AUGUST/SEPTEMBER 2013

boardroom

Magazine of the Institute of Directors in New Zealand

FLIGHT PATH TO GOVERNANCE

PROTECTING YOUR BRAND

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FROM THE EDITOR

Directors may have become more strategic but they need to have a better grasp of risk, according to a recent McKinsey Global Survey. A snapshot of governance worldwide, the survey found that globally, boards are devoting a scant 12 per cent of their time to risk management – even less time than was surveyed two years. McKinsey's authors speculate that this is down to fading memories of the GFC.

In New Zealand recent jolts – literally, in the case of the Cook Strait quakes – and figuratively with a sharp blow to our dairy industry's reputation, have acted as wake up calls to the insidious nature of risk. It is inescapable, but it is how you manage risk that counts.

In this issue, you 'll find an article looking at how you can arm yourself against risk to brand and reputation, another on how you can test your business to see how much stress it can take. It's only when you can understand and manage risk that you can take advantage of its flipside – opportunity.

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

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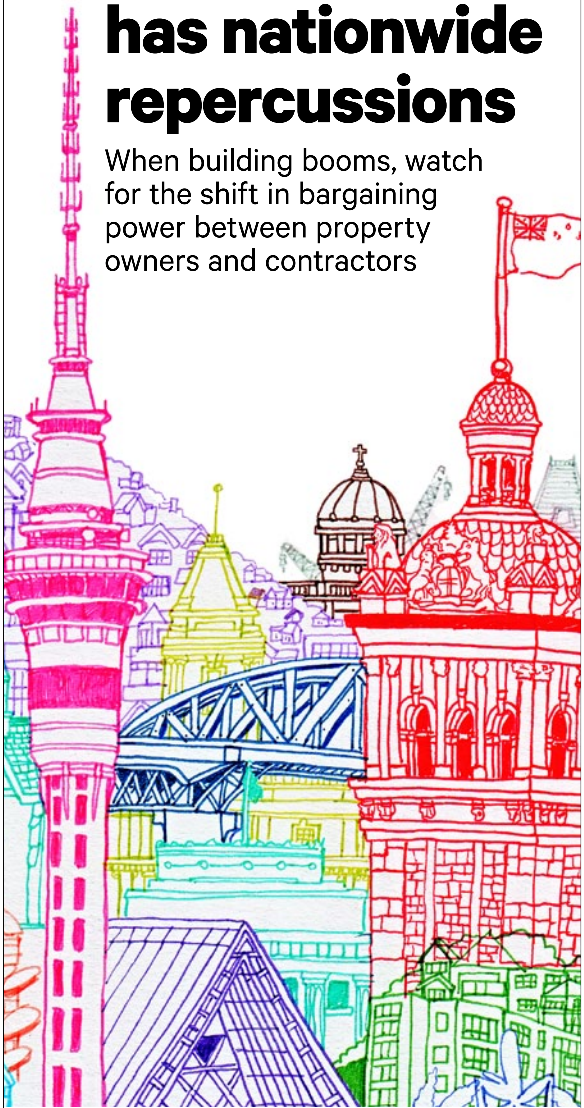
28 Rebuilding Christchurch has nationwide repercussions

When building booms, watch for the shift in bargaining power between property owners and contractors



INSIDE IoD

12 Flight path to governance

Rob Fyfe makes a safe landing with three of New Zealand's most eco-conscious organisations

17 Building a strong framework

Graeme Wheeler draws an outline of the Reserve Bank's role in governance and financial stability

CEO REPORT

Ambition, strategy and agility

You will be familiar with the expression "if you do what you have always done, you will get what you always got". You will also get left behind. All organisations face the challenge of refining and improving what they do to increase efficiency, productivity, profitability, market share and shareholder value. The IoD is no exception, says Dr William Whittaker

The IoD has been successful in a significant number of areas – director training, best practice advice, growth in membership numbers at a time of atrophy for many voluntary professional associations and has built a solid brand in its nearly 25 years of independent status. We are now a locally active, nationally coordinated and internationally connected organisation.

The time lapse between global transformations has followed a definite pattern over continuously shrinking epochs. Edie Weiner, keynote speaker at our inaugural IoD conference, talked about step-change transformation referring to historical milestones such as the agricultural and industrial revolutions that were separated by thousands of years.

More recently, the computer and automated ages have occurred over only a few decades. She has also argued that the period following the GFC was not so much a recession but another transformation that we will have to get used to. Adaptability and agility around identifying the need to change, and then doing it is therefore critical.

Relevance is key. Always has been, and always will be. So is sensitivity to the changing environment and customer intimacy. The IoD has a self-assigned public good role in its mission to raise the standard of governance in all areas of NZ business and society. It is also a member service and commercial products delivery entity, so the challenges are many and varied. We are not sole occupants of the governance marketplace and so must be faster and smarter than competitors. And at the same time we cannot compromise on our commitment to best practice. Both are mutually reinforcing and result in increased influence.

One associate of the IoD has described IoD as a sleeping giant. We have over 6,250 members but there is a huge market out there as there are more legally defined directors in this country than any other profession or trade community. The IoD has been addressing this through modification of its membership fee structure to encourage younger and emerging directors, the future directors, to join.

And, in terms of qualitative improvement we are an aspirational best practice organisation. In the last couple of years we have issued three useful and relevant guidance pieces – the latest version of *The Four Pillars, A Director's Guide* (in association with FMA) *The Good Governance Practices Guideline for Managing Health and Safety* (in association with MBIE).

Dr William Whittaker

The guideline has been very well received by the director community. Over 750 people attended roadshows around the country and we have been deluged with requests for conference presentations. The IoD has also contributed thought advocacy and programme development to enrich the diversity of the director talent pool with Mentoring for Diversity, Future Directors and the Aspiring Director Awards Series. All these should improve the pipeline of director talent. We have also recently announced a new course, Risk Essentials which will combine webinars and a workshop.

TWO FUNDAMENTAL CHANGES

The IoD is on the brink of step change with two major initiatives, the formation of a Commercial Board to guide the revenue-generating activities of director training and board services and the pursuit of professionalisation. The IoD is in a position to transform what can best be described as a trade community of huge size but variable quality into a more defined profession. We have the tools such as the New Zealand Director Competency Framework developed in 2012 and the determination to make quality count.

The Chartered Director programme is intended to offer directors who are committed to professionalism meaningful recognition for their experience and expertise. It is also intended to offer the market assurance of the quality of directors within the programme. The vision behind the programme is very much a long-term one to lift the game of directorship in New Zealand, both for existing directors and those in the pipeline. It is a significant change which is going to take some time and one that it is essential we get right.

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The Commercial Board's aim is to maximise opportunities for governance improvement across business and society. This will involve transformation from a somewhat reactive and resourced-constrained business model to one that exhibits entrepreneurial flair, courage and knowledge of the market to capture the potential that exists out there.

Members will benefit from both as the IoD seeks to cement a place as the centre of governance leadership, thought excellence and influence, and be dynamic in its complementary role as a service provider and market player.

Challenging times ahead.

Dr William Whittaker,
Chief Executive Officer (Acting)

Update

RECENT MOVES

Canterbury University Vice Chancellor Dr Rod Carr has been appointed Chairman of the Reserve Bank of New Zealand

Teresa Ciprian has been appointed to the board of AgResearch.

Northland-based director Greg Gent has been appointed as Deputy Chair of the Plant and Food Research board

Professor Juliet Gerrard has been appointed to the Plant and Food Research Board

Judith Stanway is Deputy Chair at Scion.

Dunedin-based chief executive Dr Helen Darling joins the ESR board.

Scan for the latest IoD News

New workshops will strengthen local governance

Next year, mayors, chairs and elected members of local bodies throughout New Zealand will be receiving professional development training from a suite of new Local Government New Zealand (LGNZ) KnowHow workshops developed in conjunction with the IoD.

Focusing on key governance, leadership and strategy skills for elected members, the workshops are part of an LGNZ and IoD partnership aimed at improving governance and performance in local government.

Through the partnership, mayors, chairs and elected members will also be able to build on their current skill set and strengthen their collective governance abilities using the IoD's BetterBoards appraisal tool.

The workshops stem from an agreement signed at the LGNZ conference in Hamilton last month. Signed by the President of LGNZ, Lawrence Yule, and the Waikato Branch Chair, Margaret Devlin, on behalf of the IoD, the initiative aims to raise the quality of governance in local government.

"The IoD is excited to be involved with LGNZ and we look forward to the synergies that are likely to come from the relationship," said Ms Devlin.

"While local government has much to be proud of, we are focused on new initiatives to improve sector performance and effective governance is a key component of that," Mr Yule said.

If you would like to find out more please visit www.lgnz/knowhow.

New commercial board appointed for IoD

The IoD is pleased to announce the appointment of the Commercial Board

Appointed to over-see and grow the commercial arm of the IoD (Director Development and Board Services) the board comprises of eight directors. Six will have decision-making rights, the other two positions will be held by Stuart McLauchlan as IoD President and the new CEO of the professional/membership branch of the IoD who will assist with advice and information.

'We're very pleased to have the governance structure in place, and to have attracted a very strong field of applicants for the directorships," said IoD President Stuart McLauchlan. "I have every confidence that we now have the means to build on the foundation already laid by Director Development and Board Services, and take them to a new level."

ON THE BOARD

The board includes three Council members: Ray Polson (Canterbury Branch Chair) who will be Commercial Board Chair for one year, Jim Donovan (Wellington Branch Committee member) and Margaret Devlin (Waikato Branch Chair).

INDEPENDENT MEMBERS

Brian Steele

A Wellington Branch Committee member, Brian has been running the branch's FirstBoards programme. He has a depth of experience among SMEs and start-ups. Brian has been appointed for two years.

Dr Alison Harrison

Alison currently has over 25 years of consulting and management experience in research and development, across a broad industry base, and in technology and education sectors. She is currently Executive Director, Strategy and Analysis, at the Open Polytechnic of New Zealand. Alison brings education and training expertise to the board. She has been appointed for three years.

Rangimarie Hunia

Rangimarie is based in Auckland and is currently a director of Ngati Whatua o Orakei Whai Rawa Ltd and a trustee of Manaiakalani Education Trust. Rangimarie has been appointed for one year.

FUTURE DIRECTORS – NOW ONLINE

Future Directors offers New Zealand boards the opportunity to take some of the finest emerging talent into the boardroom. Boards gain a new perspective on topical issues such as social media, technology changes, sustainability and diversity. In return, emerging directors get the chance to sit on a board and take part in discussions.

If you are interested in taking part in the programme, either as a director or as a host board, please visit www.futuredirectors.co.nz

UNDER-40S – LAST CALL

If you are under 40, join the IoD before 30 September 2013 and pay no joining fee (usually $75). If you miss the special discount you will still qualify for the special under-40s fee of $250 including GST.

WRITE IT IN YOUR DIARY NOW

IoD Conference 15–16 April 2014

Following the outstanding success of this year's IoD conference we can confirm that we will be holding another conference next year in Auckland. We will keep you informed over the coming months on theme, speakers and potential sponsorship opportunities.

IOD BY NUMBERS*

6255	670	23.2%	$36,000
Members	Friends of IoD's Facebook page	Of respondents to the IoD Directors' Fees Survey were women compared to 18.8% in 2012	Median directors' fee for a non-executive director

* Correct at time of publication

FLIGHT PATH TO GOVERNANCE

You're one of New Zealand's most charismatic chief executives. After running the national airline for six years do you (a) join Sir Richard Branson's Virgin Airlines, (b) return to telecommunications, banking or television, from whence you came or (c) dive into the world of directorships? If you're Rob Fyfe, the answer is (c). Sharon Stephenson catches up with him in London

In a move that defied all predictions of a top job in aviation overseas, since leaving Air New Zealand in December last year, Fyfe has dived headlong into the governance pool. First up was trilogy, the Wellington-based skin-care company, followed by Kiwi outdoor clothing brand Icebreaker and, earlier this year, Antarctica New Zealand.

Last month, Fyfe announced he was stepping up his responsibilities at Icebreaker to become the Executive Chairman in September.

"I feel privileged to be able to contribute to the next phase of the Icebreaker journey," says Fyfe.

"The story to date has been one of great vision, passion and belief in the merino story. But now, stimulated by success, competitors are piling into the merino category and Icebreaker must adapt and accelerate its growth and expansion to maintain its leadership position. I'm incredibly excited by the challenge to help get Icebreaker to the next level."

Photography Dean Whiting

When we talk, the 52-year-old has just returned from Mexico, where he's spent the past fortnight. Prior to that, he was in Bolivia and Peru, ticking off yet another item on his bucket list, walking the Machu Picchu trail. It's part of a year-long sabbatical and so far Fyfe hasn't been idle, also spending time in South Africa, Melbourne (where his son is at university), and Europe, the latter made easy by the fact that for his year away from the corporate trenches, he's based in London.

Relaxed and enjoying the capital's heatwave, he says, despite predictions, he always intended stepping away from the aviation industry.

"I loved my time in the industry and am proud of what we achieved at Air New Zealand. And while I have enormous respect for Richard Branson and find him stimulating, innovative and visionary, ultimately my passions and future lie in New Zealand. I want to help companies reach world-class levels of performance from New Zealand, similar to what we did with Air New Zealand."

For a man whose CV reads like a 'who's who' of big business – Air New Zealand, Telecom, ITV, National Australia Bank, BNZ – Fyfe admits he didn't have an end-goal after his retirement.

