



Director Sentiment Survey 2015

Released 15 November 2015

IoD-NZIER Director Sentiment Survey 2015

Background

This is the second annual IoD-NZIER Director Sentiment Survey, designed to take the pulse of the New Zealand director community. Comparing results with the 2014 survey we have identified enduring and emerging issues. We will continue to look at trends in issues for directors through future surveys.

The survey was conducted during October 2015 and we are again delighted by the high level of engagement with 820 responses. The survey provides insight from a broad range of entities about what's top-of-mind for directors on business, economic and governance issues.

This year we extended the range of governance issues to delve deeper into risk oversight and board capability requirements.

Summary

Directors remain optimistic about the future and business improvement. Global growth, labour quality and capability, and red tape are seen as the main barriers to business and economic performance. Technological and business disruption, and the time spent on risk oversight are key challenges for directors. Developing board and organisational capability are areas of focus for directors to ensure organisations are resilient and future-proofed.

Business optimism - but cut red tape

Over two thirds of directors are optimistic about business improvement but reducing red tape is again identified as the best thing government can do to improve business performance. Although this was down from 23% in 2014 to 19% this year, a resounding 78% of directors also said compliance activities had increased in the last year.

The Government's [loopy rules report](#) released in August 2015 echoes this sentiment and identifies some fixes.

Disruptive change and sustainable business models

Technological changes are transforming business and affecting the way strategy is approached and business models are viewed. 48% of directors think their industry will be affected by major/disruptive change in the next two years.

It's critical that in a volatile and changing world, boards regularly consider the long term sustainability of their business models – and most boards (79%) are doing this.

Is risk oversight fit for future purpose?

73% of boards are spending more time on risk oversight now than a year ago. Consider this alongside the 53% of boards that said their board and committee structures relating to risk oversight were fit for purpose and the 50% that said they had the skills and experience to deal with increasing business complexity and risk.

Boards that don't have the right structures and capability should prioritise reviewing risk oversight arrangements and current capability to ensure they are fit for future purpose.

Put cyber risk on the agenda before it becomes the agenda

It is concerning that only 27% of boards are regularly discussing cyber risk and are confident about their company's capacity to respond to a cyber-attack or incident. A third are not confident and a further 40% are neutral/unsure.

Most business use or rely on technology to operate - and cyber-security must be considered as part of enterprise-wide risk management. The ability of directors to ask the right questions of managers is critical to ensure they are confident in the organisation's cyber resilience.

The IoD's [Cyber-Risk Practice Guide](#) provides a framework of 5-principles to help boards monitor cyber-risk, develop strategies for seeking assurance and to oversee management.

Liability and risk aversion

Directors are answerable for the decisions they make and balancing authority and accountability is an ongoing tension boards need to manage. In the 2014 survey 57% of respondents said that greater personal liability had made them more risk averse in business decision-making – this has dropped to 47% in 2015. This is positive as greater risk aversion can impede performance. If a business is to grow then risk is unavoidable. The challenge is striking a balance between holding businesses to account and empowering leaders to take risks to drive performance.

People and skills are a key risk to business

Concerns about skills and capability continue to feature strongly with 11% of directors identifying labour capability and quality as their biggest risk. Although down from 17% in 2014 this is still the most prevalent risk identified by directors in the survey.

Appointing a CEO is one of the most important functions of a board and we asked about C-suite succession planning in the 2015 survey for the first time. 52% of boards regularly discussed CEO succession planning and 47% discussed succession of other key staff. Boards that are not discussing succession planning and their future needs should prioritise this.

Health and safety leadership

60% of boards have the capability to comply with obligations under the incoming Health and Safety at Work Act 2015 – a step up from 51% in 2014. This is a welcome indicator about health and safety leadership in the boardroom, however the 8% that are not ready, and the 32% that are unsure/neutral should prioritise assessing their capability needs.

Board capability and diversity important

Having the right skills and experience around the board table underpins effective governance. 62% of boards regularly discuss board composition/renewal and the skills/experience needed now and in the future.

60% of boards agree diversity is a key consideration in making board appointments, slightly down from 64% in 2014. The IoD has long-held that diversity of thought and experience brings a broader range of perspectives to the boardroom and increases the potential for success and effective risk oversight. The main metrics regarding board composition in New Zealand are gender-based and show that there is still a challenge in transitioning this sentiment into action and results.

