly it's because we have a group of people who are committed and really want to make a difference.

A global perspective

MARCUS PEARSON,
COUNTRY HEAD,
MARSH NEW ZEALAND

Considering New Zealand's geographic location, we could easily feel removed from what is happening in the world.

Threats of conflict in North Korea, involuntary mass migration across Europe and frequent acts of terrorism play out in the news and yet we still feel quite safe in our remote island nation.

We can't, however, divorce ourselves from what is happening overseas, as global events are no longer constrained by borders.

The World Economic Forum Global Risks Report pointed to the need for businesses to understand and plan for an array of risks that are emerging such as rising geopolitical tensions, deepening societal polarisation and rapid technological change. All of these things have been felt here and have consequences no matter the size of your organisation.

GEOPOLITICAL RISKS

A wave of populism has been sweeping the globe. Unexpected outcomes from referendums and elections have shaken the status quo in a number of countries. In 2016, it was the UK Brexit vote and the US presidential election. In 2017, we have seen the far right make a stronger bid for power in France and Germany, a referendum in Turkey, the Australian marriage equality plebiscite and of course "Jacindamania" in Godzone.

2018 is not likely to be any different. These waves of political and social instability could create a range of disruptions to business activity, not only in regards to regime change but also from civil disturbance, asset bubbles, changes to trade agreements, terrorist attacks and government policy reversals (proposed tax cuts).

Companies should review how the underlying sentiment might cut across the business environment to amplify key uncertainties, sharpen consequential risks and introduce new challenges. Build global risk trends into your future planning processes. We are more globally connected than most realise. Specifically, boards must have greater engagement with management on these issues and outline how global risk factors manifest in daily operations. This should especially be considered, of course, when looking at entry to new markets and countries.

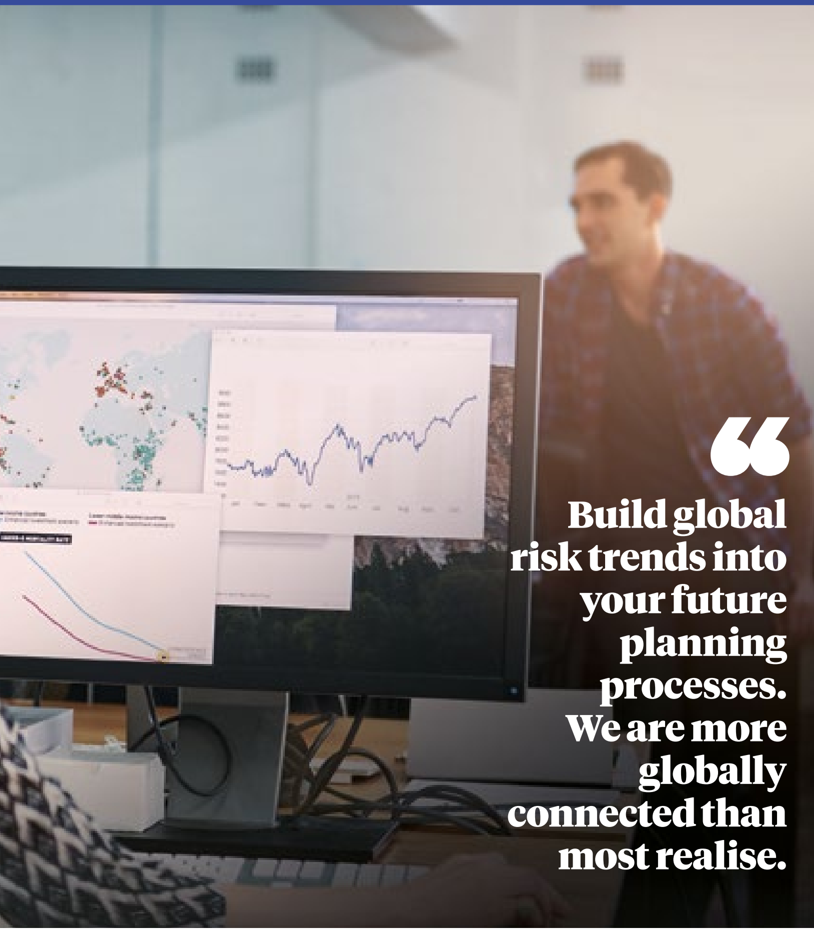
It is also important to look at these issues of change in regards to your own people. The CEO of our parent company MMC, Dan Glaser, was recently quoted as saying, "Employees have changed. They're much more active. They're more interested in a company that has values."

SOCIETAL POLARISATION

Today, almost all large and medium-sized organisations have a presence on social media, which can offer significant benefits when used correctly. However, social media also presents brand and reputational risks for companies that misuse or neglect their social media capabilities.

In our 2016 Directors' Risk Survey, directors rated the increasing influence of social media as the top risk that could impact businesses in the next 12 months. This has certainly come into play throughout the course of the year.

Through increased interconnectivity and rising societal polarisation, social media has enabled previously alienated populations to communicate their grievances, coordinate demonstrations and revolt in a manner that could easily spread beyond national borders. Exacerbating this phenomenon is ominously low levels of trust of both governments and big corporations. Pervasive corruption, short-termism, fake news and unequal distribution of the benefits of growth are



> **Build global risk trends into your future planning processes. We are more globally connected than most realise.**

creating levels of distrust not seen since pre-WWII. This breathes wind into the sails of the political extremes, and social media provides the "echo chambers" of like-minded groups that many believe determined the US election outcome.

We saw this at a local level in October when protesters crashed the annual defence industry conference in Wellington. Media reported that they had been rallying people on social media for months ahead of the event and that people came from around the country to attend. We also saw it in the recent New Zealand election campaign, where social media was flooded with debate on social issues such as failed infrastructure planning, poverty, housing affordability, environmental concerns, distrust of right-of-centre politics "capitalism has failed New Zealand" and of course fake news (tax increases and budget holes).

In this era of "fake news" and volatile social issues, organisations should re-evaluate whether they are doing enough to protect and manage their reputation with customers, employees and other stakeholders. Rumour and allegation are not new problems for companies, but in today's "always on" world, the rapid spread of misinformation can happen within hours and be more challenging to overcome.

RAPID TECHNOLOGICAL CHANGE

Cyber risk was the number one risk in our 2016 Directors' Risk Survey.

The risks have not lessened and can still cause significant financial damage

even from a relatively unsophisticated attack.

Several large companies were affected by the global WannaCry cyber attack in May, while local companies had a targeted breach of their customer data in October.

It is not just cyber that boards need to be focused on however. New technological innovations such as artificial intelligence (AI) and robotics are said to pose the greatest challenge over the coming years.

Just consider for a moment the magnitude of disruptive technologies currently in varying stages of development and use. 3D printing, nanomaterials, AI and robotics, biotechnologies, energy capture and storage, blockchain, geoengineering, Internet of Things, neurotechnologies, quantum computing, space technologies and viral/augmented realities. We are indeed witnessing the fourth industrial revolution, and the average customer of the future is going to look very, very different to now.

Boards must consider the people risks associated with these new technologies and how new ways of doing things will impact on their workforce. New skill-sets will be required, organisational cultures will change and companies will need to keep abreast of these changes to ensure they have the right people on board.

WHAT SHOULD DIRECTORS BE THINKING ABOUT?

Companies must build business strategies that take into account risks related to geopolitical tensions, deepening societal polarisation and rapid technological change. Directors should ask themselves questions such as:

How will societal and political changes impact on corporate operations and profitability?

If supply chain risks increase based on geopolitical disruption, how might that impact cost and structures and revenue streams?

Is there a strong operational framework for the organisation's cyber security programme?

Are there solid guidelines in place pertaining to the use of social media in the business?

How can we better communicate with our stakeholders given the low levels of inherent trust? Should we let our CEO "off the corporate communications leash"?

We live in a time of heightened global risk but also of great reward. Every challenge will need an innovative solution, and the upside of technological change outweighs the downside. While new policies may close some doors, they will inevitably open others. With a careful eye on emerging global risks, companies can thrive in this volatile environment.

MARSH

> **Why are we looking at this market? ... How can we assure that our brand and reputation does not suffer? Is this a strategic investment, and is it the right investment for us?**

Ziena Jalil

Turning an eye to asia

Asian markets such as those in China and India represent growth opportunities for New Zealand business, but as with any new market, there are inherent risks to understand. The *Eye on Asia* forum in October, held in partnership by the IoD, New Zealand Asian Leaders and the Superdiversity Centre, brought together panellists and case study presenters to share their expertise in this region of the world.

New Zealand businesses can do well in Asia, and China and India are promising markets. Both the Modi government in India and Chinese Communist Party under the leadership of President Xi Jingping are making changes to legislation and policy that impact on business. On a global scale, China is positioning itself to build greater trade and business ties with countries including New Zealand. The Belt and Road Initiative was mentioned during the forum as an indicator of where the Chinese market is heading.

A CHANGE IN ECONOMIC FOCUS

The case for business involvement in India is changing. India is ranked 40 in the World Economic Forum (WEF) global competitiveness index and has been the fastest growing economy in recent years with an average economic growth rate of 7% over the last 20 years. India jumped from 130th to 100th in the latest World Bank Doing Business report, which rates countries on ease of doing business. Prime Minister Narendra Modi wants to see India in the top 50.

Commentators such as the *Financial Times* say the change in global competitiveness is a result of direction being set by the Modi government and attempts to address problems such as corruption. The WEF reports the private sector finds corruption to be the most problematic factor for doing business in India.

China, too, is changing its economic focus. China is New Zealand's largest goods trading partner and our second-largest tourism market. Panellists spoke to the influence of President Xi Jingping and messages that had come from the 19th Communist Party Congress in October on the country's economic goals.

Terry Lee, managing director of Milk NZ, says the Communist Party has signalled a new era in China and pointed to specific themes coming out of the Congress. Primarily, the focus is on addressing the contradiction between unbalanced development (an ambitious target to eradicate poverty by 2020 has been set) and the Chinese people's ongoing desire for a better life.