"To be honest, I didn't really seek out directorships. My goal has been to look at opportunities where I can make a contribution and a difference to New Zealand. Following my contribution to so many New Zealand organisations, companies like Icebreaker and trilogy represent the next generation of potential Kiwi icons, so that's why it was a no-brainer to say yes."

Ditto the Antarctica New Zealand directorship which aligns with Fyfe's green sensibilities.

"Air New Zealand whetted my appetite for the power and potential of what we can achieve as New Zealanders embracing our identity and what this country has to offer the world..."

"It brings together two of my great passions – the environment and adventure – as well as my belief that New Zealand can have a big influence in the Antarctic community, particularly in terms of ensuring the world can learn and benefit from a greater understanding of this amazing, unique environment."

The man once dubbed 'Fyfe the Knife' because of labour restructurings, axing of loss-making routes and cut-backs at Air New Zealand that turned the behemoth into a lean, profit-making machine, is well used to a challenge.

It's why he's finding the move into directorships interesting. He says that he did, after all, learn from one of the best.

"I had a fabulous role model in John Palmer, the Chairman at Air New Zealand. John is a man of the highest integrity and was always clear on the role of the board vs management. He was always demanding and challenging, while nurturing an inclusive style that allowed everyone to have a voice, but at the same time ensuring accountabilities, responsibilities and performance expectations were unambiguous and at the forefront of everyone's mind. My ten years of working with, and observing, John gave me the best possible education for understanding the differences between management and directorships."

So what does he believe is essential for good governance?

"The primary quality is trust, which is only present if there's open honest, effective two-way communication. At Air New Zealand there was a very comprehensive flow of information to directors. In addition to monthly board meetings, committee meetings and associated papers, directors received a regular weekly email update from me or my deputy on any strategic issues of importance or operational issues of interest and were copied in on all staff and media communications. Directors also spent time working out 'on-line' alongside employees to help build their understanding of the business and often sat in to observe management committees and assess their effectiveness."

Fyfe is also a big fan of clear accountabilities and performance targets that are monitored, reviewed and discussed openly. "This should include strategic and operational accountabilities along with clear standards of governance, ethics and compliance. Ditto good board processes ensure information and data is presented to enable effective and fully informed decision making."

The make-up of the board is also crucial to ensure the appropriate skills, experience, intuition and strength of character, along with a full understanding of responsibilities.

"If you have good governance, challenge, support and insight from the board combined with talented, ambitious and effective management who can develop and drive the performance of the business, then that's the key to optimising the potential of the enterprise."

Fyfe is adamant his role isn't to take Icebreaker, trilogy and Antarctica NZ in a particular direction, but to work with the board and management to stimulate teams to explore all the possible strategic options and choices.

"That way, we can identify the best strategic path for the business and ensure we clearly define accountabilities and performance expectations in pursuit of this pathway. At the same time we should maintain the highest standards of corporate governance, regulatory/legal compliance, ethics and market/investor relations as we pursue this strategy."

It's quite a journey from Christchurch's Avonhead where Fyfe grew up, the middle of three boys. His father was a sales rep, his mother a secretary at the local primary school. While money wasn't plentiful, love was and his parents passed onto their sons the value of hard work and dedication.

Fyfe's working life started at 14 when, desirous of a motorbike, he worked every holiday in a plastic factory as a machine operator. After Burnside High, where Prime Minister John Key was a year behind him, Fyfe went into the RNZAF on an office cadetship to do an engineering degree at Canterbury University. It was, he believes, the ideal platform to develop his capability to challenge, innovate, model and problem solve.

Oddly for someone who claims he's never had a driving ambition and still finds himself wondering "what he wants to do when he grows up", Fyfe's career trajectory was swift: after ascending through the ranks at the RNZAF, he moved into the corporate world, littering his CV with titles as varied as Project Manager, General Manager, Chief Operating Officer, Managing Director, Chief Information Office and, finally Chief Executive.

It was the latter role, at Air New Zealand, that really cemented his profile. He was credited with turning the fortunes of the ailing airline around, introducing new more fuel-efficient long-haul planes and ensuring the airline was profitable, even while many of its rivals lost billions.

He has no regrets about leaving when he did and says he's comfortable "searching for that next opportunity that captures

"If you have good governance, challenge, support and insight from the board combined with talented, ambitious and effective management who can develop and drive the performance of the business, then that's the key to optimising the potential of the enterprise."

my imagination, challenges me and allows me to continue to learn and grow".

"At my core, I'm an explorer, I've always been inquisitive, wanting to understand how and why things work the way they do and looking for new, different, better ways to make things work. While my career has traversed many different industries and countries, the common theme has been working with businesses that have major issues or have been prepared to fundamentally redesign and/or challenge the direction of the business."

Fyfe says he's looking forward to starting another chapter next year: "'I don't know yet what it what it will be, but I know it will be in New Zealand, it will be a brand and a business that I'm passionate about and a business I believe can be transformed into a fundamentally higher level of performance and achievement. Air New Zealand whetted my appetite for the power and potential of what we can achieve as New Zealanders embracing our identity and what this country has to offer the world..."

THE GREENING OF ROB FYFE

"*I'm deeply passionate about the environment. I spent much of my youth tramping in the Southern Alps and have a strong sense of a responsibility for passing on our land and environment to the next generation of New Zealanders in the best possible shape. It concerns me that here in New Zealand we too often take the natural beauty and integrity of our environment for granted.*

At Air New Zealand we set out to lead the airline industry in first acknowledging the impact flying has on the environment, producing 2–3% of global greenhouse gases. We then sat at the forefront of industry initiatives to reduce fuel burn and environmental impact from the testing of biofuels to the introduction of more fuel-efficient aircraft, operating the aircraft more efficiently and reducing the weight of aircraft. Sustainability, recycling and energy efficiency have become a priority focus throughout all aspects of the business from aircraft operations to head office.

As Executive Chairman at Icebreaker I'll be working with founder and CEO Jeremy Moon to continue to build on the foundation Jeremy has created. Icebreaker is committed to building a product with deep integrity. It's not only about a renewable natural fibre as the raw material – it's about everything that happens to that fibre as it's being transformed into a garment.

It starts with the growers who are required to meet strict standards regarding land management, animal welfare and wool quality. The supply chain is then set up to ensure all manufacturing partners meet ethical and social standards based on clean manufacturing technologies, fair treatment of workers, and garment quality. While these decisions result in Icebreaker incurring a manufacturing cost premium over many of our competitors, we believe these decisions authenticate the value people attribute to the Icebreaker brand and the quality of the Icebreaker garments they wear.

That said Icebreaker, like Air New Zealand, isn't perfect and we are constantly looking for new innovations and improvements where we can further reduce our impact on the environment, while meeting the needs of our consumers.

We aim to build the cleanest clothing company on the planet, and I love that our roots trace back to merino wool sourced from the Southern Alps which has been such an iconic part of my life."

ROB FYFE


MUSEUM
MUSEUM

Building a strong framework

Reserve Bank Governor, Graeme Wheeler outlines the Reserve Bank's role in creating a stable financial platform and encouraging sound practices

Graeme Wheeler, Reserve Bank Governor

Over the last few years, the New Zealand financial system has faced three extraordinary challenges: the global financial crisis, finance company failures and the Canterbury earthquakes. These exposed the vulnerability of different classes of financial intermediaries, including insurance companies and non-bank deposit takers (NBDTs). They have led us to strengthen the regulatory framework around the financial system and take on additional regulatory responsibility.

Over the past five years, the Reserve Bank has become the regulator for the insurance and NBDT sectors, and the supervisor of the insurance sector. The existing banking regime informed the development of the corresponding legislation, although some differences exist in each sector. Directors and boards play a critical role in overseeing the stewardship of their organisations in all cases.

THE IMPORTANCE OF FINANCIAL REGULATION

The prudential regulation introduced, developed and embedded in New Zealand and across the world over recent years has two basic purposes – to mitigate externalities within the financial system and reduce information asymmetries between financial institutions and their customers.

Externalities, or the social cost stemming from a commercial activity, provide a compelling reason for regulatory intervention, as they can lead to systemic risk. The interests of financial institutions and their shareholders can differ widely from those of society at large. Bankers, for example, face incentives to increase leverage and risks in the expectation of achieving higher returns, without bearing all the costs if things turn out badly. Financial institutions, banks especially, are interconnected, meaning the failure of one can spill over to others and damage the financial system, public confidence and the wider economy.

Information asymmetries – where one party to a transaction has better information than the other and can use that to their advantage – may also provide a need for regulatory intervention. Market participants, especially individual firms and households, don't have anywhere near as much information about the quality of a bank's assets or an insurer's claims book as its managers do. Mandatory disclosure requirements in areas such as solvency and financial strength aim to overcome these information asymmetries and help people to make informed decisions.

GOVERNANCE IS A CRITICAL PART OF OUR OVERSIGHT REGIME

Our regulatory approach rests on three key pillars: regulatory discipline, market discipline and self-discipline. The latter recognises the critical role of management in upholding prudential standards and our approach provides incentives and sanctions to strengthen this discipline. Influencing corporate governance standards is one of the tools we have to achieve this.

> ***Our minimum requirements reflect the diversity in the sectors we regulate. For example, some insurers are very small, with annual gross premium income of less than $1.5 million. We cannot therefore impose a uniform set of standards that will be fit for purpose for every entity in a sector.***

Strong corporate governance defines relationships and accountabilities within the organisation and with key stakeholders, and facilitates setting objectives, aligning interests, and monitoring risks and performance.

Given the Reserve Bank's objectives of maintaining a sound and efficient financial system and avoiding damage to the financial system that could result from the failure of an institution, governance forms a critical part of our oversight regime.

DISCLOSURE IS FUNDAMENTAL TO PRUDENTIAL PHILOSOPHY

Bank disclosure sits at the heart of our prudential framework for banking regulation and helps inform the markets of the risks associated with investing in a bank. Disclosure statements provide information on a bank's compliance with prudential obligations including capital adequacy, credit exposures, governance requirements, and liquidity management.

Director attestations are also an integral part of our framework. Directors must attest that the bank has systems and procedures in place to monitor and control the banking group's material risks. They are required to sign-off on their bank's compliance with its prudential obligations (imposed through conditions of registration). These directors' attestations strengthen the incentives for directors to oversee, and take ultimate responsibility for, the sound management of their bank. Where there is non-compliance with disclosure requirements, directors and the chief executive can face civil and criminal penalties, including fines and imprisonment.

Although disclosure is a fundamental tenet of our prudential philosophy, disclosure requirements for insurers and NBDTs are implemented through existing regulatory arrangements. This helps to minimise the compliance costs to entities.

A TAILORED APPROACH TO CORPORATE GOVERNANCE

In recent years, we have expanded our corporate governance requirements, and aligned them with international norms. We impose standards for board composition and committees appropriate to each sector. For example, since 2010, banks have been required to have a minimum board size of five, the majority of directors to be independent, the majority of those to be ordinarily resident in New Zealand, and the chair to be independent.

Our minimum requirements reflect the diversity in the sectors we regulate. For example, some insurers are very small, with annual gross premium income of less than $1.5 million. We cannot therefore impose a uniform set of standards that will be fit for purpose for every entity in a sector. Rather, we expect the number of directors, as well as their skills and background, to reflect the size and nature of the business. We assess the sufficiency of an entity's governing body on a case-by-case basis.

Independence is also critical for effective governance and this is reflected in our requirement across regimes that a board have independent directors (half in the banking and insurance sector, and at least two in the NBDT sector). Directors should ensure they are free of any associations that could materially interfere with the exercise of independent judgement.

SUITABLE AND FIT FOR PURPOSE

As the board and management hold the primary responsibility of ensuring an entity is suitably managed and directed, directors and senior executives must have integrity and suitable qualifications and experience. Unlike some regulators, we do not approve board or senior management appointments. The onus of selecting suitable directors remains with shareholders and the board for senior management appointments.

The approach to assessing suitability is tailored for each sector. In the banking sector, the Reserve Bank reviews the curriculum vitae of every proposed candidate before appointments are made and supplies a notice of non-objection if no suitability concern is raised.

By contrast, in the insurance sector, we assess the adequacy of an insurer's fit and proper policy rather than the candidates directly. Once this policy is approved, a licensed insurer must have regard to it when considering applicants for senior management and board positions and should re-evaluate their suitability on an on-going basis. The Reserve Bank can remove people it considers are not fit and proper for their position.

In the NBDT sector, the approach proposed by the NBDT Bill will require an NBDT's governing body to certify that senior officers do not raise suitability concerns and directors to self-certify that they are suitable. There are criminal offences for a false certification and failing to notify the Bank of a suitability concern.

Although the directors must each meet the requirements of fitness and propriety, as our concern is a prudential one, we also place emphasis on the competence of the board as a unit. Collectively it is expected that the governing body will have a full range of skills, knowledge and experience to run the entity and its operations.

Strong internal processes also promote sound governance. We emphasise the importance of an independent audit committee to review the effectiveness of an entity's financial reporting, internal audit and risk management framework.

STEPPING UP ENGAGEMENT TO ENSURE SOUND PRACTICES

We have increased our engagement with bank management in recent years, in particular with independent directors and auditors. These meetings provide us with important insights into a bank's financial position and the pressures coming to bear on individual institutions. We are currently developing our engagement strategy for insurers as they transition from provisional to full licenses and become subject to the set of prudential obligations and oversight associated with that license.

