board room

AUG / SEP 2019

Magazine of the Institute of Directors in New Zealand

The power of good governance.

Avoiding exploitation in your supply chain.

Institute of DIRECTORS NEW ZEALAND

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 46*.

Cover photo: An aerial view of Waiwera, north Auckland.

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FROM RESPONSIBLE SOURCES

A note from the editor

The front cover of this issue gives you a taste of the new look and feel that will be rolled out on IoD products and services over the next few months.

While a big part of the rationale for this is simply to ensure our brand remains fresh, there is a lot of thinking behind it on the importance of brand perception to modern business (read more on page 14).

Alan Isaac CFInstD has taken up the role of president. He explains his priorities for his term – and a bit about his philosophy of governance – on page 8. One of his concerns – the increase in personal liability proposed for directors – is explored in more detail in the following article on page 12.

Recent legal action against subcontracting firms involved with the Chorus fibre optic cable project are explored on page 16. Directors would do well to consider the likely regulatory response from the government should it move to better protect workers down the supply chain.

On a brighter note, we talk to Philp Carden from Joyous, who has a new system to improve workplace culture – which could also be used to improve the visibility of subcontractors in a labour supply chain, so such problems can be avoided.

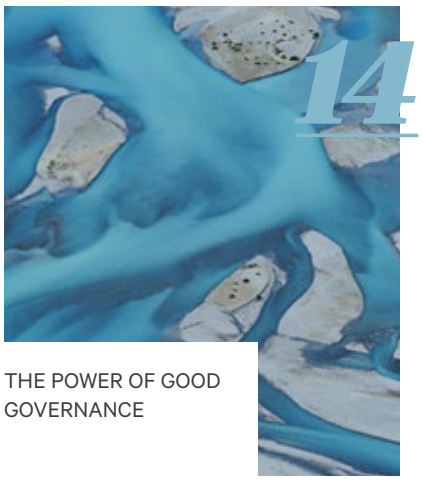
Aaron Watson
Boardroom editor

Institute of DIRECTORS NEW ZEALAND

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

The Agenda

APR / MAY 2019



THE POWER OF GOOD GOVERNANCE

MIGRANT EXPLOITATION

AGILITY?
The responsive board

INSIDE IoD

FEATURES

FROM OUR PARTNERS

Good foundations

KIRSTEN PATTERSON
CEO, INSTITUTE OF DIRECTORS

Tēnā koutou katoa,

Good foundations. They're as important in building great organisations as they are to great buildings.

Like many not for profits, the Institute of Directors' key foundation document is our Constitution. Constitutions are often seen as boring or dusty things, only pulled off the shelf at the time of the AGM or when power is challenged. Given the legislation governing incorporated societies, the Incorporated Societies Act, is 111 years old it's probably no surprise constitutions are considered old and dusty.

The long overdue review of the Incorporated Societies Act 1908 is underway and there are some key changes proposed that will impact on the over 23,000 incorporated societies in NZ. That includes us here at the IoD.

Key changes proposed include:

- minimum requirements for constitutions beyond current requirements
- officers' (committee members or office holders) duties will be akin to directors' duties under the Companies Act
- conflict of interest disclosure procedures
- access to information for members
- formalising financial reporting requirements
- societies must have a dispute resolution procedure to deal with both member grievances and complaints.

Rather than just reviewing for compliance, we will also be taking the opportunity to review the IoD governance frameworks that the Constitution establishes to ensure they reflect best practice and are fit for the future. Because we are a membership body and we are "owned" by you, the members, we will be seeking your views and input into the process in the coming months.

What should the governance structures look like for New Zealand's leading professional body focused on governance? We are lucky to have over 9,000 governance experts in the IoD community so we are looking forward to your feedback and advice.

Part of reviewing our governance and foundation frameworks is ensuring that we are reflective of, and relevant to, the director community of tomorrow.

The art of governance is evolving and you should rightly expect your governance membership body to be alongside and evolving with you.

As part of our evolution we will be launching our new brand from September and a new digital experience and website for members from the end of the year. So we'll have a refreshed look and feel which will make us feel fresher and more modern.

But really evolving and building our brand is about so much more than that. Our brand is our reputation, our values, the trust we build, and it should reflect the services and voice you need. Perhaps most importantly it should champion and position the importance of best-practice governance out there in the world and show what governance and directors mean for New Zealand.

2019 marks 30 years of our independence from the UK IoD so it is time we reflect our strong New Zealand voice. A more contemporary reflection of the governance community and issues facing boards is also overdue.

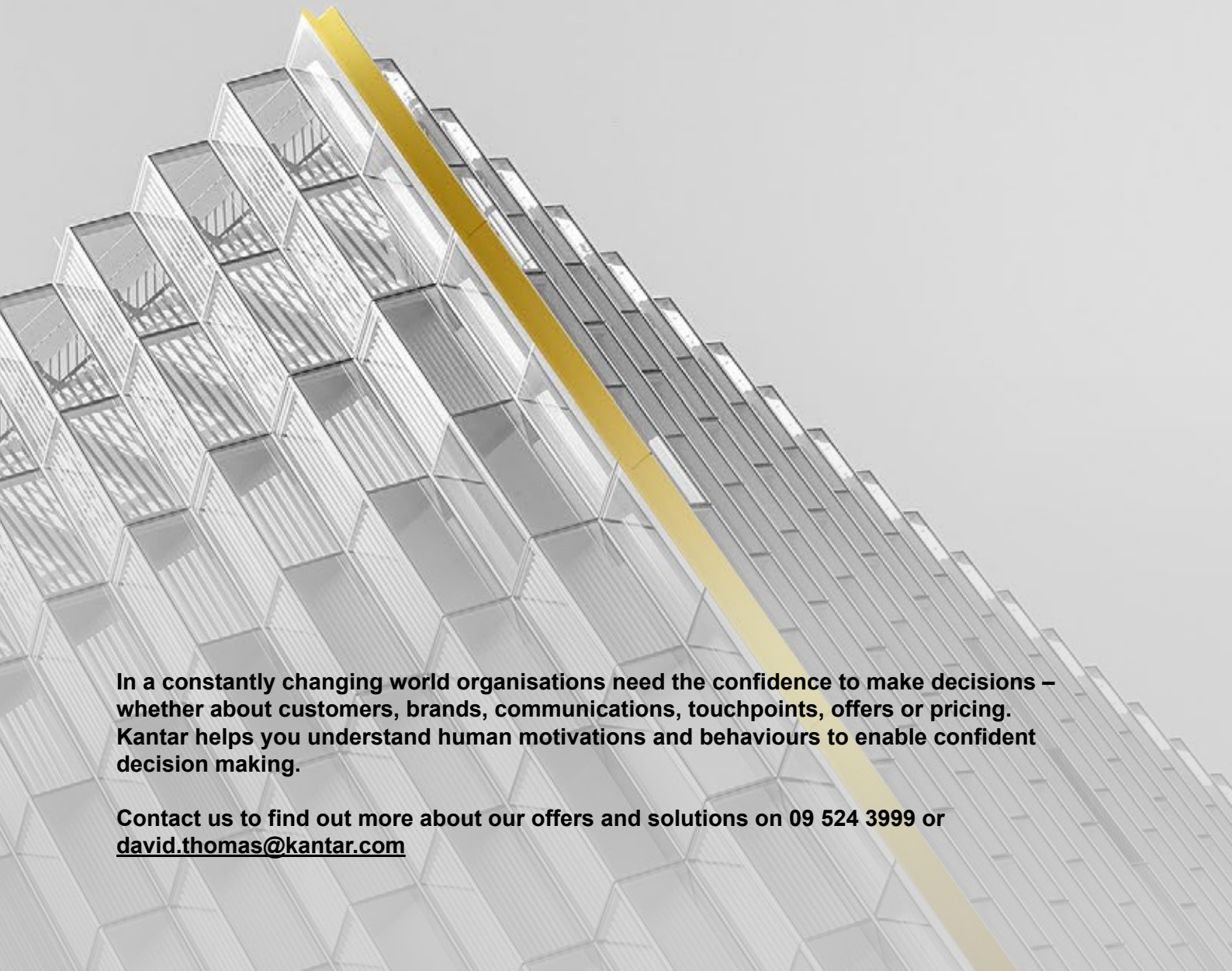
Strong internal foundations. Strong external voice. We believe that good governance can be transformational and we need to transform, too.

Ngā mihi

Kirsten KP

KANTAR

Providing confidence to act in a constantly changing world



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UpFront

Director Vacancies

DirectorVacancies is a cost-effective way to reach our extensive membership pool of director talent. We will list your vacancy until the application deadline closes or until you find a suitable candidate. Contact us on 0800 846 369.

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

TARANAKI COMMUNITY RUGBY TRUST
Role: Trustees Location: Taranaki
Closing date: Applications will remain open until position is filled

TUI ORA LIMITED
Role: Directors (2)
Location: New Plymouth
Closing date: Applications will remain open until position is filled

Q&A

Question: How many directors of a New Zealand registered company are required to live in New Zealand?

A. 0
B. 1
C. 2
D. 3

ANSWER

B. *Since 2015, all New Zealand registered companies are required to have at least one director that lives in New Zealand (or lives in Australia and is a director of an Australian company). NZX-listed issuers are required to have at least two directors who are ordinarily resident in New Zealand.*

In memoriam

The Institute of Directors would like to acknowledge the passing of two of our Distinguished Fellows, **Rob Challinor** and **Michael Morris**.

Rob Challinor DFInstD had a distinguished career as a chartered accountant and was a partner at Deloitte before embarking on a career in governance. He was a fellow of Chartered Accountants ANZ and fellow of the Institute of Chartered Secretaries.

His governance roles spanned many industries and included the Maori Development Corporation, the National Australia Bank, Tower Health and Life, Mighty River Power, Ports of Auckland and The Warehouse Group.

He joined the IoD in August 1985 and became a Distinguished Fellow in August 2011.

Michael Morris ONZM DFInstD was also trained as a chartered accountant and became the chair of KPMG in New Zealand.

His governance career included work with NZ Post, the Land Transport Safety Authority, Port of Napier, Momentum Consulting, the Karori Wildlife Sanctuary and the Wellington City Mission.

He joined the IoD in January 1990 and became a Distinguished Fellow in August 2002. He was also a fellow of Chartered Accountants ANZ and become and Officer of the New Zealand Order of merit in 1997 for services to business and the community.

Our thoughts go out to their families and colleagues.

APPOINTMENTS

Director Search

Helen Mexted
Chartered Member, has been appointed to the board of Wellington Regional Council Holdings Ltd via the IoD's DirectorSearch service.

General

Jen Crawford
Chartered Member, has been appointed independent chair of Ashton Wheelans Chartered Accountants.

Anita Killeen
Associate Member, has been appointed chair of the Auckland Regional Amenities Funding Board.

Vincent Pooch
Chartered Fellow, has been appointed to the board of commercial explosives company RedBull Powder.

Ngā mea Waiwai o te Tūranga Whakataka

The FMA and the IoD have commissioned a te reo Māori translation of The Essentials of Being a Director.

The guide, Ngā mea Waiwai o te Tūranga Whakataka, is due for release in September.

Here is a sneak peek at how it reads, compared with the English language version of the same advice.

