



IoD-NZIER Director Sentiment Survey

Spring 2014

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Background

The inaugural IoD-NZIER Director Sentiment survey is designed to take the pulse of the New Zealand director community. It provides high level views sourced from a broad range of entities on business, economic and governance issues.

The survey was conducted during October 2014 and we are delighted by the high level of engagement with 859 responses.

This report is an overview of the results and preliminary analysis of detailed text responses. The responses to open text questions add significant colour and detail to the issues that businesses, directors and the economy are facing. We intend to conduct further analysis in 2015.

Summary

Directors are optimistic about the future, but red tape is an impediment to business and economic performance. Directors would like to see government focus on reducing red tape. Directors want to focus on developing the skills and capability of their own people – the key risk facing business.

Cut red tape

Directors are optimistic about their business and the economy. But they also see a need for change to unlock business and economic potential. 23% of directors say reducing regulatory red tape is the best thing government can do to improve business performance. This is supported by a resounding 75% of directors who said compliance activities had increased significantly compared to two years ago.

Liability increases risk aversion

Directors are answerable for the decisions they make and balancing authority and accountability is an ongoing tension boards need to manage. The survey highlights directors' concerns about personal liability with more than half the respondents (57%) saying that greater personal liability had made them more risk averse in business decision-making.

Greater risk aversion may signal a brake on performance. If a business is to grow then it must engage with risk. At the end of the day it's a matter of striking a careful balance between holding businesses to account and taking risks to drive better performance.

People and skills are a key risk to business

Concerns about skills and capability feature strongly. Labour capability and quality is the most prevalent risk for organisations with 17% of directors commenting on a range of related risks from board and staff capability to issues such as training and engagement.

Only 51% of the boards surveyed said they had the right capability (skills and experience) to comply with director obligations under the incoming Health and Safety Reform Bill. 13% of boards are not ready and should prioritise upskilling in this critical area. The other (neutral) boards should prioritise assessing their capability needs.

Technology advice needs to improve

The board's role in digital leadership and understanding strategic opportunities and risks is increasingly important. Less than half (47%) of the boards said they received good quality reports and information from management on technology-related matters and engaged in robust discussion on this topic.

Directors need to think about their strategic context and any implications for future board composition and board upskilling. Skilled and capable people throughout the organisation are essential for effective and strong organisational performance.

The IoD will continue to focus on board capability needs as we develop resources and courses to support director knowledge and capability development.

Board diversity important

The results are encouraging with 64% of directors agreeing that diversity is a key consideration in making board appointments. Diversity of thought and experience helps improve board effectiveness and company performance.

However, the challenge is to transition this sentiment into action and results. There has been some positive movement in the number of women directors, but there is still a long way to go to achieve greater board diversity.

Future surveys

We intend to carry out future surveys to identify business, economic and governance issues that are important to directors.

Summary of survey results

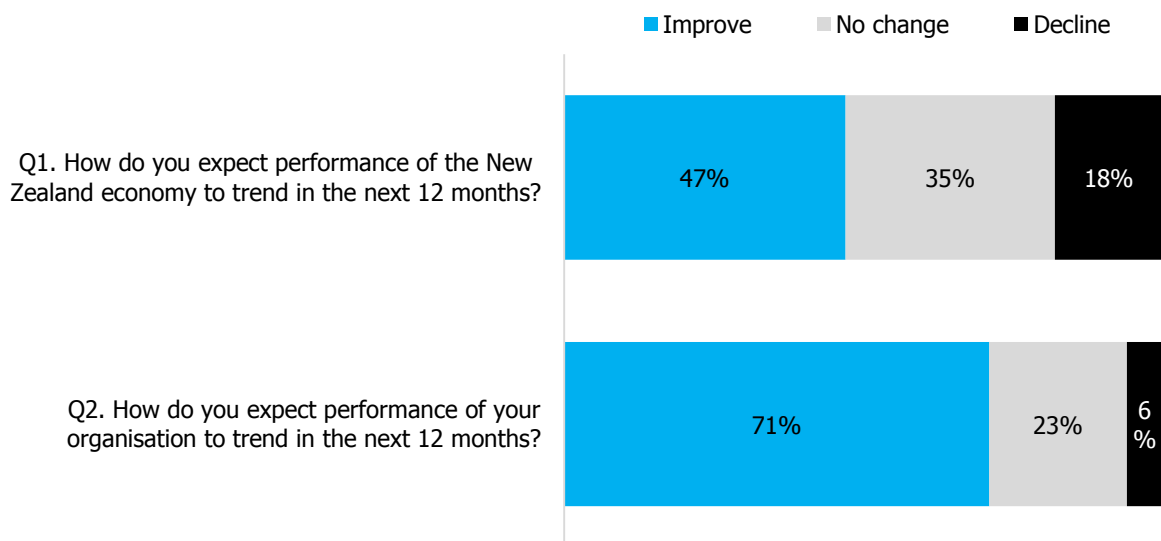
Question 1: How do you expect performance of the New Zealand economy to trend in the next 12 months?

