

boardroom



PLAYING A LEADING ROLE

Traci Houpapa

**DR ROBERT KAY
ON DRIVING INNOVATION**

WATER FEATURE

Top five issues for boards for 2015

Widening the net for the IoD's mentoring programme

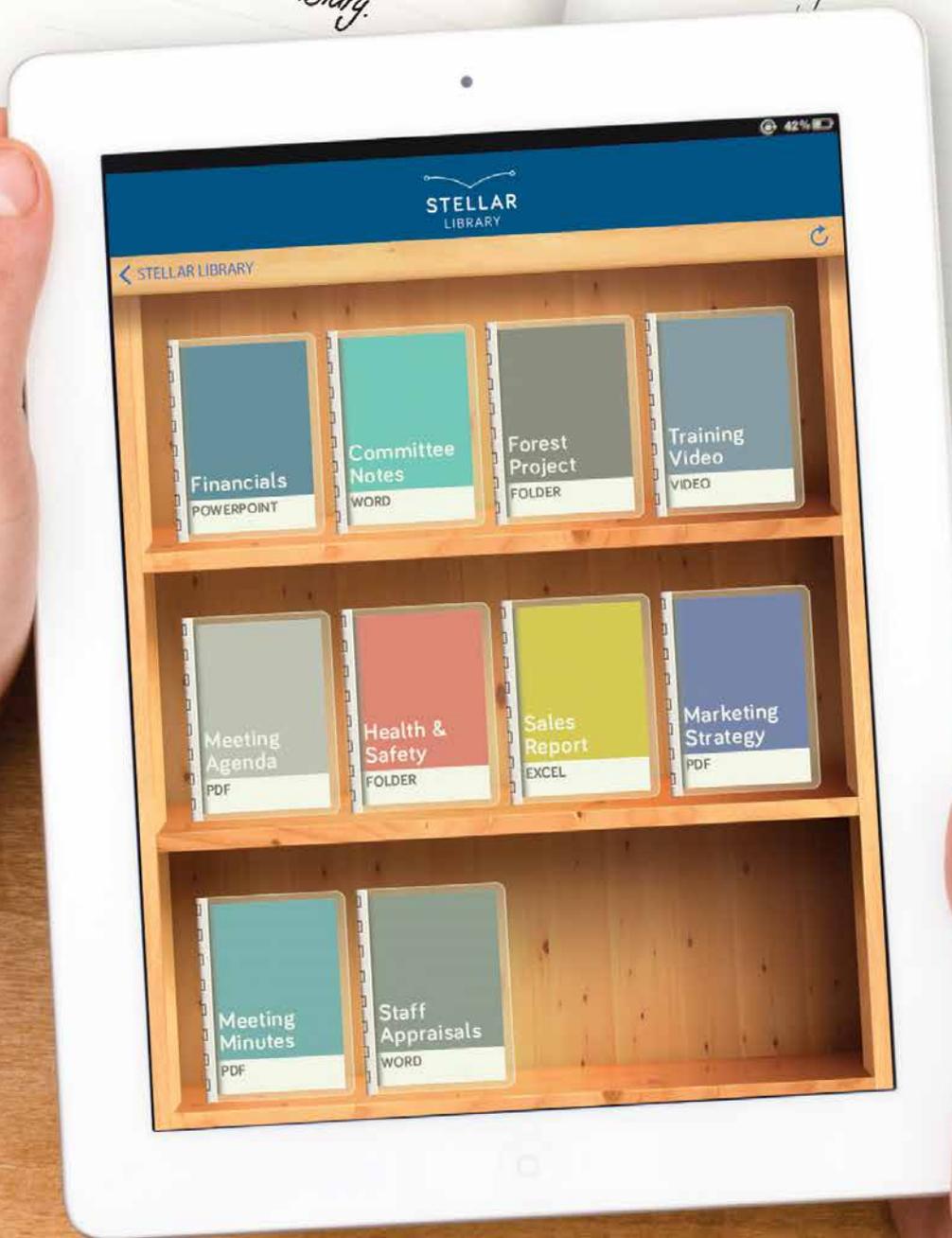
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Inside the audit committee

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FROM THE EDITOR

Welcome back after what I hope was a relaxing break. If you feel that the world became even more complex and more fast-changing while you were away, then you are probably right.

Listed at number one in the Governance Leadership Centre's top five issues for 2015 is the challenge presented by the volatility of the present day and how to not only survive in a maelstrom of accelerated change but also how to master it and thrive in it. Change touches every part of our lives, but perhaps directors, who deal in the big picture and the long-term, need to be most adept at making fast-flowing change work for them.

Arming yourself with knowledge is the only way to stay a step ahead of the pace of change. This can be through formal learning or by simply keeping an open mind and listening to different points of view. We hope that this magazine plays its part in this in the year ahead.

Katherine Robinson
Editor, boardroom



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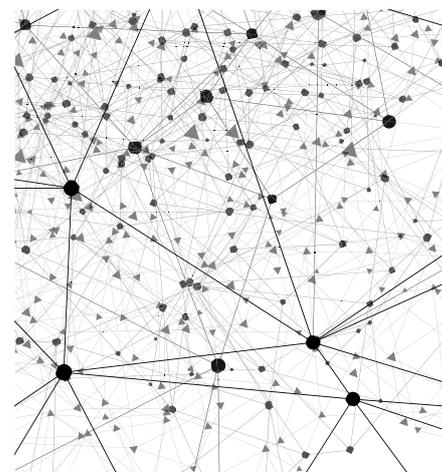
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CEO REPORT

Acting CEO Simon Arcus outlines the IoD agenda for 2015



I trust 2015 has started well for all IoD members.

Stepping up to the Acting CEO role in December happened at a time of significant challenge for us all at the IoD. There's no guidebook for navigating the sudden loss of a valued CEO and I would like to thank all the IoD team and the IoD Council for their tremendous support and esprit de corps in difficult circumstances. My observation of the IoD team is that its response to loss was characterised by a determination to keep providing high-quality member services despite huge challenges.

A new year demands that we think about the future and our role in shaping change. In this edition of *boardroom*, you will find an outline of the emerging trends in governance in 2015. These range from a talent shortage to disruptive technology and cyber security.

In the interconnected world we live in, these trends resonate globally. A good example of this is the movement for greater diversity in the boardroom. While wholeheartedly supporting appropriate gender balance in the boardroom, the IoD has always interpreted diversity as a need for greater diversity of thought. This year the IoD will reflect this view by widening the intake for our Mentoring for Diversity programme to include those who believe that they can bring something different to the board table.

The value proposition for IoD members has fundamentally changed in 2014. Two key

differences now set IoD members apart from others who use the term director. First, IoD members belong to the the leading professional body for directors in New Zealand and endorse a robust Code of Practice. Second, they are distinguished by a demonstrable commitment to continuing professional development (CPD). This difference will become increasingly relevant as the Chartered Membership pathway matures. Stakeholders such as the FMA have publicly commended us on our efforts to professionalise and bring in baseline standards for directors.

We believe that the title of Chartered Member of the IoD is a benchmark of skill and experience as a director. The Chartered Member Assessment will be made available early this year so directors can demonstrate their knowledge and progress to a higher level of membership.

Keeping up-to-date is a key tenet of a professional career and directors must maintain their skill base. The IoD has a role in ensuring members have CPD opportunities available to them. As you will be aware, a proportion of the current CPD requirements can be met simply by a selection of reading on topics relevant to governance. 2015 will see the launch of a number of new courses from our Director Development team to help directors add to their skill base including:

- the Ethics online module
 - the Going Public workshop for listed company directors with support from both FMA and NZX confirmed
 - a forum for senior and experienced directors in September.
- From 21-22 April, we will be gathering at the IoD Leadership Conference, where a stimulating line up of speakers and topics has already inspired a record number of registrations. The overwhelming number of attendees are members and this is hugely pleasing to us.
- The director's skill set includes the capacity to look to the horizon, to see objectives clearly and have the vision to take an organisation forward. Granted, we cannot predict the future with certainty, but a keynote speaker at the National Association of Corporate Directors conference I attended in Washington recently said, 'the best way for directors to predict the future is to create it.'
- When one reflects on the role of a director, there is much truth in this. Ultimately, the strategic direction of any organisation requires navigation of varying and sometimes unfamiliar terrain. IoD is alongside its members to add value in plotting that course.
- the Digital Leadership online module
 - the two-day CDC Refresher for CDC alumni

Update

RECENT APPOINTMENTS

We would like to congratulate the following IoD members on their new board positions.

Victoria Crone will join the board of Aura Information Security as an independent director.

Chartered Member Antony Vriens has been appointed as a director of Dorchester Pacific.

James Parsons been returned as a farmer director for Beef + Lamb New Zealand.

Vanisa Dhuru joins the 2020 Communications Trust as an executive director.

Keith Cooper has been appointed a director of Dunedin City Holdings Ltd.

Chartered Member Raewyn Lovett and Chartered Fellow Alan McConnon have been appointed to the board of Dunedin Venues Management Ltd.

Chartered Member Rt. Hon. Dame Jenny Shipley is to chair CERA's new Advisory Board on Transition. She is joined by Chartered Member Gill Cox and Chartered Fellow Peter Townsend.

Chartered Member Deryck Shaw has been elected to New Zealand Football's national executive committee.

Grainne Troute joins Tourism Holdings Ltd as a non-executive director.

David Benham and Chartered Member David Wright have been named directors of Wellington Water.

Powerhouse Ventures has appointed Chartered Fellow Rick Christie as a non-executive director.

Chartered Member Dawn Sangster has been reappointed to the Alliance Group board as a farmer director.

Maria Stockman has been appointed a board member of New Zealand Kindergartens Inc.

Simon Graafhuis joins the University of Waikato Council.

Josie Adlam has been appointed a member of the WelTec Whitireia combined council.

Chartered Fellow John Ward has been reappointed as a member of the University of Otago Council.

Vaughan Renner has been reappointed as a member and deputy chair of the WelTec Whitireia combined council.

Strategy for success

A cornerstone of the director's practice, a firm's future success is shaped by the strategy you put in place today.

The IoD's Strategy Essentials course focuses on the fundamentals of strategy development from the board, and has been revamped to include the latest in governance thinking, more interactive workshop sessions, and a greater focus on discussion.

Strategy Essentials delivers an understanding of the fundamentals of strategy development, specifically from the perspective of the board. The course is all about encouraging 'big picture' thinking, helping you to actively participate in the formulation of organisational strategy, and steering an organisation to a better future.

The first of the refreshed Strategy Essentials courses will be held in Auckland on 12 March, followed by Wellington on 27 May and New Plymouth on 4 June. With the first course in Auckland already booked out, be sure to register quickly for your place

All-new Audit and Risk

Audit and Risk Committees has a new look and feel. The one-day course's overhaul sees it come out with a modernised design, streamlined visual material, and more interactive sessions. Updated course material covers new legislative developments – including the Financial Reporting Act and health and safety reforms – recent trends, and tools for optimising audit committee performance.

The new Audit and Risk Committees course launches in Wellington on 12 March, followed by Auckland on 24 June.

Ethics – How we do business

A fundamental element of corporate best practice, ethics begin in the boardroom. But do you know how to navigate ethical risk?

The latest in our suite of online learning solutions addresses the issues head on. Developed in partnership with London's Institute of Business Ethics, the Ethics online module explores ethics from a New Zealand board perspective and offers board tools for ethical thinking.

Engaging with complex issues in an interactive format, the module places participants in the role of a board member at a local company. Faced with a number of ethical dilemmas in the form of board papers, participants have the opportunity to consider the paper, reflect on the ethical issues presented and suggest the appropriate actions for the board – with positive or negative consequences.

Experienced chair Sir Dick Olver talks ethics from a director's perspective, drawing on his experience in turning British defence firm BAE around. Olver is credited with driving major cultural change within the organisation during his decade-long chairmanship, enabling the company to recover from allegations of bribery and widespread corruption.

The module concludes with an action planning session and will leave you with a strong understanding of core ethics concepts, the relationship between culture and ethics, and the elements of effective culture and behaviour programmes.

The Ethics online module launches in early March. Check iod.org.nz for updates and to register.

NEW BOARD MEMBER FOR IOD LTD

We welcome Catherine McDowell to the board of the IoD's training and services arm, IoD Ltd. Catherine has over 10 years' board experience with not-for-profit, listed and non-listed companies, and is currently an independent director of ASB and National Provident Fund. With international, commercial banking, markets and investment experience, she has a track record of achievement and we look forward to her contribution to IoD Ltd.

ANNUAL GENERAL MEETING – NOTICE OF MEETING

The Annual General Meeting of the Institute of Directors in New Zealand (Inc) will be held at 12.00pm on Monday 15 June at The Dunedin Club, 33 Melville Street, Dunedin. The Hon. Pete Hodgson, former MP and now CEO of Otago Innovation Ltd, will join us as guest speaker.

New Year Honours 2015

The IoD warmly congratulates the following members who have received honours in recognition of the contribution made in their respective fields.

DNZM Lady Adrienne Stewart, ONZM, QSM, of Christchurch For services to the arts and business.

KNZM Mr Neville Jordan, CNZM, of Lower Hutt For services to business, science and the community.

CNZM - Mr Paul Hunter Adams, of Tauranga For services to business and philanthropy.

CNZM - Mr Robert Laurence Cameron, of Wellington For services to business.

CNZM - Dr Martin Douglas Heffernan, of Auckland For services to the electricity industry.

CNZM - Mr Christopher John David Moller, of Lower Hutt For services to business and sport.

CNZM - Emeritus Professor Patrick John Walsh, of Wellington For services to tertiary education.

ONZM - Ms Robyn Jane Baker, of Wellington For services to education.

ONZM - Mr John Murray Hunn, of Wellington For services to business and philanthropy.

ONZM - Mr Gary Bevan Monk, JP, of Auckland For services to the seafood industry and the community.

ONZM - Mrs Susan Marie Paterson, of Auckland For services to corporate governance.

MNZM - Mr Alan Norman Bickers, JP, of Tauranga For services to the community.

MNZM - Mr Scott Jonathan Carter, of Auckland For services to sport.

MNZM - Ms Janine Laurel Smith, of Auckland For services to corporate governance.

MNZM - Ms Susannah Adair Staley, of Dunedin For services to governance.

MNZM - Mr Patrick David Willock, JP, of Gisborne For services to agriculture and the community.

