JUNE/JULY 2015

# boardroom

Magazine of the Institute of Directors in New Zealand

## FIGHTING AN UNSEEN ENEMY

*How safe are you from cyber attack?*

## TAKING DIVERSITY TO A NEW LEVEL

## GOVERNANCE ISSUES ON THE FAMILY FARM

Taking a step up with Chartered Member Assessment

Director appointments – more new roles

Managing credit risk

Leading in a digital era

How do you make a decision?

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## FROM THE EDITOR

Few things exemplify the opportunities and the challenges of the modern world than digital technology. As a technologically advanced, trading nation intricately connected to the world, New Zealand is well-placed to benefit. In so many fields, distances have dissolved, opening opportunities to digitise, innovate and lead. As John Pennington, Deloitte's cyber expert, says in this issue, there are no islands in digital technology.

The flipside of this is increased risk. Our geographical isolation presents no barrier to hackers, cyber criminals and hactivists. It may sound like the stuff of science fiction, but cyber attack is a real and daily threat. A modern truism is that there are two kinds of businesses – ones that have been hacked and know about it, and ones that have been hacked and do not know about it.

The answer for directors being able to recognise the opportunities and the risks of the digital era lies in upskilling so they are well-placed to identify and assess both. It doesn't mean becoming an expert in digital technology, but it does mean finding a pathway into the digital landscape.

**Katherine Robinson**
*Editor, board***room**

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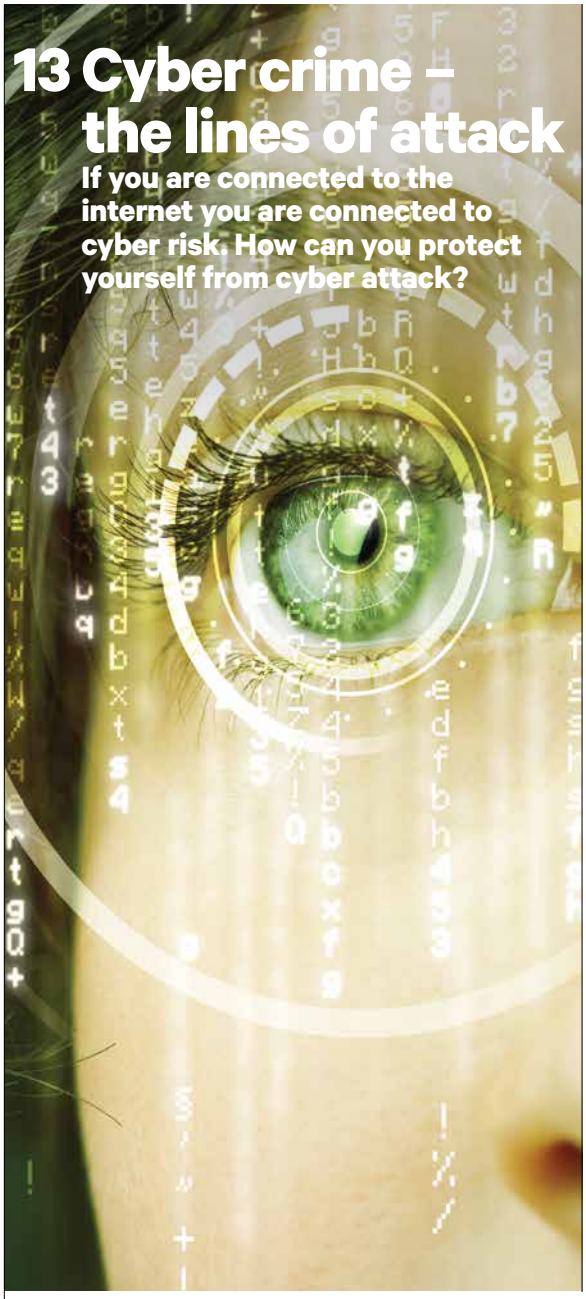

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**If you are connected to the internet you are connected to cyber risk. How can you protect yourself from cyber attack?**



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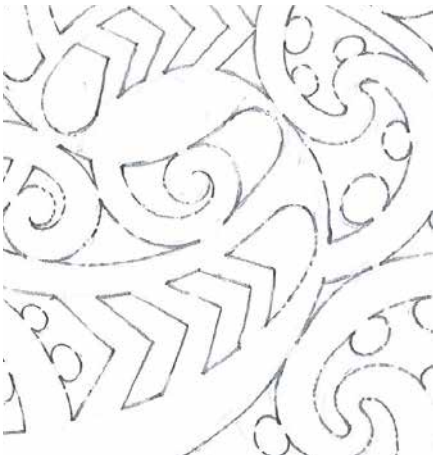

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# Institute of Directors (IoD)

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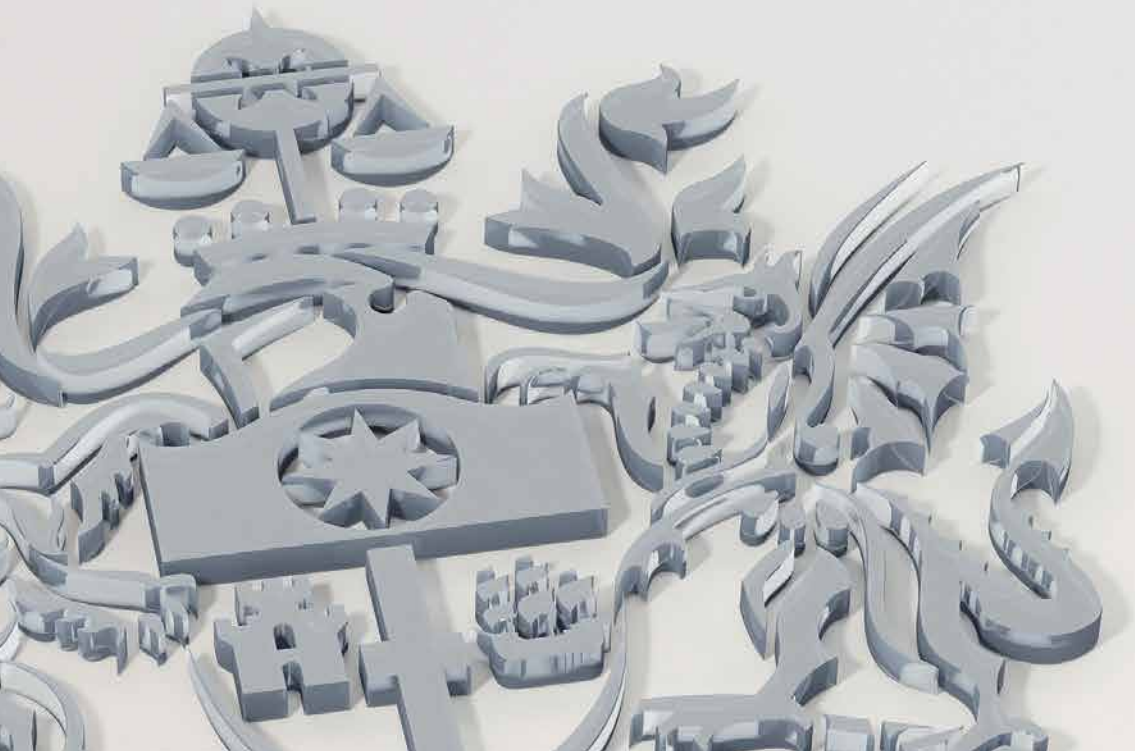


CEO REPORT

# All change at the top

*Change is my theme for this edition of boardroom magazine.*

### NEW PRESIDENT AND VICE PRESIDENT

At the AGM this month the IoD Council elected Michael Stiassny as President and Liz Coutts as Vice President. Michael has been Vice President of the IoD for the last two years and is already a driving force behind strategies that have reinvigorated and reshaped the IoD. He is an astute and significant business leader who is highly engaged with the governance issues of the day. His advocacy of diversity in the boardroom has helped foster debate and engenders support for IoD programmes such as Mentoring for Diversity and our administering of Future Directors.

Liz Coutts will be the IoD's first woman Vice President. It's a milestone for the IoD. One of New Zealand's most influential and successful business leaders, Liz has given strong backing to the IoD, both at branch and national level. She was on the national council for two years and was also chair of the Auckland branch of the IoD. She has held directorships in all sectors and is currently a director of EBOS group, Skellerup, Ports of Auckland, and Sanford Ltd.

Stuart McLauchlan finished his term of service in June. I offer my particular thanks to Stuart who has overseen many momentous changes at the IoD in the space of two years. These changes have helped to position the IoD as a stronger, more professional organisation relevant to our membership and the wider governance community. I consider Stuart has invigorated the presidency of the IoD and what it means to the organisation.

### NEW IoD MEMBER OFFERINGS AND COURSES

2015 has already been a significant year at the IoD. The Leadership Conference in April was attended by record numbers of participants and sparkled. The Chartered Member Assessment has been successfully piloted, with the first eight qualifying as Chartered Members. Training offerings from the Director Development team have been extended with an online Ethics course, new CDC Refresher, Leading in a Digital Era and our first Rural Governance Essentials launching. You will also have received new resources such as the Conflicts of Interest Practice Guide and the recent Governance Update from the Governance Leadership Centre (GLC).

### CHANGES IN CYBER RISK OVERSIGHT

Governance of technology is a critical change issue on our horizon at the IoD. The impact and relevance of the digital world is nothing less than revolutionary and disruptive technologies are changing the way we do business and live. Digital technology comes with risks as well as opportunities.

To help members meet the challenges of digital technology, the IoD released its new Cyber Risk Practice Guide for boards in June. Members are first to get this guide which is based on international best practice and written for the New Zealand environment. It is based on five simple principles for boards to approach cyber risk issues and designed to demystify the board's role in cyber risk. The new guide helps directors focus on key issues and ask the critical questions about cyber risk in the organisation. The good news is there is no need to be a tech expert to sit at a board table, but you do need to know the issues and questions to tackle.

### CHANGES IN INTERNATIONAL TRADE FRAMEWORKS

Markets change too. December 2015 will see the formal establishment of the Asian Economic Community (AEC). We don't hear enough about it. The 10 countries of the new AEC are responsible for $5 billion worth of New Zealand exports. At the AICD conference in Kuala Lumpur recently we learned that ASEAN will add approximately 20 million people into the consuming classes every year for the foreseeable future. That's demand growth the size of Australia each and every year. And China is not a member of the AEC. Nor is India.

### SOME THINGS STAY THE SAME

Change makes the world stimulating and dynamic. One thing is constant. At the IoD we remain committed to our mission to raise the standard of governance in New Zealand business and society and keep firmly focused on our membership.

# Update

## MOVING ON

*The IoD congratulates the following members on these board appointments:*

Richard Green of Canterbury has been appointed to the AGMARDT board.

Chartered Member Brian Blake has been appointed to the board of Fidelity Life.

The Business Leaders' Health and Safety Forum has appointed Francois Barton as executive director.

Dr Gabrielle Wall has been appointed to Tai Poutini Polytech Council.

Associate Member Gene Turner has been appointed non-executive director of Syl Semantics.

Mai Chen has been appointed an independent director of the BNZ.

Chartered Fellow Simon Allen has been elected chairman of New Zealand Refining.

Chartered Members Tony Mossman and Mark Gilbert have been appointed to the Lotteries Commission. Tony will take up the role of Deputy Presiding Member.

*Michael Stiassny*

*Liz Coutts*

# New IoD leadership

*Michael Stiassny was elected President of the IoD and Liz Coutts elected Vice President at the AGM on 15 June.*

Vice President of the IoD for the last two years, and a Chartered Fellow, Michael is a chartered accountant, lawyer and senior partner of New Zealand corporate advisory and turnaround firm KordaMentha.

He has had extensive governance experience of private and public companies, and is currently chair of Vector Ltd, Ngati Whatua Orakei Whai Rawa Ltd and TOWER Ltd.

He is a founder member of the 25 Percent Group, established three years ago to boost diversity around the board tables of New Zealand's largest public companies. He is also a founder of Future Directors, a programme that aims to develop the director pipeline.

Also a Chartered Fellow and an IoD councillor for the last two years, Liz has extensive board experience. This includes directorships of EBOS Group Ltd, Skellerup Holdings Ltd, Ports of Auckland Ltd and Sanford Ltd. She is chair of Urwin & Co Ltd, Inland Revenue's Risk and Assurance Committee, and Oceania Healthcare Ltd.

Outgoing President Stuart McLauchlan says that both Michael and Liz bring exceptional governance experience and skill to the IoD council.

"Both have served on and added value as directors to some of the country's biggest boards," he says.

## IoD BY NUMBERS*

**6948**
IoD members as at 31 May 2015

**461**
delegates to IoD conference

**200**
IoD branch events held around New Zealand annually

**35.8%**
IoD members aged 49 or under as at 9 June 2015

**16,000**
visits to iod.org.nz per month

* Correct at time of publication

# New Future Director

*Rachel Hopkins is to sit on the AWF Group board as part of the Future Directors programme.*

An initiative aimed at widening the pool of directors, Future Directors provides talented young executives with the opportunity to gain valuable experience by attending board meetings of a large or listed New Zealand company for one year.

IoD acting CEO Simon Arcus says Future Directors offers real value for both host boards and successful candidates.

"The next generation of directors receive mentoring, advice, and practical insight into the boardroom, while host boards get a new perspective and expertise on emerging issues like sustainability and social media," he says.

Rachel Hopkins is General Manager of Marketing and Communications at Competenz, and has a wealth of experience in executive search, education, and economic development.

Now in its third year, Future Directors has over 320 candidates on its database and continues to grow. The IoD is asking business leaders to support the scheme by becoming host boards.

"Future Directors is a fantastic opportunity to bridge the generation gap in governance," says AWF Group's Simon Hull. "We're very proud to be involved and can't speak highly enough of the whole process."

