Boardroom

QUARTERLY MAGAZINE OF THE INSTITUTE OF DIRECTORS
SUMMER 2023/2024

Hi, what are the biggest issues of 2024?

Institute of DIRECTORS NEW ZEALAND

Climate leadership is a hot topic | Seeing the magic of AI – it's 'bigger than the internet' | Zealandia board spreads its wings | The new literacy needed in the boardroom

INSTITUTE OF DIRECTORS IN NEW ZEALAND (INC)
Mezzanine Floor,
50 Customhouse Quay
PO Box 25253, Wellington 6146
New Zealand
Tel: 04 499 0076
mail@iod.org.nz
iod.org.nz

EDITOR
Noel Prentice
+64 4 474 7633
noel.prentice@iod.org.nz

Please contact the editor for any advertising or subscription queries.

VISUAL EDITOR
Georgia Oosthuizen

DESIGN TEAM
Craig Christensen – Graphic Solutions
David Le Fleming – Typedesign

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“The development of full artificial intelligence could spell the end of the human race”

– Stephen Hawking, theoretical physicist

Nine years ago Stephen Hawking delivered this stark warning. The great physicist also said creating AI would be the biggest event in human history, but it might also be the last unless we learn how to avoid the risks.

We are still learning and trying to understand. Artificial intelligence touches everything we do. It is everywhere. It is unlike anything we have seen before.

“Bigger than the internet,” says one generative AI leader, who would put money on around 40 per cent of directors of companies in the knowledge space that could be replaced by AI today. “But the point is it doesn’t have to replace you. You’ve got this incredibly powerful tool you can use – it’s your choice if you want to ride that wave.”

Can AI think? He believes it does and its IQ will soon be at a level we can’t even comprehend.

An independent digital strategy consultant agrees, but with inverted commas. It applies judgment to your input (prompt) and is ‘thinking’ about your intent, he says.

So we asked popular language model ChatGPT: “AI can mimic certain aspects of human thinking and problem-solving, but it does not ‘think’ in the same way humans do, as it lacks consciousness and self-awareness.”

But it does ‘lie’ (or have a hallucination) and apologise – classic human traits. However, it never sleeps, never tires and is improving at a frightening pace.

Another tech entrepreneur says AI will have already infiltrated many organisations, with boards potentially unaware of where, how and what risks this presents. “The broad ramifications of AI demand a level of awareness in digital literacy from all directors,” she says.

And a CEO says a behaviour shift is needed and if you won’t disrupt yourself, someone else will.

The magic of AI is capable of saving lives. One of the challenges for boards and executives when it comes to health and safety is ‘knowing’. AI-driven solutions can help as we reveal inside how a video analysis platform identifies unseen ‘near misses’ or ‘events’ and then solves the problem.

Everyone and every organisation is using AR, VR or AI in one form or another – sometimes not even knowing it. The IoD board has taken the leap and is experimenting with virtual reality.

The importance of directors – everyone – becoming AI literate cannot be exaggerated. From understanding it to ‘Harnessing AI’: that is one of the top 5 issues directors will need to focus on in 2024.

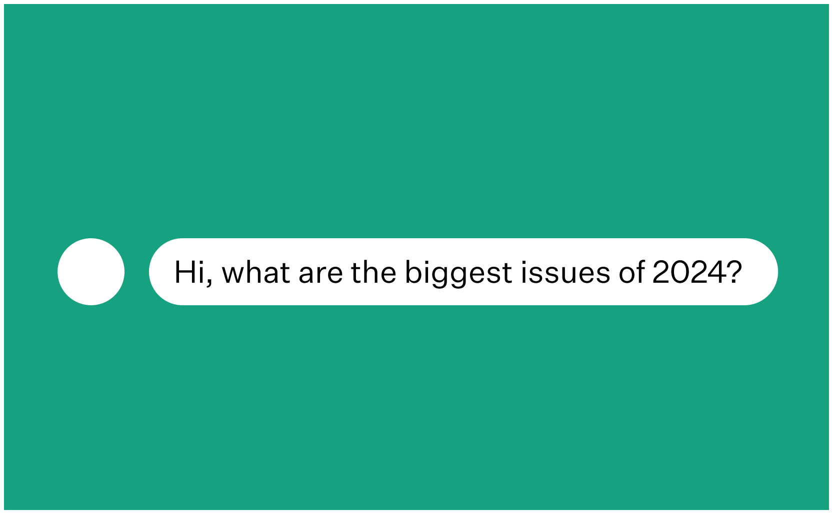
The other front-of-mind issues for the New Year, identified by the IoD, are ‘Climate Leadership’, ‘Future-ready Success’, ‘Driving Productivity’ and the ‘Value-adding Board’.

Why do they matter and what decisions should you be taking in 2024? Find out inside your summer edition.

Ngā mihi
Noel Prentice, editor

In this issue

SUMMER 2023/2024



OPINION

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Hi.

The top five issues for directors in 2024

What is the price of carbon?

How do I tackle succession planning?

Can you summarise these board papers please?

How can my company be more productive?

Can you evaluate my board performance?

In a world in continual crisis, directors need to take their game to a whole new level.

AUTHOR:
GUY BEATSON, GENERAL MANAGER OF THE IoD'S GOVERNANCE LEADERSHIP CENTRE

The world is more volatile and uncertain than most leaders have ever known. Four out of five business leaders anticipate this volatility will persist for at least the next two years, according to the World Economic Forum's 2023 'Global Risks Perception Survey'. And boards are getting a sense of almost permanent crisis.

Business as usual, whatever that meant, has gone. The "permacrisis", as consulting firm Oliver Wyman describes it, is here. As a result, directors need to excel as navigators in the face of increasing geopolitical and regulatory ambiguity, particularly with the arrival of a new government.

There is a need for directors to set the right tone, to make sure their organisations are exceptionally adaptable and ready to handle the next crisis.

Our 'Top 5 Issues for Directors in 2024' reflects the major risks that New Zealand boards are going to face:

1. **Climate leadership:** Many boards have responded to the call for their companies and organisations to "know their number" in relation to greenhouse gas emissions. This provides a solid basis for understanding the impact of potentially higher carbon prices – with the prospect of the new government using the emissions trading scheme as the primary mechanism to reduce emissions looming large. Boards also have a leadership role in supporting management to adapt to changing climate policy in the face of ongoing and more severe weather events, and regulatory requirements.
2. **Future-ready succession:** Demography is catching up with boards (and chief executives). An aging population, with experienced directors retiring and new directors coming on board, highlights the need to rapidly consider and have in place succession plans – with a focus on skills and capability for managing the ongoing crises. New models of board leadership, and different expertise and capability are needed to meet these challenges.
3. **Harnessing AI:** Artificial intelligence (AI) is here and its capabilities continue to evolve. Directors and boards may agree a policy to limit its use. Don't be fooled – AI will make work and life easier for employees and so it will be used. It is time for boards to embrace the AI challenge, including taking advantage of productivity gains, while managing risks, including IP and cyber security.
4. **Enabling productivity:** Costs – inflation and interest, supply chain concerns, wage demands in a tight labour market, pressure on pricing and funding drying up – continue to put the squeeze on organisations. Boards and management are facing ongoing uncertainties. Innovation, seeking new opportunities, finding the right capability and streamlining processes are all needed to drive the productivity to manage the squeeze. This approach will help address New Zealand's poor productivity record, moving beyond simply adding more labour, increasing hours worked or using more resources (such as water and land).
5. **The value-adding board:** These risks and challenges require boards to ensure they are truly adding value to their organisations. Being a director is becoming more complex. Directors are challenged not only to excel in their responsibilities but also to establish a clear purpose for, and provide enduring value to, their organisations. To meet this challenge, directors should reflect on, and discuss, their own performance so they can refine their skills and ensure their boards possess the diverse talents that are needed. After every board meeting, directors need to prompt their boards to ask: "Have we added value today?"

1

Climate leadership

New Zealand's international commitments on reducing greenhouse gas emissions remain and there is renewed focus on action to make progress towards delivering these goals.

WHY DOES IT MATTER?
In 2024, carbon pricing through the New Zealand Emissions Trading Scheme seems likely to take on new importance. This could see carbon pricing playing a pivotal role in incentivising organisations to reduce their emissions, along with measures to provide greater market certainty.

The focus is quickly moving beyond merely understanding your emissions profile and "knowing your number", including information about suppliers and customers. Boards need to think both short and long term, and to strategise wisely by factoring in the organisation's response to anticipated rises in carbon prices in years to come. Investment in emissions abatement needs to be considered because inaction risks higher future operational costs and a potential drop in competitiveness and productivity.

