board room

AUG / SEP 2018

Magazine of the Institute of Directors in New Zealand

The challenges and rewards of governing Te Papa

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A note from the editor

The beautiful image on our cover this issue is courtesy of Te Papa. It was taken by Jo Moore at the opening weekend of Te Papa's Toi Art exhibition. In this issue, Te Papa chair Evan Williams talks about the museum's goal of honouring the past while looking to the future, and we feel this photo captures that spirit.

Former All Blacks captain David Kirk gets philosophical about duty and morals. Drawing on his philosophy degree from the University of Oxford, he explains why directors and business leaders need to go back to basics and rethink moral frameworks if they want to build trust.

New Zealand Trade and Enterprise (NZTE) has contributed a piece on why companies that want to globalise need a global board.

Climate change is becoming top of mind for directors and other business leaders and it's a topic we're exploring in this issue. The New Zealand chief executives of 60 organisations recently formed the Climate Leaders Coalition, pledging to reduce emissions and to play a leading role in transitioning the country to a low emissions economy. Submissions also recently closed on the Zero Carbon Bill. The IoD put in a submission on this, something our Governance Leadership Centre (GLC) talks about in its GLC Update. Two of our national sponsors also tackle climate change this issue. MinterEllisonRuddWatts, which is a new national sponsor of the IoD, looks at three different types of climate change risks for businesses, including physical risks, economic transition risks and liability risks. Meanwhile Marsh provides a practical approach to how companies can build climate resilience and gain a competitive edge.

We're also pleased to be able to present findings from our recent IoD Directors' Fees survey, and introduce the latest intake of mentees for our Mentoring for Diversity programme.

Kate Geenty
BoardRoom editor

Institute of Directors

BoardRoom is the magazine of the Institute of Directors in New Zealand **iod.org.nz**

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boardroom

BoardRoom is published six times a year by the Institute of Directors in New Zealand (IoD) and is free to all members. Subscription for non-members is $155 per year.

BoardRoom is designed to inform and stimulate discussion in the director community, but opinions expressed do not reflect IoD policy unless explicitly stated.

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For a full list of branch managers, see *page 44*.

Cover image credit: Toi Art Opening Weekend Events and Programmes, 2018. Photograph by Jo Moore. Te Papa.

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What Matters

The culture change

KIRSTEN PATTERSON
CEO, INSTITUTE OF DIRECTORS

Malo e lelei

It was Mahatma Gandhi who said "a nation's culture resides in the hearts and minds of its people". But where does the culture of a company reside?

One of the most requested sessions for our leadership conferences each year is 'war stories' or case studies of governance 'failures' so we may learn from others' mistakes. Yet it can be difficult to find examples where people are able, or prepared, to speak about times when governance was hard, tricky, and where things have not gone as intended.

The recent release of the *Independent Review of Russell McVeagh* by Dame Margaret Bazley is a glimpse into one of these examples that we as a governance community cannot afford to waste.

Failings were found in the firm's governance, structure, management, policies, standards, and systems. The review references that the report "reflects the commitment to telling the story of what happened and didn't happen and the dreams and disappointment of the people who have worked for the firm in recent years."

The Bazley report speaks to independent review of governance structures, the tenure of board chair and board members, the role of the board chair, the role of the board in driving transformational culture change, the appointment of independent board members, and the adequacy of board reports. The report also recommends that board committees and appointment processes be reviewed. All important and relevant messages for many organisations beyond those just in the legal fraternity.

Dame Margaret noted that a culture change of the magnitude envisaged by this review takes a long time to effect. She estimates it will take 10 years and notes the essential role that the board will play in ensuring the culture is monitored, measured and reported on if the momentum and priority is to be maintained.

The transparent and public release of the report was a brave and courageous move by the firm and has the opportunity to have impacts beyond their own transformational culture change.

A recent Law Society survey revealed that there are bullying and harassment issues across the entire legal profession. Just as people behave within a company context, companies themselves also exist within an industry context. We would be naïve to think that issues are restricted to one organisation or even one industry.

Good governance demands of us that we are scanning across industries for trends and messages that we should adopt, or that could impact our own organisations.

Gandhi not only gave us the well-known and often quoted "be the change you wish to see in the world," but he also importantly expressed that "action expresses priorities".

It may be time to reflect if our actions and questions as directors are expressing the priority of culture change that we all wish to see.

Faka'apa'apa atu,

Kirsten (KP)

UpFront

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Unless otherwise stated, the following positions will remain open until filled.

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Role: Independent Director
Location: Hamilton
Closing date: 31 August

YHA NEW ZEALAND
Role: Board Member (Elected)
Location: National
Closing date: 7 September

SPORT NORTHLAND
Roles: Centrally-held list of Directors/ Director Pool
Location: Auckland and Whangarei

NEW ZEALAND AMERICAN FOOTBALL FEDERATION INC
Role: Appointed Board Member
Location: Auckland
Closing date: 31 August

ARTSPACE AOTEAROA TRUST NZ
Role: Trustees
Location: Auckland

AUCKLAND TRANSPORT
Role: Independent Director
Location: Auckland
Closing date: 23 September

REGIONAL FACILITIES AUCKLAND
Role: Independent Director
Location: Auckland
Closing date: 23 September

APPOINTMENTS

George Adams
Chartered Member, has been appointed to the board of Cavalier Corporation.

Barbara Chapman
Chartered Member, has been appointed to the board of Fletcher Building.

Mary Devine, ONZM
Chartered Member, has been appointed as an independent non-executive director of Hallenstein Glasson Holdings.

Abby Foote
Chartered Member, has been appointed as an independent director of Freightways Ltd.

Diane Hallifax
Member, has been appointed to the board of the Waikato Rugby Union.

Mark Hamilton
Member, has been appointed to the board of Freshpork.

Wendie Harvey
Member, has been appointed to the Fire and Emergency New Zealand board.

Malcolm Inglis
Chartered Member, has been appointed to the Fire and Emergency New Zealand board.

Douglas McKay, ONZM
Chartered Member, has been appointed to the board of Fletcher Building.

Karen Price
Chartered Member, has been appointed as independent chair of The Learning Wave.

Cathy Quinn, ONZM
Chartered Member, has been appointed to the board of Fletcher Building.

Kevin Sceats
Charted Member, has been appointed chair of New Zealand Certified Builders.

Rowan Simpson
Chartered Member, has been appointed to the board of Sport New Zealand.

Denis Snelgar
Chartered Member, has been appointed non-executive chair of boutique project management firm Pragmatix.

Aaron Snodgrass
Chartered Member, has been appointed chair of the Dilworth Trust board.

Anne Urlwin
Chartered Fellow, has been appointed to the board of Tilt Renewables.

MINTERELLISONRUDDWATTS A NEW NATIONAL SPONSOR

MinterEllisonRuddWatts and the Institute of Directors (IoD) are proud to announce a new partnership that will further support the growth and expertise of New Zealand's governance community.

"We are delighted to announce MinterEllisonRuddWatts as an IoD national sponsor," says IoD Chief Executive Kirsten Patterson. "As a full service law firm MinterEllisonRuddWatts has a wealth of experience across a number of sectors including energy and resources, infrastructure, government, health, banking and financial services, managed funds and technology. We look forward working with the team there to provide thought leadership and insight and create events and opportunities that build knowledge for our members."

MinterEllisonRuddWatts has long championed good governance in New Zealand, including publishing thought leadership papers on governance, providing strategic advice to boards and holding leading governance symposiums.

The national law firm's Chair, Lloyd Kavanagh, says, "We understand the importance of strong governance to maximise opportunities and minimise risks to achieve the very best business outcomes.

"Our legal expertise and commerciality of our advice complement the great work the IoD does to support New Zealand's business community, making our new partnership a natural fit. We are delighted to be working alongside the IoD to create better business for New Zealand through better governance."

MinterEllisonRuddWatts joins ASB, Aura, Marsh and KPMG as national partners or national sponsors of the IoD.

Q: Who authorises director fees?

The board can authorise director fees in certain circumstances (see s 161 of the Companies Act 1993). However, a company's constitution may provide that fees must be sanctioned by shareholders. NZX listed companies must obtain shareholder approval by ordinary resolution for increases in the director fees pool.

MĀORI GOVERNANCE TRAINING

Iwi governance training courses developed by the Institute of Directors (IoD) and Te Puni Kōkiri (TPK) are running again over the coming months to November.

Our three-day Ngā Pae Hihiri (Māori governance) training programme will be delivered to 12 boards across the country. Up to 20 trustees will attend each course.

Ngā Pae Hihiri aims to enhance and deepen iwi governance capability and contribute to long-term iwi success.

Feedback from earlier TPK/IoD governance programmes has indicated that the knowledge and experience shared is highly effective for iwi boards in achieving their outcomes.

The first course took place in Wairoa in mid-July. IoD's Delivery Manager, Robbie McDougall and Professional Development Manager, Paul Gardner, travelled to Wairoa for a pōwhiri to mark the occasion.

In picture above: (left to right) Robbie McDougall, course facilitator Susan Huria, kaumātua Hemana Eruera, TPK representative Kemara Keelan, Hera Koia, Paul Gardner.

IoD approaching its 30th

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Boardroom

Boardroom

Issue 35 March 1994

10 **Building an effective board**

The issue of sourcing capable directors looms large on the New Zealand commercial landscape. Experts including Geoffrey Bowes (left) talk about the qualities and skills needed in those who will lead business through the 1990s and beyond.

4 **Who will be the kingpins - post 1996?**

The fun game for 1994 is to guess how the next Parliament will be made up. Colin James speculates on the member mix — and the implications of the "almost inevitable" minority government that will be the result.

8 **The world at work: like you've never known it before**

Technology is breaking down the barrier of geography to business. Our story looks forward to how the world may be working in the not too distant future.

IN THIS ISSUE

BOARDROOM

JOURNAL OF THE INSTITUTE OF DIRECTORS

NEW ZEALAND DIVISION

ISSUE No. 8 NOVEMBER 1988

ECONOMIC POLICY AND THE CAPITAL MARKET

By RUTH RICHARDSON MP

Opposition Spokeswoman on Finance

(From an address to the IOD, Wellington, September 1988)

A lot of debate about economic policy over the past four years has been fixed on what are essentially rather technical, although important, issues.

The key issue at this point of our economic history is the lack of business and investor confidence. What New Zealand business and investors are looking for is leadership from the government and a clear sense of economic direction. They are also looking for some reassurance that unethical or opportunistic corporate behaviour will not be allowed to damage any further the reputation of New Zealand's capital market.

The public debate is not really focussed on these points. Nor is it exposing a major gap in the government's economic policy performance - the need to turn New Zealand into a saving rather than a borrowing economy.

No doubt it is important that organisations and institutions should search as diligently as they may for indications of current trends in the economy. The Reserve Bank, God knows, spends enough time squinting through an eyeglass to see what is happening to inflationary expectations. The Minister of Finance must have put his eyesight at risk looking for scintillas of evidence that business is creating new jobs and adjusting and investing.

Ruth Richardson

The truth is, however, that although those matters must all be considered, what investors and business are still trying to get is some coherent view of the economic outlook and of economic policy direction. Businesses and investors need to have some confidence in the direction in which the government is heading and in its consistency of approach. Increasingly, business confidence is recognised as the key ingredient of an economic turnaround.

NO HURRAHS

The recent minor improvement in some economic indicators apparently justifies, to the Prime Minister at least, the chance to take a breather. Inflation, far too slowly and at far too great a cost to the economy, is at last coming down. New Zealand's terms of trade are strong for the time being. The New Zealand dollar has eased back in line with some downward movement in interest rates.

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GST TAX ON REDUNDANCY

When the Government indicated its intention to apply FBT Tax to redundancy payments and retirement allowances the IOD wrote to the Minister of Revenue expressing concern over the matter. Relevant extracts of the correspondence between the IOD and the Minister are shown below for members' information.

"Our Institute is still of the opinion that redundancy payments and retirement allowances are part of the employment package. ... To treat them as a 'perk' and subject to Fringe Benefit Tax is to suggest that they are something special and not a right for the employee who loses his job through no fault of his own or who retires after faithful service. We would not wish to comment upon levels of payment which are at all times a matter of negotiation and which would be affected by such a view. If this is Government's line of reasoning then we will promulgate this to our members." IOD letter to Minister dated 15 September 1988.

"Although I have noted your comments on this matter this government considers payments of this nature to be in the form of a fringe benefit, therefore it seems only appropriate to have these payments levied with fringe benefit tax." Minister's reply of 8 November 1988.