QSM - Mr Douglas Maxwell Lovelace Bull, JP, of Whakatane For services to dairy farming and the community.

NZAM - Mr Lewis Vernon Sanson, of Wellington For services to Antarctic science and conservation.

DNZM – Dames Companion of the New Zealand Order of Merit KNZM - Knights Companion of the New Zealand Order of Merit CNZM - Companion of the NZ Order of Merit ONZM - Officer of the NZ Order of Merit MNZM - Member of the NZ Order of Merit QSO – Queen's Service Order QSM - Queen's Service Medal NZAM - New Zealand Antarctic Medal

For further information visit www.honours.govt.nz

IoD BY NUMBERS*

6785

members at
31 January 2015

1264

new members in
2014

60

questions in the
Chartered Member
Assessment exam

391

Company Directors'
Course attendees
in 2014

100%

of CDC participants
would recommend
the course to others

Top five issues for boards in 2015

Focusing on strategy and creating value, an effective board has to manage diverse risks and keep an eye on the horizon. The Governance Leadership Centre's Simon Arcus and Executive Felicity Caird look at emerging issues that should be top of mind in 2015

Directors operate in a dynamic environment, responding to changing risks and opportunities. A successful board must navigate a multitude of issues: board composition, culture and tenure; regulation and reducing red-tape; reputation; sustainability; and stakeholder, investor and shareholder relations – to name but a few. Here, we've selected five issues we see emerging globally that have a critical impact for New Zealand directors.

1 ADDING VALUE IN A VOLATILE NEW NORMAL

It's clear that the new normal in the global economy involves greater and longer term volatility than we have ever seen before. Modern business requires directors to adjust to increased economic volatility and to plan when certainty is a scarce commodity. The way we approach the three or five year strategic plan is consequently undergoing a major reappraisal. It isn't possible to draw up a business plan and expect to hit its goals and objectives while relying on a static external environment. Underlying assumptions can change quickly and flexibility and responsiveness are increasingly valued capabilities.

The years following the GFC have been particularly challenging for directors navigating high risk and aiming for capital reserve prudence. Caution has been a watchword. But as a picture of the new normal emerges, the challenge is to create growth and drive business forward in a volatile world.

Some may argue that in a VUCA (volatile, uncertain, complex and ambiguous) world, strategy is dead. The rumours of its demise are exaggerated – but it may have changed fundamentally. The board adds value through defining purpose and direction. In a VUCA world, agility and

flexibility should support strategy and good decision-making, including choices about resource allocation, organisational structures and performance management.

Diversity of thought and experience helps ensure a broader range of perspectives, opens us to greater possibilities and increases the potential for greater success.

Tips for directors:

- Ensure strategy is always on the agenda - prioritise regular discussion. Seek external and expert input and don't underestimate the risk of the status quo
- Create an inclusive board culture that values diversity of thought and facilitates full participation of all members.

2 STRATEGIC TALENT MANAGEMENT

As the global demand for talent intensifies and technology reshapes the business landscape, attracting, retaining and developing both the best and most diverse talent in organisations and on boards is critical.

Concerns about skills and capability featured strongly in the 2014 IoD-NZIER Director Sentiment Survey. Labour quality and capability was identified as the single biggest risk facing organisations. This concern has also featured in international commentary. From the boardroom to the staffroom, people are what will make the difference between bad, good and great companies. People are looking to work in great cultures where a shared vision of the future exists, and directors play a significant role in making this happen.

Tips for directors:

- Think about your strategy and how the organisation approaches talent management. There could be three or four generations working within

your organisation – understand their different needs and expectations

- Make sure you know what will attract the next generation of work-ready talent to your company and how to avoid the traps and unconscious biases that stand between you and the team you need
- Prioritise succession planning and strategies to retain (and if necessary, replace) key individuals and board members. Make sure your talent pipeline is fit for purpose – for today and tomorrow.

3 DISRUPT OR BE DISRUPTED

Technologies are transforming both the customer experience and the way organisations deliver their products and services.

A disruptive innovation displaces an earlier technology or system – think horse and carriage, typewriters, landline phones, camera film, or fax machines.

Disruption affects the way we approach and respond to strategy and how we view our business model. But it is difficult or sometimes impossible to see disruption coming. Directors need to understand the notion of disruption to have full visibility of the environment around them, including the risks and opportunities of sudden and fundamental change.

Tips for directors:

- Think about your business and technology strategy in an integrated context
- Understand the strategic risks related to technology and digital disruption facing your organisation, industry and supply chain partners
- Ensure insights from data are prioritised and actioned.

4 TECHNOLOGY GOVERNANCE

The Internet of Things (IoT) means a rapidly evolving world where just about everything is connected and it has major implications for business and society. We now carry what amounts to a personal computer around in our pockets. Innovation is accelerating across industries and sectors - think sensor technology, 3D printing, digital health services, the Google car and apps galore. It means more start-ups, mergers and acquisitions – opportunities and risks abound.

Technology governance is about the director's role in digital leadership and understanding the opportunities and risks for your organisation. The need for technology skills and experience at the board table will vary depending on the specific needs of your organisation.

Technology creates huge opportunities and boards need good information and robust discussion to understand and respond to opportunities and to risks. Less than half (47%) of boards surveyed in the IoD-NZIER Director Sentiment Survey said they received good quality reports and information from management on technology-related matters.

Cyber security and data breaches are well-known technology risks. The National Cyber Policy Office expects a steady increase in reporting of cyber problems in 2015 and is working to provide businesses with advice on how to mitigate cyber risks.

Tips for directors:

- Think about the technology skills and experience you need at your board table – do this in the context of your strategy
- Demand good quality reports and information from management – ensure there is robust discussion at the board table
- Identify, prioritise and protect key information assets
- Put cyber security on the agenda before it becomes the agenda. To find out about mitigating cyber risks go to www.connectsmart.govt.nz
- Consider technology governance training. The IoD is developing a digital leadership course and this will be available later in 2015
- Read the directorsbrief on technology governance at www.iod.org.nz.

5 A NEW HEALTH AND SAFETY CULTURE

Effective health and safety governance is critical to helping reduce New Zealand's unacceptably high rate of workplace injuries and deaths. But despite considerable focus on health and safety governance in recent years, only 51% of directors surveyed in the IoD-NZIER Director Sentiment Survey said that their boards had the right skills and experience to comply with director obligations under the incoming legislation.

The Health and Safety Reform Bill currently before Parliament is expected to come into law in late 2015. It is important that directors understand what a positive due diligence duty under the new Act means.

The board has to lead an effective health and safety culture. All directors need to ensure they understand the health and safety culture and risks of the organisations they govern – this is a fundamental part of risk management.

Tips for directors:

- Be proactive and actively engage in health and safety matters; be informed and involved about risks, trends, audits and investigations
- Ensure there is robust reporting on health and safety issues - and act on them
- Check systems are operating as you intend. Ensure there are appropriate resources, processes and worker participation practices
- Consider whether you should establish a health and safety committee
- Think about health and safety governance training. The IoD offers a Health and Safety Online Module.
- Check out the health and safety governance resources at www.iod.org.nz.

The launch of NXT

NXT, a new market for small and mid-sized businesses is expected to launch in March 2015. The new market is designed for companies with a market capitalisation of \$10 million to \$100 million and has a simpler disclosure regime than the NZX main board. The market aims to provide a platform for emerging companies to grow by accessing public capital with reduced complexity. For more information on NXT, see page 28.

The IoD enjoys a strong relationship with NZX and we're hopeful that the NXT will see a whole new stream of directors with listed company experience.

If you're considering undertaking an initial public offering, read the FMA's new guide, *Going Public – a director's guide*, (available at www.fma.govt.nz) and keep an eye out for the *Going Public* course IoD and DLA Phillips Fox are launching later this year.

Governance Leadership Centre

Raising the standard of governance in all areas of New Zealand business and society is fundamental to the IoD. The GLC aims to foster discussion on leadership, performance, and best practice through articles such as this one. For more articles, resources, directorsbriefs on topical issues and IoD submissions on current legislation, visit *Governance Resources* on iod.org.nz.



A woman of influence

An ambition to help others drove Traci Houpapa to take on a series of tough leadership roles in her varied career. Winner of the Women of Influence Award in the management and board category for 2014, and the first woman to chair the Federation of Maori Authorities, she talks to Sharon Stephenson

Traci Houpapa was 15 years old when she first understood the importance of a job well done.

“My grand-uncle asked me to take dictation for him, so once a week after school I would go to his office in Taumarunui and he would talk and I would take notes, which I would then type up for him,” she recalls.

“It was pretty menial work but it wasn’t difficult and we’d drink tea and eat Arrowroot biscuits while we worked.”

It wasn’t just about her uncle getting work done for free, says Traci:

“What he was doing was seeing if I could apply myself and do the job properly. When he said things like ‘job well done’, it made me proud and my self-esteem soared. That experience taught me volumes about the need for a good work ethic and the desire to do a job well”.

It’s a lesson that has served Traci well: “I’ve built my whole career around taking up opportunities, discharging

my obligations and delivering on the roles and responsibilities that others have trusted me with,” she says.

Based in Hamilton, Traci specialises in strategic and economic development, advising Maori, iwi and a range of public and private sector clients throughout New Zealand. She balances her consultancy work with a series of directorships and ministerial appointments, and has the distinction of being the first female chair of the Federation of Maori Authorities since it was established in 1987.

She took her first directorship in 1998, as a Committee of Management Member with Te Uranga B2 Incorporation, a Maori-owned agribusiness valued at around \$23 million (derived from dry stock, dairy, forestry, Nga Whenua Rahui reserves and wood-lots). Traci remains the Chair of Te Uranga B2, which she credits with whetting her appetite for “helping others, particularly our people”. To date, Traci has held 12 directorships

TRACI HOUPAPA

Traci is Chairman of the Federation of Maori Authorities. She provides advice in strategic and business planning, and organisational development to iwi, Maori, public and private sector clients.

An experienced company director, Traci also holds a number of directorships and ministerial appointments including acting Chair of Landcorp Farming Limited, Chair of the National Advisory Council for the Employment of Women and board appointments on the Waikato River Authority, Nga Pae O Te Maramatanga, Strada Corporation and Ururangi Trust

Traci has an MBA from Massey University, and is a Member of the Order of New Zealand, a Justice of the Peace, and a marriage celebrant.

and ministerial appointments, including the Waikato River Authority, Landcorp Farming Limited, Strada Corporation Ltd and the National Advisory Council on the Employment of Women.

Although her CV is a busy read, she reveals that a career in the governance trenches wasn't on her radar when she left high school.

"I didn't have any grand plans to become a director or follow a certain path. My aim was always to help people and I was fortunate that I had some great opportunities which I was able to take."

Along with her uncle, Traci was steered by her elders. "My kaumatua, my koroua and kuia never told us what to do, they simply encouraged us to try different things," she says.

The circle was completed by a mentor, Doreen Chase, who told Traci that she should leave the world in a better place than how she found it.

It's why she has done everything from wool handling in a shearing gang to social work and jet boat tourism on the Whanganui River. Traci completed an MBA through Massey University after discovering she was good at management and governance; since then, the trickle of directorships has turned into a torrent.

"My approach is to ask how can I add value, what can I bring to the table that supports and drives strategy and serves the organisation and its people? It's a huge responsibility and one that I take very seriously."

Ask Traci if, as a Maori woman, she has ever head-butted the glass ceiling and she'll shuffle her thoughts before responding.

"Those who mentored and influenced my early adulthood taught me not to see gender or race as a barrier to progress and therefore I've always viewed men and woman as equal and interdependent on each other, particularly in the advancement of our people."

Besides, she adds, in Maori culture, women have always been recognised as

"I believe diversity is a really important strategy for all organisations and it's one that we need to promote and leverage from. It's not just a 'nice to have' either, it has become a 'must have'.

leaders and it's natural for women to take on roles at the top of the food chain.

"Maori women are becoming more comfortable at holding leadership positions and, increasingly, Maori men are seeing the benefits of diversity and reassessing the balance."

However, get her onto the subject of diversity in the boardroom and she'll say she's pleased to see the current global push to get a range of faces and experiences around the governance table.

"I believe diversity is a really important strategy for all organisations and it's one that we need to promote and leverage from. It's not just a 'nice to have' either, it has become a 'must have'. Overseas research shows that organisations which have a 50/50 gender balance, for example, are more likely to achieve far more sustainable bottom line results, which means greater economic development and social inclusion."

And that, she adds, has a positive flow-on effect: "It becomes inter-generational, so this legacy of improved wealth and business can be passed onto the next generation. At Te Urunga B2, for example, we have just celebrated our 104th anniversary and we recognise how critical it is to look to the next generation and the wealth legacy that we can leave them."

There have been challenges, of course, mainly around shepherding organisations through significant times of change.

"Many of the roles I've taken have been leading change, requiring a re-jig of the

organisation or, for example at Te Urunga B2, taking a good business on a path to making it great. It's something that needs focus, commitment and tenacity and often involves making decisions that aren't always popular with staff and shareholders. My approach is that I'm doing this for the greater good of the organisation – creating a vision we can all buy into – giving people what they need and balancing that with what they want. That belief can be a powerful motivator for change."

Given that a good wedge of her career has been given over to Maori businesses, it's no surprise that Traci has firm ideas about the issues currently facing Maori and iwi.

"We're looking at our asset base, our performance and productivity and the skills, training and development of our people, regardless of their age. We are focused on how we control and grow economic entities of significant size and scale and that's something we are currently devoting a lot of energy to."

Traci believes a key issue is also the question of who Maori and iwi should partner with.

"For so long we've been internally focused and now we need to engage a partnership model that outlines who our shareholders and beneficiaries, our whanau and hapu need to partner with to grow exponentially and achieve robust outcomes for our people."

Having so many land-based interests is also an issue, with the need to develop a more diverse and sustainable strategy essential, believes Traci.

"For Maori agribusiness, there are questions around how we increase herd size and productivity, as well as managing environmental issues and measuring our natural resources in such a way that means we can continue to work and live off the land. This is a universal principle across all nations and here in Aotearoa, we need to unpack it further so that we can wrap research and science around it. It's about identifying the opportunities and how we can maximise our return from our land-based assets."

Despite her triumphs, Traci isn't one of life's natural trumpet blowers so when I mention her many accolades, including being named one the Listener's top 10 influencers in New Zealand last year, or her success at the 2014 Women of Influence Awards, where she won the board and management category, she demurs.

