

Magazine of the Institute of Directors in New Zealand

boardroom

JUNE/JULY 2016

PROTECTING OUR FUTURE

*Dr Jane Cherrington on sustainability
and new models of governance*

**DIVERSITY AND THE
LANGUAGE OF CHANGE**

**THE VALUE OF INTEGRATED
REPORTING**

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A note from the editor

A few key themes wove through speeches at the 2016 IoD Leadership Conference; sustainability and values being two that we explore in this issue of **boardroom**.

Dr Jane Cherrington urges future thinking and for boards to be responsible for the values that their organisations operate under. We know that business is changing the world around us; the challenge is to make this change positive. Cherrington argues that means doing the whole math of business; taking into account more than profits when thinking about what it is that drives an organisation.

Diversity is an ongoing issue for boards. Conference attendees were fortunate to hear from 2016 Australian of the Year, David Morrison on this topic. Morrison shares interesting insights about the language of change and argues that ultimately diversity is about capability.

Sustainability is a key feature of the discussion around integrated reporting. Unlike traditional annual reports, integrated reports go far beyond financials and allow a business to really tell their story. XRB CEO Warren Allen says the movement is gaining traction in New Zealand, but we need to catch up or risk being overtaken by international competitors.

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boardroom Editor



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Chartered Members

Congratulations to all members who have passed the Chartered Member Assessment and met the criteria to become a Chartered Member of the Institute of Directors.

2016

Hans Buwalda (Auckland)

Andrew Bowman (Auckland)

Deion Campbell (Bay of Plenty)

Vanessa Donald (Bay of Plenty)

Jeff Field (Canterbury)

Adam Feeley (Otago Southland)

Agnieszka Grudzinska (Nelson Marlborough)

Susan Hitchiner (Wellington)

Michelle Hollands (Waikato)

Gavin Ion (Waikato)

Shane McMahon (Auckland)

Alison O'Connell (Canterbury)

Matt Phillips (Wellington)

Nigel Pollock (Canterbury)

Vivien Scott (Bay of Plenty)

Alex Skinner (Canterbury)

Aaron Snodgrass (Auckland)

Malcolm Sutherland (Taranaki)

Hamish Walker (Otago Southland)

Roy Weaver (Taranaki)

Glenn Williams (Bay of Plenty)

2015

Paula Baker (Waikato)

Eugene Berryman-Kamp (Bay of Plenty)

Des Brennan (Auckland)

Tim Cosgrove (Wellington)

Stephen Davies Howard (Wellington)

Ash Dixon (Auckland)

Robin Gunston (Wellington)

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Mel Hewitson (Auckland)

Andrew Ivory (Wellington)

Martin Lewington (Wellington)

Simon Lockwood (Waikato)

Kevin McCaffrey (Auckland)

Blake Richardson (Waikato)

Gabrielle Thompson (Canterbury)

Claudia Vidal (Auckland)

Trevor Wairepo (Auckland)



CEO REPORT

Ethical leadership

Ever heard of Julia Bluhm? She was the 14-year-old girl from Maine who successfully petitioned *Seventeen Magazine* to stop airbrushing pictures of its young models in 2012. When the petition reached its height it had 84,000 signatures. This ethical juggernaut spread to impact a range of companies, championed by other inspired young people. Technology enabled Julia to easily and cost effectively coalesce people around her. It's just one example of the power of technology to make change when combined with principled leadership.

American business maven Dov Seidman reflects that the single most profound implication of an increasingly interconnected world is that it has rendered us ethically, if not morally, interdependent. I suspect we are yet to fully absorb that.

At the same time it is becoming so much easier to do business thanks to technology, the risks in linking up with other entities are on the rise. The condition that businesses warrant to each other that they are cyber secure before engaging is exploding. Concurrently, global hackers are becoming more sophisticated. At the government's Cyber Security Summit which I attended on 5 May the announcement of funding for a national Computer emergency response team (CERT) was strongly welcomed.

Whether through technology or otherwise, ethical leaders realise their power isn't over people, but through people. A common set of shared values and commitment to professional standards can be transformative. That's a fundamental part of being an IoD member.

2016 is racing by and I'm proud to be leading a team committed to driving value to members through diverse activities. Our Direct 2016 Leadership Conference was a great success in April and a superb opportunity for members to come together and enjoy some excellent presentations.

Dr Jane Cherrington is the cover story for this issue. Her presentation at the conference about governance and sustainability was a reflection on this critical theme in business today. As I said in my last CEO report, too often short termism privileges the urgent over the important. The board is responsible for the strategic direction of the organisation and that includes charting a sustainable future. Sustainability and long-term thinking are also themes of the integrated reporting movement which is explored in this issue of *boardroom*.

Australian of the Year, David Morrison AO, also spoke at our conference. He appears in this magazine tackling diversity. We know that diversity is not a gender issue alone because gender is just one point of difference. Maori whakapapa, LGBTI, religious and age differences need to become meaningful considerations. Age diversity is a good example. In this issue you'll find profiles of three young directors talking about why they have become directors and joined the IoD.

Our President Michael Stiassny, Sir Stephen Tindall and Des Hunt have championed the Future Directors programme which the IoD administers. Meridian, Spark and Tower have all recently made placements

in 2016. Our own Mentoring for Diversity programme is well underway for 2016 and that's another IoD contribution to our next generation of directors.

Continuing professional development is important for every director no matter what stage of your career. Catering to different sectors is part of our value proposition. The new State Sector Governance course was released in May and complements the Public Company Directorship course.

Our mission statement at the IoD is to raise the standard of governance in New Zealand. The IoD doesn't succeed as an island. One of our great pleasures is working with partners, stakeholders, and government to build networks, extend thought leadership and forge ahead with advocacy. We need to make our voice heard clearly about governance issues in business.

We're supported by some truly valued businesses from different sectors and regions. Our national partners are critical to us, but I also want to acknowledge the businesses behind us in the branches, which so many members personally own and govern. Local sponsors make a real difference to the work IoD does.

Upfront

APPOINTMENTS

The IoD congratulates the following members on these board appointments:

Chartered Fellow Warren Moyes has been reappointed to the NorthTec Council.

Chartered Member Ray Salter, and Dennis Christian have been reappointed to the governance board of Destination Great Lake Taupo.

Chartered Fellow Peter Drummond, Chartered Member Dr Nicola Crauford and Chartered Member Angela Hauk-Willis have been appointed to the Board of the New Zealand Fire Service Commission.

Chartered Member Chris Weir has been appointed to the board of Halifax New Zealand.

Transport Minister Simon Bridges has reappointed Chartered Member Gill Cox, and appointed Chartered Member Fran Wilde as Deputy Chair, and members Leo Loneragan and Chris Ellis to the board of the New Zealand Transport Agency.

Monique Cairns has been appointed to the board of SPCA Auckland.

Kelvan Smith has been appointed to the Greater Christchurch Group of the Department of the Prime Minister and Cabinet.

Daryl Wehner has been appointed chair of the Nelson Marlborough Institute of Technology.

CERT New Zealand

The IoD is pleased by the formation of a New Zealand CERT. Individuals, companies and NGOs face a common threat from cyber criminals and this is a significant historic step in a collective response to that threat, led by the Government. It is critical in ensuring a co-ordinated cyber security response for the country. The CERT is a little like a new civil defence system for cyber security in New Zealand, for individuals, companies and NGOs.

IoD was concerned about SMEs as the backbone of New Zealand business. The CERT proposes a significant education and information programme to provide assurance for SMEs and also a model like the UK system where SMEs can become credentialed through a programme offered by the government. That provides some certainty about the knowledge SMEs need to fight cyber crime.

The US' National Cyber Security Alliance found that 60% of small companies are unable to sustain their business within six months of a cyber crime attack. A high number (70%) of SMEs are reporting concerns to the government.

NEW COURSE:

State Sector Governance

There are significant differences between the governance role in a private company and a state sector organisation. This can be challenging and requires a good understanding of the processes and drivers inside government.

State Sector Governance is a new interactive one-day course that uses real-world scenarios to provide directors with a better understanding of these differences, why they exist, and a range of practical tools as to how to navigate through them.

Register now for courses in Wellington on 16 August and 27 October, and Auckland on 15 November. Further dates will be confirmed soon. For more information contact the Director Development team on 04 499 0076 or email directordevelopment@iod.org.nz.

IoD BY NUMBERS*

7536

members as at
30 April 2016

457

year-to-date new members
as at 30 April 2016

440

attendees at the
2016 IoD Leadership
Conference



Officer of the New Zealand Order of Merit

IoD congratulates our Vice President Liz Coutts on her appointment to the New Zealand Order of Merit for services to governance.

New Zealand Dairy Woman of the Year

Nelson member Rebecca Keoghan was awarded Dairy Women of the Year at the Dairy Women's Network Conference 2016 on 4 May. Award judge Alison Gibb said Keoghan was an extremely motivated, high performer with positive drive and passion who likes to take those around her with her.

Chartered Member Assessment incentive draw

Congratulations to Mamta Sethi, winner of the Chartered Member Assessment incentive draw. Mamta will be refunded the cost of her CMA.

2016 IoD Directors' Fees Survey

The 2016 IoD Directors Fees Survey has now closed and our survey partner, EY, is collating and analysing data. Thanks to all who completed the survey – this year marks the highest rate of member participation.

The Queen's Birthday Honours 2016

The Institute of Directors congratulates the following members who have been appointed to various levels of the New Zealand Order of Merit.

KNZM – Mr Christopher Robert **MACE**, CNZM, of Auckland. For services to science and education.

KNZM – Mr Robert George Mappin **FENWICK**, CNZM, KStJ, of Auckland. For services to conservation and business.

CNZM – Ms Janice Amelia **DAWSON**, of Auckland. For services to governance.

CNZM – Dr Dianne Christine **MCCARTHY**, ONZM, of Blenheim. For services to science, business and women.

ONZM – Ms Franceska **BANGA**, of Auckland. For services to business and the community.

ONZM – Mr Stewart Arthur **BARNETT**, of Christchurch. For services to agriculture and business.

ONZM – Mr David Winston Aitken **BENNETT**, of Whanganui. For services to business and the community.

ONZM – Ms Elizabeth Mary **COUTTS**, of Auckland. For services to governance.

ONZM – Ms Prudence Shirley **ETCHEVERRY**, of Auckland. For services to people with leukaemia and blood cancer.

ONZM – Ms Danielle Pikihiua **HARRIS**, of Palmerston North. For services to Māori and health.

ONZM – Mr Christopher Morton **KELLY**, of Wellington. For services to agriculture.

ONZM – Mr Philip John **O'REILLY**, of Wellington. For services to business and governance.

ONZM – Mr William John **PERHAM**, of Carterton. For services to philanthropy and the community.

ONZM – Mr Gavin Ronald **WALKER**, of Auckland. For services to the State and business.

MNZM – Ms Sandra **ALOFIVAE**, of Auckland. For services to the Pacific community and youth.

MNZM – Dianne Janet **KIDD** – of Auckland. For services to conservation.

MNZM – Mr Andrew Graeme **LOWE**, of Havelock North. For services to conservation.

QSO – Mr Neil Douglas **BONIFACE**, JP, of Invercargill. For services to local government and the community.

QSO – Ms Phillippa Catherine **SMITH**, of Wellington. For services to the state.

QSO – Ms Adrienne Fay **VON TUNZELMANN**, of Tauranga. For services to governance and the community.

QSM – Mr Robin **BROCKIE**, of New Plymouth. For services to the community.

QSM – Mrs Selma Theresa **SCOTT**, of Christchurch. For services to the Pacific community.

KNZM – Knights Companion of the NZ Order of Merit
CNZM – Companions of the NZ Order of Merit
ONZM – Officer of the NZ Order of Merit

MNZM – Member of the NZ Order of Merit
QSO – The Queen's Service Order
QSM – The Queen's Service Medal

For further information visit www.honours.govt.nz

DIVERSITY AND THE LANGUAGE OF CHANGE



Diversity is an issue that continues to play on the minds of business leaders in New Zealand and internationally. Research tells us that there is a positive relationship between diversity on boards and bottom-line financial performance. In the 2015 IoD NZIER Directors Sentiment Survey 60% of boards agree diversity is a key consideration.

In New Zealand, change in the diversity space is slow. Looking at women's representation in particular, in 2012 the Human Rights Commission predicted New Zealand would not achieve balanced boards until 2046. IoD CEO Simon Arcus says good things take time, but that shouldn't stop us being impatient about outcomes in diversity.

