OCTOBER/NOVEMBER 2013

boardroom

Magazine of the Institute of Directors in New Zealand

A PACIFIC VOICE AT THE TABLE

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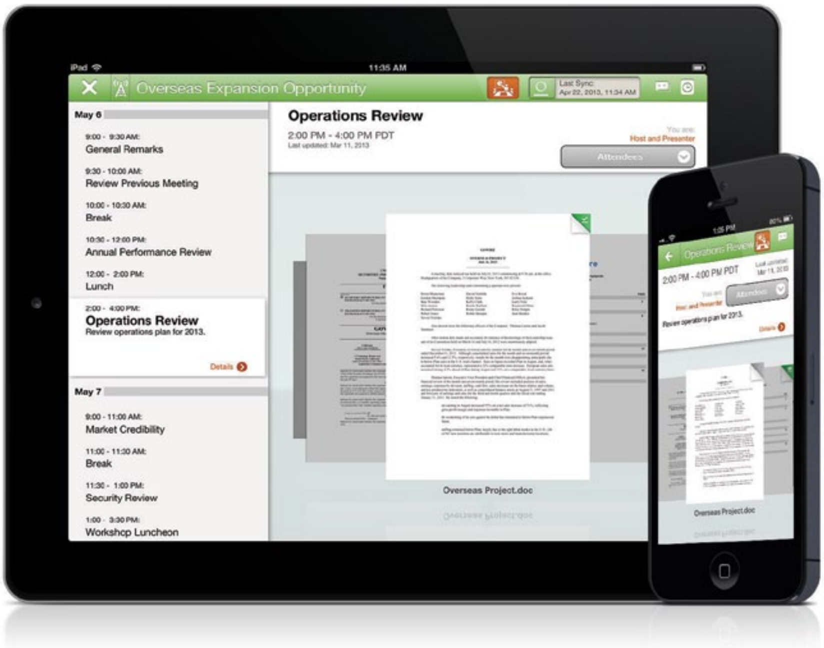

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Sydney NSW 2000
T +61 2 8211 0679 | F +61 2 8211 0555

FROM THE EDITOR

Welcome to October/November *board***room**. In this issue we talk to business leaders who say that drawing on their Pacific background adds an extra dimension to their roles in business.

On workplace culture, a TNS New Zealand survey examines what engages employees – and the answers may surprise if you think that it comes down to a healthy paycheck.

David Ware explores what we learn from AGMs, we examine value of the internal audit and take a look at reinsurance – an important area that many of us may have never considered before the impact of the Canterbury quakes.

Finally, we invite you to welcome the IoD's new CEO, Dr William Whittaker, profiled in an article by Amy Williams.

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

Institute *of* Directors
IN NEW ZEALAND (INC)

Institute of Directors in New Zealand (Inc)
Mezzanine Floor, Tower Building
50 Customhouse Quay
PO Box 25253, Wellington 6146
New Zealand
tel: 04 499 0076
fax: 04 499 9488
email: mail@iod.org.nz
www.iod.org.nz

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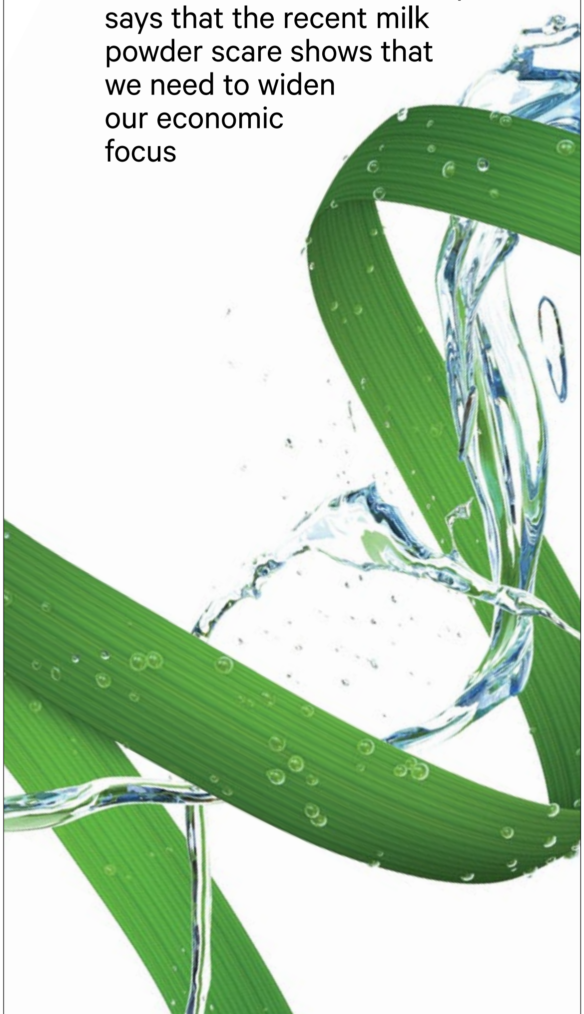
Dairy now comprises more than 13 per cent of our exports, but Professor Shaun Hendy says that the recent milk powder scare shows that we need to widen our economic focus



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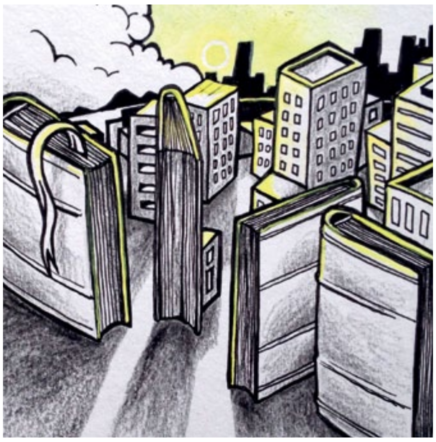
The hottest topic in local government is amalgamation.



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Finance company collapses, the GFC and Pike River cast long shadows and have led to four important pieces of legislation


The Right Stuff
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Institute of Directors annual leadership conference is back – save the date

CEO REPORT

Effective directors need to be good leaders

As far as the America's Cup was concerned it seemed to be a case of to the victor the foils. Some suggested Team New Zealand succumbed to some deep-seated flaw in our psyche and at matchpoint choked, snatching defeat from the jaws of victory.

In the week prior to the final decider there was a surrealism at play. How could a boat and crew that had creamed the opposition so thoroughly and held a seemingly unassailable lead, possibly lose? We were comfortable with giving away a few races. They had to be something of a fluke because hadn't we got the best skipper, the guy with the uncanny appreciation of windshifts and currents (so one paper trumpeted) and the best-drilled team?

We know what happened. In defeat, Deano was dignified and honourable and we were proud of him for that. It was shades of Kipling's *If,* that great Victorian hit poem "If you can meet with triumph and disaster and treat those two impostors just the same". We claimed him as one of our own, a true sportsman who has suffered the slings and arrows of outrageous fortune.

In the end, we concluded, with greater national maturity than shown over previous sporting defeats, it wasn't sailing skills that lost the regatta but money and greater resources that bought it. Hardly a level playing field but everyone knew that anyway. Game over, time to move on.

Directors have to deal with difficult stuff all the time. They need the ability to take advantage of opportunities, understand the risks and minimise them, work as part of a dynamic, high-performing team in pursuit of the goal of improving shareholder value, and when circumstances change apply deftness of skill and acuity of mind to cope. This demands control and resilience.

It's all about leadership, something that the human race cannot do without. We are made that way and it is part of the human genome. Unfortunately, it is also true that we are sometimes drawn to bad leaders, since tyrants, despots and other generally dodgy characters that theologians tend to describe as captured by "the principle of evil" regularly keep popping up and holding some in their thrall. Most are found out, or dealt to in the annals of history, but each has something persuasive that encourages people to follow.

Leadership is a key attribute of the effective director. As directors are the decision-makers on investments that can lead to growth or failure, then they must take this responsibility seriously.

So, at its simplest all directors should possess the right stuff. But what contributes to this? Judgment, integrity, courage and passion? At our Leadership Conference next year – 15/16 April at SKYCITY Convention Centre, Auckland delegates will have the opportunity to learn from those in the arena.

It may have been to establish a profitable operation, take the company to the next level or conversely, to manage a downturn with the tide going the wrong way. All those situations require courage and judgment. Hear from those who have made positive things happen and from those leaders who have had to deal with the difficult stuff, from those who "keep their heads when others are losing theirs" and who embody "clever is as clever does".

Listening to a new voice

It is estimated that by 2026 ten per cent of New Zealanders will have Pacific Island ancestry – making Pacific peoples our fastest growing ethnic group (other than by immigration). Well over half of the country's Pacific community are New Zealand-born – a new generation that aspires to play a greater part in the fabric of this country. Pacific business leaders talk to Katherine Robinson about how their culture has influenced them, the challenges shaping this dynamic community, and why demographics mean that decision-makers will need to listen to a strengthening Pacific voice

Conch shell from Rarotonga courtesy of the Joseph family

Adrian Orr

Orchid Atimalala

Sina Wendt-Moore

Pauline Winter

New Zealand Superannuation Fund chief executive Adrian Orr, recently elected as deputy chair of the International Forum of Sovereign Wealth Funds, says that he owes much to his Pacific ancestry. "My grandfather arrived in New Zealand in the 1930s from Atiu. He was one of the first Cook Islanders who came to settle around Taupo in the hope of improving his lot.

"I didn't have much connection with my father's family so it was the Cook Island side of the family that helped form my values in childhood. I picked up a strong sense of sustainability from my grandfather – not a single thing went to waste, everything that could be re-used was cared for meticulously. He also had a natural sense of fairness and discipline. There was a respect for all people – rich, poor or whatever.

"Community and family were very important – you can see this across the Pacific today. When I worked in the bank, there was never such a thing as a default on a mortgage in Rarotonga because the family would rally around and offer support."

Adrian, who has also held positions as Chief Economist in both Westpac and the National Bank, credits his early upbringing with teaching him the importance of EQ in leadership. "You reach a certain point in your career where the technical stuff is only going to take you so far. Companies often fail when they put the best engineer in charge rather than the best leader – humour, humility and self-awareness are critical. I don't think people realise the importance of this until later in life. The EQ part of it – for me that came from growing up in that small rural community with my Grandad."

His role with the New Zealand Superannuation Fund, which helps pre-fund universal superannuation payments, is in many ways a perfect fit. "it is about long-term intergenerational considerations. If you are not thinking about long-term social issues in this then you are not doing your job."

Adrian adeptly navigates Western business culture, but has also been an advocate for the betterment of Pasifika people in New Zealand whom, he dryly observes, "do not shine at the top end of income statistics in this country."

The reasons for this are complex, he says. "In traditional Pacific Island culture there is a very clear sense of the cultural social structure and your place in it, and once this is removed, as it is for migrants, then you are going to have to rebuild it somehow. Lots of everything needs to happen – there is no silver bullet. Areas such as early childhood education, language development, tertiary education, helping young people take their first steps into the workforce – you would struggle to over-invest in these areas."

"The concept of leadership through service is strong in Pacific communities where the family, church and the community are a connected and integrated way of life. My experience is an expectation that you serve before you lead and then you carry that experience with you when you are chosen to lead." Pauline Winter

Relatively few Pacific people living in New Zealand are self-employed – only three per cent according to Ministry of Pacific Island Affairs (MPIA) figures – Adrian identifies the constraints as capital, confidence and capability.

PLAYING THE GAME

Earlier this year, Massey University doctoral candidate Ryan Holland undertook a review of Māori and Pacific directors in sports governance on behalf of Sports NZ. He found that while those of Māori and Pacific descent made up nearly half the players in many of our elite teams, their representation across all sports governance roles is just over five per cent.

Ryan interviewed two different groups for his study – chief executives and chairs of national sports organisations and Māori and Pacific board members. Each gave different reasons for the lack of ethnic diversity.

Non-Māori and Pacific chief executives saw the issue as a simple lack of experience, but Māori and Pacific directors put it down to cultural factors. Few role models in governance and a preference for staying connected with the community were all given as explanations.

"I think people need to be identified at the grassroots level and given opportunities to develop leadership and governance skills through workshops and mentoring. We have a good programme of coaching certificates in New Zealand. There's no reason why we shouldn't create a similar pathway for Māori and Pacific people to develop governance skills," said Ryan.

"Particularly for the first-generation of migrants, it can be hard to build up a pool of capital – that is a major constraint. Generally, Pacific businesses are small, owner-operated or family-owned and funded by family capital. There may be similar challenges for Māori but they usually have better access to capital. And as migrants, Pacific people may have lacked the confidence and knowledge to build a business."

A PRESENCE IN BUSINESS

Pauline Winter, MPIA's first female Chief Executive, said that developing a Pacific presence in business was one of her mandates when she took up the role last year. In this, MPIA covers everything from helping young people into employment to funding The Pacific Business Trust, MPIA's business development arm.

MPIA also encourages Pacific people to put themselves forward for governance positions on school, health or community boards as a first step in governance and runs a database of Pacific directors available for board appointments in the public sector.

"New Zealand boardrooms, whether public or private will benefit from participation of new people, new experiences, new ways of looking at the world and tackling issues and problem solving," she says.

"It wasn't that long ago that women were virtually invisible on New Zealand boards. Their progress has paved the way for others to follow and add to the richness of diversity of thought and insight. Quite apart from this, the inclusion of Pacific peoples on boards gives a powerful signal to our young people and their career choices. Role models on boards will allow them to aspire to new and different roles in the ever-changing New Zealand to which they belong."

These aspirations are borne out by the growing number of Pasifika peoples graduating with a tertiary qualification. Tertiary education enrolments by under 25-year-olds have risen more steeply for Pacific students than for all others.

There is also a multiplicity of leadership programmes catering for Pasifika. These range from programmes for secondary school pupils through to MPIA's own leadership programme which offers senior Pacific public servants the chance to develop the strategies and skillsets necessary to move up into management.

Like Adrian, Pauline moves smoothly between cultures. She has Samoan, Te Ati Awa/Taranaki and European ancestry, and says she identifies most strongly with being a New Zealander. Awarded the QSO in 2008 for services to Pacific peoples and business, she was previously Director of the Office of Pasifika Advancement at the Auckland University of Technology. She has been on the boards of the Tertiary Education Commission, NZQA, the Auckland Investments Board and the Committee for Auckland. She also ran her own company, Interpacific Ltd, specialising in governance training and mentoring for Pacific peoples.

However, she can recall a time when she would have felt nervous outside her own community, but, "I come from a strong family with ambitious women, they encouraged me to step up and not be frightened to navigate out into the wider world."