"As a director, study this trend very carefully to understand what your strategy should be," says Lee.

The signals are that China no longer wants to fulfil the role of 'factory to the world' and is looking to take a different role globally. While the wide-scale production and exporting undertaken by China has been beneficial in pulling large swathes of the population out of poverty, the growing Chinese middle class have new ambitions. This influences economic activity, the partnerships Chinese businesses will be looking to make and the kind of products and services Chinese consumers are seeking, Lee says.

With this context in mind, Dr Xiaoying Fu MInstD, chair of NZ China HiTech Innovation Alliance, says directors should consider what, other than dairy products, New Zealand businesses can take to China.

China is investing more in becoming a high-tech market like Japan and South Korea. Dr Fu highlighted China's achievements such as the Quantum Space Satellite, Tianhe-2 (the world's fastest computer) and Danyang–Kunshan Grand Bridge (the world's longest bridge). Dr Fu asked whether New Zealand is too invested in agriculture at the expense of tech industries like gaming, which has huge market potential in China. Statista reports the 2015 revenue for the Chinese video game industry to have reached 140.7 billion yuan (approximately NZ$30.8 billion).

Forum facilitator Chartered Fellow David Jackson, a director of Fonterra, told attendees that New Zealand

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01 Facilitators David Jackson and Mai Chen 02 Chandan Ohri 03 Terry Lee 04 Ziena Jalil

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needs to decide what we can take to the world. While our dairy products are valuable, could we take our technical expertise offshore? How does the changing preferences of the Indian and Chinese markets influence the strategy you develop for entering these markets?

KNOW YOUR MARKET

Ziena Jalil is a member of the IoD, partner at Senate SHJ and spent 10 years in Asia in roles with Education New Zealand and New Zealand Trade and Enterprise. Jalil says it is important to have a board asking the right strategic questions before attempting to enter the market.

"Ask the big questions. Why are we looking at this market? What are the opportunities and risks? How can we assure that our brand and reputation does not suffer? Is this a strategic investment, and is it the right investment for us?"

Recognising the cultural differences across India and China is vital to developing the right strategy for entering these markets. In both countries, education levels, wealth and language can differ hugely across the country. There are 22 different languages spoken in India, and in China, the same word can have different meaning depending on the part of the country you are in.

"Do your due diligence," says Jalil. "Gain insights into cultural differences, and use your networks in the widest sense possible."

> **It's a huge risk to think if you make it in one country, you will make it elsewhere. It always starts with what the market wants, not what you want to sell it.**
>
> Ziena Jalil

And just because your product or service is well liked in New Zealand or Australia is no guarantee of success in India or China.

"It's a huge risk to think if you make it in one country that you will make it elsewhere. It always starts with what the market wants, not what you want to sell it," says Jalil.

Panellist Chandan Ohri, managing partner of global business services at IBM, highlighted the importance of the Digital India project and how that changes the way people interact with services and their expectations on businesses. The Modi government has signalled a "citizen first" approach. Digital India is part of an approach to make government services more readily available, aligning with the needs of the young, connected Indian population. India is a market with a median age of 26 and close to 300 million smartphones in operation.

In China, the consumption habits of the younger generation are changing quickly and are very different to earlier generations. Their preferences change quickly, and brands must adapt to survive.

"Understand the market and understand your consumer. The Chinese consumer is changing; they are ready to pay more for experience and for higher quality. This is a big difference," Lee says.

"In New Zealand, you can go to the supermarket and buy the same product in the same packaging for many years. In Asia, you have to be prepared to redevelop your product more frequently to accommodate the new need and new demand from consumers."

STRATEGY AND PARTNERSHIPS

Finding the right partner was stressed by all speakers, with respect to both India and China. Dealing with risks like those posed by corrupt behaviour and managing the complexities of the markets can be better mitigated by having the right partner.

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Both India and China score 40 on the 2016 Corruption Perceptions Index, below the global average score of 43 and the midpoint at 50. Sitting at 90, New Zealand is ranked number one on the index, so there are some clear risks to New Zealand businesses operating in Asia. Ethics and values sit within the frame of a director's responsibilities, so be clear about the ethics and values your organisation holds and stick to those.

But, Jalil says, be aware of the differences in how senior figures are regarded in Asia.

"Relationships matter, but don't do anything you wouldn't do in New Zealand. Make sure your actions align with values and ethics," says Jalil.

The range of opportunities available to businesses in China is one reason governance models between New Zealand and China can be so different. Lee highlights the need to move quickly to capitalise on opportunities and says New Zealand boards often spend much longer working through due diligence before doing a deal.

"This is not the way you are going to grasp big opportunities in Asia in such a fast-moving market. There are so many opportunities, so Chinese businesses want a deal done very quickly. They don't have the patience to wait for board approval and do due diligence, and they have to work quickly to grasp the opportunity.

"Find the right partner," says Lee, "someone with the same or bigger ambitions than you so that they will not be lured to new and numerous other opportunities."

"The Chinese consumer is changing; they are ready to pay more for experience and for higher quality. This is a big difference.

Terry Lee

In both India and China, relationships with the right partners can open doors, but you need to be prepared to be in it for the long haul.

"You need to make continuous effort. If you are really interested in China, you need to make a long-term plan," says Lee.

"The reason I emphasise this is because China and Asia offer such big opportunities."

In the same way that America and Europe offered opportunity for brand growth in the early 70s and 80s as the middle class grew, Lee says this is the opportunity available to businesses in China now.

"Now, the biggest growth of the middle class is in China. This is a once in a lifetime opportunity for business people with big dreams."

Eye on Asia was a collaboration between the IoD, New Zealand Asian Leaders and the Superdiversity Centre. Hosted by David Jackson CMInstD and Mai Chen CMInstD, eight panellists and two case study presenters shared their knowledge and experience of working in China and India.

Cyber security

The year that was and a glimpse into the future

PETER BAILEY,
GENERAL MANAGER, AURA INFORMATION SECURITY

While information security has been growing in importance and concern in recent years, some of the developments we have seen in 2017 have arguably made this past year one of the most significant to date.

Three key developments in particular had a significant impact on the industry. First, the rapid rise of the Internet of Things (IoT). Second, the growing trend around flexible working – something that is putting businesses at increased risk due to the fact staff are able to access work files and data using personal devices. And finally, the sharp rise in the number of high-profile ransomware attacks, which over the past few months have put businesses' security defences to the ultimate test. Add to this the fact that experts are predicting a significant rise in the number and sophistication of cyber attacks, and it's easy to see why cyber security has become a key topic at the executive and board level.

KEY CONCERNS FOR IT DECISION MAKERS

It's fair to say cyber security is something that is keeping many IT decision makers awake at night. Looking back at 2017 alone, the attacks have been relentless – and unfortunately there is no sign 2018 will be any different. Hackers are looking to profit from their attacks, and despite your business's defences, it is possible a sufficiently determined one will breach your security walls. Without a solid information security approach, a breach is not necessarily an if but a when.

Recently, Kordia released the results of a survey of 225 IT decision makers in businesses with 20 or more employees. Conducted in September, the results of this survey presented some interesting findings. A quarter of all respondents said their business was affected by the NotPetya and/or WannaCry ransomware attacks, and 65% of respondents said that recent high-profile ransomware attacks had prompted their business to review or update their cyber security policies. That's a potential problem, because both NotPetya and WannaCry exploited known vulnerabilities – pointing to a lack of basic cyber security in the first place, such as regularly updating software.

The research also found that, despite 68% of respondents believing their company is ready to deal with a cyber attack, almost 30% stated they did not have an incident response plan in place. This in itself raises alarm bells, particularly considering the potentially devastating effect a cyber attack can have on an organisation's reputation, its ability to continue day-to-day operations and its bottom line.

A further potential cause for concern is that some respondents are reluctant to admit being caught out by ransomware. When asked, "have you as an individual been targeted by ransomware, phishing or malware in the past 12 months?", just 41% of respondents answered yes, but the number is likely to be much higher. If you are connected to the internet and use technology, you have almost certainly been targeted.

EDUCATION IS KEY

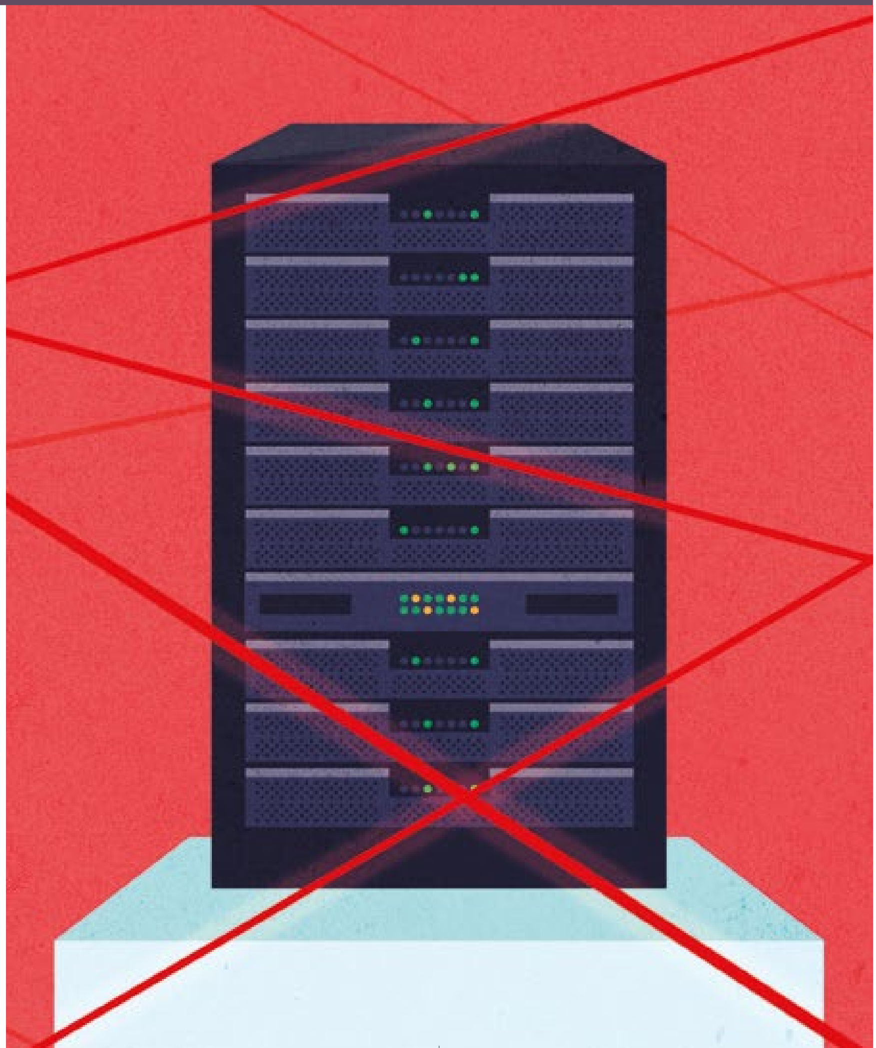
Something every business needs to be aware of in 2018 is that those doing the phishing are sophisticated and highly adaptable. It is difficult to spot the attacks, and it takes just one person in the organisation to let down their guard for the hackers to gain access.