The importance of climate leadership by boards has never been more pressing. The world faces massive challenges in meeting the Paris Agreement goals, necessitating heightened urgency and action.

With escalating weather events, and regions still recovering from disasters such as the Auckland Anniversary Weekend floods and Cyclone Gabrielle, which have led to a combined national estimated cost of $3.5 billion in insurance claims, boards must continue to be resolute in preparedness.

In addition, climate change will impact beyond physical infrastructure or through supply chain disruptions. With the potential for more severe and more sustained droughts, impacts on the availability of water and its quality will become more evident. There will also be impacts on rural and urban land use, including through managed retreat.

All of this will affect bird and other animal life, trees, bush and forests. These wider impacts on nature will be increasingly important for boards to consider over the coming year and into the future.

YOUR BOARD DISCUSSION FOR 2024
Directors should ensure the agenda includes:

- **Carbon pricing and the Emissions Trading Scheme:** How is your organisation assessing and managing the risks and opportunities arising from the New Zealand Emissions Trading Scheme and the potential rise in carbon prices? How is your board planning to proactively invest in emission reduction strategies?
- **Weather event preparedness and risk mitigation:** Given the potential implications of weather events on organisational resilience, what measures should your board consider? How can your organisation strengthen its resilience in the face of escalating climate-related challenges?
- **Climate action narratives and reporting:** How can directors actively shape the narrative, moving beyond compliance to demonstrate a genuine commitment to safeguarding the future of our planet? What steps can be taken to communicate this commitment effectively within the organisation?
- **Downstream climate change impacts:** What steps are being taken to understand the impact of climate change on water availability and land use? What are the implications for your business/organisation of these wider natural environment impacts?

BOARD DECISIONS FOR 2024

- Assess your company's or organisation's greenhouse gas emissions intensity and the potential savings through emission reductions if the carbon price were to rise.
- Agree on the three highest risks from climate change disruption, including extreme weather events and changes in consumer preferences, and the mitigations that will be put in place to address them.

What is the price of carbon?

Time for 'constructive panic'

AUTHOR:
PHIL VEAL
MInstD

There is a lot going on in the world that we as directors need to get our heads around. Cyber security, AI, peak globalisation, Ukraine and Palestine. Even amid all that noise, climate and its potential effects on a changing world remain top of the list of concerns around the board table in 2024. So why is climate important in governance?

Climate represents a once-in-several-generations opportunity to invest in New Zealand's future, one that is driven by two strong forces. Firstly, consumer preferences are swinging strongly to sustainability (notwithstanding concerns around the cost of living). Secondly, we have made commitments (Net Zero 2050) that are creating significant changes in regulation for business.

For far too long, New Zealand has underinvested in our future. That includes a lack of investment in infrastructure, in developing our people, in technology, automation and productivity. But what boards need to understand is that we now have a chance to seize an opportunity in climate investment, which will allow us to address our earlier skimping, and tackle big changes in a way that will make a difference.

Investing in our future is just better business. As we move to net zero, lower carbon emissions will create more efficient businesses, which means better returns for investors and a more resilient economy. A healthier natural world means thriving, healthy communities, resulting in a better quality of life for all.

In 2023, Cyclone Gabrielle reminded us we have lived in a predictable world for long enough to know we can't be 'unprepared' for unpredictability. Extreme weather events have shown us what happens if businesses aren't prepared, or lack resilience. And as insurance costs continue to rise, it will soon force changes in where we build, or where we relocate. We also need to be prepared for non-linear change – 'black swan events' – in our environment.

In today's economy, carbon is a resource. That means we all need to know the price of it, and how to represent it in our operating models and financial statements. Know your number. Report it. Let's hold ourselves to account as we invest to reduce our numbers.

As we contemplate the effect that a new government will have on our organisations, we should remember this: the short-term incentives may change, but our collective long-term incentives (Net Zero 2050) are baked in. We need to be careful to keep our eye on the long game.

Business leader Professor David Teece said recently "it's time for boards to hit the panic button because the world is in a geopolitical crisis where everything's changing – markets, technology and regulations".

Maybe he's right. In any case, think of it as an opportunity to 'put our foot on the accelerator'. Constructive panic is the most productive force in human enterprise. Let's all take that mindset back to the mahi in 2024.

Phil Veal MInstD is a private investor, business leader, director and a member of the Chapter Zero New Zealand Steering Committee.

2

Future-ready succession

"Succession" is more than just a mini-series based on media mogul Rupert Murdoch and his family. The series is a metaphor for the challenges facing many boards and chief executives – one that needs attention now.

WHY THIS MATTERS

The significant retirement surge of "baby boomers" is under way at both an executive and board level, placing pressure on the availability of talent. The potential risk of lost skills and knowledge gaps looms large if succession is not handled effectively.

The age of CEOs worldwide has been steadily increasing over the past five years with one in six over 60 years old, according to a recent Bloomberg article. However, a notable change occurred in 2022, signalling a shift towards the recruitment of younger CEOs. This transition holds the promise of introducing a more diverse and youthful cohort of chief executives, equipped with expertise in tackling modern challenges.

There is also a suggestion executive talent might be transitioning into board roles sooner, particularly in the aftermath of the Covid-19 pandemic. Despite the average age of IoD members on NZX 50 company boards holding steady at 61, there are signs that younger executives are developing an interest in governance.

The 2023 IoD Director Sentiment Survey found about two-thirds of directors and boards are paying attention to succession planning for chief executives and senior leadership. Recognising this challenge is one thing; acting on it is another.

This is not just about CEOs and their executive teams. It applies equally to boards. Nominations committees will need to move into "overdrive" to ensure there is a widening pool of potential directors to replace an increasingly aging director workforce.

YOUR BOARD DISCUSSION FOR 2024

Directors should ensure the agenda includes:

- **CEO and board member succession planning, aligned with organisational needs**: Which emerging forces or trends disproportionately affect your organisation, and what are the implications for your organisation's mission, strategy, culture and chief executive? How are the organisation's existing succession plans being reviewed to ensure they are credible and align with the evolving needs of the organisation and the constraints of the labour market? How do they encompass not only the executive team but also up-and-coming leaders? What steps are being taken to foster relationships, provide exposure and assess the capabilities of potential future leaders?
- **Leadership skills, values and diversity**: As organisations seek to adapt to hybrid work environments, the demand for executives who can effectively lead both remotely and in-person is on the rise. What are the essential skills and values the future chief executive and other key leaders will need to thrive in the modern workforce, and align with the organisation's values and evolving societal norms? How is the board addressing the need for workforce diversity and inclusion, and what strategies are in place to achieve gender equity and broader diversity goals?
- **Impact of succession planning on remuneration**: In what ways are the board assessing the impact on remuneration structures, considering both immediate adjustment and the long-term implications?
- **Facilitating seamless transitions for key leaders:** What actions can the board take to ensure not only the right conversations happen but there are seamless transitions within the board and the wider organisation?

BOARD DECISIONS FOR 2024

- Determine the essential attributes required in your future chief executive, identify a pool of prospective successors and clarify how succession candidates are being prepared and developed.
- Develop a prospective board skills matrix that takes account of the future challenges, including these top five issues, and assess current board composition.
- Consider appointing a Future Director from the IoD programme as a way of widening the pool of prospective directors.

'It pays to do it right'

How do I tackle succession planning?

AUTHOR:
ALISON BARRASS
CFInstD

It may sound obvious, but the way in which boards approach succession planning and recruitment can have a dramatic impact on the fortunes of an organisation. Success starts with people. If you don't have the right people, everything else becomes difficult.

Whether thinking about future board members, or a future chief executive, the process undertaken to find and assess people can have a huge impact on organisational culture, the ability to deliver on strategic goals and purpose, and the very sustainability of a business model.

Boards should accept that succession planning will take considerable thought in today's fast-changing and uncertain business environment, and directors should not see it as a formality. Doing it right might take more work, but it pays significant dividends to the effectiveness of the board.

I think about succession planning in three areas. The first is to make sure you run an agnostic, professional and robust process. Surprisingly, this is not always the case.

A robust process should encompass an understanding of the broader skill gaps but also factor in the real value of diversity in an ever-changing future.

I don't think it is good enough, these days, to be shoulder tapping or going into the contacts list and pulling people from there.

My second piece of advice is to ensure succession planning is aligned with organisational strategy.

It is easy, but often a mistake, to recruit the type of board member you recruited last time. Everyone is aware of complexity and the rapid pace of change. If you factor in your strategy, you may find the people you need now are not the same as the people you needed last time.

This perspective needs to be shared with the recruiters who help find suitable candidates. Many recruiters in New Zealand have worked with organisations for decades and can sometimes fall into patterns based on past expectations.

