



Magazine of the Institute of Directors in New Zealand

# boardroom

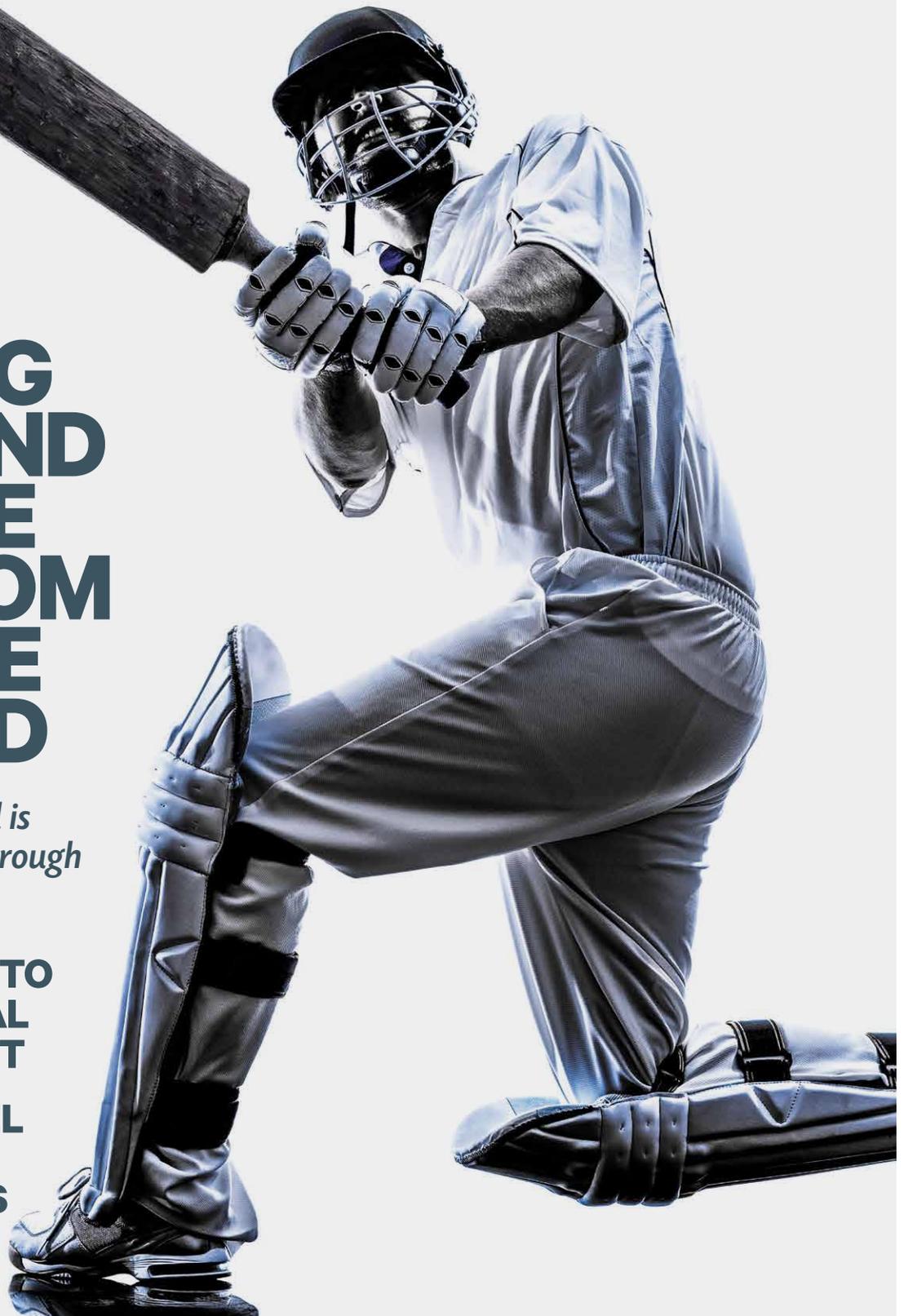
OCT/NOV 2016

## TAKING A STAND AT THE BOTTOM OF THE WORLD

*How New Zealand is  
leading the way through  
integrity in sport*

**COMMITTING TO  
PROFESSIONAL  
DEVELOPMENT**

**LORD MICHAEL  
HASTINGS  
TALKS ETHICS  
IN BUSINESS**



Unlocking blockchain

IoD and Young Farmers

Evaluation for a  
better board

Lessons from Brexit

From the field to  
the boardroom

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## A note from the editor

The IoD's *Code of Practice for Directors* recognises the office of director carries with it a wide range of duties and obligations, among those being to maintain high standards of ethics and integrity. Failure to do so often has calamitous impacts; financially or otherwise.

The world of sport is no stranger to tales of ethics and integrity going out the window. With the Olympic and Paralympic Games recently coming to a close, it is fitting that we take a look at sport governance and ask how New Zealand measures up. We are fortunate in this country to have some truly excellent leaders in this space who are passionate about keeping sport clean and fair, but are also aware of the risks that playing on the international stage can bring.

Ethical dilemmas certainly arise when addressing new technology and the disruption that comes with it. Rapid advancement in Artificial Intelligence requires action, and fast, to deal with the massive opportunities and challenges posed. We look at this further in the issue, as well as unlocking some of the buzz around blockchain.

Emma Sturmfels  
*boardroom* Editor



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## CEO REPORT

# Keeping people and culture in focus

Warren Buffett once said ‘the nature of boards is they are part business organisation and part social organisation. People behave part with their business brain and part with their social brain.’ Buffett highlights that boards are human enterprises. People dynamics ultimately influence business outcomes. Rules and processes give an entity a corporate architecture but people and culture determine its ultimate success.

2016 has seen increased discussion about the importance of board culture. The best board chairs I know consider their stewardship of board culture to be a natural part of their role. They undertake evaluation processes each year and work to address the human parts of the board eco-system. They resolve disputes and clarify meaning, create collective buy in and draw consensus from their peers. Our first Chairing Fundamentals webinar attracted strong interest recently, underscoring the desire of board chairs to do their job well.

The IoD is an organisation about people with membership at its foundation. Our research increasingly shows that members take value from the IoD in different ways. Our branches are core to great learning and networking opportunities. Our education, training and board services are critical. Events like the IoD conference or programmes like Mentoring for Diversity are added to the mix. Many members

value the high quality information from the Governance Leadership Centre. We are also beginning to hear from members that the way they now travel for business means they like the idea of connections with multiple branches.

The challenge for my team is to deliver to evolving needs. To meet a new era the IoD Council has endorsed a new strategy for 2017 with a digital project at its core. We have also evolved an exciting mission and vision to reflect the new energy of the IoD. I will be saying more about this shortly.

Some of our newest members are directors of New Zealand Young Farmers as we have entered into an agreement to work with them to upskill their elected directors. Rural governance is critical to the future of New Zealand. Having worked with the Young Farmers board and their President Jason Te Brake, I have come to see how committed they are to governance. Many of them will continue to appear in the business life of New Zealand beyond agriculture. You can read more about this in the magazine.

Our cover feature looks at integrity in sport. New Zealanders are known for a values system that ranks transparency, sportsmanship and fairness highly. Those values are not universal around the world and more fragile at home than we believe them to be. International corruption demonstrates the vulnerability of sport to threats.

The IoD and our sponsor Chapman Tripp have recently advocated for more government leadership in the space of Artificial Intelligence (AI). AI represents enormous opportunity for us all, but with it comes considerable uncertainty. A Singapore biotech venture capital firm even claims to have an AI advisory board member today. The IoD believes the government must develop keen understanding of the implications of AI given the potential impact on workers and society as a whole.

I was fortunate to travel to the National Association of Corporate Directors conference this September and was joined by our President. These conferences are huge opportunities for us to absorb knowledge, bring home thought leadership to our members and deepen our ties with GNDI and the global governance community.

A keynote speech on conscious capitalism and discussions around sustainability indicate directors in United States are thinking long-term and recognise business should be about more than making money – the ‘how’ is just as crucial. We can also see a push coming for boards to focus on ethics, culture and values and take a more holistic view of the organisations they lead. I look forward to seeing how we can take on some of these ideas and continue to build the strength and capability of governance in New Zealand.

# Upfront

## APPOINTMENTS

The IoD congratulates the following members on these board appointments:

Chartered Fellow Jane Taylor has been appointed chair of New Zealand Post Group

Chartered Member Joanna Perry has been appointed as deputy chair of Regional Facilities Auckland

Chartered Fellow Robin Hapi has been appointed to the board of Te Mātāwai

Chartered Fellow Norm Thompson, Chartered Member Helen Robinson and Members Danny Chan and Francesca Banga have been reappointed as directors of Auckland Tourism, Events and Economic Development

Chartered Member Dr Nicki Crauford has been appointed deputy chair of the New Zealand Fire Service Commission

Chartered Member Mark Gilbert has been reappointed to the board of Auckland Transport

Chartered Member Michael Ahie has been appointed to the Inland Revenue Risk and Assurance Committee

Member Geoff Clews has been reappointed to the board of Regional Facilities Auckland

Chartered Member Tony Sewell has been appointed independent director of NPT

IoD CEO Simon Arcus has been elected chair of the Wellington division of Cancer Society New Zealand, and appointed to the board of Scots College

Chartered Fellow Margaret Devlin has been appointed chair of Watercare Services Limited and Member Julia Hoare as deputy chair.

## Leading Directors Forum 2016

This year's forum was held in Auckland in early October. The theme was *Leading Edge - global trends for New Zealand governance*, and speakers included Cormack Dunn, Diane Smith-Gander, Michael Stutchbury, Dr Jim Minifie and IoD UK director general Simon Walker. We look forward to bringing you insights and profiles of some of the speakers in upcoming issues of *boardroom*.

## In sympathy

The IoD would like to offer its sympathy to the family and friends of IoD Distinguished Fellow John Waller ONZM who died on Tuesday 20 September 2016, aged 63. An IoD member since 1996, Waller had a wealth of valuable corporate, financial, commercial, and directorship experience serving on a number of prominent boards. A partner for PWC for over 20 years, Mr Waller was involved on major insolvencies and was also instrumental in developing successful turnaround packages for once struggling businesses including Smiths City, Alliance, Tranz Rail and Air New Zealand. More recently Mr Waller was chairman of the Bank of New Zealand for seven years and sat on the boards of NAB, Fonterra, Sky Television and Eden Park Redevelopment Trust.

### IoD BY NUMBERS\*

# 7859

members as at 30 September 2016

# 360

applicants registered on the Future Directors database

# 36

members have passed the Chartered Member Assessment this year

# 53

organisations have joined IoD through Boardwide

\* Correct at time of publication

# Announcing the IoD Strategy

*The IoD has been growing; membership numbers are nearing 8000 and our profile has increased in the past year. We are making great progress for the director profession and for New Zealand society, but we aren't resting on our laurels.*

Our CEO Simon Arcus recently announced the IoD's strategy for 2017 and into the future. As IoD members, we think it is important that you know where your professional body is heading and are excited to share our mission and vision with you now.

## Purpose:

*Driving excellence in governance*

## Vision:

*To be the world class professional body at the heart of New Zealand's governance network*

## Mission:

*Inspiring and equipping people in governance to add value across New Zealand business and society*

## Develop



# Book your courses for 2017

*Read through the brochure with this issue of **boardroom** to discover your professional development opportunities and plan for 2017.*

For dates and prices go to [www.iod.org.nz/director-development](http://www.iod.org.nz/director-development)



*Alan Isaac**Peter Miskimmin**David Howman*

# Taking a stand at the bottom of the world

*Amidst the allegations of wrongdoing and corruption in international sports, what is being done in New Zealand to ensure that our integrity remains? Boardroom speaks to IoD council member Alan Isaac, David Howman and Peter Miskimmin about the international sports landscape and the impact of good governance practices.*

New Zealand has a reputation as a sporting nation, but we are also held in high esteem when it comes to attributes of fairness and equality. New Zealand sits high on the Transparency International Corruption Perceptions Index – currently number four behind Denmark, Sweden and Finland. This perception translates to how we are seen on the international sporting stage, but as Sport New Zealand Chief Executive Peter Miskimmin explains, that doesn't mean we should rest on our laurels.

“We do know there is a murky world out there and some of those global trends are heading our way,” says Miskimmin.

Integrity in sport is a broad concept covering everything from match-fixing to

poor side-line behaviour, corruption of officials and drug use through to protecting children so that they can be involved in a sport in a safe way.

Good administration, strong values, policies and education are key says Miskimmin. A strong sport culture starts with a good culture at the top – whether it is those governing High Performance Sport New Zealand or a local rugby club.

“At its heart, sport adds enormous value to our society both at an individual and collective level. At times, like anywhere in society, people get caught behaving badly and I think that it starts as a governance issue to ensure the integrity and values are maintained and upheld.”



Good governance can have a real and recognisable impact on the outcomes for sports, and as New Zealand takes a more prominent place on the world sporting stage, those who lead sport in this country need to be committed to upholding the values that New Zealand holds dear.