Part of this hesitancy, she says, is because it goes against the grain of traditional Pacific culture to stand out or push oneself forward, particularly into leadership roles. Pacific cultures are diverse but there are core values. "The concept of leadership through service is strong in Pacific communities where the family, church and the community are a connected and integrated way of life. My experience is an expectation that you serve before you lead and then you carry that experience with you when you are chosen to lead… often skilled, energetic and willing individuals may sit patiently on the sideline."

Pauline says that it will require courage and skill to change this and ensure that those that can are able to make themselves visible for the different roles to those played by Pacific people in the past.

NEW RULES OF ENGAGEMENT

Leadership New Zealand CEO Sina Wendt-Moore believes that mentoring offers a bridge into mainstream business. Not, she stresses, to compromise Pacific cultural values but to pass on the rules of engagement for advancing in a more individualistic culture.

"In a mainstream setting the behaviours are different, the strategies are different, so that can be another barrier," she says.

In one of her roles, Sina is a mentor for the Leadership Pacific Network. She gives the example of mentoring a talented young woman who had been passed over for a promotion many times. "She thought that it was enough that she worked hard and was doing an excellent job. Every time a job was advertised she would send her application in. What she didn't do was tell those on the level above that she had these aspirations. Once she did, she was promoted within three months," says Sina.

And this awareness of different cultural mores in the workplace is a two-way street, she says. If European managers of Pacific employees "don't know what they don't know" they could misinterpret humility as lack of initiative.

Samoan with Anglo-German ancestry, Sina came to New Zealand to attend Canterbury University when she was 17. A holiday job with Telecom led to a career in sales followed by senior management roles. She was founding Chief Executive for NiuFM, the first national Pan-Pacific radio broadcasting network, and current board roles include directorships on YWCA Aotearoa New Zealand and the Pacific Music Awards Trust.

Her command of the business world where she, in common with the other interviewees, has often been the only Pacific person in the boardroom, she puts down to strong family role models. "I grew up in Samoa post-independence, it was a very optimistic and positive time. People around me had senior roles in government and were changing life for the better."

BRINGING DIVERSITY OUT IN THE OPEN

One key to advancement may lie in the diverse Pacific communities acting more collaboratively with one another, says Orchid Atimalala, Principal Planner at Opus International and Deputy Chair of the Pacific People's Advisory Panel for Auckland.

"Competition is tough in Auckland for resourcing and if we are competing for the same funding rather than coming together in an integrated way we are not going to improve our options," she says.

But not all the change, she says needs to come from the Pacific community – mainstream culture has to wake up to the value of diversity in decision-making. Boardrooms, she says need to be more aligned to the diverse make-up of society.

"I think mainstream can be a dangerous place to be because you can become shut off from what makes us special, and perhaps become a bit complacent. Diversity is key. If you embrace diversity, you can refresh, regenerate and adapt quickly,"

And by diversity, she means embracing a diverse range of skills, thinking and perspective – of which ethnicity is one element.

"We need to ensure that we have that wide calibration of skills – financial, legal or reputational skills on a board. We should also acknowledge differences in perspective through ethnicity, culture and gender ," says Adrian.

"As a country, we take enormous pride in our Pacific heritage – we would be the Falkland Islands of the South Pacific without Māori or Pacific people. But unless they are participating of the decision-making process then it is not authentic," he says.

PACIFIC FACTS*

- just under 266,000 people identified themselves as from the Pacific Islands at the time of the 2006 census, nearly seven per cent of the total population. That's an increase of 15 per cent (34,173) since the 2001 census.
- Samoans (131,103) are the largest group. The next largest group is Cook Islands Māori (58,011), then Tongan (50,478), Niuean (22,476), Fijian (9,864), Tokelauan (6,822) and Tuvaluan (2,625).
- increasingly, Pacific people identify with more than one ethnicity – the other not necessarily Pacific – adding another dimension to New Zealand's multi-culturalism.
- 60 per cent of the Pacific population in New Zealand are New Zealand-born. Two in every five born overseas have been here more than 20 years.
- 38 per cent of Pacific peoples (100,344 people) were under 15 in 2006. The comparable figure for the population overall is 22 per cent. Projections are that in 2026 one in ten New Zealanders will be Pacific.

* Ministry of Pacific Island Affairs 2008

Update

CONDOLENCES

The IoD would like to offer condolences to the family and friends of David Newman who died earlier this month. David was CEO of the IoD from 1998 to 2004. He was a Fellow of the IoD, and earned respect from many as a director and chairman. He served as a chairman of Wellington Airport, and more recently, Infratil.

APPOINTMENTS

Jim Boult, outgoing CEO of Christchurch International Airport, has been appointed to the board of City Care

Paul Kiesanowski, retiring Partner at KPMG has been appointed to the board of Red Bus

Jeremy Smith, Managing Director Holcim NZ has been appointed to the board of Orion

Business New Zealand Chief Executive Phil O'Reilly and Vanessa Stoddart have been appointed as a member of the Tertiary Education Committee

Neil Craig and Liz Dawson join Martin Snedden, Sir Richard Hadlee and Geoff Allott on the NZ Cricket Board

Scan for the latest IoD News

IoD launches *board*Wide membership

*We are pleased to be able to offer boards the chance for all their directors to join the IoD under board**Wide** membership*

Now boards of four or more directors can join the IoD with *board***Wide** membership. If the whole board joins as a *board***Wide** member, the organisation will receive the benefits of membership and will be entitled to a 20 per cent discount on membership subscriptions.

"The IoD sees this as a way for organisations to show their commitment to governance best practice and to raising the standard of governance across New Zealand," says IoD President Stuart McLauchlan. "Boards who join through *board***Wide** may also want to consider offering membership to their CEO or to senior management who report to boards."

As a *board***Wide** member, an organisation will receive an additional copy of the IoD's flagship document, *The Four Pillars of Governance Best Practice,* a subscription to *board***room**, and one free advertisement on the Director Vacancy Noticeboard.

The organisation will be able to use the IoD's *board***Wide** member logo on its annual report and company profile. The IoD in turn will acknowledge the support of *board***Wide** members in the Annual Report.

Annual *board***Wide** membership for every member of the board is reduced from $435 per member to $348 per member including GST. There is no joining fee (usually $150 including GST) for *board***Wide** members.

For more information, email mail@iod.org.nz or phone 04 499 0076.

CALLING FUTURE DIRECTORS AND HOST BOARDS – OUT IN THE REGIONS

Launched earlier this year, Future Directors offers emerging directors the chance to sit on the board of a New Zealand public company for a year. They can add to discussions but cannot vote. This offers benefits for the boards and the next generation of directors. Boards gain a fresh perspective while talented emerging directors will be able to see first-hand the workings of a board. Future Directors has had strong support from the main centres. Now we are also looking for boards and director talent in the regions. For more information, visit futuredirectors.co.nz

TAKE A MINUTE

For a brief guide on minute-taking, directors' obligations under the Companies Act 1993 and suggested practices to ensure the company's approach to minutes is well executed, visit iod.org.nz/Servicesforboards/Toolsandtemplates/Resources.aspx

The guide is free to IoD members, and available to non-members for $50.00.

New Approach to Auditing

In what has been called a "watershed moment for auditing", two Exposure Drafts (EDs) setting out proposed changes in auditor reporting were recently released for worldwide comment. Issued by the International Auditing Standards Board (IAASB) and by the US's Public Accounting Oversight Board (PCAOB) the proposals could change the nature of the auditor's report.

If approved, the changes will also affect boards in corporate financial reporting/information disclosure, the auditor/board relationship; and auditor communications with boards in the course of the audit process.

Both proposals aim to provide more insight, depth and transparency in an auditor's report. For instance, auditors will need to not only identify Key Audit Matters (or Critical Audit Matters) in listed companies, but also explain why these matters have been identified. The aim is to offer more relevant information and enhance the quality of financial reporting to both management and boards.

The changes which have been deliberated over some years were triggered by a call for more meaningful information from investors and other stakeholders after the global financial crisis.

The IoD is making a submission on the IAASB proposals and will be informing members on this as soon as possible. For more details of IAASB and PCAOB proposals or if you are interested in submitting a comment visit ifac.org or pcaobus.org

Submissions close for IAASB 22 November 2013.

Submissions close for PCAOB 11 December 2013.

UPDATE ON THE CHARTERED DIRECTOR PROGRAMME

The development process continues to ensure that the framework for the Chartered Director programme is relevant for both members and the business community.

The programme aims to shift the IoD from a membership to a professional organisation. The project is currently working through the new membership structure, continuing professional development (CPD) requirements, rule changes and associated systems changes. We are also looking at the detail on how we will support members during this period of change. For members who are active in the IoD and who keep their learning up-to-date potential new CPD requirements will involve little change. For example, mentoring, professional teaching and involvement in professional activities such as working groups will also be counted as CPD to recognise the work of members in leading and enriching the profession.

We've been heartened by the strong support for these moves from membership via the recent membership survey and will keep you posted on further developments.

MENTORING FOR DIVERSITY IN THIRD YEAR

Applications have closed for the 2014 Mentoring for Diversity (MfD) programme, and we are please to report that there has once again been a strong field of candidates to choose from.

First run in 2012, MfD links skilled women directors (mentees) with chairmen and senior directors (mentors). This not only raises the women mentees' visibility but also helps them gain the knowledge that will help them achieve director appointments.

Mentors and mentees highly value the programme for a range of reasons, but its ultimate aim is to increase the number of women on larger, listed, public or private boards. We can report that at least seven of the mentees have a gained board appointments since the programme began.

Company Directors' Course

Wellington, August 2013

FRONT ROW: (Left to right) Clement Chia, Geoff Manners, Jo Sawden, John Bay, Dawn Engelbrecht, Keith Poore, George Cole.
SECOND ROW: Dean McDougall, Phil Nevell, Andrew Clark, Rachel Drew, David Proctor.
THIRD ROW: Leo Lonergan, Warwick White, Nigel Gormly, Hans Kopruch.
FOURTH ROW: Alan Kittelty, Stephen Holmes, Alan Young, Andrew Selby,
TOP ROW: Mike Carter, Alin Ungureanu.

IOD BY NUMBERS*

1352
Participants in Director Development training courses up to 30 September 2013

Around **1000**
Friends of IoD's Facebook page

Over **3000**
Members of IoD's LinkedIn group

4 years
Median length of a directorship according to the 2013 IoD Directors' Fees Survey

* Correct at time of publication

Changing of the guard

From leading expeditions to the Himalayas to lecturing at Victoria University of Wellington, the IoD's new chief executive Dr William Whittaker has had an interesting and varied career path. He tells Amy Williams what his vision is for the organisation

There's no doubt Dr Whittaker has taken the road less travelled to get to where he is today, and reading his background is like taking a tour through ten different people's CVs – it's very multi-disciplinary.

He's researched, taught, consulted, published and held senior executive management positions – including two as chief executive – not to mention a stint in ecotourism.

Now he's been handed the reins of the IoD, and Dr Whittaker admits his career progression has been different to most.

"It has been a curious path but this is the most challenging role that I've taken on. It is not only challenging but inspiring to work with such smart people," he says.

And that sentiment will no doubt be returned – Dr Whittaker holds a PhD from Cambridge University, for research into labour migration and farm productivity in the Indian Himalayas. It was knowledge he leaned on when he later led trekking tours there. He founded an adventure travel company when ecotourism was taking hold, and his motto was take only pictures, leave only footprints and learn along the way. The experience gave him valuable insights into managing people in sometimes-tricky situations that he says has stuck with him throughout his career. Relationship management is key in an organisation like the IoD which has interests everywhere governance is practised.

His career has included academia (Dr Whittaker spent four years lecturing on economic development issues at Victoria University of Wellington) and 16 years in the health sector in senior executive management roles.

"During that time I developed a strong interest in what professional associations should be about and what they can achieve," he says. He believes his background was the right fit for his first role at the IoD, as manager of research, policy and development.

Now as chief executive, Dr Whittaker says the IoD is at a tipping point: "We're half a degree from getting from where we are to somewhere really significant and great. I want to be part of that journey."

"My focus is ensuring we have a very clear and dynamic strategic plan that's understood by all, and then to implement it effectively."

In the past, the IoD may have been considered by some as a bit of an old boys' club – a perception Dr Whittaker says is outdated.

"We'll never get to the top of the mountain. There will never be a resting place at the top because society and the economy are dynamic and constantly throwing up new challenges."

"Some people see us as a quasi trade union. We want to be the voice of good governance and better business."

He says that's about raising the standards and being the pre-eminent association for directors in New Zealand (which the IoD arguably already is) and recognised as a governance leader internationally.

"We've got a heightened sense of awareness about what needs to be done. We want to be regarded as a relevant, effective organisation that serves directors and New Zealand as a whole with top quality governance."

Part of that is moving away from directors trading on their IoD membership, to trading on their own brand by making directoring a more defined profession.

"We've seen a greater focus on the role of directors, a greater focus on accountability and responsibilities. The work of a director is getting harder because of that greater scrutiny and expectation," Dr Whittaker says.

The IoD developed the New Zealand Director Competency Framework last year, which will provide a starting point for the Chartered Director programme.

The evolving programme is designed to offer directors recognition for their experience and skills, and give the market assurance that directors are fit for the job.

It won't be a formal qualification or licence, but more of a mark of professionalism.

"We believe New Zealand needs it. If we pull it off it will be enormously beneficial for New Zealand and also in a global sense. We have an opportunity to trail blaze something that's entirely logical," says Dr Whittaker.

"While I think most directors take their responsibilities quite seriously, the director community needs to up its game. We want to give shareholders confidence that directors of their companies are match-fit and capable of driving shareholder value," he says.

Company boardrooms are facing more scrutiny as a whole, in that shareholders are looking for greater diversity.

Just four years ago, the issue of diversity in boardrooms was under the radar but Dr Whittaker says it's now at the forefront – thanks in part to initiatives set up by the IoD to start the debate.

He was a key player in the IoD's Mentoring for Diversity programme, which matches women wanting to progress their career into senior level directorships with mentors who have the experience.

"Like elsewhere the focus in New Zealand has tended to be on gender diversity, which has been a place to start. We know that diversity runs deeper than gender and we know that we've got a major role to play in that because it's a critical skillset for boards."

He says when there's diversity of thought around a board table, better decisions are made.

"We want to be known for creating a very strong, deep and diverse, pool of directors because that's the key to future governance effectiveness."