You have to ensure your recruiters understand the organisation in its contemporary format. The organisation today may be nothing like it was 10 or 20 years ago.

The third point is talent is not enough. It's not enough to recruit talent or technical capability. You have to consider values, style, skills, what kind of board member you want. Do you want a challenger, a culture builder, a visionary? Do you need a technical expert? There are layers you have to interrogate as a board in order to understand what you want from an appointment.

Alison Barrass CFInstD is a professional director.

3

Harnessing AI

Artificial intelligence has been around for a long time, but it has now exploded into our consciousness. Every week there is a new development, boards are updating their digital and cyber security policies, and younger staff, particularly, are experimenting and finding labour-saving ways to use this technology.

WHY THIS MATTERS

In 2023, the emergence of widely available generative AI marked a significant milestone, with ground-breaking products such as ChatGPT, Bing AI, Microsoft Copilot and Bard AI, entering our homes and workspaces. This transformative wave continues, promising to redefine industries by enhancing efficiency, cost-effectiveness and driving unprecedented growth. The potential to drive productivity improvements is significant.

New Zealand companies and organisations cannot put their heads in the sand. Directors must recognise the importance of preparing for a future in which AI permeates every facet of the business or organisation, including getting products to market quicker, being more responsive to those who are being served, and the integration of generative AI into core products.

Experts point to "exponential change" with generative AI and that may put boards and the management they support under significant pressure. According to a 2023 KPMG US study, at least 75 per cent of business leaders saw generative AI as one of the top three emerging technologies over the next 12 to 18 months.

The speed of this transformation underscores the urgency for directors to cultivate curiosity and deepen their understanding of the opportunities that lie ahead. This is essential if boards are to add value.

While prudent consideration of potential risks is vital, it is equally important to approach this technological leap with a proactive mindset, focusing not solely on the challenges but also on the abundant possibilities.

Directors need to be aware that imposing policies barring AI usage may not stop staff leveraging its benefits in their work. A balanced, realistic approach is essential, in which setting clear guidelines and expectations are important, but so is encouraging a culture of innovation and experimentation.

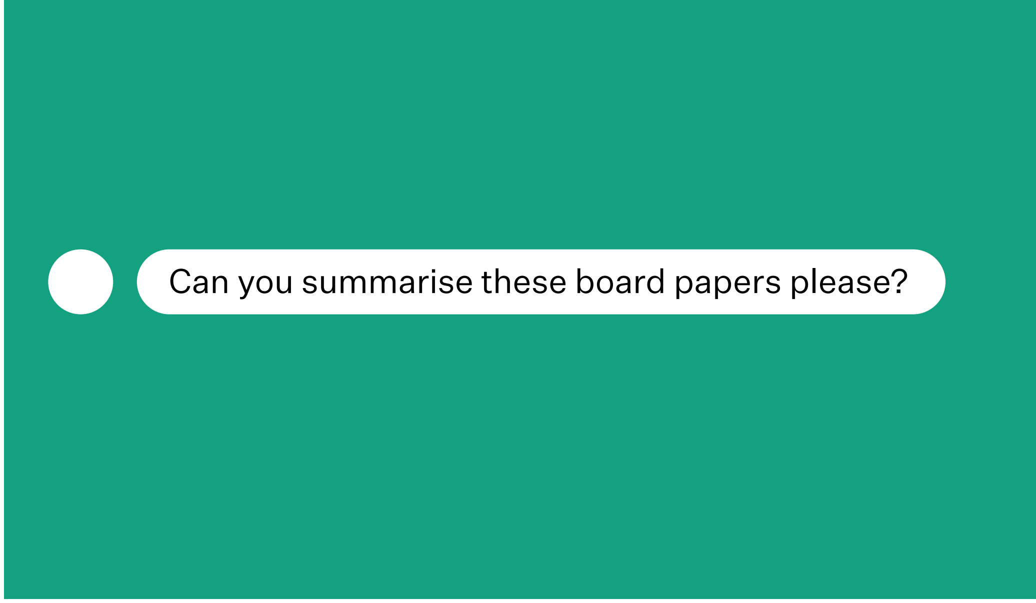
YOUR BOARD DISCUSSION FOR 2024

Directors should ensure the agenda includes:

- **Understanding the impact:** How is the organisation staying abreast of AI's transformative impact and its potential to reshape industry dynamics?
- **Exploring the applications:** What applications can drive increased productivity through enhanced efficiency, cost reductions and stimulating growth?
- **Ensuring the ethical use:** What measures are in place, including privacy protections and efforts to mitigate biases in algorithms, and align its use with the organisation's values?
- **Balancing controls and innovation in usage:** How can the board strike a balance between setting clear guidelines and putting controls in place, and encouraging a culture of innovation and experimentation?
- **Promoting continuous learning and upskilling:** What strategies and resources are being employed for both directors and staff, ensuring they remain proficient in leveraging AI's potential?

BOARD DECISIONS FOR 2024

- Evaluate the organisation's current readiness and capacity for AI integration. This should encompass identifying potential areas of application, assessing existing skill sets and determining any resources needed.
- Develop a framework that addresses the ethical considerations, including privacy concerns and bias mitigation. It is imperative this framework aligns with the organisation's core values and industry best practices, ensuring responsible and trustworthy implementation.
- Support learning opportunities for directors and staff to enhance proficiency. Fostering a culture of curiosity and ongoing education will enable the organisation to keep pace with the evolving landscape while maintaining ethical standards.



The Four Pillars that can talk to you

AUTHOR:
TOM HOVEY
MInstD

Where will AI be in five years' time? That's what we should be asking ourselves. AI never sleeps and never gets tired, and it's improving all the time. It's phenomenal how quickly the quality is improving. We really are at the beginning of the journey.

AI tools will speed up everything we do, thereby saving time and reducing effort. The world is already getting faster and faster, and AI is another massive accelerant.

My definition of AI is a computer process that translates inputs (like text prompts) and applies judgment by looking at almost infinite data points and 'thinking' about your intent. And then it arrives at a conclusion and generates an output. The output could be text, a chart, an image, a data table, code, anything at all. AI is really good at translation and connecting data points. That's what makes it really exciting. It can quickly join dots that we humans struggle with because it has vast processing power.

Directors can use AI to save time, become more efficient and make better decisions. An AI-powered bot could be listening to a board and giving it feedback in real time: 'I haven't heard from this board member and I think everybody should be contributing. Or: 'it's sounding like you're all diving into management. You need to lift the conversation up and consider the bigger picture'.

It could even help remove some of the biases that influence board decisions. It might sound far-fetched, but the technology can do that today – even provide sentiment analysis based on facial expressions, tone and other movements.

Board papers play an important role in keeping directors informed and stimulating discussion but imagine feeding them into an AI language model and asking, 'What are the most important things? What should I be looking at? Can you read this paper and tell me the three questions I should be asking at my next board meeting?' You can privately give ChatGPT financial statements and it can read and interpret them well.

And, if for fun, you ask ChatGPT to give you a 20-question quiz that evaluates your board directorship skills. 'Okay, Tom, here's question one'. It has read everything on the internet and created a quiz for me. It could be the *Four Pillars* that talks to you.

The efficiency from enterprise AI is going to be phenomenal, but the privacy required to pull it off is equally important. You need to lean into it, start playing with it and thinking about it. For businesses, it can reduce costs. It might mean some roles are no longer needed, but new ones will be created.

Organisations need to focus on building trust now. If you think about the issues with some of the information AI is producing, it is likely we won't be using Google or websites, we will be relying on content from AI. Being a trusted brand with trusted content is going to become more important than ever.

Tom Hovey MInstD is the director of independent digital strategy consultancy Diagram.

4 Enabling productivity

New Zealanders are being 'squeezed', and so are companies and other organisations. Directors are going to be challenged to find new and broader revenue and/or funding sources, to support management to develop innovative products and services that meet new or evolving market needs, and to change production and delivery systems that effectively and efficiently meet these needs.

WHY THIS MATTERS
Confidence in economic and company or organisation performance has improved since 2022. There is, however, a strong sense of economic and financial headwinds, and these are only going to intensify as a result of continuing inflation, high interest rates and the inability to find labour with the right skills.

Pushing through this will require significant innovation, widening and diversifying markets, and being able to widen margins. For not-for-profits, this means finding new funding sources and building up a reasonable level of reserves.

The only way to address the economic squeeze is through increased productivity. This is a measure of how efficiently inputs are converted into outputs, and it is a key driver of economic growth and living standards.

This matters whether or not there is a Productivity Commission. A data report by the commission, *Productivity by the Numbers* 2023, revealed that growth has been sluggish in New Zealand for many years, lagging behind other OECD countries. Digitalisation, automation, artificial intelligence and sustainable technologies all have the transformative potential to enhance efficiencies, increase quality and support eco-friendliness.