Ngā mahi waiwai, kawenga hoki hei whakataka	Essential duties and responsibilities as a director
Me pono, me ngākau tapatahi.	Act honestly and with integrity.
Me mātua manaaki i te kamupene (kei reira ngā aweretanga tauwhāiti).	Act in the best interests of the company (subject to limited exceptions).
Me whai pūkenga tika, wheako hoki hei hāpai i te kamupene.	Have the right mix of skills and experience to add value.
Me mārama ki ngā mōrea, ā, me urupare ki ngā mōrea me ngā taupatupatu.	Understand risk, and be responsive to risks and conflicts.
Me tuku i ngā pātai uaua kia tino rata ai koe ka taea e koe te tuku whakatau.	Ask the hard questions until you're satisfied you can make a decision.

Welcome

Welcome and congratulations to the newest members of the Institute of Directors.

New Members June-July

AUCKLAND

Chris Aiken
Phillip Anderson
Anirudh Bansal
Stephen Barfoot
Sara Basheer
Denym Bird
William Black
David Boardman
Charles Bolt
Ean Brown
Damian Camp
Dani Chesson
Ben Cochrane
Marie Collins
Michael Cook
Bronwyn Coomer-Smit
Campbell Cooper
Melissa Crawford
James Crow
Mark Debenham
Kevin Drinkwater
Maurice Dubey
Toa Faneva
Kat Felton
Dawn Folkard
David Goatley
Aimee Greenhough
Brent Guild
Ben Harman
Seith Harrison
Josh Hosking
Matthew Houtman
Steve Howe
Grant Huggins
Mike Hutcheson
Alan Jackson
Scott Jenyns
Kevin Jones
Michail Karpenko
Sarah Keene
Dean Kelly
PK Kumar
Misti Landtroop
Linda Leonard
Howard Lewis
Charl Malan
Grant Mason
Geoff McDonald
Daniel McGowan
Simon Mckearney
Dave Mitchell
Danielle Moa
Lucy Neame
Mat Northway
Ravi Nyayapati
Barry ONeill
Amber Oram
Nicola O'Rourke
Murray Page
Budi Paini
Andy Parker
Imogen Parry
Dean Pennell
Tony Phillips
William Pike
Terry Quilty
James Robinson
Lisa Rogers
Marty Rogers
Peter Rudd
Roxanne Salton
Colleen Seth
Brett Shadbolt
Zeshan Shahzad
Andrew Skinner
Nigel Smith
David Snelling
Sophie Stanley
Elise Sterback
Glenys Talivai
Maurine Talpin
Ronji Tanielu
Narissa Taylor
Andrew Tubb
Steve Ulenberg
Vaughan Underwood
Mike Wardle
Lincoln Watson
Mark Weenink
Chris West
Andrew Williams
Tim Wixon
Craig Young
Cathy Zhang

BAY OF PLENTY

Paul Abbot
Andrew Bishop
Aroha Campbell
Viv Conway
Jessie Cowie
Brad Deane
Willy Doney
Jason Dowie
Kristin Dunne
Ross Edens
Carlo Ellis
Kathryn Gardner
Joshua Gear
Deb Gisby
Sarah Hepi-Te Huia
Dianne McQueen
Rebekah Murphy
John Olsen III
Kay Read
Paul Sands
Richard Searle
Michelle Sinclair
Aaron Sinclair
Megan Struthers
Parewhati Taikato
Rosemary Turner Waugh
Richard White
Signe Wilkinson

CANTERBURY

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John Boereboom
Geraldine Brookman
Pam Clarke
Graeme Crombie
Grant Day
Bruce Gemmell
Chris Gourley
John Greenwood
Fiona Gurevin
Julia Hardacre
Anna Hart
Kieran Hayes
Nicholas Hill
Vivienne Hunt
Paul Kerridge
Andrea Leslie
Damian Lynch
Vicki McClurg
Erin McNaught
Jason Middlemiss
Stu Munro
Samantha Murray
Carole Peterson
Vinni Pietras-Jensen
Jonathan Prince
Andrew Saunders
Keith Shaw
Mary-Anne Stone
Mark Sullivan
Josiah Tu
Nicholas Tyler
Christopher Vas

NELSON MARLBOROUGH

David Cairns
Nick Entwistle
Pierre Gargiulo
Ian Goldschmidt
Doug Hattersley
Wolfgang Kloepfer
Sam McSorley
John Murphy
Kim Ngawhika
Ursula O'Donohue
Matt Stringer
Matt Thomson

OTAGO SOUTHLAND

Jemma Adams
Anthony Baikie
Sally Battson
Alex Black
Ashley Light
Bill Thomson
Anne-Marie Wells

TARANAKI

Lee Banks
Frances Boyce
Cam Eyre
Paul Feltoe
David Geraghty
Paul Goodeve
Lisa Oakley
Wayne Wootton

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Aaron Barnsdall
Tracey Bell
Danielle Diprose
Peter Kimber
Gina Kriletich
Jo Lane
Kelvin O'Connell
Candra Pullon
Willow Salvador
Karen Scott
Dani Simpson
Claire Steer
Rosser Thornley

WELLINGTON

Zainab Ali
Rod Bentham
Dan Bradley
Paris Bree
Nic Brown
Cameron Burrows
Jenny Condie
Phil Cox
Clive Eastwood
Luke English
Janine Foster
Charlie Gavey
Sarah Gillies
Jason Graham
Justin Gray
Reuben Johnson
Liesbeth Koomen
Pete Lennox
Andy Lowe
Benjamin Mander
Lisa Martin
Kellie McGrath
Catherine McKelvey
Richard McRae
Maria Mitimeti-Clark
Brett Murray
Trishn Nand
Arish Naresh
Kit Nixon
Richard Norris
Brent Norriss
Evzen Novak
Ian Redshaw
Colin Reid
Matt Sheppard
Nigel Simpson
Craig Soutar
Henry Tait
Cate Tarsau
Justine Thorpe
David Tweed
David Veale
Curtis Walker

OVERSEAS

Wendy Baker

Mentoring for Diversity

And a special congratulations to the mentees taking part in our Mentoring for Diversity programme this year.

Catherine Abel-Pattinson
Bayden Barber
Elaine Cook
Jane Davel
Jan Early
Aliesia Gartrell
Marina Hirst-Tristram
Sarah Judkins
Nic Kennedy
Raewyn Kirkman
Victoria MacLennan
Bindi Norwell
Alison Posa
Barbara Robertson
Renae Smart
Julia Steenson
Lana Stockman
Sunil Surujpal
Bella Takiari-Brame
Wendy Venter
Franky Wang

President puts culture first

Our new President **Alan Isaac** learned a lot about the power of culture during his time at the head of the International Cricket Council.

New IoD President Alan Isaac CNZM CFInstD is a risk-averse director, something he puts down to his experience as a chartered accountant.

"As a chartered accountant and a partner in KPMG, I used to specialise in corporate recovery work – receiverships and liquidations, mixed with a bit of forensics, so investigative work," Isaac says.

"Being involved with lots of organisations where there's been fraud, where there's been a company collapse, where the auditors have been sued, where the directors have been sued... In terms of my governance career, that experience, that background, has shaped my attitude. I'm quite risk-averse. I like to think I'm very selective about the roles that I take on."

When considering roles, Isaac applies a personal test – alongside normal due diligence, of course. There are three things that he has to be sure of.

"I trust and respect the chair. I trust and respect the CEO. I genuinely believe that I can contribute to the organisation. Unless I can be positive about those three questions, I have tended to say no to opportunities to join governing bodies."

He is also something of an accidental director.

"I didn't set out to be a professional non-executive director. It was actually just that opportunities presented themselves, I guess. It wasn't a deliberate strategy."

Isaac's career with KPMG included time as a managing partner, chairman and chief executive. His broad experience made him an attractive candidate for board positions. On retiring from the firm in 2006, he began a governance career that has spanned the worlds of sport, NFPs, business and the public sector. He currently holds a number of board roles with organisations including Scales Corporation, Oceania Healthcare, New Zealand Community Trust, the Basin Reserve Trust, Skellerup and the Wellington Free Ambulance.

TESTING TIMES

A keen cricketer, he is probably best-known for his time as president of the International Cricket Council (ICC) from 2012-2014. During his tenure the governance structure of the organisation

was updated and the cricket World Cup reorganised in the format that it was played in recently.

"I've enjoyed the Cricket World Cup. It was in my time as president, chairmen as it were, of the ICC that we made the decision to create a 10-team competition."

The move was not popular in all quarters of the game. Cricket arouses great passions in people and the mood of nations can ride on the outcome of a match. This put significant pressure on ICC members and added complexity to his role as president, Isaac says.

"I chaired a board of 13 people. Each of those 13 people had a vote, and I didn't. In some ways I was more like a mediator.

"We were heavily criticised [for the 10-team World Cup format] because we were denying some countries the opportunity to participate – but it was of course a qualifying tournament so every country had the chance to qualify. We were criticised for not growing the game – we made the point that the tournament would be much more exciting."

For Isaac, understanding the source of concerns at ICC meetings was key to finding a way forward.

"People used to ask me how I dealt with the politics. I used to respond to that question by saying 'I dealt with the C word', ie culture rather than politics. I worked hard at understanding the different cultures and why people said what they said, and did what they did.

"When you appreciated how he or she had been appointed, the interest in the game in their country – right from PM level – there was great pressure on individuals to do the best thing for that country. When a decision was going against that country's best interest you could help them explain it back. On one occasion I went to Bangladesh and got an audience with the PM straight way – when generally you had to wait six months. That was pretty special."

The ICC changed its governance structure while Isaac was president, making him the last president to also chair the council.

"Rather than rotating around the member countries, and effectively being the chairperson of the board, the role of president was split in two. The president's role became ceremonial and the board would elect the most appropriate person from within the board to be chair. So that is one of the positives from that experience. It was obviously quite a demanding role balancing the interests of the various countries, dealing with the imbalance of power amongst the member countries and the different cultures. It was very demanding both physically and intellectually."

PRESIDENTIAL AMBITIONS

During his term presiding over the IoD, Isaac wants the organisation to receive more recognition for the good work it undertakes to promote a professional approach to governance.

"I'd like to think that during that time we can continue to develop the reputation of the organisation, the reputation that we have for growing and developing good directors," he says.

> "Improving the visibility of the IoD and the work it does will help to ensure that governance – as a profession – is better understood in New Zealand and, ultimately, improve governance standards."

"We are aspiring to be better recognised as a professional body. It would be nice to think that we can develop those professional standards and arguably have world class standards of governance In New Zealand."

He would also like to see wider understanding of the value of chartered membership of the IoD.

"It would be nice to think that a chartered member process is better recognised and accepted. And a little plus would be if it was mandated that a certain percentage of each board had to be made up of people who are chartered members."

"I'd like to think that a greater proportion of listed company directors, and Deloitte top 200 organisations, were members of the Institute. That would be a measure that we had succeeded, that we were relevant to people who have governance as their career."

BROADER RESPONSIBILITY

Directors today face an increasingly complex environment in which their decisions face more scrutiny than ever before, Isaac says.