“When we look around the world, our transparency and our values sets are a lot higher,” says Miskimmin.

“We want to make sure that we are retaining those values and the way we look at the world and look at sport. If we don’t have a strong view, slowly that will be eroded and that means people might not come to sport in the same way they have before.

“Sports leaders have to be constantly vigilant to ensure we are protected from that and can preserve the wonderful sporting heritage that we have.”

#### LESSONS FROM CRICKET

“Something I’m passionate about is corruption,” says Alan Isaac.

“People have looked at cricket and said cricket is corrupt. It’s frustrated me because the realities are that cricket is no more corrupt or corruptible than any other sport.”

Isaac was president of the International Cricket Council (ICC) until 2014 and has a résumé rich with sports governance roles including for the 2011 Rugby World Cup, the 2015 Cricket World Cup, SPARC (now Sport NZ), NZ Golf and nearly 20 years’ involvement with New Zealand Cricket. Isaac was made a Companion of the New Zealand Order of Merit in 2013 for services to cricket and business.

Isaac has seen significant change in the cricketing world both in New Zealand and internationally. He believes we have a world-leading approach to sport governance in this country, due to the game-changing Hood Review of the early 1990s.

Around 1994 New Zealand cricket was suffering a reputational crisis. John Hood and his committee were commissioned to review the sport’s administration, the recommendations of which Isaac says were “arguably revolutionary in sports governance not just in New Zealand but internationally.”

Major changes impacting governance of the sport included moving from a board of thirteen (six delegates, six elected members and a representative from women’s cricket) to a fully appointed board of seven, and now eight. As one of those initial seven appointees Isaac says the change from a mixed board to an appointed board had a significant impact on the way decisions were made.

“I saw first-hand the difference it made. Instead of having to go back after a monthly board meeting to defend decisions to their constituents, we had a board that made decisions in the best interest of the game. Other sports in the last 22 years have picked up those concepts in different shapes and forms. We have led the world in this space.”

Isaac has also seen first-hand the impact of changes in cricket governance internationally. Revelations of match-fixing in the early 2000s damaged the reputation of international cricket, requiring action from the international governing body.

***“Sports leaders have to be constantly vigilant to ensure we are protected from that and can preserve the wonderful sporting heritage that we have.”***

Amongst the changes made, the ICC set strict criteria for cricketing bodies wanting to become ICC members and host international matches. Those bodies need to abide by codes set by the ICC around the

policies and procedures of the game which are designed to minimise risk of corrupt activity.

“International cricket made changes so that they were more actively policing match-fixing, but more particularly focusing on a significant amount of education and training for the players,” Isaac explains.

Isaac refers to comments made by Sir Ronald Flanagan, comparing those who target players to fix matches as similar to those who groom children. A jarring comparison, but in Isaac’s view an accurate reflection of the types of people who are drawn to sport when big money can be made. Education, he says, is vital for all involved.

“Most of the effort goes at the front end because we can’t be a police force. Apart from anything ICC has limited resources, but also every country where a cricket match is taking place has different laws.”

The culture and law of the different member countries of the ICC impacts on the way policies and procedures are implemented. The same is true in any sport and Isaac stresses the importance of understanding cultural differences around the board table.

“People said to me when I had the ICC role ‘how did you deal with the politics’ and I said no I never referred to the P word, I referred to the C word which is culture. What I tried to do is understand as much as I could about the different cultures around the table to help me understand why people were thinking and behaving in a particular way.”

The ICC also set up the Anti-Corruption and Security Unit (ACSU), now led by the aforementioned Sir Ronald Flanagan. Isaac recalls comments by the outgoing head, Lord Paul Condon, about the positive impact of changes on the international game, and the growing threat to domestic leagues.

“He said he believed international cricket had got the threat of corruption in international matches reasonably well managed, but there was a huge threat of displacement. What he meant by that is nation v nation you’ve got it pretty well protected, but now you’ve got these domestic leagues. You haven’t got the same processes and procedures in an individual country as you do in a nation v nation so you’re at risk.

“You’re at risk if a match or event is televised because a book can be run on it. If you think about it most sports are televised in some form.”

Even without television there is risk. In 2013 four members of a bottom of the league second-tier Melbourne football team were handed a lifetime ban from the game following charges for their involvement with a match-fixing syndicate. At the time the Sydney Morning Herald reported it was understood the syndicate targeted the players and a second tier competition in Australia because it believed there would be less chance of detection.

Mitigating these types of risk means strong policies need to be laid down, Isaac says.

“Sports should have clear anti-corruption codes, they should have really good

education of players and they should have some means of policing adherence with the policies and inevitably relationships with authorities.”

#### **MAKING MONEY AND GOING GLOBAL**

Recently back to New Zealand after 13 years in Canada as director-general of the World Anti-Doping Agency (WADA), David Howman has an international view of the role governance plays in keeping sport clean.

Howman believes New Zealand athletes are pretty clean and backed up by a cultural system that values telling it how it is, playing it straight, and pulling up wrong-doing. It’s those values that could see us leading the world in sports integrity.

He says the biggest danger for New Zealand comes from abroad, and the assumptions that others on the sporting stage will hold the same values that we do.

“When New Zealanders travel they’ve got to be aware that the same values may not be upheld. That’s where we let ourselves down because we assume that people you meet and people working in the same area as you are the same as you, hold the same values, have the same interest in sport and reason for playing.”

WADA officials are acutely aware that the more money tied up in sport means a greater risk for corrupt activity. Compliance studies undertaken by the organisation take into account the standing and financial backing of particular sports and countries.

*“You’ve really got to be gutsy. We’re respected for speaking it how it is, being direct, not really having agendas, we’re there to do the right thing.”*

“There is so much money in sport now, unbelievable amounts of money. We don’t really see it at all here but it encourages crime, greed and everything that goes with it. That’s not just the criminal underworld it’s those at the top that get tempted to do things they shouldn’t do.”

Recent news stories provide a clear demonstration of that; Sepp Blatter and the troubles at FIFA aside, in recent months a top Olympic Committee official was arrested in Brazil in connection to an illegal ticket-scalping ring.



## All Hail Amy!



Kaon SecurITy wish to congratulate Hon. Amy Adams for her work in helping to shift the cybersecurity conversation to the boardroom

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WADA puts great emphasis on education. Howman says there are always those who will push the limits in an attempt to reap the rewards of a successful sporting career, and in some cases there is only so much an organisation like WADA can do – individual sporting bodies need to take a strong stance and enforce it from the top.

“It’s happening in rugby in South Africa in high school where those guys know they need to be getting a contract by 17, 18. More than 40% of those who were tested, tested positive – that’s scary,” Howman says, explaining that WADA cannot officially require testing at that level.

“You have to rely on values: who is running the club, do they know about it? It’s not an easy one to answer when it comes to money.

“A lot of people are seeing sport as a career, as a way to make a lot of money. The attitude toward it has differed from the old amateur ethos of play fair and everyone is equal.”

#### **STEPPING UP TO THE CHALLENGE**

“New Zealand could be the leader in sport integrity,” Howman says.

To achieve that Howman says New Zealand representatives need to not only understand the threats to sport here and internationally, but recognise they have the ability to do something about it. That starts with having a strong group of sport administrators here who understand the impact they can have and the best way to represent New Zealand’s views and values at international governance level.

Miskimmin agrees, and says Sport New Zealand is actively working to make sure that New Zealand has a strong governance presence globally.

“We’re really encouraging our national sporting bodies to ensure that they are putting people on the international boards so that we understand what those global forces are and so we get to put our skills

and values sets into the leadership of sport on the global stage.”

Howman believes that New Zealand boards have matured; something that is not necessarily happening internationally, where history and legacy play a big part in the way international federations are structured.

“If you look at it from a New Zealand perspective there are a lot of business people involved in sport,” Howman says.

“I think those people have to understand how the sport works before they can be impactful. Alan [Isaac] is a good example – he knew cricket inside out but he also knows business inside out. Many think they know a lot about sport, but don’t.”

Miskimmin adds that a lot of emphasis is placed on the make-up of boards.

“The most important thing is to get the right people around the table – the right diversity, the right gender balance and the right level of people who are elected and independent.”

New Zealand has a reputation for having good sports administrators, Miskimmin says. The challenge is to maintain our strong values and keep our sense of fair play and integrity at all levels of New

Zealand sport and take those values with us internationally.

“We have a lot of mechanisms in place, but the world is changing and we’re not immune to these kinds of things so boards and management need to be constantly vigilant to ensure we are upholding all of those values.”

Howman wants to see New Zealand really step up in this space. He appreciates the challenges of international sports governance but says the Kiwi desire to do the right thing is an important value to uphold.

### *“New Zealand could be the leader in sport integrity”*

“You’ve really got to be gutsy. We’re respected for speaking it how it is, being direct, not really having agendas, we’re there to do the right thing.”

Having recently returned from Brazil Miskimmin says the performance of New Zealand athletes encapsulates our approach to sport.

“You look at the Olympic Games, for all of its fraught challenges, actually delivered two weeks of absolute joy for

New Zealanders because our athletes were clean and they were competing internationally with success and with honour and that’s got to be good for New Zealand.”

Alongside the 18 medals athletes came away with, Miskimmin says that the International Fairplay Award Nikki Hamblin received demonstrates what New Zealand sporting values are really about.

“We won lots of medals, far more than a small nation really should, so we have unbelievably good athletes and a world leading sports system here, but to have one of our athletes behave that way in the spirit of sportsmanship, I think is fantastic.

“That’s who we are as New Zealanders – we compete but we do it fairly – I think that’s a very good example of where we are setting the standard not just in sport but in the way we behave.

“I think everyone plays their own part; the essence is we are a sporting nation, we love sport and we need to preserve that.

“As sports leaders, we must be constantly vigilant.”



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## Continuing Professional Development

# Maintaining and enhancing your knowledge

*This month a number of our members are entering the third year of their CPD foundation period. Our boardroom editor, asks them to contribute their thoughts about CPD and how they are tracking.*



### Lucy Elwood (MInstD)

PRINCIPAL ELWOOD LAW

I record a mix of activities, but I am most reliable at recording points for courses or presentations I have attended. There are other activities which I do (such as reading articles) where I never record all of the points for which I'm technically eligible. I don't think this is surprising. The purpose of the activity is to learn, not to get a compliance tick.

Each year I create a legal CPD plan for the year and then consider any additional IoD CPD activities that I wish to undertake during that year. At the same time as setting my CPD plan, I also set a rough budget for CPD activities for the next financial year.

While I have a rough plan for the year, the activities themselves are more fluid. Topics will come up during the year that I want to learn more about, or I may be invited to an event that is of interest.

I view my desire to keep learning, my willingness to keep informed and my approach of always looking for improvements as part of what makes me a good director. I think companies need to be open to adapting and changing over time, and it follows that directors need to be adaptive too. CPD is just part of that process.

### ✓ CPD tips

- Log your points regularly. See how you're tracking on your dashboard
- Log your governance reading, eg *boardroom*, (up to 10 CPD points a year)
- Complete an IoD online module (3-5 CPD points)
- Log points for mentoring/mentee meetings, (up to 15 CPD points a year)
- Writing and delivering governance presentations, (up to 10 CPD points a year)

**Any questions? Contact the membership team at [cpd@iod.org.nz](mailto:cpd@iod.org.nz) or phone 04 499 0076**

#### **Log your CPD on your dashboard**

Points for IoD training and branch events are automatically recorded on your dashboard but you will need to log all other CPD activity yourself.

#### **No need to double up.**

CPD undertaken for other professional bodies counts if it is governance related and improves your director skills.

***IoD Members, Chartered Members and Chartered Fellows must maintain 60 CPD points over a rolling three-year period.***

## Nicky Duggan (MInstD)

**DIRECTOR EVOLUTION OF SERVICES**

I undertake a few different types of CPD activities and most of them on a regular basis. These activities include attending several IoD events each year, undertaking specific training courses (the most recent being Chairing the Board in 2014 after completing the Company Directors Course in 2012), absorbing the IoD *boardroom* publications as well as digital communications from both the IoD and other sources. In 2013 I was very fortunate to be given a very experienced mentor by the IoD – Peter Drummond – whom I still check in with every few months.

I generally log in to the IoD website every two to three months to update my CPD activities.

I would probably call it semi-structured. I plan to continue to take advantage of the regular information and events the IoD deliver, while augmenting this with development focused activities in specific areas where I wish to upskill further, or that I am particularly interested in. Some activities are locked-in, while others are a little more opportunistic.

I believe that it is the personal responsibility of directors to ensure we keep ourselves up to date on relevant issues. The IoD provides a steady stream of information and resources – it's all there and very easy to take advantage of. Some areas are absolutely critical to be fully across (such as changes to the Health & Safety at Work Act), while others are going to be more driven by individual development requirements, personal interest or relevance to types of directorships.