"I wasn't expecting to win and was so pleased to be nominated. And it was thrilling to be in the company of such an outstanding group of finalists, all accomplished women in their own right. It's an exciting time to be a woman in business right now."

It's no wonder that she's often thought of as a role model by young women, particularly young Maori women.

"Look, I don't really think of what I do in that way. For me, it's just about doing a job well and it really is that simple. If I can pass on lessons about delivering on what you've been charged to do, and the importance of hard work and sticking to something, then I'm happy to do so."

It's why she's turned down suggestions to pursue a political career. "I'm much better suited outside Parliament, particularly because I like to get things done. I'm more of a 'think it, do it' kind of person who thrives much better in the world outside politics."

And although Traci is accomplished at fitting together the jigsaw of her life and work, she admits it doesn't leave much free time.

"I moved back to Hamilton (from Wellington) 10 years ago to be closer to my whanau. I have eight nieces and nephews and we're a very close family. All my siblings are motivated by how we can lead and serve our family and our people."

Outside of work, Traci enjoys sports and the arts, runs and spends time with her beloved black Labrador Beau, as well as with a tight group of friends she's known forever. "They're a great source of advice and support. I really couldn't do what I do without them..."



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Bringing something new to the table

The IoD's Mentoring for Diversity programme will be taking applications from mentees from early March. This year's intake of mentees will be considered not only in terms of gender, but also ethnicity, skillset, age and background

Initially established to link experienced women directors (mentees) with chairmen and senior directors (mentors) from NZX and large company boards, the IoD's Mentoring for Diversity programme was launched in 2011. After three successful years, the programme is expanding to promote board diversity in its wider sense.

"We focused on women initially because there was such an obvious gender imbalance on boards. But the IoD has always believed that diversity of thought does not only stem from a better gender balance on boards," says IoD Membership, Marketing and Communications Manager Nikki Franklin.

"Research has shown that a board of directors who can offer different perspectives are more likely to consider a wider range of alternatives. This leads to more effective decision-making."

Nikki, has spearheaded the development of the mentoring programme and experienced the challenges and rewards of piloting such an innovative programme. This year she sees merit in taking the programme to a wider audience.

"By spreading the net wider, we would hope to see a more diverse range of mentees come forward. We will be looking for people who can offer a range of skillsets that we believe are under-represented at board level. Applicants will have the opportunity to describe how their unique background can contribute, particularly

in emerging or specialty areas such as IT, cyber security and disruptive technology, global marketing and talent management.

"New Zealand has an increasingly diverse population, and we believe this needs to be better reflected at board level, so would hope to attract applications from a wide range of ethnicities," she says.

The programme, which is expected to offer a place for 20 mentees, is aimed at those who can show the potential to operate within a commercial environment.

"We do ask for some governance experience – mentees do need to be board-ready and have demonstrated commercial experience. They will need to outline this along with what unique qualities they can bring to the boardroom."

Since 2011, 80 women have been mentees on the Mentoring for Diversity programme, and have achieved many board appointments. But that only contributes to part of the success of the programme. Many of the mentees have said that being able to have regular mentoring sessions with an experienced chair has also given them confidence, focus and a greater awareness of what they can bring to boards.

MENTORING FOR DIVERSITY PROGRAMME

Maintaining the calibre of mentees is crucial to the programme's ongoing success and it will continue to target top performers but from a wider cross-section of governance career levels. The measurement will still be against an applicant's ability to succeed in a large company commercial environment.

The programme aims to:

- assist mentees to gain knowledge and skills which will assist them in achieving director appointments particularly in large company environments
- increase mentees' understanding of how listed and large company boards work
- enhance the connections between senior directors and chairmen, adding to the diversity of the director pool and making board-ready talent more visible.

Applications open in March, with mentoring beginning 1 July.

For more information, visit iod.org.nz

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Thinking outside the square

Australian organisational scientist Dr Robert Kay leads the field of research in corporate resilience and innovation. As Amy Williams finds out, he enjoys disrupting the status quo.

Surprisingly, Dr Kay admits to hating school as a kid, and says he chose to study agriculture at university because his parents had bought a farm. It was this degree, at the University of Western Sydney's Hawkesbury campus, that sparked his interest in problem solving, because it was taught without lectures – students were asked to solve problems on their own terms, and then given a pass or fail.

Dr Kay says he fell in love with this style of teaching and went on to complete an honours degree, looking at curriculum development and worldview change.

He had a PhD under his belt by the time he was 28 years old, and in the years following, went on to become one of Australia's youngest senior lecturers. He taught information systems and organisational development at the University of Technology in Sydney.

Dr Kay now describes himself as a recovering academic (he hasn't hung up the coat entirely, as he's an Adjunct Professor with the department of

“Boards have many different finish lines about how they deal with their customers, their shareholders and the regulators... if they're going to explore, they're going to have to give up some part of exploit to do that.”

accounting and corporate governance at Macquarie University in Sydney).

“I found the experience of working in a university so underwhelming, I almost can't put it into words. I wanted to do research but fairly difficult when you have 600 students,” he explains.

When Westpac called, offering him a job in their risk management team, he leapt at the chance to put his theory into practise.



DR ROBERT KAY WILL BE SPEAKING AT THE IOD'S LEADERSHIP CONFERENCE 21-22 APRIL 2015

Co-founder and executive director of Incept Labs, Dr Kay blends industry with academia, and is also an adjunct professor at Macquarie University. His recent studies include an in-depth look CEO perspectives on organisational resilience and a world-first comparison between public and private sector leaders in relation to innovation.

Dr Kay has a first class honours degree in curriculum development and world view change. His PhD involved the application of biological systems theory to improving learning and resilience in organisations.

He was formerly the head of strategic innovation at Westpac Banking Corporation, a senior lecturer in information systems and organisational development at the Sydney's University of Technology and a research analyst at Bovis Lend Lease.

“If you want to innovate, all the things that you need to innovate properly are the direct opposite of those short-term processes.”

Dr Kay says he had been in the role for six months when his job title changed to head of strategic innovation, because he and his colleagues had identified areas where the bank could disrupt the market to its advantage. He then helped to set up Westpac’s innovation unit, to go after those points of disruption.

But it wasn’t all smooth sailing.

“Innovation in large organisations is a fairly fraught career move. I didn’t realise that when I started, then after a couple of weeks I read some papers out of Europe showing that 100% of stand-alone innovation units get shut down at the change of a leader. It was a fairly attention grabbing statistic for me,” says Dr Kay.

Predictably, within 18 months the innovation unit was wound down, leading Dr Kay to co-found the consultancy Incept Labs of which he is executive director. That was nearly seven years ago, and in that time Incept Labs has been commissioned to undertake many studies of senior leaders, including a world-first comparison between public and private sector leaders in relation to innovation.

The pilot study analysed 84 innovation stories, told by Australian private sector chief executives and public sector Secretaries and Deputy Secretaries from the Australian Public Service. Its results highlighted key differences between private and public sector innovation, and questioned the adoption of private sector innovation models in the public sector.

INNOVATION BLOCKERS

Looking back on his time in the banking industry, Dr Kay says it helped him to understand how many people in large corporations perceive innovation.

He gives the example of a bank’s venture fund, allocated to the strategic innovation team, and says it was the most scrutinised five million dollars in the bank. Dr Kay says the team had to be careful about how they communicated their ideas, given the very word ‘innovation’ was perceived as being unfocused.

“That shows you the cultural gap between what innovation can be and how an organisation can think about it,” says Dr Kay of his experience, which he says is typical of large corporations.

This brings us to the catch-words ‘explore’ and ‘exploit’, which he uses to explain the challenges of innovation. ‘Explore’ is about the pursuit of new ideas and innovations and accepts uncertainty, while ‘exploit’ is focused on the pursuit of efficiencies with high levels of certainty.

He stresses that neither is good or bad, it’s about how a balance is maintained between the two.

He says many companies are too heavily focused on exploit at the expense of explore, and this works against the organisation’s ability to innovate.

“People typically work to their objectives, and these objectives will overwhelmingly be exploit in nature. So when they are presented with some kind of disruptive new technology, they’ll consider it in the context of their objectives with the result it’s either seen as a threat or just irrelevant,” says Dr Kay.

“People will often be promoted because they are really good at exploit, but then we are surprised that they might not be all that innovative.”

INNOVATION SEEKERS

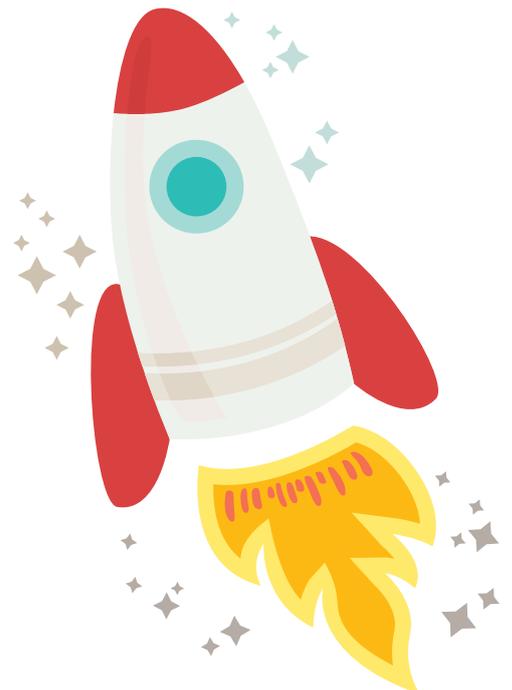
On the flip side, Dr Kay says an ‘explorer’ will have a higher appetite for risk, be comfortable with uncertainty, and accept that there is volatility in the world.

“I’m not trying to say that exploit is bad, exploit is fundamental to the organisation because that’s where the profit comes from, but you have to cater to a balance.”

“You don’t want too much explore. If you get too much, you’ll get Enron,” he jokes. “All I’m arguing is that 99.9 per cent exploit, which is what we have here in Australia, is not balanced.”

So what happens to the explorers, some of whom must be trying to disrupt the status quo for the better, at large corporations?

“The explorers will tend to get culled along the way because they can be seen as unreliable, or not as focused. They won’t be thinking short-term quite the same way. Some will just suppress that part of their personality to survive in an exploit world” says Dr Kay.



A THEORY IN PRACTICE

The question that needs to be asked is, where does this leave board members in the quest for innovation and resilience?

Dr Kay stresses it's important not to generalise about decisionmaking in a board context, because every board is different.

Incept Labs' research shows that people tend to select their professions in a way that naturally aligns with their risk appetite. Put this into a board context, and it's easy to see how different industries and sectors adopt different patterns of decision-making.

Its research also shows that most chief executives have a single preferred approach to innovation and apply that regardless of the level of uncertainty in the idea.

With all of this research and more, Dr Kay is working on bringing it all together to form a comprehensive theory of corporate governance.

Although many regulations surrounding corporate governance provide a rule book, there isn't a clear roadmap or theory about how to do it – yet.

“Theory is only of value if it helps shed light on what you're seeing in the real world,” Dr Kay says. “I'm interested in applying it to a range of different contexts and seeing how well it stacks up. Does it tell us anything new?”

He says applying theory to corporate governance helps to tell the industry more about how boards could operate.

It's not so much about whether a board is more explore or more exploit in its outlook, its whether its conscious of the balance. The danger lies in unconsciously focusing on exploit at the expense of explore. And vice versa.

“if you recognise you're too heavily loaded towards exploit you can go and source the explore expertise from somewhere else,” he says.

While a board chairman pursues diversity in other areas, including gender and ethnicity, this pursuit assists with the balance between explore and exploit, and building a more balanced team.

“Boards have many different finish lines they have to manage all the time.

Finish lines about how they deal with their customers, their shareholders and the regulators...if they're going to explore, they're going to have to give up some part of exploit to do that.”

Dr Kay says boards need to be clear about their finish line, what's not negotiable, and stay on target.

As Incept Labs delves into more areas of research with corporate leaders, Dr Kay says a theory of corporate governance that deals with the complexity of modern organisations is coming together into something more cohesive.

He works hard to communicate these complex ideas and theory in a way that people putting it into practice can understand, drawing on real-life examples to illustrate his points.

Dr Kay reads non-fiction in his leisure, mainly history accounts and autobiographies, to gain these insights on decision-making and what makes people tick.

“I guess I like taking something that's ill-defined and getting to the bottom of how it works, the complexity of it,” he says.

And challenging the current thinking?

“It's not something I necessarily set out to do, but I'm increasingly finding that's the outcome.

What does it take to lead?

Focusing on what it takes to lead, Professor Brad Jackson suggests that soft skills such as asking the right questions – and listening to the answers – play a critical role.

By Sharon Stephenson

Halfway through my interview with Professor Brad Jackson, the Head of School of Government and Professor of Public and Community Leadership at Victoria University makes an observation that he feels summarises many New Zealanders' attitudes to leaders.

"The thinking goes that if you agree to be a leader, you must be dodgy. If you're a successful leader, you must be very dodgy and if you're an extremely successful leader then you must be extremely dodgy," laughs Jackson.

Professor Jackson, who will be speaking at the IoD conference in Auckland in April, says in all seriousness there does tend to be an in-built suspicion of authority in his adopted homeland.

"There's a sort of unwritten assumption that if you're in a position of authority in New Zealand, you are guilty until proven innocent."

Professor Jackson is well aware of Kiwis' general tendency to give their leaders a hard time.

"I've told this story before but a classic example is the All Blacks coach. He might win 40 games in a row but all of a sudden he'll lose one game and people will call for his resignation in the interests of promoting accountability. Here in New Zealand, there's this view that even though people may have achieved great things, most especially consistency, they tend to be judged by their rare failures."

Ask Professor Jackson what makes a good leader and although he'll respond – "Resilience, an abiding sense of purpose (what needs to change in the work and why), openness and a willingness to ask questions" – I can tell he's not terribly keen on answering this question.

"We tend to get far too hung up on individual leaders in this country, when instead we

should be focusing on leadership and the fact that leadership is fundamentally a collective not an individual process.

"The bigger picture is that we all have a role to play in creating effective leadership. We do this as a group by forging a collective sense of who we are, why we are here and a collective sense of the direction in which we need to go. This is the key task of leaders: to instil a common identity, a common purpose and a common direction for the groups they have been charged to lead. By the same token, followers have a responsibility to shape these things."