"One of the biggest challenges in governance at the moment is the tendency for regulators, for lawmakers, to want to increase the responsibilities of directors and, arguably, hold them personally responsible. There appears to be an attitude that directors must take personal responsibility for everything that happens," he says

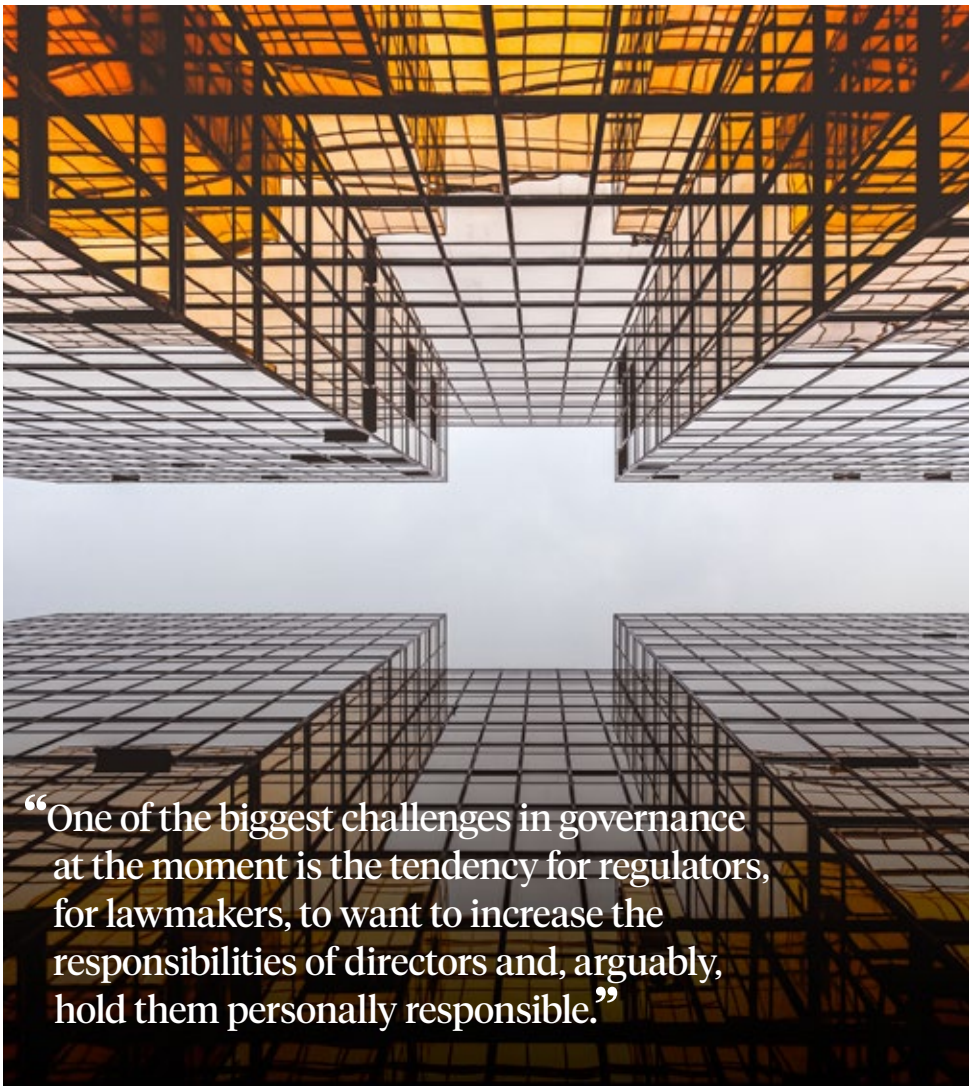
"That's just not realistic in big organisations. Apart from anything else, it arguably confuses the line between management and governance.

"I think being clear about what the directors are responsible for – what they can, in practical terms, influence and take responsibility for – is going to be important in the next little while."

The traditional responsibility of directors to put their organisations first remains the priority, he says, but be mindful that in today's environment that may include more than simply aiming for a profit.

"Your obligations as a director are determined by the Companies Act, the trust deed, or whatever the governing document is. Primarily you have an obligation to the organisation, for it to meet its objectives. If it's a commercial organisation that tends to be about sustainable profits and good growth.

"At the end of the day, in these sorts of environments, you are elected by the shareholders and if the company doesn't succeed profitably, you won't get reappointed. In terms of the not-for-profit roles I have had, particularly with sporting associations, it can be more difficult to judge whether or not you were successful.



"One of the biggest challenges in governance at the moment is the tendency for regulators, for lawmakers, to want to increase the responsibilities of directors and, arguably, hold them personally responsible."

"There is an acceptance that companies generally, and therefore boards, have got a growing responsibility to a wider group of stakeholders and I think most boards that I am involved with take that obligation on board and are looking at what they do around sustainability, and so forth."

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Balance of responsibility

AUTHOR
FELICITY CAIRD, GM OF THE GOVERNANCE LEADERSHIP CENTRE AND SELWYN EATHORNE, SENIOR GOVERNANCE ADVISOR

The increasing trend of laws and regulations extending directors' personal liability is deeply concerning. We are seeing this across different regimes on a piecemeal basis.

Accountability is absolutely critical to corporate governance and directors' personal liability has its place. There is no shortage of statutes in New Zealand imposing obligations on directors, accompanied by civil or criminal liability. However, in the past 12 months we have seen numerous director accountability proposals/reforms including:

- the introduction of civil and criminal liability for the decision-makers of cartels (effective April 2021)
- the Credit Contracts Legislation Amendment Bill introduces a due diligence duty on directors and officers, and personal liability
- the Government has signalled that it will make directors personally liable for company PAYE and GST debt (a recommendation of the Tax Working Group)
- the Ministry of Business, Innovation and Employment is considering introducing a accountability regime for financial institutions (with personal liability for directors) and this is also considered in the second phase of the Reserve Bank Act review.

In the past, the IoD has supported reform where directors could be civilly or criminally liable in appropriate circumstances (eg under the *Health and Safety at Work Act 2015*). However, care is needed to ensure that honest and diligent directors are not unfairly prejudiced.

There are, of course, complexities for policymakers in allocating accountability and liability between a company, directors, officers and other corporate stakeholders. However, we need to take a long-term approach with policy rather than a knee-jerk reaction to high-profile examples of substandard governance.

COHERENT REGULATORY APPROACH REQUIRED

A piecemeal approach by policymakers to imposing liability is worrying and risks tipping the scales too far, prejudicing directors. If left unchecked this approach could result in significant and adverse effects on governance and ultimately impact on New Zealand's prosperity and wellbeing.

New Zealand needs skilled and experienced leaders. It needs leaders willing to take on the responsibility of guiding organisations, and making challenging choices and decisions that will result in a strong and sustainable future.

The impact of good governance is far reaching with the potential to provide benefit to shareholders, customers, organisations, employees and communities.

Any proposal to impose director personal liability deserves careful, and considerable, attention from policymakers. There has to be a holistic and system-wide view that takes into account existing director liability, and balances this with the need for, and importance of, non-executive directors and good governance.

It is vital that there is more dialogue between policymakers and other relevant stakeholders. The IoD sees this as a priority and will continue to engage, and to strongly oppose proposals that place a disproportionate burden on directors.

We have raised some key concerns about increasing director responsibilities in recent submissions on policy and legislative initiatives.

RISK: MERGING ROLES AND RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

Some proposed duties on directors/boards merge the role of the board and management, undermining the essence of corporate governance in New Zealand. A core role of boards is to hold management to account through effective and independent oversight of performance and compliance matters. This was reinforced in the Final Report of the Australian *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (2019): "Boards cannot, and must not, involve themselves in the day-to-day management of the corporation … The task of the board is overall superintendence of the company, not its day-to-day management." It is critical that this separation is maintained.

RISK: LIABILITY CHILL DETERRING DIRECTORS

The increasing responsibilities and liabilities on directors can have a cumulative impact on directors and organisations. There is a very real likelihood that increased responsibilities and personal liability will be a significant deterrent to directors and potential directors seeking board roles (especially in relation to listed issuers or financial institutions).

Directors have the choice to contribute to New Zealand in a range of ways, and we are already seeing signs that some directors favour serving on the boards of private companies with a relatively low risk profile.

In our 2018 *Director Sentiment Survey*, one in three directors (33%) said that the scope of director responsibilities was more likely to deter them from taking on governance roles. In an increasingly complex operating environment for organisations, it is now more critical than ever that boards are able to attract well-qualified, experienced directors to lead New Zealand organisations for sustainable success, and to build trust and confidence in business.

RISK: PERSONAL REPUTATION

Being a director can carry a high level of reputational risk. There have been a number of examples in New Zealand and Australia in the past 12 months where directors have faced significant public scrutiny when things have gone wrong in their organisations.

Personal reputation is front of mind for directors and is already a strong driver for them to ensure their organisations are well governed. Extending the personal regulatory responsibility of directors extends the risk to their reputations. It is prudent to ask where responsibility should properly lie between directors and management before making such a shift.

RISK: COMPLIANCE AND RISK ADVERSE BOARDS

Balancing the time spent on conformance, performance and strategy is an ongoing challenge for directors.

The increase in director responsibility and liability adds to a board's growing regulatory burden, meaning they may spend disproportionally more time on compliance. In our 2018 *Director Sentiment Survey* 71% of directors reported spending more time on compliance-related activities in the past 12 months.

Boards have a fundamental role in setting, driving and overseeing strategy to promote the long-term success and sustainability of their organisations. This includes taking appropriate risks to drive performance. Managing risk is already challenging in a world of dynamic change and disruption and increased personal liability exacerbates this.

The danger with undue risk aversion is that boards can miss opportunities and avoid innovation, failing to realise the potential for their organisations. It's important to understand the broader implications and potential negative effect on organisational performance when proposing greater liability for directors.

RISK: COSTS AND D&O INSURANCE

The greater the regulation, the greater the increase in compliance costs for organisations, directors and consumers. Some of the proposed reforms will require extensive due diligence processes, procedures, and policies and training. The cost should not be underestimated, especially for large organisations.

The cost of Directors and Officers insurance, generally, has risen markedly in recent years and is prohibitive for some organisations. Premiums for some organisations have more than doubled in 2019 and these costs will ultimately reduce shareholder returns.

The power of good governance

To inspire future generations to step up to governance roles, we need to create inspiration and shared understanding for what good governance can achieve.

Brand is a tricky word, misunderstood, regarded as fluffy sometimes. But a strong brand has the power to create connection, change, and capture people's affection and trust.

For a business and its stakeholders, a brand is an experience that is far more important than a transaction.

Entrepreneur and blogger Seth Godin, when talking about brand, says that people do not buy goods and services they buy "relations, stories and magic". Without that sense of "stories and magic", people can quickly become disengaged with a brand, and lost as customers.

Brands also touch an organisation's business partners, its shareholders and, in the modern world of concern about social licence to operate, a disparate collection of stakeholders that may include the general public, regulators or governments.

AUTHENTICITY, TRUST AND AFFECTION

Apple tops the Forbes list of the world's most valuable brands. Apple is an example of a brand that is more than a consumer choice, it is a lifestyle choice. It connects with people on an emotional level and on an aesthetic level. Its customers trust that its products will look good, feel good and work well. Apple is regarded as authentic.

Trust is an emotional connection that we build through experience and relationships over time. It brings people to you, but also allows them to forgive you when things go wrong.

This emotional aspect of brand (nobody claims that all Apple products are better, or certainly not cheaper, than those of their rivals) is important for understanding what Godin's "stories and magic" means in practice. Apple's authenticity and trust are a means of beating the (less expensive) competition through connection and a sense of love.

When Mercury Energy won the TVNZ-NZ Marketing Awards Supreme Award in 2017,its "energy made wonderful" rebrand was credited with stabilising Mercury's customer churn and establishing it as a key player in the electricity market.

Joan Withers CFInstD was the chair of Mercury at the time. In the foreward to Why aren't we doing this? a book on brand, she writes: "A strong brand makes every business challenge, and every conversation, easier."

She says Mercury's rebrand lifted staff both engagement and stakeholder confidence. "It can be argued that a strong brand is more useful than it's ever been."