- Directors are optimistic of the economic outlook. 47% expect economic conditions to get better, 35% expect no change and 18% expect weakness.
- Optimists outstrip pessimists and suggests the New Zealand economy remains on a recovery path.
- The survey was conducted in October, following the period of election uncertainty, which may have contributed to slightly more optimism than earlier surveys.

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

- 71% of directors expect their own business to improve over the year ahead. 23% expect stability and only 6% expect decline.
- Expectations for directors' own businesses are more optimistic than the economy.
- The results are consistent across a broad range of organisations who participated in this survey including large and small companies, not-for-profit and government organisations.

Figure 1 Expectations of the economy and own business



Source: IoD-NZIER

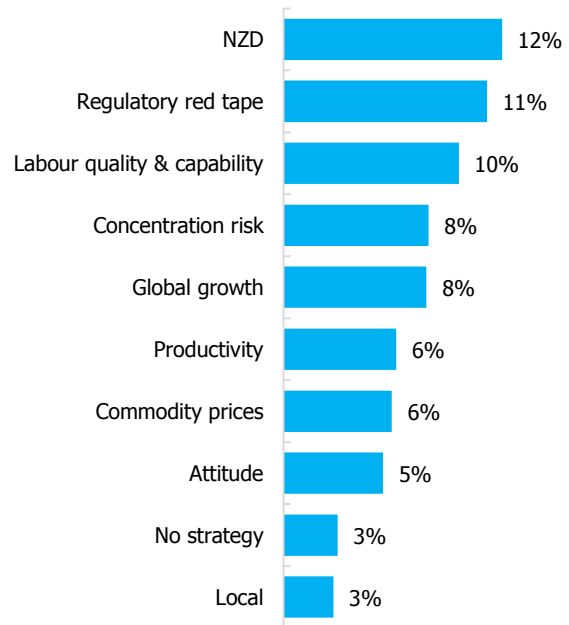
Question 3: What, in your view, is the single biggest impediment to national economic performance?

This open-ended question is summarised in the word cloud and the bar chart. The top 10 impediments show that:

- Macroeconomic barriers:* a high and volatile **NZD** (which reduces export competitiveness), global and local **economic** growth risks (which reduces demand for our goods and services), **concentration** risk (specialised in a few commodities and markets and vulnerable to shocks), **commodity** price falls (particularly the recent sharp fall in dairy prices) and low **productivity**.
- Broader issues:* regulatory **red tape** (particularly RMA and building consents), **labour** quality and capability, **attitude** (specifically a lack of hunger for growth or improvement) and a lack of **strategy** (being unfocussed in our business and economic efforts).

Figure 2 Impediments to economic performance

% of responses



Source: IoD-NZIER

Figure 3 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 top 10 risks show that:

- The biggest risk facing businesses is **labour quality and capability**. The comments covered the full spectrum (board to staff) and issues (training to engagement).
- **Regulatory red tape** (particularly RMA and building consent issues) increases the cost of business.
- **Economic conditions** are a risk – both local and global, as well as commodity prices and the exchange rate.
- **Competition** (international and local) is a risk.
- **Capital** is difficult to access and expensive (SMEs in particular).
- Changing **government** funding and policy decisions are risks.