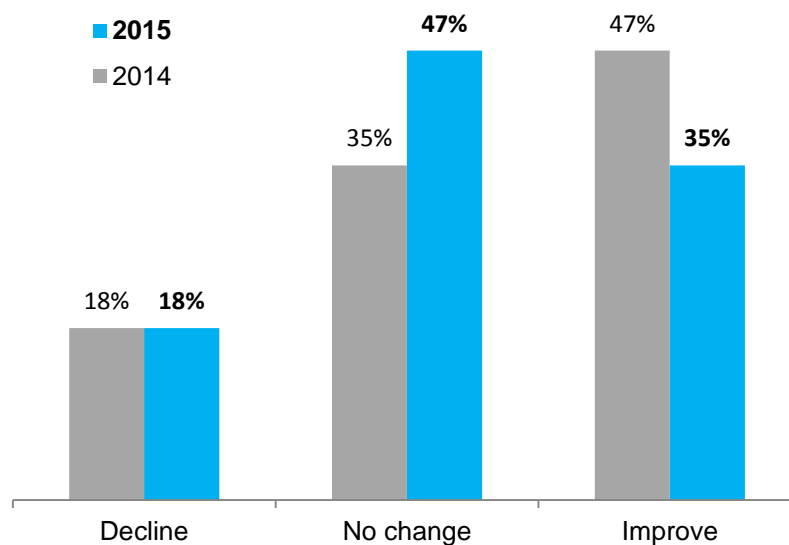
Just over half (54%) of boards formally evaluate their performance on a regular basis. The other boards should consider whether they have enough information about capabilities and experience to make an assessment of needs for future success.

Summary of survey results

Question 1: How do you expect performance of the New Zealand economy to trend in the next 12 months?

- Directors remain fairly positive about the outlook for the New Zealand economy over the coming year. 35% expect economic conditions to get better, 47% expect no change and 18% expect a weakening.
- Relative to the 2014 survey, there has been a decline in the proportion of directors expecting better conditions over the coming year. In contrast, the proportion of directors expecting conditions to remain the same has increased, while there was no change in the proportion of directors expecting deterioration in economic conditions.
- Optimists continue to outstrip pessimists, suggesting the New Zealand economy remains on a recovery path, albeit a slower one than expected last year.
- These results are in contrast to the latest NZIER Quarterly Survey of Business Opinion (QSBO), which showed 30% of businesses expect conditions in the New Zealand economy to deteriorate over the next six months, while only 16% expected an improvement. This difference in outlook may reflect the timing of when the surveys were taken – September for the QSBO, and October for the IoD survey. More recent activity indicators show a recovery in global dairy prices and a buoyant services sector, which is likely to have supported improved confidence.

Figure 1 Expectations of the economy

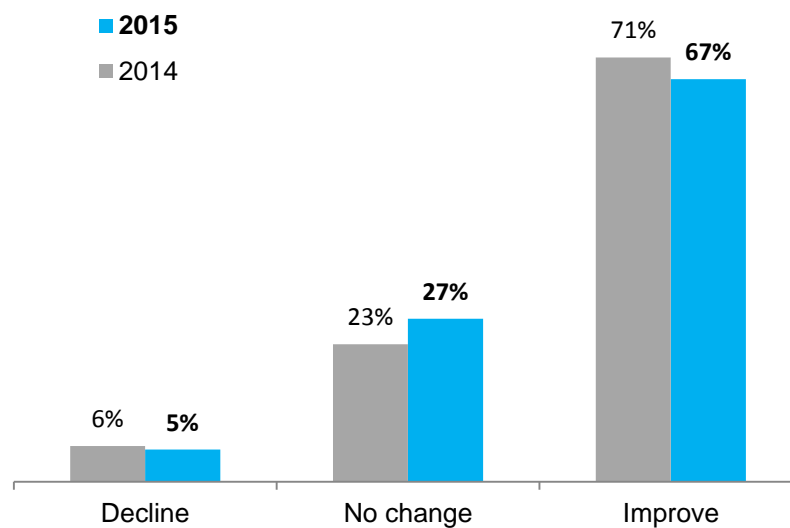


Source: IoD-NZIER

Question 2: How do you expect performance of your organisation to trend in the next 12 months?