THE POWER OF GOOD GOVERNANCE

What is the brand of governance? As the IoD celebrates its 30th anniversary, we have been doing a lot of thinking about how to ensure that governance as a profession remains, or indeed is understood, as a trusted and vital part of the business landscape. In a volatile world, governance will become more important and more challenging than ever before. While we may need to think about what the future of governance looks like – it will undoubtedly remain essential.

From September, you will see the gradual rollout of a new look for the IoD – and we will start to really focus on how to position the importance of governance to our nation for the future. There are many stories to share about the power and outcomes that good governance unleashes. Showing how it contributes to fair, just and sustainable organisations, communities and countries is essential.

"We believe that good governance has the power to transform the future," says Kirsten (KP) Patterson, IoD chief executive.

"The IoD will continue to have its eye on local and global issues, and to champion best-practice governance, but our brand will take a big step forward in claiming more of our New Zealand spirit."

An example of what this means visually is the cover image on this issue of Boardroom - a striking aerial shot of Waiwera, North Auckland that allows us to celebrate not just the beauty of our country but also shows how the big picture or perspective can help us see things differently.

"While looking more contemporary feels right, it was important to take a moment to think about why we are here for our members and the governance community and what we are helping them to achieve," Patterson says.

"Our members are at the heart of what we do. The IoD is culturally rich because of our heritage and strong because of the strength of our members. What gets us up every day is supporting directors who are making decisions that can positively change and transform the future of New Zealand. Today, more than ever, New Zealand needs directors who go beyond compliance and aspire to meet the highest standards. Our goal is to show the powerful results – big and small."

As we go forward, we want to involve our members and the governance community in telling stories – to inspire future generations and to create a better understanding of why people take on governance roles and what they hope to achieve.

Our new website will be completed later this year and will showcase many faces of directors, real people, getting real results for organisations and communities. Some of our members (pictured) have kindly agreed to be our first "brand ambassadors." We will share many more stories and faces of good governance.

Barbara Chapman
CNZM CMInstD

Caren Rangi
ONZM MInstD

David Pilkington
CFInstD

Kirikaiahi Mahutariki
MInstD
See five questions with Kiri on page 24.

Suneil Connor
MInstD

Tony Allison
CMInstD

Migrant exploitation

AUTHOR
SARAH BADDELEY MINSTD, CONSULTING MANAGER AT MARTINJENKINS

The Labour Inspectorate is taking a tactical approach with prosecutions, signalling to New Zealand companies a responsibility to ensure workers in their supply chain aren't being exploited.

The case of migrant worker exploitation involving the popular Te Mata Estate is another example of how our regulator here, the Labour Inspectorate, is clearly not afraid to take both legal and moral action against major New Zealand brands. The case involved a labour supply contracting firm's exploitation of 12 Papua New Guinea citizens working at Te Mata's vineyards in Hawke's Bay, with the contracting firm being hit with $30,000 in penalties.

Although the winery wasn't itself before the courts, the Labour Inspectorate had no qualms about pointing out that the beloved wine producer had a moral responsibility for those working in its vineyards.

It's a warning that successful brands face a real reputational risk here.

Across the Tasman, the franchised convenience store 7-Eleven has since 2015 been facing a sustained branding and financial disaster following revelations of terrible treatment of workers at its stores – some getting as little as 47 cents an hour. The fallout from this case included a new government Migrant Workers Taskforce being set up in late 2016, as well as calls for labour standards breaches to be subject to criminal penalties.

NEW ZEALAND REGULATOR TAKES FORTHRIGHT APPROACH

Major New Zealand companies have so far been largely immune to the effects of brand retaliation against the use of exploited labour in supply chains. We've yet to see consumer reaction to poor treatment of workers on the scale seen in Europe.

But our government institutions are taking the issue seriously. The Labour Inspectorate is increasingly calling on major New Zealand businesses to take a responsible supply-chain approach. Its reaction to the recent independent review of Chorus's next generation network supply chain was that the report should be read by all company directors and CEOs.

The government is also putting its money where its mouth is. Its new Supplier Code of Conduct requires anyone wanting a share of the $41b annual spend to show not only that they comply with New Zealand standards for their own employees, but also that they "monitor and address" compliance with international human rights standards within their supply chain.

"In the wine industry, standards developed by Sustainable Winegrowing New Zealand are an attempt to go beyond the legal compliance defence and give confidence to consumers."

CHORUS OF DISAPPROVAL

Chorus commissioned a review of breaches of labour laws among subcontractors working on its ultra-fast broadband (UFB) rollout. This was in response to allegations from the Labour Inspectorate.

The Labour Inspectorate found identified issues with 76 subcontractors out of 365 working in the UFB connection side of the business – around one in five. These were third-tier contractors, contracted to a service company. The review noted subcontractors doing unpaid work, poor employment record keeping, underpayment, cash-back arrangements whereby employees had to return money to their employer, and bribery.

While some subcontracting companies face legal action, and others have been blacklisted by Chorus, the company itself is not legally liable under New Zealand employment law due to the indirect nature of the employment relationship.

Chorus has moved this year to implement a Supplier Code of Practice for its service companies and to review its risk governance framework.

UNDERSTANDING YOUR SUPPLY CHAIN RISKS

There are very few international examples of good practice that are directly relevant to New Zealand. Major brands like Adidas have taken steps to ensure their transnational production facilities meet local labour standards, but there are few overseas examples of companies operating here who are front-footing this with the sophistication that the local regulator is calling for.

Supply chain risk is an established area of corporate risk management practice – yet there is little indication that New Zealand companies are heeding the Labour Inspectorate's calls and turning their minds to labour risk in their supply chain.

And who can blame them? Understanding how to detect and prevent migrant exploitation in your supply chain can be very complex. At a minimum it requires an understanding of the practical operating impact of a complex set of legal obligations, including the Immigration Act, the Employment Relations Act, the Minimum Wage Act, the Wages Protection Act, and the Holidays Act. But that is not enough.

ADDRESSING FOUR LAYERS OF RISK

At MartinJenkins, our recent work with New Zealand companies on this issue has highlighted for us the importance of not relying on traditional assurance methods.

We've found that it helps to consider four different layers of risk when you're looking at your supply chain arrangements These are:

- workers' personal situations
- legal and institutional frameworks
- risks created by employers
- risks relating to the particular workplace.

RISK FRAMEWORK

Martin Jenkins and Associates (adapted from the European Union Agency for Fundamental Rights).

RISK FACTORS	EXAMPLES
Relating to workers' personal situations	Relatively better than home country, barriers to accessing remedies.
Relating to legal and institutional frameworks	Immigration policy, visa requirements, labour and employment policy, health and safety "person conducting a business or undertaking", modern slavery, legislation in overseas jurisdictions, international United Nations and International Labour Organization conventions.
Created by employers	Business models (eg, sub-contracting and piece rate), worker engagement and power balance differences.
The workplace	Geographical isolation, travel time, lines of accountability, seasonality, environmental conditions and uncertainty.

This model emphasises that to manage risk you need a good understanding of the workers in your supply chain, their specific contractual arrangements, and the kinds of exploitation risks they may face.

Taking a good long look at these labour issues can be a real education for any executive or director coming from a position of privilege.

Common forms of exploitation stretch beyond Minimum Wage Act breaches to include volunteerism, cashback scams, and exploitative arrangements around housing, transport and food. Running two sets of books is also not uncommon for unscrupulous suppliers – exploiting people who may be desperate, vulnerable and out of their depth.

At its heart, exploitation stems from a power imbalance. The capacity of migrants to speak up against poor treatment is constrained by fear of losing their job and therefore potentially their visa. It's an understandable fear, but it's not always a well-informed or legitimate one. Immigration NZ and the Labour Inspectorate – both of them parts of the Ministry of Business, Innovation and Employment – are co-located regulators who work together to protect the interests of those workers in these situations.

RIGHT HERE, RIGHT NOW

While many companies are busy talking about the Future of Work, migrant exploitation is a workforce issue that's right here, right now.

Some New Zealand businesses are responding – for example some of our high-end fashion labels have been promoting ethical standards in the garment industry.

As the Australian 7-Eleven saga shows, the reputational damage to businesses around this issue can be immense. But flipping the coin, there's potentially also a competitive advantage for firms that can show they take their moral responsibilities seriously rather than simply hiding behind clauses in contracts.

The direction of travel from the regulator is clear. Under-resourced for the scale of the current task, the Labour Inspectorate is increasingly taking a tactical approach with its prosecutions, sending signals to New Zealand companies that they have a responsibility to ensure migrant workers in their supply chain aren't being exploited.

Woody Guthrie once sang an ode to the American migrant workers who headed west out of the US Dust Bowl in the 1930s to work in orchards, vineyards and fields – the ones who "dig the beets from your ground, cut the grapes from your vine, to set on your table your light sparkling wine".

Whether they're cutting grapes or digging trenches, all the people who are involved in keeping New Zealand's economic wheels turning deserve a serious response from our business community to the problem of supply chain exploitation.

Shaping culture through questions

AUTHOR
AARON WATSON

Asking a question about organisational culture elicits more than answers – it brings the subject of the question into the light.

Philip Carden says managers can improve organisational culture by asking questions. And acknowledging that the answers matter.

The former head of the consulting engineering team at Bell Labs is not talking about culture surveys and measurement in the traditional sense. He wants businesses to have regular, tracked and open (not anonymous) conversations about life in the workplace.

With his brother Mike, he has founded Joyous, a company that offers an innovative approach to measuring culture, improving staff wellbeing in the workplace and managing the risk of misconduct.

It's a software product based around regular question-and-answer sessions – conducted digitally – in which staff and managers express candid views on a topic of the moment. It also allows staff to chat about the things that are impacting them at work and for managers to respond.

By making feedback a regular habit, rather than an annual event, Joyous aims to make organisational culture more transparent, easier to monitor, and to enable leaders to respond to issues in a timely manner. With staff the ultimate beneficiaries as workplace culture improves.

CULTURE AND CONDUCT

"You are trying to improve the state of the organisation – in terms of both culture and conduct - over time," Carden says.

What differentiates his idea from many traditional culture and conduct monitoring mechanisms is that Joyous assumes all feedback is open and transparent. This has implications for the type of feedback the approach is suitable for.

"You need to avoid regular feedback that is about leadership quality – you are not going to ask about people – but you can ask more specifically about their experience at work."

That could be questions about role clarity, clarity of objectives, whether they have the tools to do their job, their sense of fairness and inclusion, or whether they feel they are recognised fairly.

"In terms of wellbeing, it could be if they know where to find support, whether they have a reasonable work-life balance.

"These are all things that people leaders have influence over – so if there is negative feedback in those areas, there is something they can do about it."

One of the interesting things about implementing an open feedback system is that questions designed to measure culture start to shape how people think and act, he says. In essence, the questions themselves become a management tool.

"If you are asking questions about a particular topic, it reminds people leaders that the area is important and triggers them to think about it. It happens on multiple levels. The culture shaping power of questions... people often think they are just targeted at staff."

TRANSPARENCY CAN'T FIX EVERYTHING

Leadership quality is outside the scope of the Joyous model. It's not something people leaders can address on behalf of their teams and not a suitable topic for open conversation. Organisations will need another – and probably anonymous – system for dealing with issues in that area.

Serious misconduct is also unlikely to be a suitable topic. This could include harassment, bullying, misconduct or corruption.

"In those cases you have real issues of psychological safety and in those cases it is not always reasonable to have that feedback visible to people's direct leaders. They [the direct leaders] might be the ones that are involved."

Carden advocates giving control of feedback on serious misconduct issues to employees.

"Let them have control over how their feedback is handled, who it goes to. We call that directed feedback. You choose who that feedback goes to."

