boardroom

OCT / NOV 2017

Magazine of the Institute of Directors in New Zealand

Everything's okay, until it isn't

THE SUSTAINABILITY ISSUE

The Agenda

OCTOBER / NOVEMBER 2017

A note from the editor.

Without doubt, sustainability is an issue that strikes at the heart of governance. Sustainability really means thinking about the long term and that is what directors are responsible for doing.

To drive sustainable business, we need strong leadership; sustainability issues are not quick fixes, and they require commitment and investment. Sustainability issues including action on climate change and the quality of water have been at the centre of public discussion recently. Increasingly, the public and other key stakeholders are calling for business, as well as government, to take sustainability seriously.

A number of New Zealand businesses, more than I could fit into one issue of *BoardRoom*, are working hard to make a difference in this space. Commitment to sustainability from right at the top is a common thread between companies we profile including New Zealand Post, Meridian Energy, Tourism Holdings Limited and Air New Zealand *(page 9)* and Wakatū Incorporation *(page 20)*. In the climate change space, Emma Herd and Karen McWilliams both discuss the risks that directors need to be aware of but also the opportunities that could come from operating in a low-carbon world. A level of courage is needed to take advantage of these opportunities, and directors can do a lot to build a courageous culture within their organisations.

One clear message is that sustainability is not a side project – it influences everything an organisation does, which is why directors are so important in this space.

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Institute of Directors

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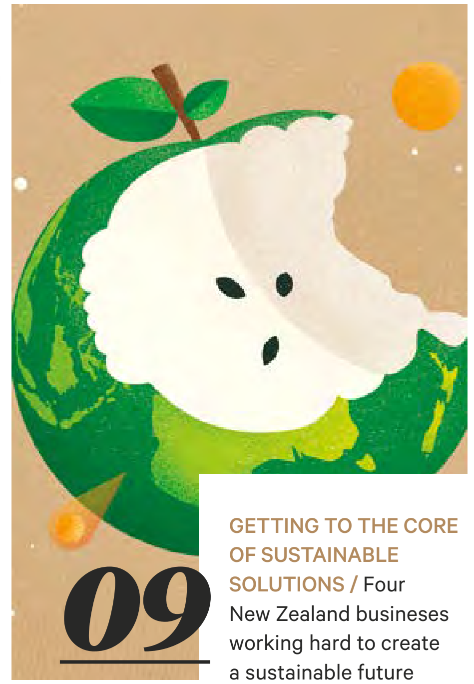
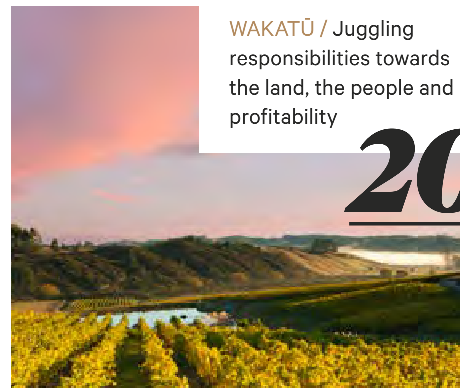
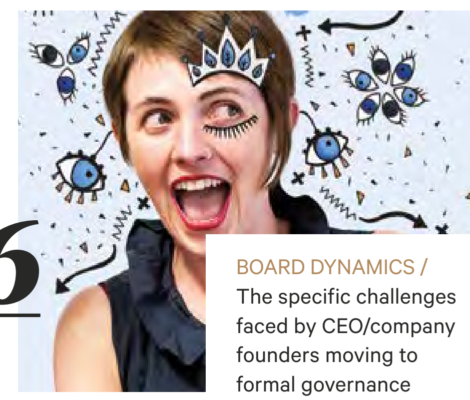
www.iod.org.nz







INSIDE IoD

FEATURES

FROM OUR PARTNERS

> **Climate change is not 'fake news', and sustainability is not just about the environment. In fact, climate change is becoming main stream and is now critical to long-term business sustainability.**

KIRSTEN PATTERSON
CEO, INSTITUTE OF DIRECTORS

A new chapter in **sustainability**

Tēnā koutou

Climate change is not 'fake news', and sustainability is not just about the environment. In fact, climate change is becoming mainstream and is now critical to long-term business sustainability.

Despite popular opinion, directors are focused on the long-term sustainability of organisations they govern, not just short-term share prices.

Take the 2016 Paris Agreement on climate change, which was signed by 175 countries including New Zealand. The goal is to stabilise global warming at less than 2 degrees Celsius below pre-industrial levels and move towards a net zero carbon emissions economy by the second half of the century. The Trump administration announced they were "definitely, completely and undoubtedly leaving the accord", yet over 1,500 United States businesses worth more than $1.4 trillion have committed to the agreement despite their President's opposition.

Modern governance allows boards to take a position on economic and social issues they could not or would not have done 20 years ago. Sustainability is no longer a fringe issue but is on the agenda for many boards, with 56% of directors in the IoD 2016 Director Sentiment Survey saying environmental and social issues are very important to their business.

Focusing on key strategic, social, governance and environmental risks and long-term business sustainability is fundamental to good governance. Transparency of corporate activities and intentions helps build trust and aids business resilience and long-term sustainability.

Investors, shareholders and consumers are asking more of businesses and getting tough on environmental and social issues. Consumers want to know more about the origins and composition of products, employee conditions and treatment, and corporate practices. They want to know they are not buying products of child labour or environmental damage and that their choices contribute to social good.

Recently, the $35 billion NZ Super Fund announced its reduction in high-carbon stocks, with 40% of the overall fund now low carbon with the goal of making it more resilient to climate change. NZ Super Fund CEO Adrian Orr said its "focus on addressing climate change risk is in line with current global best practice by institutional investors".

The NZ Super Fund transition involved relocating $950 million worth of shares away from companies with exposure to high carbon emissions. This is both a global and a local issue, and New Zealand companies affected include Genesis Energy and NZ Oil & Gas.

The new NZX Corporate Governance Code includes changes around disclosure of environmental, economic and social sustainability risks. This brings New Zealand into line with many other countries and is critical for trust and confidence in our companies and our markets.

Climate change and other sustainability issues are not about compliance – actually, it's about survival. We need leadership and genuine commitment from all boards for long-term sustainability.

Whatungarongaro te tangata toitū te whenua – as man disappears from sight, the land remains.

The business conversation on climate change is heating up, and if your business doesn't have the issue on the agenda, you're likely to get left out in the cold.

Ngā mihi
Kirsten (KP)

YOUR SUSTAINABLE BOARDROOM

Every effort has been made to guarantee the pages of this magazine are sustainably sourced and produced. It has been printed using vegetable inks, environmentally friendly binding techniques and sustainably produced paper and finally wrapped in eco-friendly degradable material. **Follow the sustainable story with some of the relevant environmental standards throughout the magazine:**

FSC www.fsc.org MIX Paper from responsible sources FSC® C107054

FSC MIX
Chain-of-custody certification provides a credible link between responsible production and consumption of forest products.

UpFront

"Corporate sustainability starts with a company's value system and a principled approach to doing business. By incorporating the Global Compact principles into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.

Guide to Corporate Sustainability, United Nations Global Compact (2014)

WHAT IS SUSTAINABILITY?

Profound changes and challenges in the 21st century are impacting both business and society. They include climate change, globalisation, geopolitical tensions, demographic shifts, rapid technological and scientific advancements, the Internet of Things and digital connectedness.
To create value in a sustainable manner requires organisations to shift from short-term to long-term thinking. The drivers for future success to ensure viable business models are both commercial and ethical.

The above extract comes from the recently updated *The Four Pillars of Governance Best Practice*, which features a new section on sustainability. *The Four Pillars* is now available online for members.

VISIT IOD.ORG.NZ TO CHECK IT OUT

APPOINTMENTS

Dame Therese Walsh
Chartered Member, has been appointed to the Major Events Investment Panel

Rod Snodgrass
has been appointed to the board of Metlifecare

Reon Edwards
has been appointed chairman of New Zealand Rugby League

Sheena Henderson
has been appointed to MOA Group

Mark Ratcliffe
has been appointed to the Housing New Zealand Corporation Board

Jo Cribb
has been appointed to the board of Literacy Aotearoa and chair of Scots College

Hugh Martyn
has been appointed to the New Zealand Rugby League Board

Myles Lind
has been appointed Vice President of the New Zealand division of the Institute of Public Works Engineers Australasia and chair of the IPWEA NZ Audit and Risk Committee

Jason McDonald
Wellington Branch 2016 Emerging Director Award Winner, has been appointed to the board of Orion New Zealand Limited

Mel Templeton
Wellington Branch 2016 Emerging Director Award Winner, has been appointed to the board of the Centre for Space Science Technology and the IRD Risk and Assurance Committee

Congratulations to the following members who were appointed to the following roles through DirectorSearch:

Jo Brosnahan
Chartered Fellow, has been appointed chair of Rotorua Lakes Council Audit and Risk Committee

Judith Stanway
Chartered Fellow, has been appointed deputy chair of Rotorua Lakes Council Audit and Risk Committee

Andrew Evans
Chartered Fellow, has been appointed independent director of Accessible Properties New Zealand Limited

Keiran Horne
Chartered Member, has been appointed a member of Hamilton City Council Audit and Risk Committee

IoD BY NUMBERS
as at 30 September 2017

8,554
Members

1,210
Chartered Members and Fellows

9.5%
Members under 40

en·to·moph·a·gy
the human use of insects as food

FOOD FOR THOUGHT

What are the foods of the future?

Insects have long been part of the diet in many parts of the world, and now western countries are starting to catch on. Bloomberg reported in August that consumers in Switzerland will soon have the opportunity to try mealworm burgers. New Zealand companies, including Crawlers and Anteater, are betting on insects becoming a larger part of our diet.

YOUR SUSTAINABLE BOARDROOM

ISO 14001 ENVIRONMENTAL MANAGEMENT STANDARD

ISO 14001
Performance objectives and environmental management systems to prevent pollution, ensure compliance with regulations and achieve continual improvement.

DISTINGUISHED FELLOW AWARDED

Sir John Anderson has been made a Distinguished Fellow of the Institute of Directors.

Sir John Anderson, KBE DistFInstD

The Distinguished Fellow Award is the IoD's highest accolade, awarded to members who have sustained a prominent and distinguished career as a director or given outstanding participation and services to the IoD or eminent or special contributions to the community or business.

Sir John has had an enduring corporate governance career spanning industries from financial services to health, sport and entertainment. Relatively early in his governance career, Sir John was appointed chair of the Petroleum Corporation of New Zealand, charged with overseeing the organisation's restructuring and IPO. Supporters of Sir John say this was early recognition from the Crown of his ability to lead companies through exceptional change.

Highly respected, Sir John is known for his strong personal values and commitment to actively leading and working with colleagues at the board table. Sir John has taken on significant leadership roles including as chair of Television New Zealand, WWF for Nature, NZ Sports Foundation, New Zealand Cricket board, NZME, Capital Coast Health DHB and as Commissioner of Hawke's Bay District Health Board.

Recognised by his peers for his work, Sir John has been the recipient of numerous awards including the Sir Peter Blake Medal for Leadership Excellence (2005), Halberg award for Leadership Excellence in Sporting Organisations (2010) and the Inaugural Distinguished Fellowship award from INFINZ (2016). He was appointed a Knight Commander of the Order of the British Empire for services to business management, banking and the community in the 1995 New Year Honours.

Congratulations Sir John.

IN SYMPATHY

The Institute of Directors sends its condolences to the family and friends of Distinguished Fellow Sir Pat Goodman, who passed away in September.

Sir Pat was the founding chairman of Quality Bakers New Zealand, which merged with Fielder Gillespie Davis and Allied Mills and Wattie Industries to became Goodman Fielder Wattie in 1987.

Sir Pat was made a Knight Grand Companion in 1995 for services to business management, export and the community, and in 2002 he was made a Principal Companion of the New Zealand Order of Merit.

Alongside his business acumen, Sir Pat is remembered for his many contributions to the Motueka community. He was a former patron of the art gallery and the Nelson Bays Arts Advocacy and Marketing Trust.

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WATER, WATER EVERYWHERE

Less than 3% of the world's water is drinkable, and 2.5% of that is frozen in Antarctica, the Arctic and glaciers.

source UN.org

PONDER THIS

Earth system scientist Professor Will Steffen was in the country recently talking about climate change and sustainability.

Speaking with Kim Hill on RNZ, Steffen discussed the role of developed countries like New Zealand in changing the course of climate change. During the discussion, Steffen highlighted the ethical decisions businesses need to make when seeking new business in developing countries.