Leadership by the collective group is also the path to more sustainable leadership that endures when the leader is absent or moves on. This is a leadership that's more open to taking risks and, says Professor Jackson, can mean the difference between a healthy, vibrant organisation and a bad one.

“The type of leadership practised in an organisation makes a massive difference to the productivity as well as to the health and well-being of the employees. There has to be a sense of collective responsibility for leadership.”

Instead, he says that New Zealand leaders are often too narrowly results-oriented – and focused on the short-term – so the ability to create group consensus to get people collectively behind decisions tends to get pushed by the wayside.

“That means you get a short-term vision of ‘we need to get this done’ but you don’t get the longer-term benefits you can do if you’re able to engage and connect with a group and create genuine leadership.”

Professor Jackson certainly knows what he’s talking about. Born in Munster, Germany where his father was employed by the British Army, further postings in Malta and England ensured he and his younger sister had an interesting childhood.

That, combined with seven years of military school in Dover, helped nurture the seeds of Professor Jackson’s interest in leadership – most especially, the three questions that he is constantly trying to answer: What is leadership? Why do we need it? And how do we create it?

“When your father is in the army, you tend to be engaged with leadership. It’s central to army life and to military school and even back then I could see how essential effective leadership was to a family, club or organisation.”

A BSc (Honours) in geography at Bristol University was followed by a Masters at the University of British Columbia in Vancouver. Professor Jackson first started working in the field of continuing education in Calgary, Alberta.

“Education is critical to good leadership because if you invest in your people, it will positively impact on your bottom line.”

In 1989, Professor Jackson became programme manager for The Banff Centre for Management in Alberta, a role he says allowed him to become the connector between the worlds of academia, government and business. “It’s an interface role I still take on today – how do we create better leadership between these sectors?”

He was lured to this side of the world in 1999, as a senior lecturer at Victoria

Management School. It was, he says, a time when leadership and entrepreneurship were being tagged as the two areas New Zealand needed to develop if it wanted to be a vital, global economy.

“It was an exciting time to be here, on the cusp of a greater awareness of leadership and the role it plays in our society.”

Professor Jackson went on to become the Fletcher Building Education Trust Chair in Leadership (effectively this country’s first leadership professorship) and in 2011 was named the Co-Director of the New Zealand Leadership Institute, part of the University of Auckland’s Business School.

Early last year, he returned to Victoria University where his dual roles as Head of School of Government and his academic lecturing role gives him a unique perspective of how the leadership landscape in his adopted home is changing.

“Along with collective leadership, people are also starting to realise that the higher you go in an organisation, the more you should be able to follow, because the key to being a good leader is knowing when to lead and when to follow. And also when to lead by asking questions, listening and getting a better understanding.”

And although the fundamental principles of leadership haven’t changed over the years, how leadership is created and practised has certainly undergone a radical metamorphosis.

“Technology has played a major role in who gets to lead and to who gets to follow. I tell my students to try and resist the hype around this sense of being on the edge of a new world order and instead ask, ‘How much is real?’”

There’s an assumption that Generation Y and their short-term commitment to an organisation could be detrimental to leadership but Professor Jackson disagrees.

“Generation Y is actually very good at collective movements and self-organisation, better than many in older generations. Plus, their sense of leadership isn’t so materialistic or success-driven as those who came before, so they’re able to buy into the concept of collective leadership quite easily.”

“The higher you go in an organisation, the more you should be able to follow, because the key to being a good leader is knowing when to lead and when to follow.”



PROFESSOR BRAD JACKSON WILL BE SPEAKING AT THE IOD’S LEADERSHIP CONFERENCE 21-22 APRIL 2015

Professor Jackson is the Head of School of Government and Professor of Public and Community Leadership at Victoria University of Wellington.

He has also been the Head of School of Management and Director of the Centre for the Study of Leadership at Victoria. More recently he has been the Fletcher Building Education Trust chair in leadership and co-director of the New Zealand Leadership Institute at the University of Auckland Business School.

Jackson has spoken to academic and practitioner audiences throughout the world and has published five books. He is co-editor of the journal, *Leadership*, the former vice-chair of the International Leadership Association, and a Fellow of the Australian and New Zealand Academy of Management.

21-22 APRIL 2015

IoD Leadership Conference

In 2015, the IoD brings you a compelling line-up of thinkers, strategists, and business leaders. Alongside a series of thought-provoking talks, delegates have a choice of five Leadership Toolbox workshops tackling issues faced by today's directors

The workshops are offered following the lunch break on day one and focus on specific sector and interest areas. Each includes an interactive case study or group discussion around the topic.

Choose from one of the following:

WORKSHOP A:

Rural governance – future challenges

Sam Robinson and Chris Garland

Join this workshop to hear Sam Robinson and Chris Garland on the place of agriculture in the New Zealand economy, the unique risks and opportunities for growth faced by the sector, and how the characteristics of agribusiness funnel down to the farm business.

Sam Robinson blends his farming practice with chairmanship roles at AgResearch and Centralines and board roles at the Cooperative Bank and the Hawke's Bay Regional Investment Company.

Chris Garland is an agribusiness consultant, focusing on governance and business growth with a strong emphasis on five to ten-year planning.

WORKSHOP B:

Not-for-profit governance – the pitfalls, challenges and the satisfaction

Allan Freeth, Graeme Edwards and Jane Sweeney

Not-for-profit organisations often have an allure around them, but the intention of 'doing good' can be bittersweet when funds run out, volunteers cause scandal, and branch versus head office politics become toxic.

Jane Sweeney specialises in strategic reputation management, assisting directors to plan their stakeholder engagement and corporate affairs management.

Allan Freeth is an experienced not-for-profit chairman and advises on business strategy. He chairs Housing New Zealand Corporation, Triplejump, and the advisory board for Global Film Solutions.

A member of KPMG's national executive, Graeme Edwards is responsible for a wide range of publicly listed audit clients and has a focus on not-for-profit entities.

WORKSHOP C:

Cyber security

Steve Walsh, Xavier Marguinaud and Philip Whitmore

Businesses of every size are vulnerable to cyber threats, and digital security is becoming an increasingly important issue around the board table.

In this workshop, Steve Walsh and Xavier Marguinaud of Marsh and Philip Whitmore of KPMG take a look at the reality of cyber risks and how directors can manage and insure against it.

WORKSHOP D:

Health and safety – due diligence

Sjoerd Post and David Jackson

Directors play an important role in creating the conditions for safe work. How they think, what they do, what they focus on and how they engage with management all have a significant impact on the safety culture of the organisations they are responsible for. Proposed changes to our health and safety legislation recognise this and place a positive duty on directors to demonstrate due diligence.

In this workshop, David Jackson and Sjoerd Post, the chair and chief executive of Refining NZ, examine the concept of due diligence and how it works in a high risk business. Workshop participants will gain real insights into how a board and management team work with each other to keep workers and assets safe, and discuss how they can show leadership and due diligence on health and safety.

WORKSHOP E:

Iwi corporate governance – Lessons for business

Nick Wells and Tama Potaka

A growing economic power, iwi corporations blend corporate interests with community. Join Nick Wells and Tama Potaka for a snapshot of iwi governance and what business can learn from the iwi approach.

Kaihautū of Chapman Tripp's Māori legal group Te Waka Ture, Nick Wells specialises in corporate structuring for Maori, private equity, businesses and charities.

Tama Potaka (Ngati Hauiti, with strong connections to Ngati Tuwharetoa and Ngati Raukawa) is Tainui Group Holdings' General Manager Corporate Services. He is an experienced solicitor and has worked in a variety of governance and consultancy roles.

See iod.org.nz for more information and to register.

The IoD Leadership Conference 2015 promises a strong programme of local and international speakers.

Thinking beyond the immediate

Dr Robert Kay, co-founder and executive director, Incept Labs

Disrupt or be disrupted

Wayne Norrie, Chair, NZTE Beachheads

The DNA of corporate diversity

Pru Bennett, BlackRock

Legacies in action and the grass ceiling

Kereyn Smith, CEO and Secretary-General, New Zealand Olympic Committee

In the line of fire: tales from the corporate battleground

Launa Inman, former CEO and managing director, Billabong
George Jones, Chairman, Sundance

The science of leadership

Professor Brad Jackson, Professor of Public and Community Leadership, Victoria University

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12
CPD POINTS



Drawing water

As you might expect with something so vital to life, water has many – sometimes contradictory – demands placed upon it. The question is how to satisfy them all.

By Breanna Cullen

The debate around Hawke's Bay's Ruataniwha Water Storage Scheme highlights the sometimes conflicting demands we place on a fundamental resource. Local farmers, orchardists and winegrowers support the creation of a large-scale reservoir in the Makaroro River. But environmentalists fear the ecological, economic and social costs of intensified land use could outweigh the benefits. Also affected are iwi, for whom the rivers are of cultural significance and who are increasingly recognised as holding a guardianship role.

With so many disparate interests at play, it's not easy to find agreement on how freshwater should be managed or where quality standards should be set.

Dr Mike Joy is a senior lecturer in ecology at Massey University, and an ardent advocate for environmental protection. An expert in freshwater ecology, ecosystem function and environmental science, he says that the deteriorating state of New Zealand freshwater is clear.

He points to pollution from industrial and municipal waste, the removal

of water from rivers for irrigation, sedimentation, and the leaching of nutrients like phosphate and nitrogen as the major issues facing our waterways.

The Parliamentary Commissioner for the Environment's 2013 'Water quality in New Zealand: Land use and nutrient pollution' report states that the primary source of nitrogen is urine from farm animals.

"Urine contains urea, which is rich in nitrogen... When paddocks are waterlogged, the nitrogen can wash straight through the soil before plants can use it", the report says.

Excess nitrogen levels boost the growth of algal bloom in waterways, clogging habitats, and making the water unattractive to swimmers and fishermen.

Using data collected prior to 2010, Ministry for the Environment figures show 44 per cent of 112 monitored lakes displayed high to very high levels of nutrients. 20 per cent of monitored groundwater sites showed an increase in nitrate levels between 1995 and 2008. Updated in 2013, its river condition indicator shows

"If we weren't subsidising dairy farming by allowing them to pollute and not making them pay for it, then they wouldn't be farming at the intensity they are at and we wouldn't have the issue."

that while nitrate levels at 21 per cent of sites improved over a ten-year period, 26 per cent of sites deteriorated.

Joy frequently raises hackles in the agricultural industry. He says the intensification of dairy, coupled with a lack of enforcement around nutrient losses, is effectively incentivising pollution.

"Costs are in the form of government remediation funded by public taxes or public health costs associated

with an unhealthy environment or contamination, among many others.

“If we weren’t subsidising dairy farming by allowing them to pollute and not making them pay for it, then they wouldn’t be farming at the intensity they are at and we wouldn’t have the issue.”

In a study co-authored with colleague Kyleisha Foote and presented at the New Zealand Agricultural and Resource Economics Society’s 2014 conference, Joy stated that the economic cost of environmental externalities from dairy was between \$2.76b and \$14.5b – potentially higher than the 2012 dairy export revenue of \$11.6b.

Joy says that the degradation of our waterways is putting our ‘clean and green’ international reputation – a cornerstone of our tourism and export sectors – at risk.

“If you lose that perception, it’s virtually impossible to get it back again. So it’s crucial to the future of this country that we start sorting this out.”

“If we just keep mining the environment to make money then we’re on a hiding to nothing because there’s going to be no environment left.”

TIME TO PANIC?

Although Tourism New Zealand research shows ‘clean and unpolluted’ is among the top six reasons holidaymakers choose New Zealand, CEO Kevin Bowler doesn’t think it’s time to panic just yet. In the recent issue of MinterEllison’s *Mettle*, he said, “None of our research suggests visitors think we aren’t delivering against the clean and green brand. In fact, the highest scoring attributes in our most recent visitor survey were for the natural landscape and the environment.

“While these high levels of satisfaction with New Zealand from recent visitors are very positive, we should not become complacent and we should continue to do everything we can to protect this reputation.

“Any loss in reputation would be extremely damaging and difficult to repair, which is why we absolutely cannot afford to be complacent.”

Tourism contributed \$8.3b to GDP in the year to March 2014, with another \$6.5b

generated by industries supporting tourism. But the sector is not the only benefactor of the 100% Pure New Zealand brand - much of our export success is built on our ‘clean green’ environment.

In a 2001 study entitled ‘Our clean green image: what’s it worth?’, the Ministry for the Environment surveyed international consumers and found that they would buy 54% fewer dairy products if they perceived New Zealand’s environment as being degraded.

DOWN ON THE FARM

Federated Farmers’ water and environment spokesperson, Ian Mackenzie, runs an Ashburton farm producing grain, vegetable and grass seeds with stock finishing and a dairy unit. A past recipient of the Ballance Farm Environment Awards’ farm habitat award, he says there’s no question that there’s a problem with our freshwater.

But relative to other countries, he says New Zealand is performing well on environmental indicators and we need to be mature about how much we beat ourselves up over our environmental record.

“International visitors to this country – and we host a busload of them once a week at this time of year – they’re all blown away by how glorious our environment is”, Mackenzie says.

“But just because we’re good, doesn’t mean we’re allowed to take our finger off the pulse.”

He says farmers interact with the rural environment every day, and most want to look after their place in the world.

“I’ve been farming for 40 years and I know that even the hard-nosed farmers in New Zealand have a better attitude to the environment than the average farmer in the likes of California.”

The reality, Mackenzie says, is that you can’t have both a growing economy and a pristine environment. As he sees it, the challenge is developing policy that sees agriculture addressing water quality issues without hurting rural communities and the New Zealand economy.

He thinks that the National Policy Statement for Freshwater Management,

“Any loss in reputation would be extremely damaging and difficult to repair, which is why we absolutely cannot afford to be complacent.”

drafted with input from the Land and Water Forum, is a good start. It sets minimum standards for ecosystem health and suitability for swimming, and requires the quality of all water bodies to be maintained and improved.

“It’s tough on agriculture, but in terms of water quality, it’s a pretty exciting piece of legislation in New Zealand.”

New Zealand Trade and Enterprise figures show milk powder, butter and cheese were our top exports for the year ending 31 December 2013, bringing \$13.59b into the economy. And in a country prone to drought, access to water gives farmers a crucial measure of control.

“To produce consistent supply for the domestic and overseas markets, you actually need to be able to guarantee the produce. You can’t be beholden to the weather, because the market requires a consistency of price and quality and supply and you can only get that with irrigation.”