President's Message

Your institute has been very active over the past two months. In addition to making a statement concerning the obligations of directors and other interested parties with respect to partly paid shares, we have also made submissions and comments on other matters affecting directors. We have made submissions to the Select Committee reviewing the Securities Amendment Bill and commented on the Securities Commission Report on Takeovers. Members will be aware that we brought the latter to the minister's attention earlier this year and it is pleasing to see that many of the matters upon

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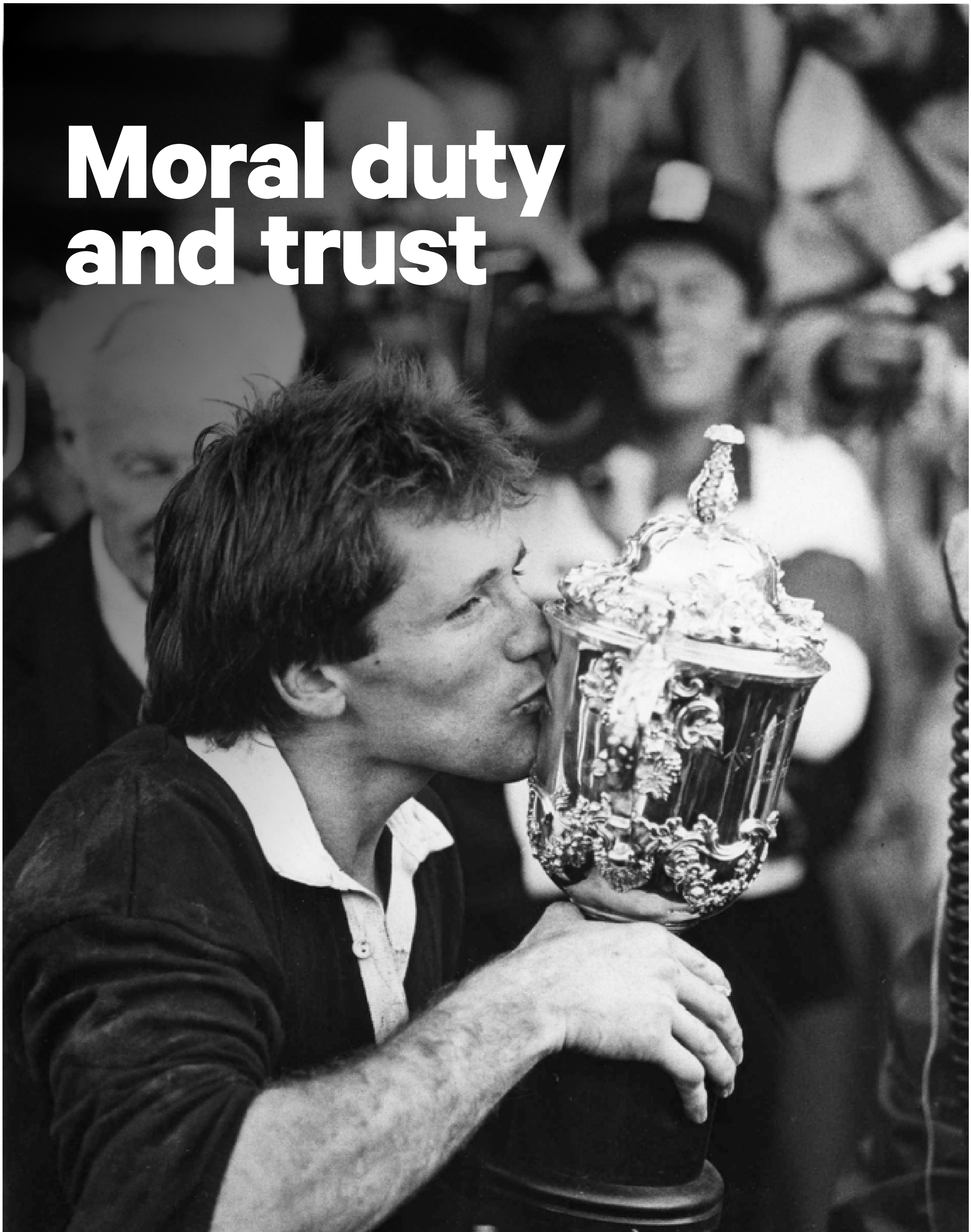
1

Next year will mark 30 years since the Institute of Directors in New Zealand Inc was registered as an incorporated society. Until 1989, the IoD operated in New Zealand as a division of the IoD UK. As we get ready to mark the milestone, we're getting nostalgic, with a look at some *BoardRooms* from the past.

Moral duty and trust



01

Former All Black captain and current chair of several NZX and ASX-listed companies, David Kirk, gets philosophical about duty and morals. Drawing on his philosophy degree from the University of Oxford, he tells Kate Geenty why directors and business leaders need to go back to basics and rethink moral frameworks if they want to build trust.

It is not usual to talk about moral duties when discussing directors' responsibilities but David Kirk says when it comes to building trust the concept of moral duty is an important consideration. He also says the All Blacks culture, the most powerful culture he has ever been a part of, is grounded in duty.

Kirk is based on the other side of the Tasman these days, where he is a co-founder and partner of the ASX-listed growth-stage information technology investment fund Bailador. He's still very connected to New Zealand, though, coming back every few weeks in his roles as chair of listed companies Kathmandu and Trade Me.

Although he has had a long and distinguished career, which includes working as a doctor, a political advisor and CEO of Fairfax Media in Australia, for many New Zealanders Kirk will always be the fresh-faced captain of the All Blacks, holding the inaugural Rugby World Cup aloft in 1987.

Kirk says his time in the All Blacks instilled in him valuable lessons about the importance of duty and trust. "If you think about the All Blacks, all we ever did was try and exercise our duty – our duty to the All Black legacy, our duty to win the game, our duty to our teammates, our duty to New Zealand and finally our duty to do the best for ourselves and to realise our own potential as rugby players and a team. Being an All Black is all about duty, and it's not for everyone."

Alongside duty, the second crucial part of the All Blacks' culture was trust. Kirk notes there are many academic studies that show a strong correlation between people who are prepared to trust other people and their own trustworthiness. "If you're a trusting person, and trust others to do the right thing by you, then you're much more likely to be the type of person other people can place their trust in."

The All Blacks, Kirk says, need trust to function. "You have to trust other people to do the right things at the right time. Props trust that locks will push in the scrum, locks trust props will lift them in the lineouts. You have to trust the coach's selection decisions, defence lines have to trust each other. There can be no team cohesion without trust. The All Blacks have to trust each other and that trusting behaviour builds trustworthiness in each member of the team."

WHEN TRUST DISAPPEARS

Trust is in short supply in the Australian business landscape at the moment. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has uncovered multiple instances of misconduct and toxic cultures. The fallout from the Commission has already seen AMP's chair step down, alongside several board members. The ripples are also being felt in industries outside the scope of the inquiry. "Directors are wrestling with this," Kirk says. "How can we build a trustworthy culture? What will cause people to start to trust institutions again?"

While the Commission is likely to lead to some practical changes in the way Australian businesses operate, Kirk says this will not necessarily affect the fundamentals that caused things to go wrong in the first place. He thinks directors and other business leaders need to reflect on the importance of the ethical basis of trust, or nothing will really change. "If we are to rebuild trust in politicians, company directors, priests and all sorts of institutions that have lost the trust of people, we need to understand that trust is built by moral conduct not pragmatic or even winning conduct," Kirk says.

A man with many feathers in his cap, Kirk isn't talking flippantly about moral >>

01: David Kirk with the Rugby World Cup 1987.

> “Props trust that locks will push in the scrum, locks trust props will lift them in the lineouts. You have to trust the coach's selection decisions, defence lines have to trust each other. There can be no team cohesion without trust.”
>
> David Kirk

frameworks; it's a subject he's familiar with. After retiring from international rugby after the 1987 World Cup, he took up a Rhodes Scholarship at the University of Oxford, where he gained a degree in Philosophy, Politics and Economics. Kirk draws on this academic knowledge of philosophy as he talks about different moral frameworks and how they influence the development of trust. He notes there are two broad frameworks governing moral behaviour.

Consequentialism is the moral framework that most of the business and political world has followed for a long time. Under this framework, the right thing to do is based on the outcome of your actions. “Which in many contexts makes a lot of sense, because if you look at the outcome, and the outcome is good, then you must have done the right thing people think,” Kirk says.

But he gives an example of how utilitarianism, the consequentialist moral theory that says the right action is the action that produces the greatest good for the greatest number, has undermined trust. “Globalisation has meant that what is good for the world economy in aggregate is often not good for particular people in particular countries. Decisions that produce the greatest good for the greatest number undermine the trust of the people who do not see the benefits of the decisions.”

“Free trade is a good example of this. It's inarguable that trade increases the net economic wealth of trading nations. But the benefits of trade are not evenly distributed. In the USA the technologists in Silicon Valley are huge winners, the steel makers in Pittsburgh are big losers.”

The second moral framework Kirk references is Kant's theory that the right action is the action that fulfils your moral duty. In this theory it doesn't matter what the outcome of the action is; so long as it fulfils a moral duty then it is the right thing to do. Kirk notes, “Donald Trump has retained the trust of many Americans because he has tried to keep his promises, that is, he has done his duty by the voters who voted for him. He has set out to build the wall, change trade agreements, make the Europeans pay more for their own defence and so on. Whether you like the policies or not, his sticking to them after the election has made him trustworthy for his base.”

Kirk says consequentialism as a moral framework does not instil trust any more. “For many people outcomes are too open to manipulation and varied interpretation. Businesses need to think more carefully about communicating a duties-based moral framework. Boards need to be clear that whatever the outcome, some duties are inviolable.”

Kirk says, “Unless we are prepared to take a pretty rigid approach to a duties-based moral framework, we're not going to get ourselves out of this massive trust deficit.”

DOES DISCLOSURE LEAD TO TRANSPARENCY?

One of the ways regulators and politicians have tried to improve trust in institutions has been to demand more disclosure. They have turned to paperwork in a bid to create trust, requiring more and more disclosure from business. But Kirk says more disclosure does not equal greater transparency. He says while disclosure helps to some extent, after a certain point it can do more harm than good. “Take remuneration for senior executives,” he says. “Detailed disclosure has resulted in the exact opposite of what proponents of disclosure wanted. Disclosure has caused salaries to go up, not down. Boards never go to chief executives who are at the top of pay bands and say ‘Oh, it looks like you're being overpaid, you'll have to go down’, that doesn't happen. It all gets benchmarked up, nothing gets ratcheted down.”

In Australia, banks already face hefty disclosure requirements, but that hasn't stopped the bad behaviour that is being highlighted by the Royal Commission. "There's a stupendous amount of information banks have to give to their boards and their regulators. There's just no way in the world that all of that increasing disclosure has resulted in increasing transparency. It just overwhelms regulators and befuddles boards. Instead of directors being able to focus on say, 50 pages of reading that is actually important, they have to wade through 500 pages, 450 pages of which are merely disclosure for the sake of it."

THEORIES IN PRACTICE

Kirk admits that until recently he has approached trust and morals in "much the same context as I suspect most other board directors have been thinking about it. 'Think about what the right outcome looks like and do what will deliver that'." However he now believes, while that's still an important way to think, it's probably not enough to build and maintain trust. "As directors we need to be more explicit about what we understand our duties to be and always act according to them."

The next step is working out how to put these theories into practice. "I don't think it's impractical to talk about ethical theories in the context of business management and board directorship. Maybe the Institute of Directors should mandate a course in moral philosophy for directors", he laughs.

01

02

01: David Kirk, present day.
02: David Kirk holding the Rugby World Cup 1987.

Governance at the museum

As the Museum of New Zealand Te Papa Tongarewa celebrates its 20th anniversary, Kate Geenty talks to its chair Evan Williams about the challenges and rewards of governing the national museum, which included blurring some governance lines to guide the institution through tough times.

01

Toi Art entrance, 2018.
Photograph by
Kate Whitley. Te Papa.


02

When Evan Williams first became the chair of Te Papa's board in 2013, he admits he was much more hands-on than is usual for a governance role. It was a tough time for the museum, which was facing an annual deficit of up to $14 million after two loss-making exhibitions and a turbulent time. Te Papa's chief executive resigned, and Williams was effectively in the hot seat until a replacement was found.

"I got brought on originally because there was a clear set of signals that there was an issue, and I sorted that issue out," Williams says. "But in order to do that I had to dive very deeply, roll my sleeves up and actually get personally involved. This walked past all the normal governance/executive distinctions, but it had to happen at that point."

Williams describes this first phase of his term as a time of reconstruction, reorganisation and financial discipline, as the board clawed back the deficit to $8.7 million, and stabilised the museum.

One of the projects which Williams was deeply involved with during this period was the *Gallipoli: The scale of our war* exhibition, a collaboration with Weta Workshops. The project took just nine months to complete – a mammoth effort considering exhibitions of that size would typically take years.

"[Weta Workshops founder] Richard [Taylor] and I sat and looked at each other across a room in July 2013 and knew that we had to open on Anzac Day in 2014. We didn't have any designs, we had a concept only. Essentially we made a schoolboy pact. We said, 'We are going to honour the memories of the men who died and their families, in a manner that they would be really proud of'. We walked a really fine line of not glorifying war, not shying away from the horrors and reality of war, not making it into some romanticised love story, and helping people to understand what it was like to be there. That's what those big figures were designed to do. They were designed to produce an emotional connection."

The Gallipoli exhibition went on to become Te Papa's most popular ever, with more than two million visitors. More than 90 per cent of people who visited it said their view of war had fundamentally changed as a result of seeing the exhibition.

CHALLENGES AND REWARDS OF MUSEUM GOVERNANCE

While the Gallipoli exhibition was a triumph, it isn't always straightforward to define success in a museum environment. As well as weighing up the commercial considerations needed to ensure Te Papa remains financially viable, its directors also have to take into account cultural, scientific and public service concerns. "They don't always sit in the same box and they don't always point in the same direction," Williams says.