"We have to be part of the leap-frogging process. In other words our companies, our multinationals, need to think very carefully about what they're trying to extend into the developing world.

"If it's just to make a profit and that's the bottom line, I think we've blown it.

"We have to think ethically, we have to think morally, we have to think what's the best way to bring people out of poverty and begin to stabilise the Earth's system?"

GETTING TO THE CORE OF SUSTAINABLE SOLUTIONS

BoardRoom spoke with four organisations putting sustainability at the heart of what they do: Tourism Holdings Limited, Air New Zealand, Meridian Energy and New Zealand Post.

Sustainability is not just a green issue; it's about how businesses plan for the long term. The United Nations World Commission on Environment and Development defined sustainability as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Business does not stand alone from the rest of society, and as UK economist John Kay told attendees at the 2017 IoD Leadership Conference, business needs to prove its worth beyond making profit.

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A sustainable business takes a much wider view of its operations than just profit and assesses its activities alongside the communities it serves, the environment it draws its resources from and the people who give their energy to the business. Simon Harvey, executive director of business advisory Proxima, says there are two main challenges facing New Zealand businesses committing to sustainability.

The first relates to New Zealand's relative immaturity on the issue, Harvey says, which requires seeing sustainability as deeper than stereotypical issues like energy efficiency, recycling and philanthropic activities.

"This sort of response, which is concerningly common, is like driving slower to save petrol without realising that you're actually heading in the wrong direction.

"When properly understood, sustainability is not about tying 'green ribbons' on the business but about managing and protecting its licence to operate and sustaining its ability to create value in the future," says Harvey.

The second major challenge is leadership.

"Leadership is fundamental to addressing this challenge and unlocking the potential opportunity, for two reasons. First, leaders need to take a future-focused approach, which involves some degree of taking a 'leap of faith'. Second, very few sustainability issues are easy fixes. If they were, they would have been solved already."

TAKING THE LONG VIEW

Meridian Energy has long walked the talk as a sustainable business. The NZX-listed power company produces 100% renewable energy, but chair Chris Moller says their view on sustainability is much wider than that.

"We believe sustainability is a lot more than just the environment. It's about the value of collaboration over conflict. It's about long-term plans over short-term plays, of striving to do the right thing by people and the planet, which encompasses our team, customers, communities, New Zealand and even beyond that. At the end of the day, you have to believe that will create shareholder value as a listed company, and it does."

The belief that sustainability is valuable is absolutely central to the way Meridian operates.

"It's not just philanthropic. It's actually core to our brand. It's core to our customers. It's core to the future belief of what the organisation is about. Leading investors realise that, by driving sustainability, there is actually a direct link to the consumers who buy our goods and services and spend their money with us. There is no disconnect between sustainability and shareholder value; it is all part of a wider strategy, but at the same time [it's about] being a good citizen."

Tourism Holdings Limited (thl) chair Rob Campbell says businesses are moving from having a short-term view to a long-term one and recognising that sustainability is a necessary part of that equation. Businesses operating in a sustainable manner are not throwing money away; the principles of a sustainable business are not in opposition to a profitable one.

> **"It's about long-term plans over short-term plays, of striving to do the right thing by people and the planet.**
>
> Chris Moller, Meridian Energy

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01 Image supplied courtesy of Meridian
02 Air New Zealand CEO Christopher Luxon

"It's not sustainability *or*, it's sustainability *and*," Campbell says.

"In my view, the only route to long-term success for a business is one that is sustainable. If you think it's a trade-off, then you will probably always trade off. At thl, the board recognises we have to divert some resources, but we're diverting them towards business success."

In 2014, thl committed to review their business plans and strategy against *The Natural Step* sustainability framework and this year released their first sustainability report to talk about their progress. Saskia Verraes, Group Lead – Strategic Initiatives at thl, explains they began with their Kiwi Experience business, which was able to adopt sustainable practices that led to revenue growth and a reduced carbon footprint.

> **"We know our success is inextricably linked to a flourishing New Zealand.**
>
> Christopher Luxon, Air New Zealand

"If we want to have any sort of company in the next 25 years, we need to look after the business, look after the community and look after the people who work for us. That's the approach we take. We have to take full responsibility for everything that we offer. At the same time, we still have to deliver shareholder value," says Verraes.

"Without the experiences, there is no shareholder value so there is no point in saying we will just create revenue and not look after the rest. It is overall sustainability. That includes climate change, freedom camping, safe driving, looking after the communities we send our customers to and the same thing with our crew. That's where we set our targets."

New Zealand Post chair Jane Taylor says taking a sustainable approach can be beneficial to the long-term reputation of your organisation. It influences how you conduct your business, how your treat your customers and staff and the values your business embodies.

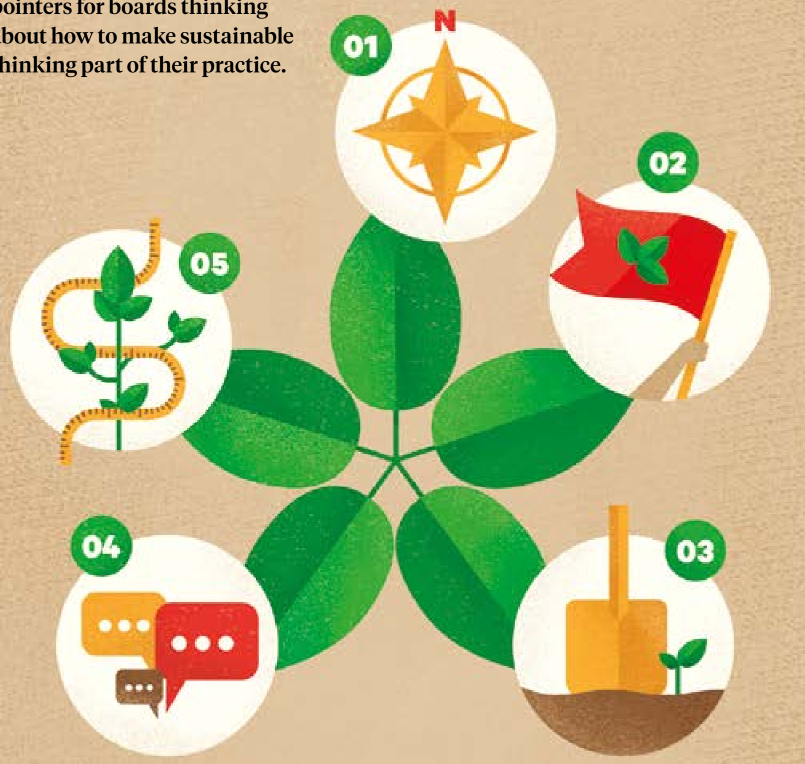
"Reputation is an outcome that is really determined by how well business meets society's demands in the conduct of its business activities. Reputation ultimately determines your business's competitiveness and long-term viability. Building trust and confidence in the company's brand is key."

Taylor has focused on getting sustainability embedded into New Zealand Post's business strategy by organising the sustainability programme around Post's six capitals (environment, expertise, finances, relationships, people and networks).

"Unless you actually integrate sustainability into your core purpose and >>

FIVE POINTS ON SUSTAINABILITY

Simon Harvey gives some pointers for boards thinking about how to make sustainable thinking part of their practice.



1. **Goal setting.** Identify a set of bold North Star goals that truly describe what measurable and tangible success looks like as a genuinely sustainable business. This involves taking a whole-systems perspective, understanding the relevant issues and then making firm commitments to address the sometimes difficult yet material challenges like carbon neutrality, eliminating polluting emissions, zero waste or creating net social value – challenges that the company may not yet know exactly how it will solve.

2. **Committed leadership.** Working towards achieving the bold goals will require good leadership and innovative thinking, with unswerving support at board and executive levels.

3. **Empowered implementation.** Making sure a capable, well-resourced, well-supported and enabled champion has a mandate to implement initiatives towards the bold goals and is incentivised to succeed.

4. **Purposeful collaboration.** Develop partnerships and alliances to solve the more difficult problems based on a shared common interest and complementary capabilities.

5. **Measure, review and report – honestly.** Measuring the right things on the right, material issues is important for credibility and accountability. Providing disclosure about past performance and future progress towards the bold goals is a powerful way of building trust with key audiences.

> **...sustainability is not about tying 'green ribbons' on the business...**
>
> Simon Harvey

strategy, you're probably not achieving anything but a little bit of window dressing. You might be doing some good, but unless you are embedding its principles into the business, you are not going to create long-term value and you're not going to change mindsets and you are not going to create long-term value.

"This is good for business, it's not a 'fluffy' irrelevant thing that sits out to the side, and it's certainly not a cost. It delivers benefits."

CONNECTED TO THE COMMUNITY

"If you look back at companies that have really stood the test of time, it is those companies that really engage with the society they live in. It's about understanding and responding to the holistic world that a company operates in, because businesses just don't exist in a vacuum," Taylor says, when considering New Zealand Post's view of sustainability.

Having existed for more than 150 years, the company has always been very aware of its place in New Zealand, Taylor adds.

"I grew up in a small rural New Zealand town where the post office was the core of essential services and a central meeting place for the community. That's historically been a part of the way New Zealand Post operates, so it is very aware of its relationship with society."

Air New Zealand CEO Christopher Luxon says sustainability is part of the fabric of Air New Zealand and reinforces the link between the airline and the country its name represents.

"We know our success is inextricably linked to a flourishing New Zealand, just as New Zealand's success depends on a thriving airline. This awareness underpins our work to hardwire sustainability at the heart of our business."

The airline also sees collaboration as a key to tackling the issues New Zealand faces. Some of their partnerships include collaboration with the Department of Conservation and iwi partners to improve biodiversity on New Zealand's Great Walks.

Meridian Energy has a number of well-known partnerships, including with the Department of Conservation to protect the kākāpō. They are important partnerships and reflective of something much wider than gaining good favour from the bird-loving public, Moller says.

"When we invest in something like that, it's not just because it's nice, it's because we think it's important to New Zealand communities and to us as one of New Zealand's listed companies."

Luxon says its focus on sustainability has had an impact internally and drives home the value in standing for something greater than building revenue.

"Sustainability is incredibly positive for our people, our brand and relationships with customers, our suppliers and investors. I also firmly believe people want to be part of an organisation where their work has a purpose beyond profit. Research shows Millennials, now the largest generation in the global workforce, want to be connected to a purpose and to feel proud of their contribution."

Sustainability issues are not simple fixes, and Luxon says their sustainability agenda is long term. For an airline, one very large sustainability challenge is reducing its carbon footprint. The airline is ready for the challenge, aspiring to be the world's first fuel-efficient long-haul oceanic operator.

> **This is good for business, it's not a 'fluffy' irrelevant thing that sits out to the side and it's certainly not a cost. It delivers benefits.**
>
> Jane Taylor, New Zealand Post

It flew one of the aviation industry's first biofuel test flights in 2008. It continues to support work in this space, currently alongside Virgin Australia, to strengthen the commercial case for investment in biofuel.

DRIVEN FROM THE TOP

Moller says the belief at Meridian Energy that sustainability is the way forward is non-negotiable, and the culture of the organisation reflects that belief.

"That is right from the top – from the board. You have to act in an authentic way and act with integrity. You have to lead by example, and it's got to be actions, not just words. Examples are obviously very tangible to people, but I think symbols are also important in demonstrating commitment to sustainability."

Meridian is one of only three New Zealand companies listed on the Dow Jones Sustainability Indices (DJSI), and the company must meet the standards every year to stay on list. It's not a tick the box exercise, Moller says, as the bar is raised every year. They have also adopted the UN Sustainable Development Goals and have reported against the goals most relevant to their business as part of their recently released integrated report for 2017.

Luxon says the involvement of the Air New Zealand board is crucial.

"Their advice has been invaluable: from guidance on how we deliver on our targets through to supporting our decision to

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locate sustainability within our strategy division – a move that has ensured sustainability is integral rather than an add-on."

Among its responsibilities, the board meets annually with Air New Zealand's Sustainability Advisory Panel, made up of leaders in the space including Sir Rob Fenwick. The influence of the board is felt outside of the airline too as board members work to encourage the other organisations they are involved in to take steps towards sustainability.

01 Saskia Verraes, Group Lead – Strategic Initiatives, thl
02 Rob Campbell, Chair, thl

> **If we want to have any sort of company in the next 25 years, we need to look after the business, look after the community and look after the people who work for us.**
>
> Saskia Verraes, thl

Sustainability is about future-proofing our organisations and being part of driving for solutions, Luxon says, adding that "as business leaders, we need to make sustainable growth mission critical".