And with half a million directors in New Zealand, including many who are sole operators of businesses, there's a large potential membership base to tap into.

The IoD has more than 6000 members on its database, a number that is growing.

Dr Whittaker was the driving force behind Fresh Thinking First Boards, a governance toolkit to grow small and medium-sized businesses.

"We're not a big end of town operation, we cover the whole spectrum."

As for the future, Dr Whittaker says the IoD will need a greater presence in Auckland to serve its growing membership in the city.

Meanwhile, directors are likely to continue coming under the spotlight and Dr Whittaker says the institute needs to be more relevant and more effective in getting them match-fit.

"We'll never get to the top of the mountain. There will never be a resting place at the top because society and the economy are dynamic and constantly throwing up new challenges."

As for trekking in the mountains, Dr Whittaker says he has fond memories of his adventures but he now enjoys pursuing less vigorous activities including music and painting as well as making furniture, another skill he has picked up along the way. In the future and when time permits he is keen to do some NFP work. In fact, he views his current role as contributing to the betterment of society by helping the country's directors meet their responsibilities to shareholders.

Getting off the grass

The fallout from Fonterra's recent milk powder scare, it has served as a reminder to all New Zealanders of how dependent we are on our primary sector.
By Professor Shaun Hendy

Dairying has grown spectacularly in New Zealand over the last decade. Milk powder now comprises more than 13% of our exports by value, generating billions of dollars in foreign earnings for the country. Buoyed by its success, the primary sector has set itself the ambitious goal of doubling its exports to NZ$60bn by 2025.

Yet as the late Sir Paul Callaghan and I argue in our recent book, *Get Off the Grass,* New Zealand's reliance on its primary sector has its downsides. Our primary sector depends on New Zealand's clean green image to differentiate itself in the marketplace, leaving our economy vulnerable if this brand were to become tarnished.

And unfortunately, as the organisers of a recent primary sector summit put it: "We are beginning to reach the practical limits of available land, water and other resources, meaning the challenge of growing that revenue in the future will only become greater". Data from NIWA's National Rivers Water Quality Network shows that our water quality has declined markedly in recent times, with the health of a large proportion of our lakes in danger from agricultural run-off. And the rest of the world is starting to notice. Recently the UK's *Daily Mail* labelled our green image as "100% Pure Manure".

The New Zealand dollar has become a commodity currency with a value against other currencies that fluctuates with the value of our commodity exports. It should be no surprise that the New Zealand dollar plummeted when news of the milk powder contamination broke. This exchange rate volatility in turn makes it hard for exporters in our manufacturing sector or those trying to add value our primary sector produce through processing. It does seem to be time to get off the grass.

Many other countries have gone down this path. In 1995, Denmark's largest export by value was bacon. By 2010, Denmark's leading export was pharmaceuticals. Paper made up around 15% of Finland's exports in 1995. A decade later, 15% of its exports were mobile phones. And some countries were never on the grass in the first place. The city-state of Singapore has never had a primary sector to rely on.

How have these countries managed it? Decades ago, each of these countries committed themselves to substantial and sustained investments in science and technology. These small smart economies each spend around 3–4% of their GDP on research and development. New Zealand lags well behind at just over 1%, little more than the fraction we spent in the 1980s.

And historically, the New Zealand Government's science and innovation policies have been built around the need to support the primary sector. In 2010 the government spent $265m on primary sector research and development, twice what it spent on the manufacturing sector and twice what the primary sector itself spent. This mismatch between public and private sector spending distorts the skills of our R&D workforce. While our ICT sector struggles to find qualified researchers and developers, our universities churn out graduates in biology and biotechnology.

Increasing government spending on R&D in high-value manufacturing should be a priority. Countries like Finland, Denmark, Israel and Singapore have all used science and innovation to develop and grow new high-technology industries. New Zealand should follow suit.

This is not to say that we have not had excellent returns from our primary sector R&D. From the discovery that the ash-based soils in the central North Island were cobalt deficient, which opened up of tens of thousands of hectares of land for dairy farming, to the early experiments by government scientists in planting sauvignon blanc grapes, science has been essential to our primary sector. The problem is that this type of science is highly specialised. These discoveries do not spill over into other industries as readily as advances in manufacturing can.

Fisher and Paykel Healthcare, which makes a range of medical equipment, had its origins in a collaboration between a medic at Auckland Hospital's intensive care unit and the original Fisher and Paykel white-ware manufacturer. Gallagher, the Waikato company that started out in electric fencing, combined its expertise with technology developed by Manawatu company PEC Fuel Pump systems to make high-tech security systems. The technologies behind manufactured products can be recombined endlessly to produce new goods in ways that aren't possible in the primary sector.

This is ultimately why we must get off the grass. And make no mistake, our primary industries need a strong manufacturing sector as much as the rest of us do. If we don't develop a knowledge sector that can deliver novel technologies for our farmers, we risk being left behind in an innovation cul-de-sac. We have seen Denmark's agricultural productivity soar past that of New Zealand as its manufacturing sector has grown.

New Zealand does and should continue to enjoy one of the most spectacular and breath-taking landscapes in the world. We should be prepared to use the advantage our environment grants us to generate wealth in a sustainable manner. But let's not use it as a crutch. We can only base so much of our success on our good fortune to live in a country with abundant natural resources. In the modern world, success stems from know-how not nature.

Shaun Hendy is a professor of computational physics at Victoria University of Wellington, and a winner of the Callaghan Medal and the Prime Minister's Science Media Communication Prize.

Get Off the Grass: Kickstarting New Zealand's Innovation Economy by Shaun Hendy and Sir Paul Callaghan. (Auckland University Press, $34.99)

What engages your employees?

Is it the amount you pay employees? Is it the benefits the job provides? Or is it the reputation of the company in the community or the working environment? Nearly 500 New Zealand employees were quizzed on what they valued most in a workplace in a recent TNS New Zealand survey. By Bindi Norwell and Andrew Gale

Would it surprise you to know that it's not only about the money? While competitive compensation and benefits are important in attracting and retaining talent, the TNS survey showed that other drivers of engagement, such as providing an enjoyable workplace are considered more important. In fact, if even 15 per cent of your employees found the workplace more enjoyable, employee churn would be reduced by two per cent. In other words, in an organisation with 500 employees, you would be able to retain around ten people.

An enjoyable working environment doesn't need to cost more but it does start from the top. Directors can ensure a company has a positive work culture by having the policies and protocols in place that will encourage managers to have strong relationships with their direct reports. This includes providing employees with the chance to develop their skills and career, and a clear direction on how their role is aligned with the organisation's goals. This aligns with TNS's global benchmarking database on employee engagement which indicates that the top ten per cent of companies are rated significantly better on 'management provides clear direction'.

It doesn't necessarily take much to create an enjoyable workplace. When questioned further, staff said that they enjoyed their workplace because of cultural factors, such as:

- a common sense of purpose, for example, 'I have colleagues who are passionate about their work and enjoy working for the company despite being under continuous pressure'
- clear team goals and roles, for example, 'We work together as a team well'; 'We have a good work environment and I get along well with the other team members'
- good managers, for example, 'We have a comfortable working place, good relationships between colleagues and managers, we're valued and respected and there's a sense of achievement'
- enjoying the workplace, for example, 'We have a good bunch of staff that get along well and have fun while achieving'
- demonstrating to staff the commitment of management, for example, 'It is a friendly and flexible workplace where upper management are directly involved in the everyday running'
- Those who were not satisfied with their workplace said that management need to be seen to be more involved and easy to work with, for example, 'More direct management from the upper management to control stress between staff members' and 'Employ better managers'.

WHICH COMPANIES DO A GOOD JOB OF CREATING HIGH LEVELS OF STAFF ENGAGEMENT?

If you're the manager of a company that employs less than ten people then chances are your staff are engaged, happy to be working with you, more likely to recommend you as an employer to others and much less likely to consider leaving. These factors contribute to lower your training costs, reduce your costs when recruiting new staff and contribute to higher levels of customer satisfaction.

If, on the other hand, a company employs more than 100 people, and especially if it operates in a blue collar industry, then chances are employees are less engaged, 50 per cent more likely to be looking for work elsewhere and less likely to recommend it as a place to work. These factors increase training costs, recruitment costs and potentially

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Company values count

Maven won the Kenexa Best Workplaces award in 2007, and has been a finalist seven times. Chief Executive Lesley Kennedy believes that Maven's recipe for a productive workplace lies in establishing the organisation's core values – and living by them. By Katherine Robinson

Maven was rebranded in 2007 after a management buy out of IT consultancy, AMR, in 2004. Rapid growth and a move away from its high-tech roots followed. The consultancy now includes around 40 consultants (mavens) who offer a broad range of business capability over a wide spectrum of sectors and countries.

Within a high-growth company offering a plethora of skills, Lesley believes it is particularly vital that the foundation of the brand and the company culture are rock solid and immediately identifiable to both employees and clients. There is a "Maven way of doing things."

"Our company has four philosophical pillars – firstly we want to make a difference to the communities we work in. Secondly, we are culture-led, so we can attract and retain exceptional people, treat each other with respect and integrity, and have a whole lot of fun along the way. Thirdly, we want to prosper – this means we're focused on securing stable annuity income and growing sustainably."

"And fourthly, we want to be different. We're not into emulating anyone which means we're able to develop innovative and ethical businesses and business models along with compelling differentiators for each business we invest in."

Being true to the company's ethos means that all business and investment decisions must fit within this framework.

"We have walked away from commercial decisions because at a values level they did not feel right. We all need to earn a living – but the key driver for us is not about 'how can I make the maximum amount of money out of this deal?' We look at how it aligns with our philosophy, values and what we want to achieve as an organisation – and makes a reasonable return," she says. "We can walk away from a big piece of work that doesn't fit with us and feel good about it."

She also disagrees with an age-old piece of business advice – never do business with friends.

"I think it is not dealing with conflict that causes problems or when you have a company's values up on the wall but do not abide by them."

"My friends are people whom I know and trust, why wouldn't I want to do business with them? I'm not a different person at home to who I am at work – why would you be a nicer person at home than at work?"

But she says a good working environment does not exclude debate, among management or around the board table.

"We have quite robust debate sometimes but once a decision has been made we support it. I think it is not dealing with conflict that causes problems or when you have a company's values up on the wall but do not abide by them. As a company we are open to disagreement and different views and have found ways to work without consensus. Sharing similar core values and philosophy means that there is safety in disagreement."

Take it as red

If most of your staff work off-site how do you create a strong brand and a positive working culture? Sarah Gibson, CEO and co-founder of business analysis firm, Redvespa, talks to Katherine Robinson

It starts with the recruitment process, says Sarah. "There is a formal first interview, and then a peer review which allows the interviewee as well as other staff to see if they will work well together."

After recruitment Sarah spends at least 30 minutes with every new employee, followed by a thorough induction. "The induction is really important, they are introduced to everybody in the business, and it's made clear to them exactly what everybody does – the structure and the purpose of every role."

Good communication is essential. When out on the client site, consultants are emailed a fortnightly newsletter. "It's informative, with some lighter pieces and some interesting blogs, tips or social media to read" to keep in touch.

"We also think celebration is really important. It doesn't have to be celebrating huge things – perhaps someone has really nice feedback from a client. People work incredibly hard and it's just about acknowledging that work."

Making employees feel valued extends to hand-delivering a morning tea, often baked by Sarah, at the end of an assignment. "In winter we delivered a winter pick-me-up of lemon honey and ginger to our consultants."

There is also an annual two-day getaway and a big Christmas party. "The primary purpose is to bring everyone together and have a good time."

Sarah says the company culture comes from the top. "We have a board who are people-focused too. They are focused on the bottom line but not at the expense of our most important asset – our people."

It is a winning strategy. Celebrating their ten-year anniversary last month, and with around 50 staff, Redvespa have not only won Best Small Workplace, JRA Best Workplaces 2010 and Recruit IT Hi-Tech Employer of Choice Award, NZ Hi-Tech Awards 2011 but have also been twice listed on Deloittes' Technology Fast 500 for Asia Pacific companies.

contribute to less satisfied customers. This indicates that understanding levels of engagement among employees in larger organisations is even more important.

WHAT ELSE DO GOOD MANAGERS DO?

In addition to creating a workplace that is enjoyable and ensuring staff have a good working relationship with them, good managers provide staff with the opportunity to develop their skills and careers. This doesn't necessarily mean that employees expect to be rising up the corporate ladder, but providing aspirational targets, for example, 'We are encouraged to aim for the stars' as well as on-the-job training, for example, 'Access to my manager's personal wealth of knowledge of the industry'.

WHAT ABOUT PAY, SURELY THAT MATTERS?

Employees' perceptions that their pay reflects their performance ranks fourth in importance behind an enjoyable workplace, a good working relationship with management and providing skill and career development, and therefore requires some management focus, but isn't the be all and end of employee engagement. Increasing employee satisfaction with this element isn't necessarily about being paid more, as being paid the same as similar roles in other organisations. Employee satisfaction is about communicating how their role impacts the organisation and how they are remunerated accordingly. Being able to demonstrate they are paid in line with the market using industry-wide salary surveys will also help with this.

WHAT IMPACT DOES A COMPANY'S SOCIAL RESPONSIBILITY PROGRAMME HAVE?

Of the various corporate social responsibility programmes a company can participate in such as promoting diversity in the workplace, supporting the community and demonstrating environmental responsibility, it is environmental responsibility that matters most to employees. More than half of employees still think that their employer is not doing a good job of demonstrating environmental responsibility.

WHAT ELSE DO ORGANISATIONS NEED TO BE AWARE OF?

One of the other key findings was the need to focus on employee retention in the second year of employment. Employees in their second year reported that their working relationship with their manager worsened, partly driven by perceptions that their pay didn't reflect their performance or a lack of understanding as to how their performance contributes to the overall performance of the organisation. These factors significantly increase the likelihood of these employees leaving the organisation. Losing experienced employees at this point is a costly exercise.

Bindi Norwell, Director and Andrew Gale, Senior Consultant from TNS New Zealand. For further information, Bindi can be contacted on bindi.norwell@tns.global.com

SO WHAT CAN ORGANISATIONS DO TO IMPROVE EMPLOYEE ENGAGEMENT?