Lieutenant General David Morrison AO is the 2016 Australian of the Year and new Chair of the Australian Diversity Council. IoD Leadership Conference attendees said the former Chief of the Australian Army left a lasting impression when he spoke about changing the culture of an organisation to address issues of diversity.

THE STORIES WE TELL OURSELVES ABOUT OURSELVES

Talking about his role as Chief, Morrison told the conference he thought he would be dealing with big problems around operational service, budgets, force structure and the mental and physical wellbeing of the 45,000 soldiers of the Australian Army. He was prepared for those.

“What I didn’t see coming and what I have subsequently been most clearly identified with, certainly in the minds of the Australian population, is coming to the heart of issues around army culture.”

Morrison explains culture as “the stories we tell ourselves, about ourselves.”

The army was coming under fire in the media due to an incident at the Australian Defence Force Academy (ADFA). The incident involved a group of male ADFA cadets; two were subsequently charged by police and the young woman involved publicly spoke out about the long-lasting, damaging impact the incident had on her.

“I was of the view coming into the job that what had happened at ADFA was much more reflective of the actions, upbringing, education, and environment that those men had experienced to that point in their lives than it said anything about an institution like the Australian Army,” Morrison says.

In early 2011, Morrison received a visit in his Canberra office from Elizabeth Broderick. Broderick had been appointed to review the treatment of women inside the Australian Defence Force as a consequence of the ADFA incident. Morrison assumed that this would be the focus of the conversation. Instead, Broderick hit Morrison with a question he said changed the way he viewed his legacy to the army.

“Liz said to me, ‘why is it that for over 100 years in your organisation, the one that you have now carriage of, there has been less than 10% of your workforce made up of women?’”

Morrison describes the answer he gave as both ‘the biggest mistake of my life’ and one that opened a door he never thought would be opened to him.

“Why is it that for over 100 years in your organisation, the one that you have now carriage of, there has been less than 10% of your workforce made up of women?”

“My answer was ‘that’s just the way it is’. It was a stupid answer. But it was one that would probably have been given, I think, by more men than not. It’s just the way it is.”

Suffice to say that answer wasn’t sufficient for Broderick, who left Morrison a pile of reading and encouraged him to think about setting participation rate targets for women in the army. Morrison later announced the army would aim to increase the percentage of women in the force by 2% during the two years that he had left as Chief.

LEADING WITH THE HEAD AND THE HEART

Morrison met with three women who had been part of the review into the treatment of women inside the Australian Defence Force. “During my long career I’ve had to deal with difficult personnel issues. In what I’ve described as the most distressing day in my career, and believe me I’ve had a lot of distressing days, I listened to three women sequentially over six hours tell me how they had been stripped of their dignity and self-respect and denied the chance to reach their potential in a way that I had never, ever been denied.

“One of the women was accompanied by her mother. During the course of an exceptionally emotional exchange, her mother broke across the conversation and said to me, looking at me in the eye, I gave you my daughter and this is what you have done to her.

“In a ‘Saul on the road to Damascus’ moment in my personal life, I chose to see that use of the pronoun you not in the plural or collective sense, but in the singular. And what she had said to me was I gave you, David Morrison, my daughter and this is what you, David Morrison, have done to her. And I agree. And I will go to my grave agreeing. While I didn’t know her, I had carriage of the organisation she had joined wanting to put service before self for the best of reasons and we had done this to her.”



"I have stated categorically many times that the army has to be an inclusive organisation in which every soldier, man and woman, is able to reach their full potential and is encouraged to do so.

"Those who think that it is ok to behave in a way that demeans or exploits their colleagues have no place in this army.

"On all operations female officers and soldiers have proven themselves worthy of the best traditions of the Australian Army.

"They are vital for us maintaining our capability now and into the future. If that does not suit you – then get out.

"Every one of us is responsible to culture and reputation of our army and the environment in which we work.

I will be ruthless in ridding the army of people who cannot live up to its values."

Morrison explains that while his YouTube speech (see side-bar) was about the army "the anger, the frustration, the despair; that came from the heart, because I absolutely knew that the army needed to change.

"You have to lead with heart, you have to be convincing, you have to be absolutely, tangibly, publicly committed to change or it won't happen."

Making change happen is difficult, Morrison acknowledges. He was faced with two realisations; the first that "people do not do things for your reasons; they only do them for theirs. Unless you can find the convincing logic in your arguments and in your language, you will not move the dial one iota."

He says this applies to any leader in any business.

Quoting Niccolo Machiavelli Morrison also recognises 'there is no more delicate matter to take in hand, nor more doubtful in its success, than to set up as the leader in the introduction of changes; for he who innovates will have for his enemies all those who are well off under the existing order of things.'

"You just have to ask yourself what is the existing order of things? Morrison says.

CHANGE AND CAPABILITY

"Language of change has to be about capability. More diverse, inclusive workforces are more capable workforces. It's a proven fact here, in Australia, around the world. In a corporate sense, in a board sense, it improves the corporate bottom line. For the military it improves our performance. How do you outthink an adversary in a military sense unless you

have the most creative teams thinking out the problem, finding the solutions?"

Change did come to the Australian Army. At the end of Morrison's tenure the 2% target had been achieved.

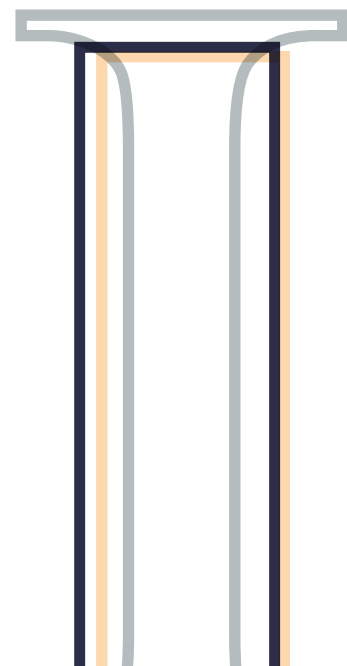
"We exceeded it," Morrison is proud to say. "The Australian Army recruited and retained over 700 women in two years, despite some very significant reputational crisis. Why? Because we started to change the stories we're telling ourselves about ourselves."

"Inclusivity is about giving people a chance to reach their potential; because when they reach their potential the organisation does as well."

Morrison recognises the complexity involved in this type of change, and notes that it wasn't just about changing the language used, but looking at how merit was assessed. Morrison says that often women leave a workforce to have children or, "to climb a mountain or to complete any other kind of non-workforce related achievement, but when they return they don't maintain the seniority they had before."

Changes were made around ensuring that women's achievements were celebrated in exactly the same way as those of men and looking at the requirements around promotion.

"You have to celebrate victories, and you have to hold to account those people I call Machiavelli's middle who think that they are the custodians of an institution or an organisation," Morrison explains.





“You don’t want women who lead like men; you want women to lead like women and think like women, to contribute like women because that’s how you get diversity. You don’t want a man or woman of Muslim faith providing a Judeo-Christian view of the world – we want diversity of thinking. We just need to change our criteria around how do you measure merit for leadership positions.

“Without doubt women are not given the same opportunities as men – we need to change that paradigm. We need to change it for altruistic reasons, but my message really is to be more efficient, effective, capable and productive as a society means giving people – irrespective of their gender, racial background, sexual orientation – opportunities, real opportunities.”

In the end it is about remaining relevant, and leaving an organisation in a better state than it was when you found it. For Morrison it is about legacy – what are you leaving behind?

“Leaders are charged, irrespective of the organisation they lead, with the long-term health of the organisation. My biggest legacy was leaving a robust and relevant army for the third decade of this century. I’m absolutely certain that we would not get there if we continued to make the abject use of the talent resident in 51% of the population.”

Over his time as Chief, Morrison came to understand very clearly that diversity for diversity’s sake is nothing more than a box ticking exercise. Diversity is about inclusivity; giving people a chance to reach their potential. Because, when they reach their potential the organisation does as well.

“You don’t want women who lead like men; you want women who lead and think like women.”

“Our corporate institutions, our not-for-profit entities, organisations like the Army, need to look at their culture, look at the stories we tell ourselves about ourselves and make absolutely sure that they are the stories that keep us relevant in our marketplace.

“I’m now absolutely certain in these challenging times that we live in that we all have the opportunity, but more importantly the responsibility to leave a legacy to our sons, and especially our daughters in terms of living their lives in safety, but in a professional sense being able to reach their potential.

“When the daughters of Australia and New Zealand reach their potential and are given a much fairer and truer opportunity to do so, New Zealand and Australia will shine even brighter.”



WHAT YOU MUST KNOW ABOUT CYBER CRIME



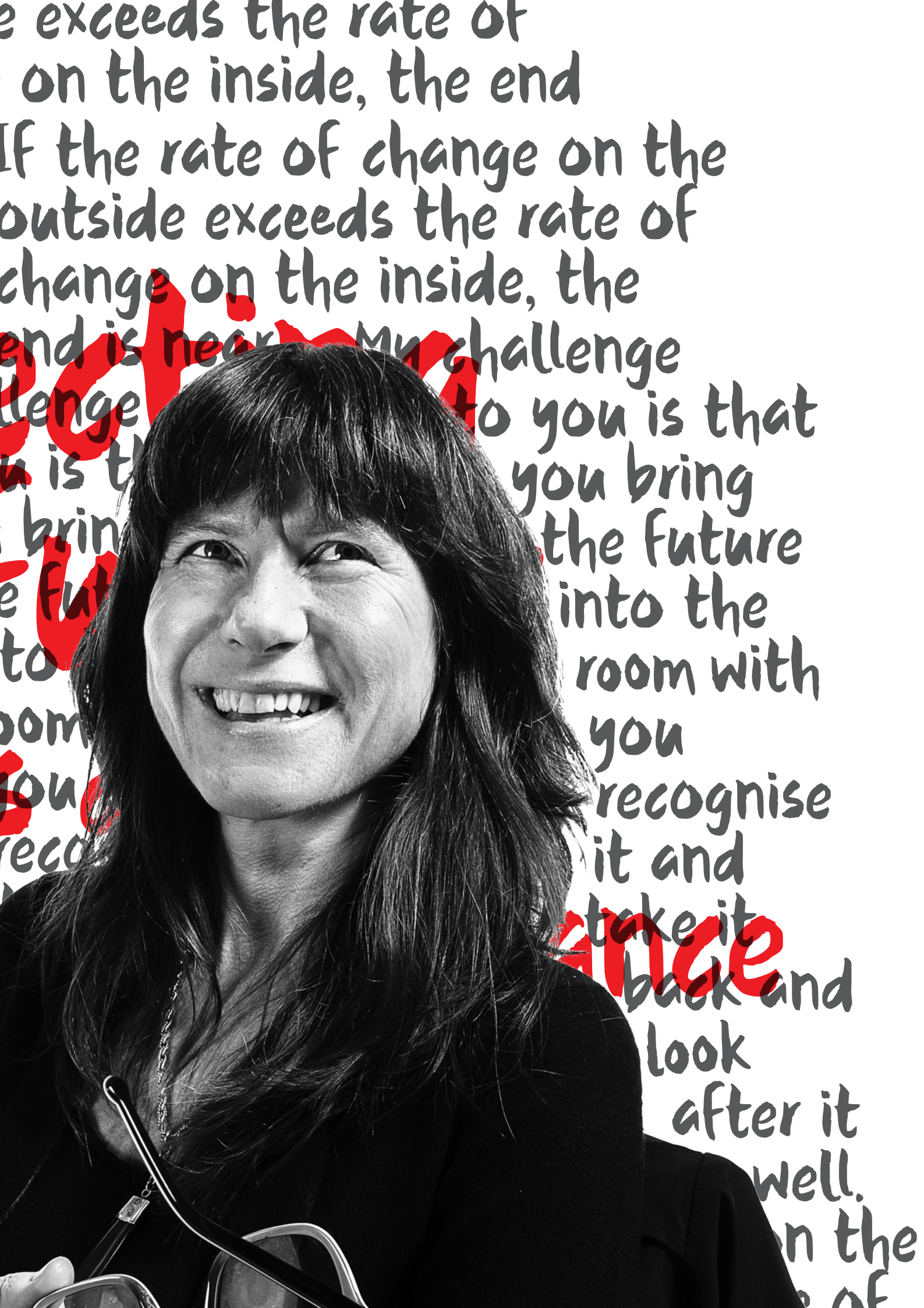
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outside exceeds the rate of
change on the inside, the
end is near. My challenge
to you is that
you bring
the future
into the
room with
you
recognise
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take it
back and
look
after it
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of

Protecting our future: a values driven model of governance

As a board, what drives your business? Do you know the values? Importantly, how are these values made live?