- 67% of directors expect their own business to improve over the year ahead, while 27% expect stability and only 5% expect a decline.
- Relative to the 2014 survey, the proportion of directors expecting an improvement in their own business over the coming year has declined marginally, but so has the proportion expecting a deterioration. In contrast, there has been an increase in the proportion of directors expecting their own business performance to remain the same over the year ahead.
- The latest NZIER Quarterly Survey of Business Opinion also shows businesses are positive about the outlook for their own business. 38% of businesses expect demand in their own business to improve over the coming months.

Figure 2 Expectations of business performance



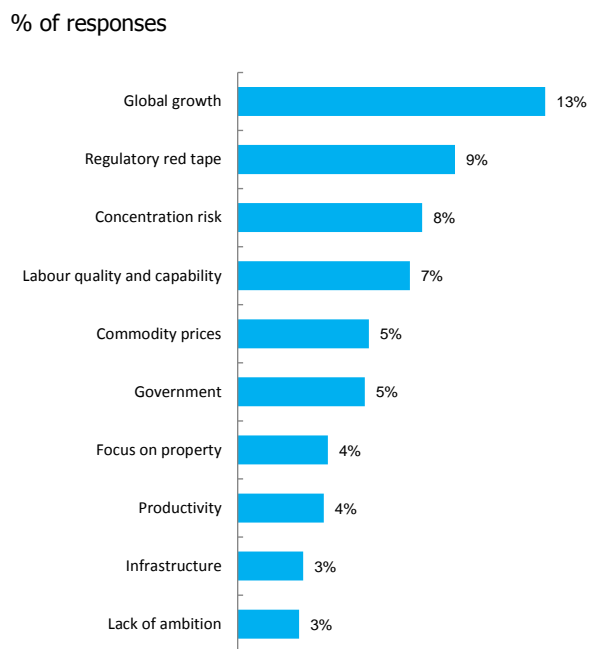
Source: IoD-NZIER

Question 3: What, in your view, is the single biggest impediment to national economic performance?

This open-ended question is summarised in the word cloud and the bar chart.

- Concern about **global growth** has superseded concern about a high and volatile NZD as the top impediment seen by directors.
- The NZD is no longer seen as a key impediment to New Zealand’s economic performance, reflecting the sharp depreciation in recent months.
- Regulatory **red tape** (particularly RMA and building consents) and **labour** quality and capability remain high on the list of key impediments.
- **Concentration risk** continues to be seen as a key impediment, with the downstream effects of lower global dairy prices a key concern for many.
- **Focus on property** is new to the list of top 10 impediments. The surge in Auckland house prices over the past year has garnered much attention, with concerns about the risks to financial stability and social implications of deteriorating housing affordability.

Figure 3 Top 10 biggest impediments to economic performance



Source: IoD-NZIER

Figure 4 Impediments to economic performance

Size and colour reflect frequency of responses



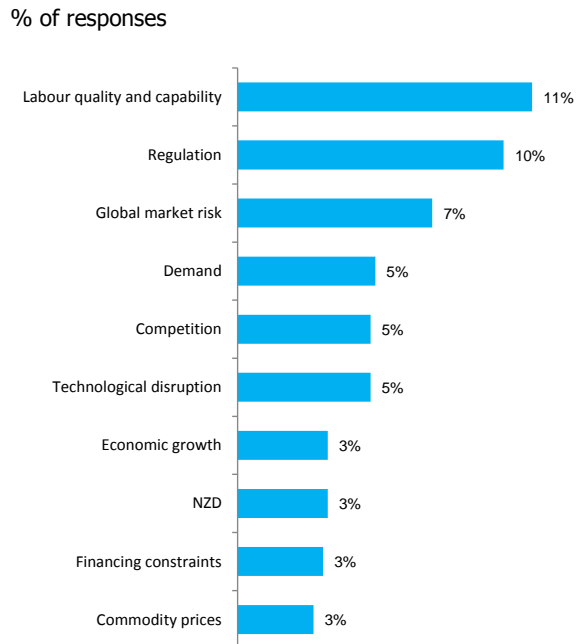
Source: IoD-NZIER

Question 4: What, in your view, is the single biggest risk facing your organisation?

This open-ended question is summarised in the word cloud and the bar chart.