Irrigation also boosts returns for agriculture and horticulture and has allowed dairy to flourish outside of traditional areas, transforming the Canterbury Plains into productive dairy land.

“Dairying on the Canterbury plains with irrigation is getting something like 30 per cent more production per hectare from the same number of cows per hectare as you do in the Waikato or Taranaki, simply because with the certainty of irrigation you can invest in more productive systems,” says Mackenzie.

FLOW-ON EFFECTS

IrrigationNZ is the national industry body for irrigators, representing over 3,600 members. CEO Andrew Curtis says that for every dollar gained through on-farm irrigation, there’s more than three dollars of extra spend in the community.

“People have to understand that it’s not just a case of saying ‘No, you can’t do that anymore’, that actually there’s a flow-on that then happens through the whole of the community.”

“The reality is yes, if you remove water for irrigation out of a river or a groundwater resource, of course it’s going to have an impact. The art form is how we develop limits which allow for a certain amount of impact but don’t degrade systems.”

“That’s what’s now happening around the country. And that’s about balancing up community values and working out where the limit’s best set as a result.”

GOVERNANCE PERSPECTIVE

When it comes to the governance of large-scale irrigation schemes, Curtis says the industry has come a long way.

“We were in a space where schemes were predominantly farmer boards and there was no management. We’ve gone through quite a big transition over the last five to ten years, driven by the modernisation process and the size of the investment that’s been required, and quite a lot of the schemes have now moved to a pure governance role.

“We’ve got a lot more independent directors on boards now. And the schemes have done quite a good job of identifying skill gaps and bringing on directors with expertise in those areas.

He says that much of the challenge faced by scheme directors is in setting a clear direction as to expectations around the use of water.

“The limit-setting regime is giving communities a much clearer steer on what they can do. They want to see the best return for their buck from the water, and also minimise the environmental impacts from its use. Now that those messages are being clearly signalled, the schemes are responding accordingly.

“Large-scale schemes have the ability to work with their farmer-shareholders to help implement best practice and look at how they modernise and expand and become more efficient as that clear direction is given.”

Recognising the often clashing environmental, social, cultural and economic demands on water, Curtis says that a multi-disciplinary approach is the

way forward for the water sector at large - and Joy and Mackenzie are in agreement.

“We’re on the right track at the moment, going down collaborative processes”, says Curtis. “What that does is allow people to start understanding others. We see the process as quite powerful.”

But he says there’s still work to do. “We haven’t necessarily managed the risk very well in the stakeholder relations and communication side of things.”

“It’s about building relationships with the wider community - turning it from a business arrangement into more of a genuine relationship when you can have an open discussion about where you want to go and what you want to do.”

Have your say

This article will be posted to the IOD’s LinkedIn group for discussion, and we welcome your views.

directorRem

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Filling the gap

Designed to be user-friendly for both SMEs and investors, **NXT**, NZX's newly launched capital market, aims to fill a funding gap in the New Zealand market.

By Katherine Robinson

A platform to provide small to mid-sized business with access to capital, NXT will offer investors the chance to invest in growing New Zealand companies.

Aimed at high-growth companies and SMEs with a capital value of \$10 to \$100 million, the new market has a simpler, less onerous disclosure requirement than the main NZX board. Companies will need to issue quarterly updates rather than the continuous disclosure required by the main board.

And instead of issuing a full prospectus, NXT-listed companies will only need to prepare a listing document that will include projections against key operating milestones or business performance indicators.

"These key milestones will be the kind of information that typically is reported any case, and they will be set by the business itself," says NZX Markets Analyst Tim Rentzios.

Businesses listing with NXT will also have an adviser on hand to support them through the listing process.

"We consulted with investors to come up with a structure that aligned with their feedback... it's our belief that integrity and structure are critical to investors."

"For many smaller businesses, it will be useful to have someone who can provide guidance and oversight," he says.

"We wanted to build something that is different to existing markets for SMEs and that was more appropriate for a small market. We looked at creating a market with a simpler set of listing rules, particularly regarding disclosure. It also had to be easy to understand. This will also lead to better information for investors," says Tim, who has worked on NXT from the early design stages.

The launch of the new market comes at the end of two record years for NZX but the concept dates back to

recommendations by the 2009 Capital Markets Development Taskforce.

"Many businesses operating in New Zealand need additional capital for growth," NZX CEO Tim Bennett recently told the *New Zealand Herald*. "Currently it's time consuming for them to find capital, and can be a drain on their limited resources. Inability to raise low-cost capital hampers their growth and ultimately New Zealand's economic prosperity. That's the problem the NXT market will address."

In developing NXT, NZX examined markets for smaller high-growth companies around the globe, such as AIM in London and Nasdaq's First North.

"We picked out what was best in those markets and considered how to apply that in a New Zealand context," says Tim Rentzios.

Accessibility is one of the NXT's aims – borne out by NXT's website, which is refreshingly straightforward. However, Tim points out that ease of use has not been at the expense of safeguards for the investor.

WHAT'S NXT?

NXT has been designed as a platform to provide small to mid-sized business with access to capital and to allow investors the ability to gain exposure to growing New Zealand companies.

WHO CAN LIST ON NXT?

Applicants must meet some requirements before listing on NXT. We list the main ones here – for a full list of requirements see www.nxt.co.nz.

Companies must be an operational business and have:

- an expected market capitalisation on listing of more than \$10m and less than \$100m, and if making a public offer prior to listing, raise at least \$5m in that public offer
- at least 50 shareholders holding separate parcels of shares of at least a minimum holding, that together represents 25 per cent of the shares.

In addition, they must provide to NZX:

- a completed NXT adviser's declaration
- acknowledgements by all persons who will be directors of the NXT company on listing in the form set out in template.

They should have issued or arranged the transfer of such number of shares to a market maker as required by NZX and paid all fees payable at the time of listing.

“We consulted with investors to come up with a structure that aligned with their feedback, and we have also worked closely with the Financial Markets Authority (FMA). It’s our belief that integrity and structure are critical to investors.

“For investors we provide a market health warning – it is important that they know that the market is targeting smaller higher growth companies. And in any case investors will still need to trade through a broker.”

Tim points out that all companies listed on NXT need to have a board with at least two

independent directors. “This requirement aligns with the main NZX board as it is a critical investor protection,” he says.

NZX can also refuse a listing and companies must show the key operating milestones chosen accurately reflect the company’s performance. NXT companies will also be required to graduate to the NZX’s main board once they pass the \$100 million mark.

Ultimately NXT will replace NZX’s ten-year-old secondary board, the New Zealand Alternative Market (NZAX) and there is provision for companies listed there to move to NXT.

At the time of going to print, NXT had opened for business, and had appointed three NXT Advisors – CM Partners, Miro Capital, and Northington Partners – and were processing other applications.

Tim can report keen interest from companies but NXT’s opening date depends on how long it will take for them to prepare their listing papers. He expects NXT’s first listing will likely be in the second quarter of 2015.

For more on NXT, visit nxt.co.nz

directorVacancies

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

TCS (NZ) LTD

Role: Independent chair
Location: Hamilton
Closes: 25 February

CANTERBURY INSURANCE ASSISTANCE SERVICE

Role: Trustee
Location: Christchurch
Closes: 28 February

HOHEPA CANTERBURY

Role: Regional board members (2)
Location: Christchurch
Applications will remain open until positions are filled.

TE AWA O TE ORA

Role: Board member with legal portfolio; board member with clinical portfolio
Location: Christchurch
Applications will remain open until positions are filled.

PROGRESS TO HEALTH

Role: Board trustee
Location: Hamilton
Applications will remain open until positions are filled.

LANTERN HOUSE TRUST

Role: Independent trustee
Location: Taranaki
Applications will remain open until position is filled.

JANE GOODALL INSTITUTE NEW ZEALAND

Role: Director
Location: National
Applications will remain open until position is filled.

SUPA-NZ

Role: Directors (2)
Location: Tauranga
Applications will remain open until positions are filled.

SCOUT ASSOCIATION OF NZ

Role: National chair
Location: Wellington
Closes: 3 March

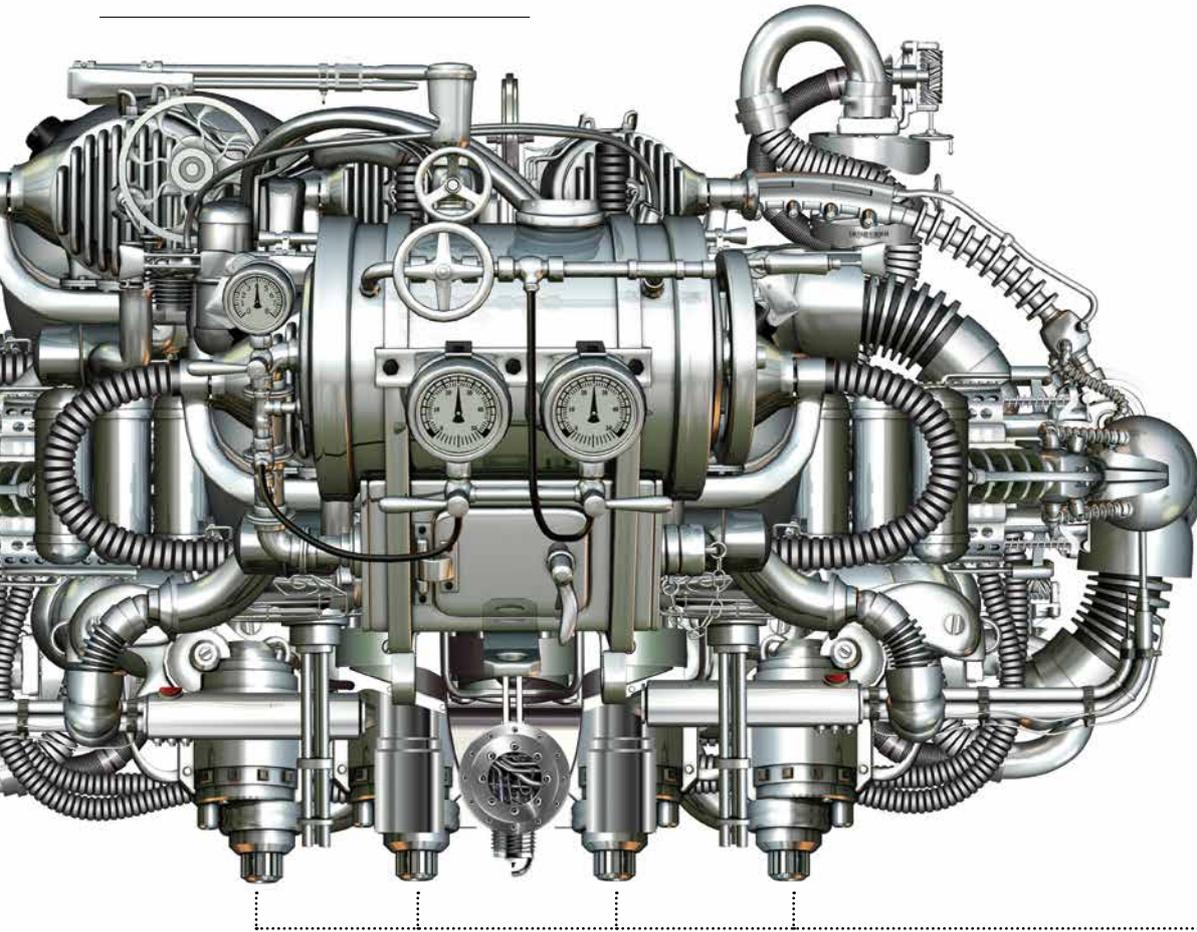
RELATIONSHIPS AOTEAROA

Role: Board members (2)
Location: Wellington
Closes: 9 March

TRANSPORT ACCIDENT INVESTIGATION COMMISSION

Role: Chief Commissioner and Commissioner
Location: National
Closes: 24 February

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.



Audit complexities in a volatile world

Independent audit committees remain the cornerstone of good governance, giving organisations the confidence to make the right business decisions. However, the ever-changing external environment, including economic conditions and legislation are making this job harder. By David Sinkins

Audit committees around the world have noted that ongoing economic and political uncertainty and volatility, regulatory compliance, and operational risk, pose the greatest challenges for companies in the year ahead. This is according to a new survey from KPMG of 1,500 audit committee members in 35 countries, including 145 New Zealand respondents.

New Zealand respondents align with global views as companies here await the outcomes of the significant legislative reforms of the Resource Management Act, new health and safety legislation due to be enacted late in 2015, and the payroll changes due 1 April 2015. The latter two will impact all organisations and require both directors and management to fully

understand their risks to ensure their control environment remains effective.

For the second year in a row, audit committees have noted that it is increasingly difficult, given their time and expertise, to oversee major risks in addition to financial reporting. Three out of four surveyed said the time required to carry out their audit committee responsibilities has increased significantly (24 per cent) or moderately (51 per cent), and half said the job continues to grow more difficult given the committee's time and expertise. Many audit committees say that they have at least some responsibility for significant aspects of risk oversight – in addition to financial reporting – such as cyber security and technology, global

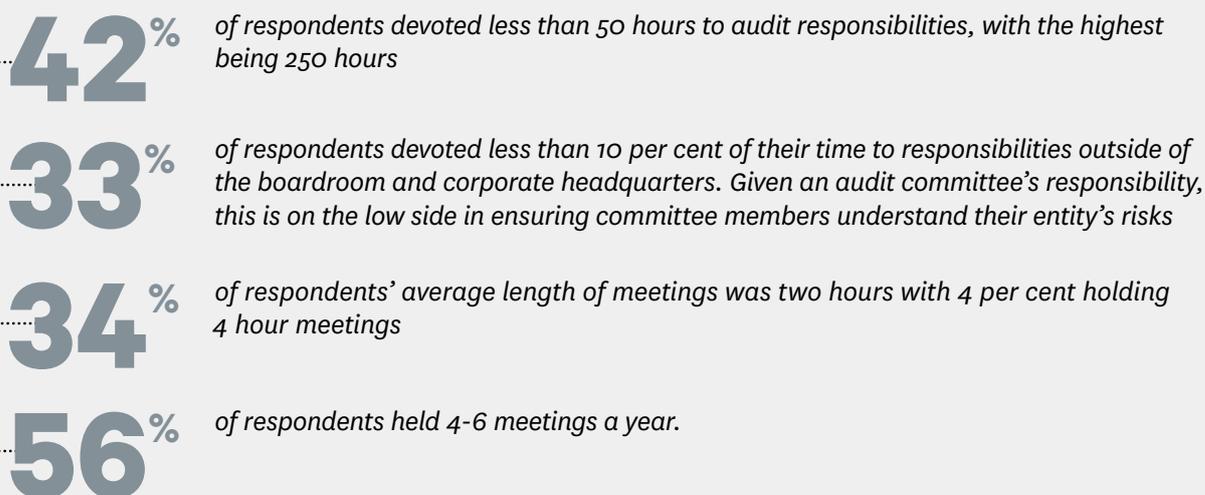
compliance, and operational risks, or the company's risk processes generally.