Engagement is also an important aspect of our consultation process on proposed policy changes: we seek frank feedback to ensure that regulation is responsive and appropriate – both philosophically and practically.

MAINTAINING STABILITY IN TIMES OF CRISIS

Our outsourcing policy is a key feature of the banking regime. It aims to ensure outsourcing arrangements do not create risk that a bank's operation and management may be interrupted due to the withdrawal of key functions in times of crisis. As issues associated with outsourcing arrangements may only manifest during crisis periods, this policy is important to achieving our financial stability objective. An extension of our outsourcing focus is being considered for the other sectors we regulate.

Going forward we remain particularly keen to have sound policies in place to manage distress in the market. To this end, banks have been required to preposition their internal systems to implement an Open Bank Resolution (OBR) that will allow a distressed bank to be kept open for business, while placing the cost of a bank failure primarily on the bank's shareholders and creditors, rather than taxpayers.

We are currently evaluating the Reserve Bank's oversight of governance in the payments system.

WHERE TO FROM HERE?

Looking to the future of corporate governance in the financial sector, we will continue to focus on providing minimum standards that promote soundness and efficiency while maintaining industry accountability. We will continue to engage with boards of directors and senior management within banks. With all insurers required to be fully licensed by September, we are developing our supervisory 'business as usual' approach, with management engagement a key focus. Once the NBDT Bill comes into force, we will commence our oversight of the suitability of senior officers and board members in that sector.

As effective management underpins our objectives for the financial system, we look forward to continuing to engage with industry as we develop policy that empowers and encourages directors to act in the best interests of the entities they oversee.

Going shopping?

Robin Cockayne and Wayne Norrie worked together at Hitachi Data Systems in the late 1990s. They had a clear vision of the direction they could take the company, and started the management buy-out (MBO) process in 2002. Acquiring a controlling interest in 2005, they relaunched the company as Revera. This year, the cloud computing company was sold to Gen-i for $96.5 million. Management buy-outs do sound attractive but what should be on the checklist if you're looking to buy the business? By Brian Steele

MANAGING THE OWNER'S WILL TO EXIT IS CRUCIAL TO CONCLUDING A DEAL

The advantage that an MBO team has is that it should understand both the opportunity and how the company is addressing it under its current ownership. It should further understand the motivations of the owner, and its drivers. While managers will fulfil their fiduciary duties to their employer, they may also determine that the natural home for the company may be outside the current ownership. This can relate to timing in the economic cycle, a change in parent company personnel, a different approach to product suite in the market, or a desire to move in different directions.

KEEP THE RIGHT TEAM

Working with a strong team with complementary skills is not only fulfilling but can also be rewarding. Coverage of the key executive roles may already exist, but could be enhanced by a targeted addition. Management can benefit from advisors refining the proposition and undertaking the approach to preserve the employer/employee relationship, as well as minimising the distraction of needing to focus on running the company through the transaction. Selecting ongoing guidance from experienced external directors should add comfort to the process and ease the access to capital – either from their own sources or providing the credibility to the managers/company to raise it. Don't forget that the funders – whether debt or equity – are a vital part of the wider team.

LOOK AT WHAT'S UNDER THE HOOD

You need to understand the numbers, and the risks around the numbers from contract expiry and other ills. Funders will want three to five years of detailed monthly cashflow projections. There develops an interesting tension between the price you can buy the business, to the level you can fund it. In a management buy-out, managers are also unlikely to receive much support in terms of vendor warranties, so you need to be confident that you know what is under the hood. Third party debt funders will meanwhile require debt covenant and a level of security. This can vary through economic cycles, but generally has a negative correlation with the purchase price.

REWARDING PERFORMANCE

In addition to changing emphasis or go-to-market strategies, management has the opportunity to utilise remuneration to reward performance. This applies to their situation as well as the next tier of management. Managers may be open to taking up the opportunity to earn more through performance, and could be open to equity (Securities Act advice maybe required).

TWO-STEP BUY-OUT

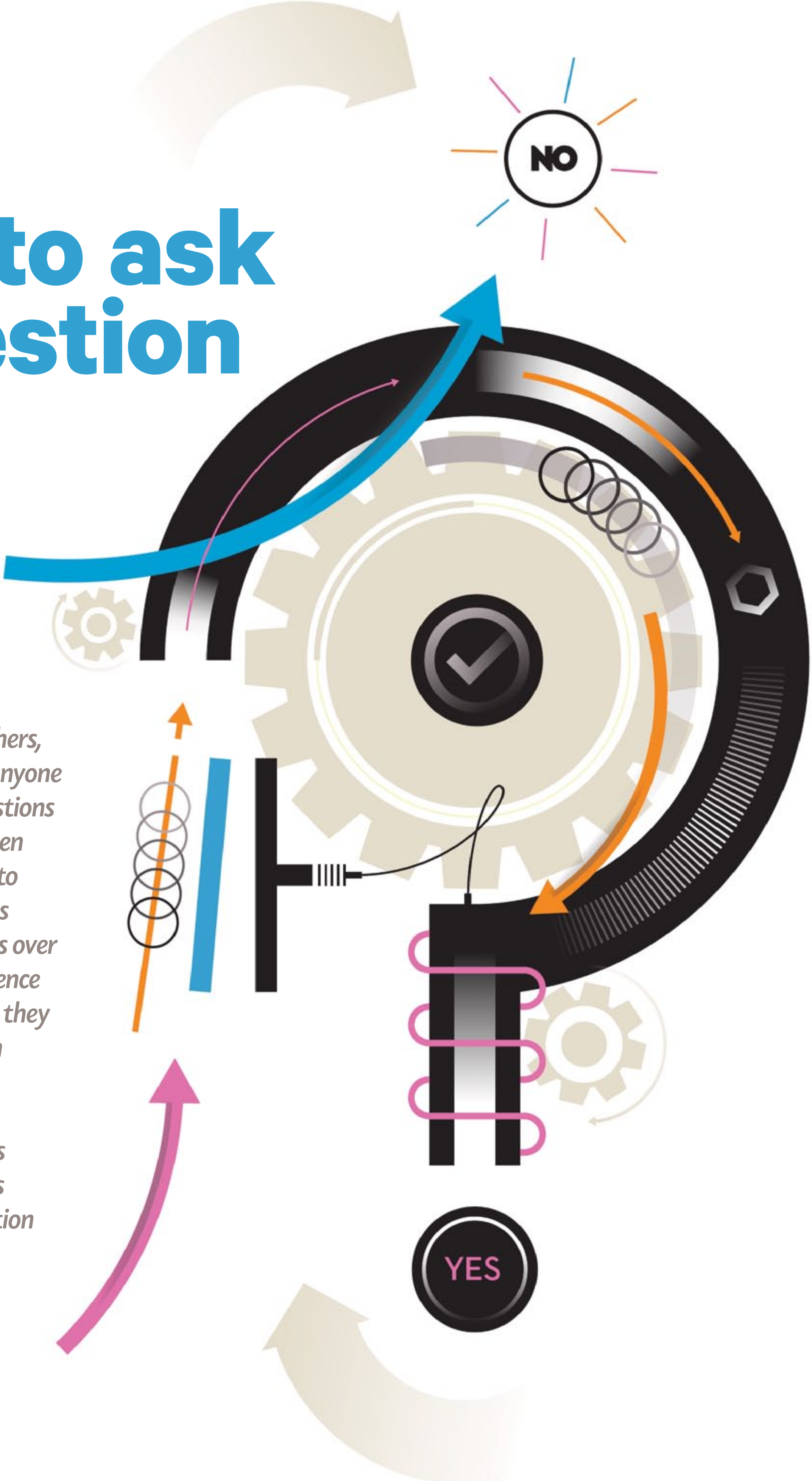
A number of transactions have also been performed where a major shareholding is first acquired by management, with a deferred opportunity to complete. The advantage of such an arrangement is that it is easier to finance for management, and the vendor may receive an uplift on the final tranche. Ideally management will want to gain control, and should be willing to entertain a higher-priced second portion for the privilege.

CHECKLIST

- understand the business
- motivate the vendor
- get the best team
- determine structuring options
- provide for contingencies

Brian Steele is the executive director of Shoreline Partners Limited which specialises in corporate finance including management buy-outs.

How to ask a question



Like journalists, researchers, recruitment agents or anyone tasked with asking questions for a living, directors often need to dig deep to get to the heart of a matter. As we've seen in court cases over recent years, it is no defence for directors to say that they assume the information they have received from management is correct. Sharon Stephenson asks professional questioners how to get the information you need

Illustration Leandro Castelao

According to management consultant James Dawson, asking a good question is one of the hardest things to get right.

"Good questions do a number of things: require an answer, prove thought, uncover facts, persuade people to a course of action, defuse a heated situation, build stronger relationships and focus the conversation," says Dawson.

"It's like the old saying, garbage in, garbage out. If you ask the wrong questions, you'll probably get the wrong answer or, at least, not the one you were hoping for. Some executives make the mistake of assuming all is well if they're not hearing bad news. This is a mistake because it could mean employees are afraid to offer up anything but good news, even if it means stonewalling. By asking the right questions in the right way, you'll be able to dig for details and get the whole picture without straying into recriminations. Because, remember, problems with the team are, first and foremost, your problems."

So how do you ask questions in a way that ensures you extract the right information at the right time?

It's an issue Pamela Fleming, the Director of Wellington-based The Media Training Bureau, deals with daily. Fleming helps people get their message across in the media and in presentation situations, and says the key to asking a good question is research – and knowing what you don't know.

"It's important to be clear about the gap in your knowledge before you pose the question. It's also critical that you ask open, rather than closed questions, because open questions help to generate discussion and yield insight. They generally begin with the 5Ws and an H – What, Where, When, Why, Who and How."

For example, instead of asking, 'Are you happy with the results?' you might ask 'Why do you think you got the results you did?" The first question can only be answered with a 'yes' or a 'no' but the open-ended question invites reflection and starts a dialogue.

One thing Fleming does caution clients about is being careful when asking 'Why' questions as "too many can come across as confrontational".

"The interview is a dialogue, not an interrogation, so be prepared to put your line of questioning in context."

Former TVNZ reporter, Jen Nolan, says experience has taught her you catch more flies with honey.

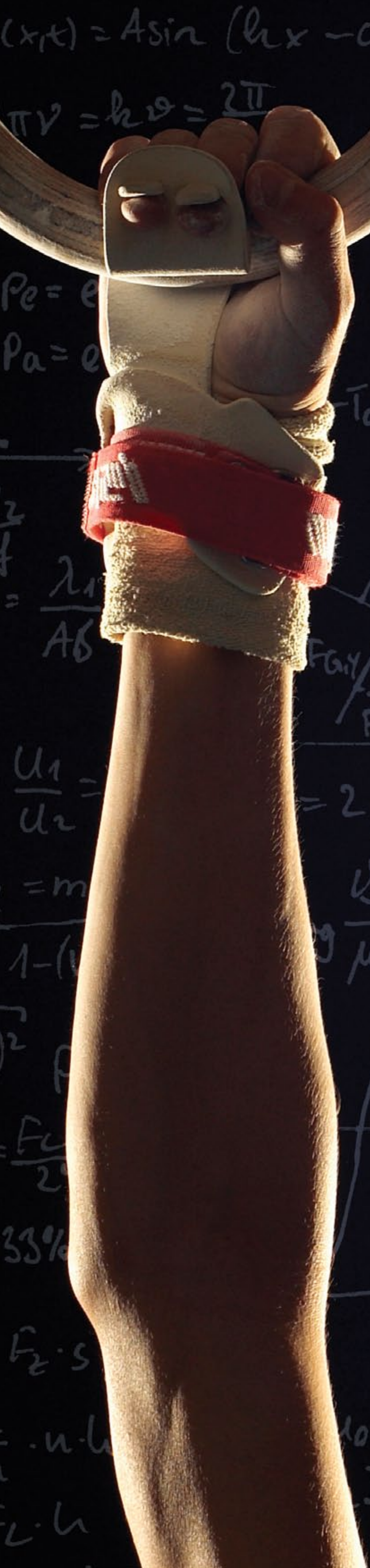
"You're seeking information to fill a gap in your knowledge and this person may have the answer, so be polite and engaged. When you ask a question, use positive facial expressions and body language, because that encourages the person to reveal information that could be critical.

> *"The interview is a dialogue, not an interrogation, so be prepared to put your line of questioning in context"*

"You want to make the other person as comfortable as you can to ensure that you're heard and that the purpose of your question is understood. So ask questions that help the other person understand his/her options, other points of view and what he/she she could do differently."

Having lost count of how many politicians and business heavyweights she has interviewed over the years, Nolan says her key interrogation rule is never ask a question you're not willing to answer.

"I think it's important to never lose sight of your humanity and to remember that most people intend to do the right thing and actually prefer to be honest. You just have to offer the right opening for them to do that..."



How resilient is your company?

Engineers routinely use stress testing to assess the strength of buildings, bridges, towers and dams, and to help determine the structural design required to ensure resilience to specified magnitudes of physical shocks or pressures. But, Geof Mortlock says, stress testing can be used on other businesses

Stress testing gained prominence in the financial and business sectors during the global financial crisis (GFC). Although the International Monetary Fund (IMF) and some countries' regulators undertook financial stress testing before the GFC, it has since become a much more commonly used tool.

Within New Zealand, many financial institutions now regularly use stress testing to evaluate the potential impact of economic and financial shocks. However, stress testing is just as relevant a tool in other business sectors.