- The biggest risk facing businesses remains **labour quality and capability**. This includes concerns about both board and staff capability, as well as the quality of training.
- **Regulatory red tape** (particularly RMA and building consent issues) increases the cost of doing business, and again comes second on the list of directors' concerns for their own organisation.
- **Global conditions** also remain a key concern for many organisations, reflecting the volatility and slowing in many of the developed economies in recent months.
- **Commodity prices** again makes it to the top 10 risks named by directors for their organisation. This reflects the reliance of many New Zealand companies on export demand.
- **Technological disruption** has gained prominence as a risk for many businesses, and is a new entrant to the list of top 10 risks. Technological advances are disrupting many traditional business models, forcing businesses to find ways to adapt to the rapidly changing environment.

Figure 5 Top 10 single biggest risks to organisations



Source: IoD-NZIER

Figure 6 Risks facing business

Size and colour reflect frequency of responses



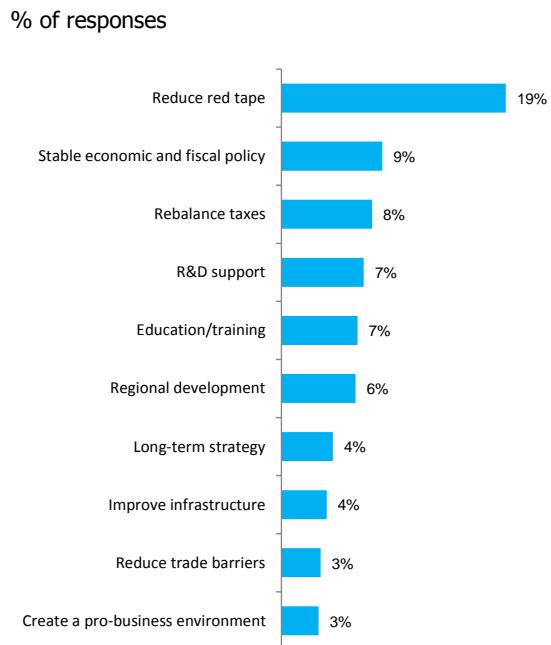
Source: IoD-NZIER

Question 5: What, in your view, is one thing government can do to improve economic and business performance?

This open-ended question is summarised in the word cloud and the bar chart.

- Reducing regulatory **red tape** remains at the top of the list for directors.
- Maintaining a **stable** economic and fiscal environment edged up to second on the list, from third the previous year.
- Directors also continue to stress the importance of **rebalancing taxes**, which range across reducing corporate taxes, fairly taxing offshore entities and taxation on property.
- Directors continue to want more policy efforts on **R&D incentives, education, training, and regional economic development.**
- Supporting our export sector remains very important for our directors, with many wanting the government to focus on **reducing trade barriers.**

Figure 7 Top 10 ways government can contribute to economic and business performance