- **Think wider than pay and benefits –** as research has shown, aspects relating to the workplace environment can be more important than pay – so ensure you're providing an enjoyable workplace and that employees feel they have the opportunities to develop their skills and their careers. Providing clear direction is also important - especially on how employee's roles are aligned with organisational goals.
- **Measure it and implement actions to improve engagement –** the best way to gain robust feedback on how engaged your employees are and how the organisation can improve it is to measure it and develop actions. A common method is through conducting quantitative online surveys which are customised to your particular organisation. Priorities should be set for implementing actions to improve performance, though a follow-up process that ensures involvement and accountability of employees, managers and executive teams. Organisations should continue to track engagement over time rather than treat it as a one-off event to drive improvements over the long term.
- **Benchmark –** notwithstanding that each organisation is unique, benchmarking is often a good way to determine how your level of engagement compares to industry averages and top performers, nationally and ideally globally
- **Connect performance with results** – ideally link results on employee engagement to business outcomes such as absenteeism, customer satisfaction and retention and financial KPI's - so your organisation can understand and quantify its impact
- **Bring performance to the executive table –** employee engagement is an important discussion to have at management and board level meetings in order to develop organisational wide strategies and priorities for improvement

OPINION

Do AGMs work?

Have you ever wondered what happens at other people's AGMs or ASMs? Do they meet the needs of shareholders and directors? David Ware wrote to all our public companies asking for copies of their recent AGM minutes. One wet weekend he sat down and analysed some 50-odd sets of minutes – this is what he found

First up I was disappointed to discover that a small group of companies would not share their minutes with me. By law they are fully entitled to withhold them, but in these days of continuous disclosure with everything material being made publicly available, withholding minutes just makes a company look old-fashioned. On the other hand it is pleasing to see that some of our biggest companies publish their AGM or ASM minutes on their websites. NZX would do the investment community a favour by insisting that all public companies post AGM minutes on their website.

Overall I was impressed by the quality of the chair and managing director's reports, to my eye our business leaders take their responsibilities in this area seriously as they all painted reasonably comprehensive pictures of their companies and their prospects. Judging by the questions that shareholders ask in response they also seem pretty happy with the depth and breadth of these reports even though the messages being delivered weren't always to their liking.

So what of the shareholders? It was disappointing to discover that a small group of companies don't record shareholders, questions and answers. Once again this is legally permissible but rightly or wrongly it leaves the impression that something is being hidden which is surely not the image that any company dependent on public funds wants to project.

Unsurprisingly, shareholder questions centered around four areas, financials and accounting issues, board appointments, dividends and director's remuneration, and finally the operation and future strategies for the business. I was a little surprised to discover that shareholders don't ask questions around broader issues that are of public interest such as questions about the environment and OSH. It seems that our shareholders have a clear expectation of what our companies are there to achieve and are happy to focus on that and that alone.

For the most part the financial questions could be answered by a close reading of the annual accounts. I suspect that the fact that shareholders feel obliged to raise these sorts of questions reflects more on the complexities of IFIRS accounting standards than the quality of the annual reports. (Hands up anyone who really understands that financial instruments note?).

Turning to board appointments and director remuneration, for the most part shareholders seem happy with what boards propose but from time to time issues do arise. Unsurprisingly increase in director's fees cause consternation from time to time and it is not uncommon for the Shareholders Association to wade in – usually in support of the directors – I should add. However while there may be some debate and discussion around these issues I didn't find a single case where the board's position was not supported. Indeed in those minutes where the outcome of votes is recorded the directors' position was always endorsed with a minimum of 95% of the vote. That's the sort of result that would impress even a Mugabe or a Gaddafi.

Of course these days it's almost obligatory for a shareholder to ask 'when is the board planning to appoint more women?' The standard answer is that 'we appoint on merit and we are giving the issue serious consideration'.

Questions about company strategy and future prospects are also common as are questions around business risk. For the most part these are carefully considered questions that receive considered responses, unless the company is involved in retail in which case some of the questions are just weird.

So there you have it after reading these minutes I'm left with the overall impression that AGMs serve their purpose pretty well, directors appear to take these meetings seriously and receive the feedback they need to do their jobs and shareholders are well served with the information that they receive. For me – next time I'm faced with a wet weekend I'll be sticking with a pile of DVDs.

David Ware is the founder and Managing Director of NZX-listed company TeamTalk. When not working he acts as chauffeur to his two daughters and studies towards a PhD in governance at Victoria University

Joining a Distinguished Group

Graeme Hawkins and Jeff Todd join the IoD's select number of Distinguished Fellows. The award recognises those who have sustained a prominent career as a director and have contributed years of service to business and the community

"On a board it is not necessarily about winning intellectually but about taking people with you."

Graeme Hawkins

"Every board is different, and what makes it different is the dynamics between the people, there's a different nuance every time. As a director you have to work out the role you will play on each board – you never stop learning," says Graeme Hawkins of how his interest has been held in his long career as a professional director.

Graeme is currently chair of Southern Cross Healthcare Group and a director of Cavalier Corporation and Ports of Auckland. His governance career includes chairmanship of Auckland Healthcare and Watercare plus directorships on the boards of Fonterra, Bay Milk Products, Horizon Energy Distribution, Mercury Energy, Power New Zealand and Tower Managed Funds.

Business experience, he believes, is the most important tool for a director. "As a director, you touch an organisation relatively infrequently compared to the CEO, for example. If you don't have a deep understanding of how business really works then it can be difficult to add value."

With a background in finance, Graeme's management career included senior positions in large corporates, including Fletcher Challenge, and a period as chief executive of Dominion Breweries. The experience of being at the head office of a multi-national in New Zealand is something that he thinks may be missing from today's generation of executives and directors. "There are not too many big corporates with headquarters in New Zealand any more. It's hard to find people with my background."

A desire to pass on some of his life experience lead him to volunteer to be a mentor in the IoD's Mentoring for Diversity programme. "I believe that women are going to win through on their own merits [that is, without the need for quotas] because they are far more motivated than men. Most of my advisers are women. In 50 years' time, the gender imbalance on boards could be the complete reverse."

Graeme says that there needs to be a balance between debate and consensus within boards. "Boards are consensual animals. If you have a minority view, then you have to ask yourself whether you can go with the majority.

"On a board it is not necessarily about winning intellectually but about taking people with you."

In nominating Graeme for the Distinguished Fellowship, Gary Swift praised his diligence in reading every board paper thoroughly and his ability to question managers intensely. "He showed an uncanny ability to identify areas of concern" but still "treat managers with dignity and understanding".

"As a chair, he showed great leadership letting the rest of the board know what he thought but also encouraging debate among others. An ability to consider alternative views to his was a strength," wrote Gary.

Reflecting on a governance career that includes current chairmanship of Sanford and Dynasty Hotel Group, Jeff Todd says, "I have enjoyed the opportunity to work with talented and interesting people in a very wide range of enterprises and with boards striving to apply principles of good governance, working with management to create and enhance shareholder value."

A chartered accountant and previously a managing partner of Price Waterhouse New Zealand, he believes, "a director's role has definitely become more challenging over the 15 years that I have been a director. Delivering satisfactory shareholder returns in a competitive and increasingly global environment remains a constant challenge but recognising and understanding risk in all its forms is also right up there – recent examples include the focus on health and safety, regulatory compliance and food safety."

A highly experienced chair (past positions include Southern Cross Medical Care Society, Gullivers Travel Group and the American Chamber of Commerce), he says, "Key qualities in a director include honesty and integrity in business relationships. A director needs to be able to apply the principles of effective corporate governance intuitively, to think strategically and to understand the significance of accounting information, all in the context of an intimate knowledge of the business.

"A chair must be an effective leader and a good communicator. He or she must also manage refreshment of the board and work towards optimal board diversity (knowledge, experience, gender)."

In nominating Jeff, Auckland branch chair, Liz Coutts, a director on the board of Sanford and chair of the audit committee, said that, "Jeff was not only incredibly welcoming, supportive and helpful to me on becoming a director, but he gives wise counsel and sage advice to me and to all of the people and organisations that he works with. I believe New Zealand is very fortunate to have such a dedicated, talented and personable businessman who has made a significant contribution not only to New Zealand business, but to all of New Zealand."

Jeff is also on the boards of Watercare Services, National Provident Fund, Auckland Medical Research Foundation and was a director on the board of the Reserve Bank, ANZ National Bank and the Earthquake Commission.

Jeff has also been a mentor on the IoD's Mentoring for Diversity programme. What advice does he have for the new generation of directors? "Aspire to the highest standards of professional and ethical behaviour and develop an enquiring attitude in the role. Continue to stay relevant and current in the area of expertise which led to your board appointment in the first place. Listen and learn."

"Delivering satisfactory shareholder returns in a competitive and increasingly global environment remains a constant challenge but recognising and understanding risk in all its forms is also right up there."

Jeff Todd

CHRISTMAS BREAKFAST TO HONOUR DISTINGUISHED FELLOWS

Distinguished Fellows, Jeff Todd and Graeme Hawkins, will be presented with their awards at a breakfast function in Auckland, with Sir Selwyn Cushing as keynote speaker.

Time: 7.15am – 9.00am, 15 November
Venue: The Northern Club, 19 Princes Street, Auckland
Fees (GST incl): $37.00 members, $47.00 non-members, $370.00 table for 10

If you would like to attend, please email auckland.branch@iod.org.nz or visit the Auckland branch page of iod.org.nz

21 YEARS of the Cadbury Report

1992 saw the publication of the Report of the Committee on the Financial Aspects of Corporate Governance. The report, better known as the Cadbury Report after committee chair, Sir Adrian Cadbury, remains a highly influential statement of many of the modern principles of corporate governance. By Board Services Manager, Simon Arcus

The Cadbury report was expected to be a modest review of corporate malfeasance. Instead, its final impact was far beyond the borders of the UK into many other jurisdictions and codes. This surprised even Sir Adrian who reflected that his report received 'more attention than I ever envisaged.'

Cadbury's impact was partly due to apposite timing. It followed a series of financial collapses in the City of London which seriously dented investor confidence. Even as the inquiry began two further events came to light casting doubt on the integrity of large listed companies. The Bank of Credit and Commerce International collapsed revealing fraud on a massive scale and Robert Maxwell was posthumously found to have appropriated £440m from the pension funds of the Maxwell Group. Deepening public interest in improving corporate governance lead to an intense focus on the Cadbury findings.

The intention of the report was to provide an aspirational framework for good corporate governance but retain flexibility so that companies could utilise the proposals in ways that made sense in their particular circumstances. Underpinning the report was the principle that corporate governance 'based on compliance with a voluntary code coupled with disclosure will prove more effective than a statutory code'.

The final report was not universally welcomed. Some stakeholders were concerned that its proposals were overly critical. Peter Morgan, then Director General of the Institute of Directors UK, initially considered the proposals to be 'divisive' and refinements were made after the draft was released.

Cadbury ambitiously provided a definition of corporate governance:

"Corporate governance is the system by which companies are directed and controlled. The boards of directors are responsible for the governance of their companies. The shareholder's role in governance is to appoint the directors and the auditors to satisfy themselves that an appropriate governance structure is in place."

To this day a universal, all-purpose definition of corporate governance remains elusive as the relevance of corporate governance extends well beyond the classical model of the limited liability company.

The succinct two-page code accompanying the report influenced many subsequent codes and jurisdictions. A number of principles that are familiar in practice today include:

- the majority of the board being comprised of outside directors
- remuneration committees for boards be made up in the majority of non-executive directors
- the clear division of roles between chair of the board and chief executive.

The code was adopted by the London Stock Exchange which required listed companies to report to the Exchange against the code on a 'comply or explain' basis.

COMPLY OR EXPLAIN

The 'comply or explain' principle is perhaps the most significant legacy of Cadbury. This principle provided a pragmatic framework for companies to report on governance without the need for complex bureaucracy, regulation or laws.

In the Financial Reporting Council paper marking the 20th Anniversary of the report Michelle Edkins, Managing Director, Corporate Governance and Responsible Investment at BlackRock Inc. commented on the enduring merits of the report:

"The flexibility offered by 'comply or explain' is attractive to us because corporate governance is not a science – it is a reflection of human behaviour and, in practice, is rather nuanced."

Some argue that the inherent weakness of 'comply or explain' is that it lacks teeth. While supportive of the Cadbury Report, Sir Roger Carr, Chairman, Centrica plc, and President, Confederation of British Industry notes that the report's weakness "is the lack of prescriptive definitions against which the rule may be implemented and enforced."

Comply or explain resonates in New Zealand as well. President of the IoD Stuart McLauchlan observes that "We have much to thank the Cadbury report for in modern corporate governance. The challenge for a comply or explain regime is to ensure reporting entities give true consideration to their obligations and ensure their explanations are robust and meaningful."

The Cadbury Code was no panacea for all ills but its significant thought leadership in corporate governance is self-evident and enduring.

In a 2012 symposium hosted by the Cambridge University Corporate Governance Centre Sir Adrian observed that in addition to the existing recommendations he would also have proposed 'properly constituted audit committees' and 'boardroom self-evaluation' as part of the Code.

Corporate governance is the system by which companies are directed and controlled. The boards of directors are responsible for the governance of their companies. The shareholder's role in governance is to appoint the directors and the auditors to satisfy themselves that an appropriate governance structure is in place.

Sir Adrian Cadbury

EVOLUTION NOT REVOLUTION

Professor Susan Watson of Auckland University gives an overview of how subsequent reports have refined and developed governance best practice

The **Greenbury Report** (1995) recommended disclosure of the remuneration of directors and the remuneration committees made up of non-executive independent directors.

The **Hampel Report** (1998) endorsed the findings of the two earlier reports, stating that although the board was responsible for relations with stakeholders and these relations would ensure long-term value, it was accountable to shareholders.

The **Combined Code** (1998) combined the contents of the three previous reports stating that boards should have sound systems of internal controls annually reviewed and reported to shareholders. The implementation system for those internal control mechanisms was set out by the **Turnbull Committee** (1999) with the board obliged to report on them in the annual report including recommendations for any changes to the mechanisms.

The **Higgs Review** (2003) focused on non-executive directors with recommendations in addition to those in the Combined Code including disclosing information in the annual report about matters such as frequency of board meetings, separate meetings for non-executive directors and annual evaluation of board members and committees. The focus of the **Smith Review** (2003) was on audit committees with their role seen to be safeguarding the financial interests of shareholders by ensuring an appropriate system of controls is put in place. The revised **Combined Code** (2003) incorporated the substance of the Higgs Review and the Smith Review with annual review of board and director performance. The **Revised Smith Guidance** (2008) required audit committees to consider the effect of withdrawal of their auditor from the market in their risk evaluation. The Combined Code was updated in 2006 and in 2008.