In business terms, Te Papa is no minnow, with nearly $2 billion in assets. Economic studies show it drives a large proportion of Wellington's tourism, contributing around $100 million a year net GDP to the capital. Te Papa has an operating business of around $64 million and has to earn around half of that itself, through things like ticketing, events and conferences, retail merchandising and exhibitions.

>>

LEGISLATION

Te Papa was established by the Museum of New Zealand Te Papa Tongarewa Act in July 1992. Under the act Te Papa is mandated to provide a forum in which the nation may present, explore, and preserve both the heritage of its cultures and knowledge of the natural environment in order to better:

- understand and treasure the past
- enrich the present, and
- meet the challenges of the future.

Source: Te Papa's Statement of Intent, 2017–2022

01: Evan Williams, Chair of Te Papa, 2018. Photograph by Michael O'Neill. Te Papa.
02: Visitor at Gallipoli Opening, 2016. Photograph by Kate Whitley. Te Papa.

From a cultural standpoint, Williams describes Te Papa as a bicultural institution with a multi-cultural mandate, which makes it unique in terms of global museum practice. He says it also combines a number of museums in one – a national art gallery, a natural history and science museum, an ethnographic museum, and a history museum.

"It's a very rich and rewarding environment, but you do find you get into these multi-faceted issues where you can't simply say 'well, we're going to sell x number of that product which will bring in so many dollars, and it costs z to make, and the result is this.' All businesses have complex pieces around them, but this one happens to have some very, very intangible values that are very hard to measure but are actually almost the strongest drivers to the value that the museum delivers."

20 YEARS OF TE PAPA BY THE NUMBERS

- 170 exhibitions have opened
- 1,580 works of art have been treated by conservators
- 700 scientific expeditions
- 1.3 million shakes of the earthquake house
- 3,500 children have been lost (and found) at the museum

01

BOARD COMPOSITION

Museum governance requires a diverse skill set to be able to balance the mix of commerce and culture. In his time as Te Papa chair, Williams has worked with three different government ministers to build what he calls a portfolio board. Te Papa's board has an even gender split, something Williams says he has actively driven, and there's also a diversity of skills and experience. "If you think about governance, it represents a multiplicity of people, multiple people from multiple backgrounds, who have different experiences to offer, and in this job, people who can bring experiences of different cultures."

Williams says Te Papa's board members need to be able to have a view on national issues over many subjects, deal with complex specialist areas in a real way, and make choices. "Creating an effective governance culture and holding the organisation to account requires bold choices, often within conflicting strategies. What is not done is usually harder to define than what is done. The debate and discussions within the board, senior management and specialist staff is rich, complex and value-laden. With such questions on the table governance is exciting and demanding. From my perspective the single biggest contribution to the future of Te Papa at a governance level has been the quality, diversity and reach of the board members with whom I have been privileged to serve."

Williams likes working with directors who aren't afraid to ask questions and push boundaries. "As a chair my briefing to incoming board members starts with exactly the same statement, which is: 'My favourite questions start with the words 'this might sound like a dumb question, but...'. When I chair I really encourage people to venture out of their comfort zone and not stay safe. You have to be able to say 'I'm sorry but I don't understand this, could you run that one by me again?' Invariably those kinds of questions uncover an issue."

CONTROVERSY AND CRITICISM

Te Papa has occasionally attracted controversy in the 20 years it has been around, copping criticism about issues ranging from the shape and size of its building, through to accusations of dumbing down exhibition and content choices.

Williams says while some of that criticism has been valid, some hasn't. "Te Papa has mis-stepped here and there, but it's always been in sensitive areas. In the arts it's very unusual for people to agree, especially if you are at the forefront of things."

Te Papa isn't shying away from potential controversy in the future, and is currently working on a project that Williams says will provide a safe place for difficult conversations. "That concept is in itself highly controversial. It will be conversations, and not debates, and not with politicians. People will talk about difficult issues, the ones we don't talk about calmly as a country."

Williams can't go into details about the content or timeline for these discussions, but says planning is well underway.

Providing a forum for ideas and discussions is just one of the ways Te Papa is meeting its mandate of "understanding the past, enriching the present, and meeting the challenges of the future", which is outlined in the *Museum of New Zealand Te Papa Tongarewa Act 1992* (see box on previous page). Education is another. Hīnātore is an education project that the museum is rolling out in schools throughout the country, in conjunction with the Ministry of Education. Drawing on Te Papa's digital and traditional resources, Hīnātore uses culture to turbo-charge learning, says Williams. "The way I put it, as a non-specialist, is if you have someone, say a young teenage Māori boy who is not interested in maths, and you expose him to the learnings of his ancestors with navigation and waka, and he can see digital footage of some carefully curated things from travelling waka from the day, as well as some actual taonga, the chances of that teenager scoring 60 or 70 per cent in maths instead of 20 are quite high. What we've found is these cultural approaches to education motivate people really, really strongly."

EXPANDING THE REACH

The national museum is looking to extend its physical footprint beyond the initially somewhat controversial edifice that has graced Wellington's waterfront for the past 20 years. Planning is well underway to open new premises in Manukau, Auckland.

Williams says this project will take the interactivity that is a hallmark of its Wellington base and build on it. "It's what we call the platform for participation. The audience, the community, curates or co-curates what we do." Te Papa is looking to put a funding case to the Government for the Auckland project within the next year.

Williams's term as chair will end next year. He expects Te Papa to continue to innovate and develop, keeping an eye on the future, as much as the past. "One of the things that has been fantastic to watch is just the pace at which the organisation is moving. People associate museums with slow and steady; it's not true at all, not at this place. These guys move with lightning speed."

He says the most exciting opportunities for the future of Te Papa lie in continued research within the natural history collections, contributing to new developments in science, pushing further into community and formal education at a national level, and standing out as a guardian of cultural and religious tolerance in New Zealand. "I think the next period of Te Papa's development will be even more exciting than the last."

> "When I chair I really encourage people to venture out of their comfort zone and not stay safe."

01: Child with headphones at Toi Art, 2018. Photograph by Jo Moore. Te Papa.
02: Toi Art visitors view *t* by Rebecca Baumann, 2018. Photograph by Jo Moore. Te Papa.
03: Visitor views Indra's Bow by Tiffany Singh, 2018. Photograph by Jo Moore. Te Papa.
04: Toi Art spatial view of build design, 2018. Photograph by Kate Whitley. Te Papa.

TE PAPA'S MOST POPULAR PAID EXHIBITIONS

Exhibition	Dates	Visitor numbers
Lord of the Rings	19 Dec 2002–21 Apr 2003	219,539
Monet and the Impressionists	14 Feb 2009–17 May 2009	152,094
Whales Tohora	1 Dec 2007–10 May 2008	140,207
Bug Lab	10 Dec 2016–17 Apr 2017	137,741
Dreamworks	12 Dec 2015–28 March 2016	135,107

Source: Te Papa. NB: Gallipoli: The scale of our war is the most popular exhibition in Te Papa's history but is free to visit.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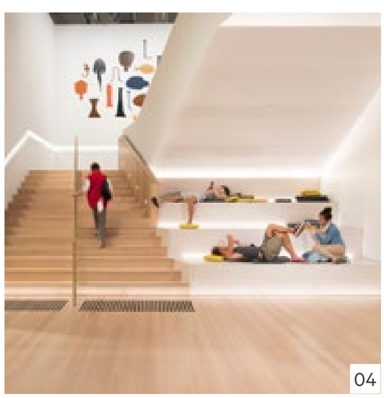
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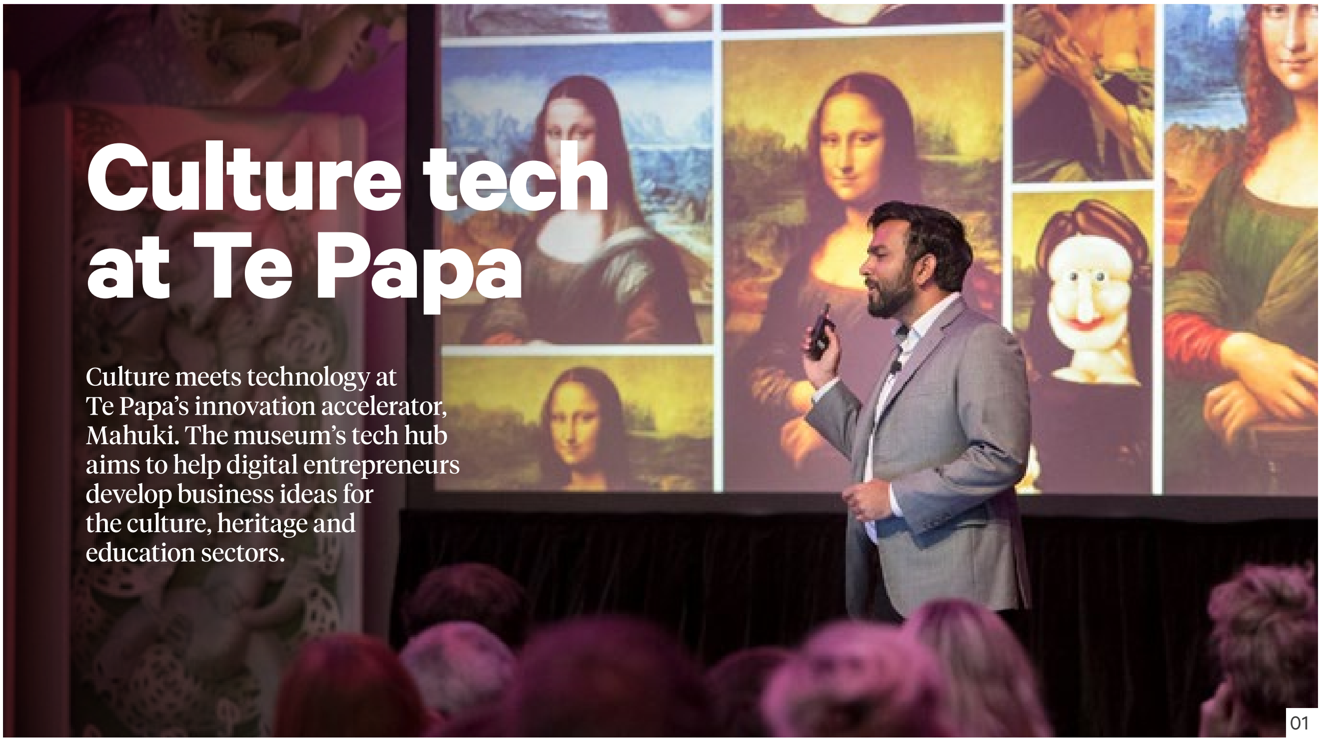
FACT BOX

- Te Papa opened on 14 February, 1998
- Its busiest day was opening day, with 35,000 visitors
- There have been more than 28 million visitors to the museum over the past 20 years
- Te Papa receives around $30 million a year in Crown funding, and earns about the same again from non-Crown sources including commercial enterprises (corporate functions, food and retail outlets, car parking, museum tours); exhibition revenue, grants, and investments; and donations and sponsors.



Culture tech at Te Papa

Culture meets technology at Te Papa's innovation accelerator, Mahuki. The museum's tech hub aims to help digital entrepreneurs develop business ideas for the culture, heritage and education sectors.

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Te Papa chair Evan Williams says Mahuki is an example of the museum pushing the boat out into unchartered waters – mixing traditional museum skill-sets with high-tech specialists, innovators and entrepreneurs. Mahuki has its own advisory board, which includes former Te Papa Chief Executive Rick Ellis, and Te Papa board member, Fran Wilde. "Te Papa has been able to maintain direction and discipline in a governance sense while letting the organisation explore uncharted water. Overall risk control lies with Te Papa and the dual structure has allowed Te Papa to take risks in a controlled fashion but create new knowledge and skills and absorb those into the main board," says Williams.

CULTURE AND COMMERCE

Museums are complex and sizable businesses, so would-be innovators and entrepreneurs need to display commercial savviness. "We are actually a big business, so we are interested in enterprise solutions that will help us run our business more efficiently. We are very interested in data, insights, analytics and ideas around that," says Mahuki General Manager, Tui Te Hau.

But the business aspect is just one of the considerations Mahuki takes into account when choosing participants for the programme, with cultural and social drivers equally important.

"We are all about being a world-leading accelerator and producing great commercial outcomes, but at the same time, we're interested in a much wider range of results, in social enterprise and ideas that actually empower communities, and create prosperity through cultural opportunities," Te Hau says.

Mahuki looks for ideas that can help Te Papa grow and retain its audience, and tell New Zealand's stories in new and exciting ways, including through the use of emerging technology such as virtual reality, holograms, gaming, gamification and animatronics.

"Contemporary audiences want to be empowered to contribute to their national story, rather than simply being served information. For this reason, we need to include the voices of our communities, enable conversations and sharing, and provide places where audience-generated content can sit alongside more traditional and authoritative narratives," Te Hau says.

Since its inception more than two years ago, ideas developed within Mahuki include virtual reality tours of artists' studios, digital treasure hunts and animated portraits of historical characters that come to life to tell their stories.

THE PROCESS

To apply for Mahuki, teams go through a selection process that starts with an online application, followed by interviews, and finally an invitation to join the programme.

Te Hau says it's important to Te Papa that the teams taking part reflect the community. "We've grown Māori and Pacific participation in Mahuki from about 7 per cent to 41 per cent over the past two years," says Te Hau. "We are a mainstream programme but we've managed to achieve really great results in terms of diversity."