In tandem, there is a need to elevate human capital. Workforce reductions were sometimes considered a quick solution to financial challenges and, in the short term, to increase productivity. However, lessons have been learnt from previous retrenchment approaches because staff cuts not only disrupt the workforce but can also hinder an organisation's ability to ramp up.

These times call for empowerment of the workforce through upskilling initiatives and targeted incentives that extend to include external partners and supply chains.

YOUR BOARD DISCUSSION FOR 2024
Directors should ensure the agenda includes:

- **Leveraging innovation and technology solutions**: How can your organisation strategically leverage innovation and technology solutions, including digitalisation, automation, AI, and sustainable technologies to enhance efficiencies and champion eco-friendliness?
- **Empowering and upskilling the workforce**: What initiatives can your organisation implement, ensuring the workforce is equipped to adapt to the evolving demands of the industry and contribute to increased productivity?
- **Optimising management practices for productivity**: Are your organisation's practices aligned with achieving heightened productivity? Should you consider adopting lean production methods, agile processes and quality standards to enhance the precision and effectiveness of your operations?
- **Cultivating a culture of ongoing process improvement**: How can your board cultivate a culture of perpetual progress, fostering an environment of ongoing learning and collaboration within your organisation and with external partners and supply chains?
- **Balancing productivity and workforce wellbeing:** In light of prevailing economic challenges, how can your organisation balance the need for productivity enhancements with considerations for the wellbeing and job security of the workforce, ensuring sustainable and long-term growth for the organisation?

BOARD DECISIONS FOR 2024

- Develop an innovation action plan that is focused on new and diversified revenue or funding sources that respond to new or evolving market needs.
- Review, with management, the people strategy developed post Covid to assess whether the right capability is employed and the further shifts needed to achieve this in the next few years.

Getting more out of less

AUTHOR:
MURRAY SHERWIN
CMInstD

Murray Sherwin CMInstD is a director and consultant.

How can my company be more productive?

"There is nothing so useless as doing efficiently that which should not be done at all." – Peter Drucker

Productivity is what separates modern, high-income communities from the hunter-gatherers of the ancient world or subsistence tribal groups in parts of the world today. It is the capacity to combine high skills with sophisticated technology and ideas, and to trade the resultant products and services with others that marks out high productivity societies. High productivity supports high incomes and, with that, better choices about how to support individual and community wellbeing.

Productivity is not about working harder or longer. Nor is it about adding more inputs such as labour, raw materials or capital, to create more output. New Zealand has done a lot of that over the years. Productivity growth comes from working smarter, producing more from less. But more than just working smarter, as the quote from Peter Drucker indicates, working on the right things is crucial.

Broadly, what is true for high productivity economies is also true for high productivity firms. Both face the usual challenge of choosing where to commit their limited resources in order to generate the maximum value for the wellbeing of their people.

Innovation is a key ingredient in the productivity secret sauce. Innovation means risk and change. That calls for leaders to cultivate environments that nurture innovation and ease the risks and discomfort.

What does this mean at the firm level and for boards?

1. The right strategy. Are we doing the right stuff and not just trying to do the wrong things more efficiently? Is our strategy taking us to markets and customers where our firm can thrive?
2. The right people, skills and culture. Are we nurturing a working environment where constant improvement, innovation and change are welcomed rather than feared?
3. Are we equipping our team with the right technology and equipment that allows them to leverage their skills, experience and creativity to the maximum?
4. Are we alert? Do we understand the environment we are working in – our customers, competitors, community, ethics, regulatory environment and environmental footprint?

A small, remote island nation starts with some disadvantages in the productivity race. New Zealand is unlikely to support some of the high productivity industries that the US, China or Europe can succeed in. Major international firms are less likely to see New Zealand as an ideal place to build a major industry servicing the global market.

But that doesn't predetermine a constrained productivity future for New Zealand. We will need to be creative, smart and focused to create our own competitive advantages in industries that suit our scale and setting. As always, the skills and creativity of our people are key to success.

Smart choices by government in the delivery of education and health services, infrastructure and regulatory frameworks are critical. So too, a tax system that encourages innovation and investment while funding the sort of society and natural environment that is the envy of the world.

5

The value-adding board

The role that directors and boards play is undervalued by the community, organisations and even by directors themselves. An ongoing focus on the 'frontline' can lead to an underestimation of the value that good governance can add.

The challenges and risks outlined in these top five issues are significant. Organisations need directors and boards that understand what good governance looks like now, more than ever, and the value boards can add to their company or organisation.

WHY THIS MATTERS
Boards possess a unique opportunity to think ahead to the medium and long term, drawing on their collective knowledge – a viewpoint that other parts of the organisation might not have.

They can offer vital support and advice to the management team when issues are on the move and inundating the organisation. This can be particularly valuable when fast-moving challenges require swift attention. Given the uncertainties in the broader environment, management will greatly benefit from this support, shared from a governance perspective.

Despite overcoming the challenges posed by the Covid-19 pandemic, organisations continue to confront a fresh wave of obstacles. AI, energy transition, calls for increased supply chain transparency, shifting workforce requirements, and the ever-growing threat of cyberattacks are all exerting pressure on existing business models.

Boards must prioritise future planning and support management to adapt. Boards are called on to think in agile ways in order to navigate the changing dynamics of their sector, consider new business models or products, or other necessary changes that could benefit their organisations.

In these situations, boards must excel and acknowledge where they can do better as individuals and as a team. With boards facing pressure to be knowledgeable in a broad range of areas – far broader than what governance was traditionally considered to cover – the need for regular board evaluations and consideration of the skills around the table is more critical than ever.

The board needs to consider whether it's functioning at its best and what further training and/or skills development is needed. A board evaluation, such as the IoD's suite of services, can help.

YOUR BOARD DISCUSSION FOR 2024
Directors should ensure the agenda includes:

- **Enhancing board value and timeliness of decisions:** In what ways can your board enhance its contribution and provide more value, particularly in addressing emerging challenges such as responding to climate change or enhancing productivity? How timely and informed are the board's decisions?
- **Leveraging board reviews/ evaluations:** How can your board effectively leverage regular reflection and feedback mechanisms, including board evaluations, to ensure it remains responsive to the needs of the organisation?
- **Fostering a culture of continuous learning:** How can the board promote continuous learning both on the board and within the organisation? In what areas does your board need to upskill, or could benefit from an external or fresh perspective?
- **Gathering insights through feedback:** What potential benefits could be derived from soliciting feedback from the executive team and other stakeholders, providing valuable insights into the board's effectiveness and areas for improvement? This includes boards asking themselves at the end of each board meeting: "Did we add value today?"

BOARD DECISIONS FOR 2024

- Set time for your board to reflect on your performance as a board and as directors.
- Initiate a quick 'pulse' review at the end of every meeting on "Did we add value today?" for which the collective findings are shared and results accumulated between board meetings
- If your board did not undertake a board review in 2023, arrange for this to be done in 2024.

Have I added value today?

Can you evaluate my board performance?

MARK VERBIEST
CFInstD

The key thing is to self-evaluate. That can be reflecting on a single meeting or a series of meetings over time.

You should ask yourself or others on the board, sometimes the chair, whether you have added value and how you have added value. And where you have not – and what you might do to improve. People generally know whether and what they have contributed.

Most high-performing directors – even when they are very seasoned – will ask the question, particularly when they are new to a board or new to an industry. They want to ensure they are coming to grips with how things operate in that particular entity and its sector.

When directors don't seek feedback it often raises questions in terms of how self-aware they might be, where they genuinely think they have contributed and how effective they believe they might be. The rest of the board usually knows too, and this is often picked up through annual evaluations.

As chair, it becomes pretty obvious to me (as to others) the extent to which people are prepared, the extent to which they understand the role, the extent to which they are engaged with others – be they other board members or management – and the extent to which they are trusted and respected.

I have found the odd director who is less experienced feeling the need to comment on every topic. That is not necessary, by any means. In fact, if you feel that somebody has already said something or you have nothing to add to a conversation, the best thing you can do is not say anything. Sometimes, people have to be reminded of that.

Effective meetings are short ones. It is obvious and really important that people come prepared. Sometimes, I will have a quiet one-on-one with someone after a meeting, generally for their own benefit. It's about adding value for them and for the organisation.

I have always been a team player and so I tend to think about how the board, as a team, is adding value to the organisation. Are we bringing our experience and knowledge to further long-term strategic objectives and risk assessment?

Board composition is hugely important. If everybody looks the same, talks the same and brings similar experience then you are going to get a less than three-dimensional view. It is important to bring diversity of thought to any issue, in order to advance the company and its strategy.

