# boardroom

DEC / JAN 2019

*Magazine of the Institute of Directors in New Zealand*

## The top five issues for directors in 2019

## A note from the editor

This issue looks at what keeps directors awake at night, and what should be keeping directors awake at night. Don't panic, but there are a few things you might like to think about.

Our annual *Director Sentiment Survey*, conducted in association with the ASB, finds labour force capability and availability are top of mind. It also revealed business confidence among directors is down, reflecting a similar view across the business community. Confidence was near 10-year lows (almost as bad as just after the GFC) in October, according to the NZIER. This is out of step with world business confidence, as measured by the OECD, which is near 10-year highs.

Is business confidence little more than a political talking point or is it an indicator of deep truths about an economy? ASB Chief Economist Nick Tuffley explores the issues for us in a thought-provoking opinion piece.

Looking forward to 2019, Felicity Caird from the Governance Leadership Centre reviews the top five issues that are likely to confront boards in the new year – and offers a few guidance points. Culture and conduct, climate change, the future of work, mental health and wellbeing in the workplace, and appropriate compliance make up the five. These are issues on which boards need to ensure they get the right information in order to make good decisions on strategy.

Geoffrey Bowes, our first chief executive, gives a good-humoured account of the establishment of the Institute of Directors in New Zealand as an independent body, and the establishment of a governance culture. As the organisation moves towards its 30th anniversary next year it is timely to reflect on our beginnings and consider what type of organisation members will need in the future.

**Aaron Watson**
*BoardRoom* editor

Institute of Directors

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TOP FIVE ISSUES FOR DIRECTORS IN 2019

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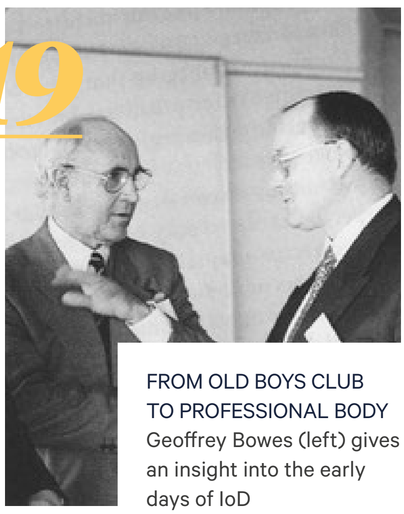

FROM OLD BOYS CLUB TO PROFESSIONAL BODY
Geoffrey Bowes (left) gives an insight into the early days of IoD

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BOARDS MUST LEAD CHANGE

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# 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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***KIRSTEN PATTERSON***
CEO, INSTITUTE OF DIRECTORS

# Looking forward to turning 30

A milestone birthday is usually a time to reflect, and the IoD is no different; in 2019 the IoD will celebrate 30 years. Although there was previously a New Zealand branch of the UK IoD operating for a number of years, it was in 1989 that IoD as we know it today was formed as an independent body.

During 2019 we will take the opportunity to reflect on governance over the past 30 years and what the next 30 years may hold, starting in this edition with an interview with our first Executive Director/ Chief Executive of the IoD, Geoffrey Bowes. Respecting and honouring our heritage is an important part of ensuring strong foundations for the future. We are merely the guardians of today and we have all benefitted from the foresight of the early IoD champions. As Warren Buffet said: "Someone's sitting in the shade today because someone planted a tree a long time ago."

As you're sitting in the shade over the summer holidays, you will no doubt be doing some reflecting of your own about the year passed, and the challenges and opportunities ahead in 2019. We know that IoD members will be thinking about wider issues beyond just the individual firms they support.

Results from the inaugural Global Network of Directors Institutes Survey showed New Zealand directors are significantly more concerned about social and economic issues than their global peers. Eighty percent of New Zealand directors identified housing as our most significant social and economic issue compared to only 34% globally. Poverty and income inequality was rated second highest at 67% contrasting with 45% globally.

In the event that you have depleted your reading pile and you are looking for inspiration for quiet reflection or to kick-off a debate at the summer BBQ, you might like to consider the questions that the Prime Minister's Business Council will be contemplating.

The purpose of the council is to provide high-level free and frank advice to the Prime Minister on policies that directly affect business, to harness the expertise of the private sector to inform government policy, and to build closer relationships between government and business. The four priority areas are: building tomorrow's skills, accelerating our regions, attracting high quality investment and unleashing our SMEs.

Questions the council is debating:

- How can business practically demonstrate their commitment to ensuring workers in New Zealand are supported to gain new skills and transition into new jobs as the nature of work changes?
- How can business support the operationalising of micro-crediting and the fees-free learning policy?
- How can our tertiary institutions support this in a practical way, learning from best-practice models overseas?
- How can business support SMEs and others within the business community to realise the opportunities provided by R&D tax credits?
- How can New Zealand grow its base of investment capital and ensure Kiwi firms realise their potential?
- How can NZ attract quality foreign investment in a seamless way?
- Could the government's investment funds play a more prominent role in investing in NZ infrastructure projects and businesses?
- What can business do to enhance services in rural and provincial towns?
- How can government and business work together to unleash the potential of New Zealand's Agritech industry?
- How can government and business work together to solve regional skills shortages?
- The best spot in New Zealand to spend the summer holidays while pondering the above. (Oops, that may have been one of mine I added later...)

We'd be interested in your answers and ideas, and there are a number of IoD members on the business council with whom we can share your comments and responses. Send your answers in to **ceo@iod.org.nz**

The first five answers received will receive a copy of a book of essays, *The Big Questions – What is New Zealand's Future?*

A "birth date" of 1989 technically makes the IoD a millennial, but I wonder how many would see us as the digitally-connected, socially-minded, globally-focused, and entrepreneurial typecast of that generation?

Much also for us to contemplate as we lead into the new year – for us a year of digital transformation – a new CRM, finance system, website and refreshed brand, to ensure we remain relevant to the needs of the governance community for the next 30 years.

Ngā mihi,

Kirsten (KP)

# UpFront

## Director Vacancies

DirectorVacancies is a cost-effective way to reach our extensive membership 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.

*Unless otherwise stated, the following positions will remain open until filled.*

SPORT NORTHLAND
**Role:** Centrally-held list of Directors/Director pool
**Location:** Northland

ARTSPACE AOTEAROA TRUST NZ
**Role:** Trustees
**Location:** Auckland

EQUESTRIAN SPORTS NEW ZEALAND – EVENTING
**Role:** Appointed Board Member
**Location:** National
**Closing date:** 15 December

NAPIER PORT
**Role:** Non-Executive Directors (3)
**Location:** Hawke's Bay
**Closing date:** 1 January

LIFE EDUCATION TRUST
**Role:** Trustee (2)
**Location:** Christchurch
**Closing date:** 6 January

ST JOHN
**Role:** Patient Representative
**Location:** Auckland
**Closing date:** 14 January

SOUTHERN ROWING PERFORMANCE CENTRE
**Role:** Independent Chair
**Location:** National
**Closing date:** 15 January

THE ORPHEUS CHOIR OF WELLINGTON INC
**Role:** Board Member
**Location:** Wellington
**Closing date:** 17 February

**Q: When are directors required to keep board discussions and information confidential?**

*A: Under section 145 of the Companies Act 1993, a director who has information in their capacity as a company director (that they would not have otherwise had) must not use or disclose it except:*

- *for the company's purposes*
- *as required by law*
- *disclosure to a person whose interests the director represents*
- *disclosure to a person in accordance with whose directions/instructions the director is required or accustomed to act (whose name must be entered on the interests register)*
- *use or disclosure:*
  - *which is authorised by the board*
  - *the particulars of which are entered in the interests register, and*
  - *which will not be likely to prejudice the company.*

## APPOINTMENTS

*Renata Blair*
Member, has been appointed to the Eden Park Trust Board.

*Sara Brownlie*
Chartered Member, has been appointed to the board of Research and Education Advanced Network New Zealand (REANNZ).

*Fiona Carrick*
Member, has been appointed via the IoD's DirectorSearch service as a trustee to the Waipa Community Facilities Trust.

*Barbara Chapman*
Chartered Member, has been appointed to the Prime Minister's Business Advisory Council.

*Kyle Christensen*
Member, has been appointed to the board of Utilities Disputes.

*Jacqui Coombes*
Member, has been appointed to the Prime Minister's Business Advisory Council.

*Jo Coughlan*
Member, has been appointed to the board of DairyNZ.

*Michelle Hollands*
Chartered Member, has been appointed via the IoD's DirectorSearch service as a trustee to the Waipa Community Facilities Trust.

*Miles Hurrell*
Member, has been appointed to the Prime Minister's Business Advisory Council.

*David McLean*
Member, has been appointed to the Prime Minister's Business Advisory Council.

*Maurice Noone*
Member, has been appointed to the board of CP Wool.

## In memoriam

### SIR JOHN ANDERSON, KBE DISTFINSTD

Respected business leader and Distinguished Fellow of the Institute of Directors Sir John Anderson passed away at his home in Wellington in November.

The former ANZ National Bank chief executive was known for his strong personal values and being a driving force behind the Banking Ombudsman Scheme.

His corporate governance career spanned industries from financial services to health, sport and entertainment. Significant leadership roles included being chair of Television New Zealand, WWF for Nature, NZ Sports Foundation, the New Zealand Cricket board, NZME, Capital Coast Health DHB and Commissioner of Hawke's Bay District Health Board.

During his lifetime he received numerous awards including the Sir Peter Blake Medal for Leadership Excellence (2005), Halberg award for Leadership Excellence in Sporting Organisations (2010) and the Inaugural Distinguished Fellowship award from INFINZ (2016). He was appointed a Knight Commander of the Order of the British Empire for services to business management, banking and the community in the 1995 New Year Honours.

"Sir John was a well-respected leader and always very supportive of the Institute of Directors," said IoD Chief Executive Kirsten Patterson.

"His contribution to our Institute was recognised last year when he became a Distinguished Fellow, the highest accolade the IoD can bestow."

IoD President Liz Coutts, who last year presented the Distinguished Fellow Award to Sir John, said: "It was an honour to recognise Sir John's significant contribution to governance over many years. He was highly respected and an inspiration to many."

# Top five issues for directors in 2019

Felicity Caird, GM Governance Leadership Centre, looks at five issues that should be top of mind for directors in 2019.

Directors are organisations' stewards for the future and long-term value creation. The boards of today and tomorrow need to be adaptive to be able to lead in a complex and dynamic environment and oversee disruptive risks.

These are risks that are often interconnected and generally have high speed impact and occur at scale. Geo-political volatility, cyber, disruption to business models and climate change, can all have significant economic, operational, and/or reputation impact. Adaptive governance is dependent on boards getting the right information for decision-making, and on balancing compliance with strategy and stewardship.

## 1. CULTURE AND CONDUCT

**Ethical behaviour and a healthy organisational culture should be a priority for all boards.**

Unethical behaviour, poor conduct, people behaving badly – whatever you call it there have been numerous cases recently, globally and in New Zealand, causing significant harm to employees, customers and investors. Corporate governance has come under intense scrutiny and been found wanting.

To show the breadth of cases, think about the Volkswagen emissions scandal, the Facebook/Cambridge Analytica data scandal, the #MeToo movement exposing widespread sexual harassment in the workplace, and the exposure of a bullying culture in the NZ Football Ferns.

In the Australian Royal Commission into misconduct in the financial sector, Commissioner Hayne found there were financial motivations at the expense of basic standards of honesty and misconduct that fell below community standards and expectations. Questions were raised about core governance issues such as remuneration, culture, accountability and risk management.

The recent report on bank culture and conduct by the Financial Markets Authority and Reserve Bank of New Zealand didn't find widespread misconduct but did identify weaknesses that needed to be addressed immediately. The FMA/RBNZ recommendations are good reminders for all boards to:

- take ownership and accountability for conduct and culture and drive changes
- be proactive and prioritise the identification and remediation of issues
- strengthen processes and controls to prevent, detect and manage conduct and culture issues
- ensure employees know what good conduct and culture looks like and that there are effective mechanisms for employees to report issues
- ensure incentive and remuneration policies and practices support good conduct.

Boards are ultimately accountable for what goes on in their organisations. They have a core role in overseeing corporate culture, conduct risk and setting high standards of ethical behaviour. It means thinking beyond compliance, taking the lead, being committed and responsible and setting the tone and standards for the organisation.

Proactive engagement with the community and stakeholders helps build (or rebuild) trust and business legitimacy and licence to operate.

>>

A good indicator of an effective culture and systems that are working is when the board hears about incidents, including bad news. Decisive leadership in following up on incidents and potential risks is critical.

We have seen a steady increase through the *Director Sentiment Survey* (since 2016) in the number of boards receiving comprehensive reporting from management about ethical matters and conduct incidents. But in 2018 more than half of the boards still aren't getting this information. This poses a significant risk for those boards and their organisations.