Mahuki provides $20,000 in financial assistance to teams that go through the programme. The teams also get a four-month residency at the Mahuki hub in Te Papa, which gives them full access to the museum's resources, experts and networks. "For the entrepreneurs we have

Challenges Mahuki is looking to solve

How can culture and heritage institutions:

- create a more multi-lingual experience for visitors?
- improve the navigation experience for visitors?
- create more opportunities for dialogue between visitors, staff or curators?
- create a more inclusive experience for visitors with cognitive, developmental, intellectual, mental, physical, or sensory accessibility needs?
- enable more New Zealanders to participate in important and difficult conversations with galleries, libraries, archives and museums, such as discussions about post-Treaty settlements?
- encourage and inspire life-long learning for different age and community groups?
- streamline their venue hire and event management systems?
- create better staff inductions and learning opportunities for staff?
- better track their collections and objects without having to individually tag them?
- improve operational practices to have a better environmental impact?
- invent sustainable solutions that care for the natural environment?

Source: Mahuki.org

content. We are digitising our collection items and we need stories told," Te Hau says. "We have this great content that those technologists can use for their stories."

At the end of the programme, Mahuki hosts an event where participating teams can showcase their work to potential investors and customers.

Te Papa also has the option to take equity in the teams. "We don't do that lightly," says Te Hau. "What it means is Te Papa has skin in the game and hopefully those teams go on to do really well and we benefit from that and can reinvest back into the museum."

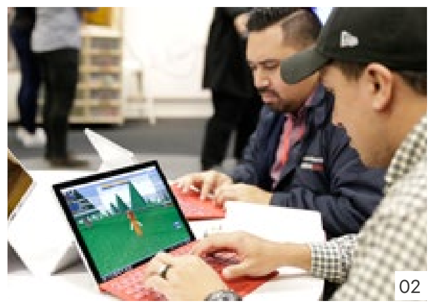
GLOBAL NETWORK

As well as giving access to Te Papa's resources, the programme also hooks participants into the global GLAM (galleries, libraries, archives and museums) network. Te Hau says Te Papa has a strong global reputation, and through this network there's not a market in the world it can't reach. "At 1.8 million visitors per annum, Te Papa is very sizable on the international stage, and it provides really interesting opportunities for entrepreneurs and innovators."

Mahuki has also signed up to the INCO network, a French non-profit organisation with a global network to help social and environmental start-ups. This gives Mahuki's start-up teams access to INCO's Jump Seat Express Programme – where teams can have a one-week learning expedition to explore new avenues for growth in a foreign market.

Access to these global networks was one of the things that attracted recent Mahuki alumni Collaborate to the programme. An all-women team, Collaborate is creating a volunteer-matching programme, which aims to streamline the process of finding and screening skilled volunteers and connecting them with community organisations and not-for-profits. "They could have gone to a number of different places but their interest in coming to Mahuki was that museums around the world can have anywhere up to 2000 to 3000 volunteers on their database, so in that case it's a really great platform for them to launch from," Te Hau says. "And who doesn't want to have Te Papa or the Smithsonian or the Louvre as your customer?"

Te Hau says Mahuki was the world's first culture accelerator, but since its inception other museums have set up their own incubation programmes. "What we're seeing now is a growing network of cultural institutions setting up similar types of programmes, so that provides all sorts of amazing opportunities in the future for us to link up."



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01: Mahuki showcase dinner, 2016. Photograph by Michael O'Neill. Te Papa.
02: Mahuki visits Hīnātore Learning Lab, 2017. Photograph by Te Papa.
03: Tui Te Hau at Mahuki showcase dinner, 2016. Photograph by Michael O'Neill. Te Papa.

The rising tide

Lloyd Kavanagh, Chair of MinterEllisonRuddWatts assesses the risks and implications of climate change on business models and assets.

LLOYD KAVANAGH
CHAIR OF MINTERELLISONRUDDWATTS

A wave of consciousness of the global impact of climate change has inundated directors. But some are still coming to terms with the financial implications for their own businesses.

One of the fundamental duties of directors is to exercise the care, diligence and skill that a reasonable person would exercise in the same circumstances. This involves actively considering three types of climate change risks on businesses:

- physical risks
- economic transition risks, and
- liability risks.

This is not about whether one thinks climate change is a moral responsibility, or whether it is caused by human activity; it is about the commercial and financial impact.

PHYSICAL RISKS

Physical risks are the issues we think of first. Several are helpfully listed on the Ministry for the Environment's website. They include higher temperatures, more extreme weather, rain-pattern changes, and rising sea levels.

Farming and horticulture are obvious sectors impacted in New Zealand. As the climate shifts, so do viable land uses. Tourism may also be affected, as seasonal weather patterns shift and biodiversity is impacted.

But there are broader impacts – for example, flooding on property portfolios or supply-chain networks. New Zealand has the seventh largest coastline in the world, with much of our infrastructure on the coast or rivers.

The implications also flow through to lenders and insurers who have exposure to other business in the front line, and therefore the availability of finance and insurance in future may be affected.

Addressing these risks involves reviewing business models, assets and supply chains to understand where there is exposure to physical risks of climate change and potential for damage to assets.

ECONOMIC TRANSITION RISKS

More subtle, but broader, are the economic transition risks as regulations and market forces respond to the threat of climate change. These are not yet as widely discussed, even though they arise whether or not the physical risks eventuate.

New regulation

Our new Government has flagged the priority they will be giving climate change, which will result in regulatory change.

They have already ruled out new permits for offshore oil and gas exploration, and announced fuel-tax increases. The Zero Carbon Bill is currently being drafted, after more than 10,000 submissions were received. It may be in force as early as April 2019.

Regulatory measures need not all be negative, as there could be significant carrots in the form of subsidies for clean tech and revenue from the Emissions Trading Scheme. But there are likely to be some sanctions.

While obligations are yet to be clarified, it's important for directors to think about their businesses' carbon footprints, and the impact of new regimes on the bottom line.

Investor and consumer reaction

Economic transition risk also flows from the reactions of investors and consumers.

An example is the New Zealand Super Fund reallocating close to a billion dollars away from companies with high exposure to emissions and reserves, into lower-risk companies, to ensure its portfolio is more resilient to climate change risks. The New Zealand Super Fund is open about its motivation – it does not yet think the market has fully priced the impact of climate change.

Consumers are also asking questions about the carbon footprint of the goods and services they buy, with Tesco labelling its milk since 2009.

But the transition towards a greener economy isn't all downside risk – there are also opportunities for agile and well-placed businesses. For example, there is opportunity to promote New Zealand as an international leader in low-emission production of export goods and services. We are already seeing television advertisements promoting the benefits of paper from sustainable forests processed using geothermal power, and of electric vehicles powered by New Zealand's high proportion of hydro-electric generation.

Stranded assets and business models

Changes of this magnitude will shift the value of assets and of businesses. A 2015 study published in *Nature* estimated a third of oil global reserves, half of gas reserves and more than 80 per cent of known coal reserves would remain unused if targets under the Paris Agreement are met. The value of companies that extract, distribute, or rely heavily on fossil fuels could drop when this risk is priced in.

On the flip-side, businesses with renewable energy sources may become more valuable. Some New Zealand businesses are moving to clean energy to avoid having stranded assets. For example, Z Energy has rolled out seven fast-charge electric vehicle charging stations at sites in Auckland, Turangi, Wellington and Christchurch, and Ports of Auckland is planning to be New Zealand's first zero emission port by 2040.

A key responsibility of directors is to require their businesses to re-evaluate operations to assess the impact of changes.

LIABILITY RISKS

Internationally there are cases using the courts as a way to hold central and local governments accountable for climate impacts. Groups are also looking at whether individual companies may have liability for their environmental impact or failure to adequately disclose risks to investors or customers.

In Australia recently, ecology graduate Mark McVeigh filed a claim in the Federal Court against his superannuation scheme provider REST for failing to disclose its strategies to deal with climate-related risks – the case is yet to be heard.

Liability risk could also be personal. In a widely published 2016 memorandum, leading NSW barrister Noel Hutley SC argued that Australian company directors who fail to consider and disclose foreseeable climate-related risks could be held personally liable for breaching their duties under the Corporations Act. Hutley warned that it is "only a matter of time" before Australia sees litigation against a director. Additionally, regulators from ASX to APRA and ASIC have all emphasised that climate change presents financial risks, rather than 'ethical' or 'environmental' risks.

In New Zealand, regulators have not yet been so vocal, but the issue is coming. Section 137 of the Companies Act sets out an equivalent duty to the Corporations Act, requiring directors to exercise care, diligence and skill. Though this is a duty owed to the company, shareholders can bring derivative actions for the company.

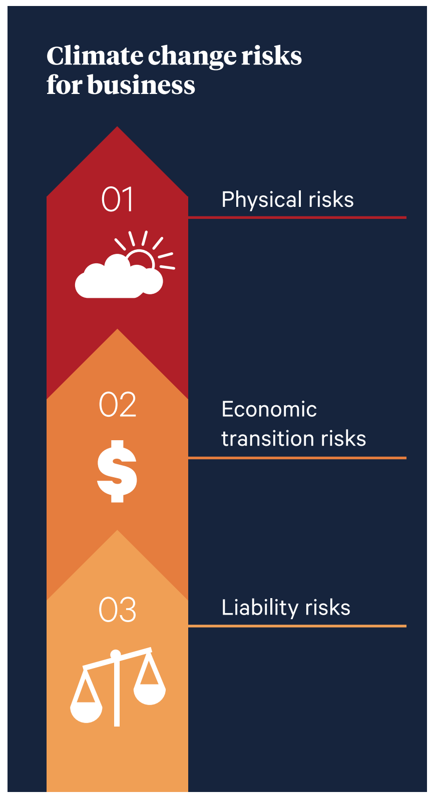
Failure to comply with disclosure requirements is also a risk. For listed companies, they include NZX Listing Rules for non-financial disclosure of environmental, economic and social sustainability risks. Inadequate disclosure of risk under the Financial Markets Conduct Act when issuing financial products may also bring responsibility for companies and directors.

> "Ports of Auckland is planning to be New Zealand's first zero emission port by 2040."

SO WHAT TO DO?

For directors, it doesn't necessarily mean elevating climate-related issues to the top of the priority list. However, it does mean being explicit that climate change is being considered to see if it is likely to have material and financial implications.

Directors can ask their management teams for reports on implications of climate change for their business model and assets in board meetings. Scenario planning is useful, as it highlights the consequences of climate change on the business are being considered as events unfold. Scrutiny of risks and opportunities is key, as well as both management and disclosure.



Lloyd Kavanagh leads MinterEllisonRuddWatts' financial services practice, and is a commentator on key governance issues. In December 2017, he presented at the Tokyo UNEPFI Regional Roundtable for Sustainable Finance in Asia Pacific on Investors Duties and Obligations to Integrate ESG Issues.

MinterEllisonRuddWatts

Climate change RESILIENCE

The challenges ahead

Steve Walsh, Chief Client Officer, Marsh, looks at what boards can do to build climate resilience and use climate change scenario analysis.

The issue of climate change is becoming more prominent on the boardroom agenda. In fact, 35 per cent of those surveyed in our recent Directors' Risk Survey report said that environmental issues/climate change would have a potential impact on their business in the next 24 months.

This finding aligns with the World Economic Forum's *Global Risks Report 2018*, which ranks climate and environment-related threats as the most likely and most damaging over the next decade.

Steve Walsh

Initiatives such as the 2018 Paris Agreement on climate change have drawn even more attention to this issue, with more than 190 countries indicating their commitment to limiting the rise in global average temperatures to less than two degrees.

As businesses globally look to address immediate and rising climate-related pressures, it is acknowledged that proactive and forward-thinking companies that look to build climate resilience will be those that gain a competitive edge. It is imperative that companies move from a primarily defensive corporate and social responsibility (CSR) focus to an offense-oriented mind set, which embeds climate-related risks, their financial impact(s) and opportunities in the company's strategy and operations.

Some of the challenges ahead are in the form of understanding:

- the impact of climate change on your company's financial performance
- the framework for financial disclosures
- how to generally report on climate risk issues.

Further, it is widely accepted that corporate risk profiles are changing under environmentally driven pressures, and three associated trends have arisen:

1. The growth of responsible investing has led investors and credit-rating agencies to focus on companies' exposure to climate change impacts.
2. Growing requirements for disclosure on sustainable practices.
3. Shifting customer preferences cascading through B2B and B2C supply chains.

In June 2017, the TaskForce on Climate-related Financial Disclosures (TCFD) released a report which focused on the accelerating needs for financial disclosure. The recommendations of the TCFD identified four areas for adoption:

- governance
- strategy
- risk management
- metrics and targets.

These are detailed further in graphic 1.

BREAKING DOWN SILOS

Managing climate risk cannot be the sole responsibility of an individual or group within an organisation.

Research by the MMC Global Risk Center flagged disconnects between corporate finance modelling/risk management and corporate sustainability departments. Their research showed how climate risk assessments can be significantly impacted by a lack of clarity around defining the risks and on which function 'owns' them.

Most organisations know how to mitigate conventional risks, which can be relatively easily isolated and addressed with standard risk-management approaches. The problem lies when it comes to complex risks embedded in interconnected systems, such as those related to climate risks and the changes associated with a transition to a low-carbon economy. Standard approaches simply don't work in instances such as this.