The more diverse a board is, the more broadly it thinks about long-term value – beyond value in a narrow, financial sense and much more in a holistic and sustainable sense.

A board member's contribution should always be constructive (related to strategy, related to risk). Just ticking the box is not the objective.

Mark Verbiest CFInstD is chair of Meridian Energy and Summerset Group Holdings.

How to balance risk, innovation and opportunity

AUTHOR:
SHERIDAN BROADBENT CMInstD

AI is developing at rapid speed and putting management frameworks in place is crucial.

Once relegated to the stuff of science fiction, it is fair to say that in 2023, with the advent of tools such as ChatGPT, artificial intelligence has gone mainstream. While it feels very new, the reality is AI has been around for a long time.

You interact with 'traditional' AI frequently – for example, natural language speech recognition apps such as Siri, or the smart algorithms in Spotify. These apps are built around rule sets and algorithms (like, say, how to play chess) that 'learn' from user behaviour (like how to specifically defeat you at chess), but don't create anything new.

Photo by:
Pexels Huie
on Unsplash

AI models have become supercharged and way more accessible. This has been enabled by incredible improvements in computing and processing power in ICT, the advent of cloud and hybrid cloud-processing platforms providing cost-effective horsepower on tap, improved intelligence on how to train models, access to vast data sets, and improved underlying data quality. What used to take many years to reach the level of human proficiency and speech recognition – especially for the New Zealand lexicon! – can now take weeks.

Now an even bigger change has come with generative AI – that is its ability to create something new. Generative AI models are trained on enormous libraries of data with billions of data points, images, code, interactions and relationships. From this, the models generate completely new outputs and data using machine-learning techniques that roughly replicate the neural patterns of the brain.

Spark New Zealand has been working on a scale AI model coined BRAIN – 'Build Robust AI for Next-best-action' – which has been deployed in sales and marketing to boost conversion and spend efficiency. In the telco market, only one per cent of the population may be in the market for a mobile or broadband plan at any given time. This means mass marketing campaigns, while necessary for consideration and long-term brand building, are a highly inefficient acquisition tool.

This is where BRAIN has changed the game. By bringing together existing internal data sets on customer preferences, with publicly available data sets that add even more insight, BRAIN can identify in-market customers and deliver personalised offers that fit a customer's needs, interests and budgets.

This can be as straightforward as recommending Spotify to a customer with a high affinity for music, to something as complex as identifying when a customer is likely to be moving house based on real estate sales and rental data, and offering them a suitable broadband plan. The proof is in the pudding. Over the past three years Spark has achieved 17 per cent annual improvements in conversion and nine per cent efficiency gains.

> "AI is even more powerful when deployed as part of a converged solution that brings together a broader range of technologies."

With both forms of AI, there are tremendous opportunities to automate processes, create outstanding customer experiences (and therefore preference for your company or product), improve customer satisfaction through more accurate and timely interactions, and to develop, code, productise and create launch plans for completely new products.

AI is even more powerful when deployed as part of a converged solution that brings together a broader range of technologies. For example, Spark subsidiary Qrious developed a converged solution for EnviroNZ to help solve a health and safety issue – visitors to their waste centre jumping into areas where machinery was operating to retrieve items and putting themselves at risk.

By bringing together AI, computer vision and 5G-powered IoT cameras, Qrious was able to create an automated hazard detection system – identifying and tracking people and excavators within a specified detection zone, and calculating factors such as speed and distances between them.

These interactions are analysed in EnviroNZ's business intelligence environment, where the images from multiple cameras are processed and logged in real time, with hazards flagged, alarms activated and teams alerted in real time, so they can respond.

The use of AI in business is not without significant risk and starting your journey should be a mindful process – not an 'all or nothing' decision. But with AI developing at rapid speed and your competitors all over it, there is an equal risk in doing nothing.

Start with the business problem you are trying to solve, not the technology. Where is there duplication, manual or inefficient processes, or wasted efforts? What are the critical insights you need to understand to succeed in market? What are your key business processes and the high-impact interactions and decision points between you, your customers and most important channels to market?

From here you can start with a small number of high priority use cases from which to develop, test and learn to determine how to launch something useful to market with minimum viable data. Consider how you can scale up your model quickly while tuning (and improving) for a superior outcome, while building your interaction records and data sets so you can automate more, improve interaction success, and add new services quickly.

At scale, it is the quality of your oversight platform that will determine your success with AI, particularly in the B2C environment. There are huge benefits that can come from this quickly evolving technology – for individuals, businesses and Aotearoa. But for AI to be successful it needs to be trusted, and with that comes great responsibility for businesses who use it. Embedding an ethical approach to AI from the outset is critical.

Ensure strong data privacy controls, appropriate data retention and storage policies, and clear controls to manage fairness and actively manage bias in AI models. Engage experts in data science and cyber security to establish effective data governance policies.

Many organisations use the European General Data Protection Regulation (GDPR) as a guide, which is a good place to start. If you are putting critical insight generation and process delivery into an AI environment, you want to make sure you have a robust, world-class cyber protection and defence framework in place, and have it externally assured periodically.

> “For directors, get in a huddle with your executive team and get a sense of where they see the primary risks and priorities. Commit to upskilling. Gain knowledge from trusted experts who can point to a track record in AI and have a local ‘A Team’ that can support you.”

To remain internationally competitive and to thrive in a rapidly digitising world, New Zealand businesses need to be exploring the opportunities AI will bring, while ensuring the appropriate governance is in place to effectively manage the risks. It is about starting an informed journey and developing the risk and opportunity management frameworks that will drive market advantage while overseeing robust, dynamic risk controls.

For directors, get in a huddle with your executive team and get a sense of where they see the primary risks and priorities. Commit to upskilling. Gain knowledge from trusted experts who can point to a track record in AI and have a local ‘A Team’ that can support you.

For companies, start small, find the use cases that matter, take counsel from experts who have walked the path and can help establish your control and oversight framework, engage your board, and make sure you set out with an absolute, system-wide commitment to operate within your own values, ethics and risk appetite framework.

The opportunities are huge, but prudent trials, thoughtful policy and control development, and good advice will help you balance risk, innovation and opportunity. Doing nothing is not an option.

Sheridan Broadbent CMInstD is a non-executive director with an executive and governance career spanning telecommunications, ICT, infrastructure and energy. She is an independent director on the boards of Spark NZ, Manawa Energy and Downer Group and is deputy chair of the NZ Business Leaders Health and Safety Forum.

Seeing is believing: the magic of AI

AUTHOR:
NOEL PRENTICE

Boards need to wake up to the new world and learn the tricks, say generative AI leader Tim Warren.

The world has seen the magic show. Now we will get to see the view from the side, where the woman climbs into the box and does not get cut in half. We will see how the magician works, says generative AI leader Tim Warren.

The co-founder of AI software company Ambit is talking about artificial intelligence that is "bigger than the wheel" and will become "bigger than the internet".

For the first time in human history we have created something that can be smarter than us, Warren says, and people are going to be handing over decisions to another intelligence – artificial intelligence.

It's already working at billions of operations a second and getting faster. Moore's law states computational power doubles nearly every two years, while halving in cost. Its projected IQ will be at a level we can't even comprehend – and that reality, Warren says, could be only months away.

"AI is going to change everything you do. A lot of directors like to think they are in the position of setting the overall structure and guidance. Yet this is moving

Photo by:
H Heyerlein
on Unsplash

faster than any previous technology and it's bigger than any. I reckon the board's role is to look at that longer term, and if the AI 'revolution' isn't fundamentally disruptive to the way you operate, I don't know what is."

AI is moving faster than governance possibly can, he says, unless governance changes and adapts to the times. And if it doesn't, he warns governance will literally be lost.

"If you're not worried about it, you don't understand it. It's fundamental. If you didn't think the internet was going to change your business, you were wrong and the risk is you're going to be wrong about a whole lot of things. I think a lot of directors probably end up in the situation thinking 'I'm right about most things', but probably you're right about 51 per cent of the time."

Warren says he would even put money on around 40 per cent of directors of companies in the knowledge space that could be replaced by AI today. "But the point is it doesn't have to replace you. You've got this incredibly powerful tool you can use – it's your choice if you want to ride that wave.

"We're in this situation where there is something that is potentially smarter and more capable than any individual, and probably the entire collection of people that are on any board. And if you are going to look away and think it's not going to affect me, you're going to be out of a job."

Or more importantly, he says, your company is going to be out of business. "And with these things, you can't get your timing exactly right. You can't say, 'Hey, let's just time a run for learning and understanding it'. You're either going to be early or you're going to be late. The risk of being late is professional destruction. Do you want to take that risk?"