Again, despite an increase, from 32% in 2017 to 44% in 2018, in the number of boards discussing whistleblowing and how the organisation can make speak-up provisions effective, there is still a way to go in embedding this regularly into boardroom discussions.

Pointers for 2019:

- Set the tone – promote, inspire and embody organisational values and expected behaviours.
- Embed oversight of culture and integrate into discussions on performance, strategy and risk. Probe how success is being achieved and challenge assumptions.
- Ensure the board is getting comprehensive and timely reporting (good and bad news) from management (and other sources), with good measures covering organisational culture, conduct risks and incidences. Use internal audit and board-only time to support robust scrutiny.

## 2. CLIMATE CHANGE

**Understand business risks relating to climate change and how to adapt to a low-emissions economy.**

The increasing occurrence of extreme weather events, monster storms, severe temperatures, floods and wildfires across the world are reminders of the impact of climate change.

The UN Intergovernmental Panel on Climate Change's (IPCC) 2018 report demands greater urgency and highlights the disastrous effects of failing to limit global warming to 1.5°C, rather than 2°C, above pre-industrial levels. The next 15 to 20 years are critical. The world's infrastructure is predicted to double in size over the next 15 years, and the world economy to double over the next 20 years.

At the Global Climate Action Summit (September 2018) Lord Stern strengthened his 2006 position "that the costs of inaction exceed the costs of action" and described the transition to the zero-carbon economy as the inclusive growth story of the 21st century – with direct economic benefits.

The Productivity Commission's *Low-emissions Economy* report (August 2018) recommended immediate action to ensure an effective transition, in relation to stronger emissions pricing, establishing stable laws and institutions and increasing investment in innovation. Following consultation on policy development earlier this year, the introduction of a Zero Carbon Bill is imminent. We can also expect the establishment of an independent Climate Change Commission and a revamp of the Emissions Trading Scheme.

Businesses have already taken a lead with the launch of the Climate Leaders Coalition to drive the reduction of emissions and help lead New Zealand's transition to a low-emissions economy. Seventy CEOs have joined the coalition, representing around 50% of New Zealand's emissions.

However, in the 2018 *Director Sentiment Survey*, although 66% of boards considered environmental and social issues to be very important to their organisation, only 29% said they were engaged and proactive on climate change issues.

Directors have fiduciary obligations in respect of climate-related risks including physical risks (eg to assets), economic transition risks and liability risks if boards fail to mitigate, adapt or disclose. Legal action is already being taken against companies and directors in the US, Europe and Australia. It is important that New Zealand directors and leaders prioritise consideration of climate change risks through mitigation and adaptation, and pursue opportunities while transitioning to a low-emissions economy.

Pointers for 2019:

- Identify the material risks relating to climate change that can impact your organisation. Run scenarios with management about how things may change.
- Think about the risks and opportunities in how your business can adapt to a low-emissions economy.
- Focus on meaningful reporting and disclosures (eg what's material and impactful) for stakeholders, including investors, consumers and regulators. >>

## 3. FUTURE OF WORK

**Labour shortages, changing ways of working and the impact of technology require adaptive talent strategies.**

Labour quality and capability has again rated as the top risk for businesses, and a major impediment to economic performance, in the *Director Sentiment Survey*. Boards need to ensure that management have appropriate talent strategies in place to ensure they have the capability to deliver their organisation's future strategy in a tight labour market, but also that they are thinking about the potential opportunity that automation can offer to combat labour shortages and productivity challenges.

Often called the Fourth Industrial Revolution, our times are characterised by a pace of change that is faster than ever, and it will only get faster. The board's role in scanning the horizon for potential opportunities and risks has never been more important. One change that will impact almost all businesses is the changing world of work.

The "future of work" includes consideration of the impact of technology, demographics and other factors on work, workers and the workplace. Whole jobs are disappearing and jobs are being reshaped, which is also leading to real concerns about increased income inequity and poverty.

Key areas of focus in the Government's Future of Work forum (August 2018) were:

- "just transitions" in industries undergoing structural shifts
- introducing a lifelong learning approach to allow for swift training
- understanding what new technology will do to work practices
- lifting labour productivity.

Boards need to think about their own organisations. They need strategies to excel in these changing times, including assessing their organisation's stance on talent matters including retraining/upskilling workers, replacing workers' tasks with technology alternatives (eg automation and algorithms) and future capital expenditure as the gig economy continues to grow.

The challenge for boards is ensuring that management is looking ahead, keeping an eye on how to maximise the potential of changing ways of working and the impact of technology, while looking after their workers through the change, and assessing the potential risks that disruption will bring to organisational culture.

Questions for directors to consider as we enter the New Year:

- What type of work will our organisation's employees be doing?
- What kind of workforce do we need to successfully do this work?
- Can automation of some tasks help us remedy some of our productivity and labour shortage challenges?
- What type of environment and culture does our organisation need to thrive in a digital and disruptive world?

Pointers for 2019:

- Think about work (eg tasks subject to automation), workers (changing skills and expectations) and the workplace (locations and work anywhere) to help develop your strategic approach to investment and future needs.
- Understand organisational and worker needs, and how adaptive workplace practices can enhance employee engagement, organisational performance and productivity.
- Lead and monitor organisational culture to retain, retrain and grow employee talent.

## 4. MENTAL HEALTH AND WELLBEING IN THE WORKPLACE

**Protecting and supporting the mental health and wellbeing of workers is not just the legal and right thing to do, it also has positive impacts on business performance and productivity.**

Nearly three years since the Health and Safety at Work Act 2015 came into effect, there is an increasing focus on mental health and wellbeing in the workplace.

The Act requires organisations to manage risks to workers and that includes risks to their health – including mental health.

According to WorkSafe NZ, 600 – 900 people die from work-related diseases every year, and 30,000 people suffer from work-related health conditions.

A 2017 Wellness in the Workplace Survey by Southern Cross and Business NZ showed wellness had a sizeable impact on the productivity of most enterprises, including the loss in 2016 of 6.6 million working days and $1.5 billion due to absence.

Risks to physical and mental health and worker wellbeing come in a range of forms, from dangerous substances such as asbestos to workplace cultures and behaviours that cause harm, eg sexual harassment or bullying. Three high-profile cases in New Zealand this year with independent reviews (into Russell McVeagh, the Human Rights Commission and the NZ Football Ferns) all found governance failings.

Our nation has deplorable suicide statistics: 606 New Zealanders took their lives in 2016/17. The Mental Health Commissioner reported in 2018 that one in five New Zealanders lives with mental illness and/or addiction.

The 2018 *Director Sentiment Survey* results show that during the past 12 months 63% of boards had discussed workplace mental health issues.

This year we've seen the launch of a Government *Mental Health and Addiction Inquiry* and the release of a Mental Health Guide for New Zealand Leaders, which aims to help organisational leaders enhance and protect mental health in the workplace.

It's not just about doing the right thing so that everyone goes home safe and healthy from work every day. Poor mental health causes significant human and economic costs, eg increased absenteeism, sick leave, injuries and workplace conflict. Improved workplace wellbeing also leads to improvements in productivity, financial performance, risk management, employee retention and recruitment.

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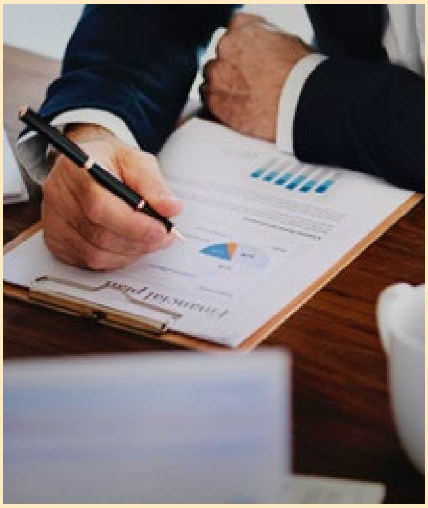



## FMA/RBNZ recommendations on culture and conduct

- Take ownership and accountability for conduct and culture and drive changes.
- Be proactive and prioritise the identification and remediation of issues.
- Strengthen processes and controls to prevent, detect and manage conduct and culture issues.
- Ensure employees know what good conduct and culture looks like and that there are effective mechanisms for employees to report issues.
- Ensure incentive and remuneration policies and practices support good conduct.

Pointers for 2019:

- Lead awareness and understanding of mental health in the workplace. Reduce the stigma by normalising conversations about mental health.
- Ensure management report on mental health and wellbeing, and that there are measures in place to track organisational culture (including risks, incidences and progress).
- Foster more resilient workplaces where mental health and wellbeing are a priority.

### 5. COMPLIANCE THAT MATTERS

**Beware of compliance overload and ensure sufficient time and focus on strategic and performance issues.**

Each year since the Director Sentiment Survey began in 2014, between 70% and 80% of directors have said that they had spent more time on compliance-related activities in the previous 12 months than in the preceding year.
The Directors' Fees Report 2018 found a significant increase in time spent by directors on board matters, up from 106 hours a year in 2017 to 127 hours in 2018. This is up from 88 hours in 2014.

There have been increases in legislative and regulatory requirements, eg the Health and Safety at Work Act 2015, and directors also need to keep on top of complex risks such as cybersecurity and climate change.

The 2018 *Director Sentiment Survey* also shows regulatory red tape as a key concern (after labour capability) of respondents in relation to both the economy and business performance and an increased concern since 2017. Sixteen percent of directors (compared to 11% in 2017) citied regulatory red tape as the biggest risk facing their organisation. In addition 41% (up from 30% in 2017) rated it as one of the biggest impediments to national economic performance.

Organisations have mandatory compliance activities that have to be fulfilled. There are also other compliance activities that, although not legally required, are important. The challenge is to manage time and effort on compliance to ensure it adds value and is not undertaken for the sake of it. For example, the 2017 *NZX Corporate Governance Code* requires disclosures on a "comply or explain" basis. The value of compliance is in providing meaningful disclosures to inform investors and other stakeholders. If you can't comply then explain why. It's the "why" that matters rather than ticking the box for the sake of it.

Directors have a wide range of legal, ethical and commercial duties. And there can be significant penalties for breaches or failures. The *Directors' Fees Report* 2018 found that only 76% of organisations provided directors with liability insurance. Additions to that liability burden can have unintended consequences, such as deterring experienced and skilled directors from putting themselves forward to serve.

For example, a current proposal by the Tax Working Group to introduce personal liability for company PAYE and GST debts is particularly concerning as it is likely to drive additional (internal) compliance and may also deter experienced directors.

Disclosure and reporting requirements for financial and non-financial information are evolving (and increasing) to meet stakeholder and investor expectations. Telling a performance story, including in relation to governance, social and environmental impacts and risk, is important to accountability and building trust and confidence. But reporting needs to have a purpose and be meaningful to the organisation, and tick-box compliance can add little value.

Pointers for 2019:

- Assess the time spent on compliance compared to performance and strategy and rebalance if needed.
- Ensure the board is getting the right information from management for effective decision making. Assess board papers as a whole, eg to ensure information is timely, accurate, complete and includes forward looking projections as well as trend data.
- Check insurance policies and indemnities provide adequate cover for potential liabilities.

## Director Sentiment Survey

# Help wanted

**Directors see labour force quality and capability as the top risk factor facing businesses in 2019, and the tight labour market as the biggest impediment to the economy.**

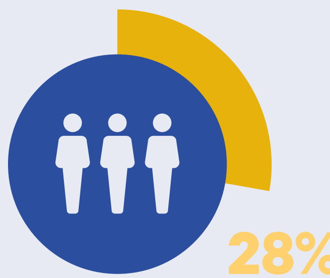
**It's all about the quality of your team in 2019, according to our fifth *Director Sentiment Survey*.**

Produced in association with the ASB, the *Survey* is an annual review of strategic concerns in the boardroom. We would like to thank the 936 IoD members who responded this year, our highest level of engagement to date.

### LABOUR CAPABILITY

Concerns about workforce skills and capability featured strongly with 28% of directors identifying it as the biggest risk facing their organisation, nearly double the number identifying the second most prevalent risk (red tape, 16%).

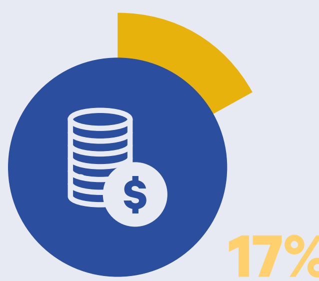
This is the fifth consecutive year that labour force quality and capability has been rated by directors as top of the worries list.




### ECONOMIC PERFORMANCE

It is also seen as a problem for the economy in general, with 61% identifying the tight labour market as among the top three impediments to economic success.

This contributes to a gloomy view of New Zealand's immediate economic prospects. Just 17% of directors are optimistic about New Zealand's economic performance over the next 12 months, the lowest percentage in the five years we have run the *Survey*.