Short-term and limited climate risk analyses will not be sufficient to provide organisations, investors and other stakeholders with a mid- or long-term view of the potential direct physical, financial and transitional impacts of climate opportunities and risks.

Broad ownership and understanding of climate risks and opportunities and the financial impacts and input from across the organisation will be required.

TO HELP: USE CLIMATE CHANGE SCENARIO ANALYSIS

By defining and separating external scenarios, such as changing weather patterns and evolving political and regulatory environments from the internal business plans, scenario analysis ensures that the corporate strategies and plans are robust and viable under different plausible outcomes.

The effects of climate change on specific industries, sectors and organisations are highly variable. Organisations should therefore apply scenario analysis in strategic and financial planning, as well as in their risk-management processes.

Determining the best approach to modelling the financial impact of climate scenarios and mapping a pathway for incorporating climate risk into future planning can be a daunting process, but reference back to the TCFD report will be helpful to you.

Organisations first need to determine which climate scenarios are best suited for understanding their risks. They must then translate climate economic scenarios into meaningful financial terms.

Next, scenario analysis should be integrated into existing risk reporting, again raising the question of processes. For example: is scenario planning for climate change integrated with other corporate scenarios' planning? Who should lead this analysis? And what is the language of scenario planning for climate change?

Finally, organisations need to describe how top-down scenario impacts link to future business performance, mapping out direct and quantifiable impacts.

INCREASING RESILIENCE IS FUNDAMENTAL

As directors and leaders begin to examine how climate change is affecting their organisation, the critical need to increase climate resilience as a business fundamental is evident.

Those who can successfully identify physical and transitional climate risks and integrate these risks into operational and strategic planning, can better position their companies to improve climate resilience.

Graphic 1: Core elements of the TCFD recommendations

- The organisation's governance around climate-related risks and opportunities
- The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
- The processes used by the organisation to identify, assess, and manage climate-related risks
- The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: TCFD, "Recommendations of the Task Force on Climate-related Financial Disclosures," June 2017

Graphic 2: Pathway to incorporate climate-related risks into corporate planning process

Source: Marsh & McLennan Companies, 2018

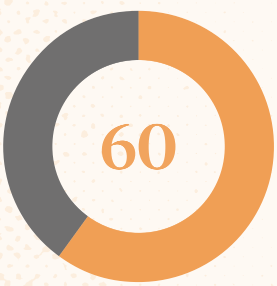
GLC Update

FELICITY CAIRD
GENERAL MANAGER,
GOVERNANCE LEADERSHIP
CENTRE (GLC)

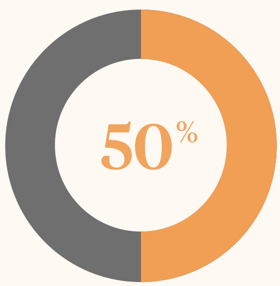
Transitioning to a low emissions economy

Business taking the lead

Chief executives of 60 organisations, forming New Zealand's Climate Leaders Coalition, pledged in July to reduce emissions and play a leadership role in New Zealand's transition to a low emissions economy. The members of the Coalition contribute around 50 per cent of New Zealand's carbon emissions and include Z Energy, Fonterra, Ngāi Tahu Holdings, Air New Zealand, NZ Post, The Warehouse Group, Vector, KiwiRail, and Spark. The Coalition has highlighted its support of the Paris Agreement on climate change and the need to establish an independent Climate Change Commission and carbon budgets set out in law.



CEOs have joined the coalition



Making up nearly 50% of New Zealand's emissions

Te Aroha Morehu of Ngati Whatua Orakei and Mike Bennetts, Z Energy Chief Executive, at the Climate Leaders Coalition launch on 12 July.

First step towards a Zero Carbon Act

The first round of public consultation on the policy behind what the Zero Carbon Bill may look like took place in June/July. It is anticipated that the Bill will:

- set targets to reduce emissions by 2050
- introduce stepping stones (or budgets) to reach those targets
- set up the institutions to provide independent, expert advice and hold governments to account
- introduce ways to assess risks and create a plan to adapt to the impacts of climate change.

The development of a Zero Carbon Bill is largely in response to recommendations from the previous and current Parliamentary Commissioner for the Environment and the Productivity Commission. The Government has indicated that it is looking to have legislation in place by mid-2019.

The IoD's submission (available at iod.org.nz) emphasises that business needs clarity and certainty about the approach and commitments to climate change and we supported the introduction of a Climate Change Commission to provide strategic leadership. We submitted against introducing mandatory reporting on climate change matters at this stage. We will continue to monitor and keep members up to date on developments.

The Governance Leadership Centre (GLC) is the IoD's research, policy and thought leadership hub.

What Matters

Focus on whistleblowing

Whistleblowing should be top of mind for directors, amid keen media interest in how organisations manage misconduct and unethical behaviour. However, the 2017 IoD/ASB Director Sentiment Survey found that only 32 per cent of boards had discussed whistleblowing and Speak Up provisions in the 12 months prior.

Recently, New Zealand's legal sector has come under scrutiny, after allegations of sexual harassment and misconduct at one of our largest law firms, Russell McVeagh. The allegations led to Dame Margaret Bazley, ONZ DNZM, Distinguished Fellow of the IoD, conducting a review of the law firm. Dame Margaret found that at the time of the allegations Russell McVeagh had a "work hard, play hard" culture that encouraged young staff to drink to excess and in some instances led to "crude, drunken and sexually inappropriate behaviour".

Dame Margaret noted a series of governance and leadership failures and set out detailed recommendations aimed at changing Russell McVeagh's culture.

In response, Russell McVeagh's chair, Malcolm Crotty, apologised for the incidents and the way the law firm handled them. "We believed that we had a speak-out culture and it is clear from this review that we were misguided in this. We are committed to working with our people to create a true speak-out culture across our organisation."

He went on to say that the firm was "determined to challenge every part of our management practice to ensure our people feel comfortable to speak out to ensure unacceptable behaviour is eradicated."

Our DirectorsBrief *Whistleblowing, Speak Up culture and the board*, published in July, explored whistleblowing and Speak Up arrangements and looked at the board's role in ensuring ethical conduct in the organisations they govern.

The Chief Ombudsman, Peter Boshier, also provided his insights for the brief. Boshier encouraged directors to consider four key points:

1. Have a policy, make it accessible, and talk about it frequently. Make sure your staff know how to speak up and what will happen if they do.
2. Develop a strategy for supporting staff who blow the whistle. If someone does make a disclosure within the organisation, consider the risks they face from speaking out and take appropriate action. Keep them informed – 'check in' with them, and make sure they are not mistreated in any way for making the disclosure.
3. Make sure the whistleblower's confidentiality is maintained in accordance with the Protected Disclosures Act 2000.
4. Finally, recognise the value to your organisation of a culture that encourages speaking up.

The State Services Commission is currently leading a review of the Protected Disclosures Act to make sure it is still fit for purpose and is in line with international best practice.

>>

GLOBAL NETWORK OF DIRECTOR INSTITUTES

First ever global director survey for GNDI set for release

The first ever global survey of directors for the Global Network of Director Institutes (GNDI) is set for release later this year. The IoD in New Zealand has led the survey, which received 2,159 responses, from 17 participating GNDI member organisations around the world.

The IoD is a founding member of the GNDI, which collectively represents more than 130,000 directors and governance professionals globally.

The survey aimed to tap into what is top of mind for directors around the world, focusing on key governance issues. It covered regional and economic issues, business confidence, shareholder and stakeholder engagement, environmental and social issues, board evaluations and technology and information governance.

The GNDI is an association of sovereign state director organisations. It provides a global forum to share experiences, case studies, leading practices and current or emerging corporate governance issues impacting the boardroom and its stakeholders.

All DirectorsBriefs, submissions, guides and other governance resources are available at **iod.org.nz**

What's currently top of mind for your CEO?

KPMG New Zealand's 2018 CEO Outlook Survey results

ROSS BUCKLEY
EXECUTIVE CHAIRMAN KPMG

New Zealand CEOs are still focused on realistic growth – despite a number of uncertainties impacting their landscape in 2018. KPMG New Zealand's Executive Chairman, Ross Buckley, provides comments and context on the firm's annual CEO Outlook Survey for 2018.

The *2018 KPMG New Zealand CEO Outlook Survey* is run in conjunction with a KPMG global survey of 1,300 CEOs across 52 countries. Locally, 50 CEOs from different industries were surveyed.

The latest survey showed a slight softening of confidence among New Zealand CEOs – with just 64 per cent expressing confidence in our outlook for the next three years (this compares to 74 per cent 12 months ago).

Ross Buckley believes there are various factors contributing to this – and it's essentially a continuation of the VUCA effect (*Volatility, Uncertainty, Complexity and Ambiguity*) that today's CEOs are forced to grapple with. "Leaders have to make decisions while multiple factors are shifting around them – some they have influence over, some they don't."

One factor which has a significant impact on business confidence is the growing skills shortage.

"This is a big one, and it's not unique to New Zealand," says Buckley. "Many organisations are struggling to find the right skills to grow. There are two ways of looking at it – do you need to see growth before you hire, or do you secure the people you need in order to grow? Organisations with a growth strategy like ourselves will take the latter approach."

In addition to the global vagaries such as Brexit and the Trump administration, New Zealand leaders have also faced the uncertainties of a new government. This has included the increase in the minimum wage, removal of the 90-day employment trial and greater requirements for overseas investors, as well as regional impacts such as the Auckland fuel tax, mycoplasma bovis, and the freezing of Taranaki oil and gas permits.

New Zealand CEOs' expectations of growth within their own organisations has declined since the 2017 Survey – with most now forecasting less than 2 per cent top-line revenue growth over the next three years.

Buckley views this as a somewhat unambitious result, given that our 2018 GDP growth rate is already above 2.5 per cent, with forecasts higher for next year. "As a board, you would expect to be driving your organisation to at least outperform the national GDP growth rate. Or, to put it bluntly, if you're not growing faster than the national economy, you're going backwards."

Buckley points out that New Zealand has a tranche of high-performing companies that set high growth ambitions – and fulfil them – regardless of changing economic conditions.

KPMG New Zealand has recently released its *2018 Customer Experience Excellence Report*. It shows that globally the top-performing brands who focus on customer excellence have 54 per cent higher revenue growth (in aggregate) than their lower-performing counterparts. "This report identifies the six pillars of an outstanding customer experience ... and those brands that capitalise on this to differentiate themselves in the market are seeing clear revenue and profit increases."

The 'Six Pillars of Customer Experience Excellence' include:

- personalisation: using individualised attention to drive an emotional connection
- integrity: being trustworthy and engendering trust
- expectations: managing, meeting and exceeding customer expectations
- resolution: turning a poor experience into a great one
- time and effort: minimising customer effort and creating frictionless processes
- empathy: achieving an understanding of the customer's circumstances to drive deep rapport.

The 2018 survey highlights a "return to territorialism" as the greatest threat to growth, with nearly two-thirds of New Zealand CEOs identifying this threat.

In releasing its survey findings, KPMG New Zealand has invited feedback and commentary from industry leaders. This includes Sam McIvor, CEO of Beef and Lamb New Zealand, who says that his industry is "facing its most disruptive time since the economic reforms of the 80s."

He agrees that Brexit and the US Government's protectionist trade direction – coupled with other disruptors such as alternative proteins – is testing trading confidence.

Yet McIvor remains excited about the future, saying the New Zealand red-meat industry has "positioned itself for exactly this time". The industry has made solid efficiency gains over the past two decades, has strong fundamentals in place, and has a perfectly positioned market offering for New Zealand's premium natural products.

"This is our time to shine, and our farmers and exporters are definitely up for it."

Just over half of New Zealand CEOs (58 per cent) felt "personally prepared to lead their organisation through a radical transformation of its operating model to maintain competitiveness", compared to 71 per cent of global CEOs.

When advising clients who are embarking on a transformation project, perhaps for the first time, KPMG New Zealand recommends starting with a series of smaller investments that have clear scope to quickly deliver first wins. "Jumping into a large-scale project is old-world thinking," says Buckley. "Digital transformation is about people, process and technology. There are likely to be pockets of agile capability in your organisation – consider how you can extend those out to introduce new ways of thinking and acting."

Buckley is also a strong believer in the value of the in-house challenger model. "This means having a team of your own people, working in an incubator-type environment, who are tasked with disrupting your organisation's business model – before someone else does it to you."

A further 76 per cent think their board's expectations of return on investment (ROI) from digital transformation is "unreasonable".

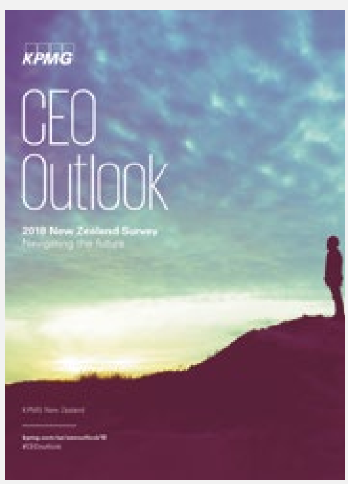
Digital is not just about maintaining your market position – if you don't have a digital footprint, you will not be relevant. It is really important for those in leadership and governance to understand the new economy. There are many examples where companies are holding on to data tightly, expecting to generate extra profits, and are not doing so as it really only becomes valuable when shared and integrated with other data sets.