TAKING THE LEAD

Knowing that the board has created a priority for sustainability is important to making changes at thl, Verraes says. It takes courage to go down a new route, find new ways of doing things and pitch ideas that might be a little out of the box. Knowing the board and executive are aligned on this issue means sustainability really starts to be embedded within the organisation and empowers staff to act.

"You can't just focus on revenue growth, you have to do it in a responsible, ethical way. It has definitely helped to have both Grant [Webster, thl CEO] and Rob very vocal about being behind this journey, putting on their thinking caps and trying to create a priority for it while at the same time we have an enormous number of other priorities to try and meet our revenue targets."

"It is an issue that needs board leadership," says Campbell.

"Leadership of the chair is important because the chair does significantly set what the board discusses".

Campbell says one factor in producing the thl sustainability report was putting accountability on the board. The goals set are challenging, such as a 20% reduction in greenhouse gases by 2025 and zero infringement notices for illegal freedom camping for thl customers by 2020. But these are challenging issues and need the involvement of everyone in the organisation. Campbell says taking ownership is what it takes, because it takes a lot of work to go from having a board that is supportive of sustainability to one that translates its support into action.

"My personal view is that business needs to play an active role in sustainability – not just be a complier but be a leader. We're happy that the report is out and we've made ourselves accountable, but we are only just on the road."

Ultimately, says Campbell, the journey to more sustainable business is part of a wider shift in mindset as directors recognise the power business has to make a difference.

"I think business is learning a lot about its role in society and how positive that can be."

WANT TO FIND OUT MORE?

Towards Sustainability: The inaugural thl sustainability report 1 July 2016 – 30 June 2017

It's Our Future: Meridian integrated report for the year ended 30 June 2017

Air NZ sustainability report 2016

New Zealand's Delivery Partner: NZ Post Tukurau Aotearoa integrated report 2017

Read the sustainability chapter of the updated **Four Pillars of Governance Best Practice** at online now at iod.org.nz/fourpillars

A firm commitment

Sustainability critical to business success

We live in extraordinary times.

The digital, environmental, social and technological forces shaping businesses in New Zealand and overseas are, at times, astonishing. Navigating this accelerating change is no easy task.

Global capital markets are transforming as investors increasingly consider environmental, social and governance issues. An increasing number want to know the ethical and environmental credentials of a company. When Larry Fink from Blackrock, the world's largest investment firm, starts encouraging businesses to focus more on these issues, it signals a sea change in approach.

This investor behaviour is reflecting a growing consumer interest in the ethical credentials of the products and services they buy.

Digital technologies are also disrupting markets. Uber, Airbnb, Netflix and Pandora are already transforming the expectations of consumers and businesses. It is thought innovations like 3D printing, genome mapping, advanced robotics and autonomous vehicles will soon revolutionise the healthcare, transportation and manufacturing industries; their success will make many jobs redundant and radically change the skills the future workforce requires.

Climate change is now seriously on the agenda as businesses start to grapple with the impact it will have on their assets, their risk profile and their people. In a world first, shareholders have filed a lawsuit against the Commonwealth Bank of Australia, claiming the institution's 2016 directors' report did not adequately inform investors of climate-change risks.

However, what makes me optimistic is the growing number of companies using sustainability as a lens to navigate these challenges; to shape their strategy and risk management and create value.

BUSINESS LEADERS AND ENTREPRENEURS COULD UNLOCK US

$12tn

IN NEW SUSTAINABLE BUSINESS MARKETS BY 2030

THE BUSINESS CASE FOR SUSTAINABILITY

Companies that integrate sustainability see the value turn up in many different places. For many, it is in improved staff attraction and retention – perhaps unsurprising when you learn that three-quarters (72%) of New Zealanders want to work for a company that does the right thing for society and the environment.

It can also result in reduced operating costs. A body of research found businesses can reduce their operating costs up to 45% with an improved supply chain, which sustainability helps deliver. It can also result in better risk management and a lower cost of capital.

Trust is becoming a critical success factor for business. A recent consumer survey found 83% of New Zealanders will stop buying a product or service if they hear a business is operating in an unethical way.

Forward-thinking businesses also see the opportunities that are emerging.

The Business and Sustainable Development Commission estimates business leaders and entrepreneurs could unlock US$12 trillion in new sustainable business markets as they work to meet the UN Sustainable Development Goals by 2030.

Already I am seeing business leaders in New Zealand start to tap into these markets. Z Energy has built a $26 million biofuel plant, and companies like Fonterra, Fulton Hogan and Downer have committed to use the new B5 biodiesel to reduce their greenhouse gas emissions.

Westpac has set aside more than a billion dollars since 2012 to invest in the clean-tech sector as part of its sustainability strategy. They say they want to drive the growth of green businesses and industries that develop renewable energy, waste minimisation, forestry and green buildings.

72%

OF NEW ZEALANDERS WANT TO WORK FOR A COMPANY THAT DOES THE RIGHT THING FOR SOCIETY AND THE ENVIRONMENT.

REGULATORY DRIVERS

Regulators here and overseas are responding to global business trends with new codes of conduct and demands for greater transparency in decision making.

From this month on (October), the New Zealand Stock Exchange's revised Corporate Governance Code will apply, asking listed companies to report on their environmental, social and governance (ESG) risks or explain why they haven't.

Leading New Zealand companies have been voluntarily reporting their ESG risks for years, with a number winning international awards for their efforts, including Sanford, Watercare Services, Z Energy, NZ Post and Mercury.

What is significant about the updated NZX guidelines is that they are part of growing global momentum on this issue. In July, the Financial Stability Board's Task Force on Climate-related Financial Disclosures made recommendations to the G20, urging companies to report on the risks they face from climate change and provide a framework for how to do it.

THE OPPORTUNITY FOR BOARDS

It is an exciting time to be in business. The private sector has an unrivalled ability to innovate, adapt quickly and make opportunities out of change. We're increasingly seeing businesses use sustainability as a way to do this.

Fundamentally, sustainability is about creating value over the long term. In this environment, sustainable business practices are no longer 'nice to do' projects. They are a strategic business imperative.

SUSTAINABLE BUSINESS COUNCIL EXECUTIVE DIRECTOR
ABBIE REYNOLDS

The future **of food**

Despite the headlines of disruption and the impact that fusion technologies of the fourth industrial revolution will have on all aspects of our lives, we still talk to many people across the agri-food sector who believe that as the world will always need food, they can keep doing what they have always done and there will be markets willing to pay good prices for what they grow.

IAN PROUDFOOT
GLOBAL HEAD OF AGRIBUSINESS, KPMG

> “We need to align the products we grow, how we produce them … to meet the needs of the highest-value niche markets.

The biggest risk to New Zealand's agri-food sector is complacency. It is critical that governors at all levels of the industry, from the largest co-operatives and corporates through to the smallest farm businesses are alert to how the world is changing and analysing what these changes mean to the long-term sustainability of their businesses.

Diets have changed radically in the last 40 years, driven by the emergence of convenience food solutions and globalisation of cuisines. With billions of dollars being invested annually into novel foods and agri-tech, the food system revolution is likely to accelerate. The only certainty for the future is that human beings will require sustenance. New Zealand needs to adapt to the new rules of the global agri-food system. Our relevance will ultimately determine the contribution the sector makes to our economy.

Demographics and economic development point to the world needing significantly more food, with consumers demanding more animal proteins as wealth increases. However, it is apparent that current farming practices are stretching environmental boundaries, making it hard to deliver sufficient, nutritious food to all citizens. Technology will increasingly shape how food is grown, processed, distributed and consumed.

Directors need to be able to place New Zealand's role in the global food system into context. We can feed 40 million people – 5 million of them are living or visiting here at any point in time and the balance are consumers in export markets around the world. We produce less than 1% of global food supply; we will never feed the world. We need to align the products we grow, how we produce them and innovation we employ post-harvest to meet the needs of the highest-value niche markets.

This requires a pivot in thinking from volume towards value; from producer centric to consumer centric. Given many major co-operatives were founded to serve their suppliers, this pivot challenges their DNA, but to remain relevant and to secure the premiums our agri-food products deserve, the consumer must be at the centre of every decision made. This year's KPMG Agribusiness Agenda highlighted the rules consumer-centric organisations will need to adhere to as they seek to capture more value from the products we grow.

We have no choice but to do the right things, simply because they are the right things to do. Whether it is ensuring that rivers and streams are truly swimmable, animals are treated ethically, staff are kept safe and are fairly remunerated or communities are enhanced, sustainable management provides the platform for premiumisation. This will often increase cost without immediate financial return. However chasing a quick dollar over a longer-term sustainable strategy erodes the rights to play in higher-value markets.

Sustainable production is not in itself sufficient to deliver a premium. The new rules require organisations to do much more to capture a greater share of the value that they grow.

Technology needs to be embedded into all facets of a business. From capturing data using IoT sensors to augment a farmer's intuition (utilising analytics and algorithms), through assuring consumers about the provenance of a product (using blockchain) to immersing them on the farm their food is sourced from (with virtual reality) technology brings producer and consumer closer together. The sector has been a slow adopter historically, but this must change if our producers wish to remain relevant.

Preventive healthcare models offer governments the opportunity to reduce the costs of traditional curative treatment models. The products people consume have a direct correlation to their health outcomes. Policy is emerging that directs people towards healthier food options, with levies and taxes being applied to unhealthy products associated with key health issues like obesity, cancer and diabetes. The ability to clinically verify a health attribute migrates a product into the category of functional food, offering opportunities to secure premiums from regular, loyal consumers.

As food and health become inextricably linked, new competitors, chiefly pharmaceutical companies, will emerge in the food sector. They will bring novel foods to the market, created to deliver specific health benefits. We will see the emergence of new categories of food, particularly alternative proteins sourced from plants, cell cultures, insects and algaes amongst others. These will transition traditional meat and dairy markets into the emerging protein sector. However, there will still be sufficient demand for all the traditionally cultivated products we can grow if production is sustainable and backed by a verifiable provenance story.

There is also a need to think carefully about how products are consumed. For instance, more people will eat on the go as cities grow and commutes lengthen, creating opportunities to capture value by presenting products in formats that make it easier for consumers to access nutritious, healthy foods. Understanding how a consumer will use a product is central to unlocking its inherent value. This requires investment to be directed towards 'assets' that differentiate our products in market (people, brands, innovation and consumer intimacy) rather than the tangible processing plants the industry has been comfortable building historically.

New Zealand is an artisan producer of premium food that is eaten for special events and celebrations globally. We will never be the supplier of Monday to Friday food for most consumers but an expensive indulgence experienced occasionally when only the best will do. We are the only developed country that grows most of its wealth. Given our limited production capacity and the need to maximise its value, responding to the new market realities and targeting the products we grow to the premium niches is critical to the future prosperity of our country.

Whenua Matua vineyard, Moutere

A CAUSE GREATER THAN PROFIT

Juggling your responsibility to the land, to your people past and future, and running a profitable, strong and sustainable business is a great challenge. That is just what the board and management at Wakatū Incorporation have been doing every day and will continue to do for many hundreds of years. Emma Sturmfels speaks to chair Paul Morgan and Chief Executive Kerensa Johnston about living and breathing the values of kaitiakitanga.

Wakatū Incorporation is a Māori business based at the top of the South Island. Wakatū is a multi-faceted operation responsible for food and beverage export arm, Kono, and foundation arm, Whenua. A third area, Manaaki, focuses on people and culture. Kono brands include Aronui and Tohu wines, Tutū Cider, Annies – Food You Trust, Kiwa Oysters and Yellow Brick Road seafood. Whenua holds Wakatū assets, 70% of which are land and water assets. The Incorporation has grown significantly, from an $11 million asset base in 1977 to a current value of over $300 million.

The history of Wakatū is bound with the history of the settlement of New Zealand. When purchasing land in the Nelson region in the 1840s, the New Zealand Company agreed that one-tenth of land in the Nelson, Motueka and Golden Bay area would be kept for the original land holders. It was known as the Nelson Tenths. That one-tenth was not reserved, and it took until 1977 for legislation to be enacted and a portion of land returned to the owners' management. The same year, Wakatū was established to bring together the interests of the land owner. Today, there are more than 4,000 Wakatū owners, the descendants of the original families in the area.

"We took possession of our land back in 1977. It was in a bad state, and so were we in many ways," says Wakatū chair Paul Morgan, who has been a board member since 1986.