TYPES OF STRESS TESTING

Stress tests can be applied to a country's financial system (or any business sector), to individual financial institutions and businesses, particular categories of loan portfolio. Stress testing can be done using various techniques, but typically fall into three categories.

Scenario-based Stress Testing

This would typically involve selecting an assumed set of economic conditions and then evaluating the potential consequences for the financial system or business sector and individual entities within it. The scenario will depend on the circumstances, but could typically include:

- a substantial and sustained fall in economic output – as with a deep and prolonged recession
- a substantial fall in real incomes across all or most sectors of the economy
- a substantial rise in unemployment
- movements in interest rates and exchange rates consistent with the scenario chosen.

The impact of the scenario is assessed using data drawn from economic models and loss calculations provided by financial institutions or other business entities. Usually, a stress test of this nature requires a number of iterations to take into account the impact of institutions' responses to the scenario and the flow-on effects of these, that is, second round effects.

Scenario-based stress testing can test for a number of potential vulnerabilities, such as the impact of the scenario on a financial institution's asset quality and loan losses,

the impact on revenue and costs (and therefore profit), the impact on capital, and the impact on the liquidity of a financial institution and its ability to meet its financial obligations as they become payable.

Scenario-based stress tests can just as readily be applied to other businesses. Harsh but plausible adverse scenarios could be devised to stress test companies operating in the construction sector, rural sector, retail sector, for instance. Scenario-based testing can also focus on regional or industry factors, such as an economic downturn affecting a particular region or industry. Scenario testing can also be based on assumed physical events, such as the economic and financial impact on a company or industry as a result of an earthquake, flood or volcanic activity.

Sensitivity Analysis

Another form of stress testing is sensitivity analysis to particular financial shocks. This typically does not involve the use of an economic scenario. Instead, it assesses the likely impact on a business' profit, capital and liquidity as a result of specific financial shocks. These might typically include:

- a specified increase/decrease in the level of interest rates and/or a change in the slope of the yield curve (ie the relationship of short-term to long-term interest rates)
- a specified increase/decrease in particular exchange rates
- a specified fall in certain categories of asset prices such as residential property, commercial property, or rural property
- the failure of a major counterparty (for example, buyer or seller) on whom the entity being stress tested has a particular dependency, or the failure of a related party such as a controlling shareholder
- a liquidity shock – the inability to obtain funding for x days or weeks and/or an increase in the normal rate of withdrawal of funds over a given period.

Although not as comprehensive as scenario-based stress testing, sensitivity analysis provides valuable insights into the potential economic and financial consequences associated with specified financial shocks. It thereby helps a company's board and management to assess the adequacy of its risk management structures, such as exposure concentration limits, supplier dependency, level of capital and liquidity buffers.

Reverse Stress Testing

Scenario-based stress testing and sensitivity analysis are used to evaluate the consequences arising from defined economic and financial shocks. They make no starting assumption as to the extent of financial damage that may result from the economic or financial shock chosen for the stress test.

A different form of stress test does just the opposite; its purpose is to evaluate the type, magnitude and duration of economic or financial shock needed to result in a business failing (that is, being unable to meet its financial obligations as they become payable and/or having negative capital). This is called reverse stress testing. It is also sometimes referred to as tipping point testing.

In the case of a bank, a reverse stress could be used to assess how big a fall in asset prices, coupled with a rise in unemployment/fall in incomes, would be required to result in a bank's capital falling below its regulatory minimum or falling to zero. A reverse stress test could also be used to assess the magnitude of a liquidity shock required to cause a bank to be unable to meet its financial obligations without recourse to central bank support.

Reverse stress tests are just as relevant to other types of businesses. A reverse stress test could be used to assess the level of fall-off in building construction activity, or the increase in funding costs, required to cause a construction company to default on its financial obligations. It could also be used to assess the extent and duration of decline in dairy prices required for specified categories of dairy farms to become insolvent.

Reverse stress tests are a useful way for a board and management of a company to better understand the resilience of their firm to extreme shocks and to assess the adequacy of risk management arrangements in that context.

Stress Testing in the Risk Management Process

Stress tests should be seen as an important tool in the risk management process of any business. Used effectively, stress tests play an important role in evaluating the adequacy of key risk management parameters and in assisting the board and management to periodically recalibrate these parameters. Stress testing can be very helpful to boards and management to assess the adequacy of their company's capital level, credit risk concentration, quality of lending policies, reliance on key suppliers, exposures to particular sectors or regions, and exposures to related parties. It can also enable a board and management to assess the adequacy of a company's liquidity buffers, for example, its level of liquid assets or readily liquefiable assets, and its access to standby facilities.

Stress tests also provide a good opportunity for a board to engage with management on some 'what if?' scenario strategic thinking. It is often through this kind of process that directors develop a deeper understanding of the dynamics of their company's business, the kinds of risks the company faces, and the strategies for dealing with adverse scenarios.

Geof Mortlock specialises in financial sector regulation, prudential supervision, governance, risk management, stress testing and recovery and resolution planning. www.mortlock.co.nz

On the same page

Professional directors sit on a wide variety of boards – listed companies, SOEs, co-operatives, not-for-profits and iwi trusts. That's a very broad spectrum of shareholders. Why then, would you communicate with each group in precisely same way?

At the IoD's national conference earlier this year, Sir Mark Solomon told a story about trying to get accounting terms such as EVA (economic value added) and WACC (weighted average cost of capital) across to the broad iwi shareholder base, many of whom had little knowledge of accounting.

To improve understanding, he asked for an explanatory document to be issued along with the report to iwi. It worked so well that at one meeting an 84-year-old woman stood up and asked Solomon why Ngai Tahu's WACC was 1 per cent too low.

It's a good illustration of the fact that in order for shareholders to be fully engaged in a company, they need to have the right information delivered in a way that is meaningful for them. Well-informed shareholders who know and understand how a company is performing not only help build trust in the board, but also develop confidence in the company. This, in turn, has a flow-on effect in the marketplace.

Well thought-out communication lines from board to shareholders are an effective strategic tool in building credibility.

Transparency and clarity, senior director Joanna Perry told the IoD conference, are fundamental to meaningful dialogue between board and shareholders. There are general principles that can foster this.

A starting point for good communications would be for directors to ask themselves – who are our shareholders, what are their needs, their risk appetite and what is the most effective and relevant way to communicate with them.

"This is the board's responsibility rather than management's," she says. "And to be most effective, we need to talk in the same language as our shareholders."

This could mean dropping business-speak and sticking to plain English in communications. A detailed annual report, for instance, will be irrelevant to shareholders if it is swamped with corporate jargon that few of your shareholders understand.

Communication should be regular and timely, she says, as it helps to foster a relationship and build trust.

Technology is your friend in this, with websites, email and social media all providing ways to deliver the message fast.

Effective communication, says Joanna, goes a long way towards mitigating risk. "It means that bad news is better understood and put into context. Directors are not expected to be infallible, but if you haven't got the trust of the shareholders then they are less likely to be forgiving."

The focus of communication with shareholders also matters, she says. While there is a place for updates on business as usual, Joanna believes that, "If engagement is to be transparent about maximising shareholder value, then communications should focus on strategy and future performance as these are the real drivers of long-term value for shareholders – not short-term matters.

Which brings her to those traditional forms of board/shareholder interaction, the AGM (or ASM) and the annual report.

START THE DIALOGUE

Joanna Perry recommends boards consider these points in shareholder engagement:

- discuss whether the current paradigm of board shareholder engagements works, and think about how to change our mind-set, practices and protocols
- think about how as a director you could take a more proactive role in delivering on shareholder engagement – it is NOT a management responsibility
- consider who your shareholders are and how they can best understand how the board is maximising their shareholder value
- ensure you have a shareholder engagement strategy and plan that addresses those needs in a transparent way
- think about how and when we engage and have the conversation about strategy and long-term sustainable performance
- think about how we put the historical, compliance oriented shareholder engagement in the context of the wider conversation rather than dominating it.
- revisit in every case the purpose/ relevance of the AGM and how we can deliver it better
- ensure shareholder engagement is a regular board agenda item.

"The current versions of the annual report and the AGM, our main forms of engagement, do not always deliver these principles of shareholder engagement."

"Questions you should be asking yourself about the AGM and annual report are: are they transparent? Delivered in the same language? Do they focus on strategy and future performance?" she says.

She believes that annual reports often have to satisfy too many purposes. "They have become a marketing tool aimed at stakeholders as well as shareholders," she says. "They look backwards, rather than informing shareholders on strategy, opportunities and risks."

One solution, she says, could lie in recent UK reforms aimed at simplifying yet strengthening non-financial reports so they are more readily comprehensible. From 1 October 2013, UK companies must produce an annual Strategic Report for shareholders. Rather than a business review of the year, the company tells its story, starting with the strategy and business model, followed by the main risks and challenges. There is also a human rights component as quoted companies are required to report on the number of women on their boards, executive committees and in the organisation.

Across the Tasman, the Corporations and Markets Advisory Committee (CAMAC) is digesting submissions from an extensive review of the AGM, annual report and shareholder engagement. Sample discussion points include whether there should be more formal guidance on how the members of a company's board engage with shareholders and whether annual reports contain too much clutter.

Technology, of course, could be the game changer, that could eventually sweep aside AGMs and Annual Reports. Most companies use websites, email and social media to keep shareholders informed. It is probably only a matter of time before annual report and AGMs are delivered entirely online.

Joanna Perry is Deputy Chairman of Genesis Energy and an independent director of TradeMe and Kiwi Income Property, The Co-operative Bank, Partners Life, Sport New Zealand, New Zealand Rowing and advisor to the board of Tainui Group Holdings. She is also chair of the Investment Advisory Panel of the Primary Growth Partnership and of the audit committee of the Victoria Auditor-General's Office, Melbourne. She holds an MA in Economics from Cambridge University and is a fellow of the Institute of Chartered Accountants of both New Zealand, and England and Wales.

*director***Vacancy** *noticeboard*

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

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

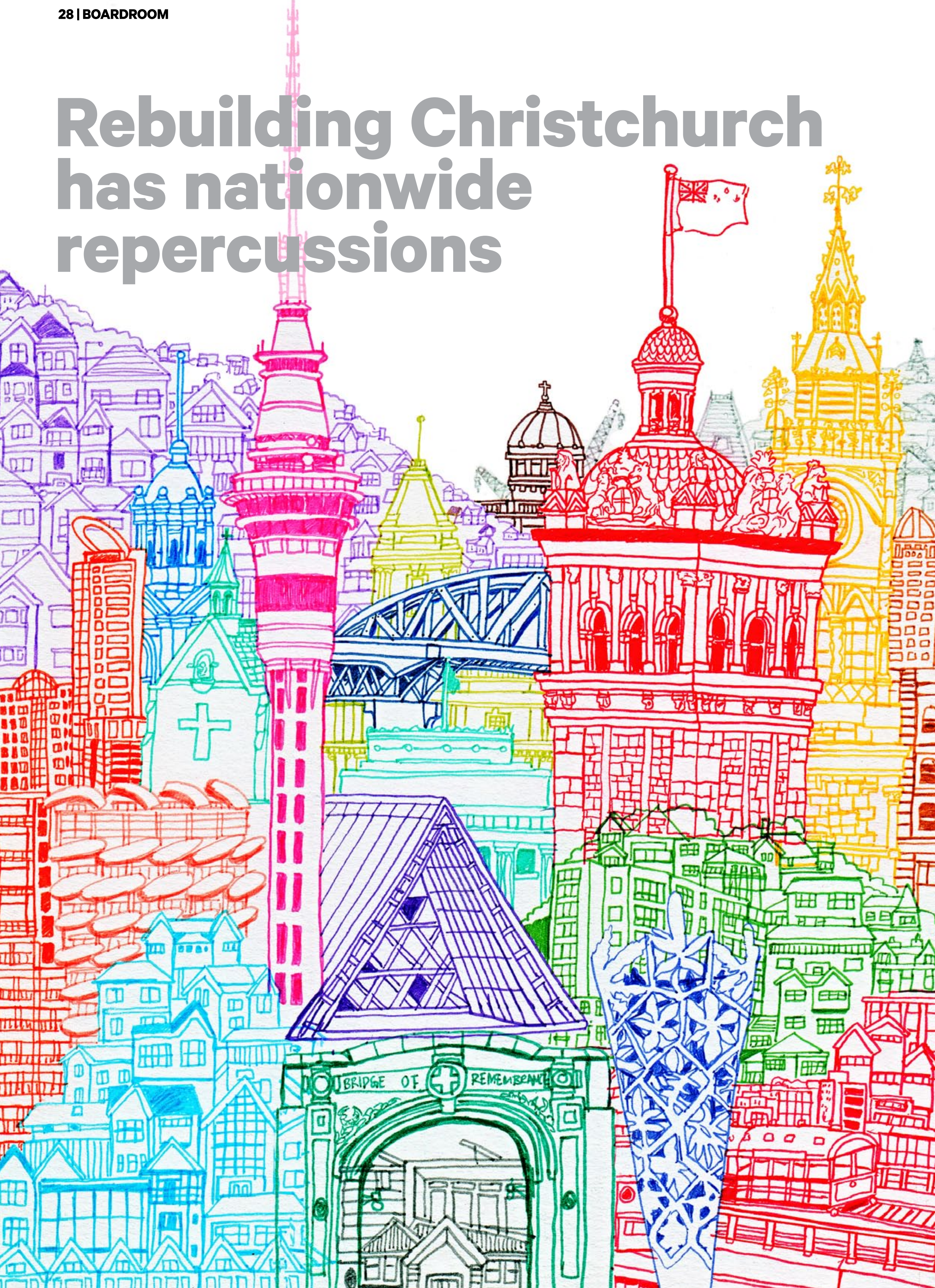
INFRACON LTD
Role: Directorship Expressions of Interest
Location: Tararua District and Hawkes Bay
Applications close: 31 August 2013

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

LANTERN HOUSE TRUST
Role: Independent chair and independent trustee
Location: Taranaki-based
Applications will remain open until the positions are filled.