Audit committees responded that they cannot do it all. Overseeing financial reporting and audit is a major undertaking in itself, and the risk environment is straining many audit committee agendas today.

A positive development is that more boards are reassessing or reallocating risk oversight responsibilities to better balance the workload. Just under half of New Zealand audit committees have recently reallocated risk oversight duties among the full board and its committees, and 27 per cent said they may consider doing so in the near future. This is important as a lighter risk agenda for the audit committee and can translate

AUDIT COMMITTEE MECHANICS

KPMG's 2015 Global Audit Committee Survey considered audit committee mechanics. *For New Zealand:*



into more time for quality discussions and a deeper understanding of the business. We recommend that an audit committee, in conjunction with the board, reviews its workload at least once a year to ensure the committee is focused on the right issues.

Asked which issues will require more attention in 2015, survey respondents cited:

- cyber security and the pace of technology change
- risk management and operational risk
- regulatory compliance.

Taking into account the pace of economic changes and volatility and the increase in regulatory compliance, it's critical that audit committees seek the right advice. KPMG has provided assurance and advice to audit committees on a breadth of key specialities including Board Advisory, Governance, and Regulatory & Compliance. These skilled teams are well versed in assisting directors and management to ensure their audit committees remain abreast of current industry themes and challenges while delivering their strategic and operational risk framework effectively for them to accomplish their business goals; with the end game of making sense of the new and increasingly complex risks in today's business world.



David Sinkins

**David Sinkins,
KPMG Advisory Director**

David has over 20 years' experience and is a director in the KPMG Advisory Services division. David specialises in governance, risk management and internal audit services to the public and private sectors. He chairs the Assurance, Risk and Advisory Committee for the Ministry of Pacific Island Affairs. In this role he provides advice to the chief executive and senior management on governance, risk and internal audit issues.

ONGOING CHALLENGES

While audit committees continue to express confidence in their oversight of the company's financial reporting and audit, the KPMG survey highlights a number of ongoing challenges and concerns globally:

- The quality of risk information is falling short – particularly on cyber security and technology risk, talent and innovation, and business model disruption. New Zealand respondents had similar findings and we believe audit committees should discuss these issues in more depth.
- The company's readiness to respond to loss of critical infrastructure – financial systems, telecommunications networks, transportation, energy/power – may require more attention. New Zealand companies appear to be more conscious of this risk.
- Among senior leaders of the business, the CIO ranks lowest in terms of quality interaction and communication with the audit committee.
- CFO succession planning continues to be a major gap globally. In addition audit committees are seeking CFO's to provide more in-depth information on financial risk management, capital allocation, tax, and debt. In New Zealand this may be less of an issue as often other members of the finance team attend audit committee meetings with their CFO.
- 60 per cent of respondents consider that the internal audit function could deliver greater value to the organisation. We believe there are opportunities to be more future focused and effective by starting with an external review of the internal audit function. This should occur at least once every five years.
- External auditors could better support the audit committee by sharing industry-specific insights and views on the quality of the company's financial management team.
- Assessing their overall effectiveness, most audit committees said they would benefit from a better understanding of the company's strategy and risks; more "white space" time on the agenda for open dialogue; greater diversity of thinking, perspectives, and experiences; and technology expertise on the committee.

Chartered Member Assessment pilot underway

Passing the Chartered Member Assessment is a key requirement for directors who wish to become a Chartered Member of the IoD. After a robust development, the assessment launches this month with a pilot group of directors undertaking the assessment

“To become a Chartered Member, directors must be able to demonstrate a sound knowledge of governance. An assessment of that knowledge can provide assurance to members, stakeholders and those making board appointments that Chartered Members have met standards that support them to carry out their duties,” says IoD Registrar Dr Lisa Docherty.

“We’ve developed the assessment with a small team of subject matter experts,

and for the exam we have worked with specialist provider Aspeq, who have over 20 years’ experience in the development and delivery of assessment tools,” she says.

An academic advisory group will be on hand to provide ongoing support and review.

The assessment includes questions on knowledge of *The Four Pillars of Governance Best Practice* and the content of the Company Directors’ Course. There are

two parts to the assessment: a 75-minute computer-based exam you can sit at one of 16 exam centres nationwide; and a case study assignment you can complete at home over a three-week period. To pass the assessment, you must gain 70 per cent or more in both parts.

Members can register their interest in sitting the assessment by email to cma@iod.org.nz

WHAT’S IN THE EXAM?

The exam is divided into the following sections and subject areas:

TOPIC	NO OF QUESTIONS
Corporate governance <ul style="list-style-type: none"> • <i>IoD Code of Practice</i> • <i>The Four Pillars of Governance Best Practice</i> • Companies Act • Board structure • Role of the chair • Accountability 	12
Finance <ul style="list-style-type: none"> • Fundamentals (financial statements, reporting, accounting concepts) • Compliance • Monitoring financial performance • Building business value 	21
Law and compliance <ul style="list-style-type: none"> • Law (legislation and directors duties) • Compliance (delegations, policies and responsibilities to regulators) • Best-practice (records, proceedings and indemnities) 	20
Risk governance <ul style="list-style-type: none"> • Risk definition • Risk appetite • Director’s role in protecting business value • Risk culture 	7
	60

You can find more information, FAQs and a downloadable candidate handbook on iod.org.nz.

ASSIGNMENT QUESTIONS

The assignment questions are based on a case study provided (in the form of an organisation overview, plus board papers for an upcoming meeting). They cover the following areas:

TOPIC	WORD GUIDE	%
Strategy	750	25
Risk	450	15
Finance and legal	600	20
Board dynamics	750	25
Ethics	450	15
	3000	100

PREPARING FOR THE CMA

Many of our members completed the Company Directors’ Course before the introduction of the Chartered Membership pathway on 1 October 2014. To support these members in preparing for the Chartered Member Assessment, we’ve created the following guidelines:

I did the CDC in 2014

- review your course materials
- study *The Four Pillars*, and familiarise yourself with the Companies Act 1993

I did the CDC 2007-2013

- complete the two-day CDC Refresher
- study *The Four Pillars*, and familiarise yourself with the Companies Act 1993

I did the CDC before 2007

- We strongly recommend that you consider attending a current five-day CDC. The course has been reviewed and modified several times since you first attended.

HOW TO BECOME A CHARTERED MEMBER

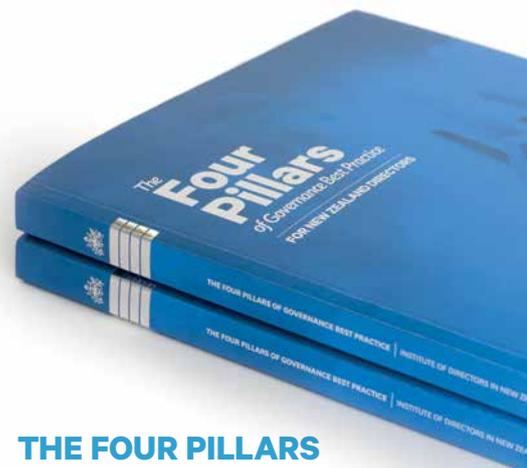
There are four criteria for becoming a Chartered Member. At the time of application to upgrade you must:

- be a member of the board of a qualifying organisation (one with a meaningful separation of the executive function from the oversight and governance function of the organisation)
- have completed the IoD Company Directors' Course (CDC) or equivalent
- have passed the Chartered Member Assessment (CMA) or equivalent
- complete an upgrade to Chartered Member form, and a confirmation of your good character and commitment to the Charter

CDC REFRESHER LAUNCHING SOON

A two-day CDC Refresher course will be available to members from May 2015. The CDC Refresher is intended for those who completed the CDC from 2007 – 2013. Entry to the course will be considered for those who completed earlier CDCs on a case-by-case basis.

You are welcome to discuss your particular situation and best course of action with our Membership Team Leader by emailing lisa.mcrae@iod.org.nz



THE FOUR PILLARS UPDATED

The Four Pillars of Governance Best Practice was updated in 2014. Existing members received supplementary material with the December-January issue of *boardroom*. The full updated version is available to members online.

directorSearch

Searching for a new board member?

When looking for a new director, you should cast the net wide enough to ensure you find the best person for the job while achieving the optimal skills balance for the board as a whole.

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DON'T WORRY, BE READY

Tweak the words to one of the world's catchiest songs and you have a four-word philosophy to take into the framework which will be created by the new Health and Safety Reform Bill. By Garth Gallaway and Marie Wisker

The Health and Safety Reform Bill will be reported back to the House on 30 March and is now not expected to come into effect until the second half of this year. The timetable has been set back to accommodate the very large number of submissions received.

Some nervousness about the legislation is to be expected given that it is designed to achieve cultural change of an order capable of reducing the workplace fatality and serious injury rate by 25 per cent within five years, and that it seeks to do this through a mix of stronger governance duties, greater worker participation, harsher penalties and more intense enforcement.

But WorkSafe is a very different animal to the Department of Labour inspectorate – bigger, much better resourced, more accepting of a leadership function and more proactive. It already has a staff of more than 500, including 167 inspectors, and it is still recruiting.

For the regulated, this means that non-compliance is more likely to be detected. But there are also clear benefits in having a regulator who is prepared to front-foot issues.

WorkSafe first demonstrated this in December 2013 when it published a note advising employers and building owners that it would not take action against them in relation to safety concerns arising from the seismic integrity of their workplaces provided they were in compliance with the standards laid down in the Building Act.

More recently, it has provided detailed information on how the Bill will affect officers – a definition which captures directors, partners in a partnership and those members of senior management with the authority to make decisions affecting the whole or a substantial part of the business (generally the CEO and the COO, but not the CFO).

The fact that WorkSafe has gone to the trouble of setting out its expectations is a source of comfort in itself but there is also much within the content of the advice which is comforting.

DON'T WORRY

WorkSafe confirms that the Bill does not move liability from the company to its officers because the main duty of care will sit with the PCBU, the person conducting the business or undertaking.

The officers' duty is to exercise due diligence to ensure that the PCBU is fulfilling the organisation's obligations. These two duties - of care and of due diligence - are independent of each other with the effect that, where a PCBU (meaning the company, the partnership or the organisation) is in breach but the officers have been diligent, the PCBU rather than the officers will be held to account.

Further, WorkSafe considers that the Bill is fairer to officers than the current system and more consistent with their governance role. This is because the incentives under the two different regimes work in opposite directions.

Under existing law, the incentive on directors is **not** to enquire too closely into health and safety matters because liability is incurred only for those failures by the company which the officer or director directly authorised, sanctioned, agreed to or participated in, and where the officer or director had clear knowledge that the situation was unsafe. Under the Bill, officers will only be liable if it is proved beyond reasonable doubt that they failed to carry out proper due diligence.

DON'T WORRY

WorkSafe is specific. Officers do not need to get involved in day-to-day health and safety management or to carry out site audits.

“Officers provide governance, managers manage. Officers are leaders, and they make the major decisions that influence health and safety. These include strategic direction, securing and allocating resources and ensuring that the company has the right people, systems and equipment in place to eliminate or minimise workplace risks.”

On sites where two or more businesses work side-by-side (as in large construction or infrastructure projects) and where PCBUs may have overlapping duties, the officer’s due diligence obligations relate only to their own business.

DON'T WORRY

Although much is made of the increased sanctions in the Bill, WorkSafe considers that the most likely practical effect for officers of the proposed new penalty regime will be for lighter penalties.

Yes, the maximum fine for a failure to exercise due diligence which results in an individual being exposed to a risk of death or serious injury has been increased slightly from \$250,000 to \$300,000. But for offences involving lesser risk it has been reduced significantly - from \$250,000 currently to \$100,000.

And although reckless conduct, which is the Category 1 offence in the Bill, can attract a fine of up to \$600,000 and five years’ imprisonment, or both; WorkSafe notes that prosecutions are likely to be “very rare” because of the high burden of proof required and because other charges under the Crimes Act will often be more appropriate.

We are aware that most boards are taking the Bill very seriously and have sought legal advice to ensure that they will be able to comply with the new law. But the former Justice Minister, Judith Collins, now sitting on the Transport and Industrial Relations Select Committee, has said that some directors, particularly in inherently dangerous industries, have told her they will consider resigning if the Bill introduces criminal liability and passes in its current form.

Of course, the prospect of jail time is designed to make people sit up and take notice. But we would hope that the points we have made here and which WorkSafe is making will give you confidence that the environment created by the new Act will allow both officers and workers to operate within an appropriate and acceptable level of risk.

BE READY

WorkSafe rightly makes the point that due diligence as defined in the Bill is broadly similar to the discipline which directors have traditionally applied to managing financial risk. It includes taking reasonable steps to:

- maintain an up-to-date knowledge of workplace health and safety matters
- understand the nature of the operations of the business and any associated risks and hazards, and
- ensure and verify that the PCBU has access to and uses the resources, information and processes needed to eliminate or, if elimination is not possible, to minimise safety risks.



Marie Wisker



Garth Gallaway

Garth Gallaway is a partner at Chapman Tripp and Marie Wisker is a senior associate. Marie specialises in commercial disputes, including employment law, and Garth in insurance-related and civil litigation.

Risk and insurance – what’s the outlook for 2015?

At the start of a new year, Nathan Richmond, Executive Director, Marsh, suggests it is timely to think about some of the key risk and insurance issues that may impact you, as a director, in 2015.

The regulatory environment is one that causes a lot of concern for directors. This was reinforced in our Directors’ Survey Report launched last year, where directors rated increasing corporate governance requirements as their biggest risk concern. Here is a summary of some of the key pieces of legislation that may have an impact this year:

Health and Safety Reform Bill

This is a key piece of legislative change for all workplaces, organisations and individuals in New Zealand. It will require greater governance and involvement from senior management and directors to ensure the health and safety of all workers. The law will take effect later this year.