# Money Talk

*The 2015 IoD Directors' Fees Survey has now closed and our survey partner, EY, is collating and analysing data.*

Over 500 IoD members have participated, matching last year's record, and providing us with information on directors' fees and other valuable information for the governance community. The results will be published in the *2015 IoD Directors' Fees Report*, which will be available at the end of July.

***Reserve a copy by contacting EY on 09 3089499, or emailing them at surveys@nz.ey.com***

# Learn from your peers

*How often do you get a chance to discuss governance issues with your peers, learning from each other in ways that will improve your ability to do your job as a director? The Boards in Action series of workshops have been designed to offer you that chance.*

**Aimed at experienced directors, these workshops stimulate debate and friendly discussion. Hot topics this year are Leadership in the Boardroom, facilitated by Wayne Norrie, and Managing a Media Crisis facilitated by the Ideas Shop team. *Visit iod.org.nz for information.***

# The Queen's Birthday Honours 2015

*Our warm congratulations go to the following members who have been appointed to various levels of the New Zealand Order of Merit.*

**DNZM - Diane Elizabeth Robertson, of Auckland.**
For services to the community.

**DNZM - Therese Maria Walsh, of Wellington.**
For services to sports administration.

**KNZM – Hon. James Kenneth McLay, CNZM, QSO, of Matakana.**
For services to business and the State.

**CNZM - Michael Crawfurd Macknight, of Dunedin.**
For services to science.

**CNZM - Dr Philip Thomas Norman, of Christchurch.**
For services to music and musical theatre.

**CNZM - Geoffrey Owen Poole, of Wanaka.**
For services to the meat industry.

**ONZM - Melissa Jannet Clark-Reynolds, of Wellington.**
For services to the technology industry.

**ONZM - Murray James Dudfield, MNZM, of Wellington.**
For services to the New Zealand Fire Service.

**ONZM - Anthony John Hawken, of Whakatane.**
For services to the kiwifruit industry.

**ONZM - Raewyn Jeanette Lovett, of Auckland.**
For services to netball.

**ONZM - Douglas Alexander McKay, of Auckland.**
For services to business and local government.

**MNZM - Dr Lynne Melissa Coleman, of Auckland.**
For services as a sports doctor.

**MNZM - Margaret Anne Comer, of Hamilton.**
For services to philanthropy.

**MNZM - Timothy Clarence Johnson, of Auckland.**
For services to disability sport.

**MNZM - Donald Gordon McFarlane, JP, of Geraldine.**
For services to agriculture and the community.

**MNZM - Kereyn Maree Smith, of Auckland.**
For services to sports governance.

**MNZM - Neville Rohan Smith, of Napier.**
For services to philanthropy and the community.

**QSM – Mr David Leigh Halstead, of Christchurch.**
For services to business and the community.

***For further information visit www.honours.govt.nz***
CNZM - Companion of the NZ Order of Merit
ONZM - Officer of the NZ Order of Merit
MNZM – Member of the NZ Order of Merit
QSM – The Queen's Service Medal

# Growing grassroots governance

*As a means of handling growth and succession issues, family farms are looking towards boards with independent directors. Amy Williams reports.*

Around the country strong governance is being sought on farms that are reaching significant scale and becoming enterprising family businesses. These farms are shifting from being family-run to requiring input and expertise from outside to continue growing.

Some smaller farms without the necessary scale to withstand the volatility of farming are being bought out by larger operators, particularly in the dairy industry.

And as farms expand and hit a certain debt threshold, their bank managers are insisting on independent governance.

"Farming is a hugely volatile business and needs a strong risk management plan for withstanding the extreme highs and lows," says Marise James, an experienced agribusiness consultant and director for Staples Rodway Taranaki.

Just as well then, that farming is moving more and more into the realm of governance.

## FAMILY MATTERS

The farm is also the family home, making decisions around land, people and the business's future emotive.

Marise says a board, either advisory or with independent directors can help a family navigate through potential conflict or performance expectations.

"One of the strengths of having formal, independent governance is that you are more easily able to separate business and succession issues from the family," she says.

*"It's not just a place you go to work, it's where you live as well and that's a complicating factor. It's harder to separate things because you have a lot of emotional attachments to where your home is."*

Farms that change from family-run to a governance model need to manage the move carefully.

"A lot of businesses grow in a piecemeal fashion and they end up with a structure that has come about without too much formal planning," Marise says.

"It's beneficial to sit down and ask 'how do we want this to look going forward?'."

*Marise James*

*Sam Robinson*

*Caroline Robertson*

*Dr William Rolleston*

Marise suggests all family members who will be on the board get the same governance training about what to expect, and what is expected of them.

She says farms are often tipped into governance when they reach a certain scale or indebtedness.

That's something Sam Robinson, the chairman of AgResearch and director on many agribusiness boards, has seen first-hand.

AgResearch is New Zealand's largest Crown Research Institute, and its science supports greater value, productivity and profitability for the dairy, meat and textiles industries.

A sheep and beef farmer, Sam says the rapid growth of dairy farms in particular has driven the need for formalising arrangements, of equity partnerships and the like.

"Governance has become the new exciting thing to be involved in. It's always gone on in the farming families' heads with their professional advisors, and now that we have bigger entities with multiple owners there is more need for governance," Sam says.

One example of a successful dairy farming business that grew from one farm to a multi-million dollar enterprise is the North Island Armer Farms, owned by former sharemilker Colin Armer and his wife Dale.

They brought in expertise to the boardroom when it was needed and have since bought a majority shareholding in Dairy Holdings, the South Island dairy conglomerate.

### READY, SET, GO!

For a start it could be that family members are on the board and others are brought in as advisors.

That's the case for Central Hawkes Bay veterinarian and farmer Caroline Robertson. She won the IoD's 2014 Wellington Branch Emerging Director Award, and has a good handle on what makes a farming business enterprising.

"The family enterprise is an enterprise owned by a family that may not take into account the individuals. Whereas an enterprising family is using what they've got to make it good for each member of the family," Caroline says.

That's when a farming family will use the capital base of their farm to enable everybody to fulfil their dreams, and at the same time work together to manage expectations and make decisions.

Caroline says her three children joined the farm board as directors when they were 18 years old (they're now all in their early 20s), and they have all bought into the experience. They have a family charter, similar to a shareholders' agreement.

"Certainly from our children's point of view they are involved and they feel responsible and that's good training for them as well. They do challenge us on a whole lot of areas and that's good," Caroline says.

However, when it comes to succession, she says it's important to have a flexible plan.

"We're talking about people's lives and things may change, it has to be a pretty flexible plan. But we realise that at some stage there will have to be some sort of separation of farm and family."

She says bringing in independent directors or advisors to help make decisions is helpful.

"It's not just a place you go to work, it's where you live as well and that's a complicating factor. It's harder to separate things because you have a lot of emotional attachments to where your home is."

It is common for a farming family to have children who work on the farm, and children who do not – and letting a board with independent directors give advice on matters of succession and performance helps to keep such decisions from becoming points of conflict in a family.

### THE RIGHT SKILLS

When a family needs to look outside their members for skills needed to grow their farming business, most look to their current advisors – farm advisors, accountants, lawyers and bank managers.

In her work with farming businesses, Marise has seen many struggle to adapt to a new model of decision making.

"They need an independent director with governance experience who can help them through the transition," she says.

*"There's a great tendency to get out and do work on the farm because we can all see, touch and feel that. In agribusiness there's a much more blurred line between management and governance so you need a strong chair who can control that tendency for the hands on directors,"*

As a keen farmer (although he prefers to describe himself as a producer of quality food), Robinson says people who join boards of farms need to have an understanding of the business.

"Agriculture is a biological weather dependent business, selling into global commodity cycles, and bringing the returns back through the Kiwi exchange rate," he says.

"You need to have a very long view about life. If you're an impatient director owning a dairy farm right now, you'd be throwing your toys out of the cot."

Sam says directors need to have an appetite for risk given the volatility in farming, and be able to see through the cycles. He says directors also need to have an empathy with farming and be disciplined.

"There's a great tendency to get out and do work on the farm because we can all see, touch and feel that. In agribusiness there's a much more blurred line between management and governance so you need a strong chair who can control that tendency for the hands on directors," Sam says.

### ADDING VALUE

And he emphasises it is important to guide the growth of a farming enterprise in a manner that will not limit business activities and growth.

"You can't make the governance so formal that it chokes the business and bogs it down in process, stifling the entrepreneurial flair. You're either there to clip the wings of management or be the wind under their wings," says Sam.

Federated Farmers president Dr William Rolleston agrees. He is also concerned that farming businesses are being forced to focus more on compliance, putting the focus on paperwork rather than growing a business.

"It changes the function of a board and you end up with a risk of over governance, and small farming operations aren't able to be quick and nimble on their feet because they have to wade their way through a raft of compliance issues," Dr Rolleston says.

The farming property he and his brother John own, Blue Cliffs Station in Canterbury, has had a governance structure for 100 years – although more recently it has been less formal.

He and John have a biotech company, South Pacific Sera, which produces products from their own animals.

The company expanded over time, from a two-man operation where the brothers did everything, to an operation employing over 70 people.

Dr Rolleston says it is valuable to seek independent advice, whether from an advisory board or more formal board of directors.

"By bringing people in from outside you get a window of what other people are doing. You can learn from the experience of people around the table and that's really valuable."

### RURAL GOVERNANCE ESSENTIALS

The IoD will launch a Rural Governance Essentials course in Invercargill on 22 July.

Designed specifically for rural businesses, this one-day course offers insights into the benefits a board can bring to a farm or agri-business.

Outlining a board's responsibilities, it focuses on strategy, farm safety, and risk management, as well as practical advice that will help the running of your farm or business.

***For details and to register, visit iod.org.nz***

## directorVacancies

*directorVacancies is a cost-effective way to reach IoD members – New Zealand's largest pool of director talent. We will list your vacancy until the application deadline closes or until you find a suitable candidate.*

### AUCKLAND FOOTBALL FEDERATION
**Role:** board member
**Location:** national
**Applications close:** 29 June

### NGAPUHI ASSET HOLDING COMPANY LTD
**Role:** independent director
**Location:** Kaikohe
**Applications close:** 2 July

### QUEENSTOWN LAKES DISTRICT COUNCIL
**Role:** elected member conduct committee (up to three)
**Location:** Queenstown
**Applications close:** 6 July

### YHA NEW ZEALAND
**Role:** board member
**Location:** Christchurch
**Applications close:** 10 July

### YOUTH HORIZONS
**Role:** director
**Location:** Auckland
**Applications close:** 20 July

### JUMPJET AIRLINES LTD
**Role:** director
**Location:** Wellington
**Applications close:** 1 August

### TUATAPERE HUMP TRACK LTD
**Role:** director
**Location:** Tuatapere
Applications will remain open until position is filled.

### MARLBOROUGH HOSPICE TRUST
**Role:** trustee
**Location:** Blenheim
Applications will remain open until position is filled.

### ROYAL NEW ZEALAND PLUNKET SOCIETY
**Role:** area board members, chair
**Location:** Waitemata, Rotorua/Taupo, Hawke's Bay, Wellington/Wairarapa, Waikato
Applications will remain open until positions are filled.

### COUNSELLING SERVICES CENTRE
**Role:** board member
**Location:** Auckland
Applications will remain open until position is filled.

### SAFE (SAVE ANIMALS FROM EXPLOITATION)
**Role:** board members (three)
**Location:** National
Applications will remain open until positions are filled.

### A TOURISM COMPANY
**Role:** director
**Location:** Nelson
Applications will remain open until position is filled.

### MEDICINE MONDIALE CHARITABLE TRUST
**Role:** chair
**Location:** Auckland

***You'll find more directorVacancies advertised on the IoD website, in the monthly directorVacancies email distributed to IoD members and on the IoD Twitter feed, @IoDNZ.***

# Cyber crime – the lines of attack

*If you think New Zealand is relatively safe from cyber crime because it is too small and isolated or your business is too low profile to be of interest to cyber criminals, you would be wrong. If you connect to the internet, you are also connecting to cyber risk. By Katherine Robinson*

Globally, around NZ$600 billion is estimated to be lost to cyber crime every year, according to a report by the Center for Strategic and International Studies (CSIS). That is almost three times New Zealand's GDP, and more than 0.5 per cent of the world's total GDP. And the threat of cyber risk is rising – Lloyd's Digital Risk Index ranked cyber risk as the third highest risk facing business worldwide in 2013.

According to Symantec's security report in 2012, New Zealand loses up to $463 million to cyber crime each year. The report also suggests that more than 2000 New Zealanders are affected by cyber crime every day in the form of computer viruses and malware, credit card fraud, online scams, phishing and identity theft.

"For those who think New Zealand is a sleepy backwater, think again. New Zealand is the soft underbelly for cyber threat. We are a technologically advanced nation with strong links into the international technological infrastructure. It makes this country an attractive gateway to even bigger prizes," says IoD Acting CEO Simon Arcus.

### WHAT ARE THE CYBER THREATS?

Technology's pivotal role both in work and in our personal lives means that it presents risk as well as opportunities. And the fact that this risk comes from multiple and ever-changing directions makes it harder to predict and prevent.

"Ten or 15 years ago, there may have been a risk from hackers who were teenagers showing off their skills to friends, now skilled hackers are just as likely to be working for organised criminals. Organised crime is a very real and important part of this threat. They could be after funds or information that could be sold on the black market or used to extort funds," says Xavier Marguinaud, New Zealand Cyber Risk Speciality Head at Marsh.