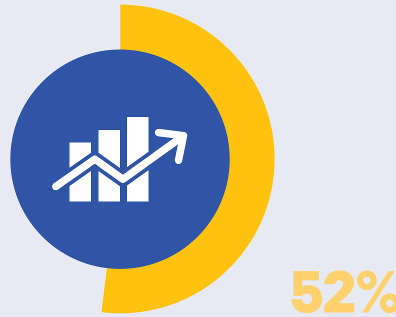
> “There should be nothing but admiration for people who commit to reskilling.”

Frances Valentine CNZM reminds us that the labour skills shortage affects staff as well as organisations in “Are you a Samurai or a ninja”, *BoardRoom* Oct/Nov 2018

## BUSINESS CONFIDENCE

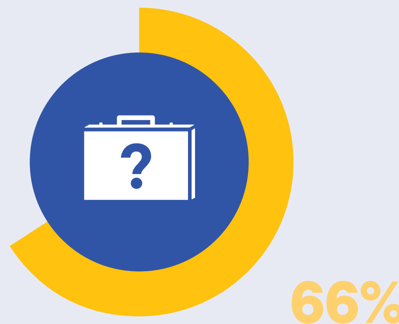
This view is mirrored when directors are asked if they expect the economy to decline next year, with a *Survey* record 43% answering “yes”.

By contrast, directors were relatively upbeat when it came to their own organisations, with more than half of directors (52%) expecting performance to improve. This result is consistent with the pattern in other business surveys and may reflect the fact that directors generally feel they have a better understanding and control over the drivers of their own organisation’s performance.




## FUTURE OF WORK

The *Survey* showed that boards recognise the key role they play in strategic talent management (and mitigating the risks inherent in a tight labour market). Over the past 12 months, 66% of directors said their boards had discussed the impact of technology, automation and/or artificial intelligence on their organisation and its workforce. This included identification of skills that would be needed in the future.

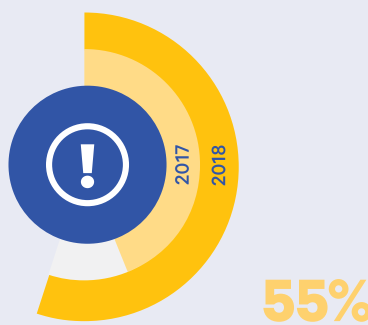



> “I personally believe that in every business, including the ones I work for, there will be slavery.”

Rob Fyfe calls on directors to take an ethical approach to their supply chains in “Blind spots in the supply chain”, *BoardRoom* Jun/Jul 2018

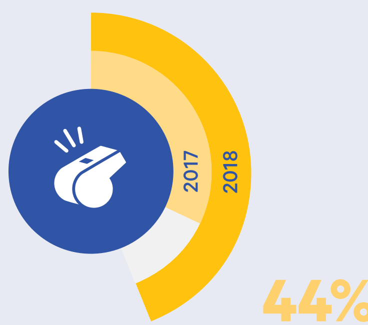
## ETHICS RISK

More generally, ethics remained a focus with directors recognising that the board plays a core role in overseeing and setting the tone for organisational values, standards and culture. The Survey found that a larger number of boards are assessing ethics risks in their organisations with 55% (compared to 44% in 2017) of directors responding that their board has assessed ethics risks in the past 12 months.




## WHISTLEBLOWING

With the rise of the #MeToo movement and significant media focus on sexual harassment in the workplace globally, boards need to be thinking about these and other forms of conduct risk. Thirty-nine per cent of directors said their boards had discussed sexual harassment within the past 12 months. Just under half (44%) of directors responded that their board has discussed whistleblowing and how they make speak-up provisions more effective. >>



## BOARD CAPABILITY

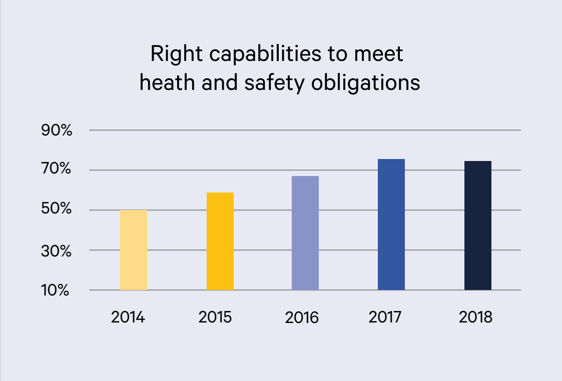
Since the *Survey* was launched in 2014, we have tracked board capability in key areas – health and safety, business complexity and risk, and digital capability.

# Trends

### HEALTH AND SAFETY CAPABILITY

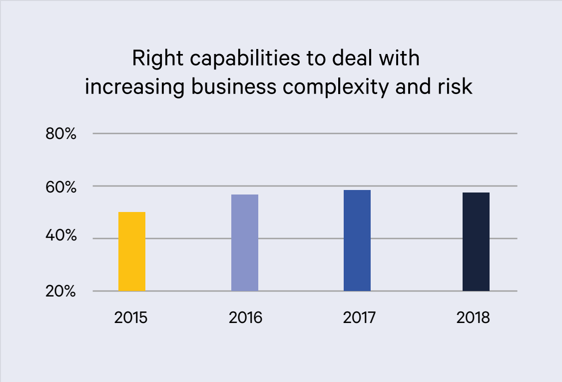
The proportion of boards that consider they have the capability to comply with obligations under the Health and Safety at Work Act 2015 improved year-on-year between 2014* and 2017. However in 2018 we saw a slight drop. It's important all boards maintain vigilance on health and safety.

*In 2014 we asked a slightly different question before the Act came into effect.



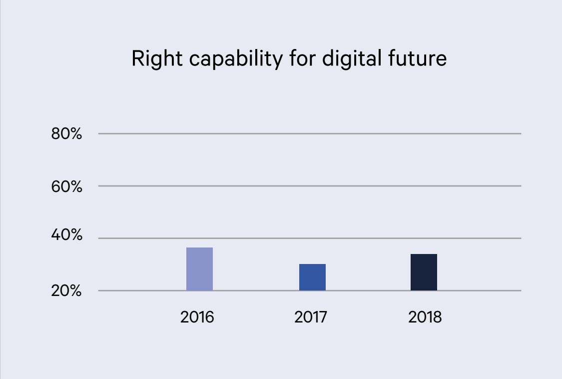

### BUSINESS COMPLEXITY AND RISK CAPABILITY

Over the past four years the proportion of directors who consider that their board has the right capabilities to deal with increased business complexity and risk has hovered between 50–57%.




### DIGITAL CAPABILITY

The number of boards that consider they have the right capability to lead their digital future has remained consistently low over the past three years, hovering between 30–35%. It's critical that boards consider the digital leadership needs of their business. >>

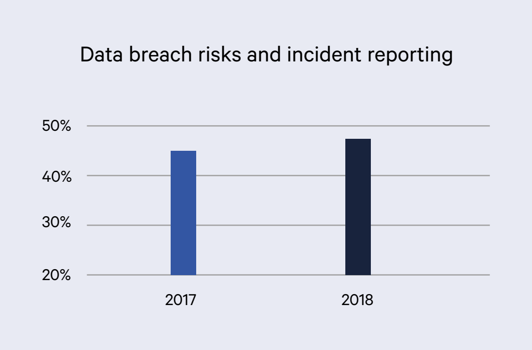


## REPORTING TO BOARDS

We have also tracked trends in two key areas of reporting to boards – cyber risk and conduct. It is important that boards get the right information in order to manage risks and make sound strategic decisions in these areas.

### DATA BREACH REPORTING

Despite an increased focus on the importance of data governance and data breach reporting globally, less than half of directors (47%) were sure that their board received comprehensive reporting from management about data risks and incidents. This is a marginal increase from 45% in 2017.




### ETHICAL CONDUCT REPORTING

We have seen a steady year-on-year increase in the number of boards who are receiving comprehensive reporting from management about ethical matters and conduct incidents, from 37% in 2016 to 46% in 2018. However, more than half of the boards surveyed have yet to put in place comprehensive reporting processes in this area.

You can find the full *Director Sentiment Survey* 2018 at **iod.org.nz**


> “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.”

Melissa Clark-Reynolds stresses that boards need to be open minded about the impact of technology on their organisation in “Customers before technology”, *BoardRoom* Dec/Jan 2018

ASB BUSINESS CONFIDENCE

# Weak business confidence: should we worry?

## Low business confidence is being driven largely by political uncertainty rather than economic fundamentals.

AUTHOR
*NICK TUFFLEY, ASB CHIEF ECONOMIST*

**Business confidence began softening as last year's election battle heated up, and fell sharply once the new government was formed. Although confidence began to recover in early 2018, it soon resumed its downward path.**

Only recently has it started to show signs of bottoming out – at a level that usually coincides with weak economic growth.

Having reached a level of focus that elephants in rooms are now being dwarfed, there are three key questions to ask. Why is business confidence so weak? Does it matter? And, what can be done about it?

### WHY SO WEAK?

Broadly speaking, business confidence will be influenced by factors that businesses perceive are affecting, or will affect, their performance.

Domestic demand growth has slowed relative to a couple of years ago. Businesses are increasingly reporting that costs are rising, such as for fuel or wages. Meanwhile, they are less sure of being able to pass on these costs, and increasingly anticipate that their profit margins will come under pressure. Increased global tensions will be on businesses' radar at present.

All of the above are reasons for caution. Businesses tend to be relatively less upbeat under Labour governments about the general economic outlook. More importantly, businesses also tend to be a bit more circumspect about their own businesses' trading prospects (which more closely correlate with economic growth).

It can be easy to put these survey responses down simply to perceptions of preferred political colour. But, to paraphrase the Labour Party, there is a reason why the party is called what it is. >>

Businesses can reasonably expect to see a policy tilt in favour of labour relative to capital wherever there is perceived tension between these two economic foundations. And that in turn may influence businesses' views of their trading environment.

Nevertheless, it is clear from various business surveys that the change of government is genuinely influencing business perceptions, particularly through uncertainty about future government policy.

Numerous working groups are still developing policy recommendations, including in key areas such as industrial relations and tax. Consistency and quality of decisions also matters. The ending of further permit issuance for offshore oil and gas exploration highlighted the risk of game-changing policies being introduced with little analysis or consultation to guide policy making.

The Mood of the Boardroom recently put "general uncertainty about the impact and direction of current government policies" at the top of business executives' list of concerns. Regulation and employment changes also made the top five.

The NZ Institute of Economic Research's Quarterly Survey of Business Opinion, taken over September, specifically asked business respondents what they saw "as the key issues affecting the general business situation in New Zealand over the next six months". Again, government policy came out as the top issue.

> "...sentiment surveys are ringing alarm bells, as they flag the risk that economic growth does indeed get held back by cautious decision making."

Source: Newstalk ZB

## SO, DOES WEAK CONFIDENCE MATTER?

Businesses make key long-term decisions, such as employment or capital investment, based off the business environment that they expect to face. That environment will always carry uncertainty from more usual sources. This year the post-election fog of yet-to-be defined policy changes makes the future that much harder to discern.

Usually economic growth does slow when businesses' expectations for their own performance and their employment and investment intentions are low for a sustained period of time. And that is why the sentiment surveys are ringing alarm bells, as they flag the risk that economic growth does indeed get held back by cautious decision making.

But, as yet, there are few signs in the hard data that growth is slowing from the moderate pace in place since the middle of 2017. Imports of capital equipment are holding up to date, as is credit growth to businesses. Reported employment growth in the September quarter was very strong, although the Quarterly Survey is notorious for volatility.

## TRAVERSING FROM MT DOOM TO ECONOMIC EVEREST

So how should New Zealand collectively respond to that part of weak confidence that appears to be influenced by the uncertainties from the transition to a new government? Really, it is incumbent on us all.

From the government's part, providing as much policy clarity as is feasible as soon as possible will help to reduce the real and perceived uncertainties. Ensuring key policy decisions are made after reasonable consideration of the overall economic and business impacts will give greater public confidence in those decisions. Let's also give the government some credit for seeking input into a number of key policy developments from a wide range of interest groups, even if that has come at the cost of a lengthier process.

From businesses' part, it's important to keep in perspective that governments come and go, and policies tack slightly along the voyage. Usually, it is the broader domestic and global economic environment that most heavily influences business performance – unless you are trying to run a business in Venezuela.

New Zealand businesses have proved themselves to be incredibly adaptable to a range of seismic shifts in the landscape. Keeping a laser-like focus on what can be controlled is always important, and particularly so while the government keeps working to clear the policy uncertainty clouds.

# Runs on the board

Since 2016, the number of women in governance positions across cricket's major association has quintupled as part of a major push to make the game more inclusive.