Classes of insurance expected to be affected are: directors’ and officers’, professional indemnity and statutory liability.

Sentencing Amendment Act 2014

From 6 December 2014, the Sentencing Act allows for reparation to be awarded for lost earnings not covered by ACC. An offender being sentenced under the Sentencing Act creates this new civil liability.

Classes of insurance expected to be affected are: motor vehicle, general liability, statutory liability plus other liability policies that provide cover against liability for injury to any person.

Financial Markets Conduct Act (FMCA)

With effect from 1 December 2014, this Act introduces a simplified product disclosure regime for financial service

providers and investment offices. The clarity and simplicity sought after by the legislation will require more attention by directors on delivery and a focus on civil penalties rather than criminal sanctions.

Classes of insurance expected to be affected are: directors and officers (D&O), professional indemnity and statutory liability.

KEY RISK ISSUES

Cyber Risk

The sixth Marsh Biennial Survey of Risk, which was launched in November last year, revealed that the biggest risk concern for New Zealand businesses was IT-related risks.

With cyber-attack numbers increasing, and having no borders, directors need to understand the potential impact and risk to the organisations they represent. Cyber risk exposures are diverse and based on several components such as the amount and type of data collected and stored, IT system dependency, the organisation’s business model and their objectives. Of particular note is the impact for New Zealand businesses that have customers in overseas locations – as the New Zealand business is subject to the privacy and disclosure laws operating in the country of the customer.

The rapid evolution of privacy and computer security risks has left many traditional forms of insurance unable to adequately respond, hence the emergence of cyber insurance, which more adequately maps to the risk exposures.

INSURANCE MARKET

New Zealand property market conditions are predicted to continue in a similar vein to 2014, with strong competition between insurers resulting in a softening of prices and increased coverage being available. The market is however two paced - with the premium reductions available for larger corporate style business being significantly greater than those available for small to medium sized enterprises (SMEs). The level of competition may well increase further into the year for those clients with risk profiles that are well managed and therefore attractive to new insurance market entrants looking to build their portfolios.

As the rebuild and construction activity begins to pick up momentum in Canterbury, the insurance market continues to easily keep pace, with all major insurers having significant capacity and appetite available. The detail and quality of information to allow underwriters to assess the risk remains critical to achieving competitive pricing and the broadest available coverage.

While the quality of building stock within New Zealand is continuing to improve, with many clients working through major earthquake strengthening programmes, earthquake prone buildings (those classified as less than 33 per cent of New Building Standard and Earthquake Risk – between 34 per cent and 66 per cent of buildings) continue to be more challenging to obtain stand-alone cover and business interruption insurance for. If these buildings are part of a portfolio



Nathan Richmond

with geographical spread, the market is more forgiving for clients in regards to the terms and conditions available.

In the international marketplace for New Zealand-based clients, both the major hubs of London/Europe and Singapore continue to remain competitive, especially for those clients who have had longstanding engagement with these markets. In some cases where the local terms and conditions have been slightly more favourable, there are a number of clients who have elected to continue with a share of their programme placed offshore – as this provides a level of insulation to the local New Zealand market conditions. This is especially the case should conditions rapidly change as they did following the Canterbury earthquakes.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

For clients with low to moderate risk profiles, the D&O liability insurance market remains stable. However, insurers are looking to increase premium rates for high-risk clients. Some of the contributing factors are legislative changes and boards electing to purchase increased limits and wider cover.

The ever-increasing demands on directors have led to all directors needing to have a greater technical understanding of their D&O coverage.

GET THE RIGHT ADVICE

Like all industries and products, insurance purchases should not be judged on price alone. At the end of the day, insurance

is simply the contract to indemnify a client following a loss, which may never happen. Therefore it is imperative that when comparing alternative offers from insurers, directors and business owners get quality advice in respect of the insurers' claims paying attitudes, their ability to be flexible to support your business through change and the value the insurer may put on maintaining a long-term business relationship.

As a national partner to the IoD, Marsh is always here to help you with any questions or advice you require.

Throughout the year we will continue to update you on the key risk issues that may affect you personally, or the organisations for which you work. We will also keep you updated of any significant changes in the insurance market.

We hope that 2015 proves to be a prosperous year for all.

For more information please contact Nathan Richmond on 09 928 3094 or nathan.richmond@marsh.com.

Upgrade to Chartered Fellow

Our Chartered Fellow category is the highest level within the IoD's Chartered categories and is awarded to members whose knowledge, character and experience make them a role model for other members, their organisations and community as a whole.

As part of the Chartered Membership pathway we will be continuously accepting applications for upgrade to Chartered Fellow from those members who meet the criteria. Applications are considered by Council at their bi-monthly meetings.

Please login in to the members' area of our website for detailed information, an application form and guidelines for making an application. If you have any questions please contact ann.denboer@iod.org.nz

Get your ducks in a row

The Chartered Membership pathway has put continuing professional development at the heart of the IoD for good reason. As a director, you need to be able to draw on a deep knowledge of governance in order to manage both your own and your organisation's performance. And you need to keep up to date – continuing professional development ensures that you stay current.

If you are looking at where to begin your professional development, the Essentials of Directorship programme provides the first step. An introductory overview of the duties and responsibilities of directors, the programme is designed for new or aspiring directors and senior executives reporting to boards.

Three key areas of governance expertise – governance, finance and strategy – are covered, each in a one-day non-residential course. Facilitated by experienced directors,

these courses utilise case studies and encourage participation and the sharing of relevant experiences.

The courses in the programme can be undertaken separately – ideal for senior directors looking for a quick refresh on a particular aspect of governance. However, we encourage new directors to complete all three courses to ensure a firm grounding in these key aspects of governance.

For those looking to progress further down the Chartered Membership

pathway, the complete programme lays the foundations for the five-day Company Directors' Course.

All three courses can be taken in a block or spread out over a year, whichever is convenient for you, or suits your style of learning. Some prefer a more intensive approach, others find it an advantage to reflect on what they have learned and apply it between courses.



Essential Elements



Governance Essentials provides a strong understanding of the roles and responsibilities of a board and individual directors. It covers board relationships, robust processes, good decision-making, the board's role in strategy, and key elements of the operations of a board.



Finance Essentials provides a comprehensive and highly practical overview of the key financial information you will need to confidently perform your duties as a director.



Strategy Essentials has recently been updated. A director's role is to grasp the big picture in order to develop a strategy that can steer an organisation forward to a better future. This course can help you understand the fundamentals of strategy development.

Alternative options



Governance Development Programme is designed for those wanting an in-depth look at the foundations of good governance. An alternative to Governance Essentials, it covers the same ground but is delivered in two-hourly sessions over an extended time span, enabling participants to apply their learnings between sessions.



Not-for-Profit Governance Essentials is the ideal option for those working in the not-for-profit sector. As an alternative to Governance Essentials, it covers the fundamentals of governance from a not-for-profit perspective.

OUR COURSE PARTICIPANTS SAY:

"The governance world is changing so rapidly that you cannot afford to get behind. Because this course attracts different people from very different paths in the board structure, it provides a valuable update and insight into what is relevant and necessary today."

– GOVERNANCE ESSENTIALS ATTENDEE

"Finance Essentials gives a good overview of interpreting accounts and what questions directors should be asking."

– FINANCE ESSENTIALS ATTENDEE

"The value of this course lies in the tools provided to step a board through the strategic planning review process."

– STRATEGY ESSENTIALS ATTENDEE

Book all three Essentials of Directorship courses and get a 10 per cent discount.

Refresh your CDC experience

The IoD's Company Directors' Course (CDC) plays a critical role in ensuring director knowledge and governance standards in New Zealand, and is a key criterion for entry to the Chartered Member category. The five-day course received a refresh in 2014.

This May, for those wanting to update their knowledge, we'll be launching the CDC Refresher. The refresher course is held over two days and covers corporate governance, law and compliance, finance and strategy and risk.

The course leads off with a group debrief exercise where participants can reflect on how the CDC has informed their governance practice. This is followed by a session titled 'Beyond the Horizon', exploring the governance landscape of the future.

The CDC Refresher will be valuable preparation for the Chartered Member Assessment (for more information, see page 32) for those members who completed the CDC between 2007 and 2014.

Board evaluation done better

Best practice boards commit to evaluation for continuous improvement.

BetterBoards is an online evaluation tool that helps boards identify their strengths and weaknesses, assess their performance, and determine opportunities to become better at what they do.

It is simple to set-up, easy to use, and accessible across mobile web platforms. The evaluation reports are comprehensive, easy to follow, and accompanied by an overview to assist the chair in leading post-evaluation discussions.

Additionally, boards can choose to have an IoD facilitated discussion to explore the board's current situation and determine future direction.

BetterBoards is the only board evaluation tool that shows how your board is performing against the IoD's comprehensive reference guide for directors, the *Four Pillars of Governance Best Practice*.

Contact us at
boardservices@iod.org.nz
or phone us on 04 499 0076
to talk about your board evaluation needs.



simple set-up • accessible • comprehensive

Course and workshop calendar

MARCH – JUNE 2015

GOVERNANCE ESSENTIALS		✓ 8 CPD POINTS
10 March	AUCKLAND	
25 March	CHRISTCHURCH	
8 April	WELLINGTON	
15 April	AUCKLAND	
12 May	HAMILTON	
21 May	AUCKLAND	
26 May	WELLINGTON	
3 June	NEW PLYMOUTH	
16 June	CHRISTCHURCH	
30 June	AUCKLAND	

FINANCE ESSENTIALS		✓ 8 CPD POINTS
11 March	AUCKLAND	
26 March	CHRISTCHURCH	
9 April	WELLINGTON	
16 April	AUCKLAND	
13 May	HAMILTON	
17 June	CHRISTCHURCH	

STRATEGY ESSENTIALS		✓ 8 CPD POINTS
12 March	AUCKLAND	
27 May	WELLINGTON	
4 June	NEW PLYMOUTH	
18 June	CHRISTCHURCH	

RISK ESSENTIALS		✓ 12 CPD POINTS
Workshop: <i>(with webinars prior, see iod.co.nz for webinar dates)</i>		
24 March	WELLINGTON	
19 June	CHRISTCHURCH	

GOVERNANCE DEVELOPMENT PROGRAMME		✓ 14 CPD POINTS
Starts:		
2 March	DUNEDIN	
23 April	NELSON	
7 May	CHRISTCHURCH	
4 June	HAMILTON	
29 June	TAURANGA	

NOT-FOR-PROFIT GOVERNANCE ESSENTIALS		✓ 8 CPD POINTS
10 March	AUCKLAND	
9 June	WELLINGTON	

AUDIT AND RISK COMMITTEES		✓ 8 CPD POINTS
12 March	WELLINGTON	
24 June	AUCKLAND	

CHAIRING THE BOARD		✓ 16 CPD POINTS
17 March – 18 March	DUNEDIN	
19 May – 20 May	AUCKLAND	
3 June – 4 June	WELLINGTON	

COMPANY DIRECTORS' COURSE		✓ 40 CPD POINTS
15 March – 20 March	QUEENSTOWN	
12 April – 17 April	QUEENSTOWN	
10 May – 15 May	AUCKLAND	
24 May – 29 May	QUEENSTOWN	
21 June – 26 June	AUCKLAND	
28 June – 3 July	HANMER SPRINGS	

COMPANY DIRECTORS' COURSE – NON-RESIDENTIAL		✓ 40 CPD POINTS
2 March – 6 March	AUCKLAND	
23 March – 27 March	WELLINGTON	
4 May – 8 May	WELLINGTON	

COMPANY DIRECTORS' COURSE – REFRESHER		✓ 16 CPD POINTS
6 May – 7 May	WELLINGTON	
26 May – 27 May	AUCKLAND	
10 June – 11 June	AUCKLAND	



New year, fresh thinking

A new year often ushers in change – whether driven by outside forces such as legislation, or by a desire to progress and improve.

Revised Companies Act sparks interest in director recruitment

This year sees the enactment of provisions of the Companies Amendment Act (2014). To protect New Zealand's international reputation as a trusted place to do business, amendments to the Companies Act require all New Zealand-registered companies to have one or more New Zealand-based directors on their boards, with similar requirements for limited partnerships.

“Part of the intention of the legislation is to target shell companies that present a legitimate-looking front to an illegal operation in another part of the world,” says Acting IoD CEO Simon Arcus.

“New Zealand could have been particularly vulnerable to this kind of operation because of its reputation as a corruption and crime-free country where it is easy to do business,” he says.

The changes apply to new companies from 1 May 2015 and existing companies have an additional six-month period to comply with the resident director requirements.

“Over the last three months, we have fielded many enquiries from companies interested in using our DirectorSearch service,” says Board Services Advisor Kelly McGregor.

“New Zealand companies that are largely based overseas would find it very convenient to hand the search

and appointment process over to the Board Services team here” she says.

The IoD has the largest database of independent and professional directors in New Zealand. All of those directors who have registered on the DirectorSearch database are members of the IoD and are actively looking for governance roles. These directors are distinguished by two critical differences from others using the term ‘director’. They belong to their leading professional body and have agreed to abide by the IoD Code of Practice. In addition, they now commit to continuing professional development.

“Most boards will have an idea of what they need in a director and will give us the criteria as a first step. From there, we use this criteria to identify potential candidates. We’ll then refine this list down to a long list of between eight to twelve candidates,” says Kelly.

“We’ll discuss these with clients and leave them some time to consider the

long list. Clients then select a shortlist of two to four candidates that they would like to interview, and we contact them on the client’s behalf,” she says.

At this point, boards can decide to either carry out the interview process with candidates themselves or to involve Board Services in the selection process.

For more information

The Governance Leadership Centre issued a directorsbrief on the Companies Amendment Act and the Limited Partnerships Amendment Act. For more information, visit GovernanceResources.oniod.org.nz

A question of money

You want to recruit an independent director – but what should you pay? Deciding on remuneration is not only critical in attracting a director during the recruitment process but also in being able to motivate and retain the right directors for your board and your organisation.

“It is vital to retain key directors who can play a role in driving company performance,” says the IoD’s Acting CEO Simon Arcus. “However, finding the right level of remuneration can be a sensitive task for a board to tackle alone. Boards often have an idea about remuneration but want to benchmark a fee or provide defensible analysis from a professional third party. This is where it helps to have independent advice.”