WHAT FURTHER ADAPTATIONS DO YOU FORESEE?

One of the more interesting governance questions is around composition of boards in terms of the balance between independent and executive directors. One issue is the extent to which independent directors really are independent if they have some pre-existing relationship with the company or with members of the board. Another question is whether in fact boards work best when all of the directors know each other and can operate cooperatively rather than representing different interests. As an example the Air New Zealand board operated very effectively as a board of independent directors (no nominee directors) and as a board where even the CEO was not a member. The Cadbury Report recommended some independent directors; the effectiveness of a fully insulated independent board is an area worth closer examination.

Improving regional governance – is bigger better?

A hot topic in regional governance is whether the objectives of local government will be fostered by amalgamations when it comes to local authorities. Following the local body elections, proposals for local government amalgamations are being considered in many parts of the country. Philip Barry considers what we know about the best size and structure of local government and what really matters when it comes to raising local government performance

Sir Peter Gluckman, the Government's Chief Science Adviser, recently reminded us of the importance of evidence rather than gut instinct when it comes to addressing public policy questions. As Sir Peter noted, "If you don't use evidence properly in policy formulation, you're less likely to make the best choice."[1]

Unfortunately, much of debate around local government amalgamation in New Zealand seems to be driven by rhetoric and gut instinct rather than by evidence and objective analysis of the available evidence. This is disappointing as there have been a wealth of studies done internationally on the pros and cons of local government amalgamations.

TDB recently reviewed the evidence on the optimal size of local government.[2] What we found was for very small councils – those with less than around 50,000 ratepayers – there were likely to be efficiencies gained from amalgamating with neighbouring councils. But for larger councils, whether there were likely to be benefits from amalgamation depended very much on what function of local government we are talking about.[3]

In the case of complex, capital-intensive network functions like roading, public transport and water services there are economies of scale so average costs tend to fall as scale increases. The same effect, however, was not evident for the more labour-intensive services that local governments do. And these labour intensive services – like dog control, noise control, the provision of recreation and sport services – make up about two-thirds of council expenditure. For those labour-intensive services we found that councils would be better off devoting their efforts to moving towards best management and operational practice rather than increasing the population they serve.

In summary, our analysis supported that old adage: when it comes to organisational design, form should follow function, not vice versa.

Illustration Anna Crichton

The New Zealand Productivity Commission reached a similar conclusion in its recent report on regulatory decision-making in local authorities.[4] The commission found that the size of the local authority did not seem to be a factor in the extent councils followed adequate regulatory decision-making processes. Rather, leadership, culture and organisational management are the key driving factors determining best practice in local governance.

There is a vast amount of international research also on the topic of local government amalgamation. This literature is by no means conclusive on an "optimal size for local government." It certainly does not support a simple relationship that bigger is better when it comes to local government.

That one size doesn't fit all is likely to be true in a geographical sense as well as a functional sense. The desired level of service, type of services, ratepayer appetite for debt and investment, local needs, geography, resident demographics and local land use are all going to differ throughout the country. The best solution for Taranaki may not be the same as the best solution for Canterbury; the best approach in Auckland may not be equally suitable for Wellington.

The creation of Auckland Council provides a useful case study, although it's still too early to tell whether the benefits of reorganisation will outweigh the costs of change. Perhaps the most objective assessment to date comes from the Auckland University of Technology, which rated the merger a 'B'. It noted that while the super city is functioning well in many areas, rates have increased significantly and council employee costs have continued to increase.[5]

The Auckland situation was unique. It is by far the largest city in the country. Amalgamation was a reasonable choice given the growth of the urban area, the significant overlap between jurisdictions, and the uncooperative nature of the inter-council relationships.

This does not mean amalgamation throughout the country is the best option. Councils, the communities they serve and their preferences, are varied.

One other thing struck us from looking at the international evidence: when compared to most other western countries, New Zealand is already highly centralised, both in terms of the size of the population per local council and the percentage of total government expenditure that comes from central government.

So what does this mean for our local councils? What are our options? Perhaps we should take the best bits of the Auckland experience and look to make some savings where the evidence suggests they can be found. In terms of local government amalgamation, this would suggest we should focus on amalgamating particular service areas such as land transport and water services where amalgamation is likely to deliver the biggest savings rather than necessarily seeking to amalgamate councils as a whole.

For everything else, it doesn't seem to matter too much how big our council is, it's a matter of doing the job well – good internal practices are the key to cost savings, not the scale of operations.

Overall, amalgamation is a costly and disruptive process and it shouldn't be jumped at unless it's a good answer to a real problem. There are a few specific areas where amalgamation of local services makes sense to enable effective regional coordination or to take advantage of material cost-savings. Beyond this, unsupported claims of potential cost-savings are not a good enough reason to incur the costs of legal advice, rebranding, redundancy and recruitment, systems integration, rates redistribution and the general upheaval and disruption that come along with large-scale change. And we mustn't forget that local democratic decision-making – the first purpose of local government – is likely to suffer if governance becomes increasingly centralised.

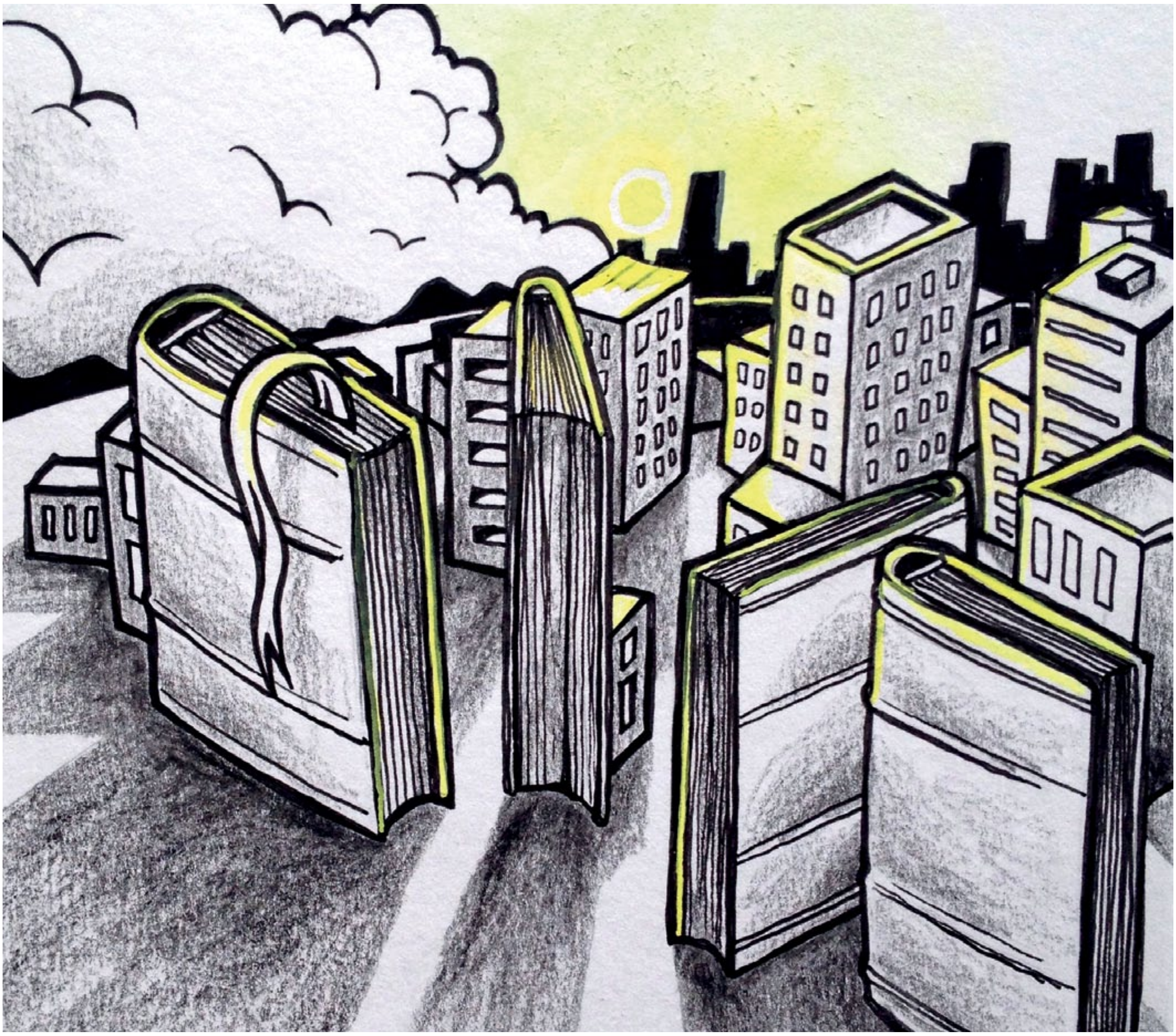
The challenge is to be objective and rely on a dispassionate assessment of the evidence when considering options for raising the quality of governance over our nation's institutions.

Philip Barry is a director of corporate finance and economics advisors, TDB Advisory Ltd. TDB advised the Royal Commission on Auckland Governance and has been advising the Hutt City and the three Wairarapa councils on governance options for the Wellington and Wairarapa regions

FOR MORE INFORMATION

1 www.pmcsa.org.nz/wp-content/uploads/The-role-of-evidence-in-policy-formation-and-implementation-report.pdf
2 www.tdb.co.nz/documents/reports/050813-TDB-assessing-regional-governance-options.pdf
3 Statistic New Zealand publishes financial data across sixteen different functions for the 70 odd territorial authorities for each the last five years sothere is a wealth of data available for empirical analysis. www.stats.govt.nz/browse_for_stats/government_finance/local_government/LocalAuthorityFinancialStatistics_HOTPyeJun12.aspx
4 www.productivity.govt.nz/sites/default/files/towards-better-local-regulation.pdf
5 www.supercityproject.aut.ac.nz/__data/assets/pdf_file/0020/401483/Report_final.pdf

The IoD and Local Government New Zealand signed recently a partnership agreement aimed at raising the quality of governance in local government. Next year, mayors and councillors of local bodies throughout New Zealand will be receiving professional development training from LGNZ KnowHow workshops developed with the IoD. These focus on key governance, leadership and strategy skills for elected members.



Out of the shadows

Serious breakdowns cast long shadows. So it is that the Pike River tragedy and the finance company collapses have led our legislators to strengthen the incentives on directors to be diligent in performing their duties. Four statutes, all of which will be passed before the end of next year, will make 2014 a watershed year for New Zealand directors

The Finance Markets Conduct Bill was enacted in August. Still in the pipeline are the bill to establish the new health and safety in employment (HSE) regime, the Commerce (Cartels and Other Matters) Bill and the Companies and Limited Partnerships Amendment Bill.

The HSE Bill, part of the Pike River legacy, allows for the possibility of jail time without intentional wrongdoing. This distinguishes it from the other Bills, all of which – although one of them only belatedly – insist that there must be an element of deliberate fault to attract criminal sanction.

But all four pieces of legislation will increase directors' exposure to legal risk.

The HSE Bill will create a positive 'due diligence' duty on directors to ensure that those with management responsibility for workplace safety are discharging their duties appropriately. In judging what is appropriate, the courts will have regard to the Health and Safety Guideline prepared by MBIE and the IoD. These state that:

"Directors need to be aware of the organisation's hazards and risks. They should have an understanding of hazard control methods and systems so that they can identify whether their organisation's systems are of the required standard. They should understand how to measure health and safety performance so they can understand whether systems are being implemented effectively."

This is a much stronger standard than currently applies. Now, directors

Illustration Paul Walsh

Adam Ross

Ross Pennington

can be held liable for an HSE breach only where they have "directed, authorised, assented to, acquiesced in, or participated in the failure".

The Bill is still being drafted but will introduce a three-tier penalties structure in which the most serious breaches will be punishable by individual fines of up to $600,000 and/or five years in prison. The Government is still considering whether to introduce a crime of corporate manslaughter into the Crimes Act, with a maximum penalty of ten years where a director's acts or omissions contributed materially to a workplace fatality.

The Commerce (Cartels and Other Matters) Amendment Bill makes 'hard core' cartel behaviour – defined as price-fixing, restricting output and market allocating – liable for a prison sentence of up to seven years. But it:

- exempts 'collaborative activity' involving a cartel element, provided the agreement on price or output is reasonably necessary in order to give effect to the arrangement, and the arrangement has not been entered into for the dominant purpose of reducing competition, and
- requires culpability for criminal liability, including by providing it is a defence that a defendant "honestly believed" that the collaborative activity exemption applied.

The principal risk for directors in relation to this provision is that the scope of the collaborative activity safe harbour is uncertain and will need to be established through the courts.

THE COMPANIES AND LIMITED PARTNERSHIPS AMENDMENT BILL

This will make it a crime punishable by up to five years in jail or by a fine of up to $200,000 for a director:

- to exercise a power or perform a duty in bad faith towards the company, believing that the conduct is not in the company's best interests, and knowing or being reckless as to whether the conduct will cause serious loss to the company or benefit a person who is not the company, or
- knowingly to cause or allow the business of the company to be carried on in a manner that causes serious loss to one or more of the company's creditors.

These provisions were rewritten – after sustained advocacy from governance experts, including the IoD, INFINZ, Business New Zealand, Chapman Tripp and other major law firms – to make it clear that the offending had to be deliberate. But, although the new version is an improvement on the original, important concerns remain.

The issue with the 'best interests' offence is that broad fiduciary duties form a poor basis for criminal sanction because their boundaries are open to differing interpretations, and the targeted misconduct will almost always be caught by existing fraud offences in the Companies and Crimes Acts.

The reckless trading offence will be problematic if its effect in practice is to create another barrier to solvent work-outs. Work-outs are undertaken to capture the often substantial difference between going concern value and liquidation value, and often have the side effect of preserving jobs. Creating further obstacles in their path would be a serious own goal in a New Zealand legal framework already weighted toward the 'put up the shutters' option.

THE FINANCIAL MARKETS CONDUCT ACT

covers offences relating to misleading or defective disclosures. The Act relies mostly on civil remedies, which can run as high as $1 million for an individual.

It makes civil actions more accessible by providing that, where investors have lost money and a breach has occurred, the loss will be attributed to the defective disclosure unless it can be proved that it had an independent cause. This will make class claims much easier – currently, individualised causation makes them near impossible.

The standard of proof is also easier as civil liability can be incurred without knowing contravention. Criminal sanctions are reserved for the most serious offending, where there is a specific fault element, and require proof beyond reasonable doubt – rather than the 'no-fault' criminal liability under current law (subject to due diligence defences).