It is for this reason that the most crucial component in good information security is people. Granted, IT is one of the weak points, but technology is manageable. It's human nature that can't be predicted and controlled thereby presenting the biggest opportunity for hackers.

Hackers know where weaknesses lie, and it's with people – their inability to identify risks and their often relaxed approach to security. It is in this crucial area that the survey has delivered good news. Some 66% of respondents stated they had carried out some form of employee cyber security awareness training in the past year. While this is encouraging, it also means a third of New Zealand businesses have simply left things to chance. Ongoing education of staff

... despite 68% of respondents believing their company is ready to deal with a cyber attack, almost 30% stated they did not have an incident response plan in place.

Kordia survey



is an essential component in establishing a sufficiently secure organisation and should be a mandatory focus for all businesses in the year ahead.

THE DIRECTOR'S ROLE IS GROWING

And there are more positives. What may seem like a spike in attacks is actually evidence of more companies examining their security situation. Directors are appreciating the threat landscape and acknowledging security, long perceived to be an IT problem, is in fact a company-wide one. In the past 12 months, boards and executives have become engaged in the topic. There is considerable interest from members of the Institute of Directors to understand the issue and their role in cyber security.

Looking ahead to 2018, it has a predictably familiar feel. More phishing. More employees making uneducated mistakes for hackers to capitalise on. More ransomware. Cyber crime is big business, and those criminals will keep doing what nets them the best result.

AN ENDLESS LOOP?

For many companies, addressing cyber security can seem like an endless loop of risk and reality egging each other on. Thankfully, by reviewing the cyber security climate over the past 12 months, forecasting developments to come in 2018 and keeping our finger on the pulse of the shifting threat landscape, security experts are in a good position to provide advice to businesses in what is an increasingly turbulent climate.

The approach we recommend is focused on the fundamentals of solid information security: improving policies and processes, education and making information security an integral part of everyone's job from the boardroom down.

Above all, a change in attitude is the key and is what will equip your company for a better security posture. Being sufficiently secure depends on a risk approach, with defined policies backed by constant vigilance, repeated reinforcement of good habits and preparedness for an attack.

As a board member, you can make yourself and your business less of a target with these three recommendations:

1

Get the IT house in order.
The Australian Signals Directorate's Essential Eight outlines some of the basics: application whitelisting; patch applications; disable untrusted Microsoft Office macros; daily back-up of important data and more. Do just this and you are already more secure than many of your peers.

2

Educate the organisation.
Start with yourself, your staff and the board. Understand the dangers and make it part of the company culture to stay up to date with cyber security best practice. At Aura Information Security, we recently launched CyberWise, an online subscription-based training tool designed to help businesses raise the overall standard of cyber security. Tools such as this can simplify the process of keeping up to date with cyber security.

3

Plan for an incident.
Be prepared. There is still the possibility that something may happen. How you respond is often the greater determinant of damage and fall-out. A failure to plan is a plan for failure.

Stakeholder interests top of mind for boards

91% **of directors said stakeholder interests are very important to their organisation, up from 86% in 2016**

Ethics risk

44%

of boards assessed ethics risks in the last 12 months

Whistleblowing

32%

discussed whistleblowing and how to make speak-up provisions more effective in the last 12 months

The annual *Director Sentiment Survey* reveals an overwhelming majority of boards (91%) consider stakeholder interests a high priority (up from 86% in 2016).

Released by the Institute of Directors (IoD) and ASB, the *Director Sentiment Survey* takes the pulse of the director community in New Zealand.

The survey reveals key challenges for New Zealand boards, including stakeholder interests, leading on organisational ethics, strategy and risk in the age of technological disruption and access to skills and talent in a tight labour market.

The emphasis on stakeholder interests could also be seen in the high number of directors who considered sustainability and social issues as very important to their organisation (69%).

IoD Governance Leadership Centre General Manager Felicity Caird says, "For boards to succeed in today's environment, they will need to think beyond compliance in assessing risks and the drivers of business sustainability."

Comprehensive reporting from management to boards on ethics and conduct risk is viewed as even more crucial in the business environment with greater stakeholder expectations about corporate behaviour and activities, including social and environmental impact.

"Boards play an important role in setting the tone on ethics and culture for the organisation and communicating it. In order to hold management to account for ethical risk and conduct, it is essential they receive comprehensive reporting," Caird says.

The survey also revealed an opportunity for boards to request improved reporting from management to guard against ethics risks. Just under half (44%) of New Zealand company boards have assessed organisational ethics risks, and less than a third (32%) of boards had discussed how they could make whistleblowing and speak-up provisions more effective in their organisations.

Labour capability

54%
of directors cite labour capability and quality as a key constraint

Digital capability

30%
of boards have the right capability to lead their digital future

Capacity constraints remained a key concern in the economic outlook, with more than half of directors citing labour capability and quality as a key restraint (54%). This is up from last year, when 46% of directors identified this as one of the top three issues.

While the survey indicates business optimism, there is more caution on the economic outlook. ASB Chief Economist Nick Tuffley says this may be due in part to the survey's post-election timing, before a government was formed, and to perceptions the economy may be past its peak in the current business cycle.

"We are continuing to see the impact of the tight labour market register highly in directors' key challenges," Tuffley says.

"This tightening in labour is due to strong economic performance, which has created a highly competitive market for talent. Directors identified this as a key barrier to business performance and the economy more generally."

Digital leadership within boards and in organisations remains a concern, with just 30% of directors feeling their boards had the expertise to lead their organisation into a digital future. While half of boards were discussing cyber risks, less than half of boards (45%) felt that they received comprehensive reporting on cyber breaches from their management.

This year saw a continued increase in the number of directors considering their boards had the capability to comply with the Health and Safety at Work Act 2015 obligations, up from 51% in 2014 to 76% in 2017. This is a welcome trend, but vigilance in the boardroom is still needed, Caird says.

"The ability for directors to navigate the rapid changes caused by the digital revolution is a key challenge and should be a priority for boards.

"Social media and the risk of cyber breaches also mean that companies operate in a more complex environment where comprehensive ethics reporting and risk management is vital to sustainable success."

This is the fourth annual *Director Sentiment Survey* and the second year the IoD has worked with ASB. The survey was conducted in October 2017 and involved 934 members of the Institute of Directors, our highest response rate yet.

YOU CAN FIND THE FULL REPORT AT **IOD.ORG.NZ**

The road ahead

The future of corporate responsibility reporting in New Zealand

With the introduction of the latest New Zealand Stock Exchange (NZX) Corporate Governance Code, the days of corporate responsibility (CR) reporting being considered an "optional extra" are firmly behind us. This change is pivotal and provides an invaluable opportunity for directors to embrace the benefits better CR reporting provides.

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THE CURRENT STATE OF CR REPORTING

According to the just-released 2017 KPMG International Survey of CR Reporting: The Road Ahead, 69% of New Zealand companies publish information about their non-financial performance. This improved from 52% in 2015 and represented the second-largest increase globally. By comparison, 93% of the world's largest businesses disclose their non-financial performance.

In producing the 2017 survey, KPMG International studied the annual financial reports and corporate sustainability reports of the 100 top-earning companies within 49 countries, including New Zealand, thus making the survey the largest in the world.

Although a rising number of New Zealand companies publish information about their non-financial performance, the quality of our local disclosures is low.

With a handful of stand-out exceptions such as Sanford, Z Energy and New Zealand Post, New Zealand-based reports generally lack balance, objectivity and transparency. This is due, in part, to New Zealand companies failing to use internationally recognised reporting frameworks such as the Global Reporting Initiative (GRI) and/or the Integrated Reporting <IR> framework. For example, the KPMG survey found only 10 locally based disclosures used GRI, which compares to 75% of the world's largest businesses.

Few New Zealand businesses obtain third-party assurance for their non-financial disclosures. The KPMG survey found the rate of assurance among the world's largest businesses to be 67%, whereas only 6% of New Zealand's locally based disclosures are subject to third-party assurance.

This survey demonstrates the missed opportunity by businesses to acknowledge and appreciate the role non-financial reporting plays in understanding, defining, enhancing and communicating corporate value. With the ever-increasing scrutiny from the investment community, stakeholders and now the new NZX code driving non-financial reporting, directors are provided with an important opportunity. For those new to reporting or those looking to improve, let us consider the road ahead.