> *"Often IT people and management are talking two different languages and they need someone to translate"*

## Breaking and entering

**KPMG regularly carries out cyber security assessments of New Zealand organisations to find out how hackable they are. The percentages record successful hacks using different methods.**

**100%** access to key internal systems, from an employee trying to gain unauthorised access

**62%** access achieved to laptops and mobiles

**24%** unauthorised access through wireless networks

**32%** access past the Internet perimeter into organisations' internal systems

**71%** high-risk issues identified in web based applications

## How do banks protect themselves?

**According to ASB's Executive General Manager Technology and Innovation Russell Jones, merely having a firewall is not enough.**

**"It is essential that layers of security defence are in place. While it remains important to block known threats at the network border, it is increasingly critical to monitor activity at all levels within the network, ensuring there is an effective response to alerts and also proactively looking for potential threats within your network."**

**Every new service that makes it easier for customers to bank online will have a net of new security measures around it.**

**"Recently many of our new functions have been aimed at increasing security for the customer and the bank. We have, for instance, rolled out added functions to the mobile app that make it less risky for us and the customer, such as card control.**

**"We also educate staff and customers about security. We have established a clear protocol about how we send out messages from the bank so customers don't become too comfortable with clicking on links. And we put a lot of information on our blogs, letting customers know to protect their cards.**

***ASB is a Platinum Partner of the Connect Smart partnership, led by the government's National Cyber Policy Office, which promotes practical ways for individuals, businesses and schools to operate securely in an online environment.***

***For more information, visit connectsmart.govt.nz***

He says that instead of investing in research and development, an unscrupulous company might hire someone to hack into a competitor's system to access intellectual property.

"They would not only be interested in an invention, it could also apply to innovative ways of handling services or goods or a developed customer strategy. If companies want to gain access to certain information, spying is a short-cut. They might ask themselves 'why would I spend millions of dollars on research and development when I can access the R&D of my competitors?'"

There are also threats from nation states where cyber attack is used for political purposes. In 2014, North Korea, for instance, was believed to have sponsored a hack of Sony Pictures, leading to the release of damaging personal data and emails.

Cyber attack has been used as a tool of war both by nations and terrorists. Before Russia invaded Georgia in 2008 it took control of the internet, targeting news agencies and blocking or rerouting internet traffic. In France last year Jihadhists prevented a French television station from broadcasting for 18 hours through cyber attack.

While New Zealand has not yet suffered this kind of attack, we have seen hactivism. In 2011, hactivists defaced the Solid Energy website, redirecting users to an alternate page with a protest video against lignite coal mining.

Cyber risk can also be relatively mundane, stemming from malware, breaches to cloud storage, scamming, phishing and through human error. New Zealand's worst privacy breach occurred in August 2011 when an ACC employee unwittingly sent out an email containing the names of 9000 claims handled by the Sensitive Claims Unit.

### WHAT ARE THE CONSEQUENCES?

"A cyber attack can disrupt or shut your business so you will face business interruption. Then there are more hidden consequences such as compliance costs. In some countries, legislation requires that you have to notify your clients, but this might not only mean sending a letter or email but also setting up an appropriate call centre," says Xavier.

If your business operates in US, Australia or Europe, you could also face a third party claim and a class action from the victims of the data breach. There could also be investigations from regulatory bodies that will want to ensure that you now have the appropriate security measure in place.

"While there often financial costs, the most serious consequence has to be the impact on the reputation of the brand. When there is a cyber attack on a company, the company itself is likely to be blamed for failing to provide adequate security," says Simon.

He also wonders whether the increasing sophistication of cyber attacks on businesses could undermine trust of the company's own data among employees, stakeholders and clients if there is a sense that it is being manipulated.

The Stuxnet virus, for instance, was believed to have been used by Israel and the US to undermine Iran's nuclear programme. It lulled those monitoring it by sending out false, reassuring information even as the virus caused it to go into meltdown.

"There are two equally alarming risks from this kind of virus. One is that we simply stop believing the data in front

of our eyes. We lose confidence that we have the right information from our systems. The other is that we trust the data at the expense of any other indicators to the contrary," says Simon.

### LOST IN TRANSLATION

"Cyber security breaches are generally not an issue about the actual technology or the people. Organisations just don't have a good understanding of where their risks are so they are not focusing their effort in the right direction. If people understand the risk, they can either either mitigate, accept or transfer the risks," says Philip Whitmore, Cyber Security Partner at KPMG.

He sees this stemming from communication issues between IT and senior management and the board.

"Often IT people and management are talking two different languages and they need some one to translate. IT people are generally technology-focused, and the concept of risk management can be new to them. Assessment of cyber risk is a complicated area that should also involve senior management and the board," he says.

### WHAT ARE THE SOLUTIONS?

"Just as the threats are complex and evolving, so are the solutions. But a key change in our thinking is that we need to stop thinking about cyber risk as a technology issue. They are enterprise risk issues, involving everyone from the internal staff who use our systems to external clients and stakeholders," says Simon.

He also says that businesses may have to accept that the cost and effort of locking every single risk down is prohibitive and instead ask: 'What is the core data or IP my organisation needs to protect?' It could be intellectual property, or confidential personal data or funds, but those things are the crown jewels as far as your company is concerned and every effort should be made to protect them."

ASB's Executive General Manager Technology and Innovation Russell Jones adds that he also sees hope in a growing move towards sharing information and collective action against cyber crime.

"Organisations have found it hard to share information after a breach in the past because it is so damaging to reputation but that can mean another organisation will suffer the same issue. It's become clear that the current ways of dealing with cyber threat are inadequate and need to change. Globally, a number of different governments and private sector organisations are coming together to discuss how to manage the threat. There does seem to be a realisation that we can't go it alone any more."

## Oversight of Cyber Risks

**The IoD's Governance Leadership Centre recently published the Cyber-Risk Practice Guide for IoD members. They identified the following as five key principles for boards in their oversight of cyber risks:**

**1 TAKE A HOLISTIC APPROACH**
**Directors should approach cybersecurity as an enterprise-wide risk management issue, not just an IT issue**

**2 UNDERSTAND THE LEGISLATIVE ENVIRONMENT**
**Directors should understand the legal implications of cyber risk as they apply to the company's specific circumstances**

**3 ACCESS EXPERTISE AND PUT CYBERSECURITY ON THE BOARD AGENDA**
**Boards should have adequate access to cybersecurity expertise. Discussions about cyber-risk management should be given regular and adequate time on the board meeting agenda**

**4 ESTABLISH A FRAMEWORK**
**Directors should set the expectation that management will establish an enterprise-wide cyber-risk management framework**

**5 CATEGORISE THE RISKS**
**Board and management discussion of cyber risks should include identification of which risks to avoid, which to accept, and which to mitigate or transfer through insurance, as well as specific plans associated with each approach.**

***For further information on how to counter cyber risk, visit iod.org.nz***

# Leading in a digital era

*Digital innovation is driving fast-paced change in business, the economy, and society as a whole. The organisations most likely to thrive now will be led by those who understand the possibilities of digital technologies. To help directors seize the opportunities of the digital era, the IoD, with Deloitte, is launching a new course – Leading in a Digital Era*

Since 2000, 52 per cent of the Fortune 500 companies have merged, been acquired, gone bankrupt, or dropped below the list. This dramatic change in the corporate landscape has been caused – at least in part – by the impact of innovative technology and digital disruption.

"Currently, profound social and business change is being driven by a number of technologies and their adoption. The pace of change has been rapid but we would expect these changes to accelerate," says John Pennington, head of Digital Consulting, Deloitte, who is designing the course with the IoD.

"We see this one-day course as essential for directors who want to grasp the key drivers of disruptive technologies so they are better placed to make informed decisions. It is important that there is the right amount of digital education at the top," says IoD Professional Development Manager Helena Gibson.

"We look at our training as developing understanding of what the disruptive technology drivers are. We talk through some of the big topic technology drivers such as the cloud, the internet of things, the rapid rate of technological advances, computer power, and cheap mobile computing," says John.

The course explores business strategies that directors should follow to capitalise on these digital disruptors.

"It's about understanding overheads, the business model, the opportunities and the risk involved. Assessing corporate revenue streams and recalibrating cost structures can allow you to capitalise on digital disruption.

"I always say that there are no islands in digital. New segments in the markets may have opened or technology may enable you to take advantage of these segments in a new way. You may need to reshape corporate strategy so you have the capacity to act quickly to be ahead of the rapid rate of change."

John says that Deloitte are delighted to have the chance to work with the IoD on providing this course.

"The digital economy and digital disruption are very important topics for New Zealand Inc as a whole, but currently we've found that digital issues are not necessarily considered at the right level of business in New Zealand. Globally, in countries that are IT leaders, we see the role of the board as vital in ensuring that digital technology is allocated the right resources to deliver on goals," he says.

"I think the board and the C-suite level is absolutely key in having digital on a business's agenda. They should be asking: Are we doing enough? Are we doing the right things? Are we moving fast enough?" he says.

"By the end of this course they should have the right level of knowledge and confidence to be able to challenge, to question and to drive their organisation in this space. It is essential that they do have this understanding so they can challenge middle management on digital proposals when necessary. It's my belief that there will be a flow-on effect from this throughout the business, including a potential benefit to shareholders."

> *"They will have the right level of knowledge and confidence to be able to challenge, to question and to drive their organisation in this space."*

The course is designed to cover a wide market, from directors from large sections of the market – corporates, SMEs, private companies and not-for-profits. Aimed at directors with some governance experience, the course does not require participants to have any prior digital expertise.

**LEADING IN A DIGITAL ERA COURSES WILL BE HELD IN:**

8 CPD POINTS

**Auckland – 30 September**
**Wellington – 21 October**
**Auckland – 18 November**
**Christchurch – 1 December**

***For more information and to register, visit iod.org.nz***

**IOD LEADERSHIP CONFERENCE / 21-22 APRIL 2015, AUCKLAND**

# A game changer

*An ideas factory, a place to feel part of the IoD community, and to network, this year's IoD Leadership Conference showed why it has become firmly established as a regular fixture on directors' calendars. At full capacity this year, the conference attracted over 460 delegates – 30 per cent more than last year. But did it meet expectations?*

As with past conferences, delegates were surveyed on different aspects of the conference. 55 per cent of delegates offered feedback and we would like to share some of that here.

The highlight for most was Australian academic and business strategist Dr Robert Kay. A resounding 97 per cent found his presentation good to excellent. He made a compelling case as to why a company needs to have a culture that has a balance of both 'explore' which fosters innovation and 'exploit' which allows ideas to be turned into profit. To quote feedback from one delegate, "it was a slick presentation... with new information and insights that were both thought-provoking and relevant."

Other delegates highly rated fellow Australians ex-Billabong CEO Launa Inman and Sundance Resources chair, George Jones. Both shared very personal accounts of overcoming seemingly impossible odds.

Fresh from success at Target, Launa became CEO of iconic Aussie surf wear company, Billabong in 2012. The company was in severe difficulties and keeping the business afloat became her professional mission. Trusting gut instinct was one of the take-outs of Launa's presentation.

In a very different story, George Jones described the steps he took when the entire board and senior management of Australian mining company, Sundance Resources, were lost in a plane crash in 2010. George had retired as chairman three months before, due to illness, but took up the role again to ensure the survival of the company. It is still trading today.

Other presentations, such as those by NZTE Beachheads chair Wayne Norrie and KPMG chair Ross Buckley, impressed with revelations on the speed of change in technology, employment, demographics and business. Wayne Norrie's theme of 'Disrupt or be disrupted' summed up the message. The future calls for not only the vision to see opportunities but also the ability to change fast enough to seize them. Ross Buckley's presentation demonstrated that companies that cannot pull this off will simply perish.

Many found the speaker programme stimulating. One of those surveyed noted "I've spent the past couple of days telling my networks how inspired I was by the great range of speakers and the quality of the conference as a whole."

Diversity was a strong theme, with BlackRock's Pru Bennett candidly describing her battle to push through the glass ceiling. In her analysis of the London Olympic Games of 2012, New Zealand Olympic Committee CEO Kereyn Smith was able to demonstrate the collective power of sport as a celebration of diversity.

Feedback from others singled out Federation of Maori Authorities Chair Traci Houpapa as "outstanding – as a speaker, and in the excellence with which she had responded to and led changes and difficult situations".

Workshops provided an opportunity for the conference to break into smaller groups. Topics covered included cyber security. Reflecting the concern directors feel in this area, this topic attracted the highest number of delegates. A close second was the rural governance workshop led by Sam Robinson. There was also considerable interest in health and safety, engaging with iwi and not-for-profit governance.

If you missed conference this year, look out for details of the 2016 programme to be published in *board***room** later this year.

**CONFERENCE BY NUMBERS**

***Of the 55 per cent of delegates of delegates who took part in the survey:***

**93%** were very satisfied or quite satisfied with the conference

**89%** found it good or excellent value

**82%** found it a very good to excellent chance to network

**59%** were under 54 years old

**36%** were women

**WISH YOU WERE THERE?**

***Presentation slides by some of the presenters are available for viewing on iod.org.nz/conference***


*These are just a few of the photos taken at the evening function held on 21 April. For more photos, visit the IoD Facebook page.*

PART 1 OF 3

# Mainstream solutions from Māori culture

*New Zealand business faces significant challenges around sustainability, food safety, health and safety and marketing itself to the world. In this first in a series of articles, KPMG partner Matt Prichard says it's time to look around at the richness of Maori culture to find rich, unique, New Zealand solutions that can give us an advantage on a global stage.*

The contribution of Māori business to New Zealand's prosperity is one of the most exciting opportunities of our generation.

It's time though that we moved past seeing Māori business as a stand-alone sector of the economy, controlling a separate large asset base, and had the courage to turn to Māori culture to understand what it has to add to New Zealand's success on a world stage.

If mainstream New Zealand business takes the time and builds deep relationships of trust, KPMG believes there's a huge amount to be gained for all New Zealanders from looking inside Te Ao Māori for solutions to some of our biggest challenges.

### SUSTAINABILITY / KAITIAKITANGA

As a nation whose prosperity is based on the productivity of our land, water and seas, we face huge challenges in striking the balance between increasing returns to deliver prosperity to our people, and preserving the health of the land, water and seas for future generations.

All over the world, the mainstream response to that challenge has been tense. A short-term commercial model has a tendency to favour exploitation that could damage long-term sustainability. Eventually, regulators step in to shift incentives and introduce penalties to force business to behave in a sustainable manner. This tension can work, but only to a point.