"I'm talking about disconnection from the land and our legacy, our history and everything associated because of what had transpired over the previous hundred years. For the Wakatū board, both then and now, the fundamental premise for us as tangata whenua is the protection and preservation of our land and the ability to hand that on to future generations. It's not only the physical land, it's the repository of history and whakapapa of our whole area."

REACHING OUT

Reconnecting with the land has been a crucial journey for the families of Wakatū. The board put in place an education and whānau development programme more than 20 years ago to bring members of the family together to learn about their land and the businesses growing from it. Today, the programme starts with children aged 10 to 18 who come together for an annual wānanga. Academic scholarships are available, and the associate director programme aims to develop talented leaders from within the wider Wakatū family.

"It's a large outreach programme and a big investment, and it's been done for a number of reasons," says Morgan. >>

> WE CAN'T AFFORD TO BE THINKING SHORT TERM. IT'S AN INTER-GENERATIONAL BUSINESS AND NEEDS TO BE HANDED ON.

Paul Morgan, Chair

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01 and **03** Apple harvest, Kono orchards, Motueka
02 Marine team, Marlborough Sounds
04 Kerensa Johnston, Wakatū CEO (insert) and with Wakatū board members Johnny McGregor and James Wheeler

<< "We know who our people are; we have a very large archival record of the families. The aim of our outreach of communication is to reconnect our people with their lands, for them to understand their history and to know who the families are. They come in and become part of the cultural and social and business activities of our region and Wakatū Incorporation."

Morgan calls it "proactive, aggressive communications".

"We want our people to have a real sense of ownership and engagement. We're highly connected, and the internet is a very effective tool for Wakatū."

The purposeful engagement with the families of current owners and the wider whānau is a deliberate strategy. Because Wakatū has an intergenerational plan, the current owners have a responsibility to ensure the organisation's longevity and sustainability for future generations.

LIVING AND BREATHING KAITIAKITANGA

A case study produced in partnership with Auckland University explains that "Wakatū acknowledges and reveres the history of its owners ... it is the will of the ancestors that has driven Wakatū to where it is today, and where it will be in the future."

Morgan says that kaitiakitanga is at the heart of thinking, philosophy and culture at Wakatū. The organisation's long-term plan, Te Pae Tawhiti (the distant horizon) ,came out of a wide-scale project undertaken several years ago with the families and owners of Wakatū. The plan has a timeline of 500 years, which CEO Kerensa Johnston acknowledges is ambitious, but they work towards it one day at a time.

Working so closely with the large group of owners to develop the 500-year plan was an important activity for the board and management to undertake. They wanted to know where the families wanted to be in the future, not just for Wakatū but as a community, region and country.

"We spent quite a lot of time going around the country speaking to all of our people, and we wrote the plan together. It was a really powerful thing to do as a family. We have an intergenerational focus," Johnston says.

"Most businesses plan ahead 5 years or maybe 10 years; some businesses might look further but not by much. We realised, in terms of not only what we wanted to achieve but our responsibility through the generations, that wasn't far enough."

"We can't afford to be thinking short term. It's an intergenerational business and needs to be handed on," says Morgan.

FAMILY – NOT INVESTORS

The board wanted to see formal documentation of the long-term plan for Wakatū. They empowered the associate directors – the next generation of owners – to reach out to the younger members of the Wakatū families to talk about what the future would look like.

The common understanding of kaitiakitanga allows the group to hone in on the things that are of particular importance for Wakatū.

"The two constants we saw when we looked back, and forward, were land (including our water and the sea) and people," says Johnston.

The relationship between Wakatū, its people and its land is reflected in the running of the Incorporation. "It is important that, although Wakatū technically has 4,000 shareholders they are never called shareholders," Johnston says. "They are owners. They are family."

"I think it does make a big difference. We would never call them stakeholders or shareholders, because we're conscious that it's their asset that we are looking after. The board reports directly to the owners, and they have a really close relationship. Any one of the owners could pick up the phone and call them or call me, which is great. We have a strong service ethic. We believe it's an honour to serve.

"It's reflected in our policies. One of the strongest policies that we've got is our corpus land policy."

The corpus land policy means the land value and area can never fall below the original land estate, which existed at the time Wakatū was established in 1977.

"That's quite a powerful policy to operate within. We know we will always have the footprint we have, not less," says Johnston.


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...ALTHOUGH WAKATŪ TECHNICALLY HAS 4,000 SHAREHOLDERS THEY ARE NEVER CALLED SHAREHOLDERS. THEY ARE OWNERS. THEY ARE FAMILY.

Kerensa Johnston, Chief Executive

The board also must put forward business cases to the owners to demonstrate how the land will be used. And that's how it should be, Morgan says.

"They own the business, and we're very happy to operate like that. It doesn't hinder our development. If anything, it's supported our development. The defining issue that holds us all together is the land and whakapapa."

Doing business with Wakatū, Johnston says, means partners can call up in 10, 20, 100 years and there will be someone on the other end of the phone.

"When you go into business with us ,it means we will always be there."

A REPUTATION AND A LEGACY

Wakatū exports to nearly 40 countries, including China, so the reputation of New Zealand as a producer of quality food and beverages is significant. Debates about the quality of water or how climate change might affect New Zealand or issues that impact on the operations at Wakatū are frequently had at the board table.

"One of the comments I get is that it surprises people, when they join us, how we think, how we operate and the breadth of that discussion," Morgan says of the scope of conversation board members are involved in at the board table.

"Often boards don't provide the time to have these discussions. I'm what I like to call an educating chairman," he laughs.

As more work is done at Wakatū to look at things like water quality and more data comes to light, there are going to be real questions to ask around how that information aligns with the organisation's values.

"I think it's a sign of maturity that businesses have those discussions and then make decisions based on them," Johnston says.

"We're definitely conscious of those big issues. We've got an aquaculture business, and a variation of 1 or 2 degrees in >>

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01 Whenua Matua vineyard, Moutere
02 Kono Greenshell™ mussels
03 Tutū Cider

temperature in the water can have a real effect on that business."

Wakatū uses its wide network to get involved at industry, regional and national level to take on issues of importance. Aronui Vineyard Manager Jonny Hiscox is chair of the Nelson Wine Growers' Association. Kono Chief Executive Rachel Taulelei sits on a number of industry entities, including the New Zealand Wine board and Aquaculture New Zealand. Johnston herself engages at industry level through organisations like Te Hono. Wakatū is involved with Agriculture New Zealand and Business New Zealand and is a long-standing member of the Federation of Māori Authorities (Morgan served for many years as Chief Executive).

HOLDING THE LINE

"Wakatū has an incredible array of stakeholders we engage with," says Morgan.

"We've got a phenomenal network of people. We have a policy to target participation in industries that we're involved in, or we will have management, a board member or an associate member represent the Incorporation and family's interest. We have a very active process."

Wakatū is prepared to adapt for the future and recently reviewed its approach to innovation. Morgan charged associate director Miriana Stephens, who is now a Wakatū board member, to take on the project. Morgan says this is part of a deliberate process to hand over the work, with the current generation empowering the next.

"I've always had an amazing team to work with, but I've always accepted that the next generation has new training, new skills and new ideas. It's actually their responsibility to bring those ideas through. The conversation is, 'Well, how are you going to make a difference? We're handing 40 years of work over to you, and how are you going to make a difference?'"

Maintaining the integrity of the Incorporation is vital when handing over to the next generation, and Johnston says that there is an important role played by their kaumātua, a respected position that keeps Wakatū going in the right direction.

"They're really important in keeping us steady and holding the line on our values and what is important to us. Kaumātua are part of the governance process. From a governance perspective, it's about recognising the long-term value that this role brings and making sure that role is valued and not lost. That's probably different to a lot of boards where there is less focus on retaining long-term institutional knowledge and experience."

The Wakatū workforce of almost 500 people is diverse, made up of around 36 different nationalities. For many, English is not their first language.

"It's a great challenge to make sure our values are moving right through the organisation and not stopping at the board and management. We work really hard to choose the right people and to ensure that we live by our values," says Johnston.

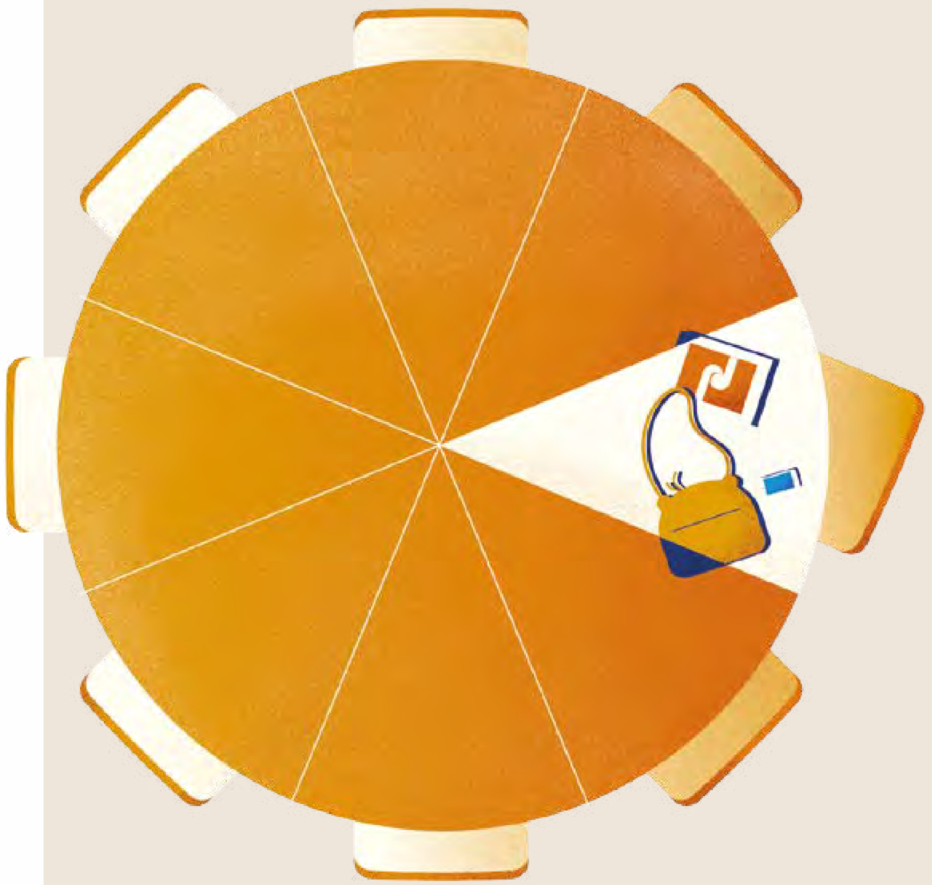
"We're really fortunate to have people who work with us who love our land as much as we do, and they also understand that there's a bigger purpose to our work than simply making money. Of course, we absolutely do need to be profitable to achieve all of our aspirations, but it's not the reason why we are here."

RANGATIRATANGA (LEADERSHIP), WHANAUNGATANGA (STRENGTH THROUGH RELATIONSHIPS), MANAAKITANGA (GENEROSITY), HIHIKO (INNOVATION) AND PONO (INTEGRITY).

Diversity key to successful sustainability


NICK WELLS, CHIEF EXECUTIVE PARTNER & LEADER OF TE WAKA TURE, CHAPMAN TRIPP'S MĀORI LEGAL GROUP


RACHEL DUNNE, PARTNER SPECIALISING IN CORPORATE AND SECURITIES LAW



Unless we think Caucasian males have a lock on wisdom, that the quality of corporate decision making is beyond improvement or that 'group think' is never a problem, getting more diversity into the boardroom is key to any sustainability agenda.

This is now so widely acknowledged that it has become a truism.

McKinsey & Company established back in 2015 that gender-diverse companies were 15% and ethnically diverse companies 35% more likely to outperform their national industry medians. This performance-enhancing effect has been substantiated by a river of research since then.

There has been a lot of activity around the issue here and in other advanced western economies over the last 10 years. **In New Zealand, this has included:**

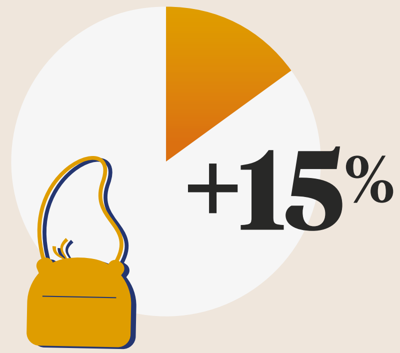
- the launch in 2012 of the Institute of Directors' Mentoring for Diversity programme
- the formation in the same year of The 25 Percent Group, aimed at lifting female participation on boards to 25% by 2015
- the introduction by NZX of a Diversity Listing Rule requiring issuers to provide a breakdown of the gender composition of their directorate and senior management
- the establishment in 2015 of Champions for Change – a Global Women initiative to promote the value of diversity and inclusiveness.