NEW ZEALAND RIDING FOR THE DISABLED
Role: Board member
Location: Auckland or Christchurch
Applications will remain open until the positions are filled.

Rebuilding Christchurch has nationwide repercussions



The construction tsunami about to sluice though the economy may force property owners around the country into new contracting models if they are to attract their building contractors and consultants of choice.

Brian Clayton

Contractors are hungry at present as they have geared up for the Christchurch rebuild and that work is not yet flowing. Soon, however, these dynamics will be reversed and they will be inundated with work, which will shift the bargaining power of the parties.

It is even possible – perhaps even probable – that contractors may start declining to participate in traditional tendering methods with their high bid costs and no guarantee of success, because the market is going to be extremely hot.

BIS Shrapnel is projecting a $46 billion building boom in New Zealand over the next five years. Contributing factors include:

- high immigration, both foreign and local, into Auckland
- earthquake strengthening work in other population centres, notably Wellington, and
- repairs to leaky buildings (Auckland, Wellington and Tauranga).

But by far the largest contributor will be the Christchurch rebuild. This has been in 'hibernation' as insurance, land, consenting and funding issues have been worked through. However some important building blocks are now in place.

A major impediment to progress was removed in June when the Government and the Christchurch City Council agreed the cost sharing arrangements for the $4.8 billion spend on anchor projects in the Christchurch Central Recovery Plan and for the repair and replacement of the city's horizontal infrastructure.

And, the Council's accreditation issues notwithstanding, $940 million of consented works were in the pipeline at March 2013, up 50% on the previous six months. We are also starting to see private developers tie down key anchor tenants for their developments – typically a pre-condition to awarding a construction contract.

The cost of the total rebuilding effort – involving both public and private investment – has now been raised from $30 billion to $40 billion.

To manage this volume of work would need, by one estimate, around 27 companies the size of Fletcher Construction, yet we are going into it having lost one of our top tier operators with Mainzeal's descent into insolvency earlier this year.

The industry is looking forward to the challenge with a mixture of excitement and trepidation. A recent survey by AECOM quotes Davis Langdon New Zealand director, Trevor Hipkins, as saying:

"Although the peak of this work is anticipated to be at least a year or two away, we are starting to see some increased pressure on resources in the construction and property consultancy sector.

"The pressure will gather pace and we anticipate that building costs will start to increase significantly once the rebuild gets underway. This will also have a knock on effect on resources and margins throughout the country."

For property owners planning to build, this means either moving quickly to stay ahead of the demand surge or, if this is not possible, being prepared to engage in new contracting and procurement techniques.

A contracting option which is getting plenty of air time in Christchurch is **Early Contractor Involvement** (ECI) – an arrangement which, as the name implies, brings the contractor in earlier at the design stage. The appeal of this to contractors is that they can embed themselves in the project at an early stage – with the result that the construction contract becomes theirs to lose.

The main advantages to the owner are that it can help attract the preferred contractor, it fosters a collaborative working relationship and can potentially save time and money. The main disadvantage is that it may become very difficult for the owner to go to market for the construction contract if it is not satisfied with the contractor's price or schedule for the construction phase. Time would be lost, the market may not offer better terms and, in the meantime, the ECI contractor may become unavailable due to other jobs.

The key to success under the ECI approach is that the parties have a mindset of collaboration and acting in good faith.

The ECI approach sits well with the use of a **Building Information Model** (BIM). This is also being explored for use in Christchurch and involves the virtual construction of a building before it is physically built to give assurance that it will be fully fit for purpose.

The owner, its consultants, the contractor, proposed sub-contractors and suppliers all input important information into the BIM, including design, engineering, materials, equipment (right down to the manufacturer and part number), quantities and pricing data. Developing a BIM is a complex exercise but can reduce the risk of cost over-runs or of unanticipated problems emerging during the building's construction and also later during its use.

It will be interesting to see how the construction sector in New Zealand copes with the vast amount of construction work that will come online over the next few years. Bargaining power will shift to contractors, and savvy owners/developers will appreciate this and will be thinking ahead of strategies to deal with it.

Brian Clayton is a partner in Chapman Tripp specialising in procurement, construction and infrastructure projects. He has significant local and international experience.

Illustration Chetan Kumar

Why managing brand risk should be on the board agenda

Henri Eliot explores brand risk from three different perspectives – the brand consultant, the CEO and the company director

Brands and branding are critically important issues, and regularly appear on most board agendas, but it remains vital to ask if the brand is as rigorously and thoroughly assessed as the key financial measures and indicators.

So much is written about risk, with its dominant focus in governance discussions. Yet a failed performance in the marketplace and the consequent effect on earnings, cashflow, reputation, and investor confidence can be the greatest risk of all. If marketing awareness in its widest context is not pivotal in boardroom discussions, who will be accountable for any significant marketing investment failures that stem from under-informed directors?

Henri Eliot is chief executive of Board Dynamics – which gives independent advice to chairmen and directors on the effectiveness of the board and its committees.

The global brand consultant perspective

James Bickford MD of Interbrand New Zealand answers why it is important to monitor brand value

Brands are living business assets and are often the most valuable asset that can be listed on a balance sheet. Understanding brands and how they create value is a powerful tool for any board to possess. Strong brands ensure continuity of demand and earnings into the future, thereby reducing risk for the business and its shareholders.

Strong brands drive improved business performance, they do this through their ability to drive customer choice, command a premium for their products and services, and create passionate customer loyalty. Brands are measured from both customer and financial point-of-views, ultimately identifying the brand's contribution to business results.

Q How does the brand valuation process work?

A Brands are measured across three areas to obtain a brand value – the brand's financial performance, its influence on customer choice and the strength of the brand relative to competition.

First we measure the profits garnered from the brand's products and services, and financial forecasts form the foundation of our valuation. The role of the brand is measured by the proportion of the customer decision made due to brand alone. A luxury handbag, for example, will have a high role of brand, with brand being one of the key drivers to purchase. The role of brand for tinned vegetables will be low, as price is a much higher driver in the decision to purchase.

Q What are the key benefits in measuring brand performance?

A Brand strength is a diagnostic tool that measures the brand's performance relative to competition; it supports brand management by supporting areas of greatest impact.

Strong brands generate loyal customers, reducing risk and creating more brand value.

This assessment of brand strength takes into account the effect of the brand within the organisation, and in the marketplace. Internal factors, such as protection, measure the security of the brand across a number of dimensions, such as legal and proprietary ingredients. Responsiveness measures the brand's ability to respond to market changes. External factors such as relevance measure the fit with customer needs, while consistency measures the degree to which a brand is experienced without fail across all touch-points. These are just a few of the ten brand strengths.

Once the score for each brand strength component is assessed it is combined with the financial and role of brand analysis to create a brand value.

When a business places an emphasis on creating brand value, it leads to increased economic returns and mitigation of risk. Strong brands create value not just for customers, but also for shareholders.

The CEO's perspective

Wayne Pickup, CEO of Lotto, who recently re-branded the company, gives his point of view on the importance of brand value.

Our brand is one of our most valuable assets we have as a business as it cuts across everything we do. Like any asset of significant value to the business it requires attention and investment.

Q How is the brand value risk managed effectively or monitored?

A The Lotto brand has taken significant resource to develop and maintain for over 25 years. Everything we do as a business has an impact on our brand. The culture we develop internally, the way in which we interact with business partners and most importantly the experience customers have when they interact with our product all directly impact our brand value. As a function of monitoring our business performance we are in essence monitoring our brand value. I don't see them as mutually exclusive. In fact, they're impossible to separate.

Q *What are you looking for from the business in building better brand value?*

A Ensuring we are consistent and authentic in the way we operate the business and interact with our customers is key. Ultimately our brand value is simply a representation of how we as a business are perceived.

Q *What are your key learnings in managing this type of risk?*

A A business needs to be crystal clear in its purpose and the way it wants to be perceived by customers. It must ensure its people reflect this purpose through the things they do – in essence they need to live the brand. There is nothing more energising for a business than having a culture develop around a common purpose. It humanises the business and creates a sense of unity and energy.

The company directors' perspective

Roger France gives a director's point of view on the board's role in monitoring brand value.

It's probably semantics but, as I said, I have not been involved with any board that explicitly and regularly monitors brand value. However, in my opinion, the boards of all business to consumer companies are, or should be, concerned and interested in the health/perception of their company's brands on an on-going basis so they understand whether the intrinsic qualities of the brand are intact in the marketplace or if there are signs of a disconnect between customers and the company over what the brand stands for.

Q *How is the brand value risk managed effectively or monitored in the boardroom?*

A The method I am most familiar with is independent formal surveying of customer groups with the results being analysed and considered on both a static basis and as trends in brand health and perceptions over time.

Q *What are you looking from a board in building better brand value in the business?*

A Some things don't change. In the end, it is the responsibility and task of management to "build brand value". The role of the board is to ensure that the brand values are appropriate, are clearly understood and are treated as touchstones in all customer interactions and to monitor the effectiveness of management's efforts (that is, the health of the brand).

Q *What do you think are the key learnings in managing this type of risk?*

A It takes a lot of time and effort to build a great brand and very little time to destroy it. Constant reinforcement of the brand values and constant vigilance are essential.

Yes, strategy is important – but it is not as vital as purpose

Strategy in its simplest form is about what an organisation aims to do and how it will do so. But those that focus only on the 'what' and 'how' of their business are missing the opportunity to develop their businesses to their full potential, says Ben Van Delden

Stanford University Professor Robert Burgelman said "strategy without culture is powerless and culture without strategy is aimless". At the core of an organisation's culture is a clearly articulated sense of purpose. Organisations that have defined why they do what they do, and openly share this purpose with their people, achieve significantly higher levels of engagement with their people and have a much stronger culture. We have seen this first-hand over the past two years at KPMG.

Studying purpose-led organisations over the last two years led me to the conclusion that clarity of purpose is a critical element to business success, and this has driven a significant programme of work here at KPMG to decipher and articulate our purpose. As a professional services organisation there is no shortage of rational and analytical thinkers in our business; high-performing people accustomed at cutting through complexity and advising others on what to do and how to do it.

In a business where our people and our customers are our most important assets, defining KPMG's purpose has brought greater focus across our business and increased connection with our stakeholders. For the rational and analytical readers wondering just how important it is to define and communicate your organisation's purpose I recommend watching Simon Sinek's *How great leaders inspire action talk* on Ted.com.

In his book *Start With Why* Sinek's research into the biology of decision-making highlights that people don't buy what you do, they buy why you do it. Successful businesses not only articulate their purpose internally, they communicate it externally too. They have identified that the emotional connection with a brand is what has the greatest influence in a person's decision to buy from them or work for them.

When I looked deeper into the power purpose has in determining an organisation's success, it was apparent that the great businesses which seriously outperform their competitors had one thing in common. Each has a shared purpose – beyond their own profit – that aligns with making the world a better place.

It is this higher order purpose that guides their business strategy, compels talented people to join them and motivates them to perform at their best. It is the organisation's shared purpose that attracts customers and defines its brand.

Governments across the world are constrained by fiscal challenges brought about by the GFC, and there is much greater public sentiment driving a focus on conscious capitalism. It is apparent then, that only business can make the world a better place. And those businesses that apply their focus and purpose to doing so will continue to do well and attract brand loyalty. But be warned, purpose should not be seen as marketing veneer – it is a sincere and deeply embedded commitment that must be extolled by all people in your organisation.

As with strategy, purpose starts with the leadership team.

The process of defining the true purpose of your organisation takes time. Typically the effort required is proportionate to the size of your workforce and the complexity of what your business does.

Retracing the 165 years of history KPMG has in New Zealand, the work that we do, and the impact this has for our clients, our communities and thus our great country, we discovered that what really drives our people is our purpose of fuelling New Zealand's prosperity. Standing for something beyond our own business is redefining our strategy and unleashing significant value.

Many directors and their management teams will be starting to think about their annual strategic planning process. In the most part this is a two-stage process, starting first with an honest assessment of progress over the last year against the strategy that the board ratified for management to execute. This assessment of performance to date, together with a pulse check of any wider issues currently impacting the business, determines the second stage of the strategy process.

At this point attention moves to either refinement of your purpose and strategy or significant changes to the long term goals. As you turn your minds to the annual strategy setting process ahead for your business, ask yourself how well articulated is my organisation's purpose, do my people have a clear understanding of why we do what we do and are we living this in everything we do?

Ben van Delden's specialist interest is in market differentiation and innovation. As partner in charge of KPMG New Zealand's National Markets team he is actively involved in sector development strategies. Ben is a keen advocate for design thinking, he leads KPMG's national purposing project Fuelling New Zealand's Prosperity and is involved in several of KPMG's Global Strategy initiatives.