THE CURRENT STATE OF CORPORATE RESPONSIBILITY REPORTING

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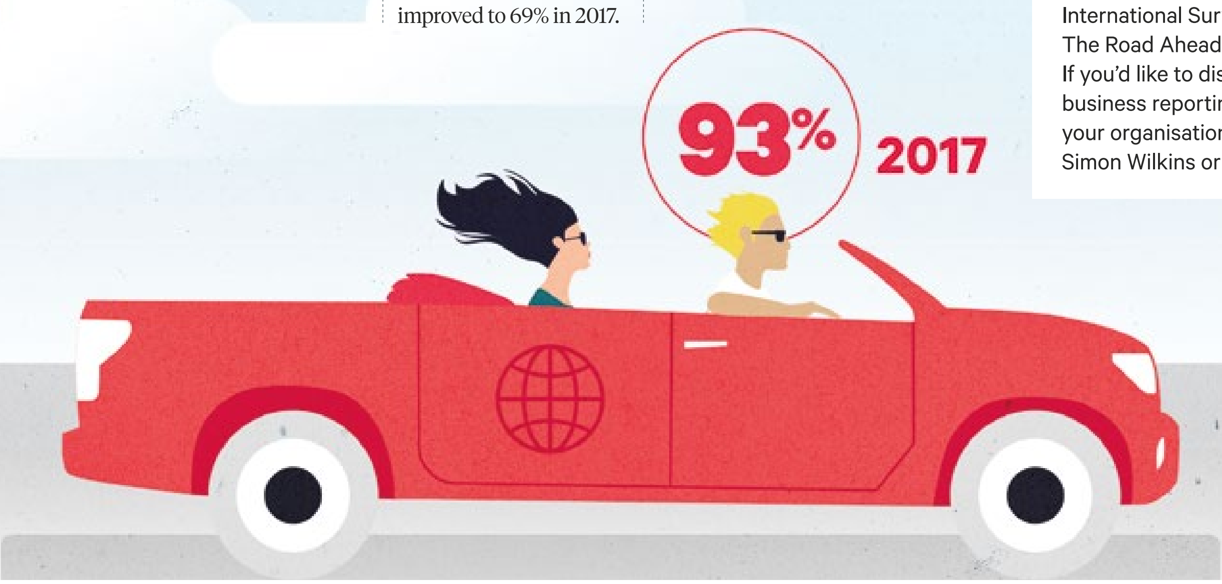

FURTHER INFORMATION

For more information or to download a copy of the New Zealand Supplement to the 2017 KPMG International Survey of CR reporting: The Road Ahead, visit **kpmg.com/nz** If you'd like to discuss how better business reporting can help you and your organisation, please contact Simon Wilkins or Erica Miles.

STRATEGIC RESPONSE

The role of reporting is not to provide simple statistics and stories to comply with the NZX code. The value lies in the strategic response directors will go through to enable disclosure.

Reporting provides an opportunity to communicate the output of this strategic response. Reporting communicates your organisation's strategy, your performance against that strategy and, ultimately, how you protect and create long-term value. Your ability to articulate your value protection and creation processes is what investors and other stakeholders are looking for – not how many tonnes of waste were recycled. This is about doing better, not more.

NON-FINANCIAL – THE NEW FINANCIAL

Acknowledging our opportunity to improve the quality and transparency of our disclosures is a good starting point. We need to appreciate and recognise that financial and non-financial disclosures will ultimately be integrated, and the same rigour currently applied to financial risks will apply to non-financial risks. The onset of a more holistic approach will hopefully see box-ticking compliance consigned to the sidelines and frameworks such as <IR> and GRI used as critical business tools to understand, define and enhance corporate value.

Seeking (integrated) external assurance will further provide the investment community and other stakeholders with the comfort that your disclosures are credible and trustworthy. Taking the lead from the world's largest companies is a prudent response.

LOCAL ROLE, GLOBAL ISSUES

For an increasingly globalised capital market, directors can expect an increasing need to align strategy and subsequent reporting with global commitments.

In particular, this will require integrating the requirements of the United Nations Sustainable Development Goals, the United Nations Paris Agreement on Climate Change and the Financial Stability Board's Task Force on Climate-related Financial Disclosures. The latter, for example, recommends the financial risks of climate change be quantified in financial terms and included within annual financial reports.

YOUR ROAD AHEAD

Whilst the new NZX code marks a key turning point in New Zealand's reporting landscape it's not the only driver for better business reporting. In embracing the NZX code's requirements, acknowledge that strategy drives reporting and not vice versa.

The value lies in the strategic response taken to identify and manage non-financial risks and opportunities. Reporting should be a credible, balanced and transparent output of this response. Safe driving.

Customers before technology

Avoid the technology hype in order to solve real customer problems.

Melissa Clark-Reynolds talks disruptive business models, why board composition matters and why it's more important for the board to understand their organisation's customers than new technology.

There are no disruptive technologies, just disruptive business models, says Melissa Clark-Reynolds. Although most of us think about technology being a driver in itself for business development, Clark-Reynolds argues that good business decisions begin with considering the customer first. Technology is a tool, and disruption happens when a business sees an opportunity that others haven't and do something different to address the needs of customers.

The founder of several technology businesses, Clark-Reynolds is one of the emerging group of directors who are equally as familiar with tech as they are with governance. She holds director roles with Radio New Zealand, software development training business Softed and architecture firm Jasmax, is on the electric vehicle panel at EECA and recently stepped onto the board of Beef + Lamb New Zealand. In 2015, this contribution was recognised, and she was awarded an ONZM for services to the technology industry.

Technology permeates our everyday lives, and as a director, it is important to understand what you need to know about disruption so you can best serve your organisation.

Uber has used technology to solve several problems customers have with transport.

Customers can see exactly where their car is. There is no physical exchange of cash, a certainty of cost upfront and the rating of driver and passenger encourages a different interaction than in a traditional taxi.

> **Disruptive businesses like Uber and Airbnb have left a mark in the transport and accommodation industries, not because they have a flash piece of tech but because they have addressed a problem.**

AVOIDING THE HYPE

It's important to avoid getting caught up in the excitement of technology and think about how it will serve your organisation. In a period of time when much is said of how new technology will change everything, Clark-Reynolds says we should remember that a lot of this "new" technology has been around for a while, and it's actually the strategic approach that leads to disruption.

Clark-Reynolds asks us to consider the history of personal music devices. In the early 2000s, Apple revolutionised the portable music device with its release of the iPod. With its sleek design, the iPod became a must-have, with cars, music players and even aeroplane seats modified to allow for interconnectivity.

However, the portable music player is far from new – it's an old technology that has been modified over time. Soldiers took their music players with them into battle in 1917. Format changes brought cassettes, mini-cassettes and later CDs. By the time Apple stepped into the market with the iPod, personal music devices had been available for decades. Sony first dominated the market in personal, portable music devices when they miniaturised cassette players in the later 1970s and released the Walkman.

So while the reaction to the iPod when it was released was to think, "Wow, this is really disruptive", Clark-Reynolds says it was evidence of a company finding a way to commercialise a technology that addressed a customer need.

"It's actually been coming for a while. They didn't create a brand-new need, they just found a way to really scale that need and go mass market with it," says Clark-Reynolds. "They also found a better customer need (10 thousand songs in your pocket),

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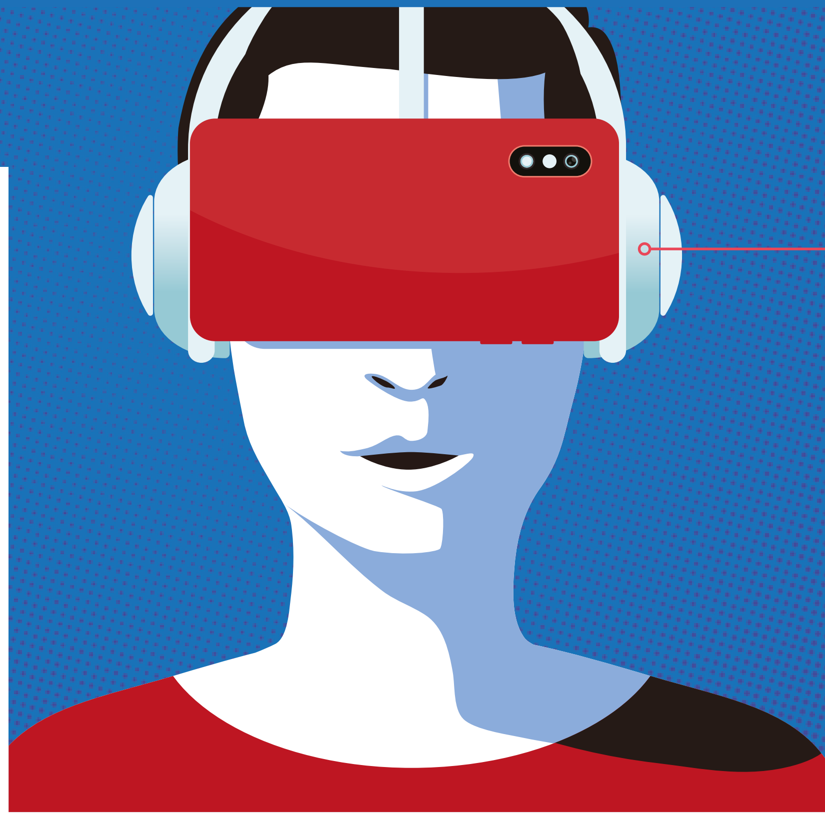

The board needs to understand who the customer is and what problem they're trying to solve. Competitive advantage usually comes from knowing your customer better than anyone else and anticipating their needs.

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compared to the competition who defined the product by what it actually did (portable music)."

In fact, Apple's approach to the portable music market was quite deliberate, with the company waiting for everything to line up in the world of broadband and digital music before releasing their product. Steve Jobs told Fortune in 2008, "Things happen fairly slowly ... These waves of technology, you can see them way before they happen, and you just have to choose wisely which ones you're going to surf. If you choose unwisely, then you can waste a lot of energy, but if you choose wisely, it actually unfolds fairly slowly. It takes years."

Of course, without the iPod, there would be no iPhone.