But, despite all the empirical evidence and all the good intentions, progress has been slow – even in relation to gender, which has been the principal focus to date.

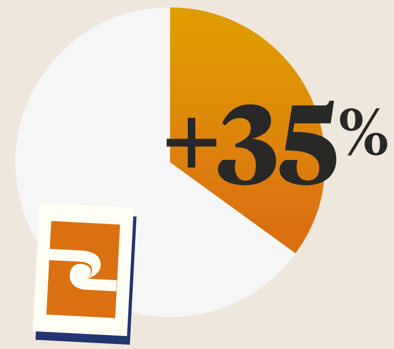
Chapman Tripp's analysis in August of the top 75 on the Main Board shows the ratio of female to male directors is highest among the top 25 issuers by market capitalisation and has risen steadily since 2015, but – even among this group – the gap is still large, with female representation sitting at 13% (up from 11.5%).

...getting more diversity into the boardroom is key to any sustainability agenda.

Gender-diverse companies are more likely to outperform their national industry medians by



Ethnically diverse companies are more likely to outperform their national industry medians by



MCKINSEY & COMPANY, 2015

However, we may be about to get a little more traction for a number of reasons.

The first of these is the regulatory push given by the NZX in its updated Corporate Governance Code, released in May this year. This provides at Recommendation 2.5 that:

"An issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it."

This is a much sharper instrument than anything that has gone before and will provoke a more emphatic response.

And there are other factors at play, particularly in relation to diversity beyond gender. **Among these are:**

- the development of a strong governance pool within the post-settlement iwi corporates
- New Zealand's increasingly multi-cultural population
- the impact on boardroom culture of the new workplace health and safety regime with its emphasis on workforce participation and clear communication channels
- the broader skill set required around the board table to navigate the issues identified with artificial intelligence and digital disruption.

Māori have a distinctive contribution to offer because sustainability is the organising principle behind Māori business culture.

Māori-owned businesses are driven not only by financial outcomes but by the principles of kaitiakitangi (responsibility), manaakitanga (supporting people) and taonga tuku iho mō ngā uri whakatipu (guardianship of the resources for future generations).

These values tend to promote a long-term, intergenerational approach that is reflected in iwi balance sheets, according to a recent in-depth survey of 31 post-settlement iwi and hapū by the ANZ. **This showed:**

- a relatively high average return on assets among iwi corporations – 8.2% compared to 7.7% among the top 30 listed companies
- relatively low reported dividends – equivalent to 2% of equity against 7.4% among the top 30.

Announcing the results, ANZ Head of Māori Relationships David Harrison said. "In unique and challenging circumstances, iwi are demonstrating their ability to balance risk and reward to deliver strong commercial outcomes."

Boardroom deliberations can only be enriched if this experience and perspective is represented at the table. The same applies to new immigrants, who will have different cultural perspectives and international connections and intelligence to offer.

CHAPMAN TRIPP

Opportunities in a low-carbon world

In a future where extreme weather events are more frequent and nations are trying to change the tide on global warming, investors are pulling their dollars away from businesses that have a heavy carbon footprint.

Emma Herd, CEO of the Investor Group on Climate Change, spoke at the IoD Leadership Conference in May. Herd says directors should pay attention to the signs, as investors see climate-related risk as part of the broader range of risks influencing their decisions.

Since 2007, the World Economic Forum Global Risks Report has identified risks in five categories: economic, technology, environmental, social and geopolitical. Each year, the top 10 risks are identified under two areas – likelihood and impact. Towards the beginning of that reporting period, there was a strong focus on economic and social/geopolitical risks. Since 2011, risks including climate change, flooding, water supply crises and extreme weather events have consistently sat in the top five risks for both likelihood and impact.

"Climate change seems like it's new and at that same time like we have been banging on about it forever. That's because we have," Herd says. "Failure to mitigate and adapt to climate change is consistently in the top 10 every year."

What is new is that awareness of climate risks is being translated into financial-specific language. The Paris Agreement, for example, has provided a target for signatory nations, and having a set of agreed-upon numbers provides a framework for measuring progress.

"Before Paris, it was perfectly acceptable for companies to make statements like 'we believe in climate change, we accept the signs, we're taking steps to manage our footprint, we have a carbon-offsetting programme'. Post-Paris, what we want to see is quantified analysis of the financial implications of the macro-trend around climate change. That shift from qualitative statements to quantified analysis is the difference pre- and post- Paris."

A RISK NOW, NOT IN THE FUTURE

Karen McWilliams, Ethics and Sustainability Leader, Chartered Accountants Australia and New Zealand, says some are asking why climate risks should be treated differently to any other business risk.

Part of the answer is that the scale of the risk and the tough decisions needed to address it mean it requires more attention. Climate risks have been identified at a global level as potentially causing financial instability.

"The missing gap between what everyone is doing and what they need to do is a lack of awareness and understanding at management and even at director level around how the effects of climate change can actually impact on a business and what the real implications are," says McWilliams.

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) was set up to identify the information needed to help investors, lenders and insurance underwriters effectively assess and price the potential risks and opportunities of climate change. Climate change risks pose significant financial challenges and opportunities for many organisations and investors. The TCFD believes climate-related issues are or could be material for many organisations.

> **"That shift from qualitative statements to quantified analysis is the difference pre- and post- Paris.**
>
> Emma Herd

> **"The missing gap between what everyone is doing and what they need to do is a lack of awareness and understanding at management and even at director level...**
>
> Karen McWilliams

Closer to home, Australian Prudential Regulation Authority (APRA) executive board member Geoff Summerhayes told a forum in February this year that, while climate risks have often been seen as a future problem or a non-financial problem, this is no longer the case.

"Many of these risks are foreseeable, material and actionable now," warned Summerhayes, adding that climate risks pose system-wide implications to which APRA and other regulators will pay closer attention.

A BOLD NEW DIRECTION

Investors and consumers alike are increasingly demanding that climate risks are taken seriously. McWilliams says directors need to start having these conversations, if they are not already, as part of their organisations' long-term strategy.

New Zealand has signed on the dotted line and needs to start making progress if it is to meet the agreed-upon commitments towards the 2 degree goal. A financial shock may well result from changing tack to meet the Paris goals, but the longer we wait, the harder the turn will be.

"It is an incredibly steep turn, and incredibly steep turns usually equal financial shocks," says Herd. "Unless we begin to have process around understanding and managing what we have all signed up to, including New Zealand, we are going to face that financial shock at some point."

While the US has pulled out of the Paris Agreement, others, including China, have reinforced their commitment to the agreement. For exporting nations such as New Zealand, with strong trade links with China, Herd says China's position on climate change is significant. US business leaders have also been vocal about their intention to honour the agreement, despite what their government has decided.

Policies around climate change could also impact on the broader framework businesses operate within, Herd says.

"It's not just about the politics [of climate change], it's also about changing market conditions, changing technological drivers, impacts for business and what's required for understanding all of that. For directors, that framework is increasingly important."

It's not all doom and gloom. There are certainly opportunities too for those able to adapt.

Marsh New Zealand suggests that addressing risks such as those associated with climate change can be a catalyst for innovation rather than a corporate burden. Some of the immediate and long-term rewards could be a strategic market edge, lower operational costs, avoidance of fines, improved bottom line, investor confidence and operational excellence.

Herd also suggests that the money investors take out of one business has to go somewhere.

"[Investors] are actively looking for low-carbon investment opportunities. So who are the emerging companies that will deliver the new technologies? Who are the companies that are much better positioned competitively relative to their peers – who is less exposed, who is the better bet, who has a particular commodity that is going to last the longest? How have they diversified their assets?"

Could New Zealand businesses shift to take up the opportunities? The board will play a significant role in determining whether their organisation will be part of the future landscape or left behind.

YOUR SUSTAINABLE BOARDROOM

CN — MADE CARBON NEUTRAL

CARBON NEUTRAL
Products, operations and activities that have had their emissions calculated, reduced and offset where possible.

Governance Leadership Centre *[Update]*

FELICITY CAIRD
MANAGER, GLC

After the release of the Four Pillars, the GLC has updated the corporate governance codes comparison table and published a DirectorsBrief on litigation funding. The GLC's also been monitoring the corporate governance reforms in the UK and global trends impacting companies, says Felicity Caird, Manager GLC.

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[Updated]
THE FOUR PILLARS OF GOVERNANCE BEST PRACTICE FOR NEW ZEALAND DIRECTORS

THE FOUR PILLARS IS NOW AVAILABLE ONLINE – VISIT **IOD.ORG.NZ** TO CHECK IT OUT

[Updated]
CORPORATE GOVERNANCE CODES COMPARED TABLE

The IoD and Chapman Tripp produced the *Corporate Governance Codes Compared* table in 2016 to make it easier for companies and directors to see the similarities and differences between the various corporate governance codes in New Zealand. Since then, the NZX Corporate Governance Code has been significantly revised, and this has introduced a new level of consistency across some of the codes. The table has been updated in light of this. It covers key governance themes such as ethical standards, diversity, independence, committees, remuneration, risk management and non-financial reporting, and shareholder relations and stakeholder interests.

VISIT **IOD.ORG.NZ**

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LITIGATION FUNDING: FRIEND OR FOE?

Third-party litigation funding is the financing of litigation by an independent party, so-called litigation funders. A funder will usually contribute all of the costs associated with a plaintiff's case in exchange for a share of any judgment or settlement proceeds.
If the case is unsuccessful, the funder will be liable for the costs.

Litigation funding is on the rise in New Zealand, with a number of high-profile funded cases involving directors before the courts. Our third DirectorsBrief for 2017, *Litigation funding: friend or foe?*, discusses litigation funding in New Zealand, funded cases before the courts, overseas trends, the pros and cons of companies using litigation funding, tips for directors and other related matters.

ALL SUBMISSIONS, GUIDES, DIRECTORSBRIEFS AND OTHER GOVERNANCE RESOURCES ARE AVAILABLE AT **IOD.ORG.NZ**

Insights from New Zealand Law Society seminar on litigation against companies and directors

Directors and companies are facing increased risk of investigations and litigation, with regulators (e.g. FMA) being more active.

1. In a regulatory investigation, the interests of the company, board, individual directors and management may diverge. For example, the board may not always be united, and the directors may blame other directors or management. (In these circumstances, independent legal advice will be necessary.)

2. Care should be taken when executing deeds of indemnity to cover potential liability. This is because an indemnity can be void if it is not compliant with the company's constitution. The Companies Act 1993 provides that a company can, if expressly authorised by its constitution, indemnify directors in respect of specific matters.

3. In reviewing D&O policies, directors should consider whether they are appropriately covered for costs in relation to investigations and settlement payments.

4. In liability policies, defence costs should be ring-fenced or covered in a separate policy.

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SEE THE INSURANCE AND INDEMNITIES SECTION IN **THE FOUR PILLARS** FOR MORE INFORMATION

05

NEW REPORT ON GROWING MĀORI SOCIAL ENTERPRISES, *PAKIHI WHAI KAUPAPA*

Social enterprise is about creating social impact using commercial business models to finance the achievement of social change. It's "harnessing the talents of entrepreneurs who want to create change, and enabling community organisations to achieve social goals with commercial rigour and greater financial sustainability" *(Social Enterprise and Social Finance: A Path to Growth)*.

It is making a strong contribution to social, environmental and economic outcomes in many countries. For example, in Scotland, there are over 5,000 social enterprises employing more than 112,000 people and contributing GBP1.68 billion to the Scottish economy.

The concept of social enterprise is not new to te ao Māori, where it is common practice to pursue broader goals and redirect profits from business ventures to improve cultural, social and environmental impact. Released in September during the Social Enterprises World Forum in Christchurch, the report, *Insights on Māori Social Enterprises 2017, Pakihi Whai Kaupapa*, aims to support and grow a flourishing economy of Māori social enterprises and has a goal of growing the number of enterprises by 30% over the next 3 years.

YOUR SUSTAINABLE BOARDROOM

ECF — ELEMENTAL CHLORINE FREE

ECF
Elemental chlorine free is a paper-whitening technique that uses no elemental chlorine compounds for the bleaching of wood pulp for paper.

FROM RESPONSIBLE SOURCES

FROM RESPONSIBLE SOURCES
Pulp sourced from forests that are independently certified and audited to ensure they comply with environmentally sustainable practices.