New Zealanders have a head start on the rest of the world in facing this challenge. Our farming heritage, and our proximity to our rivers, lakes and coast already gives us an affinity for them.

The Māori philosophy of kaitiakitanga is the bridge that can help ease the tension between productivity and sustainability in our businesses.

The deep connection that Māori have to our land, water and coast – and the need to ensure they remain economically, environmentally and socially sustainable for future generations – is critical for the wider business community to observe and learn from. The wider engagement that Ngāi Tahu instigated around the development of their farming operations in Canterbury is an excellent example. It demonstrates how the environmental concerns of a community can be addressed, while building a robust and economically viable plan for agricultural development.

### FOOD SAFETY / MAURI ORA

Much of our economic prosperity comes from our ability to nourish the world with high quality, trusted food.

We know the global consumer is already demanding the highest standards of food safety throughout the supply chain. We know the risk we run if the consumer loses trust in our ability to control the safety of their food.

Again, the mainstream response is rules-based. Everyone wants to deliver safe food, but regulation and inspections are the necessary response to the risk to our collective reputation from a failure by an individual business.

Māori believe that all living things, including land hold an essential life force – mauri. That vital essence is transferred into the grass and other plants that grow on the land, and becomes part of the animals who consume them. The average lamb is then processed into around 70 parts, and exported to be consumed by people all over the world.

The philosophy of Mauri Ora (the healthy life essence) offers us a much deeper, richer approach to food safety. If, instead of seeing food safety as a compliance burden, we could move the culture of our food supply businesses to focusing on preserving the mauri that lives within our food products so that it is alive and well when it is consumed by a family in Beijing or London, we would have the basis for a unique global advantage on the world stage.

### HEALTH & SAFETY / MANAAKITANGA

The new Health & Safety at Work Act reflects another significant challenge facing New Zealand businesses.

Again, our mainstream business approach to a key business problem has had to be to regulate in order to balance the tension of productivity versus protection of our workers.

Māori have a deep-seated philosophy of Manaakitanga, under which the mana of an individual or organisation comes only from their care and support for others.

If it can be captured in the workplace, it can transform an organisation's culture at the coalface, to one where every person in the organisation is focused on ensuring the wellbeing of the people around them.

### MARKETING / KŌRERO PAKI

Lastly, our prosperity as a country depends on our ability to tell a rich story about the stuff we grow/make and sell to the world.

There is little point in achieving world-beating standards of sustainability, food safety and quality if our food and other exports are consumed by people who don't know where the stuff comes from, how it was grown in a pure, clean-green environment, sustainably harvested, and handled with care and respect from "nuku to puku".

We must improve our ability to tell that story to the global consumer.

The deep connection of Māori to our land and waters, combined with strong creative design and storytelling skill, offers an opportunity to tell a richer, deeper story about our food and other exports, and the New Zealanders who grew and made them.

### THE OPPORTUNITY

Māori businesses are alive to the opportunities that come from the depth and richness of these philosophies.

If nothing else, New Zealand will be better off from the growing scale of Māori business, which will capture the benefits of kaitiakitanga, mauri ora, manaakitanga and kōrero paki as a natural approach to their own commercial operations.

That would be a wasted opportunity for Aotearoa.

With a bit of courage and investment in collaboration and understanding, we can embrace these unique commercial advantages to drive a more prosperous future for all New Zealanders.

Tītokona tō tātou tōnuitanga, mō Aotearoa, mō tātou.

***Matt Prichard is a partner at KPMG. This is the first article in a series of articles that will explore each of the opportunities introduced above in more detail.***

*Illustration Lee Watt*

# Breaking the mould

*"Always look for someone who can accept different points of view from their own. If it's their way or the highway I don't think they'll make great directors."*

*"I don't know anyone who meets those requirements so I expect the list you give me will not have any names on it that I already know"*

*By focusing on the skills needed for the business rather than prioritising governance experience or familiar faces, the boards of some New Zealand's largest companies are finding that they are creating diverse boards. By Amy Williams*

Not so long ago, it was common practice for a chairman on the hunt for a new director to ask around the boardroom to see whose names popped up.

The appointment could be a case of who the directors knew and whether they would be a good fit. It meant, more often than not, that people with existing governance experience were picked.

It did not encourage diversity.

Telecom (now Spark) rocked the boat in this area when it separated into two companies in 2011, and it has subsequently become the subject of a Harvard Business School case study.

The company's chairman at the time, Wayne Boyd, had long been an advocate for diversity on corporate boards, arguing for the inclusion of more women and younger professionals.

He led the recruitment process for finding directors for the two new boards.

"I felt strongly that most of us sitting around the board table were cut from the same cloth. And so I worked quite hard to get diversity in the broader sense," he says in the case study.

His views were shared with Sue Sheldon, a director on the Telecom board at the time. She felt that the pool from which directors in New Zealand are drawn was far too narrow.

"People sitting around the board table found new people to come onto their board, and they tended to be people who looked similar to themselves," Sue says in the case study (she went on to chair Chorus, from which she recently stepped down).

"It was really about who they thought had some governance capability and would come on and help rather than looking at the skills that a company would require for success."

Historically, the board selection process at Telecom had been run in a way that gave each board member the ability to veto any potential candidates.

### WHO DON'T YOU KNOW?

Speaking to *board***room**, Wayne says that at the time of Telecom's demerger he felt that it presented a great opportunity to overcome the collegial culture and create a new approach to appointing board members.

He had become frustrated with how difficult it was for non-traditional candidates to gain traction.

"People will feel comfortable with each other around the board table but that's not the way to have discussions and ensure that the decisions the board have to make have been robustly discussed," Wayne says.

There was growing evidence that diverse boards performed better than those that were not diverse, and rather than pushing for a certain type of demographic to add that, Boyd wanted to focus on skills.

"We didn't get out and look for chief executives or potential directors. We really went out looking for skills," he says.

"I was reasonably confident that that would drive a diverse outcome."

*Mark Verbiest*

*Wayne Boyd*

*Tony Carter*

*Matt Stanley*

*Sarah Naude*

Wayne then put two young people from the company's human resources team in charge of the director search.

They were Telecom employees Sarah Naude and Matt Stanley (who went on to set up the consultancy Propero Insights Trust Partnership), and they created an unprecedented board search programme in New Zealand.

### HOW TO MAKE A DIFFERENCE

Eleven new directors had to be found within four months for two of the country's largest and most complex entities.

Together, they set about professionalising Telecom's process of appointing new directors.

Sarah, an industrial psychologist, says the two new companies needed directors who understood the external competitive landscape. That relied on getting the right skills around the board table.

"A traditional director appointment would not apply the same rigor. It means you cast your net wider, looking for particular background and experiences," she says.

"We looked at what the key capabilities were, that were really important to get on the board. And the strategy of where the organisation was going, then we did an audit to identify gaps and that formed a targeted search," Sarah says.

One of the key steps was the creation of a 'capability wheel' for each board, which detailed what skills and attributes the two companies needed around the board table for their future success.

Matt says that once they identified the detailed skills, they had a clear picture of the types of people that they needed to appoint.

From there, the selection team whittled down the 170 candidates to a short list of 28 people with criteria they called selection gates. That was the A list, and if they saw skills were missing they would look at their B list.

Overall, Wayne says the process was rigorous and they stuck to it, and he has no doubt it can be used as a model for director searches at other companies.

### SETTING THE DIRECTION

A strong believer in diversity, Tony Carter has brought women directors onto both of the boards he chairs – Air New Zealand and Fisher and Paykel Healthcare (FPH) – because their skills were needed.

"To me diversity is diversity of thought, that's what matters. It's not necessarily diversity of gender or other types. It is people who think differently and collectively come up with a better answer than an individual," he says.

When appointing directors, he looks at the skillsets or attributes the candidates need to help create an ideal board.

"It could be very strong financial skills, or someone who thinks outside the square. Then we ask a search agency to find some names which fit the list of attributes."

He says when FPH was looking for someone who had global experience in the innovation space a few years ago, they needed to cast the net wide.

"I said to the recruitment company 'I don't know anyone who meets those requirements so I expect the list you give me will not have any names on it that I already know'."

They appointed Geraldine McBride, the co-founder of MyWave, a cloud-based business.

It was a similar situation when Spark chairman Mark Verbiest needed to appoint a director to replace marketing guru Kevin Roberts.

"We wanted someone who was going to partially fill that gap in a way that made sense for where Spark is today and where it's going tomorrow, in particular the internet and new media space," says Mark.

He says he described the person to the search agency, as a serial entrepreneur who would understand the scale of the business and may not be based in New Zealand.

San Francisco based entrepreneur Ido Leffler, the chief executive and co-founder of school supplies company Yoobi, made the cut and is tasked with encouraging more creativity and innovation at Spark.

### THE RIGHT CULTURE

Driving diversity in the boardroom is not only about appointing directors with the right skills.

Tony says it is important to appoint people who are team players.

"Always look for someone who can accept different points of view from their own. If it's their way or the highway, I don't think they'll make great directors."

He says that does not mean directors should agree with each other.

"It's important that you don't have a board that becomes too chummy or too into group think. Having someone who is prepared to articulate a different point of view is really important," Tony says.

Spark is in the process of recruiting a new director to replace Maury Leyland, who resigned earlier this year.

Mark says as well as a specific skillset, the selection process also considers how a potential director will work with the others on the board.

"We are also focused on ensuring that person is going to contribute in a complementary way to the board, not just in terms of diversity of thought but in a way that's going to be constructive and they can work as part of a team," he says.

"You cannot have a situation where if something goes wrong, someone is going to look at one of their colleagues and blame them for what's occurred."

It is possible for a chair to foster good relationships among directors and as chairman, Mark says he needs to be the most active listener at the board table.

"The challenge for the chair is to actually bring people together, particularly if they have differences of view. Fit and mutual respect are absolutely essential," he says.

"I've found once the time has been spent with board members, particularly new ones, getting to know everyone around the table and their own experiences and it's clear that they have some respect for each other, then my job becomes a heck of a lot easier."

And as someone recruiting talent for New Zealand boards, Matt says diversity really does filter from the top down.

"The chair has to set the right culture and environment where people are comfortable to speak up and challenge and debate issues. The chair is able to create that environment and guide the conversation, to provide the right information at the right time. There are a whole lot of parts that come together to create diversity of thought," he says.

And Matt says it is possible to build a diverse board because there is a great pool of talent.

## Mentoring for Diversity 2015

*18 mentees have been chosen from 76 applications for the Mentoring for Diversity programme.*

Aimed at widening the pool of director talent, the programme pairs mentees with chairs and senior directors so they can gain knowledge of large company or listed boards, develop connections and increase their chances of appointments to large company boards.

The programme has been running for three years and was initially open only to women to address the gender imbalance on boards. This year, applications were open to members with a track record in management or governance who believed their diversity could contribute to board performance on a NZX-listed company or organisation of similar size.

"We have been pleased by both the high standard of applications and the diversity of candidates," says Nikki Franklin, IoD Manager, Membership, Marketing and Communications.

The mentoring relationships begin next month.

# Playing safe in the global arena

*The old Kiwi 'she'll be right' mentality when managing credit risk is no longer sufficient in the modern era. David Meys, Marsh Credit Specialties Leader examines why a handshake is no longer enough.*

A director's risk oversight role has never been more critical and challenging than it is today.

Among other governance functions directors can often lose sight of the fundamental processes of managing credit risk.

40 per cent of a typical company's assets are in the form of its outstanding sales ledger – credit risk often being the company's largest and most likely to blow an organisation up.

This cornerstone of any business is often undertaken by untrained staff, who have risen through the ranks, to inherit dysfunctional credit processes. They are often unaware of the true risks they are running.

Approving credit terms based on a trade reference and a handshake are no longer sufficient and lessons unlearnt following the GFC are still affecting New Zealand businesses today, as Veda Advantage CEO New Zealand and International, John Roberts reports:

"New Zealand needs to wake up to the fact that we are losing more than $2.5 billion a year by just accepting bad debts are part of the way we do business. Half of the near 550,000 companies we monitor still had bad debts of $10,000 or more, and far too many (69 per cent) had more than $100,000 locked up in that trap. And half again of those were up to $500,000! It's a staggering waste we cannot afford."

Looking offshore, increasing conflict, financial instability, geopolitical tensions and more are shaping today's credit and political risk landscape.

Indeed, rather than reducing indebtedness, all major economies today have higher levels of borrowing relative to GDP than they did in 2007. This raises the ratio of debt to GDP by 17 percentage points.

Given this backdrop, companies are reassessing their risk management strategies and seeking to manage volatility, secure existing operations and safeguard credit risk.

The function of the board in this area is to provide direction and challenge of credit risk-taking, setting a credit risk control framework and providing a structure within which credit risk is managed.

This is a time for companies to place even greater scrutiny on their customers and potential customers or trading markets. Directors may want to 'look for the bad news' in assessing sales opportunities and ask; 'what will happen when this transaction goes wrong?'

For example, if your business operates on a profit margin of 5 per cent, a bad debt of $200,000 will require additional sales of $4,000,000 to make up for that loss. Can the company sustain this?

The reality is that despite the best credit control procedures, at some point every company will incur a loss. It's impossible to know if debtors are keeping up with their tax payments, breaching their bank covenants or when they themselves are struck with a catastrophic bad debt they cannot sustain.

As a baseline, typically 3 per cent of transactions are written off each year. Aside from the impact this has on cash flow, the angst involved in collections action, legal action and in fighting preference payments demands can be at best a hand brake to growth.

New Zealanders wouldn't dream of leaving their house uninsured against fire, yet commonly do by betting their house on their debtor's ability to pay.

As New Zealand companies have expanded and globalised over the past 20 years, many have found that, like their global counterparts, using credit insurance to protect accounts receivables from unforeseen losses due to non-payment can be critical to their success.