Source: IoD-NZIER

Figure 8 Unlocking economic performance

Size and colour reflect frequency of responses



Source: IoD-NZIER

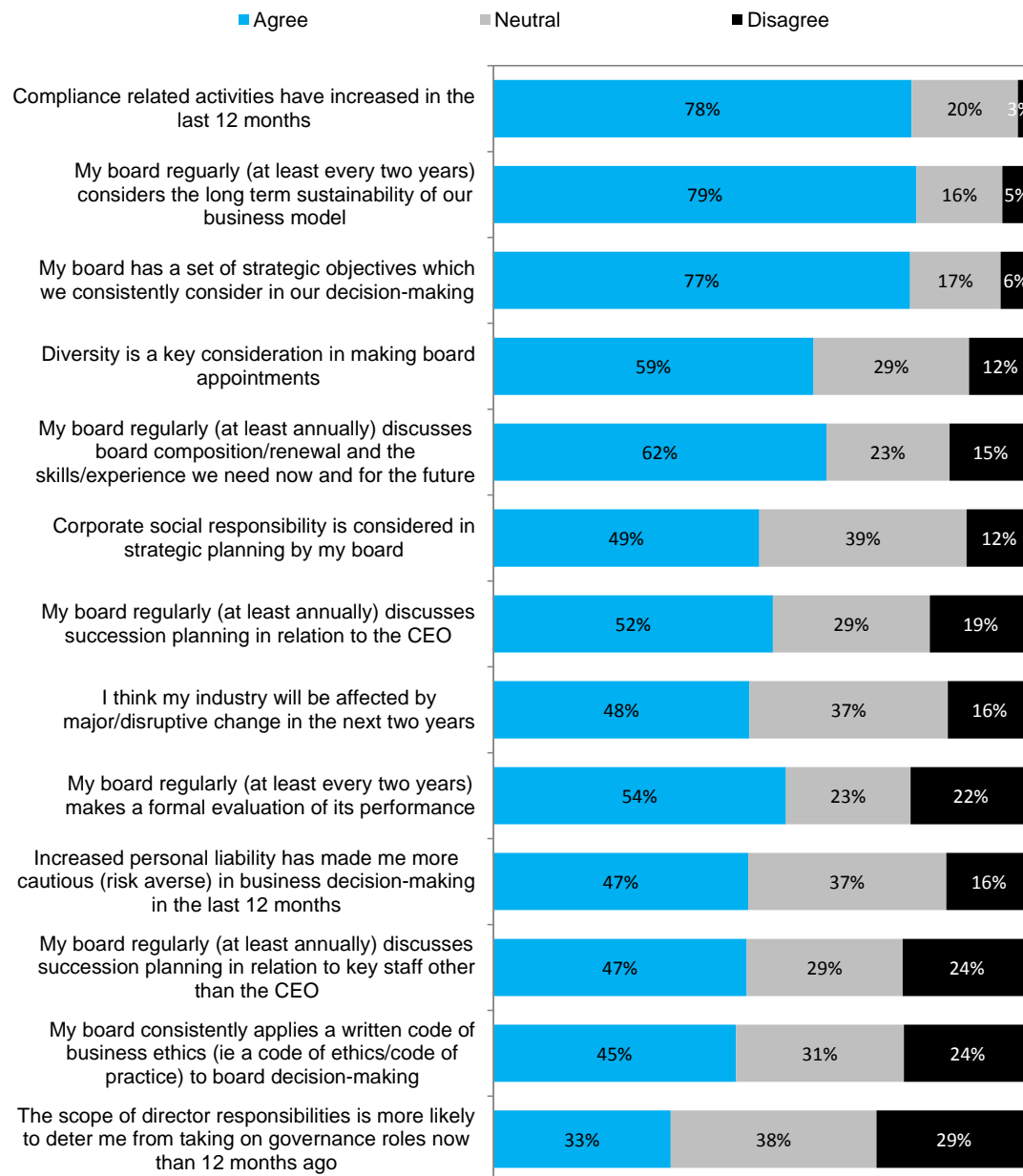
Question 6: Governance issues

Insights from the survey about key governance matters facing directors.

- Most boards (79%) regularly consider the long-term sustainability of their organisation's business model. This is particularly interesting as almost half (48%) of respondents think their industry will be affected by a major/disruptive change in the next two years.
- 62% of boards regularly discuss board composition/renewal and the skills/experience needed now and in the future. For 60% of boards, diversity continues to be a key consideration in making board appointments. 54% of boards regularly and formally evaluate their performance at least every two years
- 52% discuss CEO succession planning, and 47% discuss succession planning in relation to key staff other than the CEO.
- Compliance related activities continues to be an issue for directors with 78% (up from 75% in 2014) noting an increase in the last 12 months
- A third of respondents indicated that the scope of director responsibilities is more likely to deter them from taking on governance roles now than 12 months ago and nearly half said that in the last 12 months, increased personal liability has made them more risk-averse in business decision-making.
- 77% of boards consistently consider their strategic objectives in decision-making.
- 45% apply a written code of business ethics to board decision-making. This doesn't mean that boards are acting unethically but may indicate variability around board awareness and practice in considering ethics in decision-making.
- 49% consider corporate social responsibility in strategic planning.