Dr Jane Cherrington argues that unless those values are live, dominant drivers will take over.

“Ultimately we can all look fantastic on paper but making it live is the point – how is it being enacted through all of the layers of the organisation?”

Cherrington’s research is focused on asking questions about governance models, specifically:

Why do so many companies fail even when they have experienced directors on their boards?

Are there fundamental problems with existing approaches?

What do the converging forces of new technologies, increasing environmental pressures and changing stakeholder communities mean for our conventional models?

Speaking at the 2016 IoD Leadership Conference, Cherrington muses that Enron

had its values chiselled into the marble floor of its lobby. She argues that declaration didn’t stop the actions of those who drove the business into the ground chasing money at the expense of the values of ‘integrity, communication, respect and excellence’.

“The bottom line is all of the people who were in governance positions in failed organisations didn’t go to do a bad job, like the rest of us they planned on doing their best. So what got in the way?” Cherrington asks.

“It’s the humanness of us that gets in the way and it’s both the key to sustainable and effective governance and also it’s the problem if we don’t have it switched on in the right way.

“Ultimately a business is not an entity in its own right. It’s people, going about doing stuff. It’s a social system; we have

to understand how to manage the social system in order to manage what can be done by people when they don’t have the framework in place to help them be effective.”

A principles-based framework of governance is something that is “alarmingly absent” from most boardrooms, Cherrington says.

The type of framework referred to involves three interlocking pieces that have emerged from research into what it takes to be effective in governance. These are:

- capability (skills, processes, frameworks)
- paradigm (the cultural logic that structures governance)
- connectivity (how connected is a board to what is going on underneath them)

“This has become one of the benchmarks for effective governance and it’s amazing how

many boards don't have any framework to describe the principles they are working to as a board.

"When you push past this and into what the invisible but invoked element is, it is about values.

"Ask yourself a question – what are the values of the organisations that you govern and what are the mechanisms by which those values are made live in an organisational context?"

THE 'FUDGE FACTOR' AND THE PURSUIT OF PROFIT

Without a principles-based framework, research suggests that people will revert to behaving in a way that supports the dominant driver of an organisation. In a contemporary corporate environment, Cherrington argues, the dominant driver has become the pursuit of profit.

Cherrington refers to research by Duke University psychology professor Dan Ariely. Ariely and his team studied dishonesty as a way of understanding what happened at Enron, and how a similar incident might be prevented. They found that people have a personal 'fudge factor' – when given the opportunity to cheat, most people will. In fact, about 50% of people will cheat a little bit – not a lot, but a little bit.

How do you address that human problem of the personal 'fudge factor', and who is responsible for this?

"The dilemmas around what it means to be human and making moral decisions and judgments requires a moral compass to be in operation to be effective and to guide the sorts of choices, behaviours and actions that happen in an organisational context. At the end of the day you can have as many policies as you like in place but people will find ways around policies," Cherrington says.

"You need to have a values framework that decides for people the type of choices they

"You need to have a values framework that decides for people the type of choices they make. That framework's responsibility sits firmly with the board."

make. That framework's responsibility sits firmly with the board.

"Think about the timeframe for tenure of the average chief executive – on listed companies it has now dropped below five years. The average tenure for somebody like head of marketing, who's in charge of the brand, has dropped below three years. These are not people who are taking a long-term view of the sustainability of the company or interrogating its moral framework; they're pursuing goals that have been set for them in quite short time horizons."

DOING THE 'WHOLE MATH' OF BUSINESS

This responsibility sits alongside a radical change that needs to be made to governance frameworks Cherrington argues. The world has changed from the place it was when governance models were first being discussed.

"The people who were thinking about these things 100 years ago were dealing with things like scale and growth and how to manage exciting new technologies and their impacts – technologies like petrochemicals, pesticides, chemical use in manufacturing – all of these technologies were exciting at the time and they didn't really understand their impact."

The scale has changed. Cherrington notes that between the time of first preparing her research and presenting it, the world population had increased by about 100 million to reach 7.4 billion – four times larger than 100 years ago.

Cherrington draws back to her earlier comment about the pursuit of profit, noting that in the 1960s shareholder profits became more important in the boardroom as a result of things like increased competition in the global marketplace.

"If you're starting to focus on profitability as the primary objective of the organisation the unintentional outcomes can be much greater cost to the organisation and to the environment."

PUTTING SUSTAINABILITY ON THE AGENDA

90% of the world's goods are still shipped – at any one time there are 100,000 ships at sea. The biggest 15 of those ships produce more pollution than all of the world's cars.

"That's not something you take account of when you think about shipping your goods around the world in the boardroom at the moment, and yet it's something that we need to start to think about because those are the things that are having a really fascinating impact on things like global climate."

In a local sense, Cherrington cites the "extraordinary situation" New Zealand finds itself in having one of the most polluted rivers in the Western world.

"It's our job now to start thinking about that, because we now know that we are altering Earth's life support system.

"The biggest alteration on that support system is business with a capital B. That makes us also the greatest

“If you’re starting to focus on profitability as the primary objective of the organisation the unintentional outcomes can be much greater cost to the organisation and to the environment.”

opportunity going forward, because we collectively have the opportunity to make a difference.

“If we are going to do the maths of business, we need to do the whole footprint maths of business.

“A more holistic framework for accounting is to think about cost in terms of the genuine cost of all of the resources and the things that are impacted in order to produce what we do, and the impact we have in terms of what we consume.”

CONNECTING THE PUZZLE PIECES

Cherrington is not alone in calling for more holistic views of business costs. The integrated reporting movement also urges thinking about the broader value a business holds, taking into consideration factors other than just financial output.

“This is an opportunity to front-foot it and actually take some leadership in this

situation and to get it on to the agenda. At the very least go back and have some conversations about the whole footprint of the businesses that you are involved in.”

Alongside the capability piece looking at frameworks and values, and the paradigm shift that needs to happen to change the rules of governance to respond to the changing world, Cherrington says thought also needs to turn to connectivity to the business.

Cherrington highlights three different areas that research identifies as “pretty important places to focus.”

Firstly, a strategy is required to ensure that those values around long-term sustainability are being enacted. Cherrington is aghast at the number of organisations she works with who suggest that their strategy is a financial target.

“Those things are not strategies. Strategy is a plan of how you’re going to get there. The role of the board is set and to approve strategy and they need to understand ‘what the strategy is that will keep us heading sustainably into the future’, and ensure that it’s being successfully enacted.”

How information is reported is equally important she says.

“People will manage information that gets to you. You will not often be seeing the truth because we like to be seen to be doing well. We do not live in a culture yet where we value the ‘what’s not working and what can we learn from that?’ That type of information flow into your boardrooms is incredibly important.”

Cherrington suggests leveraging technology in smart ways to improve the way boards are informed about what is happening in an organisation.

“Put information into the hands of the people who can do something with it,” she says. A simple example of this being

customer satisfaction surveys that are still being put in front of the board when that data could be much better served in the hands of frontline staff using it as a tool for improvement.

The third area for consideration is the business operating model. Cherrington says that the old model of top-down, hierarchical decision making into silos within an organisation is no longer effective. In an age of disruption and boards being told that organisations need to be agile and adopt a culture where ‘learning to fail fast’ is accepted the operating model needs to support that type of activity. Newer models exist and boards should explore these.

THE CHALLENGE

Cherrington quotes Jack Welch:

If the rate of change on the outside exceeds the rate of change on the inside, the end is near.

“If we are not looking beyond that boundary to somewhere that is ten, twenty, a hundred years out and thinking about sustainability then we are going to get caught up in traps that will potentially cause the failure of organisations,” Cherrington says.

“My challenge to you is that you bring the future into the room with you – recognise it and take it back and look after it well.”



Looking towards the horizon

In this final part of our three part series speaking to directors at different points in their career, boardroom sat down with experienced director Ian Fitzgerald to discuss the importance of staying curious and preparing for what might be coming next.

“Wisdom comes not through age, but through education and learning”, says Ian Fitzgerald, quoting Anton Chekov.

A Chartered Fellow of the Institute of Directors, Fitzgerald describes his governance portfolio as ‘eclectic’ – from roles on the University of Waikato Council, Timaru District Holdings, government change project governance, work with Ngati Apa Ki Te Ra To iwi and two Niue-based positions.

“I enjoy the opportunity to work across a range of sectors. There hasn’t been a structured plan as to portfolio, the directorships I’ve got are all interesting,

and they’re all quite varied. The governance principals apply consistently across those sectors but its dealing in different environments with different groups of people.”

Currently a chair and board member on eight boards, Fitzgerald relishes the challenges he faces in each role. “It’s about making a difference,” he says. “For me it’s interesting and if you want to do it you want to do it well. That’s where the ability to learn and develop is important.

“I was really lucky early on being a foundation director of Kiwi Bank – we went from a start-up to a large bank. It was a

great learning experience; I had a great chair in Jim Bolger and an opportunity to learn about governance in a structured way over ten years.

“One of the best things I did early on was to be on a school board of trustees. Parents don’t hesitate to ask the hard questions so it’s quite a tricky environment. I think in terms of dealing with people issues it’s a great grounding.”

Fifteen years on from his first steps into governance, Fitzgerald still believes it is important to focus on learning and that a good director needs to remain curious and ask questions about the world around them.

"The management are dealing with the day to day; you've got to be future-focused. It's that question of what's coming next."

"What makes good governance is an openness and curiosity for new ideas – for me it's how do you manage that, how do you respond?"

"It's listening openly and with respect to your colleagues and saying 'why do they have a different view', rather than 'they're wrong'."

"As directors you have to be saying 'the world we are in is fundamentally changing, so how do you keep ahead of the curve'. You're looking out towards the horizon."

Fitzgerald says he values conversations that broaden his view of the world – whether they are with a similarly experienced senior director or someone seeking advice.

"I was fortunate to be mentored by quite a senior director who took the time probably over the last twenty years to spend time with me – I was actually privileged with that."

"I talk to a lot of up and coming directors. When you meet someone you always come away with something – I enjoy that opportunity to listen and get a different perspective. It gives you an idea of what some of the other issues are out there."

Fitzgerald's background is grounded in finance, economics and strategic planning – though he is careful to note that continuing to develop those core skills is important, no matter how experienced you might be.

"If I go back ten years ago, there was a question around senior directors struggling with the idea of learning because somehow they have no more to learn."

"As directors, we're dealing with quite complex issues. As part of that you've got to bring with you your core skills which you continually practice and refresh."

Over recent years he has developed a strong digital focus, with three governance roles in implementation of major technology projects. That digital focus is something he thinks every director needs now.

"I believe we're on the cusp of a period of quite profound and rapid change – in every sector I'm involved in digital disruption is fundamentally changing the game. You don't want to become a digital victim you want to become a digital leader. You've got to keep asking 'what's happening in the world?'"

Fitzgerald suggests that a number of things are involved in learning about these types of fundamental changes: personal reading, tapping into your networks to explore other perspectives on the topic, and using resources and courses available on the subject – such as the IoD's 'Leading in a Digital Era' course.

"Part of the attraction of attending the Leading in a Digital Era workshop was the ability to take some time out in a structured environment, with some structured questions and be challenged."

"As directors we get inundated with all of this information and you need a way to sift through it. What those more formal courses bring is a bit of a framework for how to think about things, and that's useful."

Those complex, tricky issues that boards deal with are "the fun ones", says Fitzgerald.

"When governance goes well it's pretty satisfying. Sometimes you sit on the board and it's going well year after year and you think 'this is cruising', but when you need to step in it really matters. And that's quite a powerful and satisfying thing to do."

All of the learning and development prepares a director for those moments, and for those who make the move to the role of chair.

"The big difference in becoming chair is that you move from being a participant in the conversation to having to manage the group dynamics. One of my former chairs said to me 'you're there to coordinate the discussion; you're not there to participate'."

"I've been blessed to work with a number of good chairs and there's no one style. They've always got the highest integrity – they play it straight, don't play games. They create a safe and trusted environment."



Ian Fitzgerald

A good chair is focusing on the future, not the past. They've also got that judgment; a good chair knows when to leave the CEO alone and when to step in."

Fitzgerald attended the Chairing the Board course in 2012, after having served for several years as a chair. The course covers aspects such as the legal responsibilities of the chair and managing a board.

"You've got to understand governance. You've got to know how to run a meeting and have to have those broad housekeeping skills because you can't run a board being distracted by procedural matters. If you want to be a good chair you have to have that toolkit of information well-rehearsed."