Look after your people – profits follow

Developing a robust health and safety culture has become a business issue. Not only because of continuing reverberations from the Pike River mine disaster – also because it makes sound commercial sense. By Hamish Brown

Research suggests that 60 per cent of business (and safety) results are attributable to an enterprise's culture, and 80 per cent of culture is attributable to leadership.* This is particularly disconcerting given New Zealand's workplace injury and death statistics (New Zealand employees are six times more likely to be killed at work than their UK counterparts) and twice as likely as workers in Australia. The good news is that given the expertise of New Zealand management, leadership, and company directors it would be fair to assume that when they do turn their skills and attention towards building effective health and safety cultures, then our appalling statistics will rapidly improve.

Likely new responsibilities may help to encourage senior leaders to take a more active and strategic look at health and safety, but I hope a new comprehension that an effective safety culture provides a powerful leadership tool to improve business productivity, quality, engagement, and financial performance will provide more of an incentive. Perhaps only now is the link between safety culture and business performance finally beginning to be recognised.

Possible new responsibilities for directors

- **a new duty on directors and company officers to exercise proactive 'due diligence' to ensure that the business is meeting its health and safety obligations**
- **the definition of director widened to those people who participate in substantive decisions affecting the business – this is likely to include CEOs, and perhaps CFOs, and other relevant senior managers**
- **the definition of manslaughter extended to allow companies to be prosecuted where incidents of gross negligence are found**
- **tougher penalties imposed for breach – these include extending the maximum penalty from $500K to $3M.**

*Professor Malcolm Higgs, Director of Southampton Management School

> ***What would be the response if a new CEO or board member said: "People, and their safety at work, really are the most important asset we have – they are more important than financial goals, and we are going to make their health and safety our number one priority?"***

We've been measuring health and safety culture for more than five years and have analysed results from over 10,000 employees and managers. One frequent response we hear from senior managers when they receive their company's results is: "We had a gut feeling that these issues were present, but we've never been able to quantify them until now, so we could never identify where the risks existed, nor how to make the necessary improvements."

BUTT PROTECTION IS NOT SAFETY GEAR

Alarming numbers of employees and managers say that they think the most important piece of safety gear in their organisation is "butt protection". Yet everyone seems to agree that negative reactions to accidents, near- misses, and potential safety issues, block communication and crush learning. It is obvious no amount of safety training, equipment, or safety policies will ever compensate for a workplace culture where employees worry about speaking up about their safety concerns, yet frequently employee perceptions are that to do so will incur penalties.

To improve safety outcomes, don't start by changing the people, systems, or processes you already have in place. Start by changing hearts and minds. Show how important health and safety is, not by forcing employees to comply with rules and regulations (though they're important), but instead, encourage managers and leaders to demonstrate they care.

What would be the response if a new CEO or board member said: "People, and their safety at work, really are the most important asset we have – they are more important than financial goals, and we are going to make their health and safety our number one priority?" So far, when we've asked the question, we've been greeted either with guffaws, or a deafening silence. Yet the experience offshore is that there are compelling reasons for establishing an effective safety culture other than saving lives and reducing injuries. New Zealand's Department of Labour cited evidence that an effective safety culture creates improved productivity, increased job satisfaction, and enhanced business reputation.

International research makes a persuasive argument for building an effective safety culture. As well as contributing to improved reputation and company marketability, they cite increased employee creativity and initiative along with gains in productivity, profitability and shareholder value. (Given those attributes, it might not be too much of a leap to link New Zealand's poor productivity with its poor health and safety statistics.) Certainly we can report a significant difference between employees who think they are regarded by management as just another 'human resource' used to

LEVEL 1
Seen and felt by employees, supply chain and customers

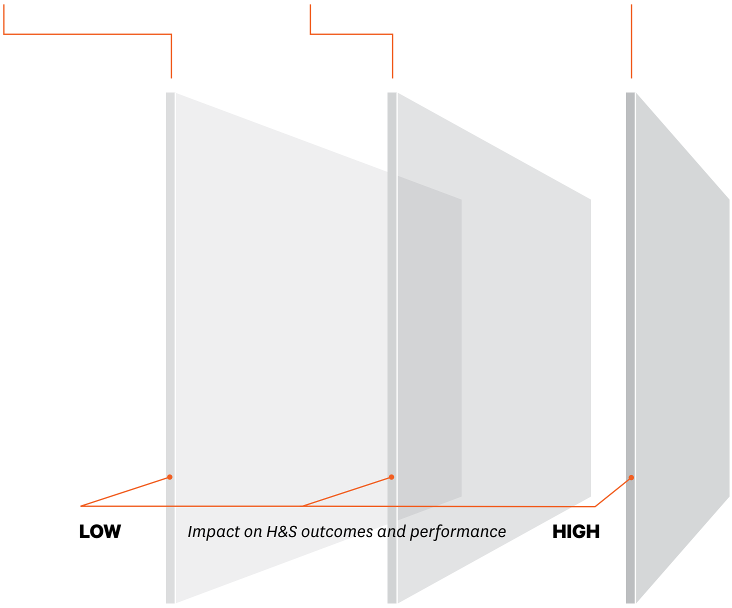
Obvious to the uninitiated. Obvious health and safety messages, safety equipment, notice boards and visible rewards.

LEVEL 2
Professed by leaders and senior management

Obvious to the uninitiated. Safety audits, processes, statements of intent (zero harm etc). Overt membership of interest groups. Strong compliance and reactive culture.

LEVEL 3
Unseen by most

Undisclosed, hidden and unconscious unspoken rules and behaviours. Everyday interactions between people, equipment and workplace environment. Shared set of attitudes and assumptions about health and safety.



generate more dollars, compared with the attitudes of those who believe management has a genuine interest in their wellbeing.

HEALTH AND SAFETY STRATA

The difficult aspect about safety culture is that it exists at three levels.

Levels One and Two are easy to see, easy to measure with tick-the-box audits, and relatively easy to change.

It is Level Three that needs the understanding, leadership, and expertise senior executives and board members can bring to complex issues.

Measuring health and safety culture is an important first step in being able to manage and improve it. Assessment will quickly identify an enterprise's level of maturity across five broad categories of safety culture: Acceptance; Reactive; Compliance; Proactive or a Mature Culture. Once aspects of the health and safety culture have been identified it is then possible to develop improvement actions, and on-going monitoring plans which can be linked to KPIs and actual safety outcomes.

When thinking about improving the effectiveness of safety culture it is important to get the commitment of the senior team. Inevitably measurement will identify elements that will need their input and support because the risks to employees, and the business, are too serious to be delegated to most operational health and safety practitioners.

Once a safety culture benchmark has been established it can be compared to other similar enterprises, but more importantly to year-on-year internal comparisons. Then directors can ask more informed questions, and monitor progress of the journey towards an effective and mature culture, along with the actual health and safety outcomes being achieved.

There is no doubt that understanding and building an effective safety culture takes effort and resources, but that is nowhere as onerous as having a serious harm accident or death at work.

Hamish Brown, Managing Director, Concordia NZ Ltd, www.concordianz.com

WHY SAFETY CULTURE DOESN'T GET MEASURED

- **resource issues – other aspects of the business are seen as more important than safety**
- **a perception that there is no need, or 'she'll be right'**
- **fears about what might be discovered**
- **no desire to make a long term commitment to safety improvement**
- **lack of time**
- **safety seen as a low-level activity and 'un-sexy'**
- **a belief that nothing will improve**
- **different management styles, conflicts of ego, and self interest**
- **poor communication and misunderstandings**
- **a poor understanding of safety culture and its importance**
- **reluctance to embark on change**
- **inability to see links to business performance**
- **a belief that safety is the exclusion of danger, rather than a state of mind.**

QUESTIONS DIRECTORS SHOULD ASK ABOUT HEALTH AND SAFETY

Who is ultimately responsible, and accountable, for safety outcomes in your business? Do they know they are? How are they accountable?

Do senior leaders and managers consistently demonstrate that workplace health and safety is important? Do their employees think they do?

If something is identified to improve safety, can it be done instantly? Or does the budget process mean it waits until next year in the hope that no one gets hurt in the meantime?

Is safety top of the agenda or do profit, production, and process get the most attention? Is safety seen as a strategic priority? Is safety effectively represented by an executive?

Minding Your Manners Online

"I speak two languages, Body and English," said Mae West. The 1930s screen star had a point – in a world of emails, texts and social media networking, we might be forgetting the strong supporting role expression, body language and tone play in moderating our messages. Author, speaker and social media trainer Linda Coles tells Natasha Martin how to mind your Ps and Qs online

"For some strange reason we simply don't behave the same way online as we do offline. Online our manners and personality go straight out the window – it's almost as if we're talking computer to computer rather than person to person. After all, it is a real person sitting behind the computer, a person with feelings and a brain," says Linda.

"When communicating via email, newsletter or any of the social sites, we still need to convey our personality, our humility and our authenticity just as we do in a face-to-face conversation. Without facial expression, eyes to read and tone of voice to listen to, we could be in danger that the receiver of our message reads something quite different from what we actually intended for them to read," she warns.

This is why, she says, she often uses the smiley face symbol online. "I know it's a bit of a business no-no but it does tell the receiver to read something in the lightest possible way."

And punctuation counts. "You should avoid exclamation marks altogether as they can be very easily misconstrued. They can make you look angry or passionate about something, when it is not intended. Likewise, capital letters, which you might have put in for emphasis, can look like shouting.

"And it's best to stay away from text talk. It is just as easy to write "thanks" as "thks'."

BE A GOOD LINKEDIN CITIZEN

Social media sites such as LinkedIn Groups have clear rules posted in the Group Rules section and usually include something along the lines of 'blatant promotional posts will be deleted without warning' to prevent them from becoming a place to spam others. As a group member, you do need to abide by the rules or your posts could be moderated or even blocked.

If you are a LinkedIn group manager, remember that group members are watching how the group is run, so your actions at keeping the group spam-free and full of lively conversation rests on your shoulders.

If someone is posting too many promotional posts, do send them a friendly reminder of the rules before you consider blocking them. Anyone blocked by one LinkedIn group will automatically have all future posts moderated before being posted on all other groups to which they belong.

SOCIAL MEDIA DO'S

- be yourself
- pay attention to your tone in online communications
- always reply to a post to a person by name
- thank someone for sharing your content with others
- reach out to help others promote their work if you can.

SOCIAL MEDIA DON'T'S

- don't check social media updates on your mobile or laptop while in a meeting or conversation. You are advertising the fact that you would rather not be there *[And how rude is that? Ed]*
- don't ask people to retweet or share your content
- don't spam social media sites with blatant marketing material
- don't post all your own content, mix it up with other well respected posts
- don't automate your feeds, we humans can tell it's not you posting.

Linda Coles has a chapter on social media etiquette in her latest book Start with Hello, which will be available in bookshops in September.

Does your board have its head in the sand?

If members of a board think their company is immune from fraud, they're likely to have their heads in the sand. Fraud can happen in any organisation, and may extend from actions as small as the theft of stationery items to major misstatements in an organisation's financial statements. By Jane Wright

Illustration Joseba Elorza

Directors need to consider the last time fraud was openly discussed at a board level and when the organisation's position on fraud was communicated to employees.

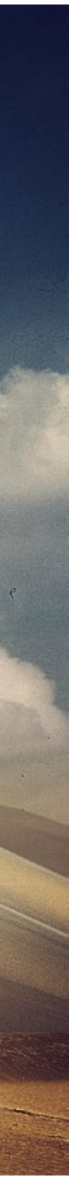
In my experience, fraud is rarely a specific board meeting agenda item. When fraud is exposed at an organisation, it is often swept under the carpet and not reported up to the board level. Frauds which are discovered of small magnitude may indicate that the fraudster's scheme was in its infancy (as frauds often commence with small test transactions and increase as fraudsters become more brazen over time), or may be indicative of systemic vulnerabilities of business processes. Dismissing fraud as being of an immaterial amount and not worthy of directors' time may deprive the board and/or audit committee, with awareness of the types of fraud events occurring at the organisation, and the opportunity to make strategic decisions to prevent and deter fraud.

Fraud occurs at all levels in most organisations, the challenge is to control it to the extent that it doesn't impact brand reputation, profit, share price, company performance and especially corporate culture.

After investigating many frauds and conducting post loss risk assessments, an open discussion about fraud and what to do if it's suspected is a welcome breath of fresh air in an organisation. All too often fraud is a taboo subject and a discussion of the possibility of fraud occurring may invoke fear that employees may not be trusted, directors and management are inept, and the organisation is vulnerable.

In fact, none of the above assertions may hold true, though stereotypes can be difficult to change. Discussions about fraud may appear to be difficult and even potentially awkward, though an 'ignorance is bliss' approach is not appropriate or helpful. Consider that directors need to acknowledge responsibility for the maintenance of a system of internal controls designed to provide reasonable assurance that as to the integrity and reliability of financial reporting in the financial statements.

Regular communication about the organisation's zero tolerance of fraud and the process for reporting suspected fraud is a step in the right direction.



Jane Wright

FRAUD PREVENTION CHECKLIST

There are several processes which can be put in place to ensure that an organisation has an open and transparent message regarding fraud and that employees feel comfortable reporting instances of suspected fraud. The Association of Certified Fraud Examiners (ACFE), a global organisation dedicated to fighting fraud and provider of anti-fraud training and education, published a Fraud Prevention Checklist which outlines 11 steps to help organisations test the effectiveness of their fraud prevention measures. Several of the steps outlined in the checklist which I have found to be of highest value to my clients are discussed below.

The fraud prevention checklist is a useful tool as it identifies areas of an organisation where fraud may be indicated or alternatively may be thriving. Reviewing each of the steps in the ACFE checklist is a good tool for audit committees and management to assess their fraud risk management programme, and is a starting point for consideration of the effectiveness of such a programme.