## Mike Milsom (CMIInstD)

**CFO SOUTHERN CROSS HEALTH TRUST AND HOSPITALS**

I have completed the residential Company Directors Course and Chairing the Board as well as participated in the Boards in Action short courses and self-paced online learning modules through IoD. Being a CA I have the ability to cross-credit CPD activities that are also relevant to my governance roles, whether these be structured courses or short duration seminars. I aim to undertake CPD throughout the year ideally when I have time available in my schedule.

I don't have a formal plan for CPD to achieve in each year. I will look for CPD activities to keep up to date with topical issues and with gaps in my knowledge and experience.

The commercial environment is constantly changing and there is every reason for directors to keep up to date with a broad spectrum of issues that affect us as directors and the organisations that we are involved with. By way of example the introduction of the new health and safety legislation this year has wide ranging implications for directors and business. In addition increasing cyber security risks present new challenges for boards to be aware of and address.





**Philip Poppe (CMinstd)**  
MANAGING DIRECTOR FOREX LTD

I record conferences and presentations I attend, plus the points awarded by IoD for completing the Directors' Fees survey.

I don't follow a set structured process, it is more anchored around what events I can attend. It is always a challenge trying to fit professional development events into your calendar when most people's work and out-of-work life requirements need to be managed as well. I don't have a plan for next year around CPD but I would quite like to try and get to the IoD annual conference.

I undertake CPD for a number of reasons:

1. Because I have to, to maintain professional qualifications.
2. Because I want to. I find it necessary and stimulating to periodically get out and listen to someone else speak. It increases your all round knowledge rather than being totally immersed in only one field of expertise. I find that when I hear from someone on a topic that is not necessarily my field of expertise it not only gives me insight but it gives me a different perspective. It also provides me a perspective on how the future is likely to change as I sometimes find it difficult to stay with the pace of change that we live with in today's world.
3. Social Interaction. CPD provides me with a forum and a shared interest to meet and interact with other IoD members. I find that whilst I may learn a lot in the structured part of the presentations, I often find I learn equally as much in the unstructured part of having discussions with fellow attendees during the breaks and socialising functions. People are often more willing to discuss their situations or provide insights in the small group environments.
4. Contacts. As a result of attending events I've made a number of contacts that have been beneficial to me in business. The relationships endure as well - I still interact with people I met on the Company Directors' Course I attended in 2006.

I am more likely to attend short duration single topic focussed events as they are easier to attend, rather than a full day event or having to stay overnight. I am always looking for two or three key take out messages or learnings from attending that will enable me to improve my own performance in governance roles.

**AUDIT: The IoD will conduct random audit of CPD records from October 2017 onwards. The audit process is in place to confirm that members are on track with their CPD, and where necessary the IoD will offer assistance.**

## directorSearch

# Searching for a new board member?

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

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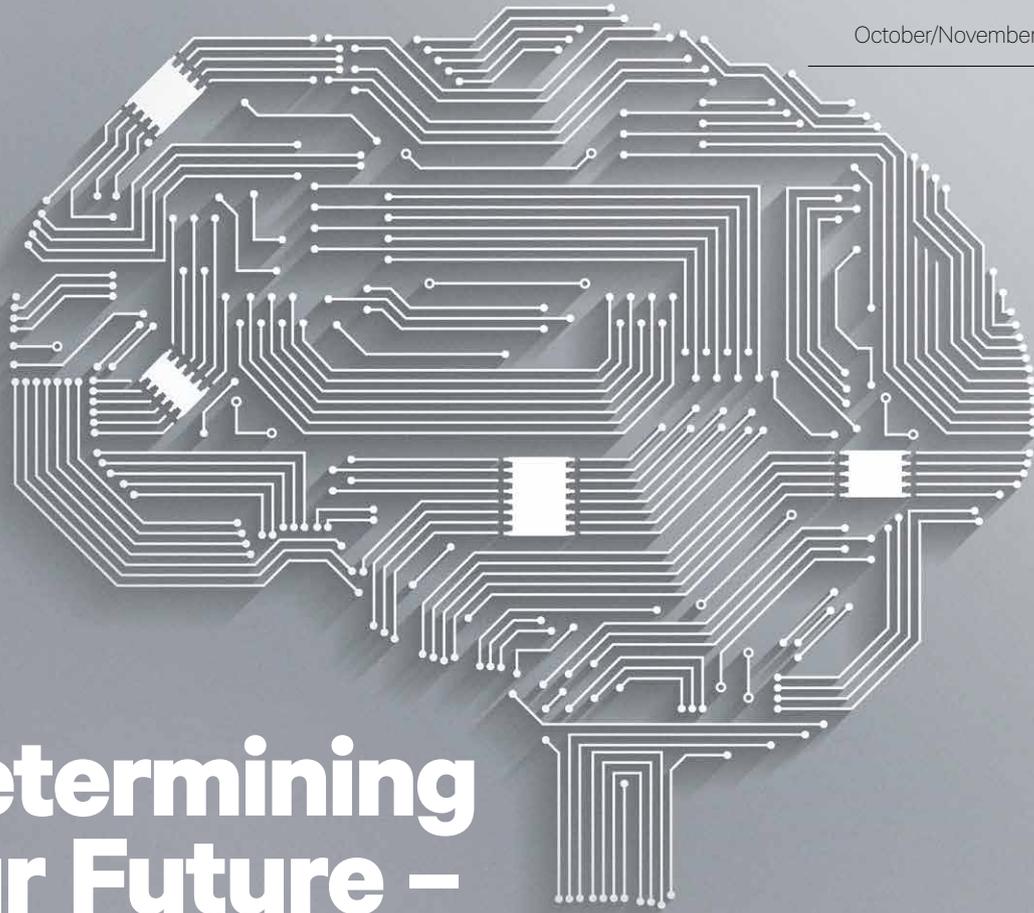
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# Determining our Future – Artificial Intelligence

## OPPORTUNITIES AND CHALLENGES FOR NEW ZEALAND: A CALL TO ACTION

As organisations committed to New Zealand's long-term prosperity, the Institute of Directors and Chapman Tripp believe Artificial Intelligence (AI) is an extraordinary opportunity and challenge for New Zealand's future.

Its potential impacts are profound, with many predicting AI to be smarter than humans within 24 years.

Already, AI has a growing effect on our daily lives. In the near future, it is likely to drive – at an unprecedented pace – highly disruptive change to our economy, society, and institutions.

So it's critical New Zealand acts now.

With Chapman Tripp, the IoD has developed a call to action paper highlighting the risks, opportunities and challenges AI presents. The paper calls on the government to establish a high-level working group to help New Zealand deal with AI.

*“AI is an extraordinary challenge for our future,” says IoD Chief Executive Simon Arcus. “Government and business*

*leaders need to work together to promote greater development of AI technologies to ensure there is a coordinated approach to prepare for the impact AI will have on work, education and welfare. This requires big-picture thinking, long-term vision and appropriate oversight.”*

The working group should be tasked with:

- considering the potential impacts of AI on New Zealand
- identifying major areas of opportunity and concern and
- making recommendations about how New Zealand should prepare for AI-driven change.

The working group should include public and private sector leaders, and expertise in science, business, law, ethics, society, and government. It should reconvene and report periodically, so its advice keeps up with the pace of change in AI technology.

A recent international survey suggests 50% of respondents believe AI will be smarter than humans within the next 24 years, with 90% believing it will be within

60 years. The Future of Life Institute says significant parts of the world's economy including finance, insurance, actuarial and many consumer markets could be susceptible to disruption through the use of AI technologies that learn, model and predict human and market behaviours.

The IoD says New Zealand must move now to ensure it can manage all the risks AI may present, but also capitalise on the opportunities.

New Zealanders need to be prepared for the human resource implications of AI. While the impact of AI on the New Zealand economy is unquantifiable, many sectors should be investing more in AI technologies to make the most of their full potential. This extends from start-ups, to SMEs and corporates to government agencies and educational institutions.

AI is an extraordinary challenge for our future. Establishing a high-level working group is critical in helping New Zealand rise to that challenge.



*Lord Michael Hastings, CBE, (right) who recently visited New Zealand, pictured with KPMG New Zealand Executive Chairman, Ross Buckley MInstD.*

## **A global view on ethics in business**

*Who is ultimately responsible for an organisation's ethical (or otherwise) behaviour? And is there a clear roadmap for arriving at an ethical board decision?*

*Lord Michael Hastings, KPMG International's Global Head of Corporate Citizenship, believes there are four guiding pillars that will lead to the right decision.*

Lord Hastings (CBE), who visited New Zealand recently, is particularly well-qualified to speak on ethics in the board context. In addition to his KPMG role, he is also a trustee of the Vodafone Group Foundation, and previously served on British Telecom's Board for Responsible and Sustainable Business. He was appointed to the House of Lords by the Queen in 2005; the same year he received a UNICEF award for 'understanding and effecting solutions for Africa's children'.

Lord Hastings believes there are "four levels of responsibility" which provide the checks and balances for ethical decision-making.

"Lying and cheating is very obviously both legally and morally wrong. But above and beyond that, there is a duty of care which every corporation has towards its wider network of stakeholders."

As he explains, the starting point is a belief that protecting the value of life is paramount.

"Respect for the dignity of the individual is equally paramount. Doing what is right by all those affected, including the most vulnerable, is equally paramount. And finally, respecting the community in which the corporation or institution operates is equally paramount. So you have those four levels of responsibility which form the balance checks against decision-making."

#### **ETHICS IN ACTION**

Another way for board members to set their ethical compass, says Lord Hastings, is to always consider the wider impact of their decisions on others.

He cites the example of former Barclays Bank chief executive, Antony Jenkins. Soon after stepping into the job, he took the executive board away to Kenya. They spent several days working on a number of village-related sanitation projects – essentially building toilets. In the light of that experience, they spent the next few days making decisions about the bank's progress within the continent of Africa.

"Ethical decision-making is not a paper exercise," says Lord Hastings.

***"Respect for the dignity of the individual is equally paramount. Doing what is right by all those affected, including the most vulnerable, is equally paramount."***

"It's about expanding the mindset. The moment the decision-makers are engaged with having to confront the people they make decisions about, and also understand the culture in which they make those decisions...then they will make those decisions differently."

#### **THE IMPORTANCE OF PURPOSE AND VALUES**

In a similar way, board members need to realise that their "decisions made in the macro need to be understood in the micro."

"I would argue that ethics at the higher level of board decision-making relies upon the hearts and minds of the men and women sitting around the table...and understanding that they need to place themselves in the position of the receiver of any decision."

Another critical component of ethical decision-making is whether the organisation has a clear purpose, and a set of values that support it. Once those are in place, the operational components will flow from it accordingly.

"In KPMG's case, integrity is central to everything that we do – whether it's making sure the knowledge we provide our clients is robust and intelligent; or that we are including and committing to our communities. We have a value set that determines the nature of our operations."

Lord Hastings was in New Zealand in August to support the 'Cycle for Water' programme, a KPMG-sponsored initiative to raise awareness about global water quality. During his visit, he spoke to a number of business groups – including the

Institute of Directors – as well as visiting schools that KPMG New Zealand supports as part of its community programme.

#### **THE HUMAN RIGHTS PARADIGM**

Lord Hastings points out an increasing number of organisations worldwide are embedding a human rights framework into their operations, and proactively upholding human rights across their sphere of influence. He describes the movement as "a new area of progressive governance."

"In some countries, it is required by law; but in others, it is being driven by the value set of the company."

Lord Hastings believes it will soon become mainstream; in a similar way that environmental reporting is now commonplace.

"Human rights considerations are now the next level at which companies are looking hard at what they do, particularly down the line of supply. It is no longer acceptable to say we didn't know about those breaches right at the bottom end of the supply chain. Because it's all part of the responsibility curve."

Lord Hastings says another emerging issue – and one of the subjects of discussion at this year's World Economic Forum – will be the impact of the fourth industrial revolution on the workforce.

"The question is how you sustain employment and the value of work when there is technology available that could remove huge amounts of expenditure at cost base out of operations. Therein lies the challenge – in the face of robotics and technology, how do we respect the need for work and workers?"

"We're beginning to get a handle on that, but I don't think anybody quite has the solutions yet."

***In the December issue of boardroom, Lord Michael Hastings will share his views on best practice corporate citizenship.***

SEEKING

RETAINING

EVALUATING

STAYING  
RELEVANT

PART 3 OF 4

# Using evaluation to build a better board

*Evaluation is more than just a compliance exercise. An effective evaluation can bring great benefit to a board and the organisation it governs by providing valuable insight into how the board is progressing.*



Sally Jarvis,  
Board Services Advisor

Undertaking evaluation demonstrates a board is committed to best practice and continuous improvement. Increased scrutiny from shareholders and customers has brought into focus the activities of the board; a successful board is no longer just about bringing together successful individuals.

Board evaluation is critical.

“It’s a very, very useful tool,” says Greg Barclay, chair of Boffa Miskell and Smartpay Holdings, of the IoD’s BetterBoards service.

Barclay has used BetterBoards several times in the past year with different boards he sits on, and says the benchmark that can be set is a valuable part of the process.