"You've got to be present – what's happening in this conversation, who's participating, who's dominating, who's not being drawn out, are we being captured by management?"

Knowing when to break the tension is equally important.

"A bit of humour and self-deprecation is a powerful tool to ease the group," Fitzgerald notes.

Talking about his future aspirations, Fitzgerald reflects that he spent fifteen years as an employee, another fifteen as an employer and intends to spend around fifteen as a director. He enjoys his portfolio and is committed to making a difference.

"I've made a deliberate decision to be a professional director. I've got a deliberately diverse portfolio. That's the nice thing, getting to the stage where you can choose what you do."

"Life's boring if you're not learning!"



Managing reputational risks

*Warren Buffet once said "It takes 20 years to
build a reputation and five minutes to ruin it."*



Denise Moller

In today's world, news travels fast, so it is imperative to have plans in place to help manage a crisis and keep your personal and corporate reputation intact.

This is clearly an issue that directors are concerned about. In the Marsh / IoD Directors' Risk Survey report released in January 2016, the number one external risk issue for organisations was reputational risk.

30% of respondents said that their organisation did not have a plan in place to manage reputational risk. This should be concerning given, as Buffet said, a reputation can be damaged in a very short period of time.

Any issue causing reputational risk towards you or your organisation can become public quite rapidly, so you don't have the luxury of time. You need to act calmly and quickly.

BUILDING A PLAN

One of the key things that you can do to reduce reputational damage, is to plan what you would do before it happens.

During my career I have dealt with various crises including natural disasters, the deaths of colleagues and employee misconduct. As with most crises none of these were expected to happen. Having plans in place however made dealing with these events a lot easier and thus they were managed more effectively.

In dealing with one crisis situation, I had the media on the phone within 30 minutes of having had a briefing with the CEO. Fortunately we had implemented our crisis plan quickly and prepared key messages to give to journalists. We had agreed that our spokesperson on this matter would be the CEO and how he would front the issue. This involved anticipating the key questions that we would be asked and having the required response and relevant information ready.

We were also quick to send out a communication to colleagues, which included a reminder about our media policy and where to channel any media enquiries to.

TIPS TO START

Identifying some of the potential issues your organisation could face is the first step. For example, if you are in manufacturing it could be a product recall or environmental incident. If your business is in professional services think about people risks, data breaches or a disgruntled client expressing their views.

Once you have identified the potential risks you need to develop a communications strategy. This is critical and includes how you manage messaging to internal and external parties ie key stakeholders and what channels are best to communicate with them. You need to address how to handle the media and identify who is trained to do so. Picking the wrong person and not being prepared will make the situation worse.

When a crisis hits you need to have a pre-identified team of people who can come together and manage all of the various elements of a crisis and make decisions on what actions need to be taken. Some of the key areas in your business to think about in this regard may include senior leadership, communications, operations, HR and legal. Whilst not all of these functions may be required on an ongoing basis during the crisis, it does enable each function to identify any issues at the outset and flag anything that needs to be addressed.

WHAT IS THE BOARD'S ROLE IN ALL OF THIS?

The board's role is to ensure that management has done the above. They also bear the responsibility for developing their own crisis management procedures.

For example, what if the CEO is the source of the crisis? A situation such as this requires detailed planning about the specific role of board leaders and individual directors, a clear understanding of who is authorised to speak publicly on the board's behalf and under what circumstances.

Everyone needs to be clear about how the board will be organised during a crisis, which members have particular expertise that might be of use and who will take the lead in dealing with management.

DON'T LEAVE IT TO CHANCE

In essence, crisis and reputation management is not an option – it's an imperative that should be at the heart of good corporate governance. A comprehensive crisis and reputational management plan can help protect the organisation and the credibility of its management and board.

A crisis can be a defining moment. The way a company manages an adverse event can either severely threaten or greatly enhance its operations, financial performance, brand, investor confidence and customer loyalty. Alternatively, the loss of confidence by stakeholders can lead to a decline for any organisation, regardless of its size, stature or 20 year history. After all, it can only take five minutes to ruin it...



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Warren Allen



Liz Coutts

Integrated Reporting:

Helping businesses to tell their story

“It’s a no-brainer if you stop and think about it – why wouldn’t you tell your story! This is what it’s all about; you can explain your business model and strategies,” says Warren Allen.

Allen is the Chief Executive of the External Reporting Board (XRB), and previously represented the international accountancy profession on the International Integrated Reporting Council (IIRC). The XRB brought IIRC Chief Executive Paul Druckman to New Zealand earlier in the year to raise more awareness about Integrated Reporting (IR), a movement that is gaining increasing momentum overseas.

“Paul had a great saying when he was here. He said ‘the current external reporting is all about hindsight and oversight, integrated reporting is about insight and foresight’ and I thought that summed it up very nicely,” says Allen.

Integrated reporting is the means of telling the story of the long-term, sustainable value of an organisation, focusing on key strategic, social, governance and environmental risks.

Speaking to IoD's Governance Leadership Centre (GLC) last year, Jane Diplock commented that "integrated reporting enables the board to think about and explain its business purpose including profit. It provides a better way to value intangible assets such as human and social capital, intellectual property, good-will and reputation."

"Understanding how your business model adds value is simply good governance."

The IIRC's 'International <IR> Framework' can be used by businesses to guide how they talk about the value their business creates.

Tomorrow's Business Success is a guide to IR, developed by the Chartered Institute of Management Accountants and Tomorrow's Company in association with the IIRC. In the foreword the chief executives of the three organisations explain that:

Although the goal of a company is to create and sustain value in the short, medium and long term, there is an incessant focus on the short term.

This focus on the short term is part of what IR aims to address, says Allen. He also notes the change in understanding in what it means to be sustainable.

"For years and years we thought sustainability was about an increasing bottom line; that those companies with the increasing profit were the ones that were going to survive," Allen says.

"The research is very clear now that just because you have an increasing bottom line doesn't mean that you've got a sustainable business model. This is what investors, whether they are providing equity capital or debt capital, want to know. What are your strategies – what are you doing to ensure you're going to be around in ten years time?"

"It's not just integrated reporting, its integrated thinking and how you run your business," Allen explains. "The reporting follows from that."

A COMPETITIVE ADVANTAGE

Both Diplock and Allen voice the concern that New Zealand is behind in this space putting us at a competitive disadvantage.

Diplock says that the recent TPP agreement means New Zealand will be on the radar for foreign investors who see this country as a good place to do business and we need a reporting system that supports that.

The IoD says greater transparency is needed to meet the demands of consumers and shareholders. Good governance requires reporting that is open, meaningful and beyond tick-box compliance.

"Global trends and investor demands both globally and locally are compelling reasons why New Zealand directors need to get on board with integrated reporting – to ensure that investors invest in your company and your competitors don't leave you in their wake," Diplock says.

Allen recognises there is a fear in New Zealand that additional reporting means revealing information to competitors, but thinks that argument is outdated.

"I hear that a lot more in New Zealand than overseas. It just doesn't hold water. In this information age if you think that your competitors don't already know a lot about you, you're pretty naïve. I think directors would be blown away by how much information about their business is already out there."

Far from being a source of secrets for competitors, research shows those organisations that undertake an IR approach have a competitive advantage.

Paul Druckman cites research from Harvard Business School which indicates that 'businesses that are on the journey towards IR, and are starting to efficiently communicate with investors about how they make value over time, are attracting more stable investment'.

Research from Singapore's Nanyang Business School also suggests that IR has a positive impact on a business' market valuation.

Allen urges directors to take the evidence into consideration.

"Directors will wake up one morning and think our competitors are doing this, they've got an advantage."

"I don't want New Zealand to fall behind. It just makes sense – it's a business imperative."

GOLD STANDARD OF REPORTING IN NEW ZEALAND

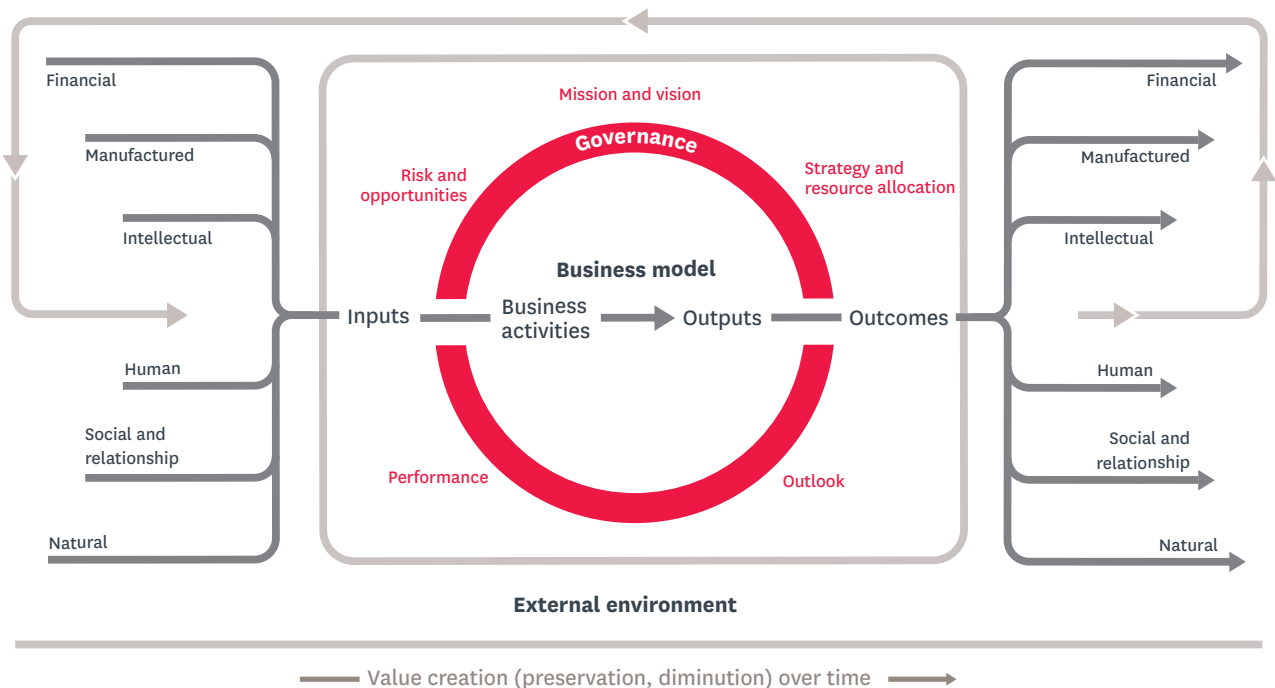
One New Zealand business that has taken an integrated approach to reporting is Sanford. IoD Vice President and a Sanford director, Liz Coutts, recently led a discussion panel at the IoD Leadership Conference on IR.

Sanford's vision is to become the best seafood company in the world, and says that means operating with integrity and transparency. It places sustainability at the core of everything it does.

"The integrated reporting framework allows us to illustrate how we make sustainable financial returns for our shareholders, while managing and protecting our value enablers," Coutts says.



Peter Griffiths, Chair of Z Energy

THE INTERNATIONAL (IR) FRAMEWORK

Speaking to the attendees, Coutts explained that IR helps Sanford to tell their story, and while it has been a challenging journey – it’s worth it.

Allen says that Sanford’s report is an excellent example of IR in action.

“While Paul [Druckman] was flying in I sent him Sanford’s integrated report. He was very impressed. He sent it around his networks with the by-line have you ever seen a better integrated report. Here we are in New Zealand – we have sort of a gold standard example here.”

Chair of Z Energy, Peter Griffiths, also sat on the panel and spoke about why integrated reporting is important when you look at the purpose of their annual report:

“Quite frankly we’re doing it to obtain competitive advantage over our immediate competitors. If you think about the industry we come from, we come from a reasonably difficult position to hold a conversation with a wide range of stakeholders. The industry is not highly trusted, not considered to be transparent, information is opaque, so from the very beginning of Z we decided we’re going to make those issues points of difference for us, stand up in a different way and hold a different conversation with the wider group.

“Annual reporting is something we’re very excited about. It supports our values. It’s the full stop at the end of every accounting period where you can check in, this is what we said we would do, and this is what has happened.”

WHAT HAPPENS NEXT?

“I think really it gets pushed from the top – chief executives and boards of directors really need to push this and I don’t think enough push is coming,” Allen says.

One thing we shouldn’t be doing is waiting for Australia to take on IR before we do. Allen believes that case law in Australia has left directors wary of putting out information about the future, but notes that no such constraints exist in New Zealand.

Allen also hopes to see businesses implementing IR before it gets to a point where regulators step in.