AUTHOR
***AARON WATSON***

In 2016, cricket had girl trouble. The proportion of women playing, umpiring and leading in the sport was in decline and the statistics uncovered in the Women and Cricket report were sobering:

- Only 10% of those participating in cricket were female.
- A 40% decline in secondary schools girls' participating in cricket over the past decade.
- 90% of clubs don't have a girls-only team.
- Fewer than 10% of coaches were female.

It was not what the game's administrators had hoped for when the New Zealand Women's Cricket Council and New Zealand Cricket amalgamated in 1992 – a unification considered a trailblazing model for the world at the time. So the Cricket NZ board set out to uncover what had gone wrong and how to fix it.

"The report was an eye opener," says board member Liz Dawson. "It was pretty obvious that things were not looking good. We knew that the participation of females in our game was not as strong as it had been in previous years and we wanted to investigate why."

> "...Māori women, Pasifika women, women with South-East Asian ethnicity, religious diversity... so it has actually brought diversity other than gender diversity."

The Women and Cricket report made a series of recommendations on governance and leadership within the cricket family (see The governance and leadership recommendations sidebar). These included significantly increasing the proportion of female players in cricket governance – and quickly.

"It was clear around the boards in New Zealand cricket, the major associations and district associations, that there were very few women involved in leadership," says Dawson.

So Cricket NZ embarked on its Women and Governance Project, a slightly different proposition to other diversity projects. While keen to increase the number of women in governance, NZ Cricket was not simply seeking a better balance – it was trying to fix a clear problem.

"Women and Governance is a two-year project that comes to its phase one fruition around our AGM this year in November. That project has goals in terms of the number of women on boards. For major associations we aimed to have at least two women on boards. For district associations to have at least two women on their boards as well," Dawson notes.

While the effects of the project are still to be fully felt, Dawson says the initial results are encouraging. As of July 2018 the NZ Cricket board moved from 11% to 44% women, major associations have moved from 4% to 28%, and district associations from 7% to 14%.

As of October, the number of women in cricket governance positions has quintupled.

"We went from ten women on any of those boards, we have now got 50. I am really pleased with that," Dawson says.

## WHAT GOVERNANCE DIVERSITY LOOKS LIKE

"It has brought different conversations to the board tables," Dawson says. "I was sitting on a board appointments panel for central districts cricket last week [October] one of the questions we asked the applicants and the nominees for those various positions [was] 'what do you think having females on those boards has brought?' Without a doubt every person who was interviewed talked about the difference it has made to conversations and business as usual, to thinking much more broadly than just about the men's team, or men's cricket.

"Probably the greatest learning for me was that it has brought true diversity. [In looking at those women] we have doctors, lawyers, coroners, women with sub-continent Asian ethnicity, Māori women, Pasifika women, women with South-East Asian ethnicity, religious diversity ...so it has actually brought diversity other than gender diversity."

The ultimate aim is to ensure that the women's game gets the attention at board level that it needs to thrive, Dawson says. Alongside the governance push, NZ Cricket has created a full-time position for a female engagement manager, who will create strategies for improving engagement at the grassroots and community levels, right through to the national pathways. "That's the longer-term play."

But, like many cultural changes, the lead has to come from the top. And Dawson says the earlier evidence is that having more women in governance will pay dividends in terms of women's engagement at all levels.

"In getting more women on boards, we have seen a greater focus on ensuring women and girls have equal opportunity to be involved in the game." >>

## THE GOVERNANCE AND LEADERSHIP RECOMMENDATIONS

**A** Significantly and quickly increase the proportion of females in cricket governance.

**B** Ensure all national and regional cricket associations have leadership role(s) accountable for driving improved cricket outcomes for females.

**C** Positively influence the media awareness and portrayal of females' success and legacy in cricket.

**D** Gradually increase female presence in coaching and umpiring positions.

**E** Target the engagement or re-engagement of females who know and love cricket in ways that fit their life stage and availability.

*Source: Women and Cricket, 2016.*

01

## CHALLENGES

Effecting change in the make-up of boards throughout New Zealand presented particular challenges to NZ Cricket. Some boards had to change their constitutions to allow for board appointments rather than finding members through elections at district association and club level. "That required either a special general meeting or to go through the AGM cycle," Dawson says.

NZ Cricket has in part encouraged this through financial incentives. "We are in a position where we can use levers such as, if you meet targets there are funding levers that can be pulled. Bonuses for meeting targets."

Many boards have had to reconsider the way in which they engage with the people in their area, Dawson says. "It's been a change in thinking: actually, we have a very successful men's team and men's pathway. What else do we need?"

Having more women on those boards is one route to making sure women's cricket is considered, she says. "How do you think about your women's pathway if you don't have that voice around the board table?"

But the new female directors have not been left to fend for themselves. Dawson says there is much governance research that shows one woman can be reduced to a "'lone voice" in the boardroom, where two to three women can make change. So goal targets that we set were to have a minimum of two women on the board.

NZ Cricket has also put in place support for these new directors, to ensure they can deliver effectively in their roles. "We actually have a network for those women. We have an annual forum. We have been encouraging the IoD to get involved and assist. We have membership of DiversityWorks training," Dawson notes.

## TONE FROM THE TOP

"The NZ Cricket board is walking the talk," says Dawson. "We have three women on our board, plus a female president. We have senior leaders who are female. We are very much leading and showing the way that in creating diversity and creating inclusion on boards leads to better outcomes and better culture."

"You can't do this without the full board being behind it. You can't do this without the management team being behind it, understanding it and advocating it as well."

She has special praise for Sir Richard Hadlee who was "a true advocate of diversity" when he was on the board. She also offers thanks to CEO David White and her fellow board members – particularly Geoff Barclay, Martin Sneddon and Geoff Allott. "Of those five men, four are former cricketers who have represented New Zealand. They understand how important this is."

And while it is still too early to say what the long-term effect of the push will be, Dawson believes NZ Cricket has already learned lessons that could be of benefit to other sports codes seeking to improve female representation at a governance level.

"We are encouraged to talk about it because we have some runs on the board. We have shown that the work works... But we have only just scratched the surface and there is a long way to go if we are going to be true to our vision.

"I think there are other codes in New Zealand that look at NZ Cricket and wonder how it is being done in such a short period of time? My strong advice is that it is hard work, you have to change minds, but the results are without doubt so much better for the organisation and so much better for the sport."

02

**01:** Liz Dawson
**02:** The NZ Cricket Board,
*Back row from left:* Martin Snedden, Diana Puketapu, Geoff Allott, Ingrid Cronin-Knight
*Front row from right:* Don Mackinnon, Liz Dawson, Greg Barclay, Neil Craig

# From old boys club to professional body

01

**When Geoffrey Bowes took up the reins at the Institute of Directors in New Zealand his first task was to find somebody to pay his salary.**

AUTHOR
***AARON WATSON***

"It was an unusual start," says Geoffrey Bowes dryly, "to what became, in my opinion, a very happy relationship which I enjoyed very much."

Now in his eighties himself, Bowes says the 1980s were different times for the IoD, when the organisation was largely run by volunteers and relied on the generosity of its members – both in terms of time and money – in order to function.

It worked out for Bowes. Then Wellington Branch (and later national) President Denis Griffin agreed to underwrite his pay. So Bowes became the IoD's first executive director – later retitled chief executive – and stayed in the role for 13 years, presiding over the establishment and growth of New Zealand's preeminent governance network.

In those days the IoD was more a network of like minds than a professional body, he recalls. "That's a thing you should know. You couldn't apply to join, you were asked to join," Bowes says with a twinkle in his eye that betrays the humour that is a feature of his conversation.

"You had to be white, male accountant or lawyer and a member of the Northern Club or Wellington Club. We had about 150 members – 50 were dead – a turnover of $45,000 and not much else. We started off and I ran it all from my house."

Today the IoD has 8,686 members from many professional backgrounds. Just under 30% of the members are female. Programmes are in place to promote diversity and provide mentoring. It posted a $1.25m surplus in 2017 on turnover of $13.4m.

## FROM KHAKI TO PINSTRIPES

Bowes is an ex-military man. He retired as Lieutenant Colonel in 1979 having served in Borneo and Vietnam in the SAS, commanding Queen Alexandra's armoured cavalry, and in the RNZAF. Working as a consultant in the early 1980s, he came into contact with the Wellington branch of the IoD and became its secretary.

Now 80, he has an insider's view of the growth and development of governance as a discipline in New Zealand during a tumultuous period. This included the 1987 crash, the introduction of the codification of directors' responsibilities in the Companies Act 1993 and growing public interest in boards and their activities.

He helmed the IoD in New Zealand from 1984 to 1997, during which time membership grew from the hundreds to the thousands. And Bowes gained experience at the coalface, sitting on a number of commercial and not-for profit boards. >>

By the time he moved on from the IoD, governance had become his second career. Bowes stayed in the game, spending nine years as chief executive of the Commonwealth Association for Corporate Governance (CACG), developing director talent in 35 commonwealth countries. In 2003, the CACG received the International Corporate Governance Network Award for outstanding work in global corporate governance, which sits quietly on Bowes' curriculum vitae alongside his MNZM and DistFIntsD.

## LONDON CALLING

In its early years, the IoD in New Zealand operated as a branch of the IoD in the UK. "They paid a levy to the UK. In return they had full rights and access to the IoD UK's premises, and they received a very flash looking magazine called *The Director*," he recalls.

That changed in 1989 when the IoD NZ became an incorporated society (with a membership of 500). "Peter Clapshaw, the then president, was instrumental in that. He and I drew up the constitution – and I had the job of telling the Brits that we were a self-entity. I managed to arrange for the airfare to be given to us by British Airways and off I went – with them thinking I was going to be bringing over a big fat cheque..."

> "The CDC has become, if you like, the flagship of the organisation. It was the first such course in the world."

02

His plan for a short visit was shelved at the recommendation of the British, who had a culture of not rushing business matters. "They didn't start until 10am and then you went to lunch and that was it," Bowes laughs. But he is quick to stress that the support and expertise offered by the IoD in the UK was key to the successful establishment of the IoD in NZ.

Plus they were fun to visit. "I went to a conference and it was top notch, absolutely top notch. It was run in the Royal Albert Hall, I think. They would start at 10.30am or 11am and they had boxes. The great unwashed sat down on the floor. I found it very convivial. They had a box lunch – I had never seen it before – and I had to leave at two or I wouldn't have been able to see much longer." Cue the Bowes chuckle.

Such international relationships helped form his view of what a professional body for directors could be and how it could provide value to its members. The commonwealth bodies he visited were all finding ways to provide professional support.

"I learned a lot from the UK and was lucky enough to go every two years. I looked at the IoD in South Africa, Zimbabwe (before the monster), Canada, and Australia. I had a potpourri to draw on as to what we could do in NZ."

03

**01:** IoD President John Storey, Geoffrey Bowes and Warren Young discuss developments (1996)
**02:** The Wellington Club
Source: Wellington Recollect
**03:** Geoffrey Bowes

## FROM DIRECTORS TO GOVERNANCE

"What we could do" was to shift the focus of activity from old boys to the concept of professional governance, he says. But that took time. In the early 1980s, the main member activity was to "pontificate on things".

"I think what then appealed was the meeting as a group. So the branches were pretty important to us. There was nothing really done on a national basis. Auckland was very established and it had all the doyens," he smiles. "You could just about walk into the Northern Club and see all the members." >>

As the branches grew so did the membership – from 500 in 1989 to 1,500 by 1993 to 2,000 in 1997. "In those days they were talking about directing. [Former IoD President] Peter Grayburn said to me just recently that I was the first person to mention corporate governance to him, he didn't even know what I was talking about."

What he was talking about was establishing governance as a profession in New Zealand, with the IoD at its heart. Over time the IoD introduced company chairmans' retreats, CFO retreats, CIO retreats – "a lot of those sorts of things that we ran ad hoc". BoardRoom magazine began as a monthly newsletter. "I'm delighted to see what it has grown into now." And he identifies the board appointments service, which helps boards find good directors, as another key step.

"That took a long time to get underway and we were really indebted to the people who did the work, who did the interviews. We ran it with non-executive directors. Charles Speight who was the chairman of National Mutual did a lot of work for it. In Auckland Sir Lawrence Stevens was on the committee. The key for us was to have people who were well known doing the selection."

The '"pivotal point" was the development of the company directors' course (CDC) in 1991, he says. It had become apparent that one of the two Australian directors' institutes ("they fought with each other all the time") was planning to run a course for New Zealand directors at Waikato University. Bowes and co. decided to get in first.

"Denis Griffin and I went to Dryden Spring who was Chairman of the Dairy Board at the time and Dryden asked, 'what do you need?' We said $20,000 to set it up. He said he would also guarantee 50% of the students – in those days there were 18 dairy companies as the amalgamations hadn't really started. Without Dryden's guarantee we would have been sucking the back end of a ...

"The CDC has become, if you like, the flagship of the organisation. It was the first such course in the world."