Today, 3D printing is one of the technologies that many think might be about to crack the big time, but Clark-Reynolds says part of the reason it's still in the wilderness is that lack of obvious customer demand that 3D printing would address. It's a technology looking for a home.

"You can invent things, but in terms of them being disruptive, it's rarely the tech that is disruptive. It's not that, if you build the tech a market will miraculously appear that supports it."

For directors, Clark-Reynolds says it's important to know what is out there, but you can't get sucked into the drama and the excitement of technology.

"I think there is a lot of hype around new technologies. Right now, it's blockchain, virtual reality, 3D printing, big data. I started doing big data in the late 1980s, and the tools to do it weren't that great, but everything we are building on now around machine learning and AI are just evolutions of what we have been doing for 40 years."

Technology plays a role in disruption when someone figures out a business model that knits together customer need along with the tech, Clark-Reynolds explains.

"The convergence of technologies does open up new possibilities. But while virtual reality needs big data, the two put together doesn't automatically turn into a business. Our job as directors is to be responsible for strategy. What we can end up doing is playing strong defence or offence in a way where we are driven by the technology rather than the customer need.

"Don't get sucked in to the hype. Boards need to ask themselves, 'How does this align with our business strategy, does this solve a problem for our customers and do we have a clear path to market?' If you don't have those things, they're not going to be disruptors, they're just cool tech."

WHAT DOES DISRUPTION LOOK LIKE?

Disruptive businesses like Uber and Airbnb have left a mark in the transport and accommodation industries, not because they have a flash piece of tech but because they have addressed a problem. Taxi drivers may believe their business has been gazumped by an app, Clark-Reynolds says, but really Uber has used technology to solve several problems customers have with transport.

"Often those disruptive businesses solve a different customer problem or a bigger customer problem."

Uber customers don't need to phone their taxi service asking where their taxi is, Clark-Reynolds says, they can see exactly where the driver is. There is no physical exchange of cash, a certainty of cost upfront and the rating of driver and passenger encourages

The convergence of technologies does open up new possibilities.

But while virtual reality needs big data, the two put together doesn't automatically turn into a business.

a different interaction than in a traditional taxi. Reducing the disruptive nature of Uber to simply the use of an app is a misunderstanding of what it is about a business that makes it disruptive.

In New Zealand, businesses like Flick are disruptive to traditional power companies not because they offer cheaper power – all electricity providers compete on price – but for tapping into wider customer concerns. Flick, for example, uses 'smart tech' to provide data so users can decide when and how to consume energy, depending on the things like the price of units and whether the units available at that time come from renewable energy sources or fossil fuels.

Clark-Reynolds says one of the appealing things about a model like the one Flick runs is the ability for customers to not just use the service as part of their daily lives but to help them live well. The availability of an app that tells you when the most cost-effective time is to run the dryer, rather than not using it at all and hanging wet clothing around the house, solves a problem for the customer in an unexpected way.

Technology is part of the solution to addressing customers' problems, but Clark-Reynolds says the board isn't responsible for knowing about every piece of technology that is out there. What is more important is to know your customer.

"The board needs to understand who the customer is and what problem the customer is trying to solve. Competitive advantage usually comes from knowing your customer better than anyone else and anticipating their needs."

WHO IS SITTING AROUND THE BOARD TABLE?

So how does a board know when the tech is a good investment that will address a customer problem?

"It's really hard for the board," says Clark-Reynolds.

"Your team comes to you and says we need $20 million to roll out this new IT. As a board, you have no way of knowing whether that is the right thing, and you don't want to be the board that says no to technology."

Having the right mix of competencies around the table is hugely important to making decisions around technology and understanding how

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We tend to do competitor analysis not on the people who solve the same kind of problem as us but on the people who do what we do. So if we are in the book business, we will monitor other book publishers, not seeing the Kindle coming.

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it impacts business. Diversity at the board table extends to looking at how to bring in directors with a background as a CIO or CTO and more entrepreneurs, Clark-Reynolds says. This would change the risk profile around the table. But you can't rely on one person to hold all of the knowledge in this space.

"It is important that the board isn't committed to a particular technology and that no one on the board feels like they are 'the expert' in tech. It's a bit like you don't want one board member who is seen as the financial guru so the rest of us don't need to know. It shouldn't be like that."

There are three areas in which Clark-Reynolds says it's beneficial for board members to have experience, however. The first is large-scale IT roll-outs and the commercialisation for technology. While the board wouldn't get involved with project governance, you do want somebody on the board who can ask the questions about whether they have that governance in place.

The second area is having enough knowledge about new technologies and what they are used for, to the extent that the board is able to ask the right questions.

"It's saying, 'Should we be using blockchain, how are we using AI or data analytics?' It's about having someone who can ask the questions and have an intelligent response."

Experience dealing with disruptive competitors is the third space. Having good competitor analysis and understanding what your competition will look like in the future is incredibly important here, but it's a bit of a blind spot for New Zealand companies, Clark-Reynolds says.

"We tend to do competitor analysis not on the people who solve the same kind of problem as us but on the people who do what we do. So if we are in the book business, we will monitor other book publishers, not seeing the Kindle coming. I've done it myself. We were in the online virtual worlds business, and we just didn't see the Kindle Fire and the iPad mini, and kids just moved off the web and onto apps really quickly.

"That's why the whole team is important – that you are thinking about strategy and competitor analysis from lots of different points of view."

KNOW YOUR CUSTOMER

Speaking of competition, what does a business like Amazon reaching our shores mean for New Zealand?

There are issues appearing before that point, Clark-Reynolds says. Fonterra, for example, is really skilled at taking product from multiple sources and bringing it all through one point of distribution (such as supermarkets). The likes of Amazon and Alibaba take from multiple sources but also distribute to multiple places. That's the business model difference, Clark-Reynolds says, and could prove beneficial to individuals in New Zealand, such as farmers.

"What it opens up for customers is the ability for someone in Europe to order something direct from a New Zealand farmer. And that changes the game.

If you think about something like My Food Bag, the ability to do that direct from farmer to consumer in the food space is growing massively."

The bigger question for New Zealand is not what does Amazon coming here mean for business. What does Amazon moving into the food industry mean for an agricultural country? Amazon purchased Whole Foods in the United States earlier this year, and on the first day of that new ownership, the average Whole Foods shopping bill dropped 43% (Business Insider).

"What can we learn from it? Can we partner with Amazon? How do we improve our own supply chain management? Alibaba, for example, opens up big supply chains that weren't available. Who thought supply chain would be disruptive? But it is."

A partnership between Alibaba and Milk New Zealand has seen fresh milk delivered to Chinese customers for the first time and taps into a customer desire to understand where their food is coming from. Plant-based meat is also gaining popularity as some consumers choose to move away from animal-based products altogether. Clark-Reynolds says boards should be asking questions about why these shifts happen. Do consumers want a synthetic version of the real thing or do they want something completely different?

"Those are the questions the board needs to be asking. We have to really think deeply about our business models and what it is the customer is after. That's where the value proposition question, which is the board's question, comes in. I'm on the board of Beef + Lamb, and we're really thinking hard about that."

Knowing what your customer wants opens up opportunities to use technology to address customer need, and that's what really makes an impact for a business. In the food industry, as consumers seek to understand the origin and supply chain for their food, track and trace ability could be significantly amplified with a technology like blockchain.

"The value is there because the customer wants to know, and that's where the technology makes sense."

Ultimately, the technology doesn't win the day. It can certainly harness power if used properly, but if your customers don't get their needs met better, then it's still just a piece of tech.

Melissa Clark-Reynolds will join Wayne Norrie to facilitate three Digital Masterclass sessions in 2018 in Auckland, Wellington and Christchurch.

BOOK NOW TO SECURE YOUR PLACE AT **IOD.ORG.NZ**

Anti-money laundering legislation

Phase 2 AML gets Royal Assent

The Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Amendment Act 2017, which gives effect to Phase 2 of the regime, has received Royal Assent. This brings accountants, lawyers, real estate agents, conveyancers, high-value dealers and the New Zealand Racing Board into scope of the AML/CFT Act 2009 . Together, these are referred to as designated non-financial businesses or professions (DNFBPs). Phase 1 of this legislation came into effect on 1 July 2013 for banks, casinos and a range of financial service providers.

Just because you are a DNFBP, it does not automatically mean you are in scope of the regime. Coverage of the regime is activity based – it captures entities that carry on one or more of a set of prescribed activities. An entity is a reporting entity if, in the ordinary course of business, it carries out one or more of the activities described in the definition of DNFBP in section 5(1) of the Act.

Such activities can be split into two types: trust and company service provider functions (setting up companies for customers) and gatekeeper functions (managing customer funds). Generally, these activities involve dealing with client assets on their behalf. This might involve actually conducting transactions on their behalf or giving instructions to a third party to conduct the transactions. Either way, the business will be a reporting entity for AML purposes and subject to full compliance requirements. So the first thing you need to do is determine whether your business is in fact a reporting entity.

WHAT'S IN IT FOR YOU?

While some of these requirements will impose new costs on affected businesses, there are also benefits to business from complying with the regime – in addition to protecting yourself from enforcement action by the supervisor.

1

Many businesses find that doing a risk assessment gives them an insight into their business which helps in overall business improvement.

2

The AML/CFT programme helps you keep criminals out of your business. This means that you are protecting your own business from exploitation, for example, by fraudsters who might want to deceive you – as well as doing your bit to protect the public from criminality.

3

The Act brings New Zealand into line with reputable business practice in the rest of the world. Many countries now have legislation preventing businesses from working with other businesses that are not set up to do AML/CFT properly or that are in a country that has poor standards of AML/CFT compliance. By complying with the Act you protect your firm's ability to do business locally and internationally.

4

By complying with the Act, you protect the reputation and integrity of your business.

WHAT DO YOU NEED TO DO?

The effective dates are staggered. Lawyers and conveyancers start on 1 July 2018, closely followed by accountants on 1 October 2018, while real estate agents have until 1 January 2019 to comply. For high-value dealers and the New Zealand Racing Board, it's 1 August 2019. These are short implementation timeframes, so businesses will need to start preparing for compliance obligations as soon as possible.