COMMENT

Serious breakdowns cast long shadows. So it is that the Pike River tragedy and the finance company collapses have led our legislators to strengthen the incentives on directors to be diligent in performing their duties. There is also an element of catch-up, particularly with Australia in relation to the HSE and cartels bills.

But, while these motives are understandable, there are significant risks in the drift toward criminalisation, including that it:

- favours the large because, as the risk of liability increases, so does the cost of avoiding it (and New Zealand is an economy of small enterprises)
- transfers money – for little efficiency gain – from shareholders to external consultants (lawyers, accountants, health and safety experts, etc), and
- discourages younger people, and specialists who are not from legal/audit backgrounds, from taking positions on boards – tilting boards further toward process and compliance and away from enterprise and wealth creation.

Ross Pennington and Adam Ross are partners at Chapman Tripp. Adam specialises in commercial litigation and Ross in capital markets, banking and structured finance.

What's the value of internal audit?

KPMG's head of internal audit David Sutton answers the leading questions

David Sutton

An effective internal audit function can be a powerful agent for change and add significant value to an organisation. It offers a window into an organisation to provide directors with more visibility, and a better understanding of the adequacy of risk management and internal control systems. internal audit aids efficiency and effectiveness of operations, asset safeguarding and regulatory compliance.

The Institute of internal auditors in New Zealand has recently released a policy agenda which sets out some core principles regarding internal audit and governance which can be found at www.iianz.org.nz.

Having been involved in a number of internal audit functions, there are key areas that should be focused upon by directors and the audit committee to ensure they are getting the best out of their own functions.

IS INTERNAL AUDIT INDEPENDENT?

External auditors are generally required to confirm their independence from the organisation they audit on an annual basis, however this is often not required of internal audit despite the function residing within an organisation. This can increase the threat to its objectivity.

Key aspects to focus on are:

- internal audit reporting lines
- the involvement of the audit committee in the appointment of the Chief Audit Executive and monitoring their performance
- the degree to which the internal audit team are involved in fixing the issues they identify
- the audit committee's role in approving the internal audit work plan and monitoring the results of their work.

WHAT IS THE MANDATE AND ROLE OF INTERNAL AUDIT?

It is critical that the audit committee is very clear on the mandate and role that internal audit is expected to take within the organisation. internal audit can be used to provide systematic assurance on key functions across an organisation. It can also identify potential trouble spots where issues are most likely to be raised. In addition internal audit functions can provide assurance around the mitigation of financial reporting risks, but this is increasingly expanding to a wider brief on all key risks including strategic risks. Whatever approach is taken, it is important that the audit committee, management, and internal audit are all very clear and aligned on this point.

WHAT AREAS, PROCESSES, OR FUNCTIONS ARE BEING REVIEWED BY INTERNAL AUDIT AND WHY ARE THEY FOCUSSING ON THOSE AREAS?

The chief audit executive should prepare an annual internal audit plan based on a review and analysis of the organisation's business activities and associated risks, aligned with their mandate and role. The reasons and drivers behind the work scheduled to be performed should be fully understood by the audit committee who should also approve the plan.

HOW DOES INTERNAL AUDIT RESPOND TO EMERGING RISKS – HOW FLEXIBLE IS THEIR APPROACH?

While the work by an internal audit team will be driven by an approved internal audit plan, it is very important that this plan is flexible to allow for risks or issues that may emerge during the year that require attention. This can be achieved by reserving capacity in the plan for these events or by substituting existing reviews. Any changes can then be approved by the audit committee.

WHAT INFORMATION DOES THE AUDIT COMMITTEE NEED FROM INTERNAL AUDIT?

Typically reporting by internal audit to the audit committee will include an update on reviews completed or in progress, progress by management to address issues raised, and how the overall assurance plan is progressing. However the Chief Audit Executive should regularly obtain feedback from the Audit committee on whether changes are required to ensure their needs are met.

INTERNAL AUDIT CAPABILITY

The increasing scope of internal audit to provide assurance on areas outside financial reporting risks and controls are stretching the capability of internal audit teams. Accordingly it is important to determine how internal audit is coping with this issue.

This may be through:

- targeted recruitment
- additional training for existing staff
- secondments of internal audit staff into the business to gain experience

- the use of internal or external specialists to supplement internal audit's knowledge.

WHAT'S INTERNAL AUDIT'S RELATIONSHIP WITH MANAGEMENT?

The success of internal audit and their ability to make change within an organisation is very dependent on the relationship the function has with management. The audit committee should discuss the strength of relationships with management directly with the chief audit executive and also regularly ask for feedback from management on internal audit. Other areas to be monitored by directors are the extent of disputes between internal audit and management on issues that have been raised, and also extended ageing of agreed internal audit recommendations.

WHAT IS THE RIGHT SIZE OF INTERNAL AUDIT?

Determining the right size of an internal audit function for an organisation can be difficult and requires judgement. Readily available benchmarking data should be used to compare internal audit's size, operations and effectiveness with those of other organisations. However this needs to be considered in light of risks or other factors, such as specific compliance requirements, that are unique to the organisation.

HOW DOES INTERNAL AUDIT REVIEW ITS OWN PROCESSES?

Good internal audit functions have processes for assessing their own effectiveness. This can be based on monitoring key performance indicators such as internal customer satisfaction, adopting a continual improvement approach, and obtaining feedback from key stakeholders. In addition, there should be a more formal external quality assurance reviews of internal audit completed at least once every five years based upon the standards of the Institute of internal auditors.

David Sutton is a partner for KPMG providing internal audit and risk consulting services and is also the President of the Institute of Internal Auditors of New Zealand. David recently joined KPMG after being the Chief Audit Executive for Telecom new Zealand.

*director***Vacancy** *noticeboard*

The noticeboard 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.

CORE EDUCATION LTD
Role: non-executive director (two positions)
Location: Christchurch
Applications close: 31 October

LIFELINE NEW ZEALAND
Role: trustees (three positions)
Location: national
Applications close: 1 November

INFINITY FOUNDATION LIMITED
Role: board member
Location: Hastings-based
Applications close: 20 November

NEW ZEALAND GYNAECOLOGICAL CANCER FOUNDATION
Role: Trustee & Chairperson
Location: Auckland/national-based
Applications will remain open until the positions are filled.

DRESS FOR SUCCESS WELLINGTON
Role: Vice President/Treasurer
Location: Wellington-based
Applications will remain open until the position is filled.

VOLUNTEER SERVICES ABROAD (VSA)
Role: co-opted member (two positions)
Location: Wellington-based
Applications will remain open until the positions are filled.

CHILTON SAINT JAMES SCHOOL
Role: Member of Board of Trustees
Location: Wellington-based
Applications will remain open until a suitable candidate is appointed

BLUE LAGOON HEARING TRUST
Role: trustee, with view to appointment as chairman in short-term.
Location: Tauranga-based
Applications close on appointment of person/s interested, and/or at Trust's discretion.

You'll find more governance positions advertised on the Director Vacancy Noticeboard on the IoD website, in the monthly Director Vacancy Noticeboard email distributed to IoD members and on the IoD Twitter feed.

Shaking up the world of reinsurance

Without reinsurance, insurance companies may not be able to offer insurance policies to individuals or companies, which can have disastrous flow-on effects to the broader economy. By Tony Gallagher

The word reinsurance was little known to the New Zealand public a few years ago until the Christchurch Earthquake had a dramatic impact on all of us. The reinsurance world provides capital to the insurance industry so that in the event of a major catastrophic event, reinsurance contracts will be triggered resulting in payments from the global reinsurance market.

In the Christchurch earthquake event it is reported by Guy Carpenter that a large percentage of the claims payments were recovered from offshore reinsurance companies. When this occurred money was paid by offshore reinsurers at a multiple of what premiums were collected for the risk. This means that it would take many years for the reinsurance industry to collect enough money to fund the losses. It also resulted in the global reinsurance industry reviewing the models and assumptions that they used for pricing risk, leading to an increase in prices. The increase in prices has led to an ultimate increase in insurance premiums. This has also lead to some reinsurers changing their view on New Zealand catastrophic risk, with some deciding to exit the market and other forms of capital entering the market.

The reinsurance market consists of capital from traditional reinsurance companies and non-traditional or new capital entering the market. Currently the majority of New Zealand reinsurance risk is with traditional markets but Guy Carpenter reports global growth in the non-traditional market as can be seen from the table audit.

The traditional capital comes from financial institutions investing in the equity of traditional reinsurance companies, while non-traditional comes from financial institutions taking direct shares in reinsurance contracts. An example would be a New Zealand earthquake contract with 100 million dollars of risk being held by a pension fund, which would pay the claim in the event of an earthquake. What is attracting this new capital is the potential for high returns generated from assuming risk.

The table below illustrates the range of financial institutions willing to invest in various non-traditional reinsurance contracts is growing, leading to an increased availability of supply of catastrophic risk capacity.

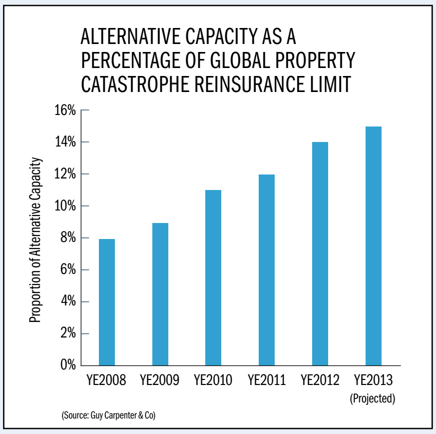
Illustration Juliet Burton

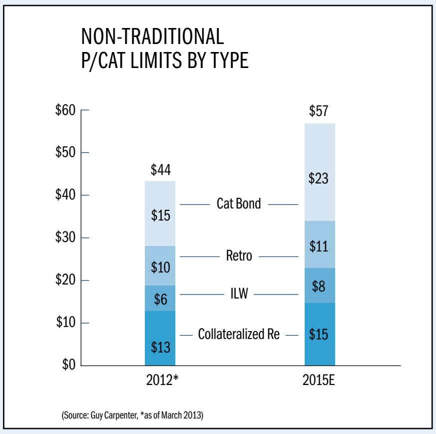
One form of non-traditional reinsurance is the issuance of catastrophe bonds, where catastrophic risk is bundled together and ultimately transferred to investors in the form of a bond. The bond is rated by an independent rating company and then capital markets investors participate through a bond purchase. An example is the recent issuance sponsored by the Turkish Catastrophe Insurance Pool (TCIP). This bond protects TCIP against losses of up to $400m from its Istanbul region earthquake exposures. There was strong support from investors at the lower range of pricing, and so the issuance was upsized from $150m to $400m.

The increased supply of markets willing to offer capacity to write risk should lead to greater affordability but the question will be sustainability. The non-traditional market has been here before and some would argue that it is a fad that will go away once other forms of investment offer better returns. It is true that capital tends to move towards greater returns but there is also an argument of uncorrelated risk and balance within an investment portfolio. It can be seen today that the markets interested in the non-traditional reinsurance sector include pension funds, a relatively new entrant, and usually a form of capital that has a long-term view of investments. The other change here is that our understanding of risk is far greater today, so our ability to price risk continues to improve, giving a greater certainty around price and ultimately return.

The other area that is changing is the understanding of exposure and the natural perils that affect risk. Many companies today have a greater understanding of risk. In New Zealand the discussion around earthquake standards and noncompliant buildings is an example of the industry improving the quality of structures in earthquake-prone areas. In Thailand the industry understands that the risk of developing in areas that are low-lying and susceptible to flood are more expensive to insure than those that are on higher land and not exposed to flood.

The science behind catastrophic risk is also improving with organisations such as GEO Science in New Zealand or Guy Carpenter Global CAT. Guy Carpenter's modeling team have developed models to understand the frequency and severity of large events. This allows governments to make informed decisions about land development and risk-takers to make informed decisions about writing the risks. These models are helping the capital markets understand the 'right price' for reinsurance risk.





The change in the reinsurance landscape has occurred already and non-traditional is here to stay with many of the traditional players now joining the market. I don't suggest that all non-traditional markets will stay as some do not fully understand the volatility of reinsurance business. But with the improved understanding of risk and management of exposure to this risk, the number of markets interested in writing catastrophic risk is increasing and will lead to increased affordability, availability and sustainability.


Tony Gallagher

Tony Gallagher is CEO Pacific Region, Guy Carpenter – a sister company to Marsh. Tony can be contacted on Tony.Gallagher@guycarp.com.

Paula Baker wins Waikato Aspiring Director Award

Last month Waikato branch announced Paula Baker as the winner of its fourth annual Aspiring Director award.

Paula Baker

In announcing the award, Waikato branch chair, Margaret Devlin said Paula clearly stood out among nominees for the award.

"Paula has a long history of senior management experience, most recently as a Business Transformation Consultant at the Plunket Society. She has had governance exposure through that role, including playing a lead role in the team reviewing the organisation's governance structure. Additionally, she's been active in the community serving on school boards and club committees.

"Paula said that she had a real interest in getting involved "at the big picture level of governance. My background is in human resources and I feel that I would have something different to contribute to a board."

Paula has an MBA and a background in working for large corporates. "But after having a family, I became more involved in the not-for-profit and community area. I thought I could take what I had learned from corporate experience and develop my commercial skills in the not-for-profit sector."

The award includes a 12-month director development position on Hamilton's Perry Metal Protection board.

"I think that it is a totally invaluable experience to be able to see a commercial board in action. I'm aniticipating that will be one of the most important things that I will get out of the award," said Paula.

Paula attended the Governance Development Programme in Hamilton last year and is evaluating her next step in professional development. As part of Waikato's Aspiring Director award, she will also be provided with professional development opportunities to the value of $3000 and will be mentored by an experienced director for one year.

In an interview with the *Waikato Times*, last year's award winner, Simon Lockwood said that the past year had been one of the most positive experiences of his commercial career.

He secured a director development position on the Hamilton Airport board.

Write On

It doesn't need batteries, never goes offline and is slim enough to slip into a briefcase or handbag. The IoD directors' diary is an evergreen bestseller, even in this digital age. It is subtly embossed with the IoD logo on a bonded black leather cover. Spiral-bound, it opens to a seven-day view and has perforated note pages and colour maps.

Only $30.00 each (including GST and postage). Numbers are limited and we encourage you to order early. Great Christmas presents too.

Why do you need a social media policy?