“I suppose many feel that will be the death-nail if it becomes part of the regulators requirements. That’s sort of the problem that integrated reporting is trying to fix – external reports have become so regulated, so legalistic, so straightjacketed that companies can’t tell their stories.

“I think many of the proponents of integrated reporting will fight to keep it

away from regulations and standards – that’s why you currently have a framework that companies work within.

“I think too many people in New Zealand see this as a compliance issue ‘just another thing we need to comply with’ where they should be looking at it as a business imperative. This is the way you should be running your business today, not something that a regulator says that you have to comply with.

“The beauty with this is you can do whatever is best for your entity. Unlike the accounting standards which are really quite a strict framework, integrated reporting says well you do what’s best for your business.

“Directors should be excited about this! They should be saying ‘at long last we can bring our own flair to bear here’”.

FURTHER READING:

- ‘Salt In Our Veins’ Sanford Annual Report 2015
- The International <IR> Framework
- Tomorrow’s Business Success: Using Integrated Reporting to help create value and effectively tell the full story



Stronger sustainability reporting likely from NZX review

Expect a step up in corporate risk disclosure, including environmental and social governance (ESG), as a result of the current review of the NZX Code.

We base this on a representative cross-section of the 45 submissions which the NZX received and has now published on its website. The question mark is over how hard the NZX decides to promote change – whether a gentle push or a shove.

The NZX admits in its discussion document, released in November last year, that the lack of specific reference to risk management in the Code is “a significant gap in the current reporting regime”.

That there is room for improvement is widely acknowledged. An NZ Super Fund “snapshot” of the quality of ESG reporting among NZX50 issuers showed “only a handful of very good reporters across their material ESG issues”. And an assessment by the Institute of Directors (IoD) of the NZX Top 20 found that, while 65% were reporting on ESG to some extent, the information provided was “highly variable”.

The NZX has asked:

- should it promote reporting on whether companies have appropriate risk management strategies in place
- should this include ESG risks, and
- should there be specific recommendations or commentary on health and safety (H&S) risks.

To plot the range of opinion on these – and other of the more controversial proposals which the NZX has raised – we focussed on the peak organisations: the IoD, the institutional investor Forum, the Shareholders’ Association and the Listed Companies Association. We also comment on the NZ Super Fund’s submission and on Chapman Tripp’s submission.

The language is important. The NZX is pushing for a tiered regulatory structure under which rules would be compulsory, recommendations would require a “comply or explain” response and best practice commentaries would rely for their effect on voluntary compliance.

Support for the first question was strongly positive across all submitters but feedback on the next two questions was more mixed.

The NZ Super Fund, the institutional investor Forum and the IoD all want the NZX to recommend that issuers report

on ESG matters and risks. The Listed Companies Association, the Shareholders’ Association (and Chapman Tripp), by contrast, argue that the guidance should be in the form of a commentary rather than a recommendation.

Despite these differences, there is a high measure of agreement that New Zealand should use generally accepted international ESG reporting frameworks rather than trying to reinvent the wheel and that the risks reported on should be relevant to the business, taking into account its nature and size.

The distribution of attitudes was similar in regard to H&S disclosure, with the institutional investor Forum, the NZ Super Fund and the IoD again at the prescriptive end of the spectrum while the Shareholders’ Association and the Listed Companies Association preferred a more flexible approach with a focus on high risk industries.

The other two review areas we have looked at are board independence and executive remuneration.

BOARD INDEPENDENCE

The Listing Rules currently require a minimum of two independent directors unless the board has eight or more members in which case the threshold rises to one third of the total. The NZX is asking whether it should consider recommending that in future boards should have a majority of independent directors and/or an independent chair.

The alliances shifted a little on this one. The IoD, the Shareholders’ Association, the institutional investor Forum (and the NZ Super Fund) said yes, on a comply or explain basis, while the Listed Companies Association (and Chapman Tripp) argued that the pool of experienced independent directors in New Zealand was too shallow to make this model work and that instead the NZX should align with the FMA, which recommends a non-executive, rather than an independent, majority.

The institutional investor Forum also advocated that directors serving over nine years should be re-elected annually.



Roger Wallis

EXECUTIVE REMUNERATION

The fault line here was around whether issuers should be required to report on their remuneration policy for directors and senior executives, and whether executive remuneration should include a performance element.

Again, the institutional investor Forum and the NZ Super Fund were the most bullish, this time in company with the Shareholders’ Association, all of which strongly supported both propositions and wanted them to have the force of a comply or explain recommendation.

At the other end of the spectrum was the Listed Companies Association. It said it had “divergent views” among its members as to whether the first question should be addressed as a matter of recommendation or commentary and that – either way – it should be “relatively high level and principle-based”. And it wanted any reporting on performance pay to be voluntary.

The IoD sat somewhere in the middle, supporting a recommendation for question one and a commentary-based response to question two.

Chapman Tripp’s view is that it would be useful to disclose the proportion of executive pay which is performance-based or otherwise at risk – not on an individual basis but grouped within different salary bands.

The Code is intended to be relatively flexible and responsive to individual company circumstances. Mandatory requirements are contained in the NZX Listing Rules, which the NZX plans to update later this year.



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Challenge and change in the not for profit sector

Pete Hodkinson, IoD Governance Leadership Centre Researcher, looks at how collaboration and innovation provide opportunities for not for profits.



Pete Hodkinson

Not for profit (NFP) organisations make up a substantial proportion of the New Zealand business community; it is estimated there are more than 90,000.

The corporate sector landscape is one of constant and fast-paced change. No organisation or industry is insulated from competition and technological innovation fuelling disruption. This is no different for NFPs; which also face other major challenges.

Typically, surety and sustainability of funding are at the top of the list.

The 2013/14 Grant Thornton Australia and New Zealand Not for Profit Survey report identifies that “a significant number could not plan more than 12 months ahead based on their current funding, and it was clear that many would not survive for more than six months if their current funding was not renewed.”

Reports like the Australian Institute of Company Director’s (AICD) 2015 Not for Profit Governance and Performance Study reinforce the struggle with funding. They found that financial sustainability was “the key issue” for NFPs.

The struggle isn’t just in the availability and consistency of funding but also in the changing nature of the funding models. Funding under the government’s *Investing in Services for Outcomes and Community Investment Strategy* is targeted at the achievement of specific outcomes and results to streamline funding and contracting.

Service performance reporting is well established in the New Zealand public

sector and becoming more common across non-government organisations.

The External Reporting Board is currently consulting on a new standard for service performance reporting for tier one and tier two public benefit entities, referring to three dimensions of service performance: what the entity does, why they do it and what impact they have. Submissions are due by 29 July.

With a constrained funding pool and tighter conditions around funding provision, there is a growing need for NFP boards to be clear about what they are achieving and the difference they make. If organisations cannot reach a certain level of financial stability, then dealing with the challenges of a competitive business environment and disruption becomes increasingly difficult.

The 2015 IoD-NZIER Director Sentiment Survey revealed 52% of NFP respondents think their industry will be affected by a major disruptive change in the next two years. It is important for NFPs to review business models and be clear about purpose and strategic direction. In a disruptive environment it’s about survival of the fittest. Without sustainable financial backing, we end up with the first little pig’s house; aspiration without substance.

Collaboration and technological innovation in the NFP sector offers some opportunities (of course, among others) to achieve long-term business sustainability.

COLLABORATION

Grant Thornton research shows collaboration can be a significant opportunity to ease pressure created by limited pools of funding.

In Australia, mergers are on the table as a form of combining organisational efforts and cutting costs. The AICD found 32% of directors reported their board had discussed a merger in the prior 12 months, 7% had completed a merger in the last year and 7% were currently undertaking a merger. The main reasons were better meeting the organisation’s mission (24%), improving efficiency (20%), and broadening the range of services provided (19%).

In 2009/10, Grant Thornton specifically asked about NFP mergers in New Zealand. Just under half said they were “open to either consolidation and/or merging with other ‘like’ organisations”.

The Australian research highlights gains can be less than expected and directors should be warned not to approach mergers lightly, or assume that they are a panacea. There may be better alternatives.

Joint ventures, working together to advocate for a given sector and its beneficiaries, signing MOUs, subcontracting the provision of some services or products and sharing of back-office functions are all examples of collaboration common among NFPs.

One example is the Working Together More fund. Its objective is “to assist community groups to make a greater difference for the people and communities they serve, through working together more closely with other organisations”. It provides seed funding and expertise to support collaboration in the sector and has assisted in a wide range of efforts, including some mergers.

INNOVATION

Some solutions for NFPs may be found in technology and other forms of innovation.

Regardless of whether NFPs look to collaborative efforts like mergers, joint ventures, MOUs and operational and technological innovations to supplement philanthropy and fundraising, there are still the challenges of a rapidly changing and disruptive world.

Disruption and industrial transformations – think Kodak through digital photography, taxis through Uber and hotels and accommodation through Air B&B – are easy to see in hindsight, but being the disruptor takes *foresight*.

David Gonski made an interesting point at a recent Australian governance conference; that ‘disruption’ has become somewhat of an excuse for failure. He argued that ‘established players’ for example, should simply be better able than newcomers to understand and embrace new technologies and take advantage of change. It’s this kind of approach that can make the critical difference between being disrupted and being the disruptor.

It is clear that an innovative approach to business is becoming more and more important. ‘Our Neighbourhood’, Australia’s innovation index of the NFP sector in 2015 revealed that 67% of

respondents believe innovation is a key to their organisations’ success.

It’s about harnessing opportunities and there are some great examples of innovation in the sector. Smartphone apps like ‘Easy Giving’ and ‘Givelify’ for example, respond to an increasingly cashless society and the challenges street collectors have faced in “filling the bucket” for charitable causes.

Collaboration and technological innovation can both provide opportunities for NFP boards to build sustainable business models in the face of ongoing funding challenges, and should be on board agendas for consideration.

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A full-page background image featuring a vineyard in the foreground with green leaves and some dark grapes. The sky is filled with heavy, grey clouds, but a bright patch of light in the center allows sunbeams to radiate downwards. The overall mood is dramatic and atmospheric.

Bugs in the Boardroom

Every board is required to look at their risk profile and take a strategic view to managing those risks. As an island nation with large agriculture and tourism industries, there is one risk that Graeme Marshall believes needs to be included on the agenda of more New Zealand boards – biosecurity. The impact of a biosecurity incursion can be significant Marshall says, and affect more than just the production industry.



Graeme Marshall

Marshall is a director at Port Taranaki and chair of the Biosecurity Ministerial Advisory Committee, where he and his colleagues provide independent advice to the Minister for Primary Industries on New Zealand's biosecurity system.

Marshall is concerned there is a lack of awareness about biosecurity at board-level, particularly amongst those who govern organisations that aren't in the production industry.

"How do directors have the opportunity to consider biosecurity risk if it isn't raised at the board table in the first place?" Marshall asks.

"That is the point that worries me – every board is required to look at their risk, they generally do an annual process of understanding risk exposure. My question is, even if biosecurity isn't a risk to them, is it even on the list of issues to be considered? I would say in many, many cases biosecurity isn't even flagged."

Biosecurity has for the fifth year in a row been identified in KPMG's Agribusiness Agenda as the number one risk to the Agriculture industry. In his foreword to the report, Minister for Primary Industries Nathan Guy, noted it was of

no surprise that biosecurity rated so highly, highlighting the \$27 million in new funding for biosecurity allocated in Budget 2015.

Marshall argues that the concern shouldn't sit just with government and agribusiness.

"Biosecurity is not just for farms or food producers to think about – if there is a major incursion the rural sector will just stop spending. Just ask retailers, transport operators, real estate firms, motor vehicle companies, accountancy and solicitors firms and many service industries in the Bay of Plenty after the PSA event. Very few businesses escape the ripple effect."

The tourism industry for example, is a sector that Marshall urges to think far more seriously about the risk of biosecurity on their operations.

"You only just have to look at what happened in 2001 when foot and mouth hit the UK. I think people think the impact was just on the production and agriculture sections. I've just seen a report that suggested the outbreak impacted 12 regions of the UK from a tourism perspective; it was costing them \$200million pounds per week."

Brown marmorated stink bug (BMSB)

BMSB is currently one of MPI's highest priority pests. If a breeding population were to establish in New Zealand, it would likely spread throughout the country.

It affects a wide range of crops by disfiguring fruit, making fresh produce unmarketable in many cases. Crops affected include apples, pears, peach, wine grapes, peas, beans, sweetcorn, capsicum, tomatoes, nectarines, apricots, blueberries, among others.

Some producers in the United States have reported crop losses of up to 95%.