What you need to do before the effective date:

Appoint an **AML/CFT Compliance Officer.**

Produce a **written risk assessment** that assesses the risks your business faces.

Establish a **written AML/CFT programme** that contains internal procedures, policies and controls to address the identified risks.

Register in goAML so you can submit suspicious activity reports and prescribed transaction reports to the New Zealand Police Financial Intelligence Unit.

There are external consultants that develop risk assessments and AML/CFT programmes. However, before engaging the services of one, you should carry out your own due diligence to ensure they have the necessary skills and expertise. You may also want to subscribe to the DIA enewsletter *AML/CFT News* to keep informed of developments.

What you need to do after that:

Run your AML/CFT programme which includes:

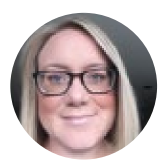
- vetting of any employees engaged in AML/CFT-related duties
- training of any employees engaged in AML/CFT-related duties
- conducting customer due diligence (CDD), including ongoing customer due diligence and account monitoring
- submitting suspicious activity reports
- submitting prescribed transaction reports (a domestic physical cash transaction that is more than NZ$10,000 or an international wire transfer that is more than NZ$1,000)
- keeping records (remember – if it's not documented, it's not done!).

File an annual report with the supervisor every year by 31 August.

Get an **independent audit of your risk assessment and AML/CFT programme** every 2 years by an independent and appropriately qualified person.

WHAT'S NEXT?

Over the next few months, the Ministry of Justice will be consulting on the regulations with a view to having them finalised early in 2018. The supervisor of all Phase 2 reporting entities is the Department of Internal Affairs (DIA), and it will produce sector risk assessments and guidance after the regulations are published. Early in 2018, the DIA will also be running sector-specific nationwide roadshows with the NZ Police Financial Intelligence Unit.



ZOWIE PATEMAN CA, ACTING REPORTING LEADER, CHARTERED ACCOUNTANTS AUSTRALIA AND NEW ZEALAND

Meet our emerging directors

Every year, IoD branches around the country call for applications from emerging directors who want mentorship, experience and support with their professional development. The awards draw applicants from many different sectors, and we are pleased to congratulate winners from Auckland, Waikato, Bay of Plenty, Wellington, Canterbury and Otago Southland, as well as the winner of the Canterbury First Steps in Governance Award.

Carol Cheng
AUCKLAND

Carol Cheng, founder of Hong Consulting Limited, is an experienced business advisor and China business specialist.

With close to 20 years' accounting, auditing and advisory experience in New Zealand, Hong Kong and China, Cheng is no stranger to governance.

Cheng said in her application she was committed to lifelong learning.

"My passion to add value to businesses, to learn and improve myself and to lead motivates me to pursue a career in governance. Being a Chinese female professional, I would like to step up to lead and pursue professionalism and drive excellence as a board member in New Zealand," Cheng said.

Cheng speaks fluent English and Mandarin. Prior to founding Hong Consulting in 2015, she held leadership roles in New Zealand and China including executive director of PwC New Zealand and partner at Grant Thornton in China. She is an executive member of the New Zealand China Trade Association (NZCTA).

Daniel Shore
WAIKATO

Hamilton lawyer Daniel Shore believes the fundamental purpose of governance is preserving and creating value.

Shore serves on three not-for-profit service boards and has also gained exposure to governance in sport at a national level through Bowls New Zealand.

"I've found my relative youth brings a distinctly different perspective to a number of the boards I have been involved in. I deliberately sought to deliver value through this, and perhaps the best example is my involvement with Bowls New Zealand."

IoD Waikato branch chair Simon Lockwood CMInstD says the judges were impressed by Shore's passion and vision for professional governance development and desire to add real value to Waikato boardrooms.

Shore receives an award package valued at $5,000 and has the opportunity to sit as an observer on the board of Ultra Fast Fibre and build his governance expertise with the help of an experienced mentor and IoD membership.

Laurissa Cooney
BAY OF PLENTY

Laurissa Cooney believes that good governance is about creating trusted relationships through a co-collaborative approach – something that is essential in a post-Treaty environment.

"Women, Māori and younger voices are a minority around board tables," Cooney said in her application.

"I am committed to being that initial person who others can relate to and see themselves in so others are motivated to 'show up' in life."

Cooney is of Te Āti Hau Nui a Pāpā Rangi (Whanganui) descent and is currently the chief financial officer for Te Whare Wānanga o Awanuiārangi. Her career spans roles in audit and risk for Deloitte in New Zealand and London, and she was one of the founding members of the CAANZ Māori Accountants Network. She serves as an independent director on the boards of Āti Hau Incorporation Limited and Ngā Tāngata Tiaki.

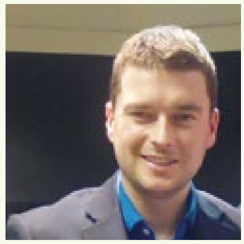
Michele Frey
WELLINGTON

Napier's Michele Frey highlighted her commitment to lifelong learning in her application for the Emerging Director Award.

"Ultimately, I seek to impart my best practice learnings to others who will come next, so that our future generations can lead in the best way possible.

"I want to make a real difference, a positive difference, to the future of New Zealand. Through the learnings and opportunities that come with this award, I intend to maximise it through my shared learnings with others, both in the board environments that I am involved in, but also other areas where good governance knowledge could be beneficial."

An environmental services principal at Opus International by day, Frey is also a triathlete who represented New Zealand in the Long-Distance Triathlon World Championships in Canada in August. Frey receives an award package consisting of IoD professional development, the opportunity to sit as an observer on a board for up to a year and build her governance expertise with the help of an experienced mentor and IoD membership, all for a year.



Jeff Smit and Arron Perriam
CANTERBURY

Cholmondeley Children's Centre Chief Executive Arron Perriam and DETA Consulting Senior Engineer, director and shareholder Jeff Smit are joint winners of the Canterbury award.

Institute of Directors Canterbury branch chair Vincent Pooch says the judges were impressed by Perriam's commitment to professionally develop so he can add further value to the not-for-profit sector and Smit's demonstrated desire to improve and optimise business practices through developing his own governance expertise.

"Both Arron and Jeff stood out as having a strong commitment to improving their own professional development in the pursuit of adding the best value they could to future boards they might sit on. They both recognise good governance as being the foundation of great organisations and have a real drive to grow their capability as professional directors."

Jeffrey Broughton
OTAGO SOUTHLAND

His attitude to planning and commitment to developing his governance career elevated Jeffrey Broughton above the competition to receive the 2017 Institute of Directors Otago Southland branch Emerging Director Award.

Broughton says his priority is building long-lasting relationships and focusing on ensuring boards have robust governance frameworks to facilitate strategic discussions.

Broughton is a Chartered Member of the IoD, an associate director of Ngāi Tahu Farming and a director on Kāti Huirapa Rūnaka ki Puketeraki and Puketeraki Ltd. He receives $1,500 towards an IoD director development course of his choice, complimentary membership of the IoD for a year and complimentary attendance at four Otago Southland branch events where members can learn and share their experiences. Broughton also has the opportunity to be mentored by an experienced director.

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<< continued from page 35

Madeleine Surie
CANTERBURY FIRST STEPS IN GOVERNANCE AWARD

Madeleine Surie has been recognised for her dedication to helping empower future female leaders.

Surie, brand manager of K9 Natural, is also the founder and trustee of Forward Foundation, a charity that empowers young females to become positive leaders within their communities using sport as a context. Last year, the charity introduced 297 girls to new sports and delivered 1,507 new sporting experiences to girls though its Ambassador Programme.

As part of the award package, Surie will take on an internship position on the Ronald McDonald House South Island board for 2 years.

Institute of Directors Canterbury branch chair Vincent Pooch said the judges were impressed by her enthusiasm to support others and desire to professionally develop as a director.

"Maddy is an inspirational young woman who has a strong professional and personal desire to make a real difference in governance. Her experience combined with her long-term career goal to ensure other females have opportunities makes her a real asset to the Ronald McDonald House South Island board."

The First Steps in Governance Award was established in 2013. The award package includes a 1-year IoD membership, complimentary attendance at all IoD Canterbury branch functions during the year, mentoring from an experienced director and $830 towards IoD professional development courses.

Governance **Leadership Centre**

[Update]

FELICITY CAIRD
GENERAL MANAGER, GLC

Keeping members current on governance developments, highlighting changes in the social enterprise landscape in New Zealand and making submissions on governance-related matters have been recent priorities of the GLC.

01

BEYOND PROFIT: THE SOCIAL ENTERPRISE REVOLUTION

Social enterprises – organisations that trade for a social, environmental or cultural purpose – are on the rise worldwide. They are helping to address some of the key global challenges of our time such as inequality and environmental sustainability. It is expected that the sector, which includes not-for-profit and for-profit businesses, will grow significantly in the coming years. In our fourth DirectorsBrief of 2017, we discuss the social enterprise ecosystem in New Zealand including the legal form, business models, developments, what's happening overseas and why mainstream business and directors in all sectors should take notice.

SEE ALL IOD DIRECTORSBRIEFS AT **IOD.ORG.NZ**

02

NZX LISTING RULES REVIEW

NZX is reviewing its Main Board/Debt Market Listing Rules, the first major review since 2003. The review will also impact NZX's junior markets, the NXT and NZAX.

The Listing Rules set out mandatory standards for listed issuers. The first stage of the review is extensive, with 79 questions covering the overall market structure, issuers and products (equity, debt, funds). There will be another consultation phase early next year, and it is intended that the amended rules will take effect in late 2018 subject to a transitional period.

NZX's proposed market structure includes separate boards for equity, debt and funds and differential standards for each (fit-for-purposes rules).

This would mean combining the three existing equity boards into one, with a single set of rules. The one consolidated board would have two tiers of issuers, referred to as premium and standard issuers for the purposes of the review. Premium issuers would be subject to higher standards than standard issuers.