On-going Anti-fraud Training

A programme incorporating fraud training at induction for all new employees, and at regular intervals to refresh employees of their responsibilities regarding fraud, wil help promote zero tolerance of fraud. Such training should include discussions of fraud, presentation of case studies with relevance to the industry and organisation, and an introduction to the company's fraud policy and procedures regarding fraud.

Having a fraud policy and ensuring that this is disseminated to all staff, is easily located and socialised throughout the organisation, also brings the discussion of fraud to the fore. The implementation of an annual certification requiring employees to acknowledge they are aware of the organisation's anti-fraud policy and comply with its contents is a useful tool to refresh the fraud concept. Such an annual certification may also be requested from third party suppliers after they have been provided with the organisation's fraud policy. Annual certifications of compliance with a company's code of conduct and conflict of interest have become a more accepted practice and compliance with fraud policies may be incorporated into such annual certifications.

Effective Fraud Reporting Mechanism

The provision of an effective reporting mechanism which allows for employees to make reports anonymously if necessary, and one which maintains confidentiality, is paramount to its success. Reporting mechanisms may also be extended to third parties, allowing suppliers and customers to report suspected incidents of fraud or dishonesty in their dealings with the organisation.

A key to the success of such mechanisms, whether they are anonymous hotlines operated by independent organisations, email addresses or reports directly to a nominated Fraud Officer, is the promotion of these options and the ease at which employees can access these arrangements. There is no benefit to having such mechanisms if employees are not aware of do not use them. A whistleblower hotline with very limited activity or reports is reflective of a lack of awareness, not necessarily a low level of fraud or suspected fraud activity.

An open-door policy in place that allows employees to speak freely about work stress, provides management the opportunity to alleviate such pressures before they become problematic.

The establishment of a process in place to track and report on the notifications of suspected fraud to the audit committee, whether that be the detail of significant issues and reporting on all notifications by categorisation, all whilst maintaining confidentiality of the informants, is valuable. Such reporting ensures that the audit committee is aware of the fraud issues and can determine whether specific items are escalated to the board level.

Tone at the top

As discussed earlier the board is key in driving the corporate culture of an organisation, particularly in relation to fraud. Boards need to be cognisant of the pressure of performance goals and whether they create incentives for management or staff to circumvent controls, for example, by recognising revenue earlier than accounting standards may determine.

Further, incorporating fraud prevention goals into the goals of management for performance evaluations may encourage focus on anti-fraud processes. This may include creation and maintenance of fraud risk assessments, performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud.

Promoting the efforts of the organisation in detecting and preventing fraud also ensures that the anti-fraud message is filtered throughout the organisation.

Strong anti-fraud controls

There is no substitute for the presence of strong anti-fraud controls operating effectively in an organisation to deter and detect fraud. Basic controls include having a proper segregation of duties, proper use of authorisations, physical safeguards and policies such as job rotations and mandatory vacations. The above list may seem simple, but many frauds may have been prevented by the implementation and successful operation of basic controls.

Other useful fraud deterrents include an internal audit department which has adequate resources and authority to operate effectively and without undue influence from senior management. Actively conducting tests for fraud and using tools such as continuous monitoring software ensures the organisation is in a proactive and not reactive position regarding fraud detection.

In summary, corporate culture plays a significant role in fraud prevention. Having an open environment where discussion is encouraged, can allow for issues which may relate to fraud to be addressed. Directors can start the discussion by ensuring it is a board agenda item and, demystifying the stigma about fraud, by setting a tone at the top which openly encourages discussion about fraud.

Jane Wright is Principal, Financial Crime & Dispute Advisory for Marsh Risk Consulting. She can be contacted on jane.wright@marsh.com.

Director Development – plan your course

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

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

Scan for more on Director Development

Focus on Club Governance

Clubs, covering a vast spectrum of interests and activities, are a vital part of New Zealand life. Dianne McKellar, Manager Training and Education of Clubs New Zealand, which lists over 300 clubs among its membership, talks to boardroom about governance

Dianne McKellar

"There aren't many formal boards or directors among clubs," says Dianne, "Clubs are generally run by committees or executive committees. There are many different business models and operations but most clubs are Incorporated Societies. Some employ one or two staff, while others may have a staff list of around 100."

Committee members are frequently unpaid and, says Dianne, are passionate about their club and have a real sense of ownership.

"Newer members will often stand for committee as they see it as a way of supporting their club and creating change especially in situations where the committee has been long-standing."

Dianne says that for committee members, the toughest challenges often pivot around familiarity with legislation in an ever-changing regulatory environment. Another issue lies in the blurred lines between governance and management.

"Committees often change every year so sometimes a great working relationship is established between governance and management and then this changes with the election of a new president or members of the committee.

"A lot of committee members are elected without previous governance experience and take some time to get up to speed and contribute to their role. Some may not have a good understanding or knowledge of the role, responsibilities or liabilities.

Club New Zealand offers a one-day seminar for club committees but she sees an appetite for further training, "particularly among newer committee members who can be hungry for more information and up-skilling of their roles.

KAMO CLUB EXPERIENCE

A recommendation from a friend led to Richard Broughton, who sits on the committee of Whangarei's Kamo Club, to suggest to the chairman that he enrolled in Director Development's one-day Not-for-Profit Governance Essentials course.

"As a club, we place on high value training for the staff so it makes sense for the committee members to up-skill as well. Four committee members went on the course, and we found it to be excellent. Everything we needed to know was there, but presented in laymen's terms. It gave you a good background of what should happen, and an idea of how to deal with any problems."

NOT-FOR-PROFIT GOVERNANCE ESSENTIALS

Learn about governance on a Not-for-Profit:

- **Hamilton 22 October 2013**

Learning from experience is at the heart of the Director Development programme, says IoD facilitator, Dr Brian Rhoades

Dr Brian Rhoades

Though the material and theory might be identical, no two Director Development courses are ever precisely the same, says Dr Brian Rhoades. "This is because the group on each course is different, and with different group dynamics."

A business adviser and professional director, he sees this as a strength of the programme. "I set the scene as course facilitator but there's considerable engagement within the group. I particularly enjoy the group interaction. We talk about real situations, what works and what doesn't.

"It's the hallmark of Director Development courses that they are taught by directors for directors."

A former lecturer in mechanical engineering at Canterbury University, Brian has been a facilitator on one-day courses, such as Not-for-Profit Governance Essentials and also on the five-day, residential Company Directors' Course (CDC).

"The CDC offers immersion in governance. Participants can engage with the material in a very in-depth way. It gives them the chance to reflect on what is really going on around the board table and look at it from a different perspective. They will walk away with the confidence to recognise best practice governance and to think about what they would do when presented with boardroom situations."

He particularly enjoys the simulation of a real board meeting. "It is often mentioned as a course highlight in feedback from participants."

Brian is currently chair of Ngai Tahu Seafood Ltd and Polytechnics International NZ Ltd (PINZ). His directorships include the New Zealand Forest Research Institute (Scion) and the New Zealand Engineering Food and Manufacturing Industry Training Organisation (Competenz). Brian holds BE (Hons) and PhD degrees in Mechanical Engineering and he is a Fellow of IPENZ and of the IoD.

Living in Nelson, when Brian is not working as a professional director or facilitating courses, he takes great pleasure in sharing his love of sailing and fishing with his family.

Company Directors' Course

AUCKLAND, JUNE 2013

FRONT ROW: Heather Warwick, Valerie Meyer, Geoffrey Sandelin, Clare Crickett, Alex Hopkins, Jennifer Kerr, Alex Delany
BACK ROW: Harold Hillman, Stuart Frazer, Daryn Bean, Gerald Gates, Trent Shirkey, David Tanner, Martin Bates, Gabrielle Thompson, Jason Ashford, Stuart Wilson, Flemming Rasmussen, Mark Gallagher, Simon Tong, Tom Skerman

WELLINGTON, JUNE 2013

BOTTOM ROW: Angus Ngarangioue, Anthony Taylor, Group Captain Russell Sowden, Chris Dyhrberg, Rachel King, Debi Boffa, Dr Paul Reynolds, Nick Metson.
SECOND ROW: Michael S Bird, Helen Moody, Michael Bird, Jan Smolnicki, Ant Frith.
THIRD ROW: Darryn Ratana, Tim Fulton, Annie Johnston, Russell Cockburn.
TOP ROW: Peter Wimsett, Craig Hattle, Graeme Free, Alan Morris

COURSE UPDATES

Course Name	Dates	Regions
Governance Essentials	10 Sep 18 Sep 9 Oct 30 Oct	Auckland Tauranga Wellington Napier
Not-for-Profit Governance Essentials	22 Oct	Hamilton
Finance Essentials	19 Sep 8 Oct 31 Oct	Tauranga Auckland Napier
Strategy Essentials	11 Sep	Auckland

Course Name	Dates	Regions
Audit and Risk Committees	15 Oct 23 Oct	Dunedin Hamilton
Company Directors' Course (CDC)	22–17 Sep 13–18 Oct	Queenstown *(Fully Booked, waitlist operating)* Tauranga
Chairing the Board	2–3 Sep	Auckland
Boards in Action 1	13 Nov	Auckland

Course Name	Dates	Regions
Risk Essentials	Starting 11 Sep – 14 Nov	*Series of Webinars followed by a Workshop Refer to the IoD website for more details on this programme*

Director Remuneration

Are you happy with what you earn as a non-executive director?

Your answer could well depend on the sector in which you are working. According to the 2013 IoD Directors' Fees Report, both the hours that directors work, directors' fees, and levels of satisfaction with those fees vary significantly from sector to sector

Non-executive directors on a board in the arts and recreation services sector, for instance, report working a median of 107 hours a year for a median of $20,000. In comparison, a non-executive director in the retail sector, working a median of 54 hours every year, receives an annual fee of $50,000.

Not surprising then that directors in the arts and recreation services sector were found to be the least satisfied with how much they were paid. Only 39.6% answered that they were happy with their fees compared to 64.9% of retail trade directors.

This is just one of many findings from the annual survey, which provides a unique snapshot of New Zealand's governance community.

This year, we're pleased to report that the survey attracted a great number of responses, with data recorded from nearly 1000 organisations and across 1,550 directorships.

The majority of these organisations are New Zealand-owned – 90.8% of the data sample. A further 4.4% of companies are subsidiaries of a New Zealand-owned organisation.

As with previous surveys, the survey quizzed directors and chairs not only on fees and hours of work but also on hourly rates across the breadth of roles and fee categories. Questions were also asked on boardroom practices, board composition, directors' fees practice and fee movements for directors. The answers have been put in a context of market insights and topical issues.

The survey found, for instance, that the number of women directors is on the rise. Of the 900 non-executive directors surveyed, 23.2% were female compared to 18.8% in 2012. The representation of female non-executive chairs has jumped from 10.8% in 2012 to 13.4%.

Most directors are still paid a fixed annual fee. Only 8.1% of those surveyed are paid 'per-meeting' and a further 6.1% are paid a combination of the two.

And the fees? It's a sign of the times perhaps that non-executive directors' fees have not budged from a median of the $36,000 (as in the 2012 Directors' Fees Report). Non-executive chairs fare slightly better with a $50,000 annual fee, rising a modest 2.4%.

More detailed analysis of the report is available where typical fees can be examined by organisation type, sector, total assets, turnover, shareholder funds or by number of FTEs.

IoD Directors' Fees Report – Available Now

We'd like to thank those who participated in the survey by offering the report to them at a discount of $350 plus GST. IoD members who did not participate in the survey can buy the report at $495 plus GST. The report is available to non-IoD members at $595 plus GST.

To buy the report:

- Please complete an order form on iod.org.nz and send to dsd Consulting with payment.
- Call dsd Consulting on 09 630 6484 to order over the phone.
- Email surveys@dsd.co.nz and dsd will respond directly to the enquiry

branchnews

Scan for more Branch News

WAIKATO

Healthcare costs are rising and we need to have the conversation about where and how the private health sector can add value to New Zealand healthcare, Alan Clarke, Managing Director of Abano Healthcare Group Ltd, told a branch function, 12 June. He said that the business of healthcare is no different to any other business. A health board needs to define measures of success, agree on values and vision, and have a five-year strategic plan against which progress can be monitored.

John Hawkins, chair of the New Zealand Shareholders Association, spoke on the changing face of shareholder activism in New Zealand. As the voice of the retail investor, the association contributes to policy and public debate, directly engaging with companies on issues such as directors' fees, proxy appointment, and capital raisings. John said the association welcomes corporates to engage with them upfront to work through complex situations.

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AUCKLAND

The variety of events in June and July included breakfasts with entrepreneur Derek Handley and Roger Kerr (merchant and investment banker and partner at PwC). There was a lunch workshop for new and aspiring directors, the IoD health and safety workshops (Auckland and Northland) and a cocktail evening for new members.

BAY OF PLENTY

Business leadership and the role of governance was the theme of Keith Tempest's presentation in Rotorua on 18 June. Keith's message was very clear. Governance is a subset of leadership. When expectations are set and caring for your people, customers, the environment and the community are part of the organisation's culture, then governance is to monitor and ensure the expectations are met.

The Simulation of a board meeting in Rotorua on 4 July, was a chance for role play. IoD members sat on a family board and were given roles to play and information to divulge, should they wish. The verdict – a learning experience that would test skills without leaving a reputation in tatters.