Warren likens it to climate change. If you don't take it seriously, the downside is disaster because there will be nowhere to live. The same with AI. "We don't know exactly when it will become so powerful and insurmountable, but it certainly will. The greatest minds are pretty aligned on this," he says.

"AI is something that can actually think. People might argue that point, but it can demonstrate intelligence. You've potentially got something here that can outthink the people that are trying to regulate it."

Tim Warren

While the world has become excited – and fearful – with the emergence of this human-like capability, Warren is now looking at what he calls the edge cases, or the boundary developments.

"We've got something that at its core is very powerful, yet it takes eager and learned people to fashion it into something that actually is a true business solution. A business person does not want to go and learn about AI to get the benefits. They just need the tools to get a good outcome, a solution."

He predicts 2024 will see "improvements under the hood". "At level one we have these raw AI models and they're very powerful, but they're hard to use. At level two, you have what you call infrastructure or operations. It coordinates and orchestrates the other levels and gives you the capability to build level three, which are applications. An application is something that gives you a business outcome."

Warren says language models such as ChatGPT are fast outgrowing their teenage years when they could be wrong but were certain they were right. If you asked ChatGPT something it didn't know, he says it would just make it up – just like a teenager, and then argue with you.

"In the last year, it's gone from being a 15-year-old argumentative teen to a 25-year-old academic, but not just one academic – every academic. What happens in another six months?" he ponders.

So, when does it stop doing silly things to the extent you can trust it like an adult?

"AI learns from us and it'll stop doing that soon. The standard of the way we act as humans is what we're feeding into it. AI is this cultural mirror and if we look into the mirror as boards that is the standard we'll get to support governance. I don't know if it's a high watermark or a low watermark. It depends on who is in control."

He predicts changes in models that will go beyond governance – “from what we call monolithic massive chunks of data to modular or composable. What that means is instances of AI talking to other instances of AI without a human in the middle.”

Boards are waking up to the new world though, he says, citing one board which, in six months, has gone from having nothing about AI on its board papers to it being included in every item. And an AI tool even took the minutes.

So where to start? With your risk register, he says, then expand it and embed it until it becomes a factor in everything, and subsumed into everything you do – just like CSR and ESG.

“A core role of a board and governance is to ask questions and never be comfortable, never be confident. Then ask more questions. They need to be regularly learning and attending events to see how it will disrupt their business strategy.”

He struggles to see how regulators will stay on top of it because “they tend to fundamentally work the same way they always have. AI is something that can actually think. People might argue that point, but it can demonstrate intelligence. You’ve potentially got something here that can outthink the people that are trying to regulate it.”

“Governance related to data security and privacy will become even more critical because I can guarantee you there’s going to be a massive data loss event at some stage and then it’ll be taken seriously. That’s probably when boards and regulators will start doing something real about it. I would like it if was earlier.”

> “We’re in this situation where there is something that is potentially smarter and more capable than any individual, and probably the entire collection of people on any board.”

Eye-opening 'events'

An AI-driven video analysis platform highlights unseen dangers in the workplace, then magically mitigates the risk.

AUTHOR:
NOEL PRENTICE

A CEO tells the board they have shut down a facility because of a staggering number of 'near misses' or 'events', and workplace health and safety is at serious risk. No one had a clue of the dangers.

Artificial intelligence analyses the data, provides insights and says move the guard rails and bollards here and here, and, hey presto, problem solved.

That is the magic of artificial intelligence, says Bede Cammock-Elliott, founder of seeo Limited,   a technology company offering AI-enabled solutions that improve health and safety outcomes. "It's is an incredibly powerful tool for knowing about, then managing workplace health and safety, and mitigating risks.

"Much of the talk about AI can be hype, but this is one that's practical and working today, and it happens to be in an area that directors are personally and financially liable. So it is a game worth playing. It's not perfect, but it provides incredible benefits."

Bede says his AI-driven video analysis platform named seeo – Latin for 'to know' – can analyse hours and hours of

Photo by:
Zane Lindsay
on Unsplash

CCTV footage, and identify near misses and behaviours that put both individuals and organisations at risk. It assesses them on a degree of severity and danger (called salience in 'seeo talk'). Events can then be triaged into a health and safety management platform.

At an IoD Auckland branch meeting in October, Cammock-Elliott related a case of about 1,800 'events' in a day with forklifts cutting through a factory safe zone, marked by bollards, where workers are allowed to stand. They were taking the fastest route from A to B. Seeo suggests moving the bollards and pallets a couple of metres, forcing the forklifts to behave in a different way.

The seeo team has taught AI to recognise objects in a scene, such as people, shipping containers, pallets, freight and material handling equipment. A second layer is what is called 'rule logic', which is 'what are we looking for'? 'What does compliance look like'? And compliance in this scene is people three metres from moving forklifts, or a person walking through a vehicle-only zone instead of using a walkway.

In this case study example, Cammock-Elliott says the company did not know there was a problem until the CEO and general manager of health and safety made sense of it. "Following some small work design changes, all of those events disappeared."

He says you can imagine a board and a company believing they are "all good" with people and forklift segregation, and they have a great self-reporting culture. "Then you run some data and boom, there's hundreds of events where they go, 'oh my gosh, I had no idea'."

He says directors should be requesting health and safety reports, and asking questions about how many events they have had. Why are they not dropping? Or why did this one drop? Management can then come and speak to that. The challenge is the data is often incomplete, or horrendously expensive to procure.

"One of the challenges for boards and executives when it comes to health and safety is 'knowing'. How do they know how work is actually done? How do they know about action on the ground? Without AI-driven solutions, they never get to know."

Bede Cammock-Elliott

What solutions such as seeo can do, he says, is help directors know. It provides insights they have never had access to. If they visit sites and walk around doing critical risk observations the Hawthorne effect is normally in play, where people modify their behaviour because it is being studied.

"One of the challenges for boards and executives when it comes to health and safety is 'knowing'. How do they know how work is actually done? How do they know about action on the ground? Without AI-driven solutions, they never get to know. They live in a 'work as imagined' world, whereas the health and safety risk occurs in a 'work as done' world. Seeo bridges the two worlds automatically, much like having a 24/7 auditor on every site."

AI-based solutions do create ethical challenges. Cammock-Elliott cites another case where a company asked if they could use seeo to identify employees constantly leaving the processing floor to go to the toilet during a shift.

"I said, technically, yes, but ethically we would never do that. Ethically, you should not outsource that to a technology solution. That is a performance management and leadership issue, not a domain for technology and performance management."

Then there was a customer, he says, who was having a massive number of events at the same time every day. Because of a shift change everyone was converging from the warehouse, either to charge their scanners and RT radios, or workers were arriving for their shift and picking up the charged devices. They introduced three different charging tables to pick up and return the devices, instantly lowering their event count. It was a very simple work design change.

Cammock-Elliott mentions another director who confidently talked of forklift and pedestrian segregation being a 'solved issue' because of a multimillion-dollar investment in fenced walkways across their sites.

"I visited a site and proceeded to be guided in a roller door and walked diagonally across their floor, instead of using their walkway. We have a director who thinks they have solved the problem. That work is imagined. Conversely, we had an operational manager who did not use the investment – that is work as done.

"There can be a fundamental issue and a misalignment between directors and CEOs who are the ones that are accountable, who drive efficiency through their organisations via the use of profit and loss centres to line managers. The challenge is the line manager maximises cost efficiency, but does not carry the can for health and safety outcomes."

On a regulatory level, he says New Zealand as a whole is miles behind the eight ball in terms of guard rails around AI. "We have limited guard rails at best. There's bountiful ways you could use this unethically. Other countries have centres of excellence around AI."

He also downplayed the hype of language models such as ChatGPT, saying they are not intelligent as we understand intelligence. "It can't predict the future. It can't generate new information. That is not to say it is going to impact the economics of creative businesses because it has.

"ChatGPT has been helpful in terms of raising the whole AI conversation and getting into people's consciousness, but the hype versus reality can dampen their level of interest.

"AI is not just a threat. It is a massive opportunity for a country like New Zealand," he says, pointing to the importance of creating a national goal to reduce the weight of our exports through a maniacal focus on creative, software, data and AI applications, among others.

"Much of the talk about AI can be hype, but this is one that's practical and working today, and it happens to be in an area that directors are personally and financially liable. So it is a game worth playing."

Photo by:
Alex Shuper
on Unsplash

How aware are you?

AI may have already infiltrated your organisation – the broad ramifications demand a level of digital literacy from all directors.

AUTHOR:
NOEL PRENTICE

Technology entrepreneur Angie Judge says AI disrupts at the heart of a board's accountability on both strategic fronts: opportunity and risk.