[Reform]
UK CORPORATE GOVERNANCE

Following high-profile corporate governance failures in the UK, the Department for Business, Energy and Industrial Strategy (BEIS) published its Green Paper on Corporate Governance Reform in November 2016.

The government's response to this paper was published in September and includes there proposed changes:

PAY RATIO
Listed companies will be required to report annually on the ratio of CEO pay to the average pay of their UK workforce.

PAY PROTEST REGISTER
A public register will be maintained of listed companies who have received 20% or more shareholder opposition.

WORKER REPRESENTATION
Referred to the Financial Reporting Council, "one of three employee engagement mechanisms, a designated non-executive director, a formal employee advisory council, or a director from the workforce".

STAKEHOLDER ENGAGEMENT
The Companies Act 2006 in the UK requires directors to have regard to stakeholder interests in pursuing the success of the company. A new requirement is proposed for directors to explain how they have regard to stakeholders.

LARGE PRIVATELY HELD BUSINESSES
The government is looking at developing a voluntary set of corporate governance principles for large private companies and to legislate to require companies' disclosure.

Director Vacancies

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.

KATE EDGAR EDUCATIONS TRUST
Role: Trustee
Location: Auckland
Closes: 1 November 2017

BEDS R US
Role: Chairperson
Location: Auckland
Closes: 13 November 2017

The following positions will remain open until filled:

FERRYMEAD PARK LIMITED
Role: Directors
Location: Christchurch

THE HOME OF ST BARNABAS TRUST
Role: Board members (x2–3)
Location: St Clair, Dunedin

SHOW ME SHORTS FILM FESTIVAL TRUST
Role: Trust board member
Location: Auckland

MOSGIEL MEMORIAL RSA INC
Role: Board members (x2–3)
Location: Mosgiel

VILLAGE COMMUNITY TRUST T/A WORKSTAR
Role: Chairperson, treasurer, general members
Location: Nelson

GLAUCOMA NEW ZEALAND
Role: Voluntary board members (x2)
Location: Auckland

TIMARU MENTAL HEALTH SUPPORT TRUST
Role: Board member
Location: Timaru

HAMILTON CHARITABLE CHRISTMAS TRUST
Role: Trustee
Location: Hamilton

DEMENTIA CANTERBURY
Role: Executive committee/ board chair
Location: Christchurch

ASPIRE CANTERBURY
Role: Chairperson and treasurer
Location: Christchurch

THE ORPHEUS CHOIR OF WELLINGTON INC
Role: Board members (x2)
Location: Wellington

CONNECT SOUTH
Role: Board members (x2)
Location: Dunedin

Climate change and ESG

How does this translate for you?

Governance risk and compliance risk is the short answer. All have been, and continue to be, significant risks facing directors and companies, persistently sitting in the top 5–10 risks in global surveys.

Directors and managers need to have a coherent understanding and vision for both the present and the future when factoring in the impact of climate change (CC) and environmental, social and governance (ESG) factors within their enterprise risk management framework and on their balance sheet.

Within New Zealand, a key driver for this would be the latest update of the NZX Corporate Governance Code, which, as at 1 October 2017, requires ESG disclosure.

Listed companies are not the only ones feeling the pressure. Financial and non-financial reporting of ESG is moving towards global standards. Locally, this feeds into New Zealand's vision and commitments on emissions and sustainability. Further considerations exist for companies that have pollution exposures. Companies will also need to have an ESG framework in place for acquisitions and divestures.

The implications are clear: companies, listed or otherwise, need to have transparent and robust ESG management and reporting systems or risk the consequences.

There are several trends in this space that we expect to become mainstream over the next few years. These include a focus on ESG financial reporting and performance from institutional investors and pension and wealth fund, mandatory guidelines and mandatory reporting guidelines, and board composition including directors and financial officers with ESG capability.

Social and environmental obligations and considerations are the fiduciary responsibility of board members. Directors are, tasked with acting in the best interests of a company using reasonable care and due diligence. Being aware and actively engaged with ESG management in the companies that they govern is strongly encouraged and expected.

In practical terms, climate change and environmental, social and governance metrics and reporting can include:

carbon footprint – how is this accounted for and managed?

property risk, crisis management and the impact of extreme weather events – are your buildings and infrastructure adequately maintained and futureproofed, are neighbouring sites and natural resources protected?

operational risk such as compliance with consents and the RMA

governance risk such as obligations under the Building Act, WorkSafe and disclosure to sector-relevant regulators such as the NZX

reputational risks which can impact shareholder value as well as any capital-raising intentions.

HOW CAN THIS IMPACT YOUR COMPANY?

Liability from direct or inadvertent environmental or climate-related risks can be significant, if not catastrophic. This continues to be demonstrated globally in the case of asbestos and methane releases, oil spills, fracking, ground leaching and widespread pollution in natural habitats.

Inadequate ESG management can lead to poor performance, missed market opportunities, loss of investor confidence and compliance breaches – all of which can lead to trading restrictions, ultimately failure and therefore significant reputation damages.

Effective governance requires directors to consider long-term sustainability and ensure management systems are in place to facilitate clear and transparent communication and reporting, both internally and externally. As such, executive leadership teams need clear direction from the board to report in line with agreed metrics.

HOW ARE DIRECTORS EXPOSED AND PROTECTED?

Pollution liability is strict, exposing a director and their personal assets to allegations and demands for compensation. This also includes investigations from regulators, which can result in potentially severe outcomes for directors.

What access to protection can directors and officers rely on? Directors can be defended as employees under the generic suite of insurances a company might hold, but more properly under a directors' and officers' (D&O) policy.

A typical D&O policy covers individual directors for all acts, errors or omissions arising from their conduct as directors and could therefore include matters relating to climate change risks.

While D&O liability insurance policies are designed to protect the personal assets of directors and officers, they might not always respond to ESG risk in the manner expected. Given the evolution of exposure, ESG and CC risks do not fit neatly within existing definitions and exclusions, leading to potential gaps in cover. For example, common exclusions in D&O policies are bodily injury, property damage, asbestos, pollution and fines and penalties.

Wider coverage can be negotiated with some markets on a case-by-case basis to enhance coverage for individual directors and officers, covering them in case of pollution defence costs, bodily injury, property damage and fines and penalties. The widest coverage available is a dedicated pollution liability policy.

The implications are clear: companies, listed or otherwise, need to have transparent and robust ESG management and reporting systems or risk the consequences.

Some of the allegations that may trigger a D&O policy include:

breaching their fiduciary duties in not considering the financial risks associated with climate change

failing to comply with legislative reporting requirements

failing to disclose climate change liabilities

disseminating false or misleading or incomplete information on climate risks

mismanagement of climate related risks

negligence in allowing the company to emit greenhouse gases into the atmosphere

failing to protect the company's assets.

WHAT NEXT?

The need to address ESG and CC risk sooner rather than later has been advocated. Directors and officers as well as risk managers should consider:

reviewing your current ESG management and reporting guidelines

reviewing your ESG management resources

where internal resources are limited:
- appointing board members with relevant ESG capability
- consulting externally to better manage your ESG risks

reviewing your existing overall insurance coverage and amending where possible.

utilising a wider risk transfer solution, such as specific D&O coverage and pollution liability

ensuring appropriate insurance is in force if you are an independent director.

The way forward is complex and onerous, but by taking the appropriate steps early, you will be in a position to not only effectively manage and mitigate your potential exposure but also position yourself for success.

PLEASE CONTACT
KARIN SCHOLZ, +64 9928 3102,
KARIN.SCHOLZ@MARSH.COM,
OR YOUR USUAL MARSH CLIENT EXECUTIVE.

SHARING THE VISION

Lani Evans
"To me boards represent opportunity."

Founders of businesses face specific challenges and issues when making the decision to move to formal governance. In turn, board chairs have specific aspects to consider when their CEO is company founder. *BoardRoom* talks to Lani Evans about her advice for founders and their chairs. We also look at the experience of two social enterprise founders: one who has an advisory board and one who has appointed a board of directors.

Vodafone NZ Foundation Manager Lani Evans has many years of governance and leadership experience in social enterprise and community organisations. The former CEO and current director of Thankyou Payroll, a Dunedin-based social enterprise, Lani is currently co-chair of Thankyou Charitable Trust and ActionStation and sits on the board of the West Harbour Beautification Trust and the Peter McKenzie Project. Lani received the Winston Churchill Fellowship for 2015 to explore the efficacy of devolved decision-making models in international philanthropy and was a 2017 finalist for the Women of Influence Awards.

What are the signs that a business is ready for an external board?

L To me, boards represent opportunity. They provide founders with the chance to find and use additional resources. What are the skills you're missing, the perspectives you don't have, the connections or worldviews that would really help you build your business? From that perspective, I think we're all ready for a board, all the time.

But in reality, there are three key components to consider.

Firstly, do you need a board? Do you need the additional expertise to provide support and guidance or the additional reassurance that will attract outside investors?

Secondly, will you use them? Our business and our identity can be very tightly interwoven, and letting go of some of the power and responsibility can be terrifying. And finally, can you find the right people? A bad board is worse than no board at all, but a good board can electrify a business.

Is it more challenging for a chair when they are dealing with a CEO who is the founder?

L I don't think it's necessarily more challenging, but I do think the dynamic is different. Founders can be incredibly exciting – passionate, committed, ideas generators. But starting a business is hard, and founders can also be exhausted, burnt out and unable to let go of control. I think the challenge for a good chair is to enter the relationship with empathy and be willing to listen, to learn about the organisation and the individual and to meet the founder where they are.

How can the founder/s and chair get it right from the start, i.e. how do they establish a good working framework?

L Build a shared understanding of the different roles. What are the terms of engagement, what does each party expect, how will we manage conflict and how do we all understand the operational-governance divide?

For the chair, let go of your preconceived ideas and your position as an expert. Listen to the founder, what they're asking for and their vision for the business. Founders can help keep a board true to the underlying kaupapa. Businesses, especially social businesses, are started for a reason – to support a community, to build something wonderful, to change the way people interact with the world around them. Founders are the pou tāhū, the post that keeps that kaupapa strong. If you can get on board with that, you're in the right place.

For the founder, choose a chair you can respect, someone who understands the fiduciary and legal responsibilities of a board but who can also act as a critical friend. Having a board chair who builds on your company goals and can be your biggest champion but who can also call you out on your bulls**t – that's the dream.

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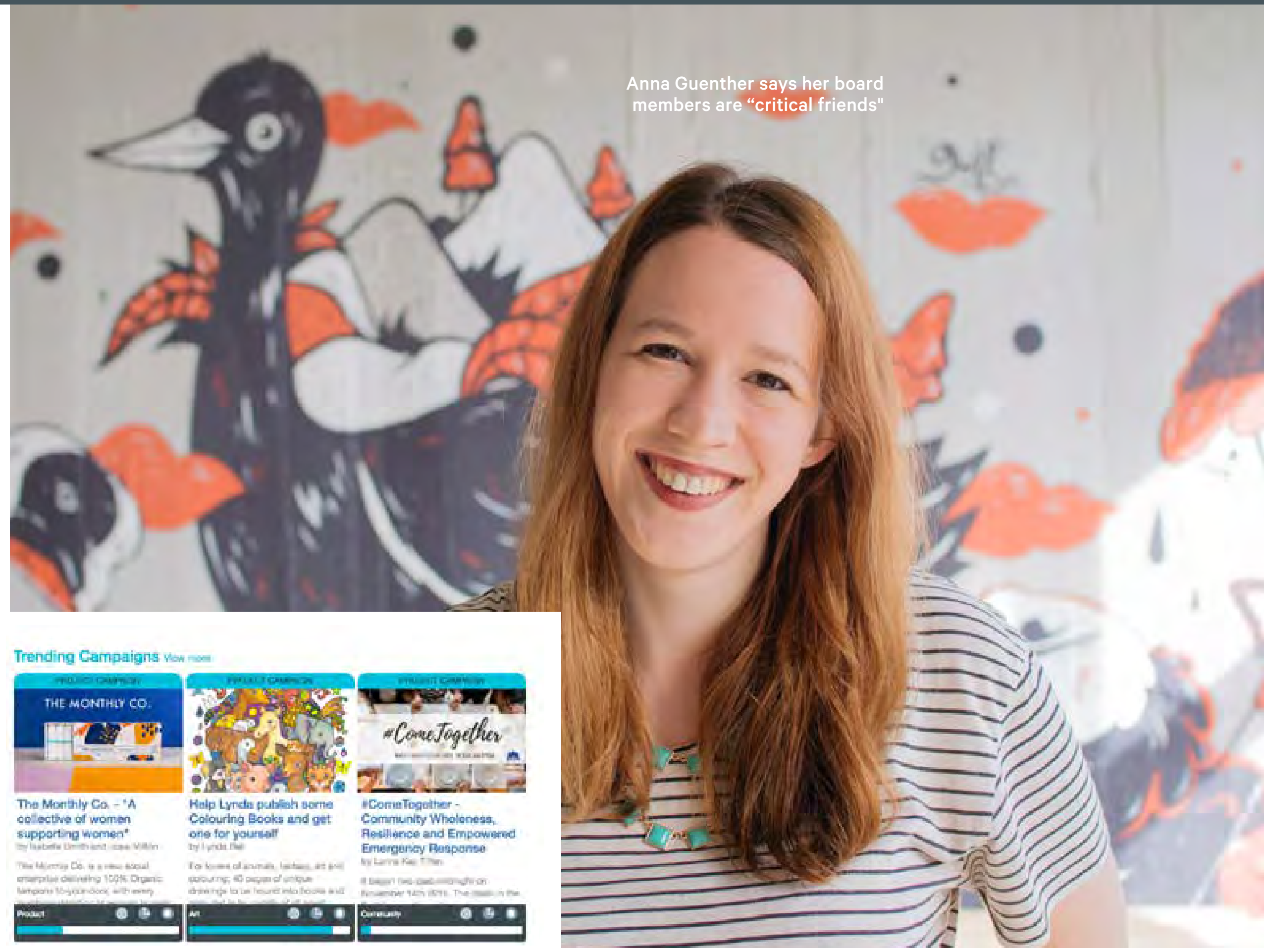
CASE STUDY