Figure 9 Findings on key governance issues

% of responses



Source: IoD-NZIER

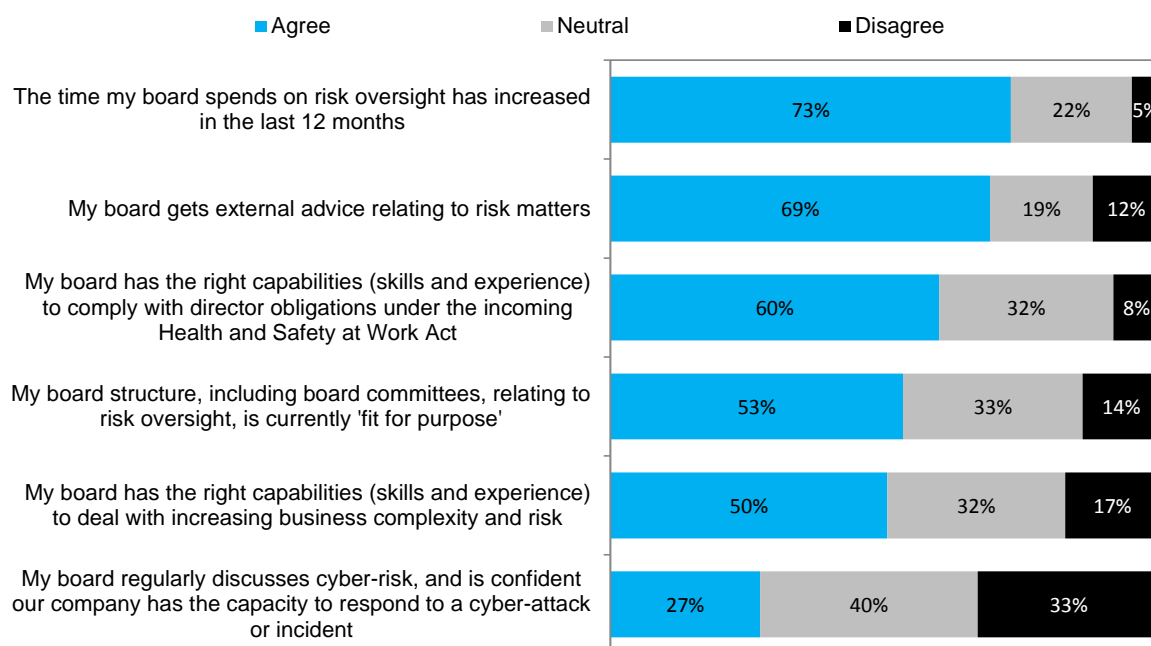
Question 7: Risk oversight

Insights from the survey about board risk oversight.

- 73% of boards spend more time on risk oversight now than they did 12 months ago. Only 50% of boards have the right capabilities to deal with increasing business complexity and risk.
- With 53% of board/committee structures relating to risk oversight currently 'fit-for-purpose', some boards should prioritise reviewing their structure and capability.
- Board capability to comply with incoming health and safety obligations has improved from 51% in 2014 to 60% in 2015 – this is a welcome indicator about health and safety leadership in the boardroom.
- Only 27% of boards regularly discuss cyber-risks and are confident in their company's capacity to respond to a cyber-attack or incident. 33% said they were not. With increasing risk to companies coming from cyber-security challenges, the ability of boards to ask the right questions of management is critical to ensure that they are confident in the organisation's resilience in the face of cyber-threats.

Figure 10 Findings on key risk oversight issues

% of responses



Source: IoD-NZIER

Detailed survey results

The online survey was conducted in October 2015. Results are summarised from 820 responses. Not all questions were answered by all respondents. Percentages may not add to 100% due to rounding.

	Question	Improve	No change	Decline
Q1.	How do you expect performance of the New Zealand economy to trend in the next 12 months?	35%	47%	18%
Q2.	How do you expect performance of your organisation to trend in the next 12 months?	67%	27%	5%

Q3. What, in your view, is the single biggest impediment to national economic performance?

Global growth	13%
Regulatory red tape	9%
Concentration risk	8%
Labour quality and capability	7%
Commodity prices	5%
Government	5%
Focus on property	4%
Productivity	4%
Infrastructure	3%
Lack of ambition	3%
Other	40%

Q4. What, in your view, is the single biggest risk facing your organisation?

Labour quality and capability	11%
Regulation	10%
Global market risk	7%
Demand	5%
Competition	5%
Technological disruption	5%
Economic growth	3%
NZD	3%
Financing constraints	3%
Commodity prices	3%
Other	46%

Q5. What, in your view, is one thing government can do to improve economic and business performance?