## CONTEMPORARY VIEW

Now retired, Bowes has an ongoing passion for governance and, when prompted for his perspective, is comfortable speaking his mind. He sits up a little straighter before putting his view strongly.

People who join the IoD because they think it will get them a directorship are misguided, he says. It's not a job centre. As a professional body, it should be there to assist members in their fiduciary duties. And he has a clear view of what those duties are.

"Directors are fiduciaries. They are guardians of the investors' money. They are not managers. It occurs to me that some of the big consulting companies are managing to put a lot more duties in for directors which, of course, they become the consultants for.

"Directors are there – really – to oversee the operation of the management. To ensure that the finances are right. To set the strategy. To ensure that the legal requirements are being met. And if necessary sacking and then appointing a chief executive officer. That's about it. Risk control is part of the management function and so are a lot of other things. If we are going to have directors coming down to managing then we have got it all wrong."

Our Company Directors Course (CDC) was the first such course in the world. Pictured: participants in the Auckland CDC, 20 November, 2017.
*Back row:* Richard Fraser, Murray Robertson, Alwyn Corban, John Hannan, Kevin Palmer, Simon Bilton *Middle row*: Matt Bond, Chris White, Howard Long, Rob Heebink, Brenda van Zyl, Kelvin Watson, Tania Armstrong, Gary Leslie, Jim Stuart-Black *Front row:* Mark Sadd, Dave Stanley, Craig Candy, Trish Bolger, Kirsten Ralph, Allan Tribble, Margaret Gibbs, Stephen Hunt, Kevin Murphy

# Building a better board

Gaining a government contract to provide drug and alcohol rehabilitation services for severely compromised addicts was one of the catalysts for the Nova Trust board to re-evaluate its governance practices.

Stu Myles, Nova Trust Director

The Substance Addiction (Compulsory Assessment and Treatment) Act 2017, which came into force earlier this year, enables the compulsory assessment and treatment of severe drug and alcohol addicts, including the ability to detain them for treatment for up to eight weeks.

Nova Trust's Christchurch facility is the only provider in the country mandated by the Ministry of Health to treat these addicts. Before the new legislation, Nova Trust had predominantly worked with local health boards. Now it also works directly with the Ministry of Health.

"We were conscious we needed to ensure that, not only were we meeting our obligations from a services perspective, from a governance perspective we had the necessary skill set and capabilities around the board table," says Nova Trust director Stu Myles.

"It was important that we took the time to identify any gaps that we had, and that individuals on the board had an independent appraisal of their own skill set that also identified areas that perhaps they might need to work on in terms of upskilling."

Nova Trust hired a new CEO, Steve Rossell, from the UK last year. "Again, that was a recognition that the business was changing and that there was a need to have some really strong leadership in the organisation," Myles says.

Once the CEO position was filled, the board started looking at its own needs. "We had some gaps in terms of numbers so we started talking about what we needed in the board to fill those gaps, both in terms of numbers and capabilities. That was the start of the conversation."

"We decided we should be looking at the board as a whole. Given the nature of our new relationships due to the new legislation, we would be under much greater scrutiny, not only from the Ministry but anybody we're associated with. If we were going to be involved in public funding or government funding then we needed to ensure we were up to the task at a governance level."

Once it was decided that a board-wide review was needed, conversation turned to whether to get an external consultant or an organisation like the Institute of Directors (IoD). "I was keen to use the IoD as the services they provided were completely independent, wholly professional and would be able to give a view that wasn't coloured in any measure by any particular board member."

The decision was made to undertake a BetterBoards evaluation process through the IoD, with both individual board member assessments and a whole-of-board report.

There was a mixture of apprehension and excitement from the board before the evaluation. "But the apprehension was more because going into it we didn't really know what it entailed. In some ways the process was confronting because you not only have to assess yourself, but you're also assessed by your peers," Myles says.

"The reports were confidential to each individual in terms of their own assessments, except for the chair, whose report was made available to all of us. The whole-of-board report was also circulated to all of us."

Once the reports were completed, the board opted to have an independently facilitated session to look at the results of the whole-of-board report and talk through how to take the results forward.

"All the way through this process it was about rebuilding and refocusing the Nova board and what we do," Myles says.

There has been a subsequent refresh on the board – although Myles says that's not necessarily a direct result of the evaluation. "Our chair has decided after 15 years on the board to step off the board.

>>

> "...we've got the platform now to launch forward, but we couldn't have done that without the BetterBoards programme and without the self-analysis of directors."

I think other board members have indicated where they are at in terms of their position on the board. I think it's been a refreshing thing for everybody.

"The beauty of that whole process is that, as a board, we can now look at that report and say 'these are our skills gaps around the table'. It makes us a lot more informed in terms of what we then go out to market for in terms of additional trustees/directors."

Myles says insights gleaned from the evaluation and facilitation have also led to better governance structures and practices. "We thought our board meetings were well structured and that we were covering off the necessary things when in fact we found out we had a long way to go, that there were a number of key elements we were missing as a board and the structure of our board meetings wasn't as good as we thought it was."

The Nova Trust board sees the evaluation and report as a starting point in its fresh focus on governance.

"What we've said is that this is not a one-off and then we park it. This is an ongoing part of how we look at ourselves and how we look at the board. I guess you could say we've got the platform now to launch forward, but we couldn't have done that without the BetterBoards programme and without the self-analysis of directors. It was also about us being mature enough as an organisation and being able to acknowledge that we were in a time of change, and needed to take those steps."

The board is committed to ongoing reviews. "Every couple of years we will come back and do a health check about where we're at relative to the report. We'll probably do that in a facilitated session, using the whole-of-board report and following on from our first facilitated session."

If you think your board might benefit from an evaluation, and to find out more about BetterBoards, contact the IoD's Board Services team at **boardservices@iod.org.nz**

# Boards must lead change

Governance of the banking sector must improve to protect customers and the banks themselves.

AUTHOR
***ROB EVERETT, CHIEF EXECUTIVE OF THE FINANCIAL MARKETS AUTHORITY***

Rob Everett

Conduct risk should not be a new concept to directors of financial services in New Zealand. However, the results of the Financial Markets Authority (FMA) and Reserve Bank of New Zealand (RBNZ) review into the conduct and culture of New Zealand's banking industry suggests otherwise.

We found significant variability in the maturity on the governance, oversight and effective management of conduct risk in New Zealand banks. The Australian experience (see "What's happening in Australia" on page 28) shows clearly that those weaknesses, if left unchecked, will expose banks and their customers to serious risks in the future.

The FMA issued its guide to good conduct in February 2017, after an extended consultation period. At the time some questioned our prerogative in putting forward expectations of conduct that were outside our remit in law.

The events that have burnt the reputation of financial services in Australia demonstrate the short sightedness of that approach to conduct and, most importantly, good customer outcomes.

Even before our conduct guide, in 2014 the FMA warned about complacency to conduct risk within financial services. In a speech, I urged the heads of the country's biggest financial services companies to embed the interests of the customer and integrity into the heart and culture of their businesses.

It seems that at least some of the financial services industry have only taken notice of these warnings and guides as a result of us knocking on their door for a conduct review. Better late than never.

The FMA and the RBNZ took the opportunity of the events unfolding in Australia to get the banks in New Zealand to demonstrate why and how they were different. We wanted to test whether boards and senior management at New Zealand banks had a solid basis for expressing confidence in their businesses.

While we are satisfied that no widespread issues of conduct and culture currently exist in New Zealand's banks, there are weaknesses in the management and oversight of conduct risk that need to be addressed immediately. We have given all banks their own feedback on where they need to improve individually.

However, these factors for urgent attention are common to all banks:

- Greater board ownership and accountability – including being able to properly measure and report on conduct and culture risks and issues.
- Prioritising the identification of issues and accelerating remediation.
- Prioritising investment in systems and frameworks to strengthen processes and controls. >>

**Questions boards need to raise to ensure good customer outcomes.**

- What information do we need?
- What reporting tools do we need senior managers to build?
- What oversight structures need developing?

### FOUR POSITIVE ACTIONS

**01** Track and monitor trends to identify/ prevent future issues

**02** Maintain social licenses from all your stakeholders

**03** Ensure stakeholder reputation by focusing on long-term sustainability

**04** Design governance to motivate/set the tone for good staff performance

- Strengthening staff reporting channels, including whistleblower processes for conduct and culture issues.
- Measuring customer outcomes and strengthening procedures around the reporting of complaints.
- Removing all incentives linked to sales measures and revising sales-incentive structures for frontline salespeople and through all layers of management.

Our recommendations are very clear in stating that accountability and ultimate responsibility for delivering these necessary changes rests in the boardrooms of the banks.

Boards should be asking themselves what information they need, what reporting tools they need senior managers to build, and what oversight structures need developing, to ensure that conduct risk and good customer outcomes are hardwired into their firms.

Financial services providers, like banks, and their relationships with customers are different to other industries. These firms have a unique responsibility for the financial wellbeing of their customers. They have to respect that some of the decisions being taken by their customers are life changing, with the harm caused by poor design, poor advice or poor communication often only appearing years down the track. Therefore, the risks that boards have to be wary of, plan for and build frameworks to manage are different.

However, there are lessons here for directors and boards across all industries that shouldn't be forgotten. Directors need to find out what is going on in their businesses and develop reporting mechanisms to collect the right information.

Lagging indicators have been dominating directors' reports where boards should really be proactive and demand information about leading indicators. Don't just focus on what's already occurred. Instead, track and monitor trends that could identify and prevent future issues occurring.

Across the globe we are seeing community expectations shifting for financial services – and for many industries – and the increasing importance of maintaining your social licence to operate from all your stakeholders.

While the ASX corporate governance principles proposal to impose some sort of "social licence to operate" obligation on directors was controversial, it is easier to argue that case for industries like financial services that are too systemically important to allow to fail.

All boards need to shift their focus to developing long-term sustainable businesses rather than maximising short-term profits. Stakeholder reputation and promoting strong customer outcomes will deliver long-term value to shareholders. Miss this and you will become irrelevant, or worse.

I said recently that because of events around the world, especially across the Tasman, we are in the second stage of a crisis of trust in financial services. So the results of our conduct and culture review have come at exactly the right time for New Zealand's financial services providers and their customers.

Building confidence and trust is everything when it comes to financial markets and services. We expect banks and their boards to respond positively to our review. Change must be fundamental, especially in how executives and staff are incentivised.

Directors and boards set the values and culture of their organisations. They need to wire good conduct into their business models. A good customer-centric culture is important but not enough. The hard yards involve designing procedures and governance to provide solid foundations. Directors and senior managers need to rethink how to motivate staff to perform and what good performance looks like. ⓑ

> "...accountability and ultimate responsibility for delivering these necessary changes rests in the boardrooms of the banks."

# What's happening in Australia?

Stories of misconduct, greed and ruined lives have played out in Australian media in recent months, as banks and providers of financial services have been forced to front an inquiry into their conduct.

The Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established in December 2017 in response to public and political pressure and unease about industry practices.

The Commission, headed up by Hon. Kenneth Hayne AC QC, released an interim report in early October, which exposed significant issues within the Australian banking and financial services sector.

Misconduct outlined in the three-volume, 1,000 page report included charging fees to dead people, charging fees for no service and providing inappropriate financial advice. Customers spoke at public hearings about poor advice that wiped out their superannuation savings or left them unable to pay their mortgages.

Hayne said the Commission had asked two key questions:

- Why had such poor conduct occurred?
- What could be done to stop it happening again?

In many cases, he said, greed was the cause.

"Too often, the answer seems to be greed – the pursuit of short-term profit at the expense of basic standards of honesty. How else is charging continuing advice to the dead to be explained?"

He added that selling became the focus of banks and financial services entities. "Too often it became the sole focus of attention. Products and services multiplied. Banks searched for their 'share of the customer's wallet'. From the executive suite to the front line, staff were measured and rewarded by reference to profit and sales."

The Commission said all of the misconduct that was identified and criticised in its report provided a financial benefit, either to individual employees or the organisation they worked for.

"If there are exceptions, they are immaterial. For individuals, the conduct resulted in being paid more. For entities, the conduct resulted in greater profit," the report states.

The Commission found that the governance and risk management practices of the entities did not prevent the conduct occurring.

"The conduct that is at the heart of the Commission's work is inextricably connected with remuneration practices, with deficiencies in governance and risk management and with the culture of the entities concerned."

The report notes that "much more often than not, the conduct now condemned was contrary to law".

Given this, the report doesn't suggest the need for greater regulation, but asks whether existing laws need to be simplified and administered or enforced differently.

## IMPLICATIONS FOR DIRECTORS

The Australian Institute of Company Directors said the implications for directors, particularly those in the financial services sector, were "potentially wide-reaching".