KPMG

WANT TO KNOW MORE?

You can access more information on the 2018 KPMG New Zealand CEO Outlook Survey report from our website **kpmg.com/nz,** and download a copy of the 2018 KPMG New Zealand Customer Experience Excellence Report. We are happy to share further insights – including benchmarked data by industry sector – with interested parties.

Please feel free to contact Ross on 027 279 6544.



kpmg.com/nz/ceooutlook18

kpmg.com/nz/customer

Increasing challenges for directors

2018 IoD Directors' Fees Report

It's a "challenging and exciting time to be involved in governance," says EY Partner Una Diver.

Speaking after the release of the 2018 Institute of Directors (IoD) *Directors' Fees Report*, which was carried out in partnership with EY, Diver said being a director was "not for the faint hearted".

She says the focus on directors' obligations and accountabilities rose sharply after the implementation of NZX's corporate governance code last December. "At the same time directors were required to grapple with tough, new compliance obligations under our updated Health and Safety law and to manage the increased risk to their businesses. And there is increasing shareholder pressure on directors to be accountable for business performance."

Diver says directors' fees have yet to reflect these changes. The *Directors' Fees Report* shows that the median fees for non-executive directors rose modestly last year, up 2.3 per cent to $45,000, from $44,000 in 2017.

Directors are also under increasing public scrutiny, with climate change, ethics, culture, reputation, and conduct all becoming important considerations for boards.

IoD Chief Executive Kirsten Patterson says it's important to look at the growing demands of directors' roles and consider that as part of discussions around fees. "As the importance we place on directors increases, and the skills they require continue to expand, it is vital that we assess how we fairly remunerate directors for their expertise and contribution."

Diver says the situation in Australia, where directors have come under scrutiny thanks to both a Royal Commission into banks and financial services and an inquiry into the Commonwealth Bank of Australia by the Australian Prudential Regulation Authority's (APRA), shows how a director's livelihood and reputation can be affected by their role.

Diver says APRA's report into the Commonwealth Bank of Australia contained insights for all directors, regardless of industry sector or geography. APRA's report focuses on effective board operation and the requirement to ensure there is direct management accountability for both financial and non-financial risks. While boards have typically been good at providing oversight of financial risk, Diver says there has historically been less focus in non-financial areas. Boards are now being urged to monitor non-financial risks. "This may require boards and management to change their risk management frameworks to ensure they are closer to what is happening at all levels of the organisation."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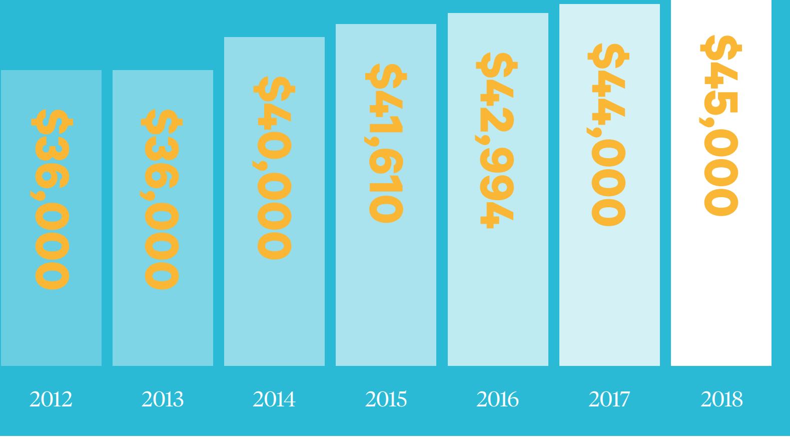
01: Una Diver
02: Kirsten Patterson

Median fee growth for a non-executive director



FEES SCRUTINY

Patterson says there aren't many professions that receive the same level of scrutiny on their remuneration that directors face. "It is important that boards support and justify fees with good disclosure, governance and accountability practices. It means demonstrating that fees are transparent, fair and reasonable," she says.

Updated corporate governance guidelines in New Zealand, both the 2017 *NZX Corporate Governance Code* and the 2018 *FMA Corporate Governance in New Zealand: Principles and guidelines*, recommend that directors fees are transparent fair and reasonable.

"Like all good reporting it also means thinking beyond compliance to what is meaningful and tells a fuller story. Stakeholders want to know that boards are focused on continuous improvement and that they are evaluating their performance regularly. Stakeholders also need assurance that there is ongoing succession planning to ensure the board has the diversity, depth of skills and experience needed to anticipate and respond to challenges and opportunities now and in the future," Patterson says.

Directors play a critical role in building strong organisations, vibrant economies and sustainable long-term value. "It is important that fees are set at the right level, underpinned by robust data and processes, to enable the attraction and retention of directors with the right skills and experience to lead our organisations now and into the future," Patterson says.

SURVEY AT A GLANCE

Fees increased modestly over the year. Most directors (58.3 per cent) said they were satisfied with what they received. Directors of listed entities were the most satisfied (73.5 per cent), while directors working in government administration and safety were the least satisfied (37.2 per cent).

Annual reviews of director fees are the most common, with 41.1 per cent of respondents saying fees were reviewed yearly, 39.8 per cent said reviews happened when market conditions justified it, 13.0 per cent said reviews happened every two years, 5.3 per cent every three years, while 0.7 per cent said fees were reviewed by the Government.

The median number of directors on a board is six. Just under half (49 per cent) of respondents indicated that their boards meet between six and 10 times a year, 44.8 per cent of directors said their board meetings took four hours, while a quarter of directors said they attend full-day board meetings.

Directors said they generally spend four hours preparing for board meetings, unchanged from last year.

The average length of a directorship was four years. The longest-serving director who responded to the survey had been elected to their current board in 1971.

THANK YOU FOR TAKING PART

This is the fourth year that EY and the IoD have partnered to conduct the survey and this year's report includes data collected from 2,158 directorships, 792 members of the IoD and 1,546 organisations across the country.

More than half the respondents (60 per cent) were non-executive directors, 13 per cent were executive directors, 20 per cent were non-executive chairs, 3.8 per cent were executive chairs, and 3.9 per cent were deputy chairs.

The IoD would like to thank all our members who took part in this survey. Without your input we would not be able to produce such an extensive and in-depth report.

IF YOU WOULD LIKE TO PURCHASE THE FULL REPORT

- YOU CAN BUY A COPY OF THE LATEST REPORT FROM OUR SURVEY PARTNER EY AS FOLLOWS:

Complete the online pre-order form on the IoD website **iod.org.nz**

Email **surveys@nz.ey.com**

Call EY on **+64 9 377 4790**

Private equity governance

BoardRoom editor Kate Geenty takes a look at how private equity investors approach governance, and what they look for in board composition.

First and foremost, private equity investors look to build value in companies they invest in, says Institute of Directors (IoD) Chartered Member Peter Tinholt, the Chief Operating Officer of Oriens Capital Fund. "It's about creating good strong businesses, that are much stronger and sustainable than they were when we came in," he says.

He says poor governance leads to poor performance and poor returns, so getting the board right is important. "Good governance can enhance a company's reputation and credibility. Companies that have good governance and transparency are more marketable."

BOARD COMPOSITION

IoD Member Mark Vivian, a partner at venture capital firm Movac, says ideally he likes companies he invests in to already have some sort of governance structure in place. That might be just the firm's lawyer or accountant acting as its board, but it's a start. "Often it will be a smaller, more casual board, and we look to develop that into a truly professional board, where members are remunerated, there's a recruitment process that goes on to identify and attract those board members, and a full analysis is done of skills and experience that's needed around the board table."

Movac, which invests in businesses with some sort of technological aspect to what they are doing, typically takes one board seat when it invests in a business. In the space in which Movac works, Vivian says an ideal board size is between three to five members. "It would be us, and two to four others, depending on the size and complexity of the business. The entrepreneur may or may not be on the board as a director, they normally are."

He says Movac is pretty upfront in the initial conversations it has with potential partners about what it expects in return for its investment. "A board position is part of that. We will also have some say in what we think the board should look like. It's about what we think is in the best interests of the company. We need to know there's a good mix of skills and experience around the board table. Ideally we don't want a whole board full of investors."

When it comes to skills, Vivian says industry experience is important, but not critical. What he looks for in an independent director is the ability to make decisions quickly, be able to deal with a dynamic environment where things can change from week to week, and be willing to step up and help when times are difficult. "We've seen a number of experienced and well-known directors step away from the board table and essentially go missing when things get tough."

He likes a 'noses in, hands out' approach to governance. "What I mean by that is, you've still got a chief executive running the company but the directors really do need to know what's going on. They all need to be compelled to find out what's going on and understand the different complexities rather than rely on others around the table to do that."

Personality also plays a part in who will make a good fit as an independent director. "In any of these journeys there will be ups and downs along the way, so we need to know that the others around the board table are people we can build strong robust working relationships with, and that ideally those relationships will ride the good times and the bad times," Vivian says.

Oriens Capital Fund, which invests mainly in privately owned businesses that are regionally aligned, also requires at least one board position when it invests in a business, but depending on the scale of its investment that can sometimes rise to two. "The first director, typically, is one of us. If we get a second one, then who fills that position will really depend on the skills needs around the board," says Tinholt. "Accordingly, we certainly like to have a skills review done, and a gap assessment made to make sure that we get good people on there to drive the business forward."

> "In any of these journeys there will be ups and downs along the way."
>
> Mark Vivian

He says the discussions about board composition can start early on in the negotiation process. "Typically in heads of agreement negotiations, when you're shaping a deal you talk about that. Some of those things can sometimes get a bit contentious, but the key is that it's part of a due diligence process."

"You've also got to be a bit careful, because if there's an existing board, that board will ultimately decide on the investment opportunity. So you've got to navigate your way through that."

In terms of how much say a private equity investor has in board composition, a lot depends on how big a stake they are looking for. "A private equity owner coming in and buying 70 per cent is very different from someone looking to invest 20 per cent," Tinholt says.

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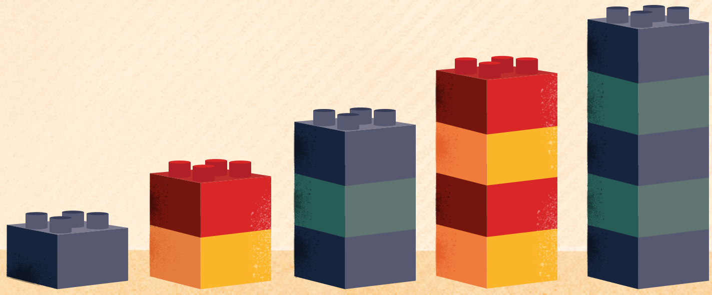


Private equity strategy

1. Focus – clear agreement with management about what is important.
2. Decisiveness – a preparedness to act.
3. Results orientation – a drive for strong returns – time bound.
4. Engagement – robust regular communication within the board and the executive team.

Source: Oriens Capital

Peter Tinholt

INDEPENDENT CHAIRS

Rather than take the helm themselves, private equity investors generally prefer to see independent chairs on the boards they are involved in. “We don’t want to be an adjudicator, we’d much rather have a mediator who makes sure we navigate a path that’s acceptable and gets buy-in from all other parties. That takes a lot of skill, and a good chair who can manage that has to be someone with experience,” says Tinholt.

“An independent chair is really important,” says Vivian. “As part of that, we want someone who has a strong professional relationship with the CEO, or the potential to grow one. We do plenty of reference checking of potential chairs of organisations, their skills and experience, their strengths and weaknesses, what they are like as mentors and guides, particularly when things get tough – and they will get tough at different points in the company’s journey.”

RELATIONSHIP WITH FOUNDERS

Vivian says the founder or owner of any business they look at is one of the critical components Movac considers when evaluating an investment opportunity. “People are probably the key factor in our decision making, the founder – what’s his or her background, what have they done before, what have they achieved in the past?”

He says that, when going into a business, it’s important to respect what the founder has done. “The founders and entrepreneurs who run these companies are often absolute experts in what they do.”

“A lot of their financial worth and their personal and professional profiles are built up in these businesses. Getting private equity in will be a major transition, going from owning the business to having a share in the business, and that can be an emotional rollercoaster for them.”

“When it’s your own company you can do what you like. When there are external investors that’s when things get more complicated. So, yes, the idea of getting external investors sounds really attractive but obviously other factors go along with that. All of a sudden the business owner is required to have a board, some sort of governance structure, and the additional workload that comes with that.”

For some owners, what initially sounds like an attractive proposition loses its appeal once they consider the realities of other people having a say in their business. “We’ve walked away from opportunities and, vice-versa, entrepreneurs have walked away from us. They liked the principle of external capital but didn’t like the practicalities of it,” Vivian says.

Tinholt has experience as a chief executive and managing director of companies that have been owned by private equity companies, so he has also sat on the other side of the deal. He says it’s critical to figure out a way of working together that works for all parties. “Sometimes you see businesses where the chief executive has really delegated and empowered their teams very well, but then others are very autocratic and ‘it’s my way or the highway’. We certainly spend a lot of time making sure that we can actually work with the owner–founder to make sure there’s good alignment there.”

EXECUTIVES AND INCENTIVES

When working with smaller companies it's important to have everyone on board with its direction and strategy – particularly if things are changing. For this reason, private equity investors generally like to see the executive team on the share register. "With everyone having skin in the game, there is a sense that we are all working on this together," says Tinholt.