Depending on the systems in the organisation, that might be the chief executive or even someone on the board, he says.

By making feedback a regular habit, rather than an annual event, Joyous aims to make organisational culture more transparent, easier to monitor, and to enable leaders to respond to issues in a timely manner.

Joyous's software solution works directly on people's mobiles, tablets or computers – meaning staff in the field can contribute just as easily as staff in the office.

INCLUSION AND EQUAL WEIGHT

One of the great advantages of the Joyous system is that it can be rolled out across distributed workforces, or shift-based environments where staff may not always be overseen by the same manager.

Joyous's software solution works directly on people's mobiles, tablets or computers – meaning staff in the field can contribute just as easily as staff in the office. Including all staff in the conversation is the goal, "so your voice is not louder because you work at head office and have conversations around the water cooler," Carden says.

The system can even be extended to subcontractors – something that may have alerted the Chorus board to irregularities in its contract workforce sooner (see "Migrant exploitation", page 16).

"At a governance level, you are increasingly seeing expectations of suppliers that cross subcontractor boundaries. If you think about that as a governance issue, how do you include subcontractors in your feedback loop? How do systems manage to cross organisational boundaries?

"Part of what gets in the way of including subcontractors in your feedback loop are the operational complexities of getting people set up within large organisations. But technology has got to point where it is relatively simple to do that in a secure way. We put a lot of focus on the fact that there is no set up for anybody – no password, no app on your phone. The act of answering a message takes care of the security credentials and launches the web app. This is the modern way of doing message-initiated feedback. The result is the ability to "include the broad set of people that are involved in your company's conduct", Carden says.

MENTAL HEALTH AND WELLBEING

One of the challenges with wellbeing, Carden says, is it can be quite a vague concept to people leaders in an organisation.

"So you have to make it more digestible. We focus primarily on the parts of mental health and wellbeing that are affected by work. You can divide that up into areas that are much more straightforward for people leaders to understand.

"Support: whether people have access to support. Is there someone who cares about them and do they know where to go if they have a problem.

"Security: both physical safety and mental security – feeling physically safe but also confident about your future.

"Workload and work life balance: that's where you are really getting into stress that is a function of having too much work to do relative to the number of hours in the day."

SEEING INTO YOUR ORGANISATION

In a typical organisation, your manager would see your feedback and then their manager and on up the hierarchy.

"The most important thing is that people leaders respond to feedback. There is a tendency to respond to negative feedback, but it's important to respond to all feedback."

Having an ongoing culture conversation captures data which can then be assessed to compare differences between teams or locations, or to uncover areas of a

business which a leading or lagging in one cultural aspect or another.

The system will generate dashboards, heatmaps or other forms of analytics and it is possible to drill all the way down to an original response when seeming more information on a particular finding – directly from a board report, if that is warranted.

"If you are using modern software the filters can be applied to the data. It becomes very easy to navigate through a lot of feedback."

But it is the process of asking and answering questions that has the most immediate inpact on culture, he says.

"Where technology is today, you have the ability to actually impact both culture and conduct with every interaction."

> "By starting conversations with a regular cadence around these important topics, and by enabling people leaders to respond to them, you move from an emphasis on measurement to an emphasis on action and continuous improvement."

Five Questions

Five questions with...
Kirikaiahi Taiiti Mahutariki MInstD
an IoD Future Director on the board of ServiceIQ.

1. TELL US A LITTLE BIT ABOUT YOURSELF

I am from Maketu in the Bay of Plenty and am of Te Arawa, Mataatua, Tongareva (Kuki Airani – Cook Islands) and Tahitian descent.

I have over 20 years of commercial experience in the private sector. I am a lawyer by background and have worked at PricewaterhouseCoopers in tax, Kahui Legal practicing law and am now working in the banking and finance industry at ASB Bank in the Māori Financial Solutions team.

I am a founding member and alumni of the Advancement of Māori Opportunity, a values-based leadership programme.

I was a founding member of the Charities Registration Board, and I am an alumna of the 2015 Global Women BreakThrough Leaders Programme.

Appointed to the judiciary committee for Wellington Rugby League in 2008, I was chair 2010 to 2016. I am a board member of Volunteer Services Abroad, the VSA Foundation (investment arm), and Ngā Wāhine Hākinakina o Aotearoa/Women in Sport Aotearoa.

Outside of work I enjoy whānau time and keeping physically active through ocean based sports and martial arts.

2. TELL US ABOUT YOUR EXPERIENCE PARTICIPATING IN THE FUTURE DIRECTORS PROGRAMME. HOW WILL THIS EXPERIENCE HELP YOU IN YOUR CAREER AS A DIRECTOR?

I have had a great experience as a Future Director with ServiceIQ. The board culture has been very open and welcoming, which I noticed from the outset as the interview was with the whole board and the CEO. I valued the formal interview process as all of my previous and current board roles have either been by ministerial appointment or shoulder tap.

Having one-on-one discussions with various directors at times has allowed me to learn from their wide skillsets and experience, and I have been able to apply those learnings to my other boards immediately.

Being on the board of an organisation that is more commercial than my other boards has been invaluable. I can take these learnings with me in any future governance roles I take on.

3. WHAT ARE SOME OF THE THINGS YOU HAVE LEARNED SO FAR WITH REGARDS TO BEING A DIRECTOR?

The ServiceIQ board culture is open and transparent. As a result I have learned a lot around effective governance, audit and risk, strategy and organisational culture.

Being a part of an effective board with an open and encouraging culture provided a great learning platform in identifying and managing key risks, adjusting the business plan within the strategy as required and managing stakeholder expectations accordingly.

4. WHAT DO YOU ENJOY MOST ABOUT BEING ON THE BOARD OF SERVICE IQ?

I have really enjoyed being able to watch and participate in governance at work and seeing the board take a very professional, measured and calculated approach to various matters It's been wonderful working with a great bunch of people who also happen to be great governors willing to pass on their knowledge and experience to me.

5. WHY DID YOU WANT TO PURSUE A CAREER IN GOVERNANCE?

Initially, I decided to pursue a career in governance because that's what everyone was doing and it sounded like a good thing to try.

Doing Global Women made me see that governance wasn't as sexy as I thought it was, but I could contribute my skills to things I am passionate about to make a real impact, and therefore be purposeful about the governance roles I apply for. That is why I take the approach that I do now to governance roles.

I purposely applied for the ServiceIQ role for two reasons: firstly, to go through a formal application and interview process and secondly, to gain more experience on a more commercial board in terms of financial, audit and risk, and strategy experience.

This is an extract from an interview with Kirikaiahi Taiiti Mahutariki that can be viewed in full at **iod.org.nz**

"Doing Global Women made me see that governance wasn't as sexy as I thought it was, but I could contribute my skills to things I am passionate about to make a real impact, and therefore be purposeful about the governance roles I apply for."

Agility?

AUTHORS
MICHELLE DAISLEY, MARGARITA ECONOMIDES, DAVID GILLESPIE AND LISA QUEST OF MARSH AFFILIATE OLIVER WYMAN

Is it possible to govern an organization fit for the third decade of the twenty-first century using a board model from the early twentieth century?

The pressures on boards and governance models to change are increasing and directors are faced with two key challenges.

First, boards must adapt governance to the needs and demands of an agile institution. Organizations of all sizes must increase their speed, adaptability, and innovation to thrive in today's dynamic global environment. This extends to board oversight and governance.

Second, boards are dealing with a growing number of mandates and a near constant onslaught of unpredictable events and tough scrutiny from regulators, activist investors, employees, commentators, politicians, and – most importantly of all – customers. Amid these pressures, board oversight is a complex balancing act as organizations safeguard core business, manage social responsibilities, and develop innovative new propositions, all at an increasing pace.

Against this backdrop, it is time to ask: Is your board agile?

An agile board is able to identify and respond effectively to the rapid and unexpected changes in the internal and external environment. It is characterized by a forward-looking and exploratory approach that challenges and nurtures both current and future business, enables quicker decision-making, and supports the organization to be more adaptable and innovative when confronted by change. The transition to a more agile board will require re-thinking the board agenda, board composition, and board practices.

The transition to a more agile board will require rethinking the board agenda, board composition, and board practices.

BOARD AGENDA

In the face of rising regulatory and compliance regimes, a board's overflowing and largely prescriptive agenda is often filled with backward-looking tasks and is mostly dedicated to traditional and procedural governance matters. This limits the time and opportunities for a robust group discussion of strategy.

For example, the recent US National Association of Corporate DirectorsPublic Company Governance Survey found that 70% of directors believe their boards need to strengthen their monitoring of strategy execution and their understanding of risks and opportunities affecting company performance. Yet improving the rigor of preparing board agendas ranks last among areas for board improvement: Just 27 % of respondents ranked it important or very important to improve board agenda planning.

Board agendas need to shift from largely fixed, backward-looking reviews—which are often determined by habit—to flexible, forward-looking agendas. Changes to the pace and structure of a board agenda will need to be implemented alongside new processes to set the agenda to ensure that board discussion is focused on the strategic topics that matter most. For example, updates can be provided to board members instantaneously between meetings, using tools such as a board portal, to provide access to timely data related to ongoing issues. This could release time on the crowded board agenda for forward-looking discussions. Indeed, simply a focused analysis of how the board applies its time or plans the agenda could reveal improvement opportunities.

BOARD COMPOSITION

Board composition is key to bringing fresh thinking to and in stimulating mental agility in the board room. Despite considerable recent focus on diversity in terms of gender, race, nationality, and cognition, many boards are, in reality, still composed of individuals from similar backgrounds. One recent analysis of 2018 board composition showed that about 25% of Russell 3000 directors served for more than 15 years before stepping down, and female directors hold 16% of board seats in the Russell 3000, while 20% of the Russell 3000 have no female directors at all.

To affect change, boards and their nominating and governance committees will need to work with executive search firms, associations, and other networks to access a wider and more diverse pool of potential candidates. Currently, most directors are recruited from known networks of the current board members and the executive team, although there is a growing trend of using executive search firms. Indeed, given the limited number of women in corporate pipelines, if boards want to increase the number of women or broader diversity on boards, they will likely need to break out of traditional director recruiting grounds and processes. For example, according to Catalyst, women hold just 5% of S&P 500 CEO positions and just 26% of executive positions. There are only three African American CEOs of Fortune 500 companies.

Boards also need to reconsider what the most desired candidate capabilities are when recruiting board members. Most boards currently focus on industry experience, financial expertise, and past executive experience when setting a recruitment matrix. Far less emphasis is placed on experience with topics such as strategy, information technology, international economics and risks, cybersecurity, marketing, digital media, and human resources. Boards should consider contrasting their current recruitment list against the greatest challenges facing most organisations, including digital or technological disruption, talent shortages, and a turbulent geopolitical environment. Doing so reveals that the need for cognitive diversity is fierce.

BOARD PRACTICES

Re-focusing the board agenda may be difficult in the face of rising oversight requirements and shifting board composition may take time to achieve. Shifting existing practices and mindsets is no straightforward task, but starting small and learning by doing can be significantly more effective in stimulating agility.

For example, simply changing the format of board meetings or where members sit around the board table can shift the dynamics and conversation in the room. Implementing alternative decision-making techniques, such as “red teams” (a group of board members providing deliberately provocative perspectives to stimulate debate), “tenth man” (avoiding groupthink by assigning one board member to be contrarian should the board unanimously agree on something), or “six thinking hats” (considering ideas in six different thinking styles), can also serve as powerful ways to generate greater mental agility around the board table. Boards could pilot a “studio style” approach to board meetings and committees, applying design thinking and cocreation principles to increase understanding, insight, and creative challenge around key business issues. This tactic in particular may suit less formal meetings, such as the annual strategy offsite.