The CEO of Auckland-based Dexibit, which provides data analysis into visitor behaviour at museums and other cultural institutions, also warns that AI is not a futurist change: it is here transforming the workplace and soon, the workforce.

"While many recent technology trends like NFTs [non-fungible tokens] may have proven more hype than reality, this tectonic shift promises to be as significant as the innovations of computing, the internet or social media," she says.

"What makes this particularly challenging is AI is so broad in its technologies, applications and ramifications for companies through their products and operations. In many organisations, AI will have already infiltrated the company, with boards potentially unaware of where, how and what risks this presents."

In the race to embrace AI, Judge says the first question for boards is the impact on company strategy.

"For some, AI may prove to be a formidable and almost unavoidable existential threat, just as search was to directories, streaming to cable, and cloud to software. For others, it will pose a precarious balance of how much to invest, and where and when as the world navigates the discoveries and realities of AI in commercial settings."

Unsurprisingly, technology companies have been the first to fly the 'now with AI banner' and add AI-enabled products and features, she says. "What remains unproven for many is whether their users want to use or trust an AI-enabled widget, or whether the technology is fit for purpose."

For non-technology companies, she says, AI can form part of the customer experience or back office operation. Customer services, finance, marketing and human resources are prime targets. Examples such as forecasting using machine learning, evaluating customer feedback using natural language, or automating customer messaging through generative AI are all opportunities where routine tasks can be done more efficiently and potentially even better than a human hand.

Roles such as marketing might use generative AI to draft content, or engineers to improve code. Judge says this presents two different fronts for companies to manage: enough education and encouragement for individuals to get the most from AI to make them more efficient and effective, but enough guard rails to protect the company from the risks of this type of use.

"Staff need to be trained and managed for the risks of AI use, such as those around sensitive data, intellectual property and copyright, plus the tasks for which certain types of AI is inappropriate for," she says. "In uninformed or inexperienced hands, generative AI, in particular, can create a false confidence in the technology's ability, then used without proper checks on its accuracy.

"Boards should assess the expertise and experience of their wider leadership team to successfully navigate AI strategies and governance."

Angie Judge

"AI use in the workplace will also likely exacerbate the growing tension for employees who believe their remuneration should be based on outcome rather than effort. If AI saves an employee an hour a day – an employer's natural expectation is for that time to be used elsewhere for the company where some individuals may expect that time to be returned to themselves."

Judge says it is important for companies to manage additional risks from unintended consequences, such as the potential for discrimination, abuse and fraud. "For example, when machine learning is used to screen employment candidates, it may present as more objective than an inevitably biased human eye. However, if the training data behind the technology is also biased, this can then reinforce discrimination through the technology itself."

She says boards also face a changing regulatory landscape, especially for those operating internationally, as governments attempt to legislate or at least introduce voluntary codes of conduct for ethical and societal implications, including complex demands for transparency and explainability in a world where most AI operates as a 'black box'.

Judge says boards must stay apprised of these rapidly evolving technologies, their applications and the market's reception. While a diverse board with specific expertise is a start, the broad ramifications of AI demand a level of awareness in digital literacy from all directors.

"Boards should assess the expertise and experience of their wider leadership team to successfully navigate AI strategies and governance. Together, the company's management will need to quickly and continuously extend risk management policies, processes, procedures, practices, accountability and training for a world ever changed by AI."

Behaviour shift is needed

“So much feels within reach. It is easier than ever to build a quick demo using AI that shows some valuable output for the business.”

Alyona Medelyan

AUTHOR:
NOEL PRENTICE

Photo:
AI generated image, Prompt “artificial intelligence”.

Alyona Medelyan, a co-founder, CEO and director of Auckland-based customer insights platform Thematic, says many companies and organisations will make mistakes as they adopt AI, like they have with other technology shifts. The role of directors is to encourage their companies to not make these mistakes.

The two, she says, that are top of mind are:

1. Not acting fast enough
2. Working on the wrong things

“You might not be acting fast because you think it is hype and you want to wait it out,” she says. “However, experts agree the new capabilities in AI are transformative. The CEO and chairman of independent research and advisory firm Forrester Research, George Colony, said earlier this year the time to act is now.

“You might not be acting fast enough because you feel restrained by your resources. The good news is you do not need AI experts to benefit from AI. Powerful software tools and AI libraries are available to anyone today.” She suggests:

1. MAKE THE COMPANY MORE PRODUCTIVE

A behaviour shift is needed. It is a mistake not to take advantage of what’s out there. For example, every software developer should use Github Copilot. Every content marketing person should use ChatGPT to generate ideas. Every designer should be using AI integrated into design software, such as Adobe or Canva.

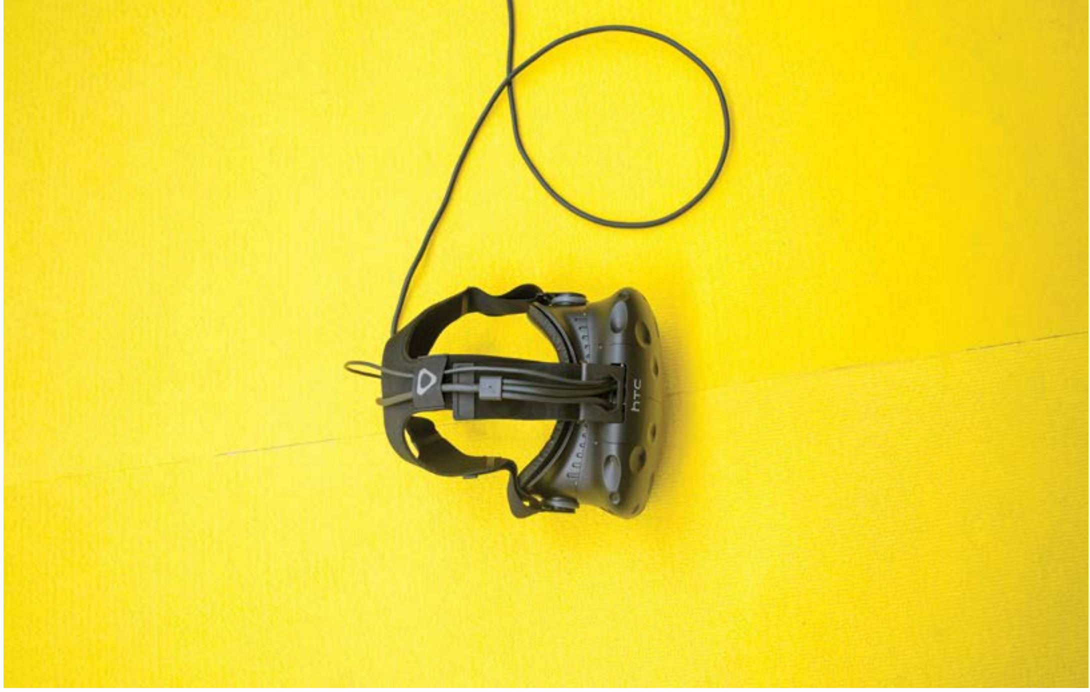
2. LOOK INTO HOW AI WILL DISRUPT YOUR BUSINESS

If you won’t disrupt yourself, someone else will. Every company director should be researching how the market is adapting to the wave of AI tech and products. Who are the new players in the market? What AI-powered features do they launch? What is resonating with customers?

Medelyan says they quickly became aware the old ways of doing AI were outdated and they needed to “reinvest ourselves, instead of being disrupted”. “Luckily, we realised a massive opportunity of integrating AI in our product. We immediately launched a small feature called ‘insights summaries’. It was a game-changer.

“But our customers also told us they wanted a ChatGPT-like solution to answer questions about their customer feedback. So we kicked off a complex R&D project. It is in the final stages of Beta.”

AI opens up so many new possibilities, she says, that picking the right one is critical. “So much feels within reach. It is easier than ever to build a quick demo using AI that shows some valuable output for the business. But just because you can build it, it doesn’t mean you should.”



The boardroom of the future

AUTHOR:
NOEL PRENTICE

In a virtual 3D space you are transported to the boardroom and can interact with other board members.

Aliesha Staples MInstD lives in the virtual world and even she cannot keep up with how fast it is changing. “I think I know something and then I’m proven wrong a week later,” she says.

For the not-so-tech-savvy director, that should make them want to Google ‘HoloLens’.

While virtual and augmented reality was seen as a “bit of a game” that was going to revolutionise the entertainment world, that is not what has happened, says Staples, the founder and a director of emerging tech consultancy and development company Staples VR, which specialises in augmented reality and virtual reality training.