Natasha Martin

Your business has set up social media accounts and your employees are regularly communicating with the outside world via LinkedIn, Twitter and Facebook. But, do you know what they are saying and is it good for business? Natasha Martin, IoD Communications and Social Media Advisor explains why you need a good social media policy as part of your good governance practices.

Thirteen employees of Virgin Airlines were fired after insulting passengers on Facebook and sharing how many times engines had been replaced. In England, hospital employees lost their jobs after filming each other lying face down on medical equipment and posting it on the internet. In New Zealand, an employee was sacked after describing her public sector role as being "a very expensive paperweight" on her Facebook page.

The huge benefits of social media – its lightning speed , connectivity and potentially wide exposure – also have the power to damage an individual and an organisation. In some cases, this is caused by employees simply being naïve – they may think that their posts and tweets are only being read by friends but comments on social media sites all have the potential to resonate in the wider world.

For this reason every business or organisation should have a social media policy, setting out the ground rules for employees. It should not only cover communications through all of the company's formal social media channels but also address postings about the organisation on an employee's own account that could damage the company's reputation.

"Almost two-thirds of companies surveyed say that social media is a significant or critical risk to their brand reputation; yet 60% of companies either never train their employees about their corporate social media policies or do so only upon hiring. Moreover, 43% of companies have less than one Full-Time Equivalent (FTE) dedicated to managing social media risk."

Guarding the Social Gates: The Imperative for Social Media Risk Management (Alan Webber, Altimeter, August 2012).

KEY POINTS TO INCLUDE IN A SOCIAL MEDIA POLICY:

- there should be clear expectations on employees' behaviour – they must behave professionally and responsibly and shouldn't mix personal and business use
- make sure employees are aware of who they are representing when they make a post or comment. They shouldn't post comments about the company that do not represent the views of that firm or that could bring it into disrepute – even if they are tweeting or blogging in their own time or own account
- make it clear that employees must ensure that any references to the organisation are factually correct and accurate and do not breach confidentiality or privacy requirements
- point out that employees must have respect for the individuals and communities they interact with
- there should be clear guidelines on how and who will deal with negative comments about your brand or employees, on social networks.

SAMPLE SOCIAL MEDIA POLICIES

Scan the QR code below to see some great examples of policies compiled by Chris Boudreaux on his Social Media Governance website or visit socialmediagovernance.com/policies

APP-DATE

ReadQuick – Speed Reader for iOS

ReadQuick is an iOS app that helps you speed read through your daily reading list, one word at a time – literally. The app displays one word on the screen at a time, at a pace you set. You can use the browser within ReadQuick to navigate to any page on the Internet that you want to grab an article from. Download it from the iTunes Store.

Quip

Bret Taylor, Facebook's former chief technology officer and part of the team behind Google Maps, has created the Quip app. This mobile app is a word-processing tool that has built-in chat features to help users collaborate on their work, an easy-to-view thread of changes made to each document, offline syncing and the option to use the '@' symbol to reference other related documents. Download it from the iTunes Store.

Director Development – plan your course

Professional development is key to keeping up in a fast-changing world. It offers the chance not only to gather new information, but also to take time out and see the world from a different perspective. Sharing the learning experience with others not only deepens the learning process but widens networks.

The IoD offers a portfolio of courses designed to suit directors at all stages of their careers. For more details and to register, visit Director Development, iod.org.nz or use the QR code below

Scan for more on Director Development

Answering your questions on professional training

The Director Development (DD) team are dedicated to providing top quality training to improve the level of corporate governance within New Zealand. As well as being here to help you with all your development needs, we enjoy engaging with you and are really quite a friendly bunch!

Here are a few frequently asked questions the team receive regarding our courses – including some you want to know, but didn't want to ask...

Q *I'm a director or am thinking about becoming one. What benefit am I going to get out of your training?*

A All of our training has been specifically designed to provide aspiring, new and current directors with the right tools to make good governance decisions. This includes a thorough overview of your roles and responsibilities and the chance to hear first-hand experiences from our facilitators – good and bad! You will also have the opportunity to network with other people in similar roles and build valuable relationships for your governance careers.

Q *So I'm interested... where do I start?*

A This depends on your current roles and experience and what area you would like to expand your skills. If you are an aspiring or current director without any formal training, we would suggest beginning with our threshold level courses including Governance, Strategy, Finance and Risk Essentials. For a general overview of your roles and responsibilities, Governance Essentials is recommended first.

If you're a director with one-to-five years' experience our next step up is our five-day/night residential Company Directors' course. This will cover key areas such as governance, strategy, finance, law, people and risk and includes a simulation board activity and a range of networking opportunities. As there is a full-day of intermediate level finance, we would highly recommend attending Finance Essentials prior if you do not have any financial experience. To see what level you are currently at you can take our online test. www.surveymonkey.com/s/Finance_skills

We also offer an Audit and Risk Committees course for more specific training as well as Chairing the Board and Boards in Action courses for those with more than 10 years experience. For more information please refer to our website or Director Development brochure.

Q *Who will be presenting the course on the day?*

A Our courses are run by expert facilitators who are experienced directors, board members and chairs. As well as having a wealth of specialist knowledge, what sets our presenters apart is their ability to share first-hand experiences (good and bad!) gained from their governance journeys.

Q *Who else is going to be there?*

A Our Director Development programme is open nationally to both IoD members and non-members and attracts a range of people from the public, private and not-for-profit sectors. Expect to meet a diverse mix of people from a range of industries and be prepared to share your own experiences.

Q *I've signed up for a course, now what?*

A Once your registration has been processed you will receive a confirmation email and invoice (if requested). Please ensure your course payment is made within seven days of registering or contacting us if other arrangements need to be made. You will then receive a reminder email closer to the time containing final details and any pre-course requirements.

If you are coming from out of town, please ensure you make appropriate arrangements for travel, accommodation (if your course is not residential) and ensure this date/s is firmly in your diary.

Q *Do I have to stay at the hotel where the course is being held?*

A For the residential Company Directors' Course it is a requirement to stay onsite for the duration of the course due to the intensive nature of the course including after-hours course work, reading and networking events. For all other courses* you do not need to stay onsite but you can contact the venue directly to arrange accommodation if required.

*Our two-day Chairing the Board course has an optional accommodation rate available.

Q *How do I get from the airport to the venue?*

A Please contact the venues directly to arrange any transfers (not all venues offer this option). The IoD do not cover transfer charges or arrange airport transfers.

Q *The meeting room is too hot/ cold can you fix this?*

A We seek to work with the highest quality venues with the hope of providing an overall excellent training experience. Your onsite Director Development adviser will endeavour to assist and resolve any issues relating to the venue. We always suggest wearing layers of clothing as it is difficult to ensure the room temperature suits everyone at all times.

Q *What's the dress code?*

A We suggest smart casual clothing.

Q *What type of calculator do I need to bring to the Finance courses?*

A As you will be calculating simple equations, a standard calculator or cell phone/ipad or portable device with a calculator will be suitable.

Q *Do I get lunch?*

A Yes! Catering with be provided for all courses and if you're lucky, you'll also get lollies or mints.

Q *I've got special requirements, can you cater for these?*

A The IoD are dedicated to providing the best possible service to our delegates and work hard to ensure all of your needs are met prior to, and during the course. If you do have any requirements such as dietary needs, hearing or sight impairments please give us as much warning as possible to enable us to make suitable arrangements for you.

Q *I'm thinking about becoming a member and attending a course. What benefits are there for doing both?*

A By becoming a member you will receive our flagship publication – *The Four Pillars*, get access to member only events, networking opportunities, *board***room** magazine and director vacancies but you will also receive the member rate on our courses. We would recommend that anyone who is serious about being involved in governance becomes a member of the IoD. Not only does it indicate your commitment, it allows you to to create valuable networks and keep up-to-date with current industry events, training and news.

Q *My board/committee/organisation is thinking about some training. What would you suggest?*

A Where possible we would suggest attending our National Director Development courses and offer discounts on multiple bookings. If you are after some specific training for a group of people we also offer a tailored training service where a programme is developed to specifically meet your needs, budget and timeframes. For more information on what we can offer you, please contact us directly.

ON THE MONEY

Q *Is there a discount for multiple bookings?*

A Yes, we offer a 10% discount when three or more registrations are received from the same company or organisation for the same course. In order to redeem this offer please contact us by phone or email.

Q *Are your courses eligible for the NZTE or accelerate success scheme?*

A Yes, New Zealand Trade & Enterprise can contribute up to 50% towards a delegates course fees if you meet all of the application criteria. Delegates can apply by searching for their regional provider on the accelerate website www.accleratesuccess.co.nz and contacting them directly.

For more information including content, dates and locations, please visit www.iod.org.nz or contact the team on 04 499 0076 or directordevelopment@iod.org.nz

Board Evaluation

Evaluate and take action: approaching your board evaluation

"There are risks and costs to action. But they are far less than the long-range risks of comfortable inaction." John F Kennedy

Evaluation takes time and commitment on the part of the chair and the board. Applying John F Kennedy's point, the real question is whether any board can afford not to evaluate and risk slipping into 'comfortable inaction'?

Undertaking an annual board evaluation is part of good governance. The real value of this process lies in the action you take once the evaluation stage is completed. At this point, boards need to be asking the following questions:

- how will we approach and discuss the results of the evaluation?
- what actions or outputs will come from the discussion?

BETTERBOARDS

The IoD's BetterBoards evaluation service provides feedback and data for boards as part of their commitment to continuous improvement.

www.iod.org.nz/Servicesforboards/BetterBoards.aspx

TAKING ACTION

How should you approach a board evaluation? First and foremost, it should be done honestly. Look at the results with a critical eye. Celebrate strengths. Tackle challenges in an open and constructive way. It is also important to stay forward looking – the discussion should focus on the solutions to the problem rather than its origins.

From our experience the board should work to:

- **isolate** the things that the board considers will make the biggest difference to its performance (i.e. use the 80:20 rule)
- **prioritise** the matters that require action
- **agree** on the action required
- **establish** a date to report back on the action in mind.

DISCUSSION AND FACILITATION

Evaluations produce a myriad of outcomes. A board needs to be confident about the areas in which it performs and prepared to engage with areas it needs to improve.

Common issues that arise from evaluations include the following:

- do our meetings add value and focus on what is important?
- do we function well as a group?
- do we have the right people?
- do we really know the business?

The IoD recommends that a board use a facilitator to debrief on the evaluation. The benefit of a facilitator is clear. Not only can the chair contribute fully to the discussion but an external party in the boardroom means the tenor of the discussion is not simply business as usual.

We recognise there may be times a facilitator is not preferred. In that case, the chair or another director may carry out the role. At the beginning of discussions, it is useful for the chair to remind fellow directors that determining key issues and actions is a collective activity. The board can benefit from the chair facilitating discussions on key issues and the way forward.

The BetterBoards evaluation is set up so that the metrics and supporting comments from board members help focus in on those relatively few, but very important things.

Need some help running the post-evaluation discussion with your board? Email us at boardservices@iod.org.nz Telephone: 04 499 0076

branchnews

Scan for more Branch News

BAY OF PLENTY

A professor of agribusiness at the University of Waikato, **Professor Jacqueline Rowarth** gave a frank presentation on what scientists and engineers can bring to a board. She said they can offer a valuable perspective, especially in time of crisis, when they have the potential to save on confusion, reputation and even revenue loss.

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WAIKATO

Talking on the theme of **Farmers, Sport and Insurance: The Varying Governance Issues, John Shewan** shared his insights. He is current chair of the Fonterra Shareholders Fund (NZX:FSF) and the Wellington Regional Stadium Trust (Westpac Stadium), as well as a director of Munich Reinsurance Company of Australasia.

Dr Lester Levy presented on leadership, ethics and governance. He made the comment, "Governance is everyday, it is about being connected." How many of us who are directors can truly say we are connected into the organisation at that level? He is a Professor (Adjunct) of the Auckland Business School and Chairman of the Auckland District Health Board, the Waitemata District Health Board and Auckland Transport.

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Two New Fellows in Waikato

Waikato directors **Carlos da Silva** and **Ken Williamson** were made IoD Fellows, in recognition of their contribution to the profession. **Carlos da Silva** is the chair of Fisher & Paykel Finance, IT Partners and King St Advertising. He is also a director of Trelise Cooper Group and Meteorological Service of New Zealand Limited and on the advisory board of Westervelt Company NZ Ltd.

Ken Williamson chairs both the Momentum Foundation and Te Rau Aroha Papakinga Trust. Directorships include McKenzie Centre Trust, University of Waikato Foundation, Waikato Diocesan School for Girls and the Order of St John Central Region Ambulance Service.

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1 | Cathy Brown, Jacqueline Rowarth, Trevor Hurley (Bay of Plenty)
2 | Craig Greenlees, Peter Gunn, Steve Hamer (Bay of Plenty)
3 | Lynette Pearks, Angela Wynne, Di Hallifax, Rachel Scott, Senga Allen (Waikato)
4 | Andrew Buchanan-Smart, Evelyn Weir and Russell Gibb (Waikato)
5 | Margaret Devlin and Carlos da Silva (Waikato)
6 | Erica Amon and Earl Rattray (Waikato)
7 | Gillian Spry, Tonia Cawood and Stuart Anderson (Waikato)
8 | John Shewan (Waikato)
9 | Gay Shirley, Bob Simcock, Alastair Calder and Raewyn Kirkman (Waikato)
10 | Dr Robin Mann, Dame Rosanne Meo (Canterbury)
11 | Michael Stiassny, Susan McAuley, Vincent Pooch (Canterbury)
12 | Sue Sheldon, Helen Smith (Canterbury)
13 | Steve Brocklebank, Ali Copeman, Anne McLeod, Sarah Simmers (Otago Southland)
14 | Sir Julian Smith, Alistair Wright, Stuart McLauchlan (Otago Southland)
15 | Alistair Moore, Athol Stephens, Stephen Higgs (Otago Southland)

CANTERBURY

An August highlight was **Dame Roseanne Meo's** thought-provoking perspective on the role of boards, women on boards, CEOs on boards, local government, local and global economic.

Todd Heller, founding director of Hellers, was guest speaker on Monday 2 September. Todd offered candid insights on how governance evolves with a business and has contributed to Hellers becoming New Zealand's largest producer of smallgoods.

IoD Vice President and Fellow Michael Stiassny told the branch that tightening legislation will make directors more accountable. Directors, he said, will need a deeper understanding of certain issues; which leads to them being forced deeper into the business to obtain assurance about compliance. He believes this is redefining the relationship between governance and management.