“It’s good to see year by year or on a biennial basis, those shortfalls or gaps in competencies, and whether or not you have improved in those areas. Holistically it’s a very good exercise for a board to go through.

“We’ve certainly identified things that we do well and identified areas where we can improve.”

“It’s meant to be a positive experience, an opportunity to look for ways in which the board can lift its performance,” IoD Board Services Advisor Sally Jarvis explains.

“An evaluation is a snapshot in time; a chance to think about performance and look for opportunities to improve.”

Glennis Wilson is chair of the Disabilities Resource Centre Trust and found the evaluation process beneficial for gauging where the board was heading and identifying where to upskill members.

“We decided an evaluation was a good tool to see where our strengths and weaknesses were. Although we’re a charitable trust we need to target people coming on to our board who have the skills we need. Particularly in the health sector we need to be evaluating ourselves to make sure we are headed in the right direction.

“We have a mix of experience so for those who had been on the board for a while it was a tool to see where they are at and see

if they were really bringing the strengths we thought they were.

“It also makes the discussion easier around succession – the more senior members can say well you can expect me to be here for a year or two years, because that’s the timeline I’ve set for myself. It’s very open.”

Jarvis notes that part of the value of an evaluation comes from the thinking the directors do as they complete the questionnaire. Barclay agrees, saying the process focuses a board on areas that they might normally shy away from discussing.

“It’s quite a comprehensive, introspective survey and evaluation process,” Barclay says. “You can’t hide, you can’t pick and choose questions, you’ve got to make a call and it’s quite uncanny just how accurate it is in terms of joining the lines and picking up trends. When two or three directors start to identify the same thing then you have got no choice except to start to address it.”

“In my experience we will probably pick up two or three key things, and they’re not obvious things like shortage in finance, legal or IT skills. They can be more deep-seated, inherent things like integrity, communication and treatment of stakeholders; the sort of things that if the board is not performing as well as it could or should, those are the areas that you tend not to see until it is starting to become too late.”

Barclay points out that evaluation shouldn’t be seen as simply a box-ticking exercise to comply with expectations, especially for listed companies.

“I think a lot of evaluations are done as a requirement or expectation so they’re done to get through the compliance part. I do think that there is an increasing awareness of its benefit to performance and if you do it properly there should be areas that you can improve and enhance.”

While some may feel an evaluation is a method of probing into skills deficits or only identifying problems, Jarvis says that it is important to be clear about the aim of the evaluation.

“The best outcomes are a result of everyone understanding why they are there, and embracing the opportunity to improve. The chair is key; they set the scene.”

“It’s how you sell it,” Wilson says. “People might automatically think, me included as chair, if it shows up big gaps that I have then the board may need to consider if they should replace me.”

“You have to be open to all of that. It’s not about personal criticism in any way shape or form and was never put across in that way.”

Taking the results of an evaluation and discussing and implementing change is a vital part of the process, Jarvis adds.

“Key to getting the most value from an evaluation is the discussion of the outcomes. The chair will be thinking about how the discussion session will be run and may like to consider using an independent, external facilitator to create a neutral environment and bring fresh perspectives,” Jarvis suggest.

IoD CEO Simon Arcus facilitated the discussion for the Trust. Wilson says he put the board at ease and made the discussion easy.

“Simon and Sally are very easy to work with – they are very knowledgeable. Simon was extremely good at facilitating the discussion around what might be perceived gaps – not necessarily skills. It might be something as simple as commitment to the board. It was useful in lots of areas.”

“We tend to have a really good session once all the results came back and can spend up to three hours going through the evaluation ourselves,” Barclay says.

“It gets the guys to focus. It makes a heck of a lot of difference in terms of what we might have agreed to as a board in terms of performance matters going forward. Once the exercise has been completed it’ll be easier to do it next year because there will be things to focus on and see if there has been improvement.”

“Without doubt there is an appreciation by the board that there are areas to improve. They might be areas that they are already doing quite well but they can still improve. A better performing board will obviously enhance value for the stakeholders and that’s what you’re there for.”

## **betterBoards**

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# Unlocking the buzz around blockchain

*Boardroom looks at some of the conversations around blockchain and what this technology might mean for the future of business.*

The financial and tech worlds are buzzing about blockchain. We are seeing the emergence of new, decentralised digital platforms for currency exchange with the potential change to the way we store and reconcile financial records. Banks and financial intermediaries are working hard to understand these cutting edge disruptions. Even though blockchain is by no means mainstream, it is worth understanding what it aims to do and the possible implications of the technology.

## **LET'S GET STRAIGHT TO THE DEFINITION.**

### **WHAT IS BLOCKCHAIN?**

A blockchain is essentially a distributed database. A blockchain creates a digital ledger of transactions which can be shared among a distributed network of computers, using encrypted data so each participant on the network can use the ledger safely. Because it is spread amongst many systems, supporters argue there is no need for a central authority like a bank.

Business Insider puts it this way:

*“Blockchains are ledgers (like Excel spreadsheets), but they accept inputs from lots of different parties. The ledger can only be changed when there is a consensus among the group. That makes them more secure, and it means there’s no need for a central authority to approve transactions.”*

### IT'S THE IMPLICATIONS AND POTENTIAL ADVANTAGES OF BLOCKCHAINS THAT COUNT

Blockchain's true value may be in the ability to simplify the way transactions get processed. One example is the banking reconciliation process which may become a thing of the past if there is a single, live and complete set of transactions at all times.

An advantage of a blockchain is that once the data is recorded it's extremely difficult to change or remove. When someone wants to add to it, participants in the network evaluate and verify the proposed transaction for validity. If a transaction is valid it is approved and a new 'block' is added to the chain.

Those championing blockchain technology say that its power is a huge improvement in security which removes the middlemen that currently serve that function. A World Economic Forum article on the subject discussed the ability of the technology to bypass intermediaries and lower transaction costs. In 2015 Santander banking group released a report estimating blockchain “could reduce banks’ infrastructure costs attributable to cross-border payments, securities trading and regulatory compliance by between US\$12 – 20 billion per annum by 2022.”

The recognised potential of the technology can be seen through investment trends; Venture Capital investment in Bitcoin and blockchain to October 2015 totalled \$921 million, and blockchain ventures alone saw \$160 million of investment in the first quarter of this year.

More than 40 top financial institutions have joined a consortium, R3, to experiment with distributed ledger technology as a secure and transparent way to digitally track the ownership of assets. Across the Tasman, the Australian Securities Exchange

has bought a \$15 million stake in Digital Asset Holdings, a developer of blockchain technology, and the Commonwealth Bank has built a working blockchain. The bank's chief information officer David Whiteing says of the technology:

*“Blockchain has the potential to transform banking in the way that the Internet transformed how we buy music and watch movies.”*

While a technology in its infancy, supporters envision possible uses for blockchain extending beyond the finance sector to record any type of structured information. Currently digital currency Bitcoin is the most widely known example of blockchain in action, however the technology is also in use through Ethereum, creating smart contracts.

A recent Wall Street Journal blog gave the example of how insurance might also be improved through blockchain:

*“Blockchain can also ease peer-to-peer insurance, circumventing established companies. For example, Uber or Lyft drivers, who currently rely mainly on their personal auto policies, could pool their money on a blockchain and create a smart contract to insure each other.”*

Or even how farming could be enhanced:

*“In agriculture, farmers could put sensors in fields to monitor crops through growth, harvest and transport, recording data on a blockchain via wireless network. In a recall, farmers could quickly match tainted product to supply chain records.”*

### CHALLENGES TO EXISTING AND TRADITIONAL STRUCTURES

In Accenture's recent report on the future of fintech the challenges to existing players in the financial services market is outlined. Legacy technology and the difficulty of disrupting from within are major impediments to existing entities wishing to take up the new technology.

*“Openness, Collaboration and Investment are the critical themes that emerge for existing banking players ....Banks also recognise two other fundamental steps to ensuring that they are net winners from digital disruption: successfully dealing with the issue of legacy technology and managing a large infusion of new talent.”*

A major challenge for the growth of blockchain is the very flexibility it creates. To work efficiently, all of the network of participants need to agree on a common network protocol in an environment where no clear standards of governance exist. The current regulatory requirements for financial transactions and the issue of privacy in such a diffuse environment are two other challenges that could potentially limit the technology. There are currently few tested use cases, no universally accepted protocols and the legal status of blockchain is still unsettled.

### WHERE TO FROM HERE?

Investment is growing and the possibilities are vast and exciting. In an interview with McKinsey & Company, Tapscott CEO and co-author of ‘Blockchain Revolution’, Don Tapscott likened the possibilities surrounding blockchain to the anticipation of the early days of the Internet.

*“It gives us another kick at the can, another go, to try and rethink the economic power grid and the old order of things. That, to me, is how big this is. It feels like 1993.”*

As with any emerging technology there are risks and opportunities to be explored. It looks clear significant investment and strong leadership upfront will be required to see where this type of technology might lead. While blockchain remains in the experimental phase, the buzz is certainly growing louder. Does blockchain represent a change as significant as the growth of the Internet?

Tapscott's son and co-author, Alex Tapscott, has this to say:

*“Technology is not a panacea and it does not create prosperity. People do. Only with the right leadership can we fulfil its promise.”*

### WHAT SHOULD DIRECTORS BE THINKING ABOUT?

- How could blockchain disrupt your business model?
- Is your organisation prepared to adapt?
- Does your board know where to go for advice on new technologies like blockchain?
- Could you be a leader or work with others in this space?



Jason Te Brake

# A pathway for young leaders

*Jason Te Brake is chairman of New Zealand Young Farmers. Having joined the organisation six years ago, Te Brake put his name forward for the board in 2013 and last year stepped into the head role. During his term at the helm, Te Brake is determined to put in place a development programme to provide talented Young Farmers leaders with a governance pathway. He approached the IoD to make this a reality and talks to boardroom about the importance of upskilling young people in the primary industry.*

The structure of Young Farmers means there is a lot of opportunity to step into leadership roles, says Te Brake. Each of the 100 high school-level clubs and 75 community-based clubs have between five and eight elected leaders, with regional and national opportunities above that. The challenge, Te Brake explains, is bridging the gap between elected club leaders and the board.

“One of the goals for me for the Young Farmers board is really around growing the reputation of the board within the industry so that people recognise our leaders as being future leaders for the industry.

“I’m focused on growing members’ understanding of what the role of the board is and providing greater incentives for members to put their names forward for the board. It’s about making them more aware and seeing the value in being part of the board, and it means the board ends up with more capable people.”

Te Brake recognised that a structured development programme was necessary to bridge the gap between the leadership roles and governance of the organisation to ensure the board has the skillset it needs around the table.

“I think in the past the board roles have tended to be more of a popularity contest so for me a big focus is delivering the understanding that we need a really strong skillset around the table; that might not be the most popular member but the person with the skillset we don’t have.”

He could also see that a more structured approach would be necessary to get the support needed to get the conversation moving around governance development and to address the specific needs of Young Farmers.

“Looking at other models around, they tend to be for people who already have some governance experience. We’re trying to fill a hole in the middle for people wanting to grow their governance skills in the industry.”

Te Brake approached the IoD in April, having already had several encounters with the organisation through its CEO Simon Arcus.

“Simon has presented to our committee several times over the past few years. Through that relationship we have built I was able to have the initial conversation with him.

“The idea of the programme came from looking at our board and seeing that we

don’t spend enough time on our governance development. We shy away from it a little bit because, being a non-profit organisation, it’s a hard conversation to have about spending money to upskill our directors.

“Once we had the right format in mind it was quite easy, especially with it being with the Institute of Directors. It was quite an easy conversation; everyone knew there was something that needed to be done in that area.”

The Young Farmers board is made up of eight members; four elected under the age of 31, the FMG Young Farmer of the Year contest representative, and three independent members. Te Brake has worked with IoD to put in place a professional development programme for the four elected directors of the Young Farmers board, giving them a clear pathway to develop their governance skills. The directors will take advantage of the IoD’s Under 40 membership to access IoD events and other member benefits, and will attend the Essentials of Directorship suite of courses over their two-year terms.

The IoD recognised that putting together this package for Young Farmers makes sense. Young Farmers represent two segments of the community that the IoD is working to provide more support for – young directors and the rural sector.

The IoD believes in developing the next generation of directors and ensuring the director pool is wide enough to support New Zealand’s economic growth. The need for diversity of age in the boardroom reflects the rapid changes in the business landscape. Young people bring diversity of thought and fresh perspectives to the board table.

In the rural space, there is growing recognition of the important role that governance structures and long term thinking play in the creation and protection of shareholder value in farming businesses. Farmers can no longer rely on New Zealand’s reputation alone in the international market. Instead, they’re being urged to think strategically if they want to grow. Agri-business is fundamental to the New Zealand economy. Farming businesses are no different from any other businesses and building governance capability is important for addressing the challenges that are faced in the primary industry.