PLEDGEME



Anna Guenther says her board members are "critical friends"

Wellington-based Anna Guenther co-founded equity crowdfunding platform PledgeMe in 2011 while completing a master's in entrepreneurship. PledgeMe was launched officially in 2012 and 2 years later became one of the first platforms in New Zealand to be licensed to provide equity crowdfunding. PledgeMe has equity crowdfunded itself twice: in late 2014 and mid-2015.

When Guenther initially started out she had a lot of coffees with a lot of individuals who gave her advice on various aspects of business. This was rather time-consuming, but it wasn't until a friend pointed out that she could actually bring these people together that she created an advisory board for PledgeMe. For 2 years, the panel of eight would meet bi-monthly to give Guenther feedback, counsel and ideas.

"Every founder should get some outside perspectives. An advisory board is a great starting point. You can get all this external advice, including strategic oversight, but members don't have the liability of being directors. My advice to new founders is to delay going to a formal board for as long as possible. There's no rush unless it's absolutely required."

> EVERY FOUNDER SHOULD GET SOME OUTSIDE PERSPECTIVES. AN ADVISORY BOARD IS A GREAT STARTING POINT. YOU CAN GET ALL THIS EXTERNAL ADVICE, INCLUDING STRATEGIC OVERSIGHT, BUT MEMBERS DON'T HAVE THE LIABILITY OF BEING DIRECTORS.

While PledgeMe's advisory board was the ideal set-up for the early stages of the business, an external board of directors was a requirement of the licensing application. In 2014, PledgeMe appointed a five-member board including Guenther as the only executive director. All members were PledgeMe investors and initially didn't receive remuneration.

She said she didn't feel any sense of losing control as founder when moving to an external board.

"I've always worked collaboratively and enjoy getting other perspectives – sometimes I actually want too many other opinions and have to rein that in – so having a board of directors didn't faze me at all."

Choosing the chair was a no-brainer, Nick Lewis, a PledgeMe supporter from near its inception, was the most experienced board director so it was natural for him to take on the role.

After the second equity crowdfunding round in 2015, the board researched the remuneration given to directors of similar-sized companies, and there was a huge range ($0 to $2,000 per meeting). PledgeMe settled somewhere in the middle, and now directors receive a mix of cash and PledgeMe shares.

The board meets monthly and uses Google Docs for minutes – the job of secretary is shared around – along with Loomio for discussions between meetings. Two different PledgeMe staff members report to the board at each meeting.

"One of the difficult parts of being a founder and director is that you're the one who has all intimate knowledge of the company since the day it began. It's important to involve other team members so they can tell the board what they're doing. You need to consciously share the information around.

"As a founder, you're also pulled in so many directions, and that is why a board is crucial – to provide clear focus, especially in a crisis, set priorities and strategy and have oversight on the risks. The meetings can be challenging for me, but that's how it ought to be. That's why the board is there."

Guenther describes her board members as "critical friends". They support her but also don't hold back on constructive criticism.

In 2016, a board member resigned, so PledgeMe looked for a new member.

Up until this point, PledgeMe was an all-male board apart from Guenther. She wanted to bring in more diversity and also new blood, meaning applications from people beyond the board's own business and friendship circles.

The board developed a comprehensive job description and put the word out through a wide range of communication channels including Twitter, Facebook, LinkedIn, newsletters, blogs, shoulder tapping and talking to everyone they knew.

They used Weirdly for the applications (weirdlyhub.com), which garnered a lot of positive feedback from applicants as well as in-depth information. The first application was received in 5 minutes and within 3 weeks, 107 people had applied from all over New Zealand – 52% were from women, including three Dames, and 15% who don't identify as Pākehā.

In the end PledgeMe actually hired two new board members – both women.

"We had such amazing people apply for our role. The board and staff wished we could have all of them. None of them made our job easy, and that's a testament to the amazing breadth of governance skills and experience in New Zealand."

CASE STUDY

LITTLE YELLOW BIRD

Wellington-based Samantha Jones is the founder and CEO of Little Yellow Bird, a social enterprise that uses ethically sourced fabrics to make quality uniforms in India under fair-trade working conditions.

Little Yellow Bird was founded at the beginning of 2015 but was inspired many years earlier. Growing up in Indonesia, Jones saw the exploitation of workers making garments for the west. After moving back to New Zealand, she worked as an Air Force logistics officer and completed a commerce degree and a master's in international security.

All this experience helped her realise there was a gap in the market for sustainable, ethical, quality uniforms at a reasonable price and timeframe. Jones founded Little Yellow Bird with the vision of improving social and environmental sustainability throughout the garment supply chain. It is one of the first companies in New Zealand to be certified as a benefit corporation – a corporate entity that has a positive impact on society, workers, the community and the environment.

Little Yellow Bird has had an external advisory board for just over a year. Jones said the concept of the board was natural evolution.

"I'd been using various individuals as mentors since starting out and meeting them separately for coffee to get their advice and input. It made sense after a while to bring them all together as an actual advisory board."

Samantha Jones picking cotton in India

The monthly board meetings are usually held at 8am over breakfast, and as board members are donating their time, Jones ensures the meetings are short, valuable and rewarding. Core reporting is not usually on the agenda. Instead, the board discusses any problems or issues and focuses on strategy.

The board has agreed its key values that all members subscribe to: a shared passion for what Little Yellow Bird does and an understanding of how business can help solve social and environmental problems. Jones says the three board

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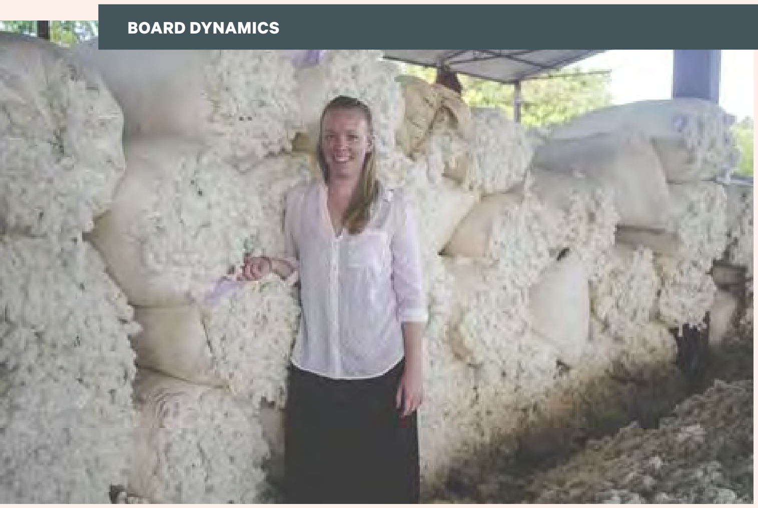
01

> I CAN GET SIDE-TRACKED AND EXCITED ABOUT NEW IDEAS THAT ARE NOT BEST FOR THE BUSINESS RIGHT NOW. THE BOARD SHOWS ME ANOTHER WAY OF THINKING ABOUT IT...


02

01 Samantha Jones with Indian cotton
02 Bear Print Tee's in support of Free the Bears Foundation

members bring a diverse range of experiences and background to the table – fashion, strategy and business development – but all understand social enterprise.

Before each board meeting, all members check in to say how they are feeling and what they are bringing to the meeting. Afterwards, everyone rates the meeting out of 10.

"The rating allows us to say that we might have spent too much time on one topic at the expense of another, that one person may not have been given enough time to

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talk or that we didn't keep to the agenda. It helps us refine our processes and make improvements each month."

As the founder, Jones says the board has been helpful to her in four main ways:

1 **Focus:** "I can get side-tracked and excited about new ideas that are not best for the business right now. The board shows me another way of thinking about it [the new idea] and makes sure I ask whether it's a part of core business operations as they stand."

2 **Strategic overview:** "On my own, I would be looking only at the day-to-day stuff as there is so much to do just trying to make it work. Together with the board, we have put together a 3-year strategy and then we work out monthly strategy priorities based on that, which we revisit at each meeting."

3 **Accountability:** "They hold me accountable. They help make goals for me that I work towards and, at meetings, challenge me if necessary on why I haven't met them."

4 **Professional development:** "The board is helping me grow as a business person as much as helping grow the business. They are investing their time into my development and into helping me hopefully becoming a great CEO."

What would she do differently next time?

Jones said she worried too much initially about the structure of the advisory board and things like remuneration. If she could go back in time, she would worry less about this.

What might she do in the future?

Jones said the advisory board was the ideal structure at this stage of Little Yellow Bird's life and size, but if the company raised a large investment in the future, it would consider having a board of directors. However, any new board would need to embrace the core Little Yellow Bird value: to never put profits over people or the planet.

THE BIG PICTURE FOR ONGOING SUPPORT AND LEADERSHIP

Boards involved in franchising would do well to help maintain focus on at least five key franchising specific areas:

1. **Monitoring franchising health and performance.** Understanding franchising performance in a holistic sense requires access to a much broader range of metrics than would typically be required. Examples include individual franchisee returns, satisfaction levels, franchise renewals and compliance levels.

2. **Improving franchisee performance and returns.** Enlightened franchising companies hold franchisee profit as a foremost group objective and imperative, recognising total franchise system performance comes via a strong franchisee business model that, in turn, helps attract and retain quality franchisees.

3. **Business model innovation.** Some companies, like Mitre 10, and Foodstuffs' New World, have made tremendous advancements in store format and operations. Directors need to help franchise companies grapple with the many environmental forces, like technology, that can require substantive changes to the way companies do business and the traditional delineation of franchisor and franchisee roles.

4. **Improving franchise relationships and satisfaction.** Franchisee satisfaction levels have the power to help build or destroy franchise system value. Directors would do well to help management through a focus on improving relationships, recognising the sensitivities that exist, and the life cycle franchisees work through.

5. **Implementing system-wide changes.** When it comes to making necessary adaptations, there is a mantra that "employees can be told, but franchisees must be sold". Managing successful change in a franchise system requires careful long-term planning.

Guiding long-term sustainable franchising

Franchising first hit our shores in the early 1970s with the arrival of global fast-food giants KFC, Pizza Hutt and McDonald's. The current local story now has more than 70% of franchise brands in New Zealand originating in the country, such as Fastway Couriers, Green Acres, Laser Electrical, Harcourts, Columbus Coffee, Stirling Sports, Mitre 10 and Foodstuffs.

DR CALLUM FLOYD
MANAGING DIRECTOR OF
FRANCHIZE CONSULTANTS

The latest survey of New Zealand franchising, conducted by Massey and Griffith Universities on behalf of the Franchise Association of New Zealand, illustrates the pervasiveness, growth and contribution of franchising to the New Zealand economy.