How strategy and governance are interwoven and the part they have played in the development of Maven, a Wellington-based management consultancy, was the focus of Lesley Kennedy's presentation last month.

Aspiring Director Award Darren McGarvie from Flair Consulting has won the Bay of Plenty's Aspiring Director Award. Over the last two years, Darren has worked with local businesses to establish Rotorua X, a business networking group with a community focus. A rising star, six months ago, Darren also took the award for Emerging Young Business Person of the Year at the Westpac Business Excellence Awards.

Judges Cathy Clooney and Rob Jeffrey had to choose from a strong field of five. The other finalists were Robyn Cotton, Thoje Hood, Deion Campbell and Kylie van Heerden.

Event sponsor BDO partner Fraser Lellman presented the award to Darren.

1 | Di Hallifax, William Durning, Jenny Ritchie (Waikato)
2 | Stuart Anderson, Alan Clarke, Chris Saville (Waikato)
3 | Evelyn Weir, Colleen Joblin, Trish O'Reilly (Waikato)
4 | Aspiring Director Award finalists, winner Darren McGarvie holding the award
5 | Health and Safety Workshop (Auckland)
6 | Winner of 2013 Upstart Director Award, Mark Berryman, Geoff Thomas (Otago Southland)
7 | Robin and Lynley Campbell, Dr Bernie Crosby (Otago Southland)
8 | Geoff Thomas, with winner of 2013 Aspiring Director Award, Tony Allison
9 | Raewyn Heta, Kay Nalsund and Sharon McGuire (Nelson Marlborough)
10 | David Irving, John McCliskie (Nelson Marlborough)
11 | Directors' Dilemma Workshop

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OTAGO SOUTHLAND

Otago Southland Aspiring Director Award CEO of Dunedin's Night'n Day Foodstores Ltd, Tony Allison, has been awarded the Otago Southland branch's Aspiring Director Award. Tony holds board positions with Southern Teamco (2008) Ltd, AA Cleaners (Otago) Ltd, and City Forests Ltd.

Tony receives $1,500 towards a Director Development course, a year's complimentary membership, complimentary attendance at four branch events, and mentoring with an experienced director.

Runner-up was Mark O'Connor, CEO of South Port Ltd and a board member of Invercargill City Properties and the Southland Chamber of Commerce. He chairs Export Southland and the Southland Energy Consortium.

Guest speaker was Fellow Dr Bernie Crosby, who inspired all with an account of his life, detailing the importance of passion, optimism as well as an ability to "plan, plan, plan and review, review, review".

Upstart Director Award Managing Director of Selah Renovations and MBA student, Mark Berryman, is the winner of the 2013 Upstart Director Award.

Jointly sponsored by Otago Southland branch and Upstart Business Incubator, the award was open to students of the University of Otago and the Otago Polytechnic.

Along with a 12-month position on the Upstart board, Mark's prize includes funding for the IoD's Governance Essentials course in Dunedin on 13 August, complimentary IoD membership for one year and mentoring from a senior director.

"I have a passion for seeing businesses grow and succeed," said Mark.

CANTERBURY

In the first branch event to be held in Ashburton, Alan Grant shared a 20-year journey as a director of substantial companies, including the Lyttelton Port Company. His message for aspiring directors was to "get noticed". This was followed by: protect your reputation, look for innovative ways to solve problems, and get a diverse range of experience.

Directors Dilemma Workshop Keen attendees work-shopped a case study under the tutoring of Richard Westlake. It was a noisy, enjoyable session and a key message to emerge was that managing risks directors may think are trivial, can cause them considerable trouble when the risk materialises – so be prepared.

11

NELSON MARLBOROUGH

The Icehouse founder, David Irving, delivered pertinent messages for the SME market in Blenheim recently. He said that a dynamic board can shape the strategy, and by ensuring there is good leadership and the necessary resources, can assist a company to reach strategic goals. David's advice included: don't under-resource a key job, recognise you don't know what you don't know, don't hesitate to ask busy people, and 'wisdom' expresses what you need.

9

10

TARANAKI

Around 150 people gathered in Hawera to hear entrepreneurial farmer, Trevor Hamilton, 2012 Dairy Woman of the Year, Barbara Kuriger and daughter Rachel Short; Staples Rodway Director, Marise James and Auld Brewer Mazengarb & McEwen Associate, Marie Callander discuss how farming families can manage succession through appropriate structures and good governance.

WELLINGTON

Trade Me CEO Jon Macdonald gave a personal perspective of the evolution of one of New Zealand's most-visited websites and fastest-growing companies. At Trade Me, he has worked under three different boards, has seen the company sold first to Fairfax, then floated as an IPO late last year. Jon is also a director on the board of NZX.

branchevents

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

Scan for the latest Branch Event updates

AUCKLAND

The challenges and opportunities in post-earthquake Christchurch

Peter Townsend

The $40 billion dollar rebuild of Christchurch, New Zealand's biggest ever economic development, will take Christchurch and the country somewhere new. Chief executive of the Canterbury Employers Chamber of Commerce, Peter Townsend provides an update on current activities, opportunities and plans for the future.

7.30 am, 20 September at The Northern Club

Next Generation Director Workshop

This series of bi-monthly evening workshops aims to build governance capability in the next generation of directors. Highly practical and interactive, the workshops centre around case studies. Group discussions are guided by an experienced director.

4.30 pm, 3 September, 5 November, 3 December at the BNZ Partners Centre, 80 Queen Street, Auckland

WAIKATO

Financial tool box for non-financial directors

A programme developed in partnership with KPMG, this is aimed at non-financial directors who want to or need to improve their financial skills and understanding. Places on the programme will be limited to 15 and will be allocated on a first-come, first-served basis.

It will be run over a three-month period on the first Tuesday of every month starting on ***3 September 4.00–6.00 pm at KPMG offices, 85 Alexandra Street, Hamilton***

BAY OF PLENTY

Financial tool box for non-financial directors

A programme developed with KPMG, it is aimed at non-financial directors who would like to improve their financial skills. The programme will be run over a three-month period on the second Tuesday of every month.

Starting 4.00pm–6,00pm from 10 September at The Business Hub, 1209 Hinemaru St, Rotorua

TARANAKI

John Mendzela

Stewardship as a driving factor behind good governance

Simon Cayley is currently chief executive officer of the Bishop's Acton Foundation. He has extensive experience in community development, capacity building, social research, governance and management. He asks what stewardship-based governance looks like and what it means for a director and poses key questions for directors to enable a stewardship approach at director level.

5.30 pm, 27 August at the BNZ Partners Centre, New Plymouth

Survive and thrive in the post-GFC world

John Mendzela, recently returned to New Zealand after four years of independent global consulting in governance and management, gives an overview of global economic change and its implications for New Zealand businesses. More importantly, it will help them develop practical and sustainable strategic business responses.

5.30 pm, 15 October at the BNZ Partners Centre, New Plymouth

WELLINGTON

Insurance Discussion
Practical advice to support you as a director when you are looking at risk and insurance for yourself and your entities, plus a general understanding of world risk profiles and how they affect us in New Zealand.
5:30 pm–7:30 pm, 27 August, IoD National Office, 50 Customhouse Quay

Breakfast function with guest speaker Craig Sims
Craig Sims led the biggest New Zealand banking integration project in over a decade, culminating with the launch of the new ANZ in October 2012. He is responsible for ANZ Bank NZ's Technology and Project portfolio along with Supplier Shared Services and Property functions.
7.30 am, 29 August at the The Wellington Club

Breakfast function with guest speaker Dr Mary Quin
The inaugural Chief Executive of Callaghan Innovation, Dr Mary Quin returned to New Zealand to take up the role in May 2013, after 20 years working in senior executive roles in NASDAQ-listed companies. She shares insights from her career plus thoughts on the future direction of Callaghan Innovation.
7:30 am–9:00 am, 10 September at The Wellington Club

NELSON MARLBOROUGH

New Zealand's world class sports system, and the role of good leadership and governance in that system
Peter Miskimmin, CEO of Sport New Zealand has been the Chief Executive of Sport NZ for the past five years. During his time as Chief Executive, Peter has overseen two of New Zealand's most successful Olympic Games in recent years (Beijing and London), and an increased focus on community sport and community sport delivery. *12.00 pm, 29 August at the Trailways Hotel, Nelson*

CANTERBURY

Professionalism in the boardroom... personal perspectives on working relationships
Trail-blazing Dame Rosanne Meo DNZM, OBE will share insights from a long career in governance. In many respects a pioneer for New Zealand women in business, Dame Roseanne was amongst the first professional women directors in New Zealand; the first woman to chair an SOE (Forestry Corporation and TVNZ); and first woman chair of an NZX-listed company.
5.45 pm, 19 August at The George, Christchurch

Dame Rosanne Meo

OTAGO SOUTHLAND

Alan Seay, Corporate Affairs Manager of oil company, Anadarko New Zealand
Alan Seay presents on the prospects for oil exploration around New Zealand. Anadarko won the rights for oil exploration in New Zealand through the Government's oil and gas exploration tender process. *5.00pm, 11 September at The Dunedin Club, Dunedin*

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BOARD SHORTS

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

"I keep on getting rejection letters when applying for board roles? Advice please on growing my brand or networking?"

TARUN KANJI RESPONDS:

"Persist but take a focused approach. You need to recognise at the outset that it takes time to find your first board role. Understand why you were rejected, specifically did you meet the competencies and requirements of the board in question? Do your homework before applying for a role to ensure that your skill-set and experience matches the requirements of the board and is complimentary to its skill-set composition. Finally, it is just a matter of cultural fit and whether the candidate pool had other equally qualified individuals.

Clearly understand and be in a position to consistently articulate what you stand for, such as your unique competencies and the experience you bring to the composition of a board., It's a matter of investing time over a lengthy period connecting to relevant influencers and decision-makers to let the market know you are looking for the appropriate board role based on your skill-set. When an appropriate opportunity comes across their desk they should be thinking: I know the right person for this directorship – being you!

In the end, it is a matter of being very proactive to get in front of the right people, be it by direct contact, by referral or in forums such as IoD events."

Tarun Kanji is Chairman Bank of India New Zealand. He is also a director of CrickHQ and Noeske Kaiser NZ. He started his governance career in 2010.

ROB CAMPBELL RESPONDS:

"A person is pretty unlikely to get appointed to a board if they have no personal contact or relationship in the business or have not been through a personal interview of some kind. So if a written application gets a written rejection then you are not really in the scope at all. Focus on what it is you think you can contribute, and where that is most likely to be useful, then make some approaches there expressing interest."

Rob has over 25 years experience in governance and capital markets. He is Chairman of Guinness Peat Plc and Turners & Growers Limited, and also a director of Aquasure Pty Limited and CallPlus Limited among others.

Email your questions to:
boardshorts@iod.org.nz
Not all questions will be published but we will attempt to answer as many questions as possible.

Henri Eliot is chief executive of Board Dynamics – which gives independent advice to chairmen and directors on the effectiveness of the board and its committees. boarddynamics.co.nz

Institute of Directors (IoD)

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

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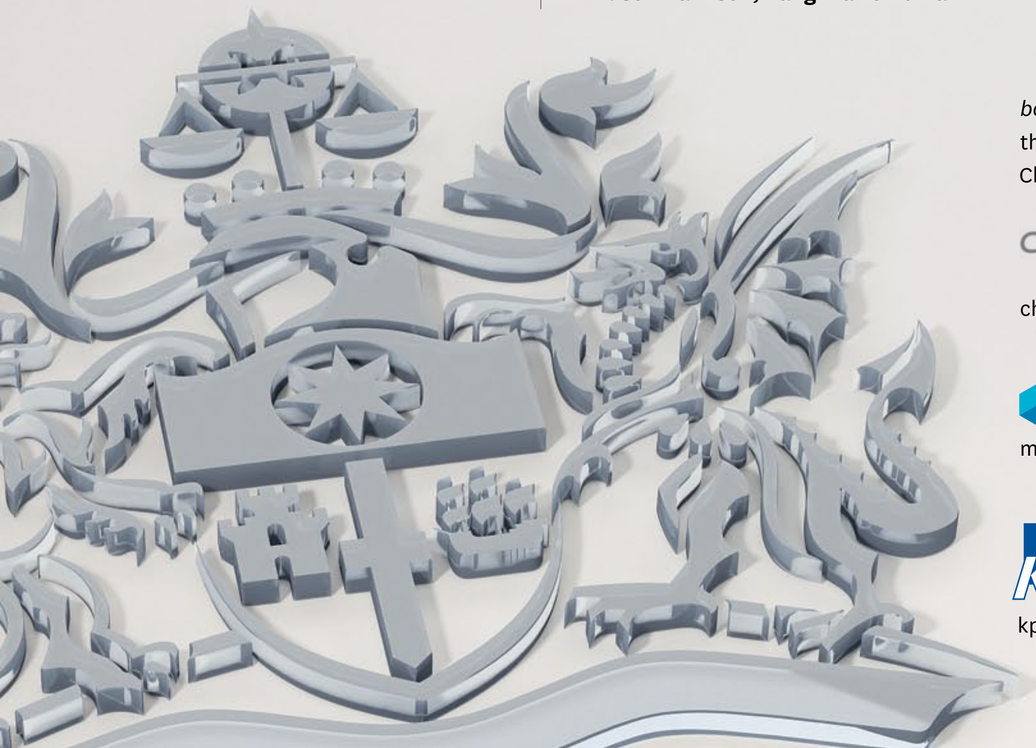

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