## TRADE CREDIT INSURANCE

Trade credit insurance helps companies to operate through unpredictable economic cycles by protecting accounts receivable from losses caused by the insolvency, protracted default or political events.

Cover is sought on a buyer, assessed by an insurer (who typically has financials), then underwritten, meaning a company can then increase trade with confidence and obtain bank funding based on these deals now being securitised.

Credit insurance is very cost effective at around just $250 per $100,000 of turnover insured. It plugs the hole of throwing good money after bad by covering not only the cost of bad debts, but also the collection and legal costs of recovery, (which can often end up being higher than the original overdue amount), plus any preference payment demands under the insured limit.

Structured according to your specific requirements, it can be designed for domestic sales or export sales, to

help protect against unexpected bad debts, preserve cash flow and protect profitability.

**Trade credit insurance is for companies that:**

- Conduct business on open credit terms
- Want their enterprise risk management philosophy to be applied to financial management
- Have accounts receivable concentrations
- Seek asset-based lending arrangements with banks
- May not collect sufficient credit information on their own customers and value a credit partner to access credit risk

**By purchasing credit insurance, your organisation may be able to:**

- Increase sales by offering buyers more competitive payment terms
- Confidently sell to new customers in a variety of regions
- Release bad debt reserves for either reinvestment or as a dividend to shareholders

Companies may also improve their financing arrangements with banks by increasing advance rates, improving pricing, or obtain other structural benefits to existing financing arrangements.

Trade credit insurers maintain extensive databases of companies worldwide, including information on balance sheet strength, sales histories, payment records, and financial ratios. A trade credit insurance policy can help you gain access to this data to support your sales expansion.

Taking the time to question your company's credit management practices could be the thing that makes all the difference to the bottom line.

Making informed decisions, based on a cost benefit analysis of transferring credit risks to an insurer where appropriate, is prudent and something the board should be doing each year.

A well-designed credit programme shows stakeholders that your organisation has a proactive risk strategy to address known risks within your customer portfolio. These programmes may be disclosed within your organisation's financial statements to demonstrate a conservative, prudent approach to risk management and good corporate governance.

*David Meys*

***For more information about trade credit, please contact David Meys on david.meys@marsh.com or 09 928 3156.***

HEALTH & SAFETY

# Health and Safety – on every board's agenda

*The Health and Safety Reform Bill is continuing through the parliamentary process, with the select committee report due on 24 July. The Bill is expected to be passed into law later this year. The new legislation is on the horizon, bringing new responsibilities for directors and board members across New Zealand. By WorkSafe New Zealand Chairman Gregor Coster*

No one goes to work expecting to get hurt, sick or killed. But in New Zealand, far too many people do. On average, 73 people per year die on the job, one in ten are harmed and more than 600 die from work-related diseases annually. Not only is the financial cost of workplace accidents to the New Zealand economy a staggering $3.5 billion per year, there are the social and psychological costs for family, friends and co-workers of those people hurt on the job that can never be calculated.

Internationally we compare poorly. Our workplace safety performance is twice as poor as Australia's and six times worse than the UK. In economic and social terms that is an untenable state of affairs.

That's why in 2013, government announced its Working Safer reform package, aimed at bringing down New Zealand's workplace injury and death toll by 25 per cent by 2020.

That's a serious stretch target, and meeting it will mean businesses, workers and government will all need to step up and make health and safety an integral part to everyday work life where it isn't already. In fact, just about everyone has a role to play if we are to create truly safe workplaces in New Zealand.

With the Health and Safety Reform Bill progressing through Parliament, questions have been raised around the new accountabilities, responsibilities and penalties it creates. With the legislation still being finalised, we can't answer every question in detail, however, looking at the overall shape of the Bill, we do know that there are some important, positive changes for directors and board members.

## DEFINING A PCBU

The proposed law introduces the concept of a Person Conducting a Business or Undertaking (a PCBU), and it is the PCBU that has the primary duty for health and safety. PCBUs are in the best position to do this, as they are the ones carrying out the business or undertaking. Despite its name, a PCBU will usually be a business, a local council, or a government department. An individual might also be a PCBU if they are a sole trader or self-employed.

While the PCBU holds the primary duty for health and safety, we directors, board members and partners will become officers under the new law. You are considered an officer if you have the authority to make decisions that affect the whole, or a substantial part, of the business of the PCBU. Officers are the senior people who are the guiding mind and will of the organisation.

It's worth pointing out that a person who merely advises or makes recommendations to a person in a senior position is not considered an officer.

As officers, it is our responsibility to exercise due diligence to ensure that the PCBU is putting the right focus on a healthy, safe workplace. While we won't directly ensure the health and safety of the PCBU's workers, we must actively engage at the governance level to make sure our organisations are healthy places to work.

Practically, this will mean staying up-to-date on your organisation's health and safety issues, understanding the operation, its hazards and risks, and making sure there are appropriate resources and processes to eliminate or minimise those risks.

You'll want to be on top of questions about whether your workers are getting enough support, money, people, or equipment to keep them safe. Or, what the top critical health and safety risks your organisation faces are – and the controls used to minimise them.

As officers we can exercise our influence to create a culture of safety at all levels of our organisation. Health and safety is everyone's responsibility, and as officers we will be held accountable under the new legislation if we fail in our duties.

## DUE DILIGENCE BROADENS TO INCLUDE HEALTH AND SAFETY

Under the proposed law a new due diligence duty recognises that directors, chief executives and partners hold a high level of control over the priorities, expenditure, and resources of their organisation. By putting health and safety on every board's agenda, it

ensures that those at the helm of an organisation are taking all the reasonably practicable steps possible to get their people home safe each night.

Too many New Zealanders still see health and safety as just another compliance chore, and we've seen in the past that those at the top have taken little or no responsibility for safeguarding their workers. And yes, there will be significant penalties for officers who fail in their duties, including fines, jail time, or both. WorkSafe will certainly enforce these penalties if and when we have to, but we never want to have to.

Officers such as councillors, volunteers and elected local, school or community board members still have the duty of due diligence, however under the proposed law they will be exempt from prosecution.

Anecdotal evidence from Australia, the source of much of our new health and safety reform programme, is that explicit duties placed on officers have actively contributed to safer workplaces. This is not because of compliance or fear of penalties, but because health and safety has been adopted as an integral part of good governance and management.

When led effectively, from the board down, a strong commitment to a healthy workplace doesn't just tick off bureaucratic boxes. Rather, it will deliver you better staff retention and engagement, higher productivity, greater client commitment and a significant return on investment.

We need a culture change in how we view health and safety in this country. Britain did it, Australia is doing it. We can too. But it starts at the top, and that means it starts with you.

## WORKSAFE NEW ZEALAND

Professor Coster has served on the board of five Crown agencies over the last 15 years; including as chair of the Counties Manukau District Health Board and, earlier, the West Coast DHB. He was deputy chair of Health Workforce New Zealand and serves on the board of ACC.

***For more information on health and safety, visit business.govt.nz/worksafe***

## HEALTH AND SAFETY RESOURCES FOR DIRECTORS

The IoD can provide directors with advice on how they can influence health and safety performance in their organisations.

*Good Governance Practices Guideline for Managing Health and Safety Risks* was produced by the IoD for directors in partnership with the Ministry of Business, Innovation and Employment (MBIE). This provides information on director responsibilities, the role of directors in health and safety, diagnostic questions and actions for directors as well as case studies and a checklist. There is also a summary version available

The Governance Leadership Centre published a *directors***brief** on health and safety, available on iod.org.nz.

**Health and Safety Governance Online Module**
Based on the Health and Safety Guideline, this popular 1-2 hour online course aims at informing at directors who would like to refresh their knowledge of best practice in health and safety. Visit iod.org.nz to register.

**Business Leaders' Health and Safety Forum**
The Forum supports its members to become more effective leaders on health and safety through events and information-sharing. Zeroharm.org.nz

**Ministry of Business, Innovation, and Employment (MBIE)**
The Health and Safety Reform Bill is expected to be passed into law later this year. Draft regulations are currently available on mbie.govt.nz

HEALTH & SAFETY

# Managing drug and alcohol risk in the workplace

*Employees who arrive at work under the influence of, or at risk of being impaired by, drugs or alcohol are a safety hazard – not only to themselves but also to other staff and it's vital that directors effectively address this risk.*

The Drug Detection Agency (TDDA) CEO Kirk Hardy adds, "Furthermore these staff are also a potential risk to the wider community once they step out the door and leave work. The issue needs to be addressed and effectively managed with both staff training and pre-employment and on-site drug and alcohol testing.

"The responsibilities of directors to address and effectively deal with drugs and alcohol in the workplace will soon become mandatory under new Health and Safety Legislation to be introduced by government in early 2016," he says.

Drugs and alcohol, a growing and significant contributor to workplace accidents, will be specifically stated as a hazard under the new Act.

"For directors or those in a governance role, the implications are significant. There will be a due diligence duty to proactively manage health and safety. Individual officers will be personally liable and are not able to delegate responsibility," Kirk says.

"For directors, it makes sense to proactively manage drugs and alcohol risk, before the new legislation takes effect. Creating a drug-free environment requires a robust drug and alcohol policy, training and education for staff and managers, and drug and alcohol testing."

Kirk adds that workplace safety is vital to the health of New Zealand business. "Failure to manage health and safety risk has both a human and business cost.

Under the new Act, the consequences for not identifying risk become more serious than currently in place, with proposed fines of up to $600,000 and up to 5 years imprisonment.

TDDA is the leading on-site workplace drug and alcohol testing agency, with offices throughout Australasia.

# Governance Leadership Centre (GLC) Update

*Policy submissions, two practice guides and updates for members on key issues have been the key focus of the GLC since the last edition of boardroom*

## POLICY SUBMISSIONS

In May, the GLC provided feedback to Inland Revenue on its *Draft Public Ruling: Goods and Services Tax – Directors' Fees* in response to guidance from the Inland Revenue on amendments to the GST Act. The focus was on the need for guidance for boards and directors on when to pay and claim GST on fees.

We provided feedback to NZX on a discussion document, *Review of penalties available within NZ Markets Disciplinary Tribunal Rules and Procedures*. We highlighted the importance of legal compliance to governance best practice. The IoD said that that compliance and liability/penalty regimes should not become so onerous that they deter directors from serving on boards, and also that there was no need to introduce financial penalties for directors of issuers for issuer breaches.

## PRACTICE GUIDES

The *Conflicts of Interest Practice Guide: Recognising, declaring and managing conflicts of interest*, provides tips and guidance for directors for this often challenging aspect of being a director. Reception from members to these initiatives has been very good, citing the usefulness of the content.

The Cyber-Risk Practice Guide provides boards with five useful principles to help understand and monitor cyber risk, and critical questions for directors to ask management.

***IoD submissions, practice guides and other governance resources are available at www.iod.org.nz***

## HEALTH AND SAFETY REFORM BILL

The Health and Safety Reform Bill has been further delayed, with the select committee report to Parliament now due on 24 July. Speculation about the reasons for the delay have focused on worker participation and the impact of the reforms on small business and farms, and has not included any commentary about changing the due diligence duties for directors and officers.

## KEEPING YOU UPDATED

Other activities to keep members in the know:

A *governance***Update** was issued in June covering legislative changes, court decisions and other developments and recent thinking on governance best practice.

Two *directors***briefs**, the first in February on directors' and officers' liability insurance and the second one in April on the board's role in talent strategy.

***These updates are available for members at www.iod.org.nz.***

# Cleaning up our act

*We like to think we have a clean little economy, and New Zealand's continuing high ranking on the Transparency International index supports that belief. But there is no room for complacency and the regulatory focus on the exposure and elimination of graft is intensifying. By Josh Blackmore*

This is thanks to our growing economic interaction with countries regarded as high risk, increased media and public awareness and criticism by the OECD of New Zealand's light-handed enforcement framework. The response has been an increasing number of highly visible proceedings by the Serious Fraud Office, and the impending passage of the Organised Crime and Anti-corruption Legislation Bill.

It is already an offence under the Crimes Act to make any payment to a foreign official that creates an undue material benefit for the payer or an undue material disadvantage for any other person. The key existing exception – if the payments were intended primarily to ensure or expedite the performance of 'a routine government action' where the value of the benefit obtained was small – will be retained. Where actions of employees lead to potential liabilities of corporate entities (which is now specifically contemplated) it will be a defence for the corporate entity that it took reasonable steps to avoid a breach.

But the Bill, which is expected to be passed this year, creates a tougher regime by:

- making bribery and corruption an offence under New Zealand law even if the relevant conduct is not illegal under the laws of the country in which the official is employed and in which the conduct took place
- allowing the courts to impose both a prison sentence (up to seven years) and a fine (to a maximum of $5 million or three times the value of any commercial gain achieved as a result of the offending, whichever is the greater), and
- requiring that companies keep a record of any facilitation payments made.

Although the provisions in the Bill are relatively modest, it is worth noting that the legislative trend is toward tighter regulation. Facilitation or grease payments have been outlawed in the UK and Europe and are under review in Australia, with pressure from the Green Party here for New Zealand to take a similar stance.

Also, the apparent vehemence of the Chinese Communist Party's anti-corruption campaign would suggest the need to be extremely careful if you have operations in China which bring your company (or your intermediaries) into contact with the Chinese bureaucracy.

This can be difficult terrain to navigate because behaviour will often be informed by perceptions, accurate and inaccurate, of what is the prevailing practice and of where the boundary sits between propriety and impropriety. This can be far from black and white.

Zespri, for example, ran into trouble after collaborating with local agents to prepare dual invoices between 2008 and 2010 for its kiwifruit shipments to China – one reflecting the true value of the fruit and a lower value invoice prepared for customs purposes. An internal memo obtained by the *Sunday Star Times* from a senior marketing manager suggested that double invoicing was common practice in China, such that Zespri had to follow suit if it was to remain commercially competitive.