Martin Snedden presented at a breakfast meeting on Monday 23 September. In his newest role as a Director of NZ Cricket, Martin sees rebuilding relationships as the strategic priority to encourage sporting excellence.

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OTAGO SOUTHLAND

Alan Seay, Corporate Affairs Manager for Anadarko New Zealand Company, spoke in Dunedin on Anadarko's plans to drill a deep sea oil and gas exploration well during the summer as part of the early exploration phase of operations. He said that any successful exploration would be followed by a lengthy field appraisal and development phase.

ADInstruments, now a world-leading provider of computer-based data acquisition and analysis systems for life science, evolved from chairman Michael Macknight's 1985 Masters degree in computer science for which he developed the 'MacLab' recording unit.

AUCKLAND

Christchurch's CBD is the "lost corner of the rebuild" although businesses that have relocated away from the city centre are flourishing, Christchurch Chamber of Commerce Chief Executive **Peter Townsend** told Auckland branch at the America's Cup breakfast on 20 September. Peter emphasised the importance of strategic plan and a "framework of certainty" so investors could make decisions.

He believes that collaboration is the key to building to scale and to creating jobs nationwide. Another important factor in moving forward after such a disaster is, he believes, the ability to resist resurrecting a copy of yesterday's city. He says the rebuild is a great opportunity to create a new community hallmarked by the talent of today.

WELLINGTON

After the recent quakes, a very topical forum focused on insurance, reinsurance and directors' responsibilities. Robin Armstrong from Marsh was able to provide steerage on directors' liabilities regarding quake-prone buildings.

Chief executive of **Callaghan Innovation**, **Dr Mary Quinn**, discussed the challenges and opportunities that lie ahead both for the company and the country. She said that Callaghan Innovation offers new possibilities for generating commercial value from Kiwi ingenuity, science, technology and ideas.

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branchevents

A preview of branch events to be held over the next two months. For a full update check the branch section of www.iod.org.nz or use the QR code

Scan for the latest Branch Event updates

AUCKLAND

Whangarei Lunch function with executive chair, Ant Carter

The New Zealand Breakers were not always the championship side they are today. Ant Carter will outline the journey from their first steps to the triumph of being crowned champions for the third consecutive year in 2012/13.

Ant will outline what has been key to achieving the dream, and what can be learned for governance in sport, business and the community.

Ant Carter

12.00pm–2.00pm, 7 November, Toll Stadium, ARC Security Lounge, Whangarei

Next Generation Workshops

The many young and emerging directors joining the IoD has prompted the Auckland Branch to run bi-monthly evening workshops for this diverse group, to assist in the development of emerging directors by way of an introduction to best-practice governance. The remaining two workshops will run from 4.30pm, 5 November and 3 December, at the BNZ Partners Centre

WELLINGTON

Insurance Discussion

Questions at the recent earthquake-prone buildings event focused on insurance.

To support these questions and to give you a good overview of terminology, what you should be aware of when looking at risk, personal insurance and insurance for your entities we have asked Marsh to come in and lead the discussion. They tell us that they guarantee you will come away having learned something new!

Limited seats, so please register online or send your registration through as soon as possible.

12.00pm–1.00pm, 31 October, IoD National Office, 50 Customhouse Quay

Cocktail function with Port of Napier's Jim Scotland and Garth Cowie

Garth and Jim will include in their presentation on the Port of Napier annual results plus a look at regional growth prospects, current issues facing the country's ports sector. ***6.00pm–8.00pm, Monday 18 November, MTG Hawkes Bay, Marine Parade, Napier***

Governance: Myths and reality with Sir Roderick Deane

Sir Roderick Deane

Sir Roderick Deane discusses the complex art of good corporate governance – made more complex with the regulatory frameworks directors now face. The more extensive the regulations, the more demanding the compliance, the more onerous are the regulatory liabilities, and the more risk-averse directors may become. Companies also face an increasingly competitive world where success invariably demands more risk taking, not less. How to find a balance?

Sir Roderick Deane is a former chair of Fletchers, Telecom and the ANZ National Bank and an ex-CEO of Telecom and ECNZ. The dinner is in recognition of the Distinguished Fellows and Fellows of the Wellington Branch. The 2013 Aspiring Director Award will also be presented.

6.15pm–9.00pm, 14 November, The Wellington Club, Wellington

BAY OF PLENTY

Having fun in the 'bored' room

Rob Campbell

Rob Campbell, chair of GPG, Summerset, and Tourism Holdings, presents on why directors should be engaged and enjoying themselves, what you need to consider in your role as a director and what needs to improve about how boards work. ***4.00pm–6.00pm, 19 November, Classic Flyers, Mt Maunganui***

Why good design is good business

You are invited to a combined Christmas dinner. Join with us in celebrating 2013, meet members from the forums that run in both Rotorua and Tauranga, and be inspired with guest speakers Rachel Tabb, Johnny Louie, Brett Fordyce and Gary McAuliffe

6.00pm–8.30pm, 25 November, The Tauranga Club, Tauranga

WAIKATO

A Presentation by Rod Oram
One of New Zealand's leading business commentators on current issues.
7.00am–9.00am, 30 October, Radio Sport Lounge, Waikato Stadium

Further Highlights
See the Waikato branch page of iod.org.nz for: Edie Weiner Presentation from the IoD National Conference, ***5 November;*** Iain McCormick presentation at a branch lunch function. ***12 November;*** End of year cocktail function, ***11 December***

TARANAKI

Future-proofing, transitioning and good governance for farming businesses.
This is the second information evening on this theme. It features a panel, including our keynote speaker Trevor Hamilton. Trevor and Harriet Hamilton own an extensive family dairy business based in Canterbury and the Bay of Plenty, built this up over 35 years.

IoD branch chair Garth Clarricoats will speak about managing the risk and funding transition when adverse events happen. ***7.00pm–9.30pm, 24 October, TET Stadium, Inglewood***

NELSON MARLBOROUGH

Opportunities in a changing regulatory environment
Simone Robbers, Head of Primary Regulatory Operations at Financial Markets Authority, explores the new regulatory environment. Simone leads and oversees the development of FMA's regulatory strategies and activities relating to the primary and retail financial markets, including financial advisers, issuers and related financial markets law reform.

She will be joined by Nicola Ventress, Manager, Issuer Disclosure Surveillance from the Financial Markets Authority.

5.30pm–7.30pm, 31 October, NMIT, Kowhai Lounge, Student Centre, Nelson


Simone Robbers

CANTERBURY

Media and business with Peter Williams
Peter will share his reflections on how relationships between business and media have evolved and today's challenges associated with a tighter disclosure regime, yet higher public expectations for information. Peter has also won accolades as a sports broadcaster; in the course of having covered seven Olympic Games, five Commonwealth Games, three Rugby World Cups, two Cricket World Cups and two Masters golf tournaments.

Following this function, a dinner will be held for Fellows and Distinguished Fellows.

The Chatham House Rule will apply.

5.45pm–7.45pm, 21 October, The George, Christchurch


Peter Williams

OTAGO SOUTHLAND

Governance challenges in today's business and not-for-profit environments
John Judge outlines his experience of governance roles in the public sector and the unique challenges they bring. He has considerable experience in Australasian business and brings financial and analytical knowledge to the boards he serves on. He is chair of ANZ National Bank and the Auckland Art Gallery Foundation, a director of Fletcher Building Ltd, and a member of the Auckland Festival Trust and University of Otago Business School advisory board.

5.00pm–7.00pm, 23 October, The Dunedin Club, Dunedin

AUCKLAND
Shirley Hastings
bus: 021 324 340
fax: 04 499 9488
email:
auckland.branch@iod.org.nz

BAY OF PLENTY
Jo Perry
bus: 021 557 116
email:
bop.branch@iod.org.nz

CANTERBURY
Sharynn Johnson
bus: 03 355 6650
fax: 03 355 6850
email:
canterbury.branch@iod.org.nz

NELSON MARLBOROUGH
Julie Baxendine
bus: 03 546 6768
fax: 03 546 6767
mob: 027 622 8188
email:
nelson.branch@iod.org.nz

OTAGO SOUTHLAND
Vivienne Seaton
ph 03 481 1308
fax: 04 499 9488
email: otago.branch@iod.org.nz

TARANAKI
John Spurway
bus 027 443 8405
email:
taranaki.branch@iod.org.nz

WAIKATO
Megan Beveridge
bus: 021 358 772
fax: 07 854 7429
email:
waikato.branch@iod.org.nz

WELLINGTON
Jeanette Wogan
bus: 027 566 8589
fax: 04 499 9488
email:
wellington.branch@iod.org.nz

BOARD SHORTS

Pose a director dilemma in this boardroom forum and Henri Eliot will get experienced directors on the case

"How should a board deal with an underperforming director who refuses to resign?"

AMAL JOHNSON RESPONDS

Assembling a strong functioning board is one of the most challenging tasks for the chair of any board. It requires not only a clear understanding of the strategic direction of the company and the skills needed to enable strong performance and governance, but also a deep sense of people dynamics and board culture. An underperforming director is a liability not only to the board but to the entire company.

Public company directors are usually elected to a one or three year term. As they approach the end of the term, the board nominates a slate of directors for another full term. The shareholders need to approve that nomination. The board has the ability to decline the nomination of an underperforming director, thus allowing the director's service to expire. It is very difficult to terminate a director in mid-term other than for misconduct or illegal activities.

Private companies have a less structured election cycle. Typically the majority shareholders dominate the board and influence the nomination and selection process. When they conclude that a director is underperforming, they have the flexibility to take the required action at the appropriate time.

In both private and public company boards, having a strong independent chair or a strong lead director is key to handling all board personnel issues and ensuring a well-run and functioning board.

Amal Johnson who is based in San Francisco is currently the Executive Chairman of the Board of Author-IT and also serves on the boards of two publicly listed companies Mellanox Technologies, and Intuitive Surgical.

MIKE O'DONNELL RESPONDS

First you should seek to mitigate this upfront by tight scrutiny of whom you appoint and good documentation (including a Board Charter) around expected delivery standards including clear guidance around appointment terms (normally a maximum of three years per term and a maximum of two terms).

If a director isn't meeting the required standards the chair should provide direct one-on-one feedback to the director noting specific examples of where the under-performing director has failed to chin the bar, and make clear what the expected delivery standard is. My experience is that most directors take this sort of feedback on the chin and lift their game.

If this fails to deliver meaningful improvement then the chair should bring the underperformance to the attention of the board (meeting as a board with no company executives present) with clear examples of the non-delivery relative to the board performance standards outlined in the Charter, and note that unless the person lifts their game you will be seeking board support to terminate the person's tenure.

Given how small the director community is in New Zealand, the threat of termination and the impact on reputation should provide plenty of incentive to lift their game, with the potential to realise the termination if it doesn't.

Mike O'Donnell is Chief Operating Officer for Trade Me. Mike is also a non-executive director at Serato and Chairman Positively Wellington Tourism.

Email your questions to boardshorts@iod.org.nz

Not all questions will be published but we will attempt to answer as many as possible.

Institute of Directors (IoD)

The IoD has staff based at the National Office in Wellington, and eight branch managers based in the regions. For National Office, telephone 04 499 0076. For branch managers' contact details see Branch Events, page 47

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For all editorial enquiries:
Editor, Katherine Robinson 027 5639 686
or katherine.robinson@iod.org.nz

For all advertising enquiries:
Edward Hodges: 04 801 0450

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Institute of Directors in New Zealand (Inc)
Mezzanine Floor, Tower Building
50 Customhouse Quay,PO Box 25253
Wellington 6146, New Zealand
Tel: 04 499 0076, Fax: 04 499 9488
Email: mail@iod.org.nz

www.iod.org.nz

CHIEF EXECUTIVE OFFICER
Dr William Whittaker

DIRECTOR DEVELOPMENT
Jodi Percy – Director Development Advisor, Northern Region
Andrea Broad – Director Development Advisor, Southern Region
Hannah Naftel – Director Development Advisor, Central Region

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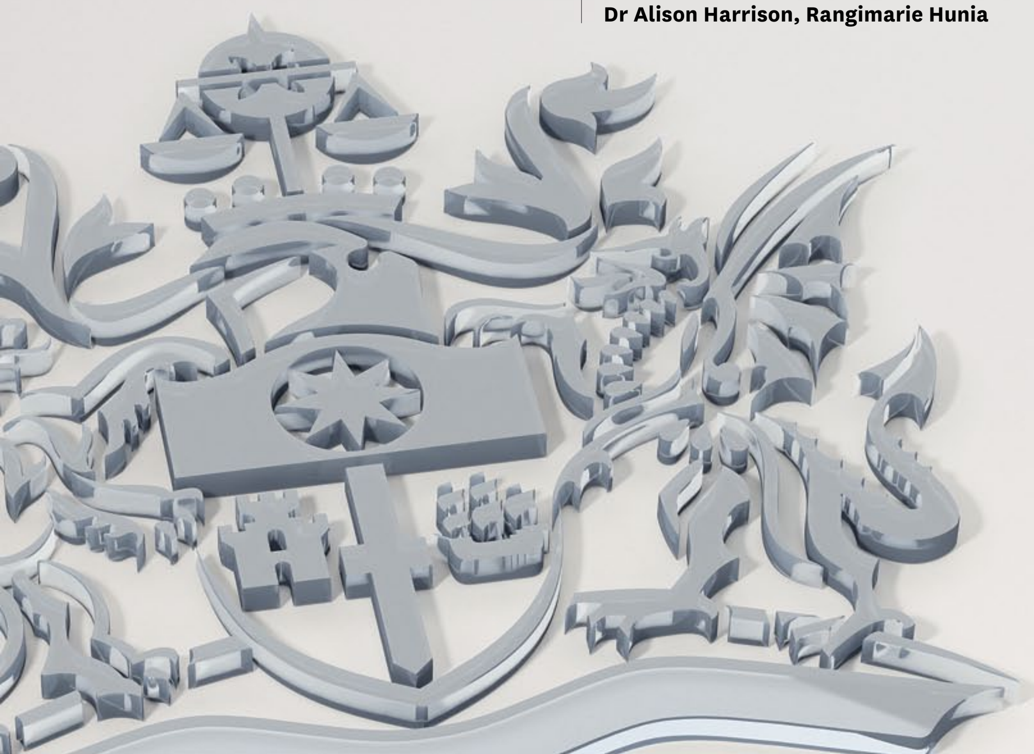

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