The IoD's submission on the review focuses mainly on the proposed structure and governance and board/director matters in relation to equity issuers.

THIS SUBMISSION IS AVAILABLE AT **IOD.ORG.NZ**

03

[Update] FMA'S CORPORATE GOVERNANCE HANDBOOK

In November, the FMA consulted on updates to its corporate governance handbook. The current handbook, which includes nine high-level corporate governance principles and guidelines, is a reference for directors, executives and advisors. The FMA is refocusing the handbook on unlisted companies now the NZX Corporate Governance Code has been updated for listed companies. The FMA updates to the handbook align with developments in corporate governance since it was published in 2014, including non-financial reporting, directors and executive remuneration and auditors.

04

KEEPING MEMBERS CURRENT

Our final GovernanceUpdate of 2017 was emailed to members recently to keep you abreast of the latest governance and director-related developments. It includes:

- an overview of key government policies
- an introduction to the EU's wide-reaching data protection regulation
- an update on health and safety case law
- tips for boards in ethics and culture
- recent thought leadership research and reports.

ALL SUBMISSIONS AND GOVERNANCE RESOURCES CAN BE VIEWED AT **IOD.ORG.NZ**

MAKING A DIFFERENCE

NOT-FOR-PROFITS AND THE GOVERNANCE WITH PURPOSE PROGRAMME.

01 Catherine Cooney, facilitator, Governance with Purpose programme **02** Blair Matheson, chair, Anamata CAFE


01


02

Social service providers from Whangarei to Bluff are enjoying the benefits of improved governance as a result of a unique programme developed by the Ministry of Social Development and the Institute of Directors.

The Governance with Purpose programme was introduced last year and to date has delivered highly customised training to 106 committees, trusts and boards of non-profit organisations that work at the front line of social service provision.

The programme's aim is to make governance training accessible and affordable to small service providers, especially those in the regions. More than 20 facilitators across five regions are trained in delivering the tailored course content. Course venues and dates are chosen by attendees, who are also able to choose their facilitator from a shortlist.

> "THE MOTIVATION OF PEOPLE WHO GOVERN NFPs IS ALWAYS SO IMPRESSIVE ... EVERYONE IS SO APPRECIATIVE OF THE OPPORTUNITY FOR GOVERNANCE LEARNING.
>
> Catherine Cooney

HEALTHY GOVERNANCE

Taupo youth organisation Anamata CAFE is one of the groups that has undergone the training and as a result is implementing numerous governance changes.

Formerly known as Cafe for Youth Health, Anamata CAFE (Clinics and Advice For Everyone) opened in 1990 and provides an accessible health service at low to no cost to young people and their whānau. All aged under 25 in the Taupo District can access its range of services for free, and sexual health checks are free for all ages.

Board chair Blair Matheson and deputy chair Shona Bleakley were two of the eight Anamata board members who undertook the course in May. Both have high praise for both the content and course facilitator former nurse, midwife and Lakes DHB CEO Catherine Cooney.

Bleakley, who was Anamata board chair for 10 years until January, said three board members had joined Anamata quite recently when the course invitation came through and the rest of the board felt a bit stale so the invitation was very timely.

"It was a fantastic opportunity to have an informative day and also do a bit of bonding. It's quite difficult in Taupo to get to training opportunities for a board, so we jumped at the chance."

UPSKILLING

As with the other board members, Bleakley is a volunteer. She was a secondary school English teacher then taught business communications at polytechnic. She and her husband also used to own a farm and contracting business but are now semi-retired.

She said the board was delighted to see Cooney on the facilitator shortlist because of her depth of health experience. Cooney was Lakes DHB CEO from 2001 to 2012.

"As we are a youth health clinic and have some specialised jargon and services, it was great that Catherine knew all about us and could speak our language.

"She gave us fresh ideas on how to run our board. We also got the opportunity to talk about a couple of issues that had been troubling me when I was chair. The course opened up the conversation on roles and workload of the board as well as the blurred lines between governance and management. Having a whole day together gave us the time to get to know each other's strengths. Our monthly meetings >>

<< 01 02

are by necessity quite task oriented, so it was good to socialise a bit."

Bleakley said the course reinvigorated the longer-term board members and clarified things for those new to the board. Since doing the course, board members were constantly referring to the supplied course book.

"It is a great asset with lots of good information, and it reinforces what we learned. At the end of the IoD day, we had a list of things we needed to action, and we are regularly referring to the list when we meet."

GOVERNANCE AND MANAGEMENT

Matheson agreed a key benefit of the course was clarification of the difference between governance and management.

"We worked quite hard 2 or 3 years ago on rebranding (from Cafe for Youth Health to Anamata CAFE) and began a new strategic direction. We are well down that path, but it is always beneficial to be reminded of the different roles of board member and senior manager."

Matheson has been an Anamata board member for 3 years and is enjoying his relatively new role as chair. He completed an MBA 4 years ago and is a member of the IoD. A long-time Taupo resident, he is co-owner of Huka Honey Hive, a company he helped found 24 years ago that produces honey-based products.

"The Governance with Purpose course was an amazing opportunity for us, and I can't talk highly enough about Catherine, who was absolutely fantastic. She understood the clinical perspective, and her advice was very practical. Her caring, laid-back manner and knowledge of the healthcare needs of young people really made the day."

As a result of Matheson's experience with IoD, Anamata had put some funding aside in the annual budget for governance training, but he said it certainly would not have covered the cost of training all eight board members.

Another added bonus was that, after the course, the two most inexperienced board members were given the opportunity for a day-long extra governance course in Auckland.

"The work that we do as an organisation doesn't have wide appeal, so it is hard to get board members. Those who are here are passionate about young people but don't always have governance training. This extra help from MSD has made a big difference."

STRATEGIC PLAN

Following the Governance with Purpose programme, the board sat down and came up with 15 new outcomes it would like to see.

"We've already made some real changes

"IT'S QUITE DIFFICULT IN TAUPO TO GET TO TRAINING OPPORTUNITIES FOR A BOARD, SO WE JUMPED AT THE CHANCE.

Shona Bleakley

01 The Anamata CAFE van **02** World Suicide Prevention Day 2017 **03** Mental Health Awareness Day 2017, with local police in Taupo such as running our board meetings differently and making alterations to our annual plan and strategy. Some of the changes are small but make a big impact."

Matheson said, despite being on numerous IoD governance courses himself, this course still taught him something new.

"There were lots of little gems such as encouraging all board members to be brave enough to ask the hard and sometimes obvious questions. It's helped me encourage the rule that there is no such thing as a dumb question at a board meeting."

Cooney's enthusiasm and encouragement during the course spurred the board to enter Anamata CAFE in the Taupo Business Awards, and in early August, they were delighted to be named winner of the Excellence in Community Contribution award.

"This was certainly the result of doing the course and giving us more confidence in what we do," Matheson said.

Facilitator Catherine Cooney said it was humbling to front Governance with Purpose courses as most attendees, like Bleakley and Matheson, were volunteers. To date, she has facilitated seven courses and said every one was a privilege to lead.

"The motivation of people who govern NFPs is always so impressive. They welcome me in on these courses and share their celebrations and their challenges. It is such a special experience to connect with such committed people who give so much of their time for the good of their community."

OPPORTUNITY TO LEARN

Cooney said usually when not-for-profit boards and trusts had any discretionary professional development funding they prioritised their senior leaders or staff. The Governance with Purpose programme allowed trust members to gain training for themselves, and for some, it was their first formal governance training.

"Everyone is so appreciative of the opportunity for governance learning and it is very affirming for them. They see that MSD and IoD are interested in their organisation and in their governance role in the community and that they want to support and grow them. Not-for-profit organisations certainly do not take this opportunity for granted."

In her preparation for each course she facilitates, Cooney undertakes considerable research on the organisation, talks with the chair and investigates the environment within which they operate.

"I need to have this familiarisation with the organisation, and it's particularly important when you're working with small not-for-profit and NGO trusts. It is part of the uniqueness of this programme."

Course content includes looking at the national context and government policy and where the particular social service provider fits within that context. It also covers the IoD's Four Pillars (determination of purpose, effective governance culture, holding to account and effective compliance) and how to find balance across all four. Facilitators guide attendees through thinking about the future of their organisation and putting together a plan for implementing any required changes and creating an even workflow. Attendees are left with a tailored resource book developed by the IoD for future reference. Cooney said she always felt proud leaving this excellent resource with attendees because of its relevance and high quality.

She said the course was invaluable for creating space for thinking time for busy trustees and board members to think about all aspects of their governance role and the long-term future of their organisations.

"It also gives them confidence on where they are at. It gives attendees a greater appreciation of what they're doing, affirming their role and what they're contributing locally and to NZ Inc."

03

"THERE WERE LOTS OF LITTLE GEMS SUCH AS ENCOURAGING ALL BOARD MEMBERS TO BE BRAVE ENOUGH TO ASK THE HARD AND SOMETIMES OBVIOUS QUESTIONS.

Blair Matheson

What's eating SME and not-for-profit boards?

Brett Herkt is the founder of boardPro, board management software that's designed for SMEs and NFPs with clients around the world. It delivers up to 75% time savings to those managing the board cycle and prompts good governance on both sides of the board table.

Anyone who has worked or governed at both ends of the corporate spectrum understands how the needs of small to medium enterprise (SME) and non-profits differ dramatically to those in the corporate sector.

Someone who's become an expert in this area is Brett Herkt. Starting professional life with Ernst & Young and later working for a major UK bank, he says, "I was a small cog in huge process-driven wheels at the big end of town." In a diametrically opposed change, he became the CFO of a high-tech start-up, where just having cash to make payroll was a job item. During this wild ride, he became CEO, and although he successfully grew it 400% to 50 staff, $14 million annual revenues and seven-figure profitability, a disagreement between him and the board saw him exit. "The board didn't understand effective management process in the context of a start-up and nor did I," says Herkt.