Our Serious Fraud Office has also started to ramp up its enforcement in this area. Recently, it brought charges against individuals associated with an engineering and road maintenance company alleged to have made inappropriate cash, travel, accommodation and entertainment payments to two former employees of the Auckland Transport Authority/Rodney District Council. The SFO stated publicly that 'a culture was created within the road maintenance division where the acceptance of gratuities was part and parcel of the working environment.'

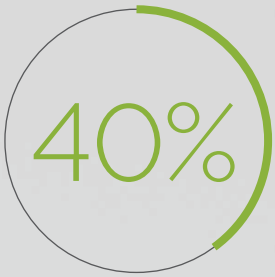
And in May the SFO laid corruption and bribery charges against a former immigration official and his associate, who are accused of accepting bribes in return for immigration assistance.

For larger corporates, you need only look across the ditch where Australian Federal authorities have recently laid charges against the directors of construction company Lifese in relation to the alleged attempted bribery of Iraqi government officials in order to secure multi-million-dollar contracts.

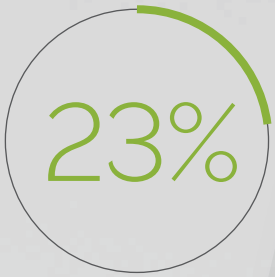
***Josh Blackmore is a partner at Chapman Tripp specialising in corporate governance, including anti-bribery and corruption matters, as well as corporate and commercial transactions and securities law.***

## How widespread is the problem?

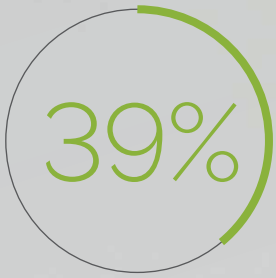
For obvious reasons, it is hard to get reliable data about the extent and nature of palm greasing and influence peddling. Probably the best guide is the Deloitte Bribery and Corruption Survey for Australia and New Zealand. This was first put out in 2012 and was updated this year, based on information collated late last year from 269 respondents. The results suggest that at the governance level, there is significant room for improvement.




Although 40 per cent of those surveyed had operations in high-risk jurisdictions (China, India, Indonesia), and 35 per cent of this group had experienced a bribery and corruption offence in the last five years, almost half of them had yet to put a formal compliance programme in place.




23 per cent reported that they had experienced one or more instance of domestic corruption over the five-year period, the most common forms being: undisclosed conflicts of interest, supplier kickbacks, personal favours, inappropriate gifts or hospitality and leaking confidential information to a third party.




39 per cent of New Zealand respondents (and 35 per cent of Australian) rated the risk of domestic corruption either more prominent or much more prominent than five years ago. However, only 35 percent of organisations placed it within their 'top five' issues.

## What can you do to minimise the risk?

As a New Zealand firm operating in foreign jurisdictions (particularly those which are high-risk for bribery and corruption), you should:

- undertake due diligence on foreign partners and risk assessments of foreign operations
- monitor expenditure and treat every unofficial payment as a potential liability. If in doubt, seek legal advice
- adopt a sensible compliance strategy tailored to your firm's risk profile – it doesn't need to be exhaustive or extensive, and
- have a process for responding if a potential incident is uncovered.

OPINION

# Five points on CEO remuneration

*Rick Christie draws on research and experience as a CEO, chair and director to address the often controversial question of how much you should pay your CEO*

## 1

First, the package needs to suit the business and its strategic goals as well as the individual. It is all about context, which only the board of the company can bring – and consultants and proxy advisers cannot.

Some businesses, such as utilities, have lower risk and many assets and employees. Their strategy may be more about growth in earnings versus growth in revenues. Others may be about organic growth and market share or growth by acquisition, which is inherently much more risky. Some may be in turnaround mode, which requires different incentives.

I would suggest that benchmarking from survey results of peer companies should be more of a guide, than a prescription. Better for recruiters to be interested in how much the candidate wants the job, rather than how much they want the money that goes with the job.

It follows that some individuals are more motivated by actual achievements than money. Leadership DNA is a complex thing. Chairs and boards must understand the individual that they are dealing with and act accordingly.

This is particularly important with a new hiring where the candidate and their drivers are not well known, and the consequences of over-rewarding from day one, will ultimately be difficult to live with, and justify, if the results are not achieved. Understanding the individual and their behaviours better can benefit from advice from respected referees.

## 2

Staying on the theme of why the decisions around recruitment are crucial, there is the question of the shape of the package and the contract itself, including future termination arrangements.

CEOs vary in their appetite for incentives, which tells you something about their appetite for risk around their own rewards.

I would have to say that I am not a fan of complexity. Too much leads to ongoing debate and often disagreement, which is not good for motivation.

Most CEOs are very competitive and some are poor losers, especially when their own interests are concerned, and detailed technical arguments may ensue.

A corollary is that smart CEOs may game the system, which can also leave a sour taste. I would also add that in the array of incentive packages available, profit share and cash flow based programmes are, in my view, better drivers, and better indicators of value than share-based criteria.

I, cheekily perhaps, ask the question, that when a CEO is promoting a particular strategic direction, or decision; are they thinking first and foremost about how the company will benefit from the decision, or how much money they are going to make out of it?

## 3

The question of termination payments is a double-edged sword. Shareholders, proxy advisers and the public, understandably rail against what may seem excessive payouts, or payments for failure. Seen from the company's perspective they can enable an unsatisfactory employee to leave or be dismissed, at a quantifiable cost, and without unnecessary and often endless litigation.

In my time as a chairman and director I have had experience of both, and I favour contracts which provide for either party to terminate the employment contract on pre-agreed terms, which may include a fixed sum, a confidentiality agreement and a non-compete.

The sooner that a company or board can move on from a poor CEO, the better for everyone concerned, including the shareholders.

**Rick Christie**
Rick Christie is chairman of EBOS Group, ikeGPS and Service IQ. He is also a director of Acurity Health Ltd, Southport Ltd and Solnet Solutions Ltd. He is a Chartered Fellow of the IoD and a member of the IoD's Wellington Branch committee.

## 4

The board as a whole must take responsibility for the compensation packages for the CEO, and vicariously for the other key executives. Saying that they took advice does not diminish that responsibility.

Within that collective responsibility there should always be, in my opinion, two other key inputs:

- The first of these is the role of the remuneration committee. Boards differ, for example, in how much they delegate to the committee, how the meetings are run, and what advice they seek from outside advisers, the HR Manager, and the rest of the directors.
- The second key input is from the chair. Often, but not always, the chair is on the remuneration committee, but may not always chair it. The chair will certainly lead the annual performance review of the CEO, and lead discussion with the CEO about the review and rewards, with the backing of the board.

It is very important that the board are united around this crucial issue and that they feel adequately consulted. The chair may be forced to find the right 'balance' of opposing viewpoints.

It is a key requirement of the board to support the CEO, (and management) but this does not extend to always giving the CEO what he or she wants or demands, and this applies to remuneration as well as the other resources of the company.

## 5

Another key issue and a timely reminder to both boards and executives is the question of fairness. This is a question boards are often required to judge in respect of other decisions, but it applies equally to CEO compensation.

Over the last five to ten years, CEO compensation across the Tasman failed the fairness test to the extent that the ASX introduced provisions allowing boards to be dismissed if there are consecutive shareholder votes against remuneration reports at annual meetings.

This is overkill. There are a number of more important reasons for boards, or directors, to be dismissed, aside from what the CEO is being paid, but nevertheless, the messaging is clear.

The New Zealand Shareholders' Association issued its own policy in respect of executive remunerations with over four pages of detailed guidelines – too much to usefully comment on here. There is considerable good sense in much of what they suggest, but overall there is much complexity and the document seems to have its origins in skepticism and control over areas in which boards need to exercise their own judgement and discretion, for the contextual reasons I commented on earlier.

## CONCLUSION

In conclusion, in my experience, good CEOs who exceed their targets, and build a profitable, sustainable and cohesive culture in their staff, are usually worth every penny they are paid. Shareholders are normally happy and CEO compensation does not become an issue with them.

Boards have to own what they pay their CEO and key management, and cannot take refuge in advisers' reports. It is often the chair who takes the flak over CEO compensation, so chairs must make sure the board gets it right.

In my book this is all about good process, fairness, balance and, above all, common sense.

# Stepping up to Chartered Membership

*boardroom talks to three new Chartered Members who were among the first to qualify by passing the Chartered Member Assessment*

*Eugene Berryman-Kamp*

*Paula Baker*

*Craig Hattle*

*"I try to add value to the businesses and boards I work with by helping them be the best they can be. The very least they should expect of me is to try to do the same for myself."*

Craig Hattle counts himself lucky that he had governance roles in companies directly affected by the serious political upheaval in Zimbabwe in the last decade. "I look back on those years now and realise that they profoundly affected the way I viewed 'good governance' in a broader sense. One could not ask for a better change management training programme!"

An agricultural scientist, Craig initially worked as a field researcher and an agronomist in Zimbabwe followed by working in corporate agriculture in the UK. "My first experience in a governance role came along when I was appointed Managing Director of a cut-flower production and export company in Zimbabwe in 1997. This led to an appointment to the advisory board of an ancillary company that specialised in freight forwarding, logistics and air freight charters."

Craig, who also holds an MBA, took up his first non-executive board position for Hallmark Flowers in the UK.

After moving to New Zealand in 2011, Craig was invited to join the board of Advantage Business Ltd as a non-executive director in 2013. It was his first governance role outside his area of expertise.

"Working with businesses in a variety of industries has meant I need stronger, broader skills in governance. That's what motivated me to complete the IoD Company Directors' Course (CDC) in 2013. It has been the second significant milestone in my own personal professional development journey.

"Following the CDC course through to completing the Chartered Member Assessment (CMA), simply seemed a logical thing to do, and there is no doubt that the process has enriched my own governance competencies – which I guess is what it is meant to achieve.

"I try to add value to the businesses and boards I work with by helping them be the best they can be, so the very least they should expect of me, is to try to do the same for myself – engaging in the path to Chartered Member has been an important step in achieving this goal."

### INSPIRED BY IWI

A senior manager with years of experience in both the corporate and public sector, Eugene Berryman-Kamp has also held multiple governance roles on iwi trusts and boards.

"I enjoy the strategic component of governance – how you can set the strategic direction of an organisation, work out how to get there, then monitor. In management, you have to be very focused on achieving goals so it can be harder to see the bigger picture," he says.

He was aware that despite years as a director and trustee, he did not hold a formal qualification to recognise his understanding of governance. "I have a degree in management from Waikato University but from a governance perspective, I didn't have anything to show that would prove my ability and level of knowledge to stakeholders," he says.

To remedy this he undertook the CDC in 2014 with the entire Ngati Manawa Charitable Trust board.

"I had done governance courses previously but we decided to do the course together as a board so we could ensure that all the directors had a common level of governance understanding," he says.

Sitting and passing the CMA was his next step.

"I was comfortable with the exam and felt it was pitched at the right level. To me the assignment offered a good representation of what it is actually like to be on a board as it allowed for degrees of interpretation. Often, there is no right or wrong answer," he says.

"I am a confident person but it was reassuring to pass the assessment. I now know that I had been externally tested under a robust and consistent method and I have met the standard. To know that does help not only with finding new board positions, but it also gives a boost to carrying out current board roles."

### A LEARNING EXPERIENCE

Recently qualified Chartered Member Paula Baker advises anyone planning to do the CMA not to focus solely on whether they pass or fail. She sees the assessment as not just about being able to demonstrate a certain level of skill but also a learning experience in itself.

"Read as much as you can, and listen to as many different people's opinion on different aspects of governance. The assessment has to be about upskilling and embedding knowledge of best practice principles. These should become second nature to you," she says.

Since winning Waikato branch's Aspiring Director Award in 2013, Paula has taken on directorships on the Braemar Charitable Trust, Enrich + Trust and Hospice Waikato. These add to sixteen months as an observer on the board of Perry Metal Protection which she won through the award. She is currently Plunket's National Advisor-Governance.

"My aspiration is to become a professional director, so knowing that I have a good solid grounding in governance is very important. In applying for different positions on boards it will give me an advantage," she says.

"I also think it is a really good sector qualification. Having a benchmark to measure skills is the right thing to do in terms of the industry. It puts directors on a par with other occupational groups such as accountants. It says 'This is formal recognition of a director who has achieved a certain level of skill and experience.'"

## CHARTERED MEMBER ASSESSMENT

**Others who have recently qualified as Chartered Members are Trevor Wairepo, Blake Richardson, Stephen Davies Howard, Des Brennan, and Tim Cosgrove.**

**The Chartered Member Assessment is a key criterion for entry to the category of Chartered Member. It has been our aim to deliver a robust assessment that can provide assurance to Members and the market that Chartered Members have met standards of knowledge and skill to support them to carry out their duties.**

**Candidates are assessed on their knowledge of *The Four Pillars of Governance Best Practice*, and the content of the Company Directors' Course (CDC).**

**The CMA has two parts: a computer-based multi-choice exam and a 3,000-word assignment based on a case study. Both parts must be completed within a three month period and candidates must attain 70% or higher in both the exam and assignment to pass the assessment.**

***For more information visit iod.org.nz***

# How do you make a good decision?

*Whether you are a director, the manager of a small business or the CEO of a billion-dollar company, the success and failure of any business venture will depend to a high degree on the quality of your decision-making. But how do you ensure that you consistently make wise decisions?*

The answer could lie in following five key principles, according to recent research by Massey University's Dr Ali Intezari and Associate Professor Dr David Pauleen. From 2010 to 2013, they undertook a study aimed at defining the main ingredients to wise decision-making. Interviewing 37 CEOs and senior executives from both the public and private sectors, the researchers asked them to identify and reflect on what they felt were the critical elements to good business decisions.

Key factors to emerge included having relevant knowledge backed by a willingness to seek information. Access to different perspectives and ability to factor in alternative viewpoints were also identified as critical to good outcomes. And although those surveyed rated logical thought as essential to wise decisions, they believed that this needed to be balanced with recognition of gut instinct as an element that should not be ignored. Mindfulness or being aware of one's own weaknesses and biases was seen as another core ingredient, as was being able to reflect on and learn from past decisions.