Tailored to suit your organisation, a DirectorRem report provides detailed benchmarking analyses of directors’ fees and recommends appropriate fees for your board.

“We work with many types of organisations and we understand the complexity of the environment within which a board operates, the sort of demands directors

will face and the hours they are expected to work,” says Board Services Advisor Ellen Hodgetts, who manages DirectorRem.

The IoD also offers DirectorRem SnapShot reports, which provide an overview of fees in the market in which your organisation operates. This cost-effective option is ideal for SMEs and not-for-profits.

Taking an overview

The first quarter of the year is often appraisal time for an organisation’s staff and management, allowing reflection on overall performance and identifying strength and weaknesses. It could also be the right time for a board evaluation.

“It is just as important to conduct a review of the board as to review staff performance. Regular board evaluations allow the board to ensure that it is following best practice. It’s worth pointing out that this (BetterBoards) is the only board evaluation tool that shows how your board is performing against *The Four Pillars of Governance Best Practice*,” says Simon.

The IoD’s online board evaluation tool, BetterBoards, can help your board understand how a board is tracking in these key areas such as role, performance,

management and board, and culture. The evaluation can cover the whole board or individual directors and the chief executive.

Board Services Advisor Sally Jarvis, who manages BetterBoards, says many boards find it useful to carry out board evaluations regularly.

“You can assess how your board is performing, the data builds over the years, and you can track improvements. The evaluation is easy to set up and impartial as the report is generated directly from the responses received online.”

“Conducting a board evaluation is a first step in assessment but the real value lies in how you use those findings,” says Simon. “Many boards find that open discussion run by a neutral, external facilitator can help identify and resolve issues, and we are able to help with this.”

For full details on DirectorSearch, DirectorRem and BetterBoards, along with other services for boards, see the Board Services brochure accompanying this issue of boardroom or visit iod.org.nz/services-for-boards

If you would like to discuss any of our services, please email boardservices@iod.org.nz or call 04 499 0076 or 0800 846 369



branch events

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

AUCKLAND



John Key

Prime Minister John Key

The Rt Hon John Key will present 'New Zealand in 2015' to Auckland branch members on 19 March. Get in quick to register for this event.

7:30am - 9:00am, 19 March, Auckland CBD



Dame Jenny Shipley



Dame Alison Paterson



Dame Rosanne Meo

FirstBreak evening panel

Dames Jenny Shipley, Alison Paterson and Rosanne Meo on getting that all-important first board break. Following the panel discussion, young directors will have the opportunity to network with senior IoD directors over drinks and nibbles.

5:30pm - 7:30pm, 24 March, Marsh, Level 18, 151 Queen Street, Auckland

Next Generation Director evening workshop

Build a fundamental understanding of governance best practice and boost your confidence to undertake more formal director training.

4:30pm - 7:00pm, 14 April, BNZ Partners Business Centre, Deloitte Centre, Level 7, 80 Queen Street, Auckland



Shamubeel Equb

Shamubeel Equb

NZIER principal economist Shamubeel Equb on the economic outlook for New Zealand.

7:30am - 9:00am, 15 April, The Northern Club, 19 Princes Street, Auckland

Auckland Branch AGM

The AGM follows a presentation from NZIER's Shamubeel Equb.

9:00am - 9:15am, 15 April, The Northern Club, 19 Princes Street, Auckland

Next Generation Director evening workshop

Build your governance awareness and find out what a directorship really means.

4:30pm - 7:00pm, 9 June, BNZ Partners Business Centre, Deloitte Centre, Level 7, 80 Queen Street, Auckland

WAIKATO

WAIKATO

Lunch function with Thomas Gibbons

Thomas Gibbons of McCaw Lewis Lawyers on the new Financial Markets Conduct Act and what it means for Waikato business.

12:00pm - 2:00pm, 11 March, Radio Sport Lounge, Waikato Stadium, 128 Seddon Road, Whitiora, Hamilton

KiwiRail's John Spencer and Peter Reedy

This lunch function is offered in association with the Waikato Chamber of Commerce.

12:00pm - 2:00pm, 25 March, Bronze Lounge, Waikato Stadium

New member welcome lunch

12:00pm - 2:00pm, 8 April, Radio Sport Lounge, Waikato Stadium

Reserve Bank Governor Graeme Wheeler

In association with the Waikato Chamber of Commerce, we bring you the opportunity to hear from Reserve Bank Governor Graham Wheeler.

23 April, time and venue TBC

WELLINGTON

Crown board appointments: how the process works

Join us for a brown bag lunch with Treasury's Fiona Chan.

12:00pm - 1:30pm, 3 March, Institute of Directors, Mezzanine Floor, 50 Customhouse Quay, Wellington

Dinner with Peter Miskimmin

Join us for a dinner with guest speaker Peter Miskimmin, former Olympian, elite hockey coach and now CEO of Sport New Zealand.

6:15pm, 28 April, Level 5, The Wellington Club, 88 The Terrace, Wellington

BAY OF PLENTY

Bay of Plenty Branch AGM

Michael Stiassny, IoD vice-president, presents on the world of governance in 2015.

5:30pm - 7:30pm, 25 February, Tauranga Club, Level 5, Devonport Towers, 72 Devonport Rd, Tauranga

NELSON MARLBOROUGH



Hon. Ruth Richardson

Hon. Ruth Richardson

Former Finance Minister and company director the Hon. Ruth Richardson on the fast-changing platform for performance.

12:00pm - 1:30pm, 12 March, Trailways Hotel, 66 Trafalgar Street, Nelson

Cocktail function

Together with Chartered Accountants Australia and New Zealand, we bring you the chance to hear from the New Zealand Super Fund's Brad Dunstan.

5:30pm - 7:00pm, 28 April, Trailways Hotel, 66 Trafalgar Street, Nelson

Chris Kelly

Join us for a lunch function with Massey University Pro-Chancellor Chris Kelly.

12:00pm - 1:30pm, 20 May, Trailways Hotel, 66 Trafalgar Street, Nelson

Not-for-profit directors' obligations

A joint lunch event with Crowe Horwath.

12:00pm - 1:30pm, 23 June, Trailways Hotel, 66 Trafalgar Street, Nelson

CANTERBURY

New members lunch

Meet the Canterbury branch committee and other new members.

12:00pm - 2:00pm, 27 February 2015, The George, 50 Park Terrace, Christchurch

Canterbury Branch AGM

Rob Everett of the Financial Markets Authority with a call to arms for directors.

5:45pm - 7:45pm, 4 March, The George, 50 Park Terrace, Christchurch

Managing cyber risk: reality, exposures and risk transfer

Cyber risk is real in New Zealand – there is no border for this new curse and no director is immune. Join us for a lunch function with Xavier Marguinaud, Philip Whitmore and Ian Pollard to discuss risk management options and solutions.

12:00pm - 2:00pm, 18 March, The George, 50 Park Terrace, Christchurch

OTAGO SOUTHLAND

New members' lunch (invitation only)

We welcome our new members and discuss how the IoD can assist with governance careers.

12:00pm - 2:00pm, 23 February, The Dunedin Club, 33 Melville Street, Dunedin

Governance in farming enterprises: getting it right

Join Ross Cottier, Tim Black, Kevin Cooney, and Tony Cleland for a panel discussion about the role of governance in farming businesses.

12:00pm - 2:00pm, 3 March, Ascot Park Hotel, Cnr Tay Street and Racecourse Road, Invercargill

Otago Southland Branch AGM

Join us for a cocktail function and guest speaker Mr Terry Davies, Chief Executive of Dunedin Venues Management Ltd.

5:30pm - 7:30pm, 25 March, The Dunedin Club, 33 Melville Street, Dunedin

Wanaka cocktail function

Speaker: Mr Jonathan Wallis

5:30pm - 7:30pm, 2 April, Edgewater Hotel, 54 Sargood Drive, Wanaka

Silver Fern Farms

Join us for a cocktail function and site visit to the head office of Silver Fern Farms Ltd, where we will hear from chairman Rob Hewett.

5:30pm - 7:30pm, 20 May, Silver Fern Farms, 283 Princes Street, Dunedin

Rob Everett

Financial Markets Authority CEO Rob Everett will present to Queenstown members.

5:30pm, 28 May, Queenstown Resort College, 7 Coronation Drive, Queenstown



Rob Everett

Institute of Directors AGM

Speaker: Hon Pete Hodgson, Acting Chief Executive, Otago Innovation Ltd

12:00pm - 2:00pm, 15 June, The Dunedin Club, 33 Melville Street, Dunedin



Hon Pete Hodgson

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branchnews

- 1 | Margaret Devlin, Evelyn Weir (Waikato)
- 2 | Maria Johnston, Andrea McCartney, Jenny Sayers (Waikato)
- 3 | BOP Branch Manager Jo Perry and Homes of Hope representatives (Bay of Plenty)
- 4 | Bay of Plenty branch members (Bay of Plenty)
- 5 | Graham Cooney, Dr Jenny McMahon, Stephen Higgs (Otago Southland)
- 6 | Professor George Benwell, Bevin Watt, Kathy Grant (Otago Southland)

- 7 | Dunedin Governance Development Programme participants. *Photo courtesy of the Otago Daily Times.* (Otago Southland)
- 8 | Jarrod Coburn, Erin Ebborn (Canterbury)
- 9 | Mads Moller, Scott Whitaker (Canterbury)
- 10 | Karl Smith, Karen Smith, Brian Wood (Canterbury)
- 11 | David Viles, Mary Matheson, Jennifer Barr (Canterbury)
- 12 | Helen Anderson, Paul Foley (Wellington)
- 13 | Melissa Clark-Reynolds, Jackie Lloyd (Wellington)

WAIKATO

Waikato members toasted 2014 at the Veranda Café and Function Centre in December.



BAY OF PLENTY

Bay of Plenty branch members donated Christmas presents to local charity Homes of Hope. Branch members wrapped 2014 up with Christmas drinks and a quiz night.



OTAGO SOUTHLAND

Otago Southland members enjoyed a Christmas function on 4 December, with guest speaker Chris White.



Governance Development Programme participants marked their graduation with a dinner at the Dunedin Club.



CANTERBURY

Canterbury members, their partners and guests spent a very enjoyable evening in the Christchurch Botanic Garden relaxing and catching up with colleagues and friends as 2014 drew to a close.



TARANAKI

The Taranaki Christmas function was well-attended and local members enjoyed a presentation from Rob Jager of Shell Todd Oil Services on health and safety.



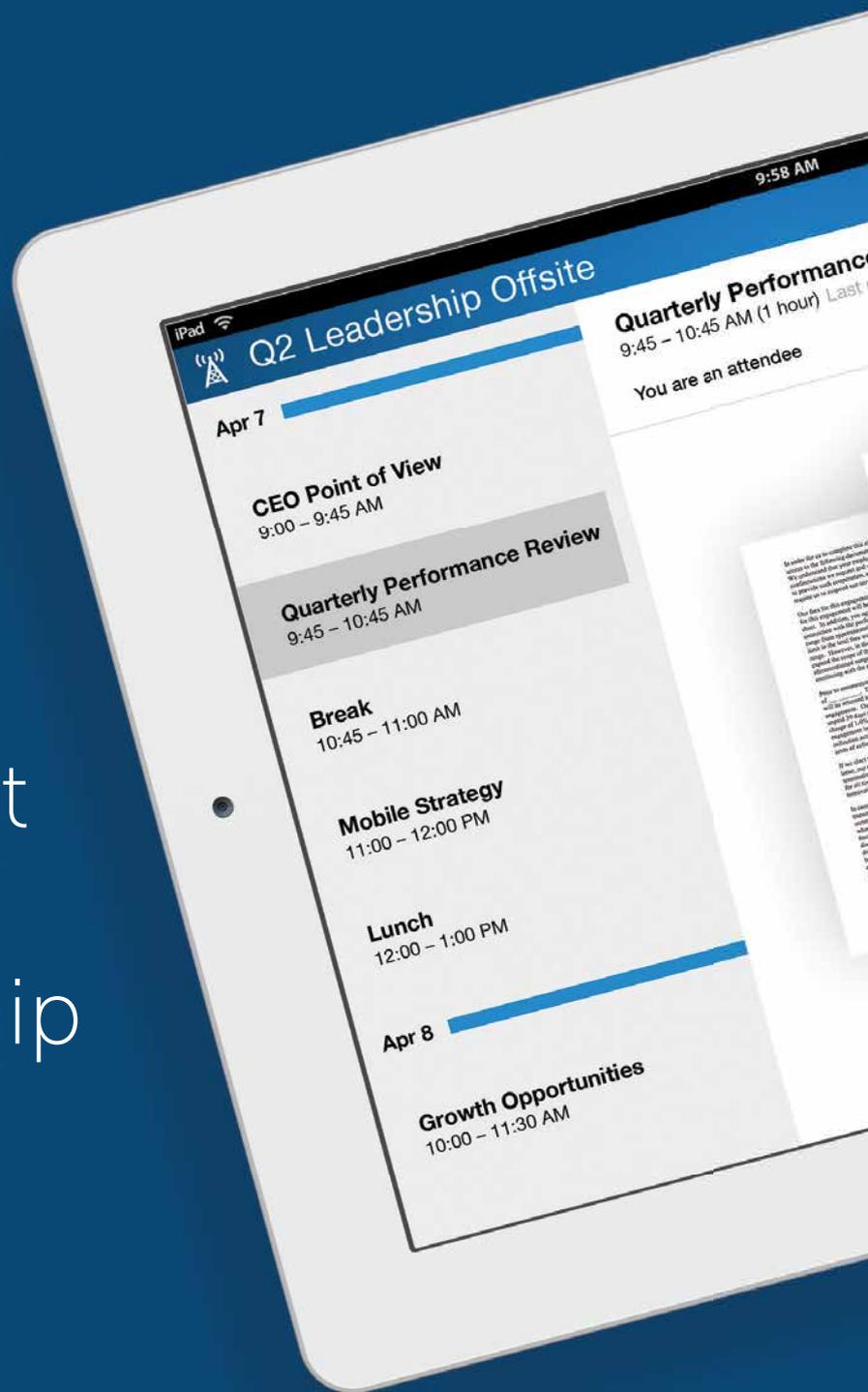
WELLINGTON

East Coast members enjoyed a Christmas function with guest speaker Tony Alexander, chief economist at BNZ, on 3 December. Wellington members packed the IoD office to hear from serial entrepreneur Melissa Clark-Reynolds on what directors will need in the future.



MeetX

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