Figure 4 Single biggest risk to organisations

% of responses



Source: IoD-NZIER

Figure 5 Risks facing business

Size and colour reflect frequency of responses



Source: IoD-NZIER

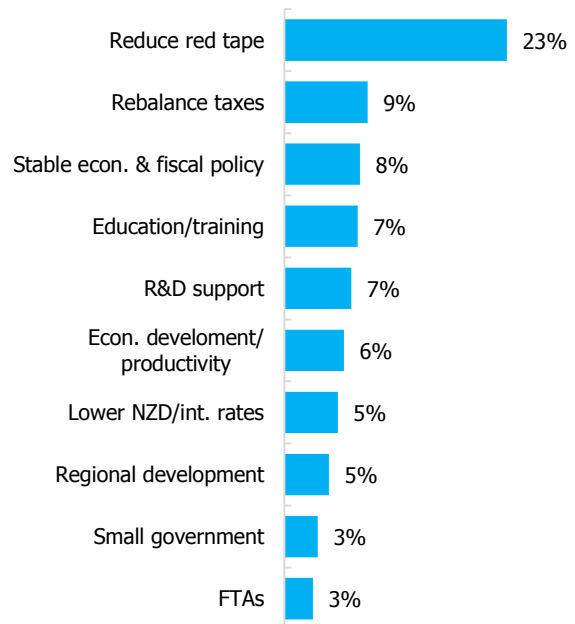
Question 5: What, in your view, is one thing government can do to improve economic and business performance?

This open-ended question is summarised in the word cloud and the bar chart. The top 10 changes that directors think the Government should make are to:

- Reduce regulatory **red tape** (RMA, building consents, and health and safety in particular).
- Rebalance **taxes** (reduce corporate taxes, fairly taxing offshore entities and online purchases, and rebalancing tax incentives for housing) and a **smaller government**.
- Maintain a **stable** economic and fiscal environment and continue to pursue **FTAs**.
- Focus policy efforts on **education**, training, **R&D** incentives, and economic **development** policies to: boost productivity, boost regions and reduce the NZD and interest rates.

Figure 6 Impediments to economic performance

% of responses



Source: IoD-NZIER

Figure 7 Unlocking economic performance

Size and colour reflect frequency of responses



Source: IoD-NZIER

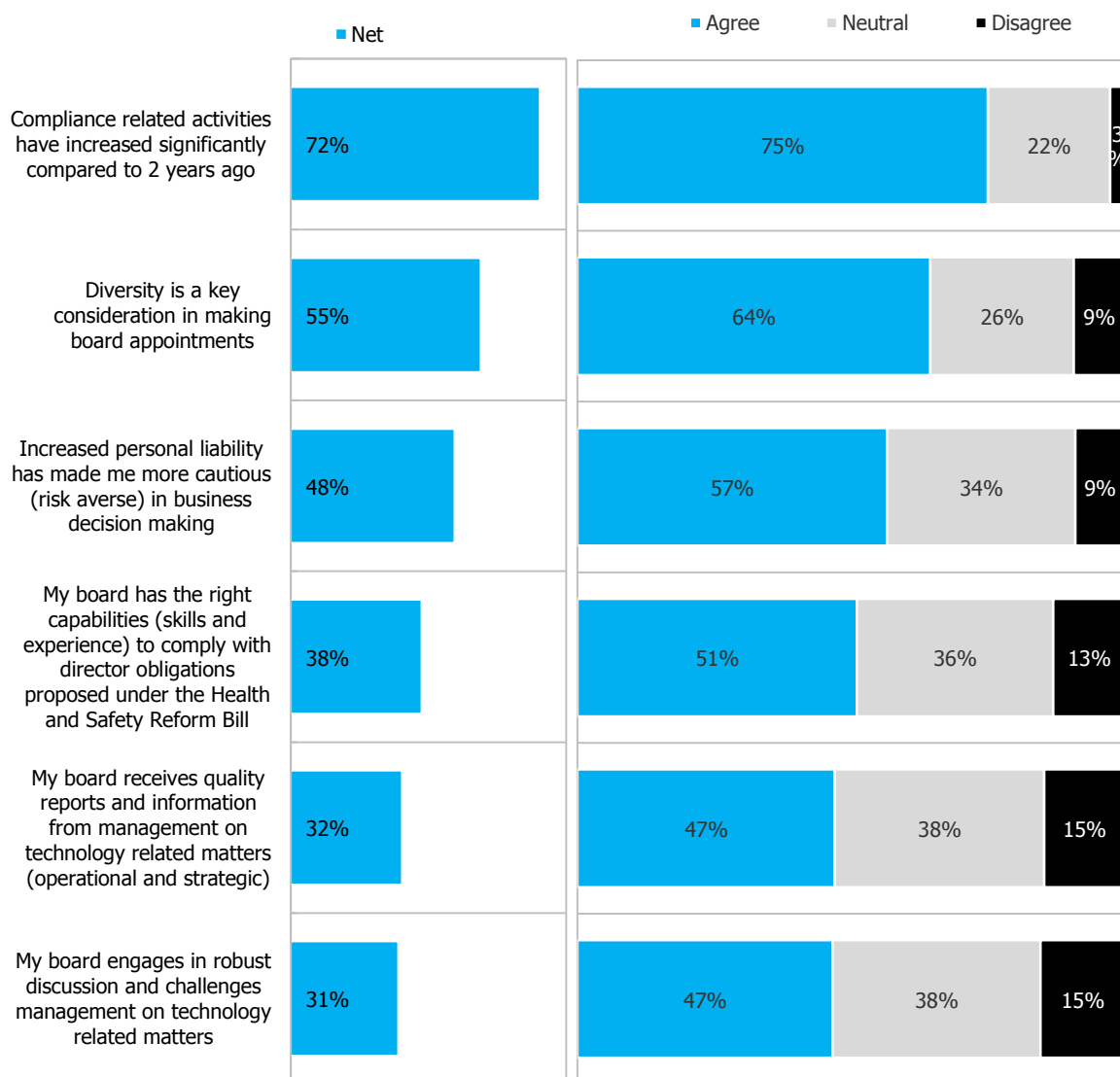
Question 6: Do you agree with the following statements about governance in your organisation and issues facing boards?