This process of experimenting with and testing new approaches, then refining, practicing, and embedding the changes to formalize new behaviours at board meetings are hallmarks of an innovative and agile organisation.

Greater use of digital and analytical tools within the board environment can also enable access to a much wider range of insights, generating deeper understanding and contrary ideas. For example, using real time virtual focus groups to understand the direct perspectives of different communities on key issues will provide much richer insight and understanding than written reports, key performance indicators, or face-to-face briefings can achieve by themselves.

The challenges that boards are facing are only set to grow in complexity over the next few years. Providing fresh perspectives on difficult issues will be a key differentiator between boards and will play a fundamental role in how organisations adapt and thrive in the future.

This article originally appeared on NACD BoardTalk. For more information contact Steve Walsh, chief client officer at Marsh New Zealand, **stephen.walsh@marsh.com**

The NACD and Iod are both members of the Global Network of Director Institutes.

Responsible investment: Are New Zealand corporates keeping up with the pace?

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SIMON O'CONNOR IS THE CEO OF THE RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA.

Responsible investment has rapidly become the foundation of good investment practice in New Zealand. But are corporates keeping up with the pace?

The Responsible Investment Association Australasia (RIAA) and KPMG have just released their annual Responsible Investment Benchmark Report for New Zealand, charting the application of responsible investment strategies.

The report reinforces that responsible investing – an approach which systematically considers environmental, social and governance (ESG) and/or ethical factors – is here to stay, and now spans the majority of New Zealand's finance sector with 72%, or $188b, of our total professional assets under management (AUM) invested responsibly. This is a threefold increase on the $58b invested in responsible funds only five years ago.

ESG FACTORS AND ECONOMIC OUTPERFORMANCE

Recognition of the positive link between proactively managing ESG factors and economic outperformance continues to strengthen in both the corporate and investor world.

The 2019 report again found funds managed responsibly continue to outperform mainstream funds.

For example, in Australia the average responsible investment fund returned 12.4% over a 10-year period, compared to 8.9% for mainstream funds over the same period with outperformance also observed over one and five years.

Indeed, the research found the key driver for growth in New Zealand was that ESG factors impact performance, with 59% of respondents stating this as their primary motivator for investing responsibly.

Corporates, too, are increasingly aware of this link. KPMG's 2019 CEO Outlook Survey found that 70% of New Zealand CEOs surveyed appreciated the importance of ESG and saw it as their personal responsibility to align business policies with societal needs and customer values.

It's clear that CEOs know that proactive management of ESG factors, such as climate change, employee wellbeing, and organisational culture and conduct, results in improved performance. But how does this appreciation connect with the broader needs of stakeholders, including investors, who are increasingly demanding corporates be transparent and authentic on their social and environmental performance?

This path is sometimes uncharted and unclear. The idea of it is, perhaps, overwhelming. The CEO Outlook Survey found that only 20% of CEOs are able to say they are not struggling to link strategic growth and societal purpose.

SUSTAINABLE FINANCE FORUM

In February 2019, The Aotearoa Circle launched the Sustainable Finance Forum (SFF). The SFF is a high-level group charged with developing a set of recommendations to enable New Zealand's finance sector to contribute systematically to the transition to a more resilient and sustainable economy.

The SFF is overseen by leading New Zealand directors, CEOs and senior executives from major banks, insurers, civil society and academia.

This initiative builds on a strong precedent offshore, with objectives to mobilise more capital for sustainable assets, enhance both the sustainability and stability of the financial system, ensure financial market participants are better informed by enhanced disclosures and transparency, and deliver a financial system that better meets societal expectations.

GREATER TRANSPARENCY AND AUTHENTICITY

Corporates' reporting needs to be increasingly linked to their environmental and societal impact, and directly connected to their ability to create and protect long-term value.

While we are seeing this slowly maturing, through increasingly sophisticated Sustainability Reports and Integrated Reports, research shows that reporting produced by corporates is not hitting the mark - with gaps remaining in disclosures by listed New Zealand companies.

This lack of connectivity forms a part of the work underway by the SFF, where a key focus is companies and how they manage and disclose their material ESG factors.

We expect the availability, reliability and connectivity of ESG data to improve. Company directors can expect to see a greater scrutiny on the quality of disclosures, such as elevated requirements built into codes of practice, and expectations that companies and their boards have adequate skills to manage emerging ESG factors.

CORPORATE ENGAGEMENT AND SHAREHOLDER ACTION

Encouragingly, the research found a maturing in responsible investment strategies to extend beyond exclusions (negative screening).

The Responsible Investment Benchmark Report for New Zealand report found 19% of investors are now using corporate engagement and shareholder action as a primary or secondary investment strategy, reflecting the increased willingness of investors to flex their ownership muscle to improve corporate behaviour on ESG factors.

This change has been rapid – from nothing in 2018.

From climate change, to human rights management in supply chains, to ensuring companies are aligned on the lobbying activities of their trade associations, to requesting more ESG disclosures, investors are now actively engaging companies on ESG risks and opportunities.

A recent Australian example is testimony to the potential power of investors. The case involved a number of Australia's largest superannuation funds engaging collectively on climate change. After engagement by this collaborative investor initiative, Glencore, one of the world's largest natural resource companies, committed to no further increase in coal production capacity and to prioritise future investments in commodities essential to the energy and mobility transition.

Similar engagement activity – long common in New Zealand in regards to corporate governance issues such as remuneration – is now set to take off here for other ESG factors. Investors are increasingly keen to get adequate disclosure from companies to help them assess exposure across their portfolios.

The elevated focus on climate change is a case in point, where the Zero Carbon Act has set a clear pathway for the New Zealand economy, and investors will be increasingly keen to understand how companies are equipped to adapt to this lower carbon transition.

Companies can expect an elevated scrutiny of ESG disclosures, with an emphasis on climate-related disclosures.

THE PATH AHEAD

With a vast majority of the New Zealand investment market now committed to systematically considering ESG factors, companies should see this reflected in the interest in ESG issues from their own share registries, and anticipate an ever greater focus on ESG performance. Overall, we expect to see heightened demands for greater and better connected and authentic disclosures by corporates, deeper engagement from investors with corporates on their processes, management and outcomes of ESG factors, and ultimately, a shifting of financial flows towards more sustainable assets and enterprises.

In the end, capital will be attracted to companies and assets that can demonstrate a heightened ability to manage and capture strategic ESG factors for the long term. Those companies which align themselves with, and support the transition to, a more sustainable economy as well as substantiate the type of impact they are having will be of most interest to investors.

To view the Responsible Investment Benchmark Report for New Zealand, see **responsibleinvestment.org/resources/benchmark-report/**

For further information on the Sustainable Finance Forum, or The Aotearoa Circle, see **theaotearoacircle.nz/sustainablefinance**

Jellybeans and board diversity of thought

AUTHOR
JUSTIN STEVENSON

With complex problems, the power of diverse thinking comes into its own.

Simple games like "guessing the number of jellybeans in the jar" can be a surprisingly informative introduction to the benefits of diverse thinking in the boardroom.

While lighthearted, the results have wide-ranging implications for how boards can negotiate "complex" problems.

A complex problem has a range of possible outcomes (ie, how much will the All Blacks win by next week?), as opposed to a "complicated problem" where there is one right answer but it takes effort to figure out. With complicated problems the best option is to find an expert, give them enough time and resources, and they will figure it out.

With complex problems, the power of diverse thinking comes into its own. The jellybean game illustrates why this is, as well as some of the difficulties involved.

JELLYBEAN BINGO

In the simplest version, board members guess the number of jellybeans in the jar without talking to each other. The "board decision" is simply the average of these guesses.

The following are consistent outcomes.

THE AVERAGE IS PRETTY GOOD

The average result tends to hone in on the correct result with each new guess. With enough people, the final result is usually within 5% of the correct value.

Watching this happen in real time is a slightly surreal experience. In a more superstitious age, you would declare it to be witchcraft.

This finding is not new. Over 100 years ago statistician Francis Galton worked out that each independent guess contains a small amount of information along with a lot of error. Taking the average cancels the errors and you are left with just the information. Bingo!

The more people you have the better (a minimum of 20 is recommended) but even with smaller groups, you can get startlingly good results.

IT IS USUALLY THE BEST ANSWER

The average result is not only accurate, but it is usually more accurate than any individual guess.

Every now and then someone flukes a better answer but it is impossible to predict beforehand who that person will be. They are usually the first to admit that it was educated guesswork coupled with a lot of luck.

For complex problems, this is a warning about relying on a single "expert" or someone who has been right before. While intelligence and experience help, adding this to a diverse board is a better option than relying on the view of a single individual.

THE AVERAGE IS GOOD BECAUSE SOMEONE WAS REALLY WRONG

Often someone's guess is way off beam and it is tempting to discount or eliminate their contribution. However, these guesses usually have the weird effect of making the average result more accurate.

With complex problems, you can't know in advance if what looks like a fringe position is crazy or actually correct. Even if hindsight shows it be a fringe view, it may have offset an equally fringe position from the opposite side or corrected a group bias.

On one memorable occasion, the average result was 63.5 jellybeans versus the actual number of 65. Still a good result but the only reason that it wasn't bang-on was that one person was convinced to change their guess from 100 to 70. Even though the latter was more correct it made the groups' decision worse!

From a board decision making perspective, this is the most interesting, and the most challenging finding. It hints at the uncomfortable reality that the best decisions probably arise from challenge and conflict rather than compromise and consensus.

Diversity is powerful because people think differently. That difference is not always easy to live with.

INDEPENDENCE WINS

Despite trying other group decision-making methods, so far none consistently beat just averaging independent guesses.

Inevitably, other methods introduce biases which negatively affect the results. In particular, it is very difficult to avoid "anchoring" issues.

In one extreme version of the jellybean game, participants state their guesses out loud one after the other. Even if the second person to guess is a very confident individual they will find it difficult to express an opinion that is wildly different from the first person's guess. They tend to moderate their guess accordingly and mess up the average.

Averaging independent choices avoids such issues. It is such a powerful technique it explains why people get enthusiastic about well-functioning markets, and how the TAB adjusts odds for sports betting. Both these "group decision-making processes" take advantage of the "wisdom of crowds", quickly and efficiently averaging lots of different viewpoints. When working properly, they are more likely to be right than not. They are certainly difficult to beat.

THE LESSON FOR BOARDS

Boards are relatively small so how can they take advantage of the "wisdom of crowds" and increase the odds of making a good decision?

First, boards need to put in place processes to ensure participants' independent views can be held and expressed without judgment or rebuke, even if they feel like an outlier.

Secondly, no amount of independence will help if everyone on the board thinks the same to start with. Large groups get good results simply because they are likely to have a wide range of different perspectives. Boards are the opposite. They have a high probability of converging on similar views as we prefer to minimise conflict and hang out with people like us.

Looking at board composition, and ensuring you have diverse views around the table, may be the most important ingredient in improving a board's odds of making a good decision. This can be supported through the use of a tool such as the Diversity of Thought Scorecard™ **(diversityofthought.co.nz)**.

Admittedly, diversity of thought only improves the statistical odds of making a good decision. It certainly doesn't guarantee success or eliminate the chance of failure.

There is a degree of faith required to believe that greater diversity helps navigate complex situations. However, judging from the results of the jellybean game, you could certainly do a lot worse.