The impact on New Zealand apple, wine, pea and sweetcorn industries was modelled in 2014:

\$82 – \$163 million

annually in lost production if BMSB were to spread throughout New Zealand

\$2 – \$2.5 million

annually in additional pesticide use



The impact on the tourism industry was so severe that then Prime Minister Tony Blair made multiple public statements to reassure tourists that Britain remained “open for business”. The English Tourism Council warned that the epidemic could cost the industry as many as 250,000 jobs. The outbreak led to restricted access to historic sites, closed walkways and even cancelled or postponed public events. Local elections in the UK were delayed by a month; even St Patrick’s Day celebrations in Ireland were moved from March to May.

For Marshall, New Zealand’s status as a tourist destination puts us at great risk should a biosecurity incursion of that level hit, and says our tourism industry isn’t prepared.

“Frankly I think the tourism industry is just one of the many sectors that doesn’t fully understand what impact a biosecurity incursion could have on them. If you think about tourism being affected, you then have to think about the business implications for the myriad of suppliers into the tourism sector.

“The impact on sales for anything supplied into the farming or the tourism industries

could be at serious risk if there is a major incursion. The impact is massive.”

When asked whether this is just another thing that boards need to think about, Marshall says:

“Why should boards care?”

“In short, an incursion costs – it impacts profit, reduces share prices, affects investor confidence, can restrict market access, decrease or halt production and can have long term repercussions on a business’ services.”

As a director, Marshall recognises that boards can’t be experts on everything, but is determined to get more boards thinking about the impact of biosecurity on the organisations they govern.

“Of course you can’t know every pest or pathogen that’s going to come into the country.

“It’s about understanding the risk, with the expectation that risks can be mitigated through awareness and a level of preparedness.”

Some of those pests and pathogens might be familiar; foot and mouth for cattle, pitch

pine canker for forestry, and the brown marmorated stink bug for horticulture.

“And that’s just a small sample of the risk stuff that we know about,” Marshall stresses; “new risk is emerging all the time.”

There is no doubt that biosecurity is a complex topic, and it is fair enough to ask where a board might start. Marshall advises reading case studies and looking overseas for examples of what similar industries are dealing with and what would happen if they arrived here.

“I think one of the challenges is that often an incursion is quite regional; the people impacted really understand it but people beyond it don’t really get it. That’s why boards should be thinking about all of those risks to their business and asking their teams to look at some of the reports around what biosecurity threats can do to business more broadly than the sector that’s initially impacted.”

In New Zealand, understanding the impact of the PSA virus on the kiwifruit industry gives some idea of the devastating impact of an incursion, as well as what Marshall considers to be an example of the positive work that can happen when biosecurity is taken seriously.

“It’s recognising that it does have a significant impact on your business if it hits you. It’s one of those things that people don’t do anything about it until it happens. Look at the kiwifruit industry – man have they taken it seriously.”

Marshall refers to formation of Kiwi Vine Health (KVH) as the silver-lining to the PSA story. Initially established in December 2010 to lead the kiwifruit industry response to PSA, their role has since expanded to manage wider biosecurity readiness and response on behalf of the industry.

For Marshall the collaboration within the kiwifruit industry is something others can learn from.

“Absolutely others can learn from this. The formation of KVH is a good example of the way industry can support risk mitigation – they need to because the government has signalled very clearly that they will not take on all of the risk.”

The government has set up the Government Industry Agreement for Biosecurity Readiness and Response (GIA). GIA is a partnership with industry to manage pests and diseases that could badly damage New Zealand’s primary industries, economy, and environment. Industry bodies including KVH, NZ Pork and NZ Forest Owners Association have come on as signatories. (www.gia.govt.nz).

Marshall wants boards to show leadership in this area, and demonstrate that while they are committed to growth, comprehensive thought is given to mitigation.

“It sends a signal to the rest of the organisation about what is important. If the board cares, they will show leadership. This is crucial because in a number of front line businesses the staff and their vigilance is as critical in keeping biosecurity risk out as anything that MPI or others can do.

“I think the other message is, just with health and safety, understand the implications and if unsure get your team and industry body to advise you.”

FURTHER READING:

The Sapere review: “Lessons learned from the response to PSA-v” <http://www.kvh.org.nz/vdb/document/100538>

An MPI study in 2015 estimated that a large-scale FMD outbreak would have a net cost of \$16 billion to New Zealand over eight years in real GDP terms. The study showed even a single case of FMD would result in a first-year GDP loss of \$5.8 billion. <https://www.mpi.govt.nz/document-vault/4406>

Kiwifruit Vine Health (KVH) analysed the financial impact of a fruit fly incursion to New Zealand’s kiwifruit industry. The financial impact is estimated to be between \$2 million and \$430 million per year. <http://www.kvh.org.nz/vdb/document/98983>

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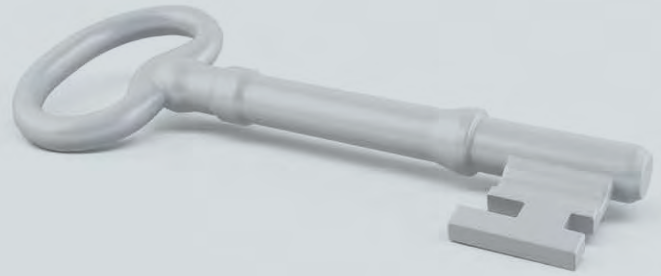
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GLC Update

Keeping members up-to-date on the incorporated societies reform, demystifying foreign trusts and providing health and safety guidance for SMEs has been a focus for the GLC, says Selwyn Eathorne

INCORPORATED SOCIETIES REFORM

The outdated Incorporated Societies Act 1908 is being replaced with a new, modern statute. The reform is extensive and aims to improve governance structures and arrangements for over 23,700 incorporated societies in New Zealand. The reform should help societies refocus their attention on governance matters, including what they are doing and how they are operating.

Parts of the reform mirror requirements for companies and directors under the Companies Act 1993 (modified for societies). The duties and qualifications of officers of societies are set out in the draft bill and these are broadly the same as those for directors. Currently officers' duties are set out in case law and not in the 1908 Act. There are also new offences and penalties and greater powers for the courts, including the power to ban people from being officers and/or taking part in the management of a society.

All incorporated societies will be expected to comply with the new legislation. The key challenge of the reform will be to balance raising governance standards without deterring small organisations from operating as incorporated societies or people from getting involved with the leadership of societies.

The draft bill is unlikely to be introduced into Parliament before 2017. There will be opportunities for further consultation and it is proposed that societies will have at least four years after Royal Assent to become fully compliant.

Our *directorsbrief* '2016/2: What's changing for incorporated societies?' sets out the

key features of the draft bill together with insights from IoD Council member Alan Isaac.

FOREIGN TRUSTS

The release of the Panama Papers has turned a spotlight on the use of foreign trusts. New Zealand is being portrayed in the media as a tax haven for these trusts.

Foreign trusts (also referred to as offshore trusts) are essentially trusts settled by non-residents with non-resident beneficiaries and a New Zealand resident trustee. They are often set up and managed by professional trustees in New Zealand without being taxed here or overseas. There are approximately 12,000 foreign trusts in New Zealand.

Trustees of foreign trusts must disclose specific details to Inland Revenue including the name of trust and the trustees contact details. Trustees must also keep sufficient records to enable Inland Revenue to ascertain the financial position of the trust. There are penalties for trustees who fail to comply. New Zealand also has an extensive network of information exchange agreements with other jurisdictions who can request information about foreign trusts. Internationally, secrecy is decreasing with most jurisdictions being party to information exchange agreements and greater cooperation and coordination to prevent tax evasion and avoidance.

The Government has ordered an independent review of the foreign trust disclosure rules (including how they apply to record keeping, enforcement and information exchange agreements) due to be completed by the end of June.

For more information, see our *directorsbrief* (2016/3: Foreign trusts, tax and global information sharing) explaining foreign trusts, their disclosure requirements and the global push for greater information sharing.

HEALTH AND SAFETY GUIDE FOR SMES

SMEs in New Zealand face many of the same governance challenges of large corporates, including having to comply with the new health and safety legislation. Given their size, resources and the way they operate, SMEs sometimes have to respond differently to these challenges. The IoD recognises this and has, with WorkSafe NZ, published an updated version of "Health and Safety Leadership". This guide for SME owners and company directors provides an overview of what directors need to know about health and safety and sets out three key steps for SMEs to:

- **Assess:** identify risks and hazards
- **Commit:** develop a health and safety plan
- **Act:** make the plan part of the day to day business

For more information and resources visit www.iod.org.nz/Governance-Resources



Farming Directorships

There is growing recognition of the important role that governance structures and disciplines play in creating and protecting shareholder value in a farming business. With increasing demands for independent and non-executive directors to join farming company boards the Institute of Directors, with DairyNZ developed a new governance resource to support independent directors to add value to farming boards.

Farming Directorships: A due diligence guide for directors was been produced to help prospective independent directors understand the nature of the business, as part of their preparation in deciding whether to join a farming company board. It can also be used as a framework for considering farming advisory board appointments.

IoD Chief Executive Simon Arcus says being an independent director on the board of a farming company can provide a rewarding opportunity to add value to one of the country's largest and most important commercial sectors.

"The guide is about equipping prospective directors and advisors in the rural sector with the best knowledge to enter the environment. If I ran a farming concern I'd give a prospective director a copy too" Mr Arcus says.

"There is growing recognition of the important role that governance structures and long-term thinking play in the creation and protection of shareholder value in farming businesses. Good governance is about making the business meet its potential. It means having strategic plans for the future that anticipate the good and bad times ahead."

The guide highlights key issues in farming businesses, and raises key questions for prospective directors to ask, and can be useful for any farming business.

The guide says an invitation to join the board of any organisation can be appealing and complimentary, however, it also requires time, effort and professionalism. Taking on the role involves substantial legal duties and other responsibilities. Getting it wrong could mean expensive legal proceedings, loss of personal assets and reputational damage. This is why undertaking robust due diligence is so important.

It stresses that independent directors need to be aware of aspects of farming businesses that can impact the ability of the board to govern the business as well the level of risk they might be exposed to. Some of these are general to all farming businesses, others are related to farming syndicates or family farming businesses. In both cases, the guide says it is important to understand how the owners interact with the business and each other.

Farmers can no longer rely on New Zealand's reputation alone in the international market. Instead, they're being urged to think strategically if they want to grow.

The Institute of Directors says the solution is good governance.

Mr Arcus says governance is critical, as it fundamentally forces owners of businesses managing large amounts of capital to step away from the day-to-day of the business – to work on it rather than in it.

"Without governance, businesses will operate as they always have, but the reality is that they're already going backwards. I don't believe farming is any different in that regard.

"Agri-business is fundamental to the New Zealand economy. Farming businesses are no different from any other businesses.

"Bringing on an independent director can help grow the business for the long-term. Directors must be able to challenge ideas, ask hard questions, and offer a different perspective at the board table. They need a broad mix of skills, particularly a strong grasp of strategy, risk, finance, and compliance. These two offerings will help Waikato agribusiness.

"We recognise that taking the time to think and plan can seem a luxury but governance in this dynamic and volatile environment it makes a difference."

The guide can be downloaded from www.iod.org.nz

Lifting our SME performance: the role of governance

KPMG's recent Enterprise Report identified that strong governance is part of the 'secret sauce' required to lift the performance of our SME market. Paul McPadden, KPMG's Head of Private Enterprise, highlights some key strategies to ensure governance is fit-for-purpose.

The KPMG Enterprise Report, launched in April this year, identifies some critical gaps in the SME market.

"When we look at the stats around New Zealand businesses, a disturbing number of our businesses remain very small," says Paul McPadden.

"These businesses get to a certain stage, and then can't break through the ceiling they've reached. Either the owner lacks ambition, or they don't know what to do to achieve growth."

By contrast, the research shows that mid-market businesses (defined by turnover between \$2m-\$50m) are on a much stronger growth trajectory. Despite comprising just 6.6% of New Zealand's businesses, they generate 32% of our total sales.

"The research shows that our medium-sized businesses are bigger and better contributors to the New Zealand economy than small businesses," says McPadden.

"That provides us with a clear and urgent challenge – we need to take more of our small businesses, and turn them into bigger and better businesses."

THE HUMAN FACTOR

Using case studies and commentary, the Enterprise Report analyses the three key stages in an entrepreneur's journey – the

start-up phase, the growth phase, and the 'letting go' phase (where the business owner steps aside to let others lead the business).

A critical part of the growth phase is augmenting the pool of talent that will support the business. It's also a common threshold for failure.