It says, at a minimum, the report will raise questions:

- Are existing remuneration structures appropriate, particularly variable incentives, including for senior executives?
- What governance and risk management practices are in place to prevent misconduct?
- How do we engage with the regulators, and is that appropriate?
- How much visibility does the board have of misconduct and poor customer outcomes?

A final report is due by 1 February 2019.

# Lexus LC500 Review – Second date


AUTHOR
***DAVE MCLEOD, TARMC.NET***

First dates can be a nightmare – not the date itself (that's a different story), I'm talking more about the pressure that surrounds it. It doesn't help that the date is shrouded in anticipation (I assume from both sides) but if you are the person organising it, trying to decide on the correct venue, albeit restaurant, park, function, what to wear, transportation and so on, I'm sure you all know the score.

However, bizarrely, very often the second date receives far less focus when it comes to preparation, and I believe it shouldn't.

You see, assuming all went well with the initial encounter (otherwise why are you going through it again?) the second and subsequent dates are far more involved. The second date is where you should really begin to get to know the person behind the initial facade, you should start to really listen for the signs, both good and bad, and look way beyond the initial attraction – as such it should warrant much more than popcorn and a movie.

The same thing went through my mind when I picked up the LC500 for the second time. The initial 'date' in Queenstown, with its breath-taking scenery, the five-star hotel and the racy time around the Highlands Motorsport Park of course made me starry eyed, but I wanted to get to know far more about the object of my desire, and Lexus happily let me take it away for the weekend.

I had been given the option of meeting either of the twins again (the V6 Hybrid or the Naturally Aspirated V8), and don't get me wrong, I would have been happy to spend my time with either, but call me old fashioned, I gave my rose to the more vocal of the two, the 5.0.

I picked it up in Ponsonby (of course) and it was dressed to thrill in Garnet Red and Ochre. Plenty of bright chrome bling and 21" forged alloy wheels. Possibly a little too posh for the weekend I had planned but very easy on the eye nonetheless. You see, rather than a weekend filled with opulent hotels and places to be 'seen', I wanted to understand what made LC tick, and possibly introduce it to the family. >>

Enough of all that! The LC500's design is a standout; it's a grand tourer with head turning good looks. The two door coupe hails from the same Motomachi home where the LFA was born and, although the similarities are very apparent, the LC500 undoubtedly has its own unique style.

Long aluminium bonnet with the Lexus spindle grille perfectly integrated. Angry/squinty Bi-Beam LED headlights, with Lexus hook DRLs. The front nose 'air curtains' channel cooling wind in towards the wheels while the side, body coloured rocker moulding and flush door handles, keep the air flowing smoothly towards its staunch rear end where the tapering roofline comes down to meet it. The rear features multi reflective LED lights (that you can get lost in) and quad exhaust tips and a retracting boot lip spoiler complete the sporty look. In short, I challenge you to find an unattractive angle.

The interior is just as engaging. I initially didn't like the ochre (kind of tan) colour scheme, but by the end of the weekend it just seemed ideal. Leather and fine stitching (Takumi craftsmanship) throughout. The seating is both supportive and comfortable (well, for the front two people anyway). Infotainment, including Mark Levinson audio and Sat Nav with SUNA, comes to you via a 10.3" high res display screen, are all controlled via an easy-to-use touchpad and it even has an analogue clock as all high end vehicles should.

Now onto the fun stuff (ok, more fun stuff). Push button start and the 5.0L, V8, 32 valve quad-cam engine roars into life. Yes it's borderline Neanderthal but the sound still tingles the nerves, it 'settles' shortly thereafter but rest assured it isn't long before you invite it back to rear its noisy head again.

> "...backfiring pops and highly aggressive, even 'antisocial' bellows from under the bonnet and out of the tailpipes – it's awesome! "

This powerful (351kW/540Nm) beast is connected to a direct shift close ratio 10-speed transmission via a real leather gear knob or paddles, the latter becoming my preference.

Slip into first and you're off. Despite the low stance, visibility is good and the LC500 offers very little drama while navigating around city streets. The steering weight seems varied, soft at low speed, increasing as you get faster and even in 'normal' the LC500 pulls away nicely with a lovely note from the exhaust system.

Move out to the freeway and up to a cruising speed of 100kph, a speed in which the LC feels totally at ease. Something of note, there is very little difference between the last few gears – call it overdrive if you like. You can literally paddle up and down 7–10 with barely a noticeable change – I assume these gears are mainly for the long stretches of the German autobahn. The driving modes are changed on a dial beside the instrument cluster (not necessarily the most obvious of places to put it, but once you know where it is ...).

Twist up to Sports or Sports + and the engine note comes with you. Once there, the combination of the quicker, more responsive driving modes and paddle shifting up, and even more importantly down, gives backfiring pops and highly aggressive, even 'antisocial' bellows from under the bonnet and out of the tailpipes – it's awesome! While on the subject of sociability, having the LC500 parked on your driveway is quite the draw card. It invites door-knocking from the inquisitive and even the odd covetous glare from the shy curtain twitchers.

From a practicality point of view, I refer back to the fact that the LC500 is a GT. It has 2+2 seating and nearly 153L boot space, not tiny but not something you'd take to the hardware store. Its functionality was always going to be a hard sell from the wife's side (mind you, I did see her smile a few times when I opened up the baffles) but my seven-year-old son hugged it like a long lost friend.

Even though the rain and the big storm that came along with it did everything it could to dissuade me (hmmm, powerful front engine/rear wheel drive car in the wet), I ended up spending more time with the LC500 over the weekend than the family would have liked, and enjoyed every minute. I listened to it speak (the LC500), danced in the rain, and really got to know it. The LC500 is a car that likes to be driven and loves to go places with you. It's sporty and luxurious and comfortable, even practical, for those long weekends away.

Although we didn't do anything overtly fancy together, our second date was far more engaging than our first encounter. Overall it confirmed my initial thoughts about what a great car this was, a GT of good looks and substance. Mind you Lexus, if you want to arrange a track time and fine hotel again, I'm sure neither of us would complain.

# Natural disasters dominate risk thinking

***DENISE MOLLER,***
MARKETING & COMMUNICATIONS
MANAGER, MARSH

"Disruption to your business caused by fire, flood or another natural disaster" was rated the risk issue of most concern to New Zealand organisations for the fourth consecutive Marsh Survey of Risk.

These results align with the World Economic Forum's annual Global Risks Report, which found that extreme weather events and natural disasters were the second and third greatest risks to society in terms of impact – only preceded by weapons of mass destruction.

Given the frequency of events now occurring in New Zealand, the financial cost associated with recovering from these disasters is likely to increase – including the cost of insurance.

Cyclone Fehi, which hit in early February, cost a total of $45.9 million. Cyclone Gita, in late February, cost $35.6 million. The 27–29 April storms, which saw severe flooding and a state of emergency declared in Rotorua, have cost $16.1 million so far. Weather-related loss in New Zealand now exceeds $200m year-to-date.

The economic impact of these occurrences was recently measured in a global underinsurance survey by Lloyd's. It showed that New Zealand is the second-most exposed nation to natural catastrophe losses, costing us about 0.66% of our GDP. We even have a higher risk exposure than Japan and other less-developed Asia-Pacific economies in the Lloyd's top 10 list, which measured a country's vulnerability to losses as a proportion of economic activity.

With climate change, increases in the frequency and intensity of extreme events such as flooding, droughts and even wildfires will only continue. There will also be slowly emerging changes such as ongoing sea level rises.

## WHAT DO YOU DO WHEN THE TAP IS TURNED OFF?

Preparation to deal with these risks is key – 95% of the organisations that we surveyed said that they were prepared to deal with natural disaster risk.

An area that we sometimes see being overlooked, however, is entities not fully assessing how they can continue to operate if their supply chain is impacted by an event. They are so focused on what they would do if they were impacted that they haven't considered the consequences if they are ok but their suppliers are affected by a catastrophe. For example, if you had a heavy reliance on Asia for trade, what would you have done if the recent earthquakes or typhoons had suddenly turned off your supply of goods and services? >>

You not only need to think about this in the context of natural disasters but other risk events. The increasing propensity of cyber attacks, for example, means that your local or global suppliers could have their operations temporarily halted – as happened to shipping operator Maersk last year – meaning you suffer the ongoing effect.

## ARE YOU FULLY COVERED?

While we were pleased that the organisations surveyed said that they had plans in place to deal with natural disaster risk, there is another element to this discussion, which unfortunately only becomes apparent once a claim has been made.

Of the survey participants who had suffered a high impact financial loss in the past three years, only 30% had it covered by their insurance policy. This highlights the importance of making sure that you undertake a thorough review of all of your policies when they come up for renewal.

In particular you should take a look at the indemnity period for your business interruption insurance, ie the amount of time your business is covered by insurance following a major event. Twelve months is a common timeframe selected by companies for this purpose. However, it is often not sufficient – as reinforced by 40% of the affected respondents, who said that it was not long enough. A significant 63% said that 24 months was more realistic and 37% said 36 months.

Finally, you need to reassess the level of cover you have on a regular basis. Underinsurance has always been a problem in New Zealand. Marsh often comes across situations when we are working with a new client where there are gaps within the coverage needed.

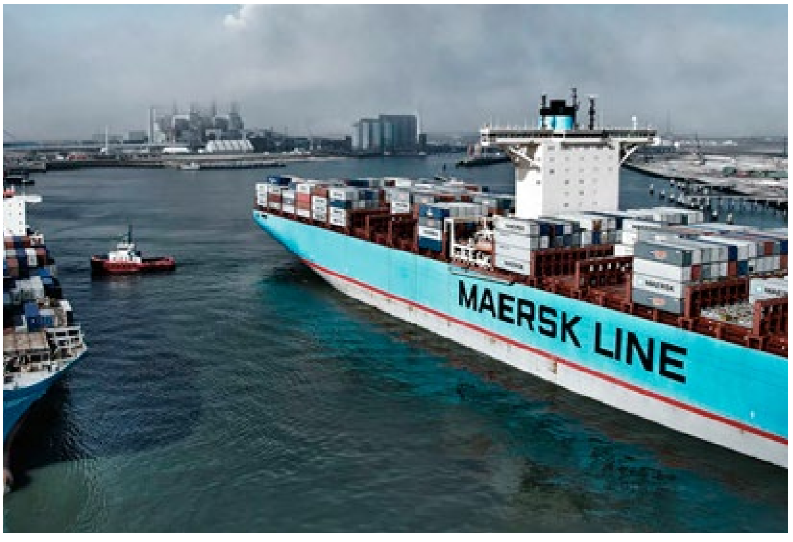
It is also a worldwide issue. The Lloyd's report showed that efforts to close the underinsurance gap are making limited progress.

About $250 billion of assets globally remain uninsured, which is just a 3% improvement from the last study. Asia-Pacific economies account for $205 billion of the insurance gap.

## WHAT ELSE ARE BUSINESSES WORRIED ABOUT?

Some of the other issues highlighted in our seventh Survey of Risk matched those expressed by IoD members in our 2018 Directors' Risk Survey.

Brand and reputation management, which was the second biggest external risk issue for directors, was the second biggest risk for the businesses we surveyed. Similarly, cyber was the biggest emerging risk. Another key topic, talent attraction and retention, which was ranked as the second biggest emerging risk in the Directors' survey, was ranked third in the Survey of Risk – eclipsed by increasing corporate governance requirements in second place.




Container shipping company Maersk got hit by the NotPetya cyberattack in June 2017.

> "Of the survey participants who had suffered a high impact financial loss in the past three years, only 30% had it covered by their insurance policy."

## WHO IS RESPONSIBLE FOR MANAGING RISK?

A section of the Marsh Survey of Risk that slightly differed from the Directors' survey, however, was around who holds the ultimate responsibility for managing risk.

In regards to governance and who is accountable for ensuring risk management is in place and appropriate investment in mitigation is undertaken, 37% said it was the role of the board of directors and 31% said the owner or proprietor of the business.

When it came to "who holds the ultimate responsibility for implementing, managing and reporting risk management procedures within your organisation" our respondents said it was the CEO/managing director/general manager (37%) or the owner/proprietor (31%). This contrasts with the Directors' Risk Survey, where 49% of directors responded that it was their responsibility, while 26% said the CEO.

An important point to note here is that organisations need to ensure that there is clarity about who actually does have the ultimate responsibility for ensuring risk management is in place, and to ensure that appropriate investment in mitigation is undertaken, so that there isn't any fallout following the occurrence of an event.

The Marsh Survey of Risk was completed by representatives from 132 organisations from across New Zealand – from SMEs to large corporates across a range of industries and organisational types.

A full copy of the *Survey of Risk* can be downloaded from **marsh.co.nz**

# Taxing time for boards

Company directors face greater reputational and finance risk than ever before and tax governance is next on the agenda.