Vivian also thinks incentivising executives helps align everyone's interests. "Often, depending on the size of the company, employees won't be getting true market rate, or what they think the market rate might be. Having equity or options on offer to executives is a way to top them up in a non-cash way. At the end of the day, it's all about having people aligned in a common goal, and that's about building value in the company."

STRATEGIES, GROWTH AND SUCCESSION

Private equity board members typically want to make sure the organisation has a good, executable plan and a timeline. "It's often quite focused, because we're about value creation. Whereas sometimes the companies we're working with haven't had the same focus and systems," says Tinholt.

He likes the use of board tools, which can capture all of the policy documents, format the board papers, and can keep everything well-organised and easily accessible by all directors.

Vivian says private equity can be one way of solving succession planning issues in the New Zealand SME market. He says a lot of business owners seem to expect their children or management team to eventually take the reins. "What we've started to see is, if the next generation or the management team don't want to take over, what happens to the business? Unless there's another option, these are businesses that will literally die with their owner, and that's a real challenge."

> "At the end of the day, it's all about having people aligned in a common goal, and that's about building value in the company."

An angel at the board table

Angel investor Janine Manning tends to be a hands-on director when she sits on the boards of companies she is invested in. She gets involved in the early stages of a company's development, helping entrepreneurs turn their dreams into reality.

As an angel investor, Manning's role is not that of a typical director. Often she's working with just the founders, helping them set up the basics of business and governance structures. That was the case in 2014 when she threw in her lot with young Aucklanders Jamie Beaton and Sharndre Kushor, founders of Crimson Education. For the first three years, the company's board consisted of just the three of them.

Crimson Education offers coaching and tutoring to help students get into elite universities like Yale, Harvard, Cambridge and Oxford. Apart from any financial pay-offs, Manning says being involved with Crimson Education is immensely satisfying. "Because it's in the education space, there's an impact side to what we're doing that's quite fun to be involved in. We look at the number of New Zealand students now who are going overseas because Crimson has shown them there is that opportunity, because Kiwis can go overseas and perform well against other top students from around the world."

Janine Manning

When Manning first got involved with Crimson, Beaton and Kushor were just teenagers, so initially her role was that of mentor as well as investor. "When you have young founders, they aren't always old enough to have developed all of the knowledge they need to effectively run a business. So it's providing that broad oversight about how you might deal with issues you've never had to deal with before when you're a young founder."

She takes a 'show, don't tell' approach to her relationships with entrepreneurs. "It's not about always being instructional, but helping them see the way that things are done, rather than being told the whole time."

Early on, her board role at Crimson was very hands-on, as she focused on putting in place structures and programmes, and making sure compliance needs were being met. As time has moved on and the business has expanded, she says executives have moved into those roles, taking day-to-day responsibility off the board's hands. "We've been able to move into more of that governance and special projects work, rather than the hands-on, day-to-day duties."

Crimson Education has now expanded into Australia, the United States, Singapore, Vietnam, Thailand, Russia and the UK – where Manning is now based. There are now 23 shareholders in the company, including private equity firm Tiger Global Private Investment Partners.

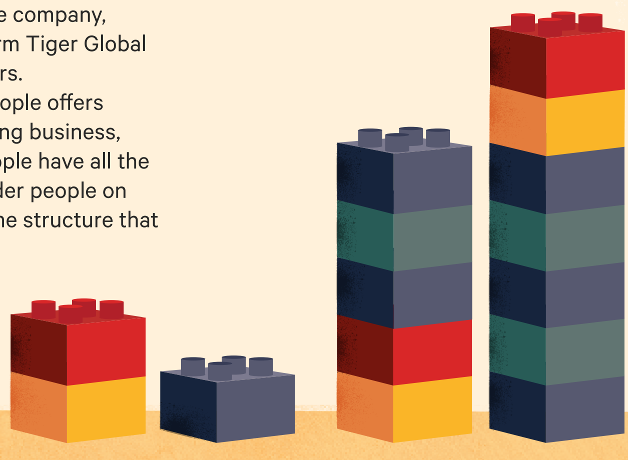
Working with young people offers a fresh perspective on doing business, Manning says. "Young people have all the energy and vision, so if older people on the board can provide some structure that can be quite helpful."

Crimson Education is one of four boards that Manning sits on as an angel investor, through the New Zealand angel investment group Ice Angels.

Manning thinks it important to review the skills that are required on a board as a company scales up, or as it changes. "I think sometimes, particularly in the angel space, you can end up getting stuck on the board as a lead investor. That might not be what you want to do, but if nobody steps up to take over, you can be left holding the baby. I think it's good to agree some terms upfront, as to how that is going to work."

The other boards Manning sits on are the UK-based curtain-making company Stitched, which enables customers to take photos of their windows to get measurements for their window coverings; Career Engagement, an internal career-engagement product for companies with thousands of employees; and Rebecca Page Ltd, run by a London-based New Zealander who produces PDF sewing patterns.

While she hopes for a long-term involvement with Crimson, for her later investments she has agreed on timeframes to review her involvement. "For my newer ones, I generally say let's review it after a year, and then we'll see what the business needs."



Developing future talent

When Dr Chelsea Grootveld was appointed as a Future Director on the board of Sport New Zealand, she was told not to worry if she didn't feel confident speaking up for the first few months. "I said 'call me out if I don't say anything after my first month, because that's just a waste of my time and yours'. It has always been my intention to contribute as fully as I can. The board has definitely created space for me to do that."

Grootveld, who runs Aiko Consultants and has worked in education policy, research and evaluation for more than 15 years, gained her Sport NZ internship through the Institute of Directors' Future Directors programme. The programme selects talented potential directors to sit with the board of a New Zealand company or state sector organisation for 12 months.

A triathlete and former netballer, Grootveld has a passion for sport as well as prior governance experience, having sat on the board of a philanthropic trust as well as chairing a school board of trustees. "Having a policy background, running my own consultancy and also having a doctorate inevitably thrust me into a position of leadership and people started asking me to be on boards and to contribute."

Future Directors provided an opportunity to gain deeper governance experience and to build her networks. "Working on a board with experienced directors, from a range of public sector and commercial backgrounds, with a skilled and experienced chair and a professional and capable chief executive is a nice space to be in. You can actually focus on strategic issues."

Grootveld says Sport NZ's board members have all been helpful and willing to share their knowledge and expertise. "I consider them all my mentors. I listen and learn, and ask questions and have a conversation with them all."

It's not a one-way street, though, and Grootveld believes she has also added value to the board. She holds a PhD in Education from Victoria University of Wellington, and her thesis looked at the effect of higher education on Māori.

"I'm able to bring a level of analysis and expertise to the board. I will challenge in terms of equity, not only for Māori and Pacific Islanders, but equity for women. I'm also a little younger than most of the other board members, so I bring that perspective too, and hopefully challenge their thinking. I bring a different cultural lens."

The Future Directors' placement was for one year. "I need to have a conversation with the chair actually," Grootveld laughs. "I'm pretty sure my year is up. For the moment, though, I think it's a mutually beneficial partnership. I'm being exposed to lots of different opportunities." So far, those opportunities have included presenting at conferences and awards ceremonies.

Looking ahead to where her governance career might head, Grootveld says her skillset and experience lends itself towards public-sector roles, particularly in education and research, but she is keeping an open mind.

Future Director placements

(Made between June 2017–June 2018)

PRIVATE SECTOR

Amanda Smith – Argosy
Michael Jefferies – Augusta Capital Limited & Augusta Funds Management Limited
Siobhan McKenna – Ports of Auckland
Jen Bunbury – Scales Corporation
Kirikaiahi Mahutariki – Service IQ
Nagaja Sanatkumar – Spark
Vena Crawley – The Warehouse
John Paul Tocker – Wellington Museum Trust
Dr Claudia Wyss – Fisher & Paykel Healthcare
Sharleen Nathan – Chiefs Rugby Club
Anna Lissaman – Mercury Energy
Rangimarie Price – Northpower

PUBLIC SECTOR

Carol Cheng – Financial Markets Authority
Linda Clark – NZ on Air
Dr Chelsea Grootveld – Sport New Zealand
Ariana Paul – National Advisory Council on Employment of Women (NACEW)
Jennifer Moxon – Transpower
Kim Dirks – Metservice

Founded by Sir Stephen Tindall, Michael Stiassny and Des Hunt in 2013, Future Directors is about developing the next generation of directors and ensuring the director pool is wide enough to support New Zealand's economic growth. In June 2016 the programme was extended to state sector boards allowing public sector boards and committees to benefit from the programme, as well as develop a larger and more diverse pipeline.

Going global starts at the top

Are New Zealand boards as global as their businesses? New Zealand Trade and Enterprise (NZTE) looks at why international experience matters.

There's growing consensus that global boards help make global companies.

While age, gender and ethnic diversity are important considerations in board appointments, companies also need international experience if they want to grow globally.

Last year the World Bank once again named New Zealand as the best place in the world to start a business, so it's no coincidence this country has half a million businesses.

As one of the most globalised economies in the world, we rely on export revenue. In fact in the year ending March 2018, our exports alone were valued at over $77 billion, while our GDP totalled $270.6 billion.

Given the customers of our exporting businesses are scattered in every corner of the globe, it's worth asking, do our boards reflect the diversity of the customer base they serve?

EXPERIENCE MATTERS

When menswear label Rodd & Gunn started wholesaling its clothing in North America six years ago, there were no American shareholders on its books.

Now the retailer has six stores there and another four planned, after attracting US private equity firm Winona Capital as a majority investor and shareholder in 2015 (the company has two representatives on the board).

Rodd & Gunn chief executive Mike Beagley says the company's expansion into bricks and mortar and online retailing is a direct result of having directors with retail experience in the US.

"That's come about due to financial resources that our investors have put in, but also their experience and them allowing us to focus on a small part of our business, knowing it's going to be a big part of our business," he says.

Although the majority of Rodd & Gunn's business is in Australasia, Beagley says "we spend 80 per cent of our time talking about America".

This focus on where to invest time and resources is one of the main benefits that directors with international experience can bring to the table, says NZTE Beachheads advisor Jennifer Moxon.

She has worked in senior executive and business leadership roles in Australia and New Zealand, including with IBM and is an Institute of Directors' Future Director with Transpower.

As one of NZTE's Beachheads advisors, she offers her expertise in governance and change management to help companies shape the direction of their business.

She says many businesses stumble on the complexity of entering new international markets and thinking outside of their home culture.

"You can't assume the business model you've got locally is going to be the same business model you deploy internationally," says Moxon.

"As a business scales, the enemy is always complexity and if you don't confront it, in my experience, it will eat you," says Moxon, explaining how it is important to have experience mastering international markets around the board table.

"You need to focus on having the right systems and processes in place. That means you need someone focused on the structure of your organisation ... and that's a very different kind of mindset than someone actually creating something from scratch."

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> “When you’ve got a board and you’re all aligned on the purpose and vision, it makes it so much easier.”
>
> Jennifer Boggiss

“They had industry knowledge and that helped a lot. Getting a business partner is probably as hard as getting a life partner – how they behave in difficult times is what matters.”

Mike Beagley, Rodd & Gunn CEO

FINDING GLOBAL DIRECTORS

Tauranga-based Heilala Vanilla co-founder and chief executive Jennifer Boggiss is also an executive director of the fast-expanding company.

In the decade since she left her full-time accounting job to build a sustainable vanilla brand alongside her father, Heilala has become a well-known name for vanilla products in New Zealand, Australia, Singapore, Japan, Brazil, Denmark and the US. It achieved 40 per cent growth in revenue last financial year.

Heilala's three directors with international experience came on board on Valentine's Day last year.

Boggiss says she spent a lot of time networking and finding the right people to join the board, looking for those with experience exporting New Zealand food and beverage products.

Those she shoulder-tapped were former Griffins chief executive and Spark director Alison Barrass, chief executive of the NZ Manuka Group Karl Gradon and Marmont Capital MD Matthew McKendry.

“They are very aware of the pitfalls and what to be aware of in international markets, so we have some very robust discussions about how much we're investing and what resource we're putting into which markets,” says Boggiss.

“As a founder director, sometimes you underestimate your ability and by giving us support and objectivity they give us confidence to go and tackle international markets.”

Hitting a sweet spot in governance, where there is an agreed vision and direction, is not always an easy path. Boggiss says Heilala's first capital raising in 2011 attracted directors who were focused on compliance rather than growth.

“They weren't really aligned to what we were wanting to do. I didn't understand then what a good board was and what it can add, so we have been on a journey in terms of governance.”

Boggiss says having the experience at board level is crucial.

“When you've got a board and you're all aligned on the purpose and vision, it makes it so much easier. With consultants it's really hard for them to understand what you're doing and why you're doing it.”

When Beagley realised Rodd & Gunn needed people with US retail industry experience on its board, he also looked around to find the right partner and approached Winona Capital.

“They had industry knowledge and that helped a lot. Getting a business partner is probably as hard as getting a life partner – how they behave in difficult times is what matters.”

KNOWING THE TRIGGERS

Exactly when to seek international experience on the board depends on the company and how it's tracking.

For Heilala Vanilla, the trigger was wanting to grow the business and brand in international markets, and for Rodd & Gunn it was to help the company expand from wholesaling into its own retail stores in the US.