"Often the small business owner either doesn't know what they need, or they get in the wrong people and have a negative experience," says McPadden.

"Whereas those businesses that are able to punch through that ceiling invariably have the right strategies for finding capable people...whether it's getting people inside the business, appointing Board members, or using external advisers who will help them continue to grow."

Another marker for success is where the business owner recognises the need to bring in external people in the first place. While the start-up phase is characterised by the entrepreneur's own drive, passion and enthusiasm; the growth phase requires an injection of fresh talent.

IT'S IN THE DNA

"The leadership skills the entrepreneur brings to the business needs to be complemented by other, broader leadership skills," says McPadden.

"The business owner really has to examine what is missing from their own skill set – and seek to surround themselves with people who have the skills they don't."

To help clients gain these insights, KPMG employs a framework they have developed known as the 'eight key Enterprise DNA traits of a high-performing enterprise'.

"In order to have the ability to grow, it's really critical to have a deep granular understanding of the unique Enterprise DNA of your own business," says McPadden.

"Where are you strong? Where are your weak areas? Business owners need to have a robust understanding of the missing skills and the gaps in their arsenal; and complement this by bringing in the right people, either in the management team or at governance level."

THE NEW-GENERATION DIRECTOR

Having this understanding will also assist business owners to find the right fit when appointing Board members and external advisers.

"The most common mistake we see people making is not choosing the right people as directors," says McPadden.

"They often presume that someone with traditional skills in law or accounting is the



kind of person they need – but that may not be the case at all.”

Instead, it is more valuable to choose directors with specific skills that are directly aligned with the business needs.

“We’re seeing emerging demand for directors with skills in areas like technology and IT; or those with experience in key export markets, or an understanding of customer dynamics. All of those are quite different to your traditional accounting or financial skills.”

Another trait of a growth-aligned business is the willingness to hire up. One of the entrepreneurs featured in the Enterprise Report is Steve Saunders, managing director of agri-tech innovator Plus Group, who says: “you should never be scared to employ someone better than you or smarter than you.”

In fact Saunders believes he became more powerful as business owner when he took a step back.

“I could actually concentrate on strategy, connections and ideas; and so a whole new world opened up for me, and it was transformational.”

INFORMAL COLLABORATION

For those businesses not quite ready for an independent Board, the Enterprise

Report identified a number of valuable precursors.

“Business mentors can be really useful, particularly in the start-up phase of the first year or two in business,” says McPadden.

“Then there’s the level of engagement with external advisers, and being able to extract real value from that relationship.”

Informal collaboration is another increasing trend within high-growth enterprises.

“Something we’re seeing work really effectively within the marketplace is a whole host of informal collaboration,” says McPadden.

“There’s an immense amount of value to be gained from collaborating effectively with people with similar issues – or learning from with someone who’s already been where you’re heading. At KPMG, for instance, we’re very strong on putting our clients in touch with each other.”

To find out more, a copy of the KPMG Enterprise Report can be downloaded from the Enterprise Report page at www.kpmg.co.nz.



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A spotlight on young directors

The Institute of Directors (IoD) is committed to diversity of thought and embracing diversity in its broadest sense. As part of this focus on diversity, IoD recognises the value younger people can bring to a board, offering fresh perspectives on things such as social media, technology changes and sustainability.

IN THIS ISSUE OF BOARDROOM THREE NEW IOD MEMBERS, ALL UNDER THE AGE OF THIRTY, TALK ABOUT THEIR BACKGROUNDS, WHY THEY HAVE BECOME DIRECTORS AND JOINED IOD.



Jacinta Gulasekharam
VICTORIA UNIVERSITY

In her third year of a Bachelor of Commerce majoring in Economic and Public Policy, Gulasekharam found herself in governance after being encouraged to apply for the role of student representative at Victoria University.

“Governance is a term I have only acquainted myself with through my public policy classes. My idea of council was the higher level strategic thinking and accountability for ensuring that strategy is being properly implemented.”

Despite being new to governance, Gulasekharam says she is not afraid to speak up at council meetings and seek feedback about how she is performing.

“I bring a digital-era mind set and have high standards regarding the quality of education for students. I’m not afraid to speak up and question the institution to hold it to account.

“I aim to develop effective speaking skills and gain insight into the key questions that need to be asked at a governance level. I plan to do this by speaking up at meetings and asking my fellow council members for feedback.”

Gulasekharam values having access to the resources available through IoD; she understands the importance of learning how to ask the right questions and sees her membership as a way of doing this.

“The governance training was invaluable to how I can perform on council. The email updates provide quick insights to how the governance realm is thinking and the *boardroom* magazine is great. As a member I have access to such incredible resources and tools.”

Thinking about her plans for the future, Gulasekharam says she is enjoying the chance to be involved with the University at a strategic level and is excited to see where she might end up.

“Right now I am thinking about passing my final six papers for my commerce degree, but I would love to seek further governance opportunities in the future. Even after four months I am enticed by the action of governance and I have enjoyed having an input at a high strategic level.

“I aim to do the best that I can with the commitments I have now and look forward to what the future may have in store.”



Reuben Bijl
SMUDGE APPS

Reuben Bijl is the managing director of Smudge Apps, a business he started with colleague Toby Vincent in 2008. Bijl remembers working at MagnumMac during his school years and looking up to business owner Murray Wood, wanting to be in a similar position himself.

“As our business has grown we have had to learn new skills. The sense of responsibility is the biggest change – from working on significant public projects, to the wellbeing of our team and the responsibility to ourselves as shareholders.”

Bijl makes use of the organisations around him that provide valuable support to someone in his position.

“I pursued a director role in an industry that I have a lot of interest in and believed that I would have some valuable skills with my software background.

“I was definitely in a learn-as-you-go position. In looking at the role I discovered IoD and saw it as a key step in developing my skills as a director.”

Through IoD Bijl has already completed the *Health and Safety Governance* and *Ethics – How directors do business* online modules.

“With the health and safety module I came from an understanding that we have a relatively low risk business with software development and wanted to see if there were any key gaps that we hadn’t considered that we could improve on.

“The ethics course was of particular interest because of the industry that we work in, particularly around privacy and data security.”

Bijl aims to continue developing his knowledge of governance by tapping into programmes that are available for new directors.

“I’m particularly interested in growing my governance skills; I’m currently working through the Four Pillars of Governance Best Practice and have registered as a Future Director.”



Jade Irons
SAFE

Having recently returned from a stint in the United Kingdom and with a background in charity fundraising, Irons was keen to volunteer time for a not-for-profit organisation in a meaningful way. When she was shown a director vacancy in *boardroom* magazine for SAFE, Irons took a chance and applied.

“I had always been interested in animal rights and welfare and I wanted to find a volunteer role when I got back to New Zealand. This is a way of giving my time in a way that is really going to have an impact.”

Irons joined the IoD recently. She says it is a way of tapping in to an organisation that can provide the support she needs as she learns about governance, and so that she could ensure that she can add value as a director.

“I joined IoD to make sure that I’m keeping up to date with new developments. Being new to governance there will be gaps in my knowledge so I want to constantly learn.”

Taking that commitment to learn seriously, Irons recently attended Not-For-Profit Governance Essentials.

“I attended the course to help me ensure I knew what I was talking about in my new board role – setting the strategic direction and ensuring that the organisation is doing what it is set up to do and abiding by legislation. I am hoping to learn as I go. Hopefully given my background in the charity sector, my experience will be helpful.

“In the short term it’s a way to volunteer for an organisation that I really believe in in a way that is meaningful. In the long-term I hope to work in a senior management position in the non-profit sector so I think the governance angle will give me a good perspective looking from the top down of an organisation as to how an effective leadership team works.

“My hope is to keep volunteering my time and gain more experience in the coming years. If governance is something I’m really enjoying then I will see where it takes me in the future.

“I think it’s going to be a whole new adventure. It’s exciting and a really great way to volunteer.”

OPINION

Corporate governance is good for franchising

Did you know that the turnover of the franchise sector in New Zealand exceeds \$19 billion per year? This figure does not include the revenue generated through franchised hotels, petrol stations or car dealerships. There are over 400 franchise systems in New Zealand and over 22,000 individually owned franchised businesses. Franchised companies and franchised outlets employ about 100,000 people and 88% of New Zealand franchise systems are home grown which is very high compared to other countries.

The strength of good franchising is to have a very sound system which requires strong procedures as far as the franchisor is concerned. Corporate governance which requires, in particular, proper procedures and high standards fits very well into the franchising arena. It follows that a franchising system which adopts good corporate governance practices will be far stronger than one which does not. But if corporate governance principles are not followed the system will be weaker.

The strength of a franchise system is having the detail of how to operate it and the secrets of the business written down in what are known as operating procedures manuals. These manuals form part of the intellectual property of the franchisor and they are an integral part of it, together with the name. The name plus good manuals means a strong system which means adherence to good corporate governance principles.

The Franchise Association of New Zealand Inc (the Association) was founded in 1996. The rules of the Association make the Franchising Code of Practice and the Code of Ethics mandatory for all members.

Buying a franchise enables people to be selected, trained and supported on an ongoing basis. They receive an advertised brand and proven systems for marketing, production and management and they have

the benefits of group research and buying. The failure rate for franchised units is under 5% over the first 3 years and this compares extremely well with independent, small businesses, which attract a 66% failure rate in the first 5 years.

While providing many strategic advantages, franchise systems also provide a layer of complexity to the governance and chain management role. The additional challenge is primarily due to the addition of franchisees which gives rise to two challenges. The first of these is attracting and retaining franchisees and the second relates to the ongoing management of the relationship with franchisees who take responsibility for employing and managing staff.

While having an interdependent relationship, franchisor and franchisee goals are never totally aligned. The franchisor is understandably interested in the development and protection of the brand and the system-wide sales. Conversely, the franchisee is driven by profitability and return on investment so franchisors are often challenged with managing compliance while franchisees focus on short-term profitability.

Governance is complicated by changes in the franchise relationship over time which require careful management. A franchisee's basic needs, attitudes and subsequent actions change as they gain knowledge, operating experience and confidence. Although franchising provides many unique challenges for directors and managers, its structure and management will be well positioned to receive the benefits which franchising can provide. Good governance stems back to the decision to franchise the business and the board and management must understand the rationale for their own franchising structure, how it differs from competitors and its relationship to best practice. Board

composition and allocation of duties should reflect the specific knowledge and requirements of managing a franchise system. The board and management must at all times promote and practice ethical and responsible decision-making.

Choosing the right franchise system and brand is critical to success and if you are considering getting into a franchise you must do your due diligence which includes talking to existing franchisees and seeking advice from lawyers and accountants experienced in franchising. You should ensure that the franchisor is an Association member. The Association brings together franchisors, franchisees and those with an interest in the sector such as specialist lawyers, accountants and consultants to facilitate the process of learning and sharing information, and encourages high standards of conduct.

It seeks to help those considering buying a franchise and also assists those who wish to franchise their own businesses to ensure that the correct procedures are put in place right from the start.

In my opinion, the principles of corporate governance as they apply to companies in New Zealand also relate to franchising. In the corporate area, the public and shareholders are demanding higher standards from directors and boards and there is no room for shortcuts. If directors on boards cannot keep up to speed and show professionalism then they must go. Franchising and corporate governance go hand in hand for without a robust franchise system which has been carefully planned and without a committed franchisor who strives to improve the system, the franchise will most likely fail.

Stewart Germann
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Registrar Q & A

—second quarter 2016

With the enactment of the New Zealand Business Number Act 2016 we asked the Registrar of Companies, and now also the Registrar of New Zealand Business Numbers, what this means for business.

Q *Mandy, now that legislation has passed, what types of businesses will be allocated a New Zealand Business Number (NZBN)?*

A The NZBN Bill was passed in April allowing all businesses operating in New Zealand to be allocated a NZBN. While all registered companies have had NZBNs since 2013, the legislation now enables others to have NZBNs, including unincorporated entities such as sole traders, partnerships and trusts, by the end of 2016.

Q *How will NZBNs be extended to businesses, and where will NZBNs be used?*

A Registered companies can already see their NZBN on the Companies Register. There are examples of businesses using the NZBN to improve customer processes, such as Air New Zealand using the NZBN as part of the registration process for businesses signing up online for Airpoints for Business. In the future accountants and banks might use the NZBN when developing products and software.

The way we allocate other businesses NZBNs is being finalised now that legislation has passed.