**TONY JOYCE**
SENIOR TAX PARTNER, KPMG

**The last decade has seen a noticeable and deliberate strategy by regulators globally of placing increased demands on boards to take greater ownership of issues traditionally considered the domain of management.**

This is, some would say, the new norm – placing significantly more legal and reputational risk on boards than ever before. It perhaps started with AML anti-money laundering (AML) rules, which rightly put a higher level of responsibility on boards, especially those in the financial services sector, to understand the background of persons they do business with. Attesting to the legitimacy of customers and their source of funds became a time consuming but necessary requirement of doing business. While it is management that are tasked with the heavy lifting in this regard, it is the board that has ultimate responsibility for the actions a company takes.

Next cab off the rank was new health and safety regulations, which for many companies remain a significant and ongoing issue today. Again, it is boards that have ultimate ownership and responsibility for ensuring all employees and contractors are operating in a safe environment. Accidents can prove both costly and extremely disruptive for companies that get it wrong.

Now, taking a lead from overseas, and in particular our Australian cousins, tax governance is set to be the latest agenda item for boards for tackle. With tax authorities risk profiling larger taxpayers substantially based on the quality and robustness of the tax governance framework they have in place, it is important for boards to respond to this challenge.

Companies that do not have clearly documented tax control frameworks will be assessed as high risk relative to those that do. Audit activity, and the amount of engagement tax authorities have with taxpayers, will be determined based on these risk assessments. In situations where errors occur or tax positions taken by taxpayers are challenged by the Commissioner, companies that are unable to demonstrate sound tax governance and a strong tax control framework will be significantly more susceptible to penalties than those that can. When aggressive or unacceptable taxpayer behaviour is in the public domain, a company's brand could be significantly damaged. Directors, therefore, are now on notice by regulators that tax oversight is a critical and important function they have responsibility for.

The New Zealand Inland Revenue to date has not taken the very public approach of putting boards on notice that we have seen taken by the ATO in Australia. This, however, in tax speak is likely only a timing difference and, if they have not experienced it already, boards should expect increased scrutiny around tax governance in New Zealand in the short term.

With the huge amount of data and information sharing between revenue authorities globally, and the massive technology investments many revenue authorities have been making, it has never been easier for a company's business and tax affairs to be within the clear sight of Inland Revenue than it is now. Boards must appreciate this and ensure they make their expectations regarding managing tax risk clear to management, as well as being kept informed of any developments that could have either a financial or reputational risk for the company. A robust tax control framework is a minimum starting point on this journey.

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> "...it has never been easier for a company's business and tax affairs to be within the clear sight of Inland Revenue than it is now."

# GLC Update

*FELICITY CAIRD*
GENERAL MANAGER,
GOVERNANCE LEADERSHIP CENTRE (GLC)

## Stepping up advocacy in 2018

This year has been the IoD's busiest in advocating on issues relevant to directors and governance, through formal submissions on a range of policy and legislative matters and promoting our views through the media. Our annual *Director Sentiment Survey* also provided valuable insights to aid our advocacy programme.

### Key submissions in 2018 include:

- to the Tax Working Group and to NZX on the review of the listing rules and market structure
- on the Trusts Bill, Privacy Bill and a bill criminalising cartels, all of which are currently making their way through Parliament
- on policy proposals to government departments including on the publication of director residential addresses, beneficial ownership, the policy behind the Zero Carbon Bill, whistleblowing and state sector reforms.

### On the horizon

In 2019 we expect to see:

- the introduction into parliament of a Zero Carbon Bill and a bill reforming the Incorporated Societies Act 1908
- a review of the Charities Act 2005, which is earmarked to take place in March/April, and further consultation on the Tomorrow's Schools review
- the final report of the Tax Working Group, which is due to government in February 2019.

### Extensive options proposed to fix whistleblowing regime

A significant review of the Protected Disclosures Act 2000 is being undertaken by the State Services Commission. The Act is intended to protect people from losing their jobs or being mistreated for speaking up in the public interest about serious misconduct in the workplace (eg activities that are illegal, corrupt or pose a serious threat to public safety). Several options for reform have been proposed with the most comprehensive options including:

- requiring all organisations to have whistleblowing procedures in place
- allowing people to report concerns to an appropriate authority at any time
- establishing stronger oversight and a single port of call for advice
- monitoring the public, private and not-for-profit sectors.

The IoD has been involved in informal consultation and is submitting on the review. >>

## Opposing director personal liability for tax debts of companies

In our second submission to the Tax Working Group, the IoD strongly opposed the proposal to introduce director personal liability for PAYE and GST debts of companies. The prospect of director personal liability for company taxes is deeply troubling and may have far-reaching and unintended consequences outweighing any potential benefits. We have advocated against this proposal since 2016 when it was first raised by Inland Revenue.

## What will the state sector look like in the future?

The government is reviewing the State Sector Act 1988 to ensure it is fit for purpose and meets the needs of a modern public service. The IoD's submission on the review focuses on governance related matters and, in particular, where Crown entity boards may be affected. We asked for greater clarity around proposals in relation to the definition of public service, executive boards and integrity and conduct matters. We will continue to monitor the review, especially in respect of Crown entity governance.

### CODE OF CONDUCT FOR BOARDS OF CROWN ENTITIES

The State Services Commission will develop a code of conduct for boards and board members of Crown entities and is engaging with boards and stakeholders including the IoD. We expect this to be a focus in 2019.

## Keeping members current with the GovernanceUpdate

Catch up on key developments, trends and emerging issues in our GovernanceUpdate sent to members on 31 October, including:

- topical issues relating to data governance, one of the IoD's key themes for 2018
- the increasing focus on climate change
- results from our surveys, showing what's on directors' minds
- court decisions and other proceedings relevant to directors
- governance reforms in the UK, US and Australia
- recent policy and advocacy developments.

## Food safety governance guide

*The Food Safety: Good Governance Guide for Directors*, Executives and Business Owners, developed by the Ministry of Primary Industries with the support of the Institute of Directors, was launched in November. The guide aims to assist directors, executives and business owners to understand their responsibilities in relation to food safety and to improve food safety culture in their businesses. >>

## New NZX market structure and listing rules launched

After extensive consultation, NZX released its new listing rules in October. These are effective on 1 January 2019, subject to a six-month transition period ending on 30 June 2019. The new rules cover equity, debt and funds and are contained in one document. They are significantly shorter and written in plain English. It is hoped that the changes to the rules and market structure make it easier for companies to list, and for existing companies to raise additional capital.

The IoD was disappointed that the contentious issue of constructive knowledge in respect of continuous disclosure has been included in the rules, despite strong opposition from leading law firms and other key stakeholders. Time will tell if concerns about adverse effects of this change will materialise.

NZX is also publishing updated guidance on continuous disclosure, spread requirements, backdoor and reverse listing transactions, and new guidance on governance.

See the brief published in November by IoD and MinterEllisonRuddWatts on what directors need to know about the new NZX Listing Rules available on **iod.org.nz**

## Learnings for all directors from the bank conduct and culture report

Following a six-month review, the Reserve Bank of New Zealand and the Financial Markets Authority published their report in November into the conduct and culture of banks in New Zealand. While the review found that conduct and culture issues do not appear to be widespread in banks in New Zealand, weaknesses in the governance and management of conduct risks were identified, along with significant gaps in the measurement and reporting of customer outcomes.

The report makes a number of recommendations to improve board oversight, controls and processes and should be recommended reading for all directors.

The report also touches on potential regulatory reform, including clarifying accountability and individual responsibility for management of conduct. Boards and management should expect much greater focus from the regulators and stakeholders in relation to conduct and culture.

All GovernanceUpdates, submissions, guides and other governance resources are available at **iod.org.nz**

# Meet our emerging directors

Every year the Institute of Directors (IoD) recognises emerging directors who want mentorship, experience and support with their professional development.

Nagaja Sanatkumar

Emerging Directors Awards are given out by IoD branches around the country and are open to IoD members who are in the very early stages of their governance career. Judges look for people who have demonstrated a commitment to developing a career in governance, who have skills and experience that would be useful to a board, demonstrate an understanding of the importance of sound governance, and who have had either senior executive, leadership or governance experience.

We are pleased to congratulate the Emerging Director award winners from Auckland, Waikato, Bay of Plenty, Taranaki, Wellington, Nelson Marlborough, Canterbury and Otago Southland as well as the winner of the Canterbury First Steps in Governance award.

## AUCKLAND – NAGAJA SANATKUMAR

Digital technology expert Nagaja Sanatkumar of Remuera is currently Icebreaker's General Manager of Global eCommerce. Before coming to New Zealand in 2015, Sanatkumar lived in the US and held senior leadership roles at Amazon and Expedia.

Her expertise spans industries such as retail, travel, financial services and management consulting. With a lens that views new challenges as opportunities for disruption, her passion is to harness the power of digital technology for greater social and environmental good, and help businesses, governments and non-profit organisations thrive in an ever-changing digital landscape.

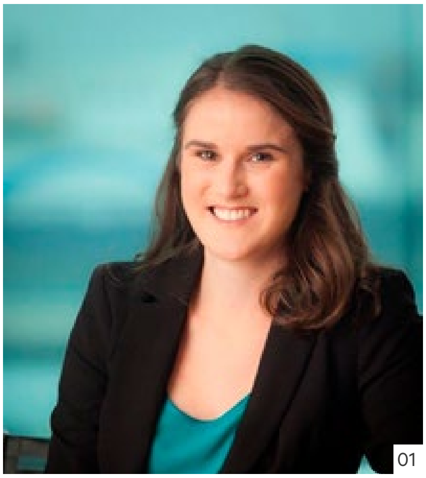
She enjoys motivating and inspiring people to continuously raise their standards for collaboration, execution and learning.

Auckland judges Ted van Arkel, Cecilia Tarrant and Bindi Norwell say they were "impressed with Nagaja's international experience and her commitment to explore, learn and participate in the fast-moving world of the digital commercial sector. This, along with her passion for excellence, is a credit to her."

"Nagaja is on a journey of being able to add real expertise value in boardroom discussions, and recognises the need for good governance at board level. We are sure that Nagaja will become a highly sought-after director in the very near future," the judges said.

## WAIKATO – CARLA MULLER AND SARAH VERRAN

Carla Muller won the Waikato Branch Emerging Director Award, while Sarah Verran won the Waikato Branch Emerging Director – Disability Sector Award. >>


01


02

**01:** Carla Muller
**02:** Sarah Verran

> “When I started thinking about governance I thought that it was something that I wanted to do, but that it was out of reach until I had got to a senior management level.”

When Sarah Verran’s 10-year-old daughter was diagnosed with a brain tumour, her life, and that of her family, changed completely.

The slow-growing tumour had been developing since birth. It transformed the once happy, bright and healthy young girl into someone who now needs 24-hour care and support in order to live.

After three years of caring for her daughter, and with a background in IT, tourism and media, Verran’s new perspective on life has drawn her to focus her energies on the social and disability sectors, particularly governance.

“I have found strength in becoming the advocate for my daughter, to be able to speak about our experience to challenge thinking, offer some objectivity and add value to facilitate change,” Verran says. As a way of pursuing a governance career, she joined a community of practice, Enabling Good Lives, and applied to be on a patient and whānau care board through the Auckland District Health Board. She says developing her governance career is a way of achieving her objective of advocacy and change within the disability sector.

For her prize, Verran will sit on the board of LIFE Unlimited for a year.

Carla Muller started her governance career in 2012 with the Massey University College of Business Board. Last year, she was a finalist in the Westpac Women of Influence Awards for rural and young leader categories, and a winner in Hamilton’s 30 under 30 awards. She has a Master’s degree in Environmental Management and a Bachelor of Applied Economics.

“When I started thinking about governance I thought that it was something that I wanted to do, but that it was out of reach until I had got to a senior management level,” Muller says. “I have always believed in giving back to my community and hadn’t worked out |that the local trusts and committee roles I had held, were at their heart, governance.”

“Since I have been taking on governance roles, I have learnt a lot, both technically and personally, and have taken all opportunities to increase my experience in a range of governance roles.”

She is looking forward to learning from the governance internship on the Wintec Board, which comes as part of the award.

“Being able to observe the Wintec Board for a year would provide invaluable learnings from experienced directors.”

“Carla and Sarah will no doubt add to the strong legacy the award has gained, with previous award winners establishing themselves in the governance community and contributing to boards of significance across the region and beyond. It is also great to see the continuation of the Disability Sector Award with the applicants being of a very high standard indeed,” says Simon Lockwood, IoD Waikato Chair.

## BAY OF PLENTY – JANA RANGOONI

Paralympics New Zealand board member and Chief Executive Office for the Radio Broadcasters Association, Jana Rangooni says she understands the principles of good governance and the importance of skills and experience people have to bring to a board table, but she was slightly taken aback at the breadth of knowledge required to be a director.

“The need to learn and understand so many new areas, and the value and importance of your other personal skills has been a wakeup call.”