Developing a pipeline for Young Farmers leaders to gain governance experience is not only beneficial to the

primary industries. These are not just the next generation of farmers – the organisation is for anyone with an interest in the industry. Te Brake says that Young Farmers leaders can, and have, gone a long way in other areas.

“The beauty of our organisation is that we are quite wide-ranging and cater for not just farmers but anyone who has an interest in the industry,” says Te Brake.

“I grew up on a dairy farm and now am a key account manager for a dairy company so I’m not on farm day-in, day-out, I’m selling product to customers around the world but I’m still involved with Young Farmers. We have people who are on farm every day, but we also have people who are nurses or pilots, people who grew up on the farm but maybe aren’t involved anymore but still have an interest.

“Because the foundation of Young Farmers is about developing your skills, knowledge, contacts and relationships with people in the industry, we’re able to develop skilled people for the industry who have a stronger desire to go on to leadership roles,” Te Brake explains.

“People who spend time in Young Farmers develop a wide range of skills. A lot of our clubs run events, so members will be involved in event management and marketing campaigns, stakeholder engagement and each club has a treasurer and secretary and a chair. Young Farmers leaders might go on to be a chairman of a club outside of the organisation or join a board.”

For Te Brake, tapping in to and developing this depth of skill has multiple benefits. For Young Farmers the benefit of a development pathway is two-fold.

“The governors of our organisation build greater skills and add more value to our organisation.

“We’re proud that many people in the primary industries have gone through the organisation and gone on to become leaders in the industry.

“The IoD is an easy fit for us – it’s a non-profit organisation that contributes value back to its members, so very much in line with what Young Farmers does as well. They are well-structured, in terms of what they offer members and courses. To be able to partner with the IoD, who have a name for developing governance leaders, makes perfect sense.”



Rob Frost

# Lessons from Brexit – Implications for Governance and Risk

*The UK vote to leave the European Union has created uncertainty and potential volatility around the world. As the implications of the vote continue to unfold, businesses are being urged to consider the near and long-term effects on the risk environment, strategic direction, and potential workforce dislocation.*

But it is not only this vote that should prompt boards and management to reconsider the issues that are going to impact their businesses and future success. In many respects, this vote reflects a mix of more fundamental trends that are emerging globally and already impacting the regions and markets in which our companies operate.

Jean-Pierre Lehmann, founder of the Evian Group, recently said in an article in the South China Morning Post, “Brexit is a window into a future where ageing populations hang on to their privileges and global economic growth has failed to benefit all”. He noted that:

- The disintegration of the EU is now practically irreversible

- Brexit illustrates the power of gerontocrats, evident in East Asia as well as Europe. For China, a market particularly key to New Zealand, the effects of the one-child policy are significant and are now being more clearly understood.
- The result reflects the rising tide of deglobalisation.

Populism is evident in many countries and is driven by both economic and social factors. The US Presidential election race is also clearly demonstrating how some of these global issues are gaining significant traction across large parts of an electorate that traditionally have not been prominent or vocal.

Since the end of World War II, international trade has been the engine that has driven growth and economic prosperity, not always consistently, across both the developed world and portions of the third world. However, the economic discontent that some Trump supporters reflect (and was clearly evident in the Brexit vote) highlights that the economic benefits flowing from globalisation are not being shared evenly and fairly across both countries and workforces. As a result, we see Donald Trump's threat to pull the US out of the WTO. Even Hillary Clinton recognises that this issue is sufficiently major that she must now consider taking a stance.

What are the odds on TPP progressing now? Other potential New Zealand agreements seeking better access to markets, might also become less likely.

These underlying global issues can have a significant impact on corporate New Zealand and should be on company strategic risk radars and taken into account during strategic planning. The timing and ultimate nature of such events, which could turn out to have both positive and negative implications for corporate New Zealand, are very hard to estimate.

However, does this uncertainty mean that it is not worth committing resources to

better understand and assess the potential opportunities and threats they represent? In the UK and US these trends have already given rise to significant change that will likely impact company performance, both positively and negatively.

Formal risk management disciplines can help; they are the capabilities that are best suited to support smarter navigation of the uncertain waters ahead. They provide a structured manner in which uncertainty (and we have plenty of that) can be considered in the context of a company's strategic objectives. Risk advisors, and wise heads that can support more complex planning and decision analysis needs, will be in high demand.

The ability to build resilience into an organisation, or position a business to seize potential opportunities, is becoming increasingly difficult due to the volatility and velocity of issues that impact performance. It's now evident that many of the key political and social events that make up the headlines reflect deep-seated issues that will be around for some time and need to be considered in our planning. There is vocal support for any politician who promises these issues will be addressed.

#### **WHAT SHOULD COMPANIES BE DOING NOW?**

The consequence of the UK exit from the EU could be significant and should be assessed. Companies with strategic objectives that are dependent on trade with Europe, access to Europe via the UK and freedom of people movement are at greater risk. Shareholders are likely to be already nervous. Planning appropriate mitigation is imperative. But where Brexit is concerned, there may be ample time with exit negotiations forecast to take many years.

Could the Brexit vote, the rise of populism supporting right-wing politicians and the rising tide of de-globalisation signal the likelihood of further EU fragmentation? How will New Zealand companies respond

to an environment where new free trade agreements are no longer possible? Or existing agreements are under threat?

Good risk management is about anticipating issues and being proactive. We are in an environment where investing in strengthening risk capabilities is not just prudent to do, it will be critical to do. New Zealand businesses should be poised to move faster and better than competitors if they want to seize the opportunities that arise out of the uncertainty. It will also be important to ensure any negative consequences are identified well in advance and appropriately planned for. Competitive advantage is the reward.

The responsibility for being proactive does not only rest with executive management. Directors carry clear responsibility for risk oversight, strategic effectiveness and performance. They need to be ensuring that formal structured thinking is underway within the company to understand the implications of the issues that we are seeing globally.

Risk management though is not about planning; it is about taking better decisions now that strengthen an organisation for tomorrow. It is a structured process to identify, assess, treat and monitor risk. Just having a list of a dozen or so risks now will not add much value. The global issues highlighted here will have an impact in the medium or longer term planning horizons for most companies. However, the nature of the risk and a company's exposure to it will change over time as more is learned about a risk and its potential impact on a business. Initiatives considered now will likely have to be modified over time as additional clarity is gained; risk management is a continuous process.

With the uncertainty we face and the spectrum of significant global trends in play, risk management disciplines are an increasingly important input to the major decisions that companies will be making.

**Rob Frost, Head of Business Risk,  
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# GLC Update

*Improving reporting on director remuneration, helping directors prevent conflicts and manage dispute in the boardroom, and the release of the new draft NZX Corporate Governance Code, have been the key areas of focus for the GLC, says Felicity Caird.*

## NZX lifting the game on corporate governance

*The proposed new NZX Corporate Governance Code is a step forward in raising governance standards for publicly listed companies. It is proposing recommendations in several key areas that companies will have to comply with, or if they don't comply, explain why not.*

Alongside mandatory requirements in the Listing Rules, the Code compliance framework has three tiers:

- **Principles** – overarching theme or concept
- **Recommendations** – issuers have to comply or explain
- **Commentary** – voluntary guidance

In its stance on board composition and performance, NZX recommends directors undertake training to remain current on how to best perform their duties. It also recommends formal and regular assessments of board, director and committee performance. Issuers will have to comply or explain. Other key areas of focus are:

- In addition to requirements to disclose board and officer gender composition NZX is recommending (comply or explain) that issuers adopt and disclose a diversity policy that addresses gender diversity 'at a minimum'.
- NZX recommends disclosing non-financial information, in addition to financial information, and includes guidance (voluntary) about disclosing the company's sustainability strategy or reporting on environment, social and governance (ESG) matters.

- Guidance on risk management includes health and safety, ESG and cyber security.
- NZX is recommending greater transparency on reporting CEO and director remuneration, and guidance includes the IoD framework for reporting director remuneration.

The new Code is also a step in the right direction in addressing fragmentation and duplication across the various corporate governance codes for listed companies in New Zealand. Its principles align with the Financial Markets Authority (FMA) Corporate Governance Principles and Guidelines, although the FMA has a separate (9th) principle on stakeholder interests.

**A new code is due out in early 2017.**

### NZX CODE PRINCIPLES

#### 1: Ethical Standards

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.

#### 2: Board composition and performance

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

#### 3: Board committees

The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

#### 4: Reporting and disclosure

The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

#### 5: Remuneration

The remuneration of directors and the CEO should be transparent, fair and reasonable.

#### 6: Risk management

Directors should have a sound understanding of the key risks faced by the business. The board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.

#### 7: Auditors

The board should ensure the quality and independence of the external audit process.

#### 8: Shareholder rights and relations

The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the entity.

# directorVacancies

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

## THE CANTERBURY SOCIETY OF ARTS (CSA)

**Role:** Chair, Treasurer (2)  
**Location:** Christchurch  
**Closes:** 30 October

## LEXEL SYSTEMS LTD

**Role:** Advisory Board Member  
**Location:** Albany, Auckland  
**Closes:** 31 October

## COLLABORATIVE THERAPY AND DEVELOPMENT TRUST (CTDT)

**Role:** Two Trustees  
**Location:** South Island  
**Closes:** 31 October

## SOUTHLAND DISABILITY ENTERPRISES LTD

**Role:** Directors  
**Location:** Invercargill  
**Closes:** 31 October

## SHOW ME SHORTS FILM FESTIVAL TRUST

**Role:** Two Board of Trustee Members  
**Location:** Auckland  
**Closes:** 5 November

## THE FOLLOWING POSITIONS ARE OPEN UNTIL FILLED:

### GREEN GORILLA

**Role:** Directors x 2  
**Location:** Onehunga, Auckland

### BARRIER FREE NZ TRUST

**Role:** Trustee  
**Location:** Wellington

## SHELTERBOX NEW ZEALAND

**Role:** Director - Marketing and fundraising  
**Location:** National

## KOKIRI TRAINING CENTRE

**Role:** Trustee  
**Location:** Dunedin

## INVERLOCHY ART SCHOOL

**Role:** Committee Treasurer  
**Location:** Wellington

## HIBISCUS HOSPICE

**Role:** Trustee  
**Location:** Red Beach

## ARA FOUNDATION

**Role:** Trustee  
**Location:** Christchurch

## WAITANGI LTD

**Role:** Director  
**Location:** Waitangi

## ALZHEIMERS CANTERBURY INC

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

## WAIKATO SPCA

**Role:** Committee/Board positions (2)  
**Location:** Hamilton (Te Rapa)

## WAITAKERE UNITED INC.

**Role:** Three Appointed Directors  
**Location:** Auckland

## Increasing transparency on director remuneration

The GLC has developed a framework for NZX listed companies to use in their annual reports when reporting director remuneration.

We found inconsistencies when we assessed the quality of reporting by NZX listed companies on director remuneration. For example, not all boards provided a breakdown of committee fees or details about additional payments to directors. The framework is intended to help improve consistency and transparency of reporting on fees paid to directors.

## Managing boardroom conflict

Disputes can occur in all boards, from large corporates to small not-for-profits. If unresolved, boardroom conflict can cause significant harm to boards, organisations and the people involved. In a 2014 international survey on conflict in the boardroom, almost 30% of the respondents said they had experienced a dispute affecting the survival of an organisation.

It is critical that boards manage disputes in a constructive and timely manner.

Our latest *directorsbrief* for members discusses processes and practices that can help prevent destructive boardroom conflict, and how boards can manage disputes if they arise.

***IoD submissions, practice guides, directorsbriefs and other governance resources are available at [www.iod.org.nz](http://www.iod.org.nz).***

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

# From the hockey field to the board table

*Michelle Hollands understands the expectations of working in a high performance team.*



Michelle Hollands



*A Chartered Member of the IoD, Hollands' background is sporting: she played 99 games for New Zealand as a member of the Black Sticks between 1999 and 2006, representing her country at the Sydney Olympics and the Manchester and Melbourne Commonwealth Games. Following her retirement from hockey, Hollands has continued her involvement with sport – here she talks to boardroom about taking steps from the sports field to the boardroom.*

“While playing hockey I was a consultant with large corporate entities – working on strategic projects with governance boards gave me a real insight into the role of governance. The alignment between consulting and governance was pretty strong and sparked my interest in governance,” Hollands says.

“I was often inside the boardroom presenting to boards so could see the type of work that was going on in that space and I felt pretty strongly about being involved in terms of working on the big picture and future focus.”

Making the jump from sport and consulting to governance was a considered move.

“I’m a firm believer in having a planned approach for what you want to do, setting goals and communicating what you want to achieve means opportunities come your way,” Holland says.

The first governance role came in an area she knew well, on the board of Canterbury

Women's Hockey Association, with Hollands taking up a scholarship with the New Zealand Olympic Committee followed by a mentoring programme with Sport New Zealand. Hollands says her mentor, Jane Huria, really encouraged her to go into a national sports organisation.

A role at Badminton New Zealand followed as Hollands became the organisation's first independent director on a board of eight. The benefit of an independent voice was obviously noted; Hollands transitioned into the chair role two years later, and helped the board to move towards a different governance structure.