Q *What does the NZBN mean in terms of dealing with government?*

A NZBNs will, in time, become the main identifier for businesses to share key information with government and other businesses. NZBN is part of the government's Better for Business Programme to make it easier for businesses to deal with government and it is estimated that the benefits for businesses from the NZBN Programme, once fully implemented, will be around \$60 million a year.

It will lead to innovative and new services – ultimately a change to NZBN information (primary business data) will change the same information on other databases held by government, for example, a business that changes its address in the Companies Register would see this change reflected across other agencies. Once consistent identification of an individual

business is possible, there can be a common language between software systems as a basis to deliver new services. For example, software suppliers can use NZBNs to design and deliver services to manage the information businesses provide to government agencies, suppliers and customers more efficiently.

Q *What changes can we expect to see?*

A We've been working with member organisations and stakeholder groups to provide information about the NZBN and its uses. We know many professional services organisations already, or are planning to, use NZBNs to offer services to clients. The NZBN team can meet with anyone who needs help to plan for, or use, their NZBN.

Visit NZBN.govt.nz or get in touch with us on 0508 696 926 or support@nzbn.govt.nz.



What **advantage** could successful franchising or licensing add to your company?

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CELEBRATING
25
 YEARS
 1989 - 2014

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Out&about

AUCKLAND BRANCH

A breakfast function with Governor of the Reserve Bank of New Zealand Graeme Wheeler



NELSON MARLBOROUGH

IoD Nelson Marlborough branch hosted EBOS Chairman Mark Waller, and talked about drug and alcohol issues and directors' obligations under the new Health and Safety legislation with Steve Williams, GM of The Drug Detection Agency.



WAIKATO

Waikato Branch hosted the Prime Minister as part of the 25 Years in the Waikato celebration. The joint IoD and DairyNZ guide *Farming Directorships: a due diligence guide* was also launched at the event.

1 | Graeme Wheeler (Auckland Branch)
 2 | Ian McNabb, Phil Robinson (Nelson Marlborough)
 3 | Dianne Johnson, Celia Dasler, Emma Thompson (Nelson Marlborough)

4 | IoD CEO Simon Arcus, Prime Minister John Key, IoD President Michael Stiassny (Waikato)
 5 | Alex Skinner, Justin Stevenson, Lloyd Mander (Canterbury)
 6 | Kalia Colbin, Stephen Borcoskie (Canterbury)

7 | Don Church, Helen Shorthouse, Janice Frederic (Canterbury)
 8 | Scott Gilmour, Joy Leslie (Otago Southland)
 9 | Kyle Cameron, Denise Martin-Henkenhaf, Paula Hugens (Otago Southland)

CANTERBURY

The Canterbury branch held their AGM, and hosted Kaila Colbin, New Zealand Ambassador for the Silicon Valley-based Singularity University.



OTAGO SOUTHLAND

Scott Gilmour, Chair of the 'I Have a Dream Charitable Trust' spoke about applying a commercial business model to the governance, strategy and operations of the Trust.



Company Directors' Course AUCKLAND MARCH 2016

Front Row: Meredith Darke, Laurissa Cooney, Wayne Tollemache, Catherine Abel Pattinson, Liz Wickham, Paddy Davies, Don Tilbrook, Brian Nightingale

Second Row: Emeline Afeaki-Mafle'o, Darran Leyden, Margie Apa, Hamish Walker, Nailasikau Halatuituia, Peter Gudsell, Sione Taione, Jeana Abbott, Paul Clark, Ben Petro

Back Row: Kauahi Ngapora, Deen Hall, David Goodall, Thomas Kahu, Francis Agnew, Michael Schubert, Alan Connolly, Richard Ludbrook

IoD Events Diary

For more information visit www.iod.org.nz or contact your local branch office

Self-paced learning

Online modules can be completed anytime, anywhere and at your own pace.

Directors' and Officers' Insurance
Ethics – How directors do business
Health and Safety Governance

Webinars

Risk Trends
27 July and 26 October

Health & Safety Roadshows

These joint sessions with the Institute of Directors and the Business Leaders' Health and Safety Forum will explore the role of directors and CEOs in monitoring health and safety performance.

BAY OF PLENTY
Rotorua – 28 June
Tauranga – 29 June

CANTERBURY
Nelson – 1 July

AUCKLAND
Auckland – 4 July

WAIKATO
Hamilton – 6 July

Auckland

22 JUNE
Cocktail evening meeting with
Auckland's Mayoral Candidates

28 JUNE
Not-for-Profit Governance Essentials

28 JUNE
Governance Essentials Auckland

29 JUNE
Finance Essentials

05 JULY
Director Accelerator Lunch

11 JULY
Company Directors' Course -
Non-residential

02 AUGUST
Governance Essentials

03 AUGUST
Finance Essentials

09 AUGUST
Leading in a Digital Era

09 AUGUST
Next Generation Director Workshop

15 AUGUST
Company Directors' Course – Non-
residential

Bay of Plenty

7 JULY
Diversity Workshop Session with
Dr Bev Edlin, Tauranga

13 JULY
Employment agreements update with
Shima Grice, Rotorua

20 JULY
Banking in Bosnia with Peter Nicholl,
Tauranga

4 AUGUST
Basics of governance with Zoe Attwood,
Rotorua

9 AUGUST
The impact of culture and values in a
company and how it begins with the
board with Gerry Lynch, Tauranga

23 AUGUST
Governance Essentials, Tauranga

24 AUGUST
Finance Essentials, Tauranga

25 AUGUST
Strategy Essentials, Tauranga

31 AUGUST
New Members Welcome Dinner, Tauranga

Waikato

22 JUNE
Cocktail function with Kevin Cooney

13 JULY
Finance Essentials, Hamilton

14 JULY
Strategy Essentials, Hamilton

20 JULY
Cocktail function with guest speaker
Brent Impey

26 JULY
Women's Governance Network,
Panel discussion

17 AUGUST
Lunch function with guest speaker
Angela Buglass

Wellington

6 JULY

Aspiring Director Dinner Series part one

26 JULY

Breakfast with Chris Whelan

27 JULY

Aspiring Director Dinner Series part two

09 AUGUST

Governance Essentials

10 AUGUST

Finance Essentials

10 AUGUST

Aspiring Director Dinner Series part three

11 AUGUST

Strategy Essentials

16 AUGUST

State Sector Governance (*limited places available*)

24 AUGUST

Brown bag lunch with Jim Donovan

31 AUGUST

Leading in a Digital Era

Nelson Marlborough

2 AUGUST

Evening function with Stephen Walsh, Nelson

Canterbury

23 JUNE

Cocktail function with Ross Buckley

1 JULY

Sponsors breakfast with BDO – panel discussion on governance and cyber security

18 JULY

Cocktail function with Bryan Travers

29 JULY

Workshop with Professor Ingemar Dierickx

1 AUGUST

Cocktail function with Chris Clarke

12 AUGUST

New members' lunch

Otago

07 JULY

Rural Governance Essentials, Invercargill

27 JULY

Audit and Risk Committees, Dunedin

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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.

YOUTH HORIZONS

Role: Director – Governance & Senior Executive Experience
Location: Auckland
Closes: 23 June

CHILDREN'S AUTISM FOUNDATION

Role: Trustee, Secretary
Location: Auckland
Closes: 28 June

INTEGRATED HYDRAULICS LIMITED

Role: Director
Location: Christchurch
Closes: 30 June

TENNIS CANTERBURY REGION INCORPORATED

Role: Elected Board Positions (three)
Location: Christchurch
Closes: 1 July

SCOTS COLLEGE

Role: Director
Location: Wellington
Closes: 22 July

THE FOLLOWING POSITIONS ARE OPEN UNTIL FILLED:

STOP PROGRAMMES

Role: Directorships (two)
Location: Christchurch

ATHLETICS AUCKLAND INC

Role: Co-opted Board Directors (two)
Location: Auckland

WAIKATO SPCA

Role: Committee/Board positions (two)
Location: Hamilton (Te Rapa)

HALLMARK GROUP

Role: Advisory members to a family business (two)
Location: Rangiora, Canterbury

LEUKAEMIA & BLOOD CANCER NEW ZEALAND

Role: Director Vacancies (two)
Location: Auckland

ALZHEIMERS CANTERBURY INC

Role: Executive Committee/ Board Chair
Location: Christchurch, Canterbury

WAITAKERE UNITED INC.

Role: Appointed Directors (three)
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.

Don't stress about the new Health & Safety at Work Act – we've got a plan

On April 4 the new **Health & Safety at Work Act 2015** became law. If you own or manage a business you'll need a simple solution to help you address the requirements of the new Act.

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To find out more or to get your H&S sorted go to **www.hazardco.com** or call **0800 555 339**



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The Institute of Directors has staff based at the National Office in Wellington, an office in Auckland, and eight branch managers operating from their localities. For National Office, telephone 04 499 0076. For branch managers' contact details see Branch Events, page 45

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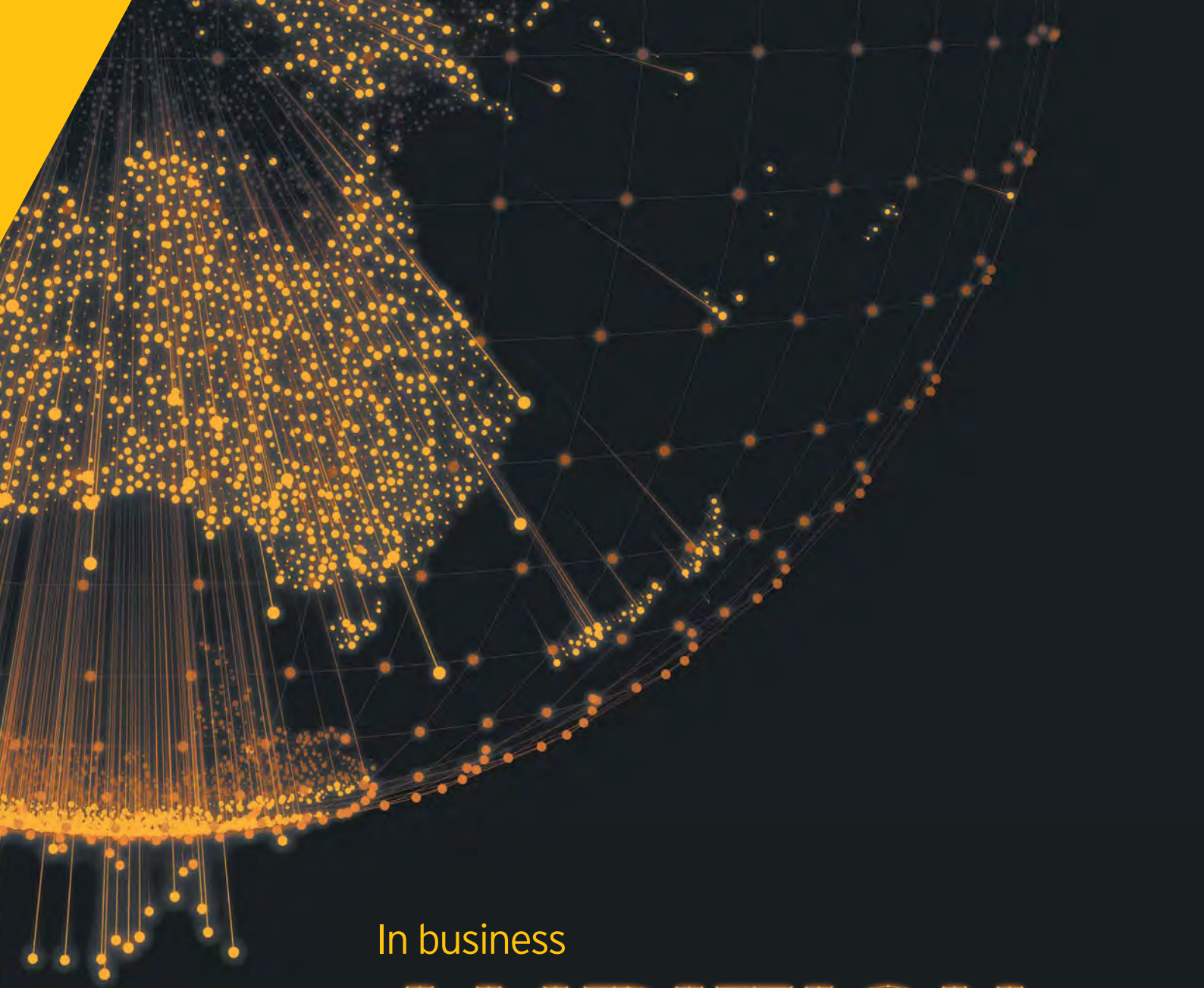
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