"The research resonated with me, particularly the strong emphasis on listening to a broad spectrum of perspectives and gathering information from multiple sources. Many CEOs of SMEs lead a somewhat solitary existence without large management teams around them to give advice," says Paul Hocking, IoD Chartered Member and member of the Massey Business School Advisory Board.

"This is not to say they don't make good decisions but it does highlight the need for independent advice. While CEOs are employed to make the hard decisions, lead the team and the business to success, they should not believe in their own inviolability. A board – even an advisory board – can bring discipline, an inquiring attitude and a range of experience to the table," says Paul.

He believes that a board of directors can also set the tone, using their position to help develop the kind of positive business environment that will foster good decision-making.

### ABOUT THE RESEARCH

Paul Hocking is a director and principal of Esperance Capital Ltd and an independent director of The Campbell Institute and Trustees Executors Ltd and a member of the Massey Business School Advisory Board.

This article draws upon research by Dr Ali Intezari and Assoc Prof David Pauleen, a précis of which was entered in the Massey Business School 2014 Research Translation Competition, of which Paul was a judge, where it won the People's Choice Award. Dr Intezari can be reached at a.intezari@massey.ac.nz and Dr. Pauleen at d.pauleen@massey.ac.nz

# TOP FIVE INGREDIENTS OF DECISION-MAKING

*These five elements are both complementary and interlinked, and according to research are likely to be more effective the more often you do them.*

1 **EXPERIENCE** This is important, but you can compensate for lack of knowledge or experience with timely, reliable, and relevant information and the ability to apply it. Having experience and knowledge alone is not enough. To solve a problem, you also need to be aware of what you do not know, and be willing to seek out others and make use of their knowledge and experience.

2 **CONSIDER DIFFERENT PERSPECTIVES** What are the expectations (financial and non-financial) of your company, business and local community? Keep in mind all the different perspectives, their sources, and their main points as much as possible. Prioritise them. Articulate the expectations that are behind each perspective. Incorporate those perspectives into your decision and see how you can improve your decision based on those expectations. Do not neglect or underestimate the perspective of any stakeholder. You may need them in the future, either to defend or improve your decisions. Understanding the value of others allows you to know what your business should value.

3 **BE BOTH ANALYTICAL AND INSIGHTFUL** When it comes to making an important decision, involving your business's success or failure, you have to make an informed rational decision. But don't ignore your emotions. There should be enough room for both rationality and non-rationality in your decisions. Search your current database for any relevant data and gather useful information. You should reflect on your experience, yet listen to your gut-feeling along the way. Logic and emotion may appear to be opposites but they are complementary. Your instincts are rooted in your unconscious analysis of your experiences and in your hidden knowledge and information. Listen to your intuition, gather useful information, and then back up your feelings with relevant, reliable, and up-to-date information and analysis.

4 **REMAIN MINDFUL** To be able to make effective and successful business decisions, you need to be well aware of yourself, including your weaknesses, strengths, and emotional characteristics. You also need to be well aware of what is going on around you, either in relation to yourself as a business person, or in relation to your business and company. Successful business people not only have a true awareness of themselves, but also of others and events around them. This dual awareness enables the successful business person to make the most out of their own advantages and the opportunities that emerge in the market.

5 **CONSTANTLY REFLECT ON YOUR DECISIONS AND ACTIONS** Take time out to reflect on what you have learned from past decisions – harder than it might seem in today's fast-paced world. You will not forget hard lessons learned from a costly mistake, but there are plenty of valuable lessons in everyday decisions and actions, successful or not, that can be otherwise ignored, or forgotten. In addition, reflect on feelings, thoughts and values of the community and society you are working in. Societal values and beliefs are dynamic and evolving as are market needs and expectations. Regularly reflecting on these expectations helps you keep your business at the crest of business waves.

OPINION

# Making directorship simple and profound

*Looking back 20 years John Mendzela gives his view on whether the core competencies required of a director have changed.*

In 1995, the New Zealand Institute of Directors had a coat of arms with the motto 'Integrity and enterprise', a code of ethics, and a Company Directors' Course. The qualifications for a good director were simply described as 'integrity, common sense and business acumen'. Most directors learned directorship by doing it. Personal referrals – sometimes valuable, and sometimes more an 'old boys' club' – determined most appointments.

What a contrast with today! The IoD documents extensive guidance on every aspect of directorship. It offers professional development for every stage of a governance career and help with every aspect of board operation. And the qualifications for a good director now include a long list of competencies.

More is not necessarily better. One of my key themes when training prospective directors was to outline progression through "Three stages of understanding":

We would discuss the problem of getting stuck in an interim Stage Two, through an unduly technical education, long but narrow industry experience, or a highly specialised role. I would stress that complication can be appropriate in management and technical activity but is unhelpful in governance.

In 1995, IoD thinking about directorship was certainly simple, but also somewhat superficial.

In 2015, we face a more challenging governance environment. Directors are under the spotlight. Boards are expected to actively add value, not just passively confirm.

Today, professional thinking is certainly profound. But has complication taken over? Are we stuck in Stage Two, lost in the fog? Or can we maintain the "simple and profound" approach essential to good governance?

## INTEGRITY

I think we can. With help from a dictionary, let's update that brief description of directorship qualifications: integrity, commonsense, and business acumen.

The need for integrity is greater than ever. IoD requirements that members adhere to good governance practices is clear. But with boards facing increased demands, we should expand that first qualification to "commitment".

Commitment is firstly defined as 'being dedicated to a cause'– the good of the organisation being governed. It's doing a job, not just holding a position.

But a second limb of the definition can be more challenging: 'an engagement or obligation that restricts freedom of action'.

That obligation extends beyond direct conflicts of interest. Conflicts of information and conflicts of role are more subtle, and often more important. Perceptions are important, not just facts. Good directors must instinctively understand and navigate those challenges.

A board that I was advising unanimously resolved that certain confidential and economically valuable information would not be disclosed to directors, to avoid any actual or perceived conflict of interest. (What you don't know you can't act on.) But at the next meeting, one director nonetheless demanded to know that information. Instantly, another director demanded NOT to know it. A third director also demanded the information, while a fourth got up to leave so that he couldn't know it. Two other directors looked panicky and said nothing. Ultimately the dispute was resolved without any major damage. But while two directors had demonstrated their fitness for office, two others had demonstrated the opposite.

## COMMON SENSE

The second qualification – common sense – is defined as "sound and prudent judgment based on a simple perception of the situation or facts". "Simple" is there, but what about "profound"?

Let's replace common sense with comprehension – defined as "the ability to understand something". Understand what? Comprehension shares roots with comprehensive. A complete and holistic approach is an essential feature of directorship.

So it isn't good enough to bang on excessively about sales or finance because you know a lot about that, and not come to grips with other aspects of the enterprise. Or to apply outdated concepts that rely too heavily on past experience. Observation and research strongly suggest that, compared with peers elsewhere, Kiwi businesses tend to over-perform operationally and underperform strategically. In a world where acting globally with future orientation is essential, tactically-oriented and locally-based thinking won't be enough.

Comprehension also includes accepting the governance requirement to support the common good of the whole organisation, ahead of individual or partial agendas. A board I worked with became dysfunctional because one

director – undoubtedly knowledgeable and principled – undermined board decisions he disagreed with, in a public and damaging manner. He firmly believed that his primary duty was to the representative group that had put him on the board. No amount of explanation about collective responsibility or good governance practices could alter that belief. So he had to go, and did.

### BUSINESS ACUMEN

Commitment plus comprehension creates willingness and understanding to do the right things. The third qualification – business acumen – is about doing those things effectively. The dictionary defines business acumen as 'keenness and quickness in understanding and dealing with a business situation in a manner that is likely to lead to a good outcome.'

What better description could we ask for? All organisations, profit-seeking or not, face business situations. Applying timely good judgment to reach optimal outcomes lies at the heart of good governance. Chairmanship demands particularly strong business acumen to weigh up alternatives, seek and evaluate specialist advice, and shape timeframes and processes for board decisions.

So an updated short qualification for directorship might read "commitment, comprehension, and business acumen". Can we train directors, to create and enhance those qualities? Only up to a point. To become knowledge and skill, information and example must be practically applied through personal experience. And whether we like it or not, some abilities and characteristics (or their absence) are largely innate and immutable.

Stress-testing for directorship comes when an organisation faces capability challenges, financial pressures, adverse trends or disruptive events. Under stress, a board needs all of its members to stay staunch, grasp the full picture and help generate practical action. But some apparently well-qualified directors fail stress esting. Why?

### A SPARK OF ENTERPRISE

I vividly recall helping a capable chairman interview several director candidates. One had a good track record, said all the right things, and had been to all the right training courses. But after he left the room, the chairman asked me (and himself) a simple question – would we be comfortable relying on this candidate to help the board add value? We thought not, and dropped him off the list.

What spark was missing? In the IoD's 1995 motto, integrity was coupled with enterprise - defined as 'readiness to engage in daring or difficult action'. Our candidate lacked enterprise.

It's no surprise that risk management is prominent on board agendas. Organisations and their directors face increasing expectations and tougher penalties for getting it wrong. But risk management should not become risk minimisation, because minimising risk also minimises opportunity. To add value, boards also need to encourage and demonstrate enterprise.

### ELEMENTS OF DIRECTORSHIP

It's worth thinking again in a simple but profound way. Does this candidate display:

- commitment – to doing the right things?
- comprehension – understanding all the right things to do?
- business acumen – a talent for doing the right things effectively?

And as a final consideration – how enterprising is this person likely to be?

***John Mendzela CMInstD has served a range of New Zealand companies and central banks worldwide. He developed and presented IoD strategy training from 1996 to 2007. www.mendhurst.com***

### CURRENT COMPETENCIES

The IoD has developed the Director Competency Framework structured under four key director attributes. These are: strategic and governance leadership, informed decision-making, business acumen, and communication. You can assess yourself against elements of these when it comes to choosing a professional development activity.

***For more information, visit iod.org.nz***

# branchevents

*IoD members are welcome to attend branch events nationwide. Check out the full list of branch events on the IoD website.*

2 CPD POINTS

*Members will be awarded 2 CPD points per event.*

## AUCKLAND

*David Mahon*

**China's changing demography**
David Mahon, founder of Mahon China Investment Management Ltd, shares his insights into demographic trends in China and the opportunities these present.
*7:30am - 9:00am, 29 July, The Northern Club, 19 Princes Street, Auckland*

**Director Accelerator Lunch**
Learn about a career in governance, find out how to get your first break, and hear from experienced directors.
*11:45am - 2:00pm, 4 August, The Northern Club, 19 Princes Street, Auckland*

*Mike O'Donnell*

**Next Generation Director workshop**
Build your understanding of governance in an interactive environment.
*4:30pm - 7:00pm, 11 August, BNZ Partners Business Centre, Deloitte Centre, Level 7, 80 Queen Street, Auckland*

**Breakfast with Mike O'Donnell**
MOD talks governance, disturbance and online mongrels.
*7:30am - 9:00am, 12 August, The Northern Club, 19 Princes Street, Auckland*

## WELLINGTON

*Peter Miskimmin*

**Governance of sport in New Zealand**
Join us for an 'after 5' event with Sport New Zealand CEO Peter Miskimmin.
*5:30pm - 7:00pm, 11 August, Institute of Directors, Mezzanine Floor, 50 Customhouse Quay, Wellington*

**Lunch with the Hon Bill English**
*12:15pm - 2:00pm, 19 August, The Wellington Club, 88 The Terrace, Wellington*

*Kerry Prendergast*

**After 5 with Kerry Prendergast**
Former Wellington mayor Kerry Prendergast talks board diversity.
*5:30pm - 7:00pm, 1 September, Institute of Directors, Mezzanine Floor, 50 Customhouse Quay, Wellington*

## WAIKATO

**Bribery and Corruption Survey workshop**
*4:00pm - 6:00pm, 9 July, Waikato Stadium*

**Lunch function with guest speaker Sir Henry Van der Heyden**
*12:00pm - 2:00pm, 23 July, Radio Sport Lounge, Waikato Stadium*

**Lunch function with guest speaker Mike Stanley**
*12:00pm - 2:00pm, 12 August, Radio Sport Lounge, Waikato Stadium*

## BAY OF PLENTY

**Brown bag lunch: new technologies**
Hear Mark Pascall from 3Months on new technologies that could boost or disrupt your business.
*12:00pm - 2:00pm, 23 July, The Boardroom, Sharp Tudhope, Devonport Road, Tauranga*

**Putting cyber security on the agenda**
Join Stephan van Lieshout, Enterprise and Security Architect from Spark Digital and Xavier Marguinaud, Cyber Risk Specialty Head from Marsh, for a talk about cyber security.
*5:30pm - 7:30pm, 5 August, Tauranga Club, Devonport Road, Tauranga*

## NELSON MARLBOROUGH

**Governance in agribusiness**
Hear from Chris Garland, an agribusiness consultant, focusing on governance and business growth.
*12:00pm – 1:30pm, 23 July, Scenic Hotel, 65 Alfred Street, Marlborough*

**Wynyard Group CEO Craig Richardson**
Join us for a lunch function to hear Craig Richardson on New Zealand's growing tech sector, information security, and combating global cyber crime.
*12:00pm – 1:30pm, September (date TBC), Trailways, 66 Trafalgar Street, Nelson*

## CANTERBURY


*Simon Arcus*

**Governance: on the radar**
Acting IoD CEO Simon Arcus analyses current governance issues.
*5:45pm - 7:45pm, July 20, The George, Park Terrace, Christchurch*

**Trust, Reciprocity and Effectiveness of Executives**
Join us for a workshop with world-renowned negotiation expert Professor Ingemar Dierickx.
*11:00am - 1:30pm, July 27, The George, Park Terrace, Christchurch*


*Nicky Hyslop*

**SME function**
Need a Part founder Jared Tasker shares his governance journey.
*5:45pm - 7:45pm, August 3, The George, Park Terrace, Christchurch*

**Communication in a crisis**
Hear from IrrigationNZ chair Nicky Hyslop and Ophua Water Ltd CEO Tony McCormick.
*5:45pm - 7:45pm – September 7, The Grosvenor Hotel, Cains Terrace, Timaru*

## OTAGO SOUTHLAND


*Rachel Farrant*

### OTAGO SOUTHLAND

**Emerging Director Award**
The winner of the Otago Southland Emerging Director Award is announced, with guest speaker Rachel Farrant.
*5:30pm - 20 July, The Dunedin Club, 33 Melville Street, Dunedin*

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# branchnews

## AUCKLAND

NZIER principal economist Shamubeel Eaqub spoke on the New Zealand and global economies.