“If you're not achieving your growth plan [or financial metrics] then you need to look critically at your business and ask yourself what areas you need to focus on,” says Moxon.

She says boards will provide oversight and focus with a ‘noses in, fingers out’ approach, steering the executive team in the right direction.

“It is difficult to keep evolving your strategy and approach from the same set of eyes.”

As Moxon concludes, “It takes a lot more than a founder to build a successful business. When they get to a point where they want to scale, they need a complement of skills on the board and in their senior executive team to take the business global.”

We asked NZTE Beachhead advisor Jennifer Moxon why global boards make global companies.

1. It takes more than a founder to build a successful business across borders. Directors with a strong growth mind set and international experience will help build a network of partners, suppliers, customers and channel partners.
2. Directors with relevant experience in international markets will give you confidence to execute your growth strategy.
3. Learning from global best practice is important, then tailoring that locally is critical.
4. As a business scales, whether manufacturing, services, or new products – the enemy is complexity. If you don't confront it, it will eat you.
5. Good governance and independence is critical in gaining continued investment. A fresh perspective from independent directors is important in evolving a sustainable and profitable business direction and strategy.

Mentoring for Diversity

The Mentoring for Diversity programme was established in 2012 to boost the diversity of board members on NZX-listed and large company boards in New Zealand. Initially focused on supporting women to gain places on large boards, the programme widened its diversity scope in 2015 to include ethnicity, age, skills and experience. The aim of the programme is to help enhance mentees' knowledge and skills to help them get director appointments, increase their knowledge of how large company boards work and add to the diversity of the director pool.

Institute of Directors (IoD) Chief Executive Kirsten Patterson says diverse boards are important as we move into the future and negotiate changing demographics.

"When we drop our preconceptions of what talent looks like, we are more likely to recognise it and celebrate it. And it is clear from the level of generous support from mentors since the programme began that this is a view that many of New Zealand's senior directors share as they build their organisations for the future," she said.

"Research shows that having diversity on boards drives long-term shareholder value through creating inclusive organisations that are more innovative. Since the programme began, a number of participants have gone on to large company or NZX boards."

Research from the Centre for Talent Innovation in the US showed that companies that prioritise diversity in leadership are 45 per cent more likely to have grown in market share in the last 12 months and are 70 per cent more likely to have captured a new market.

Patterson says the more diverse an organisation is, the more likely it is that different perspectives are heard, and it is this contribution of ideas that leads to more innovation.

As well as benefiting mentees, the programme has also had positive feedback from the mentors who've taken part. "Business leaders see it as a way of extending a ladder to allow diverse candidates to step up into their full potential," says Patterson.

OPPORTUNITIES

Each year the IoD pairs members who believe their diversity can add value to large company boards with experienced directors through its Mentoring for Diversity programme.

Suneil Connor, who was part of the 2017–2018 Mentoring for Diversity intake, says the programme is a great opportunity for learning and networking.

Connor sits on three boards as well as being the Chief Financial Officer at global brokerage firm LINK.

01: Suneil Connor
02: Paula Jackson

"There is no other programme that I have seen like Mentoring for Diversity. It is an opportunity to learn from the best," Connor says.

"The opportunity is not only in terms of meeting a listed company director and getting their views on your journey, but also meeting the other mentees. A lot of the mentees who come in are very experienced at what they do and hold good board positions or directorships as well."

Paula Jackson is also a recent alumna of the programme. Her positions include being a director of Quotable Value and a board trustee of the Wellington Culinary Events Trust. She says she gained some valuable insights from spending time with an experienced chair and director. "I was able to run a couple of situations I was facing with board dynamics past him, and he was able to give me some great advice."

She says the programme gave her the chance to really reflect on and distil her value proposition. "I think it has given me more confidence in what I have to offer. The only thing that will be holding me back will be myself. It is not easy, it is not a matter of sitting back and waiting for someone to knock on your door, you have to be proactive."

ADDING VALUE THROUGH DIVERSITY

This year 20 new mentees were chosen for the Mentoring for Diversity programme from a competitive pool of 76 applicants. To be considered they had to have a solid track record in executive management or professional advisory roles, plus board experience. They also needed to show they are currently seeking NZX or large company board roles, and have the capability and capacity to be offered a place on the board of a NZX company or organisation of a similar size.

Each mentee is matched with a senior director, who commits to meeting with them and mentoring them throughout the year. The mentees also commit to meeting up with each other to share what they have learnt.

Since Mentoring for Diversity was established, 154 mentees have participated in the programme.

GOVERNMENT FOCUS

Diversity is also top of mind for the New Zealand government, which recently announced a target of women making up 50 per cent of members of state-sector boards and committees by 2021. Currently, women make up 47.5 per cent of state-sector boards and committees.

After announcing the target, Minister for Women, Julie Anne Genter, told TVNZ's Q+A programme that more effort needs to be put into making boards more diverse. "The reason we have no diversity on boards is because we haven't actively sought to overturn the status quo, which is the result of historic discrimination and bias and unconscious bias. So we just have to make an active effort to find those talented people."

"There is no other programme that I have seen like Mentoring for Diversity. It is an opportunity to learn from the best."

Suneil Connor

Congratulations to **Mentoring for Diversity's 2018/2019** mentees:

Elle Archer
Pamela Bell
Tracey Bridges
Angela Bull
Joanna Davidson
Toni Ferrier
Dean Fraser
Jo Goodhew
Michelle Henderson
Sarah Park
Cathy Parker
Jignasha Patel
Hilary Poole
Jana Rangooni
Amanda Santos
Scott Tambisari
Melanie Templeton
Judith Thompson
David Tse
Louise Ward

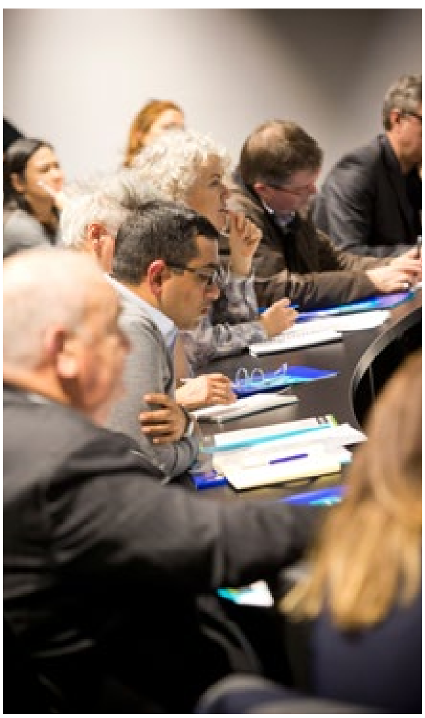
Out & about

Mentoring for Diversity

The IoD hosted a Mentoring for Diversity function at KPMG in Auckland on 25 June to welcome the new intake of mentees, and meet up with 2017 and former mentees.

01

02



03

Auckland

Professor Ingemar Dierickx presented at an After 5 function in Auckland on 3 July.

Auckland

The Auckland branch hosted a special post-Budget breakfast with Hon. Grant Robertson, Minister of Finance on 29 June.

Auckland

The Auckland branch hosted an evening panel on 18 June about getting involved with Council Controlled Organisation (CCO) boards. Panellists were Auckland mayor Phil Goff, directors Kylie Clegg and Mike Taitoko and Peter Kerridge of Kerridge and Partners.

01 (From left) Natasha Harvey, 2017 mentee, with IoD Chief Executive Kirsten Patterson, IoD President Liz Coutts, and fellow 2017 mentees Rachel Afeaki-Taumoepeau and Daniel Shore.

02 Mary Gardiner, 2017 mentee, with Mentoring for Diversity mentor Don Huse, IoD Registrar and Governance Leadership Centre General Manager Felicity Caird, and 2018 mentee Hon. Jo Goodhew.

03 Professor Ingemar Dierickx.


04


05

Canterbury

The Canterbury branch hosted Nicole Rosie, the CEO of WorkSafe NZ on 20 June, in a joint presentation with the Business Leaders' Health and Safety Forum. Nicole spoke to 130 attendees about the importance of having a responsible culture of health and safety. Her talk was complemented by relevant observations by Francois Barton from the Forum, and personal observations from Jono Brent, CEO of Connetics.


06

Otago Southland

Chair of the IoD's Otago Southland branch committee, Geoff Thomas, presents Paul Moodie with his Chartered Member certificate.

04 Former All Black captain Richie McCaw and WorkSafe CEO Nicole Rosie chat to a forum attendee.

05 Guy Nelson (presented with his Chartered Fellow certificate), IoD National Branch Manager Ian Stronach, Geordie Hooft, Chris White (presented with his Chartered Member certificate).

06 Jono Brent and chair of the IoD's Canterbury branch committee, Geordie Hooft.

Nelson Marlborough

Leading director Traci Houpapa, MNZM JP, gave an engaging talk on managing diverse shareholder and stakeholder interests at a Nelson Marlborough branch lunch on 5 July.

Member Karen Draper and Nelson Marlborough branch chair Sarah-Jane Weir at a branch networking event held at Wither Hills Vineyard in Blenheim where Sheffield South Island shared the results of its latest leadership survey.

Events**diary**

August

22 Tauranga
Finance Essentials

22 Wellington
The blockchain – a director's guide to all the important bits

23 Tauranga
Strategy Essentials

23 Hamilton
Lunch function with Nick Dangerfield

23 Mount Maunganui
Annual awards dinner with special guest speaker, Tā Mark Solomon, KNZM

24 Blenheim
Lunch with Sir Graeme Dingle

26 Wellington
Company Directors' Course

28 Auckland
Governance Essentials

29 Auckland
Finance Essentials

29 Tauranga (also in Whakatane and Taupo via ZOOM)
Lunch event with Allan Scott

29 Palmerston North
After 5 with Sam Stubbs

30 Auckland
Breakfast with Simon Bridges, Leader of the Opposition

30 Christchurch
Breakfast with Prof. Ian Williamson

September

2 Auckland
Company Directors' Course

4 Auckland
How to build your board career

4 Wellington
After 5 with Michael Ahie and Toko Kapea

5 Wellington
Building Sustainable Long-Term Value

5 Auckland
Welcome Cocktails and presentation of 2018 Emerging Director Award

10 Nelson
Introduction to Te Reo with Olivia Hall

11 Wanaka
Lunch event with Richard Lauder

12 Hamilton
Cocktails with Ross Buckley, Executive Chair of KPMG

13 Rotorua
Chartered Membership pathway luncheon

14 Christchurch
Breakfast with Dr Rod Carr

16 Queenstown
Company Directors' Course

17 Invercargill
Lunch event with Bill Moran

19 Wellington
Not-for-Profit Governance Essentials

20 Wellington
Finance Essentials

23 Queenstown
Company Directors' Course

24 Dunedin
Mercy Hospital site visit

24 Christchurch
Evening event with ASB's Kirikaiahi Mahutaraiki, Executive Manager, Māori Banking Services

25 Christchurch
Rural Governance Essentials

25 Queenstown
Governance Development Programme starts

25 Auckland
Breakfast with David Hearn, Chair of The a2 Milk Company

26 Christchurch
Finance Essentials

27 Christchurch
Strategy Essentials

27 Auckland
Working with the Board

28 Christchurch
New members' lunch

30 Auckland
Company Directors' Course

October

9 Wellington
Governance Essentials

9 Auckland
Board Dynamics Intensive

10 Wellington
Finance Essentials

11 Wellington
Strategy Essentials

12 Cromwell
Fellows' dinner at Carrick Winery

14 Queenstown
Company Directors' Course

17 Wellington
Chairing the Board

18 Hamilton
Working with the Board

24 Nelson
Finance Essentials

25 Nelson
Reporting to the Board

25 Auckland
Director Accelerator lunch

28 Queenstown
Company Directors' Course

29 Auckland
Governance Essentials

30 Auckland
Digital Essentials

31 Auckland
Finance Essentials

31 Wellington
How to build your board career

November

1 Auckland
Strategy Essentials

1 Tauranga
Next Generation workshop

2 Auckland
Risk Essentials

4 Wellington
Company Directors' Course

6 Auckland,
Board Dynamics Intensive

7 Wellington
New member welcome event – invitation to all branch members

11 Waiheke Island
Company Directors' Course

12 New Plymouth
After work with Shaun Twaddle

20 Auckland
Welcome cocktails – invitation to all branch members

20 Auckland
Audit and Risk Committees

21 Auckland
Governance Essentials

22 Auckland
Finance Essentials

25 Queenstown
Company Directors' Course

30 Christchurch
New members lunch

Webinars

Live webinars are facilitated by subject matter experts, and themes from your questions and comments are addressed live during the sessions.

September 11 Chairing Fundamentals

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BRANCH EVENTS

For information on member events in your area, see **iod.org.nz**

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Any time, anywhere. Offering convenience and flexibility, our self-paced courses provide focused online learning. Progress through the course slides, interactive diagrams, videos and reflective exercises at your own pace.

Health and safety governance
3 CPD points

Ethics – how directors do business
3 CPD points
(free until 30 September)

Directors' and Officers' insurance
2 CPD points

Not-for-profit fundamentals
3 CPD points

Cybersecurity
3 CPD points

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


Every organisation with ambition needs strong governance and leadership.
Find out how ASB can support your business through our partnership with IoD.
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ONE STEP AHEAD