Mind the Heat: Climate change and director's duties

Proudly presented as part of the

Climate Change and Business Conference

Directors' breakfast session in association with the Institute of Directors

Institute of DIRECTORS NEW ZEALAND

The issues which climate change resilience and emissions reductions raise are numerous and complex. And because they present physical, liability, and economic transition risks to business, they go directly to governance.

The breakfast session will examine the impact of climate change on New Zealand's financial system, the relevance of climate change at a governance level and how to incorporate climate change into governance decision making.

Presenters:

Simone Robbers: Assistant Governor and GM Governance, Strategy and Corporate Relations, Reserve Bank of NZ

Lloyd Kavanagh: Senior Partner, MinterEllisonRuddWatts

Pip Best: Director Climate Change, Sustainability and EHS Services, Ernst & Young

After the breakfast session we examine the future of finance and markets and introduce a roadmap to help New Zealand's financial system move to one that supports economic, social, and environmental outcomes, and aligns with our Paris commitments.

Registration

The Climate Change and Business Conference is pleased to offer members of the IoD the following discounts.

Breakfast session: ~~$65~~ $45 — 2 CPD POINTS

Breakfast + Finance & Markets: ~~$165~~ $145 — 3 CPD POINTS

Full conference*: ~~$925~~ $832.50

**does not include Directors' Breakfast session*

To register for the full conference, go to www.climateandbusiness.com and add code 'IoD' on the registration form to receive discount

Breakfast session: 7am-9am, 9 October
Finance & Markets session: 9am-10.30am, 9 October
Full conference: 8-9 October 2019
Grand Millennium Hotel, Auckland

www.climateandbusiness.com

To register for the breakfast and finance session, visit Eventbrite.co.nz and search for 'Mind the Heat'

GLC Update

FELICITY CAIRD
GENERAL MANAGER,
GOVERNANCE LEADERSHIP
CENTRE (GLC)

Summary of recent IoD submissions

Capital Markets 2029 review

The NZX and FMA initiated the Capital Markets 2029 review earlier this year. The review is industry-led and aimed at delivering a 10-year vision for growth and wider industry participation in the sector. The IoD welcomes the review and our feedback focuses on:

- disclosure obligations for listed entities
- short-termism
- the balance of risk between investors, issuers, directors and other stakeholders involved in capital markets
- Directors & Officers insurance
- facilitating access to talent.

The findings from the review are expected to be published in late August/early September.

Credit Contracts Legislation Amendment Bill

The Bill will amend the Credit Contracts and Consumer Finance Act 2003 and is intended to address issues in the credit market including strengthening requirements to lend responsibly and addressing harm to vulnerable customers.

The Bill imposes a new duty on directors and senior managers of a lender to exercise due diligence to ensure that the lender complies with its duties and obligations under the Act. Where there is a breach of the new duty, the Bill introduces civil pecuniary penalties (up to $200,000 for an individual and $600,000 for a company), and potential personal liability (jointly and severally with the lender) for statutory damages or compensation.

The potential personal liability for directors and senior managers under the Bill is extensive and we strongly opposed it in our submission, together with the excessive penalties and damages, and an unreasonable prohibition on indemnities and insurance.

Conduct in financial institutions

The Ministry of Business, Innovation and Employment (MBIE) is reviewing options for improving culture and conduct in financial institutions in New Zealand. Boards are ultimately accountable for what goes on in their organisations and they have a core role in leading and overseeing corporate culture and conduct.

MBIE has recommended the following overarching duties that would apply to all aspects of a financial institution's activities in their dealings with retail customers:

- A duty to consider and prioritise the customer's interest, to the extent reasonably practicable.
- A duty to act with due care, skill and diligence.
- A duty to pay due regard to the information needs of customers and to communicate in a way which is clear and timely.
- A duty to manage conflicts of interest fairly and transparently.
- A duty to ensure complaints handling is fair, timely and transparent.
- A requirement to have the systems and controls in place that support good conduct and address poor conduct.

If an entity breaches a duty, MBIE has proposed that directors and senior managers could be personally liable. In our submission we highlighted our concern about the scope of the proposed duties on financial institutions and directors, and said that they need to be carefully considered and imposed only to the extent necessary. We strongly oppose the introduction of director personal liability.

Directors of financial institutions should also be closely following:

- the second phase of the Reserve Bank Act review which also considers director accountability
- regulatory reform of governance and risk management practices following recommendations of the Independent Review for the RBNZ of the Supervision of CBL Insurance Ltd.

Transitioning to a low-emissions economy

The Climate Change Response (Zero Carbon) Amendment Bill sets out "zero carbon" provisions and will be incorporated into the existing Climate Change Response Act 2002 (rather than having a separate piece of legislation). A new long-term emissions reduction target is set out in the Bill. The target would:

- reduce gross emissions of biogenic methane within the range of 24% to 47% below 2017 levels by 2050, with an interim requirement to reduce emissions to 10% below 2017 levels by 2030 (biogenic methane is all methane greenhouse gases produced from the agriculture and waste sectors)
- reduce net emissions of all other greenhouse gases to zero by 2050.

The Bill provides for three consecutive emissions budgets to be in place at any given time, with the budgets being met as far as possible through domestic emissions reductions and removal.

The Bill also establishes a permanent Climate Change Commission and introduces adaptation provisions (eg a national risk assessment and adaptation plan). The Climate Change Minister will have the power to request certain organisations (eg SOEs, Public Service, Local Authorities, Crown Entities (excluding school boards) and Lifeline Utilities) to provide information on climate change adaptation.

The IoD generally supports the introduction of the Bill and the 2050 target and emissions budgets. We also support the establishment of a permanent Climate Change Commission, and we suggest that the Minister should be required to ensure that the board has sufficient governance capability to lead and oversee the Commission.

We agree with the decision not to require mandatory climate-related disclosure in the Bill for organisations (60% of respondents in our 2018 Director Sentiment Survey supported voluntary disclosure). Since the Bill was introduced, the Government has announced (in its response to the Productivity Commission's Low Emissions Economy report) that:

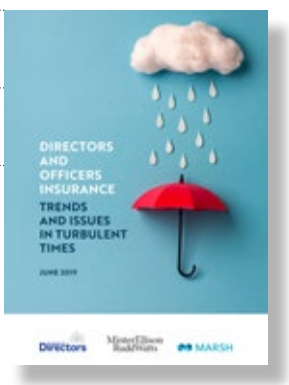
- it endorses the recommendations of the Task Force on Climate-related Financial Disclosures as one avenue for the disclosure of climate risk
- it has asked officials to consider implementing mandatory (on a comply or explain basis), principles-based, climate-related financial disclosures for some organisations.

New publications to keep directors current

D&O insurance – trends and issues in turbulent times

Directors serve in an increasingly challenging operating and regulatory environment. Their roles and responsibilities have expanded over recent years and policy-makers continue to target directors for personal liability in reforming regimes. In addition, regulators are showing more teeth, and litigation funders and activist law firms are changing the nature of the legal landscape. Substantial awards of damages against directors and other high profile cases have focused attention on directors' duties and accountability. All of this has led to an unsettled Directors and Officers (D&O) insurance market. In June, the IoD, in partnership with Marsh and MinterEllisonRuddWatts, published a report on current issues and trends in the D&O insurance market in New Zealand including:

- Market developments
- The changing regulatory environment
- Insurers' areas of interest
- Key coverage issues for D&O policies, and
- What's next for D&O insurance?



The report is available at **iod.org**

Board accountability for executive pay and expenses

The pay and allowances that CEOs receive has been in the spotlight following the departure of ANZ New Zealand's CEO and remains a major governance issue globally. As these issues remain an area of particular interest and scrutiny, boards should ensure sufficient focus on their role in overseeing these areas. Our DirectorsBrief On the money? Board accountability for executive pay and expenses discusses the board's role in relation to executive pay, allowances and expenses, and provides best practice guidance for New Zealand directors.

Ask an expert

Practical advice for directors of distressed companies

WITH ***LEON BOWKER***
DIRECTOR - DEAL ADVISORY AT KPMG

Q: What are the most common signs a company is in financial distress?
The key signs of distress for most failing companies are deteriorating cash flow and working capital performance, as well as consistent underperformance against budget. In practice, these issues will often come to the board's attention when it is clear that covenant or payment obligations are unlikely to be met.

Other warning signs include:

- disruption in the market or operating environment
- heightened competitor pressure
- changes in the cost base, such as increased wages
- errors in pricing or structuring of contracts with customers or suppliers
- time and/or cost overruns on major capex projects.

Q: When a company is facing financial difficulties, what practical steps should the board take?
The first step for any board of a distressed company is to ensure they have clear visibility of the cash position, sources and uses of cash. In distressed situations, we always recommend management prepare a detailed 13-week cash flow forecast to identify cash shortfalls in advance, and develop plans to address these shortfalls. This forecast should then be updated weekly to ensure the information remains current.

As part of this process, boards need to rigorously challenge management's view of the business, their forecasts and any turnaround plans, to understand whether risks and opportunities have been appropriately identified and quantified. For example, considering whether the forecasts are realistic and consistent with recent performance. We often see forecasts prepared based on hope rather than reality.

Managing stakeholder relationships is crucial, and boards can assist with the management of key relationships, in order to preserve stakeholder trust and support for the company. For example, meeting with funders to discuss prospective covenant breaches well in advance of any issues, and letting them know what steps are being taken to address the issue.

Q: What reporting should the board be getting during this time (from management/independent advisors)?
There are significant personal liability risks for boards when governing distressed companies and we always recommend seeking independent legal advice to properly understand risks and obligations. To understand their exposure, boards should expect to be kept regularly appraised of the cash position and cashflow forecast, so they can monitor the solvency of the business. In a distressed situation, management should also prepare a robust turnaround plan that addresses the performance gap and assigns accountability to those best placed to influence the outcome. Boards should review and approve the plan, regularly monitor performance and be prepared to address any underperformance against the plan.

Q: What are some of the key benefits of engaging an independent advisor?
Boards should engage advisors to provide independent and objective guidance regarding whether the business can continue to trade and what options are available in the circumstance. Advisors play a crucial role in providing an objective view of the company's position, challenging management's plans, and advising on alternative options. KPMG are often called in by boards to support management with a turnaround, after management have made a number of attempts but need help to drive change. The earlier specialist advisors are called in, the more options are available to the board.

Q: From your experience, what distinguishing attributes do the most effective directors have in turning around a company?
In a distressed situation, the company can no longer operate subject to the status quo. Directors who are able to recognise issues early, and are prepared to make the required changes (often including bolstering or changing the management team), are critical to a turnaround.

Directors who understand the obligations and implications of financial distress are better equipped to develop an appropriate plan.

Q: What are common themes or issues that you have seen where companies have failed?
It is critical to act early and decisively to prepare and implement a restructuring or turnaround plan. We have seen many instances where a business could have been salvaged but the board and management have not reacted early enough or the changes have not been as extensive as they need to be.

Failure of the board or management to act decisively in these instances can mean that, by the time we get involved there are limited options available. By reacting early, the board can maintain control of the business and ensure they have a full range of options open to them.

See also section 2.14 Crises and the board in *The Four Pillars of Governance Best Practice*.

More stakeholders, more value

AUTHOR
ALEXANDRA JOHNSON

Long-term business viability, strategic alignment and the increasing demands for organisations to consider their impact on future generations.

Increasingly, directors need a clear view about how to create value for the company as well as creating positive benefits for society more generally, says Simon Harvey, an experienced strategy and sustainability advisor.

"People are recognising that a more holistic and inclusive view of value creation is needed and that means understanding the way the world and stakeholder expectations are changing," says Harvey.