Government relations expert Tony O'Brien presented 'Business and Politics' on 8 May, advising that a fair, informed and reasonable approach was key to effective government relations.

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## WELLINGTON

Rachel Pettigrew and Rene Hatton from Marsh talked on D&O insurance at a brown bag lunch on 15 April. Michael Whittaker discussed governance in an entrepreneurial world at an East Coast breakfast on 30 April. Steve Anderson had Wellington members riveted on 6 May, speaking on governance in a crisis. Labour leader Andrew Little gave his perspective on the Budget and the state of the New Zealand economy.

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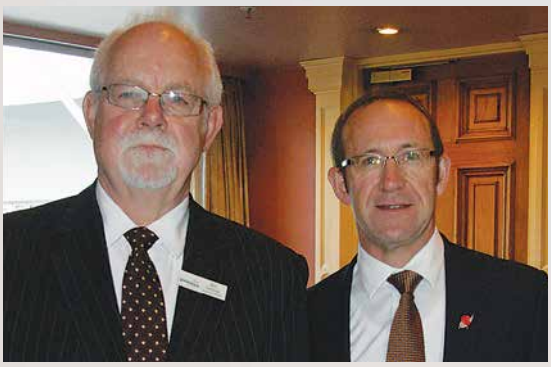

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1 | Dianne McAteer, Tony Caughey, Colin Theyers, Shamubeel Eaqub (Auckland)
2 | Jasbindar Singh, Anne Walsh, Simone Iles (Auckland)
3 | Tony O'Brien (Auckland)
4 | Rob Frost, Geoff Vazey (Auckland)
5 | Jim Donovan, Andrew Little (Wellington)
6 | Steve Rich, Geoff Gwynn (Wellington)
7 – 10 | Branch members attend a breakfast at the Wellington Club to hear Andrew Little. (Wellington)
11 | Michael Thompson, Graeme Marshall (Bay of Plenty)
12 | Dave Ashcroft, Kenn Butler (Nelson Marlborough)
13 | Brett Wells, Richard Smith (Canterbury)
14 | Jann Meehan, Steve Abley, Geoff Cranko (Canterbury)
15 | Steve Wellington, Greg Doone (Otago Southland)
16 | Margaret Devlin, Grant Robson, Dr John McDermott, William Durning (Waikato)

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## BAY OF PLENTY

TH Enterprises CEO Trevor Hamilton spoke about the positive impact establishing a diverse board has had on the growth of his business.

Shima Grice, Graham Philps and Carl McOnie discussed health and safety at a workshop in Tauranga, addressing upcoming legislative changes with real-life case studies.

Sam Knowles spoke about his experience with governance in high-growth companies, focusing on the 'Four Cs' – capital, capability, culture and commander.

Sally Webb and Lesley Fraser gave Tauranga members tips and tools for ensuring their board members have leadership skills.

Serial entrepreneur Melissa Clark-Reynolds presented The Winner's Guide to Quitting in Rotorua on 20 May, discussing what to do when perseverance is no longer a virtue.

The results of KPMG's Global Audit Committee Survey were presented in Tauranga on 27 May.

12


## NELSON MARLBOROUGH

Brad Dunstan from the NZ Super Fund addressed a function in Nelson, discussing the future of funding NZ's ageing society.

Lesley Kennedy spoke to a FirstBoards function in Marlborough, outlining how and why she established her first board.

Chris Kelly, Chancellor of Massey University, shared his views on governance beyond the farm gate.

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## CANTERBURY

Martin and Jann Meehan, owners of Christchurch institution Kidd's Cakes and Bakery, shared the governance lessons they've learnt with Canterbury branch members.

Alex Reese gave members an overview of a new model for not-for-profits. Members heard the results of KPMG's Global Audit and Risk Committee Survey on 11 May.

15


## OTAGO SOUTHLAND

Director Greg Doone presented 'Directors need to dance with the digital natives' on 29 April, discussing engagement with the internet generation.

Wanaka members heard from Alpine Group managing director Jonathan Wallis in April, on governance in family-owned companies.

16


## WAIKATO

Reserve Bank Governor Graeme Wheeler talked on developments in the New Zealand and global economies at an event in partnership with the Waikato Chamber of Commerce.

Guest speaker Simon Power spoke on the path from public to private to governance at a luncheon in Hamilton.

Waikato members heard John Cunningham on success in crowdfunding.

Members enjoyed Budget 2015 analysis with Minister of Finance Hon Bill English.


# NEPAL EARTHQUAKE


Our School-in-a-Box kits contain materials for 40 children so teachers can begin their lessons any time, anywhere.

1.1 million children in Nepal have been affected by recent deadly earthquakes. Their homes have been destroyed and schools toppled. 32,000 classrooms were wiped-out and 15,352 damaged. **Right now, thousands of children are missing out on school.**

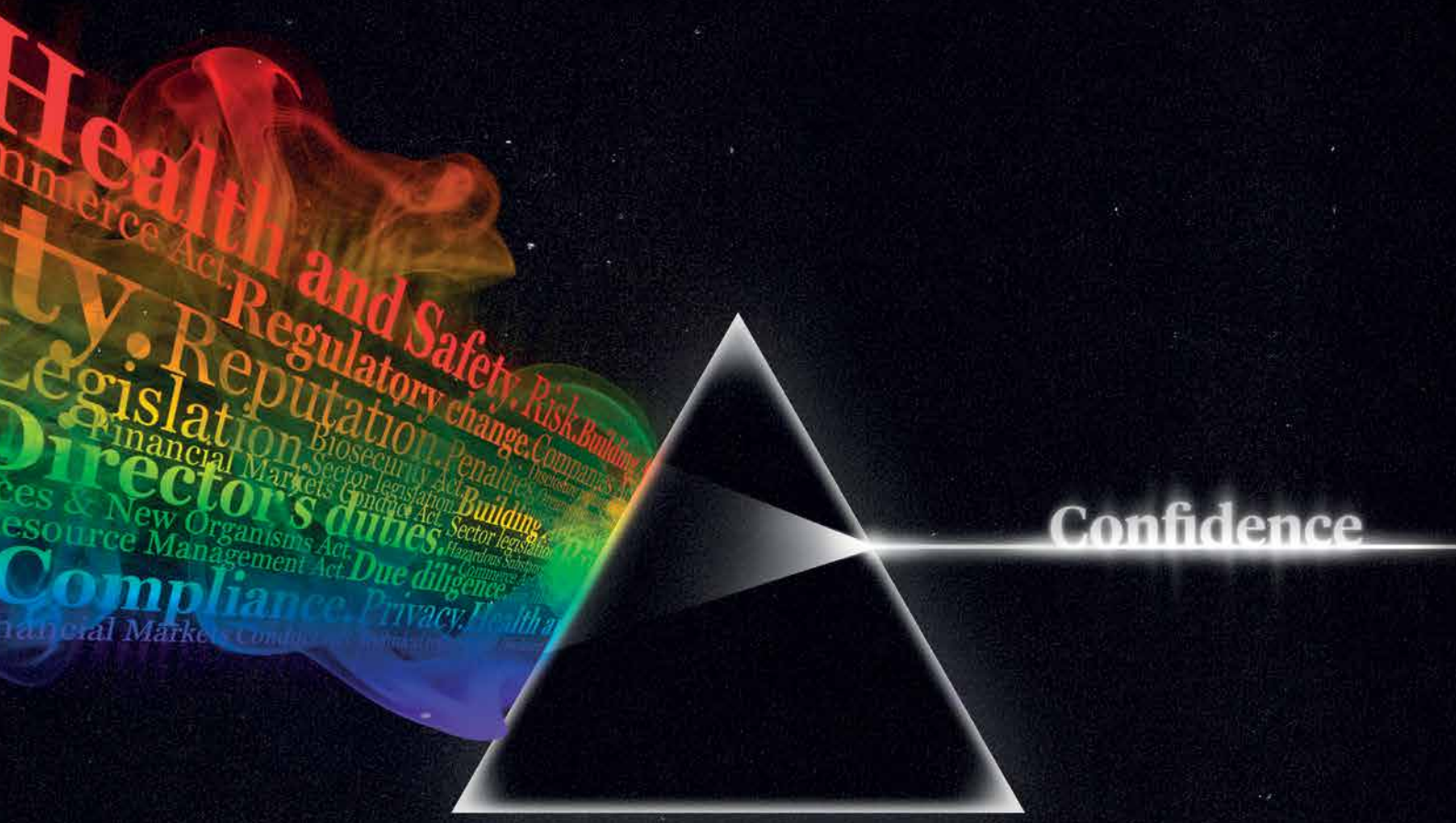
UNICEF is working hard to get children back to school as quickly as possible. We've created Temporary Learning Centres benefiting 140,000 children – but more resources are needed urgently.

Children need more than just books and pencils – that's why UNICEF school-in-a-box kits are perfect. Each kit has everything needed to set up a classroom anywhere in the world after an emergency. **For $262 each kit has enough learning materials to keep 40 children busy for hours** – as well as exercise books and pencils there's even 2 black boards and a solar radio!

## DONATE NOW

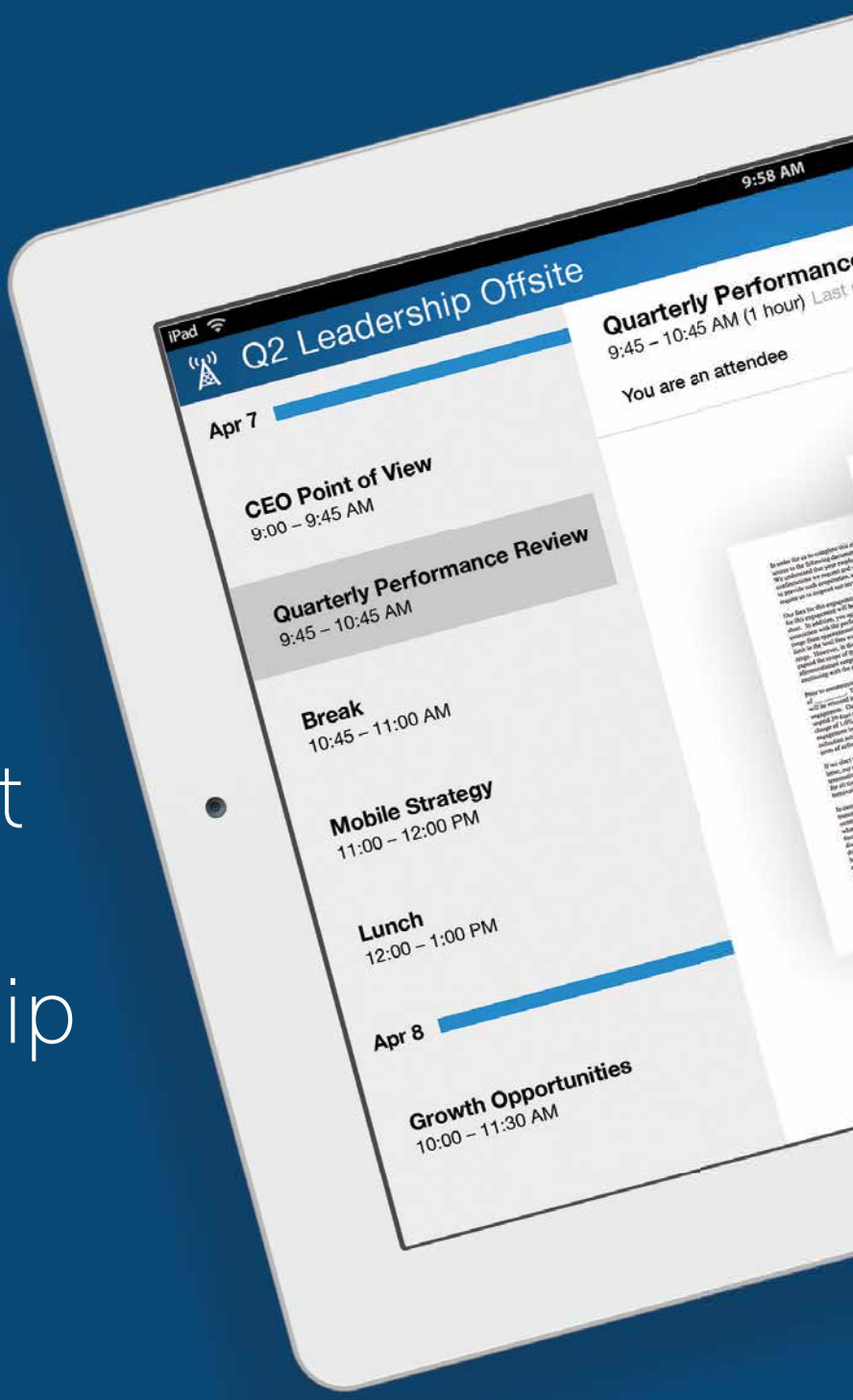
Please go to **www.unicef.org.nz/nepal** to provide a school-in-a-box kit for 40 kids and get them back to school.

unicef
new zealand



# MeetX

## Purpose-built for boards and leadership

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