She says that as someone who knew about finance, she had to step up recently to a finance and risk committee. “I had to join this group for some months, as I was the most experienced in finance. Then I was asked to stay on the committee. >>

Jana Rangooni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**03:** Joe Hanita
**04:** Shaun Twaddle

I would never have put my hand up for that, unless it had been such an emergency, but I learnt a lot and realised how much value I could bring."

Rangooni says that in the three years she has been on the board of Paralympics NZ, she has learnt a lot about high performance sport and sport administration.

"I have had to learn about things like high performance sport, the administration of sport, what it takes to win medals, health and safety issues around an International Olympic/Paralympic Games, as well as how valuable it is to be able to ask questions when you don't understand something."

She has also learnt to "challenge constructively when something doesn't seem right, and listen to and work with fellow board members who may have completely different perspectives and ways of operating".

"I have also learnt to build the respect of people who may not have even wanted you at the table," she says.

## TARANAKI – JOE HANITA

New Plymouth chartered accountant Joe Hanita works as general manager, finance and investments, for a Māori land, farming, property, investment and seafood organisation Parininihi ki Waitotara Inc. that employs over 45 staff.

He has held formal governance roles since 2004 and is currently a director of the National Hauora Coalition Limited, which provides primary health and social services in Auckland, the Waikato and Whanganui.

In choosing Hanita for this award, the three Taranaki judges – IoD branch chair Marie Callander, Richard Krogh and Graeme Marshall – said he has a clear vision of where he is going. "Joe demonstrated a strong foundation-understanding of governance, which had been gained through study and participation. These attributes made Joe a clear choice for the judging panel."

A failure to achieve University Entrance in 1997 served as Hanita's first life-lesson. "Ever since then I have sought out and taken advantage of any opportunity to learn and grow, both personally and professionally. I believe that I then have a responsibility to share that knowledge with others to help them learn and grow," he says.

Hanita went on to achieve a Bachelor of Business degree from the Waikato Institute of Technology, and is also a Fellow Chartered Accountant.

In recent years he has worked as the director of finance at Te Wānanga o Aotearoa and as an associate director at KPMG.

He has tribal affiliations to Rangitāne and Ngāti Kuia. "My passion is the advancement of Māori development – particularly in health, education and commerce.

"Over the past 10 years, prior to accepting any governance or advisory role, I have always asked myself how does this organisation's purpose and values align with my own, what value can I add and how will I know if I have made a difference?"

## WELLINGTON – SHAUN TWADDLE

Economist Shaun Twaddle is a shareholder-director of economics and data consultancy Infometrics, chair of Khandallah School board of trustees, has three children, coaches junior rugby, and as "an avid runner" was "often in negotiation with his wife around the 'next marathon'".

As an economic consultant Twaddle provides data, forecasts and advice to chief executives and senior managers in tertiary education organisations, iwi groups and local government agencies. He recently completed director governance development courses to achieve Chartered Member status of the Institute of Directors.

"In my day job at Infometrics I focus on providing industry and tertiary education clients with data, analysis and advice in which I make informed decisions," Twaddle says. "A lot of my job is spent outlining the long-term benefits of evidence-based decision making, even if it sometimes can slow down the decision-making process.

"In my roles as a director, I seek to ensure that decisions made have a sound evidence base to support them."

His "professionalism and interpersonal skills will see him become a valuable director to many different organisations over the next two or three decades," Infometrics board chair Andrew Gawith said.

Twaddle says he hopes the Emerging Director award will have long-term benefits for him and his career. "While the award is only for a year, I hope the relationships and benefits that I am able to get out of it will last much longer than that. I would say the skills you need to be successful in governance are strategic thinking, sound judgement, integrity and ethical behaviour and communication skills." >>

## NELSON MARLBOROUGH – MANOLI AERAKIS

Manoli Aerakis, who is managing director of Malloch McClean Tasman, currently serves on the Nelson Tasman Chamber of Commerce Board and works alongside the Ngāti Apa ki te Rā Tō Trust board and group of companies. He was previously on the board of the Nelson SPCA.

Award judges John Palmer, Ed Johnson and Julie Baxendine said they were impressed by Aerakis's high energy, passion for strategy, recognition of the importance of culture, clear focus and understanding of risk.

"He was well prepared and showed structure in his approach to governance, both through his business and community roles," the judges said.

Manoli has a background in sales, marketing and banking roles and is coaching others around New Zealand in how to set up their firms for the modern world, in governance point and operations.

The Institute of Directors Nelson Marlborough branch runs its awards every second year. Previous winners have included Marina Hirst-Tristram, Dave Ashcroft and Mike Brown.

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**05:** Manoli Aerakis
**06:** Hannah Doney
**07:** Kathryn Ruge

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## CANTERBURY – HANNAH DONEY AND KATHRYN RUGE

The Canterbury branch named two Emerging Director winners, Hannah Doney and Kathryn Ruge.

Hannah Doney, a freelance marketer, sees the award as a stepping stone in her career. "The opportunity to listen, learn and engage at a commercial board as an associate is an invaluable experience. I want to learn from competent directors so that I can add value to the current and future boards I am involved with."

"I want to see commercial directors in practice so that I can learn about the right questions to ask, the right tone to have and the right timing for discussion. I don't believe there are enough marketers at the board table."

Doney is already on the national board of Girl Guiding New Zealand, is a convenor for the Banks Peninsula A&P Association, an advisory board member for an Australian beverage start-up and is working towards Chartered Membership of the Institute of Directors.

Her director internship will be with Ashburton's locally owned co-operative electricity company, EA Networks. "This is the first time EA Networks have offered an internship, so it's very exciting," said IoD committee member Jane Cartwright, who chaired the selection panel.

IoD Chartered Member Philip McKendry is Chair of the EA Networks board, and Hannah will be mentored by IoD Chartered Fellow Rex Williams.

Kathryn Ruge, senior communications advisor is the other Canterbury winner. As part of her prize, she receives an internship for a year at the board table of Christchurch-based engineering, contracting and logistics firm, Connetics, chaired by IoD Chartered member Rob Jamieson. IoD Chartered Fellow Brian Wood will be her mentor for 12 months.

Ruge, who has been involved in the governance of charitable, not-for-profit organisations since her late teens, is on the national governing body of the Public Relations Institute of New Zealand (PRINZ), chairs the PRINZ Southern Branch, has served on the Avonhead School board, and is currently assisting Archery NZ with a governance review.

She has worked in the private and public sectors across a range of organisations including aviation, high-tech, local government and most recently for Te Rūnanga o Ngāi Tahu and will shortly take up a senior communications role with the New Zealand Defence Force based at Burnham. >>

> "I want to learn from competent directors so that I can add value to the current and future boards I am involved with."
>
> Hannah Doney

She thinks adding PR and communications is an important skill to bring to the board table. “As boards progress to triple and quadruple bottom line reporting frameworks, it is increasingly important for them to develop strategic capability in the area of managing reputational risk and complex stakeholder relationships,” Ruge says. “It is not enough to simply have access to a ‘public relations machine’ in times of trouble – this capability and counsel is needed at the governance table.”

She also believes “governance practice is enriched when diversity of thought and experience is sought after and valued, which means being open to sourcing strategic and financial capability outside the traditional occupations of law and accounting.”

## CANTERBURY – FIRST STEPS IN GOVERNANCE – KATHERINE ALLEN

As well as the Emerging Director Award, the Canterbury branch also runs the First Steps in Governance Award. This award provides opportunities for young professionals to gain experience in the not-for-profit sector, and is open to applicants under the age of 40.

Christchurch senior manager Katherine Allen won this year’s First Steps in Governance Award, gaining a seat on the governance board of Ronald McDonald House South Island for a year.


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Allen, who lives in Spreydon, is the South Island Operations Manager for Thrifty Car Rental. IoD Canterbury Branch committee members Jane Cartwright, and Ronald McDonald House South Island trustees Jock Muir and Stuart Leck selected Allen for the one-year governance board internship. “We liked her strategic focus, especially in relation to sales, innovative thinking, systematic approach to things, ability to build teams and desire to be a director. She was well grounded probably due to her great love of the outdoors.”

Ronald McDonald House South Island is an independent registered charitable trust established to help and support the families of children who are receiving medical care. It is managed by a voluntary Board of Trustees, a small staff and many volunteers.

Having worked in several senior management positions in different industries and been involved with Oxfam NZ, Allen says she now felt she could make a valuable contribution at governance level.

## OTAGO SOUTHLAND – DESIREE WILLIAMS

Barrister and solicitor and qualified mediator, Desiree Williams, is currently the CEO of the Malcam Charitable Trust and is chair of Te Hou Ora Whānau Services. She is also a Trustee for the Four Trades Trust. Desiree has held earlier governance roles with Community Law Centres Aotearoa and with Te Whare Pounamu Women’s Refuge.

Her passion lies in championing the rights and responsibilities of people particularly for sometimes overlooked communities such as the elderly, youth and Māori.

The Institute of Directors’ Otago Southland Branch Chairman Geoff Thomas, a Chartered Fellow of the Institute, said the judges were impressed by Desiree’s passion and commitment to building her governance skills to benefit organisations. “Desiree puts people first.

> “governance practice is enriched when diversity of thought and experience is sought after and valued...”


09

**08:** Katherine Allen
**09:** Desiree Williams

We were impressed with her dedication to improving her governance skills and using these to enhance the capabilities of the organisations she works with.”

“Desiree works hard to better the lives of those around her. She puts enormous energy into improving herself and continually building her skills. She has good practical skills from her board roles and we believe she will add great value. Winning the Emerging Director Award will give her access to mentoring, director development training and networking events.”

Williams says she is excited about the opportunities winning the award will bring and looking forward to building her future governance career.

“I absolutely aspire to enhance and build my career. I’m particularly keen to involve more Māori in governance and I hope to set a strong example to others which will encourage them on their journeys.”

# Out & **about**

02

## *Auckland*

Aura's Peter Bailey presented the risk management update "The stealth of a hacker" in Whangarei, and members gathered in south Auckland to understand the strategic use of data at events in November.


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## *Taranaki*

Andrew Jefferies and Andrew Hudson spoke about director responsibilities during a takeover at a lunch event in New Plymouth.

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**01** Jo Brosnahan, Mike Simm, Darren Mason, Leah Peacock, Peter Bailey

**02** A World of Data streams live from South Auckland

**03** Anne Walsh, Sunel Connor, Wendy Bremner

**04** Joe Hanita, Marie Callander

**05** Andrew Jeffries

**06** Julie Langford

**07** Warwick George

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# Out & about

*Wellington*

Michael Sturtz brought a technological perspective from Stanford and Google to an after five event in September.


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**08** Dr Helen Anderson, Tony Parker, Cathy Magiannis

**09** Chris Allen, Pauline Prince, Heather Verry, Kristen Ellis

**10** Hon Dr Nick Smith addressing members and guests

**11** Paul Rhodes, Rex Williams, Jen Crawford, Jane Cartwright, Mark Cathro

**12** Kathryn Ruge, Sir Tipene O'Regan

**13** Mark Jordan, Sue Sheldon, Kirsten Patterson

**14** Craig Stobo

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*Canterbury*

Hon Dr Nick Smith was the speaker at an evening function in Christchurch on 15 October and joined Distinguished Fellows and Chartered Fellows for dinner afterwards.

On 26 October IoD CEO Kirsten Patterson joined Canterbury members for a sponsors breakfast with Duncan Cotterill, attended the inaugural Canterbury leading directors lunch hosted by Sheffield, then joined local Distinguished Fellows for afternoon tea.

# Out & **about**


17

## *Nelson*

Members heard security policy advice from National Cyber Policy Office director Paul Ash at a lunch briefing in October. The IoD partnered with the Marlborough Chamber of Commerce for a panel discussion in Blenheim.

15

16


18

## *Otago Southland*

The annual Fellows' dinner was held at Carrick Winery in October, and a fine time was had by all.

**15** Matt McDonald, Paul Ash

**16** Andy Rowe, Sarah Wadsworth, Miriam Radich, Paul Bell

**17** Kerry Harper and Owen Poole

**18** Alan McKenzie and Trish Oakley

**19** Susie Johnstone and Robbie Burnside


19

# Eventsdiary

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

## December

**3** Auckland
Company Director's Course (non-residential)

**3** Christchurch
Christmas Cocktails

**5** Tauranga
A World of Data panel discussion

## February

**8** Christchurch
New members lunch

**11** Christchurch
Next Generation director workshop

More events will be available as **iod.org.nz** as they are confirmed.

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### BRANCH EVENTS

For information on member events in your area, see **iod.org.nz**

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3 CPD points

**Cybersecurity**
3 CPD points

## Webinars

Live webinars are facilitated by subject matter experts, and themes from your questions and comments are addressed live during the sessions.

14 December, Data Governance; 10.30–11.30am; 2 CPD points


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