This epiphany led him to investigate best practice. Herkt says he has now spent the last 9 years working with boards, senior management and administrators across the spectrum, from The Warehouse and 2Degrees Mobile to tech start-ups, chambers of commerce and charities like the YMCA and Family Planning. He has found a significant gap between the tools and resources available to corporate organisations and those for SME and non-profits.

50% of directors say they received papers too late to prepare well and the use of generic desktop tools added to the problem.

THE ORGANISATION'S CONTEXT DRIVES THEIR NEEDS

"SME and non-profits have vastly different needs," says Herkt. SMEs and non-profits simply don't have the same level of resource available to manage the board cycle. A company with 20–50 staff may have no corporate secretary or corporate counsel, small finance teams and often no executive assistant to the CEO. The organisation is often under-capitalised with ambition that exceeds their capacity.

As a result, board papers and processes are slow because these are prepared and managed on a part-time basis by staff already busy multi-tasking in their day job. For non-profits, this may even be voluntary.

"The board process is a job that I don't really have time for – yet have to do really well," says Tama Matene, administrator, My Future Rocks Trust.

Everyone prepares agendas, papers and minutes with desktop software then distributes via email or shared folders. The CEO sometimes waits on a last-minute email from a manager and doesn't get to it until 5pm on the day before the meeting. The result is the board gets the information at 6pm, then has to read it and apply strategic thought by 9.30am the next day.

Compounding the issue is that a proportion of board members are also inexperienced. Non-profit board members are more often industry-specific experts than professional directors. The needs are therefore intensely practical.

FOR BOARD MEMBERS

For board members, it's getting quality information in a usable format in enough time that a decent contribution can be made to strategic matters.

Gordon Buswell, past CEO of ITM, had just retired from corporate leadership in 2015 and was getting involved with SME governance when he said "What I'm finding in almost every company is the inability to maintain strategic perspective and drift away to operational matters."

Bruce Sheppard, founder Shareholder Association, sits on multiple boards and says, "I get an email with 12 attachments and have to click them one by one and decide what to print. If I get interrupted half-way through, it's a nightmare to remember where I'm up to."

50% of directors say they received papers too late to prepare well, and the use of generic desktop tools added to the problem.

FOR CEOS, MANAGERS AND ADMINISTRATORS

In polling, Herkt says, "The results speak clearly to the need to get time back whilst delivering quality information to boards. Nearly 80% of managers and administrators assessing board software are doing so to save time.

"These CEOs often suffer from unsophisticated systems and record keeping that means collecting quality data is difficult, and by the time the operational report is complete, there is little bandwidth left for addressing strategic matters. As we got to grips with on-the-ground challenges of SMEs and NFPs, it was no surprise to see that considerations like risk management and compliance take a back seat to more fundamental matters such as staffing, profitability, growth and funding."

SOLUTIONS FROM BOARDPRO

Having spent nearly 10 years talking with hundreds of SME board members, CEOs and administrators, Herkt says this is clear:

CEOs need to own the development of management process, despite the tough job of leading a SME or NFP.

Likewise, chairs and boards will add value by reviewing and improving their governance practices. Check out Sport NZ, who are doing a great job helping their sector.

DirectorVacancies

DirectorVacancies is a cost-effective way to reach IoD members – New Zealand's largest pool of director talent. We will list your vacancy until the application deadline closes or until you find a suitable candidate.
» Contact us on 0800 846 369.

MANUKA STREET CHARITABLE TRUST
Role: Trustee
Location: Nelson
Closes: 18 Dec 2017

The following positions will remain open until filled:

MOSGIEL MEMORIAL RSA INC.
Role: Board members (x2–3)
Location: Mosgiel

VILLAGE COMMUNITY TRUST T/A WORKSTAR
Role: Chairperson, treasurer, general members
Location: Nelson

GLAUCOMA NEW ZEALAND
Role: Voluntary board members (x2)
Location: Auckland

THE HOME OF ST BARNABAS TRUST
Role: Board members (x2–3)
Location: St Clair, Dunedin

HOHEPA HOMES TRUST BOARD
Role: Trustees/directors (2)
Location: National

CONNECT SOUTH
Role: Board members (x2)
Location: Dunedin

NZ RECREATION ASSOCIATION
Role: Board members
Location: Wellington or virtual

ASPIRE CANTERBURY
Role: Chairperson and treasurer
Location: Christchurch

GIRLGUIDING NZ
Role: Chair of audit and finance/national board member
Location: National

TUI ORA LTD
Role: Director (x2)
Location: New Plymouth

LIANZA
Role: Treasurer
Location: Wellington

CANTERBURY BASKETBALL ASSOCIATION INC.
Role: Board members, including independent chair
Location: Christchurch

CREATIVE WAIKATO
Role: Trustees
Location: Hamilton

ADVENTURE DEVELOPMENT LTD
Role: Independent non-executive director
Location: Dunedin

Out & **about**

International

The National Association of Corporate Directors (NACD) Global Board Leaders' Summit 2017 was held in Washington at the end of September. IoD President Liz Coutts (pictured **02** with NACD Chair Dr Karen Horn) attended along with IoD CEO Kirsten Patterson.

01

02

03

National

Held in Auckland at the end of October, *Eye on Asia* was a collaboration between the IoD, New Zealand Asian Leaders and the Superdiversity Centre. It was facilitated by Chartered Fellow David Jackson (third from left) and Chartered Member Mai Chen (fifth from left).

04

Nelson Marlborough

Simon Lamb and Taylor Keen (above) enjoyed an evening function at Wither Hills winery in Blenheim, at which Christchurch-based director Abby Foote spoke about the changing face of audit and risk and the vital role these governance functions play in creating business value.

05

06

Auckland

Colin MacDonald (right), CE of the Department Internal Affairs, spoke to members in October about digital disruption in the public sector, highlighting key questions for directors to ask in the digital space.

07

Canterbury

Congratulations to Quentin Hix (right), who recently became a Chartered Fellow of the Institute of Directors. Canterbury's Chartered Fellows and Distinguished Fellows joined the IoD president, vice president, CEO, branch committee members and guests for dinner following an October function with winemaker Allan Scott.

08

09

10

11

Otago Southland

In October, members enjoyed an evening with Paul Brainerd (above), who posed the question: "Is it possible to create a socially responsible business in a community of 362 people and 30,000 sheep?" Later in October, Lani Evans and Casey Davies-Bell looked at business beyond the bottom line as part of our What Matters in Sustainability campaign.

Company Directors' Course

29 October 2017, Queenstown

BACK ROW: Nicola Taylor, Hayley Alexander, David Hutchinson, Duncan McGhie, Wendy Larner, Brett King, Erica Lloyd, Rowan Dixon, Lachie McKenzie, Patrick Reynolds, Alan Hard, Callum Wood
FRONT ROW: Michael Reaburn, Ross McMillan, Anthony King, Clare O'Neill, Mark Robinson, Marion Heeney, Rob Craig, Ainsley Luscombe, Annie Brown, Sid Miller, Simon Lange, Ana Molloy

01 NACD Global Board Leaders' Summit
02 NACD Chair Dr Karen Horn, IoD President Liz Coutts
03 Left to right: Jay Changlani, Chandan Ohri, David Jackson, Sameer Handa, Mai Chen, Ziena Jalil, Leon Fung, Dr Xiaoying Fu
04 Simon Lamb, Taylor Keen
05 Don Aue
06 Godfrey Boyce, Nick Moyes
07 DIA Chief Executive Colin MacDonald
08 Vincent Pooch, Quentin Hix
09 Andrew Kilsby, Heidi Renata, Gerald Davies
10 Paul Brainerd, Murray Donald
11 Jay Cameron, Johnny Stevenson, Kerry Lynn

Events **diary**

For more information, visit iod.org.nz, or contact the director development team or your local branch manager.

Company Directors' Course

A fundamental 5-day course for directors and senior executives who have governance experience.

18 FEBRUARY
Auckland

04 MARCH
Waiheke Island

11 MARCH
Queenstown

18 MARCH
Auckland

15 APRIL
Queenstown

06 MAY
Wellington

13 MAY
Queenstown

21 MAY
Auckland
Company Directors' Course – Non-residential

30 MAY
Queenstown
Company Directors' Course Refresher

10 JUNE
Auckland

17 JUNE
Queenstown

09 JULY
Wellington
Company Directors' Course Refresher – Non-residential

19 AUGUST
Auckland

26 AUGUST
Wellington

AUCKLAND

FEBRUARY

13
Governance Essentials

14
Finance Essentials

14
Reporting to the Board

15
Digital Essentials

MARCH

05
Governance Essentials

06
Strategy Essentials

07
Finance Essentials

17
Masterclass: Governance in a Digitally Disruptive World

20
Company Directors' Course Refresher

22
Audit and Risk Committees

NELSON MARLBOROUGH

MARCH

06
Governance Essentials

07
Reporting to the Board

WELLINGTON

FEBRUARY

20
Governance Essentials

21
Finance Essentials

22
Strategy Essentials

MARCH

01
Reporting to the Board

20
Advanced Health and Safety Governance

21
Governance Essentials

22
Finance Essentials

CHRISTCHURCH

MARCH

1
Board Dynamics Intensive

Webinars 2018

27 FEBRUARY
Chairing Fundamentals
Are you new to the chair role or thinking about taking that next step? Join our experienced chair facilitator who will provide you with fundamental knowledge of the chair role.

27 MARCH
Risk Trends
This interactive webinar focuses on how directors can gain a better understanding of risks in their organisations.

Online learning

Any time. Anywhere.

Health and Safety Governance
5 CPD points

Not-for-profit Finance Fundamentals
5 CPD points

Directors' and Officers' Insurance
3 CPD points

Ethics – How Directors do Business
5 CPD points

BRANCH EVENTS

» FOR INFORMATION ON MEMBER EVENTS IN YOUR AREA, SEE **IOD.ORG.NZ**

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