"The organisation changed a lot in terms of building the skills matrix and those of the people on the board, we took a really professional approach to governance. That's the challenge for a sports organisation as they grow in an increasingly professional sector – to move from a more management committee setting to a governance structure. That was really the transition we went through."

As chair, Hollands praises the support she received to take the board in the direction she envisioned. "I had a very supportive board. We had a good critical conversation board where no one was afraid to have an opinion but equally they listened to other opinions."

Hollands values the impact a fresh pair of eyes can have in governance and has recently stepped out of her role with Badminton New Zealand, after six years with the organisation and four as chair.

#### LEARNING OPPORTUNITIES

For Hollands, it's been a deliberate process of identifying where she wants to be and how to get there. From those first steps into governance, Hollands is now an active member of the IoD and a member of the Waikato branch committee.

"I strongly believe in actively placing yourself in scenarios where you have the opportunity to learn from others and where you have the chance to execute your skills. That's probably where Badminton was a great environment for me. I had the opportunity to really learn some good skills – especially in the chair role – we changed a lot as an organisation while I was there. We

had to make some tough calls and we had the opportunity to celebrate some really great successes as well. That can only help as you are learning."

***"Becoming a strong corporate director doesn't happen overnight, you have to step through it."***

Having joined IoD in 2012, Hollands appreciates the opportunities to learn and network that come with being a member.

"The IoD is an organisation that targets personal connections with its members to keep that connection strong. I don't think you join an organisation to be listed as a member and never attend anything.

"I think the networks are a huge part of it and that's a big thing the IoD offers – the opportunity to introduce yourself to people who are already in positions, to understand the experience and skills they have so you can see the skills you need to develop.

Hollands relocated to the Waikato in 2014 and soon joined the Waikato Branch committee.

***"You learn that you have to play your role and play it well; no individual can come unprepared, everybody must prepare well."***

"The Waikato branch is really active and was very receptive when I first arrived. By being on the branch committee you can actually deliver opportunities for people that reflect what they want to understand and learn. It's also growing the value of the IoD by giving people the chance to learn and grow and teach others. That's the real value in it."

Hollands next step along the governance pathway was to take the Chartered Member Assessment earlier this year; a step she believes more and more directors will begin to take to demonstrate their commitment to their profession.

"For me having a recognised qualification plus some experience gives you a much stronger ability to get opportunities on boards and to be a good contributing board member. I think it shows that you're committed to gaining the qualifications that show you've got the experience and knowledge to sit at a board table.

"I think going forward, that structure will prevail so people who want corporate governance roles will need to be Chartered."

#### LESSONS FROM THE SPORTS FIELD

While Hollands says athletes might not realise what is happening at board level in a sporting organisation, the lessons learned on the sports field are applicable in the boardroom.

"Sport provides good foundations for any workplace setting – you've had to fight for something. While you are too far removed as an athlete to have an idea of what the board is doing, the converse of that is the environment gives you leadership skills and puts you in a good position in a board environment. It teaches you to function as a team. You learn that you have to play your role and play it well; no individual can come unprepared. You also learn to win and lose some battles."

Her sporting background continues to provide opportunities to develop, with Hollands being one of just 25 athletes internationally to be selected for the 2017 Women Athletes Business Network mentoring programme. With one foot still in the sports world, Hollands is keen to balance that out when looking for her next governance role.

"I think the next step for me is the commercial pathway. I work in sport now, which I didn't before, so I need to strike a bit of a balance.

"For me I would want to be with an organisation that has some strong governance at the table, has a growth and challenging mind set.

"Building the blocks for the future for me is the answer. Becoming a strong corporate director doesn't happen overnight, you have to step through it."

# Notes from the Future Directors' Programme



## **DIRECTORS OF THE FUTURE**

Founded by Sir Stephen Tindall (The Warehouse/Tindall Foundation), Michael Stiassny (President IoD) and Des Hunt (NZ Shareholders Association) in 2013, Future Directors is about developing the next generation of directors and ensuring the director pool is wide enough to support New Zealand's economic growth.

Future Directors aims to give young talented people the opportunity to observe and participate on a company board for a year while giving the company exposure to this talent and the benefits a young mind can bring.

Rachel Hopkins was placed with the AWF Madison Group board this year and here she shares her experience with *boardroom*.

You can read more about the programme at [www.futuredirectors.co.nz](http://www.futuredirectors.co.nz) or read about another Future Director, Malcolm Phillipps, who shares his experience on The Warehouse board at [stuff.co.nz](http://stuff.co.nz)

## FINDING FUTURE DIRECTORS

Directors need to make the right contribution in the right context. I've now seen first-hand that unique skill sets and communication styles are needed to create a board "team" that can drive performance from all angles.

Unless you have a deep pool of talent, it's difficult to choose the right governance team to help a business thrive. That's the beauty of this programme. The headhunting approach (complemented by a thorough database search process) unearths executives with all sorts of skills, backgrounds and perspectives. People your usual networks don't already know about.

The AWF Madison Group Chairman, Ross Keenan, said the short list of people put in front of them for my appointment was wide ranging, and he was impressed there was no one on it he had heard of before.

It sounds risky, especially when New Zealanders think everyone knows everyone; but it's very powerful. The programme is a great "road test" for both parties, combining professional development and fresh thinking with real life results.

## THE PROFESSIONAL DEVELOPMENT IS HUGELY VALUABLE

I didn't know that there was a difference between an "executive CV" and a "governance CV" when I put my application in. You do need both. But you don't need the "traditional director CV" to do this programme. I am not a chartered accountant and even though I have a law degree, I'm not a lawyer. My background is in marketing professional services and education. I am the General Manager of Marketing and Communications at industry training organisation (ITO) Competenz. I've been to Stanford to learn Design Thinking, worked at The ICEHOUSE and led a collaboration of ITOs to promote trades careers to school students.

The recruitment and selection process for the Future Directors programme is rigorous. I was lucky to be introduced to Bindi Norwell (Future Director at The Warehouse Group 2014-15) and to get some excellent advice and insight early on. As things progressed, I became more excited to be able to observe the diverse board of New Zealand success story AWF Madison Group. Simon Hull started AWF in a garage in Penrose, Wynniss Armour and Marisa Fong grew Madison in Queen Street and AWF Madison Group is



now the country's largest labour hire and recruitment company, listed on the NZX.

I am extraordinarily lucky to have been given this opportunity and I've been learning every minute. Ross, Simon and Wynniss, with fellow directors Ted van Arkel and Julia Hoare, have all been very generous with their time and expertise. I have participated fully in all board and committee meetings. I have observed a successful CEO transition as well as the Board processes around the new Health & Safety legislation.

When I was introduced to the AWF Madison Group board for the first time, everyone was very welcoming. But I learned two things that day. Firstly, there's an etiquette to where you sit – do not sit in the founder's chair! Secondly, being told to "just come and say hello to everyone" means "prepare an introductory address"! I think being over-prepared and looking to the Chair for guidance is the best approach in the early days.

## WHAT I'VE LEARNED ABOUT THE YEAR-END ACCOUNTS AND THE AGM PROCESS

When you sign your name to market information, the rigour and responsibility of being a director becomes crystal clear. I saw this as I observed the sign off of year end accounts, communications to the NZX and speeches for the AGM. Every director needs high level financial acumen and a skilled chair needs to weave each director's perspective and comments together to arrive at an accurate and clear snapshot for all stakeholders.

There's science in the page turning process and line by line review of the accounts. There's art in the managing of discussion

and debate. As a Future Director observer, you are in a privileged position to see this science and art coming together. I tried to step back and see the elements of a successful outcome.

Here are four things I learnt:

1. You need to be comfortable moving from the detail to the big picture,
2. An open and trusting relationship with your auditors is critical,
3. Take your time, near enough is never good enough,
4. Brand experience extends to the board and the AGM.

I noticed the subtleties that set the tone at AWF Madison Group's AGM: a venue chosen that reflects the brand values and growth of the company; a welcoming chair acknowledging key shareholders and introducing all employees; and a CEO who develops their own presentation and doesn't sound like they are reading. This encouraged lots and lots of questions which is great market research.

Did I mention the food? It's important. I'm told from a reliable source that there's a reason so many shareholders come to the Restaurant Brands AGM!

## THANK YOU FOR THE OPPORTUNITY

AWF Madison Group's Simon Hull says that Future Directors is a "fantastic opportunity to bridge the generation gap in governance." I think the programme will mean more directors of the future from wider networks. It will provide the platform for different voices and perspectives to contribute to the future of New Zealand companies. That has to be a good thing and I am honoured to be part of it.



# Clash of cultures – engaging with Asia

*Asia plays a significant role in the New Zealand economy; Statistics New Zealand shows China sits at number two on the list of top 20 countries for New Zealand exports, just behind Australia. Japan sits at place four, with Korea and Singapore following at six and seven, behind the United Kingdom.*



Dr Margaret Byrne

Engagement with Asian businesses presents many opportunities and is a factor in New Zealand's economic success, but directors should also be aware of the risks.

Dr Margaret Byrne is a Principal Consultant at UGM Consulting, with a background in socio-linguistics; a trained observer of people.

"I'm not interested in individual psychology; I look at how people interact in groups."

Currently based in Sydney, Byrne has worked in many countries including China, Japan, Indonesia, Hong Kong, Vietnam, Singapore, Thailand, the Philippines and New Zealand.

Byrne discussed some of her research and experience around the clash that can occur when Eastern culture meets West in a business setting, with attendees at the 2016 IoD Leadership Conference earlier this year.

Byrne argues that culture needs to sit on the risk register. "It isn't really so much an HR issue, it's a risk and strategic issue and that's where it should be located."

Cultural competence is needed to manage the risks involved when engaging with another

culture, Byrne says. Without this, business negotiations and relationships may not have the desired outcomes.

"There is a growing engagement by New Zealand in Asia. Certainly engagement with Asia presents rich opportunities, but it is also fraught with complexity and risk. Things can and do go wrong.

"When we think about New Zealand's engagement with Asia, it's now three-pronged. First there's export into Asia, in particular that relationship with China is very important. Secondly, there's inbound investment and thirdly, migration."

Ethnic population projections released by Statistics New Zealand last year indicate that New Zealand's Asian population (0.54 million in 2013) will increase to 0.81–0.92 million in 2025.

"Today when we think about New Zealand's interface with Asia we are really talking about going to the bottom of the street."

While this increasing engagement may lead to a sense of familiarity with some aspects of Asian culture, Byrne stresses the myth that cultures are converging has been "blown out of the water".

“Cultural difference runs deeper than many people realise. Although cultures do certainly change, this happens slowly and in many ways the change that a culture engages in reflects the philosophical history and traditions of that society. Cultures in other words are not converging.

“This means New Zealand needs to build greater cultural competence; an integrated set of attributes, insights and skills for effective collaboration. It’s this skillset that will help address the challenges and mitigate the risks that are the companions of opportunity.”

### BRIDGING THE GAP

Cultural competence requires an understanding of your own culture and the values that drive your actions and worldview. Recognising what you bring to the table means you can think more strategically and map the gap between yourself and the culture you are trying to engage with, Byrne explains.

Byrne compares cultural values to the unknown risks of an iceberg, “the most dangerous part of the iceberg is the part below the water line because you can’t see it yet it is bigger than everything else and it drives everything. So it is with values.”

Research shows that cultural values are remarkably similar across societies; about 47 different cultural values for different societies around the world have been identified. Differences appear with how values are ranked and which are relevant in a given situation. For example, in metrics measuring hierarchy and individualism, English speaking cultures cluster at the egalitarian, independent end of the spectrums, while Asian cultures occupy the group-focused, hierarchical spaces.

“What does this mean in practice? If I come into your organisation and follow you around largely the way you communicate, behave and interact with other people is going to be the same. New Zealanders take pride in treating all people the same. In contrast, if I follow Chinese executives around I will see a whole range of communication styles as people flex their style to suit the context, the relationship, the perceived disparity of status and importance.”

The Achilles heel for New Zealand business leaders engaging in Asia is their often laid-back, informal style of communicating, Byrne says. When misunderstood by Asian colleagues and counterparts it can come across as disrespectful.

Difference in language systems also means cultural risks abound between two very different cognitive styles, Byrne says.

“English pushes analytic thinking, categorisation and precision and has the biggest vocabulary amongst world languages with a complex tense system. In contrast, many Asian languages are highly contextual; words can have multiple meanings and is it context that narrows the possibilities.”

Cultural differences impact the approaches at play in Asia-New Zealand business interactions.

The New Zealand approach focuses on accepting what is said at face value, displaying confidence and expressing opinions openly. By contrast the Asian approach appreciates inference and indirectness, focuses on modestly and self-effacing talk, and values keeping opinions to yourself.

“Many of my Asian clients call New Zealanders and many English speakers ‘track-minded’, like trains that can only follow where the track has been laid, whereas Asians are able to think in a much more flexible way. You see the risk here of one person’s flexibility and adaptability being the other persons lack of ethics and situational ethics.”