Reduce red tape	19%
Stable economic and fiscal policy	9%
Rebalance taxes	8%
R&D support	7%
Education/training	7%
Regional development	6%
Long-term strategy	4%
Improve infrastructure	4%
Reduce trade barriers	3%
Create a pro-business environment	3%
Other	29%

Q6. Please indicate whether you agree or disagree with the following statements about governance in your organisation and issues facing boards.

	Agree	Neutral	Disagree
Compliance related activities have increased in the last 12 months	78%	20%	3%
The scope of director responsibilities is more likely to deter me from taking on governance roles now than 12 months ago	33%	38%	29%
Increased personal liability has made me more cautious (risk averse) in business decision-making in the last 12 months	47%	37%	16%
I think my industry will be affected by major/disruptive change in the next two years	48%	37%	16%
My board regularly (at least annually) discusses board composition/renewal and the skills/experience we need now and for the future	62%	23%	15%
My board regularly (at least every two years) makes a formal evaluation of its performance	54%	23%	22%
Diversity is a key consideration in making board appointments	60%	29%	12%
My board regularly (at least annually) discusses succession planning in relation to the CEO	52%	29%	19%
My board regularly (at least annually) discusses succession planning in relation to key staff other than the CEO	47%	29%	24%
My board consistently applies a written code of business ethics (ie a code of ethics/code of practice) to board decision-making	45%	31%	24%
My board has a set of strategic objectives which we consistently consider in our decision-making	77%	17%	6%
My board regularly (at least every two years) considers the long term sustainability of our business model	79%	16%	5%
Corporate social responsibility is considered in strategic planning by my board	49%	39%	12%

Q7. Please indicate whether you agree or disagree with the following statements about risk oversight.	Agree	Neutral	Disagree
The time my board spends on risk oversight has increased in the last 12 months	73%	22%	5%
My board has the right capabilities (skills and experience) to deal with increasing business complexity and risk	50%	32%	17%
My board structure, including board committees, relating to risk oversight, is currently 'fit for purpose'	53%	33%	14%
My board gets external advice relating to risk matters	69%	19%	12%
My board has the right capabilities (skills and experience) to comply with director obligations under the incoming Health and Safety at Work Act	60%	32%	8%
My board regularly discusses cyber-risk, and is confident our company has the capacity to respond to a cyber-attack or incident	27%	40%	33%

Q8.	Please indicate the organisational category to which your most substantial directorship belongs (this is the organisation in respect of which you have answered the questions above):
	Large private company (>\$10 million turnover or 20+ employees)
	30%
	Not-for-profit organisation
	20%
	SME company (<20 employees)
	18%
	Other private company
	9%
	Government organisation
	8%
	Publicly listed company
	8%
	State-owned enterprise (SOE)
	4%
	Subsidiary of a publicly listed company
	3%

Source: IoD-NZIER

About IoD

The Institute of Directors in New Zealand (IoD) promotes excellence in corporate governance, represents directors' interests and facilitates their professional development through education and governance training. The IoD is a membership organisation of more than 7,000 individuals representing the spectrum of New Zealand enterprise, from the public and private sectors.

The IoD aims to raise the standard of governance in all areas of New Zealand business and society.

Its Chartered Membership pathway is a commitment to professional standards for directors. The Chartered designation offers stakeholders an assurance that directors have met professional standards of knowledge and skill that supports them to carry out their duties as a director. Their knowledge, background, character and experience make them role models for other members, their organisations and the community as a whole.

About NZIER

NZIER is a specialist consulting firm that uses applied economic research and analysis to provide a wide range of strategic advice to clients in the public and private sectors, throughout New Zealand and Australia, and further afield.

NZIER is also known for its long-established Quarterly Survey of Business Opinion and Quarterly Predictions.

Our aim is to be the premier centre of applied economic research in New Zealand. We pride ourselves on our reputation for independence and delivering quality analysis in the right form, and at the right time, for our clients. We ensure quality through teamwork on individual projects, critical review at internal seminars, and by peer review at various stages through a project by a senior staff member otherwise not involved in the project.

Each year NZIER devotes resources to undertake and make freely available economic research and thinking aimed at promoting a better understanding of New Zealand's important economic challenges.

NZIER was established in 1958.

Authorship

This report has been jointly prepared by the IoD and NZIER.

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