The survey provides insights into key governance matters facing directors:

- Increased **compliance burden** and personal liability has reduced risk taking.
- **Diversity** is a key issue for boards and an important consideration in making board appointments.
- Only half of boards have the right **capability** to deal with Health and Safety reforms.
- Less than half of boards have good **quality reports** and information from management, and engage in **robust discussion** about technology matters.

Figure 8 Findings on key governance issues

% of responses



Source: IoD-NZIER

Detailed survey results

The web survey was conducted in October 2014. Results are summarised from 859 responses. Not all questions were answered by all respondents.

	Question	Improve	No change	Decline	Net
Q1.	How do you expect performance of the New Zealand economy to trend in the next 12 months?	47%	35%	18%	30%
Q2.	How do you expect performance of your organisation to trend in the next 12 months?	71%	23%	6%	65%

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

New Zealand Dollar	12%
Regulatory red tape	11%
Labour quality & capability	10%
Concentration risk	8%
Global growth	8%
Productivity	6%
Commodity prices	6%
Attitude	5%
No strategy	3%
Local	3%
Other	28%

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

Labour quality/capability	17%
Regulatory red tape	12%
Local growth	12%
Global growth	10%
Competition	8%
Capital cost & availability	6%
Government funding/policy	5%
Commodity prices	5%
New Zealand Dollar	5%
Governance	2%
Other	18%

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

Reduce red tape	23%
Rebalance taxes	9%
Stable economic & fiscal policy	8%
Education/training	7%
R&D support	7%
Economic development/productivity	6%
Lower New Zealand Dollar/international rates	5%
Regional development	5%
Small government	3%
FTAs	3%
Other	24%

Q6. Do you agree with the following statements about governance in your organisation and issues facing boards?

	Agree	Neutral	Disagree	Net
Compliance related activities have increased significantly compared to 2 years ago	75%	22%	3%	72%
Increased personal liability has made me more cautious (risk averse) in business decision making	57%	34%	9%	48%
Diversity is a key consideration in making board appointments	64%	26%	9%	55%
My board has the right capabilities (skills and experience) to comply with director obligations proposed under the Health and Safety Reform Bill	51%	36%	13%	38%
My board receives quality reports and information from management on technology related matters (operational and strategic)	47%	38%	15%	32%
My board engages in robust discussion and challenges management on technology related matters	47%	38%	15%	31%

Q7. 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 (>\$10million turnover or 20+ employees)	31%
Not-for-profit organisation	23%
SME company (<20 employees)	23%
Publicly listed company	9%
Other private company	7%
Government organisation	6%
Other	1%

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 training. We aim to help businesses understand governance. We also assist skilled and experienced directors with vision and independence of thought to work with management to achieve better business performance. The IoD is a membership organisation of just under 7,000 individuals representing the spectrum of New Zealand enterprise, from the public and private sectors.

The IoD offers members a Chartered Membership pathway through Member, Chartered Member to Chartered Fellow. This pathway raises the bar for New Zealand directors and positively differentiates IoD members who must commit to continuing professional development. The IoD also offers a number a number of services for boards to help improve board competence and achieve best practice.

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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