Appreciating these differences helps to understand some of the governance challenges that New Zealand organisations face when they go in to Asia, Byrne says.

### LESSONS FOR THE ASIAN CENTURY

Byrne says that practical, realistic and appropriate skills can be developed to mitigate the risks involved in cross-cultural communication. In addition to understanding your own culture, you need to ask yourself what you know about the culture you are trying to engage with.

Very often people are left to their own devices when dealing with Asia, Byrne says, and end up ‘reinventing the wheel’ rather

than working with information that is already available.

For example, traditional, high context negotiation tactics can catch Westerners unawares. Byrne says when her Chinese clients prepare for a meeting one of the first things they ask is how much those they are meeting with know about the Chinese way of operating. “If they get told *not much* it’s an opportunity for them to start running the numbers,” Byrne explains.

“The Chinese have been writing on negotiation for a thousand years. Given that negotiation techniques are so widely known and studied they just give them a number.”

For Byrne the point is, are you engaging with China without knowing what they study in order to engage with you?

“Because if you don’t pay attention to that, the risk is that they will quite simply eat you for breakfast.”

Byrne offers six tips for effective engagement, and says that a little preparation can go a long way. She says some of the challenges to be aware of include understanding what is not said, implying or inferring and the absence of yes and avoidance of questions.

“The skills learned need to be effective even partially; a lot of my research has shown that even partial effectiveness is good enough.

“If you can do this effectively then New Zealand will possess a genuine competitive advantage in the region and a sound platform for future security and future prosperity.”

### TIPS FOR EFFECTIVE ENGAGEMENT

- Listen more – Asian culture values good listeners rather than good talkers
- Practise picking up hints and inferences
- Focus on building rapport and trust
- Clarify meaning – your own and other people’s
- Share the intentions behind your words
- Strike a balance between being yourself and adjusting

**IoD ADVOCACY**

# Improving the Companies Office Register



Willy Trolove

*The Companies Office Register is the central record of truth about companies and directors. It is a pillar of trust supporting commerce and our economy. The Register must be fit for purpose, and directors, shareholders, and the public must have absolute confidence in its information. With this in mind, the IoD believes there are two areas for improvement.*

## 1. RESIDENTIAL ADDRESSES FOR DIRECTORS

Directors are required to submit their residential address to the Register. The Register makes this address available to the public.

It's important that directors are who they say they are and their bona fides can be checked. But – just as importantly – directors have a right to privacy.

There are valid reasons why a director should be able to keep their home address private.

For example, if you or your family member has been threatened, or if a protection order has been issued to someone causing your family a problem, keeping your home address confidential can be critical for personal safety.

For directors of companies in sensitive industries – such as a contractor to the Defence Force – publishing residential addresses may pose security risks. It could help facilitate espionage or cyber crime.

Other legislation allows people to keep their home address confidential in certain circumstances. For example, the Electoral Act lets voters register on the unpublished electoral role for personal safety reasons.

One important reason the Register lists residential addresses is so that directors can be contacted by stakeholders – to provide feedback, to blow a whistle, or to serve a document.

Some directors are mobile or have more than one residence. An office or a workplace can be a more sensible place for them to be contacted than their home.

Other countries allow directors to publish a non-residential address. In the United Kingdom, Canada, Hong Kong and Singapore, directors can list a service address instead of their home address. In Australia, directors can list an alternative address where there is a risk to personal safety.

### Where we stand

Directors are required to register a residential address with the Companies Office, but we believe they should be able to publish a service address that is not their residential address. This would allow directors to protect their privacy while ensuring they can still be contacted.

We have discussed this issue with the Minister for Commerce, Hon Paul Goldsmith. He has agreed to review address requirements for company directors and has asked the IoD to work with officials on this matter.

## 2. UNIQUE IDENTIFIERS FOR COMPANY DIRECTORS

When directors need to update their details on the Register, this should be simple and straightforward. At the same time, when the public accesses the Register, they should be able to get an accurate picture of someone's directorships and record.

Under the current system, this is not always the case.

It can be time consuming and repetitive for directors to change their details across multiple companies.

When people search the Register, there can be confusion between directors with the same or similar names.

Sometimes, a director's name is recorded in a different format for different companies. It can be very difficult to track a director's past and present involvement with multiple companies.

There is a simpler way. Just as companies have a unique business number, a unique identification number would allow directors to update their records more easily, and make searches of the Register more user-friendly.

### Where we stand

The current review of corporate insolvency law recommends the introduction of a searchable unique identification number for existing and future directors. This would be publicly available on the Companies Register. The IoD supports this proposal.

**Willy Trolove, External Relations Manager, Institute of Directors**  
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# Respecting human rights makes good business sense

**GLC executive Selwyn Eathorne discusses human rights issues for business in New Zealand.**

*Globally, consumers and investors are becoming increasingly interested in corporate social responsibility and more vocal in airing their concerns about unacceptable practices. Human rights in business is a key issue for stakeholders and is likely to receive greater attention in the future.*

In August, New Zealand's first ever human rights and business forum was hosted by the Human Rights Commission and facilitated by Shift, the leading centre of expertise on the United Nations Guiding Principles on Business and Human Rights. The forum focused mainly on why respecting human rights makes good business sense.

#### **WHAT ARE HUMAN RIGHTS ISSUES IN BUSINESS?**

Human rights are basic personal rights and freedoms. It may not be obvious that an issue in business is a human rights issue, as different labels or terminology are often used. Human rights in business include:

- safe working conditions
- fair wages
- protection from forced labour
- freedom from harassment and discrimination
- protection of individual privacy and free speech

## HUMAN RIGHTS ISSUES IN NEW ZEALAND

New Zealand is better placed than many countries when it comes to human rights in business. For instance, in the 2016 Modern Slavery Index we had the lowest proportion of population that is estimated to be in modern slavery. This Index estimated that 45.8 million people are in some form of modern slavery in 167 countries (up 10 million from 2014).

New Zealand is active in addressing problems and leads the world in some areas. Examples of this include banning zero hour contracts, and introducing requirements for foreign fishing vessels to comply with our laws when operating in New Zealand.

*“New Zealand businesses are increasingly aware that respecting human rights is not only the right thing to do - it’s also good for business. Many businesses ensure they look after their workers, customers and the communities they operate in by complying with regulations. This is a great start, and it needs to go further.” - Human Rights Commission*

One area of particular concern is the exploitation of migrant workers in New Zealand. This is an issue in construction and hospitality and in primary industries such as horticulture and viticulture. Recently we have seen human rights court proceedings including:

- New Zealand’s second human-trafficking case, where a Fijian national was found guilty of 15 charges of trafficking people from Fiji
- Auckland restaurant managers sentenced on charges relating to the exploitation of workers
- A Wellington grocery store fined for exploiting a vulnerable worker, including failing to provide holiday pay and minimum wage.

Another key issue for New Zealand businesses is human rights abuses in their supply chains, both overseas and at home. Consumers and investors want to know whether organisations are selling products produced by unacceptable practices, for example child labour or forced labour.

There are other examples of how business activities or relationships affect human rights. For instance, providers of KiwiSaver

funds made headlines for investing in companies suspected of making cluster bombs, land mines or maintaining nuclear missile bases. Under pressure from the public, many of the providers have divested their holdings in such companies.

## WHY RESPECTING HUMAN RIGHTS MAKES GOOD BUSINESS SENSE

Apart from doing the right thing, there are many economic benefits and advantages for organisations that actively respect human rights including becoming brands, investments and employers of choice.

Respecting human rights is not about compliance but rather human rights risk management. There are risks to both people and businesses. Risks to business include:

- reputation (such as harm to the brand)
- financial (damage to the long term value of an organisation)
- legal (from complaints and litigation)
- time (operational delays that increase project costs and the diversion of senior management time to resolve matters)
- other costs such as insurance, security and staff turnover.

## UN “PROTECT, RESPECT AND REMEDY” FRAMEWORK AND GUIDING PRINCIPLES

In 2008, the United Nations Human Rights Council unanimously approved the following framework on business and human rights:

- **Protect:** states have a duty to protect individuals against human rights abuses by third parties, including businesses
- **Respect:** businesses have a responsibility to respect human rights (this is expected of all businesses regardless of size, location or structure)
- **Remedy:** victims should have effective access to remedies for human rights breaches.

The UN Guiding Principles on Business and Human Rights, developed in 2011 and unanimously endorsed by all UN Human Rights Council members, implement the above framework. The principles do not create legal obligations. Instead, they help organisations meet domestic law and international standards.

The principles provide practical tips to help organisations understand human rights; how their activities and business

## 5 STEPS FOR BOARDS

Boards serious about preventing and mitigating human rights abuses should ensure the organisation:

1. Embeds respect for human rights into its culture, knowledge and practices
2. Identifies and understands its key risks to human rights
3. Addresses its key risks to human rights and provides for remedy when needed
4. Engages with stakeholders to inform its approach to addressing human rights risks
5. Reports on its key human rights risks and meets regulatory reporting requirements

These steps are adapted from *Business and human rights: A five step guide for company boards* (published by the United Kingdom Equality and Human Rights Commission)

relationships may affect them; and how to prevent or mitigate the risk of breaching human rights.

Many businesses are using the principles to embed human rights considerations into their core business practices, such as Unilever and Coca-Cola.

## HOW TO ADDRESS HUMAN RIGHTS ISSUES

Coca Cola’s Director of Global Workplace Rights Brent Wilton spoke at the recent forum in New Zealand. He stressed that there is no business case for doing the wrong thing and had some tips for businesses:

- start the conversation on human rights
- treat people as you want to be treated
- fix issues before they become problems
- use your influence/leverage to bring about change (eg by collaborating with others to get those ultimately responsible for harm to change)

With increasing pressure from stakeholders and the growing number of organisations now implementing the UN Guiding Principles, human rights in business will receive much greater scrutiny. Directors should be aware of this and start the conversation on human rights in their organisations.



# The changing face of charity financial reports

*The content of registered charity financial reports has been overhauled*

#### **TOP FIVE TIPS FOR REPORTING UNDER THE NEW REQUIREMENTS**

1. Work out which tier you will report under and hence which accounting standards you need to apply in preparing the financial report.
2. If you are reporting under tier 3 or 4, use the financial report templates developed by the XRB<sup>7</sup>. These will help you comply with the simple format reporting standards.
3. Simple format reports must apply either accrual accounting (tier 3) or cash accounting (tier 4). You cannot apply a mix of both.
4. Some financial information has to be entered into the annual return. This is in addition to that presented in the financial report. They are separate requirements.
5. Ensure that the financial information in the annual return and the financial report is consistent before uploading.

Recent legislative change has resulted in a comprehensive reform of the financial reporting landscape. The main implications for charities are as follows:

1. All charities are required to prepare their financial reports in accordance with new accounting standards<sup>1</sup>
2. Some charities are required to have these financial reports audited or reviewed<sup>2</sup>
3. These audits and reviews must be carried out by a qualified auditor<sup>3</sup>

The aim is to improve the quality, consistency and comparability of charity financial reports. Significant amounts of money flow through charities and, due to the exemption from income tax, improved accountability and transparency is in the public interest.

### FINANCIAL REPORTING REQUIREMENTS

Until now, there have been no rules around how charities prepare their financial reports. There are now accounting standards that determine how charities should account for their activities, and prescribe the minimum content of financial reports. Financial reports for the year ending 31 March 2016 will be the first prepared under these new accounting standards.

The External Reporting Board (XRB), an independent Crown entity, develops and issues accounting standards in New Zealand. Four different reporting tiers have been developed (see table above), and this allows smaller charities to prepare financial statements on a simplified basis.

Public accountability has a specific definition which is different to everyday usage. For reporting purposes an entity has public accountability if it holds cash or assets on behalf of others as one of its main activities. This is typically the case for banks, credit unions and insurance providers. It is expected that very few charities will meet this definition because that will not be their main activity.

It is anticipated that approximately 97% of charities will be able to use the tier 3 or 4 simple format reporting standards.

Tier	Criteria	NFP accounting standard(s)
1	“Public accountability <sup>4</sup> ”; or Operating expenses >\$30m	PBE Standards
2	No public accountability; and Operating expenses ≤\$30m	PBE Standards RDR
3	No public accountability; and Operating expenses ≤\$2m	PBE Simple Format Reporting Standard – Accrual (SFR-A (NFP))
4	No public accountability; and Operating payments <\$125k*	PBE Simple Format Reporting Standard – Cash (SFR-C (NFP))

\*For the two preceding accounting periods

Size	Definition	Assurance requirement
Large	Operating expenses ≥\$1m*	Audit
Medium	Operating expenses ≥\$500k*	Review

\*For the two preceding accounting periods

Compared to the tier 1 and 2 standards, they allow for simpler recording of transactions and fewer disclosures. The XRB has also developed optional financial report templates, along with guidance, so you do not have to start with a blank page. Plus there is some transitional relief whereby comparatives are not required for the first year, the financial report for the previous year is just required to be attached.