SINCE 2012

The number of franchise systems has grown **41% from 446 to 631.**

The number of franchise units has grown **65% from 22,400 to 37,000.**

The total workforce involved in New Zealand franchising has grown **22% to over 120,000.**

The turnover of business format franchising (excluding vehicle and fuel retail) increased **87% from an estimated $15 billion to $28 billion.**

New Zealand is now the most franchised country in the world on a per capita basis. Meanwhile, reported franchisor-franchisee levels of disputation remain at steady levels and compare well internationally, where New Zealand is often compared to Australia, a country with specific franchising legislation.

KEY GOVERNANCE ISSUES

Underpinning these positive statistics is an organisational form that can be complex, nuanced and challenging to manage. While franchising can offer many advantages, great results are far from assured. Recent examples like those involving Veritas and Nosh are a case in point. Not surprising to *BoardRoom* readers, founders, business managers and their governing teams need to recognise the importance of initially ensuring franchising is the right fit for their organisation or division. They then must establish the right franchising structure for the business, ensure the right people are involved and provide the right ongoing support and leadership.

ESTABLISHING THE RIGHT STRUCTURE

The initial establishment is a pivotal stage where all efforts need to be made to ensuring franchising is the right fit and an appropriate and optimal structure is developed to stand the test of time. Because the franchise structure is largely set in stone with the execution of each franchise agreement, any errors in early decisions can prove hugely problematic later on.

While simple in concept, franchising comprises countless combinations of form, structure, process and restrictions. Structural considerations include the many types of franchising, ways to specify and divide franchisor and franchisee roles, staffing the franchise support office, resource and investment requirements, initial and ongoing franchisee support, economic model options and restrictions (like territories and franchise term).

A critical issue is ensuring any structure employed can realistically deliver attractive returns to both franchisor and franchisee over the long term. Determining this requires considerable experience and the assembly of an appropriate franchise structure befitting the specific business, owners' objectives and the market they operate within. Franchising, consulting and legal specialists play a pivotal role here.

PEOPLE AND FRANCHISING

Managers and boards are wise to continually focus on the people aspect of franchising with key dimensions being the profile of successful franchisees, processes for franchisee selection, franchisee capability development and management.

Experienced franchisors often recount stories of the performance difference great franchisees can have taking over from those less competent. Poor franchisee selection can also prove problematic, resulting in struggling and/or overly difficult franchisees ill suited to long-term conformance to such a prescribed business model.

The relationship between franchisor and franchisee is sensitive and needs to be approached with empathy and care. Franchisor and franchisee goals are never totally aligned, with one operating at a national level and the other locally. This can bring tension around compliance to the brand and business model. Relationship sensitivity also comes from the fact a franchisee's basic needs, attitudes and actions change over time as they gain knowledge, operating experience and confidence. Successful management requires understanding franchise relationship foundations, dynamics over time and an active and changing approach to managing the relationship through each stage. A win-win approach must pervade all stages.

Franchising is a powerful and growing organisation form adopted by many successful companies but is not without management challenges. By focusing on structure, people and ongoing management and leadership, directors can help drive long-term results and sustainable returns.

How resilient is your business?

Bryan Tedford, NZI's National Portfolio Manager Business Continuity & Asset Protection, talks about the importance of contingent business interruption cover.

60%

OF ORGANISATIONS IN THE ASIA PACIFIC REGION EXPERIENCED AT LEAST ONE DISRUPTION TO THEIR SUPPLY CHAIN IN THE LAST 12 MONTHS (ZURICH, 2016)

Business interruption insurance has never been more important for Kiwi businesses. As one of the largest insurers in New Zealand, NZI's figures show that, in Auckland, just 60% of Kiwi businesses who bought business property insurance also purchased business interruption cover. In the smaller regions it's as low as 30%.

A 2015 media release issued by the Insurance Council of New Zealand, reported that only one in four small to medium-sized enterprises was adequately insured, and across New Zealand, 23% of business owners did not have any insurance at all.

New Zealand's fragility means that business interruption cover is even more critical. Over the last decade, we've seen an unprecedented amount of natural disasters.

The survival of a business today depends on more than just replacing damaged buildings and goods. Businesses need to have the ability to pay for alternative accommodation, ongoing bills and other costs including salaries and lost profits when recovering from a fire, disaster or other major event. One in four small businesses would not survive if they had to close their doors for 3 months*.

NZI's business interruption insurance can pay the business owner a predetermined amount of money for a set period of time when earnings can't be made to help cover overheads including wages, rent and any finance payments until you get back on your feet.

Hundreds of Christchurch businesses were forced to relocate their premises after the 2010/11 earthquakes and many only had a 12-month indemnity period on their business interruption. In some cases, the full extent of damage was still undetermined by this time, and they found themselves in a situation where their indemnity period had expired and they had still to reach a settlement or were still not back trading to their pre-earthquake levels.

23%

OF NEW ZEALAND BUSINESS OWNERS DO NOT HAVE ANY INSURANCE AT ALL (INSURANCE COUNCIL, 2015)

Longer deferment periods can sometimes be agreed with insurers to delay the triggering of the indemnity period rather than kicking off on the date the loss occurred.

Kiwi business owners should educate themselves about business interruption cover to make sure their sum insured, indemnity period and cover are adequate. They should factor in contingencies such as new distribution partners and other business needs if a loss were to occur to one of their key stakeholders.

As a global economy, one of the key issues impacting businesses today is protecting the supply chain. Business transactions are more complex than they once were, and there is more likelihood of something going wrong. It's a growing concern for businesses and affects almost every industry. It is consistently ranked by businesses as one of their greatest threats.

Supply chains can be affected by many things, including cyber attacks, telecommunication outages, IT issues, natural disasters and even world events.

Last year's Business Continuity Institute report by Zurich, *Supply Chain Resilience Report 2016* said that six out of 10 organisations in the Asia Pacific region had experienced at least one disruption to their supply chain in the last 12 months, and less than half had business interruption insurance to cover their losses. It also said that those organisations who reported more than 20 incidents had significantly increased from 3%to 13%.

The report stated that 66% of organisations do not have full visibility of their supply chain and 70% experienced at least one supply chain disruption over the last 12 months.

The top causes of supply chain disruption were unplanned IT or telecommunications outages, loss of talent or skills and cyber attacks or data breaches.

A further dimension to insuring business property has come with the digital age. Business owners must now think about protecting their digital and online assets as well – websites, ecommerce facilities and digital networks.

If you get hacked and your business cannot operate or your customer data gets stolen, there's going to be a cost involved to manage both the situation and your business reputation as well as getting your business back up and running. NZI Cyber Ultra cover will help protect you against privacy and statutory breaches, computer crime, system damage and business interruption and protect your brand and reputation.

Having the right contingent business interruption cover is the best line of defence. Resilience is all about being able to overcome the unexpected. We recommend that business owners work with their broker to put together a risk plan that will mitigate any loss.

* www.cgu.com.au/insurance/for-brokers/insights/february-2016-insights/business-interruption-cover-%E2%80%93-is-it-that-important

Out& about

More than 90 guests attended the official opening of the Aura Information Security head office in Wellington. Paul Ash, director of the NCPO, spoke to the crowd about his recent research trip to Israel, and Aura GM Peter Bailey gave some insight into the future vision for Aura.


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Wellington

Wellington branch members had the opportunity to attend a number of events in recent months including a breakfast event with KPMG Head of Digital Futures Steve Graham.


04

Auckland

In September, members had the opportunity to attend Ōrākei Marae for a lunch event to hear from John Tamihere and David Farrar about the Māori political landscape. A breakfast event with Auckland Airport CEO Adrian Littlewood proved popular, with Littlewood discussing the New Zealand tourism industry.

Waikato

Congratulations to Daniel Shore, who was awarded the 2017 Waikato Branch Emerging Director Award, during an event with University of Waikato Professor Neil Quigley.


05


06

Taranaki

Taranaki branch members had the opportunity to attend an after 5 function as part of the What Matters in Sustainability campaign. Hinerangi Raumati, Warwick Tauwhare-George and Wharehoka Wano spoke about quadruple bottom line for sustainable prosperity.

07

Nelson Marlborough

Branch members hosted Mavis Mullins for an event in August about culture and diversity, which began with a karakia by Rev Andy Joseph. Congratulations to Marina Hirst-Tristram, who was presented her Chartered Member certificate at this event.


08

Canterbury

Congratulations to Canterbury Branch award winners Jeff Smit, Arron Perriam and Madeleine Surie. Jeff and Arron were presented with their Emerging Director Awards, and Maddy was awarded the First Steps in Governance Award during branch events in recent months.


09

Otago Southland

Congratulations Sarah Ottrey, who was announced as a new Chartered Fellow of the Institute of Directors, during an event with Sir Eion Edgar.


10

Company Directors' Course

20 August 2017, Wellington

FRONT ROW: Luke Shadbolt, Rhod Pickavance, Katie Paul, Mark Wheeler, Stuart Iggo, Megan Horton, Rebekah Swan, Mike Boardman **MIDDLE ROW:** Andrew Kininmonth, Tim Bowron, Rex Moller, Glen Neal, Bruce Phillips, Shaun Sexton, Gavin Lowe, Hon Winnie Laban, Chris Daughney **BACK ROW:** John Howard, Blair Stevens, Michael Duggan, Brett Warwick, Michael Dowling, Adrienne Kenney, Matt Weston

01 Jennifer Johnson, Kordia Group CEO Scott Bartlett
02 Carol Cheng, Ginny Radford
03 Erana Doolan, Anne Candy, Mere Mangu
04 Procession at Ōrākei Marae
05 Simon Lockwood, Paul Barnett, Daniel Shore, Professor Neil Quigley
06 Group at Taranaki Branch
07 Hinerangi Raumati
08 Mavis Mullins, Paul Morgan
09 Vincent Pooch, Arron Perriam, Jane Cartwright
10 Sarah Ottrey, Sir Eion Edgar

Events diary

For more information contact iod.org.nz, the director development team or your local branch office.

Waitlists are operating for many of our courses. 2018 courses will be available soon, check our website for more information.

Webinars

Webinars provide access to expert knowledge on specific topics. Live webinars are facilitated by subject-matter experts, and themes from your questions and comments are addressed live during the sessions.

16 OCTOBER
Risk Agility for SME Directors
Respond quickly to a changing risk landscape, avoid becoming overwhelmed.

14 NOVEMBER
Risk Trends
This interactive webinar focuses on how directors can gain a better understanding of risks in their organisations.

AUCKLAND
OCTOBER

30
Governance Essentials

31
Eye on Asia

31
Digital Essentials

NOVEMBER

01
Strategy Essentials

02
Risk Essentials

03
Finance Essentials

07
Reporting to the Board

14
Board Dynamics Intensive

14
BRANCH EVENT:
Director Accelerator Lunch West Auckland

16
BRANCH EVENT:
Christmas Breakfast with Peter Beck, Rocket Lab

21
BRANCH EVENT:
Welcome Cocktails

21
Governance Essentials

22
Finance Essentials

23
Audit and Risk Committees

BAY OF PLENTY
OCTOBER

25
BRANCH EVENT:
Introduction to Finance in Governance with Paul Manning, Taupo

CANTERBURY
NOVEMBER

02
Digital Essentials

03
Reporting to the Board

09
Rural Governance Essentials, Oamaru

30
BRANCH EVENT:
New Members' Lunch

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A fundamental 5 day course for directors and senior executives working with boards.

29 OCTOBER
Queenstown

05 NOVEMBER
Wellington

12 NOVEMBER
Waiheke Island

19 NOVEMBER
Auckland

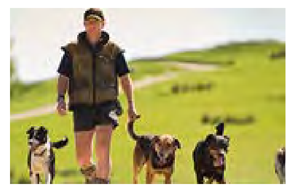
27 NOVEMBER
Non-residential
Auckland

03 DECEMBER
Queenstown

NELSON MARLBOROUGH

NOVEMBER

07
Rural Governance Essentials Nelson



07
Branch AGM and Christmas Dinner with guest speaker NZ Rugby Chief Executive Steve Tew, Nelson

TARANAKI
NOVEMBER

06
BRANCH EVENT:
Lunchtime Workshop
New Plymouth

WAIKATO
OCTOBER

24
BRANCH EVENT:
New Member Welcome Lunch Function

NOVEMBER

07
BRANCH EVENT:
CEO/Board Relationship Panel Discussion

24
Branch Christmas Function

WELLINGTON
OCTOBER

19
Lunch Function with Ross Buckley

NOVEMBER

21
Board Dynamics Intensive

23
BRANCH EVENT:
New Members – After-5 Welcome

30
Cybersecurity After-5 Event with Peter Bailey Manawatu

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boardroom

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