Stakeholders are no longer just the traditional players such as investors and customers, but increasingly include those that do not have a voice, such as future generations and the environment.

"It's about balance, context and good common sense. As corporate citizens, companies should be held to account for acting responsibly in society. They should contribute positively and not just be looking after their shareholders."

More awareness in society and increased media scrutiny has added to political pressure for solutions.

"Societal expectations have lifted – it is not okay anymore to make a profit at the expense of others, even if it is done within the limits of the law. It is not okay anymore to privatise profits whilst socialising the costs."

And these factors are only set to increase. "The health of our environment is deteriorating and the pressure on communities and people's wellbeing is increasing."

"For example, a company ought to be able to compensate its workers fairly and ensure they can afford a reasonable standard of living. "If people are in jobs that don't enable them to do that, it doesn't properly support people's wellbeing nor does it enhance loyalty or productivity."

The law is catching up with society's demands for greater corporate responsibility and directors ignore that at their peril. "There is a legal opinion in Australia that directors who do not properly manage climate risk could be held liable for breaching their legal duty of due care and diligence and there's a good argument that a similar standard will apply here."

"The bottom line is that directors need to pay careful attention to those environmental, social and governance issues most relevant to the future success of their business and industry.

Five key considerations for building sustainable governance:

1. PURPOSE AND CORPORATE CITIZENSHIP

Are you clear about your company's purpose? It is no longer enough to focus only on making money for investors but to consider the bigger picture.

"Directors need to have a clear view about how their social and environmental responsibilities align with the company's purpose and how that will create value for the full range of different stakeholders."

Harvey says seeing yourself in service of something greater than just the company can help clarify its broader purpose and societal value creation.

Sanford's sustainability reporting is very open - sometimes bad things happen, sea birds and marine mammals are killed, but the company discloses that in its reporting, and explains how it is striving to eliminate those impacts.

He says Air New Zealand is a good example of this. While it currently relies on emitting carbon, Air New Zealand has a clear purpose to supercharge New Zealand's success socially, environmentally and economically. "Their purpose is not just to fly people from A to B, but to facilitate national success."

2. VALUE DRIVERS AND MATERIAL ISSUES

Harvey says strong financial performance is a result of good value creation but it is important directors understand how non-financial factors underpin that.

Boards need to identify the material issues and maintain oversight of them. "Remember good financial performance comes from performing well in other ways – it is an outcome. Non-financial factors include strong relationships, a good reputation, natural resource inputs, and community goodwill."

Understanding the company's connection to these factors, and how that creates value, is vital. "The horticulture industry is a good example. If you are reliant on chemical sprays and the local community begins to show concerns about the health and environmental implications of that, that's a consideration the board needs to be very attuned to.

Understanding your dependencies and what you need to do to manage those, is a very important aspect of the company's longer-term success."

3. VISION AND STRATEGY

Is your company's strategy aligned with sustainable long-term value creation? Because the board is ultimately responsible for the direction of the business, directors need to really understand the important issues and have a clear vison and plan, so they can lead proactively rather than react from the back foot.

"What journey is your business is on? Harvey asks. "How are you going to navigate changing consumer expectations, as well as employee, environmental and regulatory concerns? Gathering this intelligence needs regular engagement with the right stakeholders to really understand the issues from their different perspectives."

4. COMMUNICATION AND REPORTING

"What story are you telling your stakeholders? Are you helping them understand that you are addressing the right issues, that it is not all just about short-term profit?"

Harvey says communication needs to be transparent and balanced, not just a one-sided story or half-truths. "It needs to be genuine and authentic. If there is bad news you need to be able to say what's being done about it."

Harvey says the fishing company Sanford is a fine example. "Sanford's sustainability reporting is very open - sometimes bad things happen, sea birds and marine mammals are killed, but the company discloses that in its reporting, and explains how it is striving to eliminate those impacts."

"If you want to create trust, people need to understand the challenges you face and how you plan to deal with them".

5. LEADERSHIP AND IMPLEMENTATION

Ensure there are clear expectations and goals for the executive team, and that these are reflected in their performance evaluation and compensation structures.

Whilst not common in New Zealand yet, Harvey says overseas executives are increasingly incentivised to deliver on key issues. "The more you are accountable for something the more seriously you take it."

Directors also need to have oversight that the executive team is implementing these expectations in the business as well. "Are they building capability where it is required, fostering innovation in the right areas? Are they are making sure staff are engaged and understand where the company is going, and why?"

Simon Harvey will be presenting a course on sustainability and long-term value in September and October. See **iod.org.nz**

Is digital disruption disrupting our directors?

Digital disruption has completely altered the working world in ways we could not have imagined.

AUTHOR
SARCHA EVERY, DIRECTOR OF THE DECIPHER GROUP

One of the most transformational changes that has taken place in boardrooms is the impact of digital disruption on companies.

This disruption isn't about to slow down, and organisations need to be prepared at all levels – especially at the top.

The latest IoD Director Sentiment Survey found that digital leadership within boards remained a concern, noting "only a third (33%) think their board is equipped with the right capability to lead their organisation's digital future."

This is backed up by a recent Harvard Business Review article, which states that the board of directors has a vital role to play in digital transformation, with most executives saying that the partnership of the board is critical to the success of transformation efforts.

However, only 27% of executives surveyed said that the board serves as an advocate for future-focused digital strategies.

While these figures sound alarming, let's not jump to conclusions. Often the community will hastily place a stereotype saying that only young people and those in the industry understand digital disruption. Many companies initially sought directors with experience running digital startups, thinking a tech-savvy millennial would have all the answers.

In our experience, the reverse is true. Many directors are more competent in handling digital decisions than they realise.

VALUE FROM THE BOARD

Directors need to continually upskill and keep up-to-date with trends. However, they do not need to be digital disruptors themselves to add value around a board table.

Rather directors need to be people that have experience in leading or participating in the transformation of businesses. Boards are increasingly seeking directors with wider capabilities who can guide the re-engineering of an entire organisation.

Canterbury independent director Tony Sewell says he is yet to meet a director lacking skills in the digital sector. In fact, he says those holding directorships must keep up with technology.

"You build up expertise in your career by keeping up and being ahead of trends, technology and systems, so why would someone have the right not to because you've reached a certain stage and are appointed as a director?"

When discussing the IoD figure in the *Director Sentiment Survey*, Sewell says the 33% are likely to be the few who are "extremely competent and confident" with digital skills on their board.

"We need to remember that most businesses don't actually sit within that statistic, because most businesses don't operate at the leading edge. They operate one step back. The majority of businesses aren't the total innovators, someone else has tried it, and de-risked it.

"The innovators at the front do extremely well or extremely badly, the second layer does consistently well, so I can see why a large portion of directors would be pretty nervous to say they're completely confident in the digital arena and sitting on the frontline."

> "My worry when buying a product is that the company you purchase from won't be around for the customer support. That's one of the risks we're looking at in a digital age. As a board, you want to make sure your management team is putting a good selection of information in front of you."

Claire Evans, a partner at national law firm Lane Neave and also an independent director and trustee for several organisations, says regardless of age, digital confidence, or experience, it's always going to be difficult for a board to decide on a tech product or trend.

"There are a plethora of digital offers out there, and that contributes directly to the lack of confidence on boards," Evans says.

"A key challenge as a director is to embrace your digital decisions and understand what will best suit your organisation.

"My worry when buying a product is that the company you purchase from won't be around for the customer support. That's one of the risks we're looking at in a digital age. As a board, you want to make sure your management team is putting a good selection of information in front of you."

More often than not organisations are looking for more than a one-dimensional board member – rather, the ability to contribute to a range of governance matters is essential. The best boards are made up of people with diverse skills who are happy to challenge decisions and seek advice if the expertise is not represented at the board table.

106 HOURS	**2017**	$44K
127 HOURS	**2018**	$45K
140 HOURS	**2019**	$46K

Get the full picture

Institute of Directors Directors' Fees Report 2019/20

The Institute of Directors (IoD) with EY has released its 2019 IoD Directors' Fees Report. The report is a key source of information on director remuneration trends in the New Zealand market. The result of the survey of 2,027 directorships, covers 803 members and 1,393 organisations.

Institute of DIRECTORS NEW ZEALAND

Governance services

If you would like to purchase the full report from our survey partner EY please call EY on (09) 377 4790, email survey@nz.ey.com or fill out the order form at iod.org.nz

EY

Building a better working world

Out & **about**

Auckland

Celebrating the launch of this year's Mentoring for Diversity programme, and getting the low down on infrastructural challenges from Sir Brian Roche.

Auckland

01 Dean Fraser, Andrew Evans.
02 Victoria MacLennan, Aliesia Gartrell, Barbara Robertson, Michelle Henderson.
03 Scott Tambisari, Tracey Bridges, David Tse.
04 Elle Archer, Jana Rangooni, Stella Kotrotsos.
05 Andrew Spittal, Sean Marshall, Lisa Jacobs.
06 Sir Brian and Susan Paterson.
07 Bruce Hassall and Chris Aitken.
08 Susanne Jing and Tracey Ryan.


01


02


03


04


05


06


07


08

Canterbury

09 Abby Foote and Jane Montgomery.
10 Geordie Hooft and Michaela Balzarova.
11 Professor Paul Ballantine and Lloyd Mander.
12 Brian Wood and Rhys Boswell.

Waikato

13 Shiobhan Nuzum and Wendy Oliver.
14 Dame Trelise

Nelson

15 Siah Hwee Ang and Grant Rosewarne.
16 Siah Hwee Ang and Sarah-Jane Weir.

Canterbury

IoD members volunteered their time to facilitate roundtable discussions at the University of Canterbury student Introduction to Governance workshop.


09


10

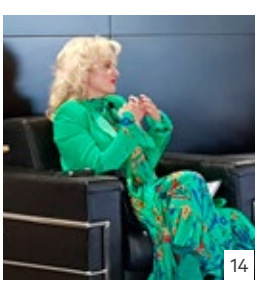

11


12

Waikato

Dame Trelise Cooper offered business advice from the front line of the fashion industry.


13


14

Nelson

Professor Siah Hwee Ang from Victoria University talked about the global challenges facing the world economy and the future of trade at a business lunch.


15


16

Events**diary**

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

September

4 Auckland
The human element of cyber security after five event

5 Hawkes Bay
Breakfast with Kirsten (KP) Patterson, Iod CEO

5 Hamilton
What can the governance of sport and recreation teach us about the value of inclusivity and diversity

12 Auckland
Mayoral candidates panel discussion facilitated by Brent Impey

13 New Plymouth
Update and outlook for the corporate borrowing market

16 Christchurch
Evening function with Paul Adams

18 Wellington
Breakfast with RBNZ Assistant Governor Christian Hawkesby

19 Tauranga
D&O liability talk with Marsh's Steve Walsh

19 Tauranga
Next generation workshop

20 Dunedin
Governance wisdom breakfast

25 Auckland
Director accelerator lunch – how to win directorships

Branch manager contact details

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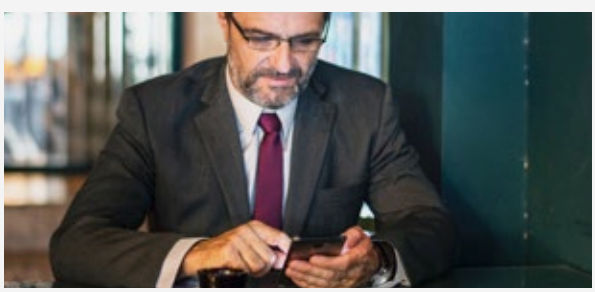
BRANCH EVENTS

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



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