### ASSURANCE REQUIREMENTS

For balance dates from 31 March 2016, some charities now have a legal requirement to have their financial reports audited or reviewed (see table above). Note that these size thresholds are significantly lower than those for the reporting tiers.

Charities with operating expenses of less than \$500,000 are not required by law to have an audit or review. However, a charity may be required to have its financial report audited or reviewed for other reasons, for example; by its founding documents (eg rules or constitution), by a funding provider, or it may elect to do it voluntarily.

In addition, from years ending 30 June 2016, the audits and reviews of large and medium charity financial reports must be

carried out by a ‘qualified auditor’. A register of qualified auditors is available on our website<sup>5</sup>.

### ANNUAL RETURN

All charities have a separate legal requirement to file an annual return with the Department of Internal Affairs (DIA) Charities Services within six months of balance date<sup>6</sup>. Through the annual return, Charities Services will monitor charities’ compliance with these new reporting and assurance requirements.

Charities Services has an emphasis on education and information in the first instance, recognising that most charities want to do the right thing. However, they do have the power to apply penalties where charities fail to comply with these new reporting and assurance requirements. Fines of up to \$50,000 can be imposed against the charity, and in some cases every officer, where obligations are not met.

**By Zowie Murray CA, Senior Policy Adviser, Chartered Accountants Australia and New Zealand**

1 Section 42A, Charities Act 2005

2 Section 42C, Charities Act 2005

3 Section 42C, Charities Act 2005

4 Paragraphs 7–13, Standard XRB A1 Application of the Accounting Standards Framework

5 <http://charteredaccountantsnz.com/en/Site-Content/find%20an%20accountant>

6 Section 41, Charities Act 2005

7 [https://www.xrb.govt.nz/Site/Accounting\\_Standards/Current\\_Standards/Standards\\_for\\_Not-For-Profit\\_PBEs/Stds\\_for\\_Not-For-Profit\\_T1-4.aspx#t3](https://www.xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_Not-For-Profit_PBEs/Stds_for_Not-For-Profit_T1-4.aspx#t3)

# Out&about



## AUCKLAND

Above: Panellists for the 7 Sep FirstBreak panel and networking evening discussed how to build an effective and enduring relationship with a mentor; left: Minister Amy Adams spoke on Cyber Risk from both government and business perspectives; Dr Nailasikau Halatuituia pictured here with wife Vahafolau, received his Chartered Member certificate – a first for Tonga – at the recent Rob Waddell breakfast.



## WAIKATO

Erica Amon received her Chartered Member certificate during a function with KPMG Global Head of Corporate Citizenship Lord Michael Hastings.



## BAY OF PLENTY

Bay of Plenty branch members attended events including a new members' dinner and an evening with Gerry Lynch, GM of MARS NZ on the importance of culture and values.

- 1 | Brent Impey, Mary-Jane Daly, Norm Thompson, Joanna Perry (Auckland)
- 2 | Simon Arcus, Hon. Amy Adams and Clayton Wakefield (Auckland)
- 3 | Vahafolau Halatuituia and Dr Nailasikau Halatuituia (Auckland)
- 4 | Erica Amon, Margaret Devlin, Lord Michael Hastings (Waikato)
- 5 | Rob Dorey, Kate Ashcroft, Paul Manning, Andrew Davis and Des Hammond (Bay of Plenty)

- 6 | Peter Dryden, Garth Clarricoats (Taranaki)
- 7 | Paul Poteete, Dr Helen Anderson (Wellington)
- 8 | Sarah-Jane Weir, Steve Hills (Nelson Marlborough)
- 9 | Geoff Plunket, John Gallaher (Otago Southland)
- 10 | James Riddoch, Lucy Powell, Ranui Calman (Canterbury)
- 11 | John Durning, Ivan Iafeta, Barry Dent (Canterbury)



**TARANAKI**

Peter Dryden was presented his Chartered Member certificate by branch committee chair Garth Clarricoats at a recent branch event.



**WELLINGTON**

Recent events at Wellington Branch include a breakfast with Controller and Auditor-General Lyn Provost, and a KPMG sponsored cyber-security talk with Andrew Hampton and Lisa Fong from the GCSB.



**CANTERBURY**

Members attended a panel discussion with Rob Hall (Development Christchurch Ltd), Albert Brantley (Ōtākaro Limited) and Ivan Iafeta (Regenerate Christchurch), about their roles and the challenges ahead.



**NELSON MARLBOROUGH**

The branch hosted Steve Hills from Marsh who discussed risk issues for business, and Grant Rosewarne and Paul Steere from New Zealand King Salmon discussing strategy.



**OTAGO SOUTHLAND**

Otago Southland branch members toured Port Otago with CEO Geoff Plunket and Chair David Faulkner and heard about health and safety in action.

**Company Directors' Course**

**WELLINGTON SEPTEMBER 2016**

Front row: Dan Gawn, Nikki Harrison, Jason Hollingworth, Dianne Mason, Anne Douglas, Pier Smulders, Braden Waite, Michael Teen, Jimmy Andeng  
 Back row: Deb Boyd, Julie Greene, Ringo Fa'oliu, Kevin Malloy, David Rees, Steven 'Esau, Andrew Grenfell, Chris Hogg, David Ross, David Simpson, Alain Liger



# IoD Events Diary

For more information visit [www.iod.org.nz](http://www.iod.org.nz), or contact the director development team or your local branch office

## Self-paced learning

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

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

## Webinars

**26 OCTOBER**

Risk Trends

**7 NOVEMBER**

Risk Agility for SME Directors

## Auckland

**31 OCTOBER**

Welcome cocktail and networking meeting

**1 NOVEMBER**

Risk Essentials

**2 NOVEMBER**

Finance Essentials

**3 NOVEMBER**

Governance Essentials

**14 NOVEMBER**

Company Directors' Course - Non-residential, Whangarei

**15 NOVEMBER**

State Sector Governance

**22 NOVEMBER**

Chairing the Board

**24 NOVEMBER**

Christmas breakfast with Sir Ralph Norris  
KNZM

**30 NOVEMBER**

Evening with Rt Hon Dame Jenny Shipley  
DNZM, Kerikeri

**06 DECEMBER**

Public Company Directorship

## Bay of Plenty

**1 NOVEMBER**

Directors Discussion Forum, Tauranga

**3 NOVEMBER**

Next Generation Workshop, Tauranga

**11 NOVEMBER**

Due diligence and risk with Roger Wallis,  
Rotorua

**17 NOVEMBER**

Christmas Dinner with Tony Carter,  
Tauranga

## Taranaki

**15 NOVEMBER**

End of year dinner

## Waikato

**21 OCTOBER**

Lunch function with guest speaker Wayne  
Thompson, Hamilton

**3 NOVEMBER**

Breakfast function with guest speaker  
Simon Perry, Cambridge

**9 NOVEMBER**

Lunch function with guest speaker  
Henri Eliot, Hamilton

**9 DECEMBER**

Christmas dinner function

## Wellington

### 26 OCTOBER

Annual Dinner with the US Ambassador,  
Mark Gilbert

### 27 OCTOBER

State Sector Governance

### 3 NOVEMBER

Rural Governance Essentials, Hastings

### 20 NOVEMBER

Company Directors' Course

## Nelson Marlborough

### 10 NOVEMBER

Evening function on Family Governance  
and Succession Planning, Nelson

### 30 NOVEMBER

AGM and annual dinner with  
Sir Rob Fenwick, Nelson

## Canterbury

### 12 NOVEMBER

New members luncheon

### 21 NOVEMBER

Roads as workplaces with Jeff Fleury,  
NZTA

### 1 DECEMBER

Christmas cocktail function

## Otago Southland

### 25 OCTOBER

Evening event with Jason Franklin,  
Invercargill

### 26 OCTOBER

Evening event with Paul Poteete and  
Steve Walsh, Dunedin

### 30 OCTOBER AND 27 NOVEMBER

Company Directors' Course (*Fully booked*),  
Queenstown

### 11 NOVEMBER

Fellows dinner (invitation only)

### 14 NOVEMBER

Luncheon event with Tony Carter,  
Queenstown

### 16 NOVEMBER

Cocktail function with Steffan Crausaz,  
Dunedin

### 13 DECEMBER

Evening event with Brent Esler, Dunedin

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SIMON ARCUS PROVIDES AN UPDATED VERSION OF HIS OPINION PIECE, ORIGINALLY PUBLISHED IN THE NBR ON 26 AUGUST 2016

# Is shareholder primacy the future of corporate governance?

*The UK's new Prime Minister, Teresa May, recently pledged an overhaul of corporate governance which went as far as worker representatives being appointed to corporate boards. It's worth taking a moment to digest that. The party of Margaret Thatcher and free market economics is mooted an idea last put forward by Harold Wilson's Labour Government in 1977. So what's changed?*

May's posture is a symptom of our times and politicians are generally swift to sniff the wind. As part of the IoD's role we think it is important to track global trends in our sphere. Emerging global discussion questions whether the sacred cow of shareholder value should be the sole foundation of modern corporate governance. What was axiomatic to Margaret Thatcher no longer holds, and dated terms like trickle-down effect have an uneasy whiff of condescension at a time growing inequality is perceived.

Whether this is a passing tremor in UK corporate governance or a seismic change remains to be seen. The issue taps into a long standing debate in governance between shareholder value and stakeholder value. At its most profound it may signal a move from shareholder primacy toward more emphasis on the role of the corporation as a fiduciary in society. A company has owners in the form of stockholders but it might also have other beneficial owners who give their working lives to the entity and exist within the community it creates and serves.

At the heart of May's suggestion are some big questions about the purpose of the corporation. Who should a company exist to serve? To what extent is the company responsible for worker or community welfare? Who really matters when it comes to the fate of corporations? Is sustainability and ethical investment paramount? Can regulators adequately keep up with financial innovation to protect the community?

Fiduciary capitalism is growing in parallel to the debate as institutional investors increasingly advocate for sustainable and ethical interests on behalf of beneficiaries and stakeholders. All this means the role of shareholder value is under the microscope.

Drivers for change come from societal disquiet, repeated recessions and a shrinking middle class. This thinking is not confined to the UK. Donald Trump's

appeal is to disaffected working class white workers in the United States who see perceived or real inequality as growing. Many say Trump is a symptom and not the illness. His message impacts people who feel powerless to influence corporations yet whose welfare depends on their actions.

May's words echo some other commentators. In John Kay's recent book *Other Peoples' Money* the eminent UK economist critiques the finance industry and looks at the real economic contribution of the financial sector to society. Kay is no outsider to the financial markets with a distinguished academic career and an economic consultancy. He cites financialisation - the growth in size and influence of the finance sector - as a drag on the real economy. He states that a mere 3% of global banking is lending to businesses and homeowners. The rest? A merry go round of commercial paper swapping. To be fair there's plenty of banks working hard to connect to their communities in New Zealand but the behemoths of London, Frankfurt and New York are a different tale.

Other authors of current releases introduce an element of revisionist history. Robert Teitelmann's *Bloodsport* revisits the merger and acquisition battles of the 1980's but subtly asks; what was it all for? It makes for some great corporate tales. But was the extraction of value from companies and forced reshaping of communities through ferocious M&A activity really worth it? Jeff Gramm's *Dear Chairman* looks at the beneficial and not so beneficial role of proxy shareholder activism since 1914.

The possibility of a new corporate paradigm isn't just an offshore concept. Global trends in governance eventually impact New Zealand in our interconnected business world. Sometimes trends evolve and manifest differently on our shores. The rise of shareholder activism is a great example. It has been a powerful theme in Australia, the UK and the United States over the last

three to five years. We have recently seen a round of robust annual general meetings in New Zealand. Just two examples covered by the media include shareholders launching challenges to the boards of Moa and Mainfreight about their diversity.

To be fair, Teresa May is not inventing something new. Japanese and German corporations incorporate worker representatives in their structures to different degrees and have done so since at least the middle of last century. It's particularly interesting this is a hot issue despite house prices rising and a buoyant global stockmarket. The appearance of economic progress has not brought succour.

In 1976 Peter Drucker cleverly observed that the United States was the first truly 'socialist' country because, through their pension funds, workers owned a controlling stake in much of USA business. This in turn gave rise to the powerful global institutional investors we see today. If Teresa May pursues her idea and scoops workers under her Tory wing she takes a significant step in the debate on the corporation in society.

Let me be clear: the IoD is not recommending Teresa May's suggestion for the New Zealand context. We believe even more strongly than we used to that the professional director is the true value add in the boardrooms of New Zealand. In 1977, even some influential worker representative groups were not supportive of the Wilson government idea.

Nor is the IoD of the view that notions of shareholder value needs to radically change. In many respects shareholder value is influenced by relationships with critical stakeholders already. Nonetheless, a wise board should note the trend toward stakeholder interests and be discussing its role within its wider community. While the pressure for change may not be immediate there's no doubt that global trends can impact our shores.

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