“That was the original innovation trigger. That’s what the original AR/VR experts were attempting to do. But the byproduct is it’s actually become a very good business tool, being able to train your staff faster, give higher knowledge, help muscle memory, people involved in dangerous tasks and access to equipment.

“It’s definitely matured where it’s now used in the police, the defence force or aviation, or anything that has high-risk jobs and expensive equipment. Part of your training will be done in AR or VR.

“We’re trying to integrate it slowly so it makes sense, whereas a lot of companies are jumping in head first and finding some of the issues that are coming with that.”

Everyone and every organisation is using AR, VR and AI in one way or another – sometimes not even knowing it. Most of the time it is through your mobile or tablet, unless you put a headset on.

Staples has introduced the IoD board, of which she is a member, to the virtual world and is working to perfect a 3D board meeting where you don’t have to leave home. It will help reduce carbon footprints with climate change top of mind.

“Zoom is not great for board meetings, but we’ve proven it is possible and you still get good outcomes. Covid forced us to prove that. But what if you joined in a

Photo by:
Stephan Sorkin
on Unsplash

virtual 3D space and it felt like you were transported to that boardroom, you could interact with other board members but you didn't leave your home?"

It works like this: Each board member puts on a headset and as long as they are connected to the internet they can be anywhere in the world when they join. In front of them appears a board room. They are sitting at a board table and surrounded by life-like avatars of their fellow board members and company leaders. Meeting guests can join via traditional methods such as Zoom and the board members see this in their virtual world as a large screen with the video stream of the Zoom/Teams call. Your board papers are on a virtual tablet in front of you, including all your notes etc. When you look around the room you see, hear and interact in real time with your fellow board members.

Staples says it makes you feel about 80 per cent there.

"The avatars look realistic. If you are making eye contact with someone in the virtual world the person in the headset really did make that eye contact with you. There's a little camera in the headset that is scanning the face of the person in the real world so it knows when you blink, when your mouth is moving, when you look at a fellow director. It all mirrors onto your avatar. Everyone can hear your voice. You feel like you are in the room," she says.

She gives an example of risk reporting, where all the directors are able to see it in 3D. "Instead of just getting a piece of paper that says, 'this is your risk', they get 3D animations that happen in front of them. It could be a cyberattack and here is what's happening in real time. What decisions should you make?"

Staples says it is obviously hyped up, but meeting like this using augmented or virtual technology is coming and directors need to start playing with it now, otherwise they will be left behind. "It's not the technology that's the problem, it's the people using it."

She admits some directors will delight in not having to travel to board meetings, while others may take more convincing. She is also well aware there are "quite a few people" who are scared of technology and it will take time for them to become comfortable and adapt. That's more of a human element, she says.

Despite the futuristic fascination, Staples says she would still rather be physically sitting in a room talking to her fellow directors. However, given the option of Zoom or being in a VR room talking, she would choose the latter. "It's a step further than video calling, but a step behind meeting in person."

Staples believes two things need to happen from a board member perspective. The same way you must know about your financials, you must know about technologies that are going to disrupt you.

"I think there's not the same level of consequence personally. If you aren't reading your finances and you're trading recklessly, there are immediate consequences. However, if you don't know what's about to disrupt your company because you haven't looked at it and two years later your company doesn't exist, that's just as bad. It's just a different type of consequence."

Secondly, she encourages boards to bring in subject experts. It could be an innovation expert, someone from the startup world or future technologies.

"It's different having someone who lives in that world every day standing in front of your board and giving you some examples that are relevant to your company. And for them to say, for example, here it is in layman's terms, so you now understand it. Having half an hour to think about things other than your board pack needs to happen more often."

Aliesha Staples, an IoD board member, was an IoD Future Director in 2019 on the TVNZ board and has since been appointed as a full director. She is also chair of the New Zealand Football Foundation and a director of Antarctic Heritage Trust, Netball New Zealand and Creative Coworking Ltd.

"There's a little camera in the headset that is scanning the face of the person in the real world so it knows when you blink, when your mouth is moving, when you look at a fellow director."

Aliesha Staples MInstD

Spreading its wings

AUTHOR:
NOEL PRENTICE

Photo by:
Tom Lynch

World-renowned ecosanctuary Zealandia gives its whole board the opportunity to fly.

Zealandia Te Māra a Tāne is home to some of New Zealand's most rare and extraordinary wildlife, boasts over 16,000 members and is a magnet for the thousands of cruise ship passengers visiting the capital.

The world's first fully fenced urban ecosanctuary has a 500-year vision to restore forest and freshwater ecosystems as closely as possible to their pre-human state.

That ambitious commitment requires a level of governance to match, says the chair of its board of trustees, Phillip Meyer CFInstD. "We've been on a road to get Zealandia to best practice," he says. As part of this effort, a governance review was carried out.

"There were a number of impediments we knew about because it's an element of a community organisation in many ways, but the review was essential for ensuring we took the right steps for the benefit of Zealandia," Meyer says.

Recommendations adopted from the review included the addition of a tangata whenua partnership advisory group, and an advisory group which focuses on research and restoration of the valley which will be supported by Victoria University of Wellington.

"We call a full board meeting every quarter and have interim board meetings in between," Meyer says. "They can include anything the chief executive wants to report, or anything the board members are concerned about, plus a look at the finances to make sure we're travelling on plan and that our non-financial objectives are on track for achievement.

"At the end of that interim meeting, we have some professional development. It could be a deep dive into something within the business, or it could be some governance or professional development. Other improvements in governance we have made include reporting into subcommittees."

The board did a deep dive in September into Zealandia's fire risk and how it could mitigate the risk, and then respond

if there were a fire in the valley. "The world's getting hotter," says Meyer, a professional director who has extensive experience and specific expertise in financial sustainability and ESG.

He says they could always provide a better service, so the ecosanctuary is updating its Customer Relationship Management software and website, and how it can use information so they know the patronage patterns of visitors better and what their needs are. It is also looking at providing augmented reality to enhance the visitor experience.

"Having done all this work and bringing it up to what we regard as best practice, according to our review, we want to maintain best practice of the board capability itself," Meyer says.

It was decided each board member would be given an opportunity to keep their personal knowledge and learning up to best practice, and to keep it there. "We are often sharing information from the IoD so we decided everyone would become members through the whole board membership," Meyer says.

"The sanctuary is running really well but joining the IoD means the governance standard can be held at so-called best practice. That's what we're looking to achieve from the whole board membership."

The Zealandia board comprises scientists, professors, conservationists and environmentalists among others, and consists of two main committees. One is a people, capability and culture committee, with culture considered the most important by Meyer. "When we hire new people, they can have all the experience in the world, but if it's not a cultural fit it won't work," he says. The second committee is audit and risk, with both committees reporting to the board in the normal way.

"My biggest reward is working with the people. They are absolutely fantastic and the culture of the place is to be mutually

"We're not a captured company for purposes of reporting, but we want to lead in this area. We've been net carbon zero for seven or eight years now, but while we are at net zero we want to focus on reducing our gross emissions."

Phillip Meyer CFInstD

supportive," Meyer says, highlighting his relationship with CEO Dr Danielle Shanahan.

The board is also kept up to date with any risk or near misses thanks to a specially developed health and safety app that works on a 'no fault' system. "By the time it comes to the board, the issue has generally been taken care of. It's a very good system and the staff are all engaged in it," Meyer says.

Zealandia is working with US technology company Persefoni AI Inc to help provide a platform to measure scope one, two and three emissions. "We're currently building the database on their platform, meaning even a cup of coffee bought in the cafe will have an emissions reading.

"We're not a captured company for purposes of reporting, but we want to lead in this area. We've been net carbon zero for seven or eight years now, but while we are at net zero we want to focus on reducing our gross emissions."

Meyer says they take great pride in reducing gross emissions – "they are 50 per cent of what they used to be in 2015" – with electric vehicles travelling frequently to and from the city each day. There are charging stations at Zealandia as well.

It is cost increases that are exercising the board's mind, he says, as those increases eke their way into the business. He cites a 10 per cent increase in the living wage, a general increase in salaries, and audit costs virtually doubling in the past few years and becoming more complicated around non-financial measures.

"The point is these costs cannot be recovered in the revenue line through price increases. We don't want to put our price up and we haven't for the past few years despite inflation. Household disposable income is under pressure and we want to do the right thing by our community. It's a careful balance in terms of absorbing costs."

However, it takes a lot more revenue to get the same profit as five years ago. "The margins have been squeezed and that's because of the increase in delivery costs," he says. "That's a business risk that we have to keep very closely on our mind."

That means juggling the "nice-to-have" projects and the revenue from the summer months.

"We have a number of feeders and nest boxes out through the valley. It's quite a large area [225 hectares], about eight kilometres around. We have to maintain all of the infrastructure, traps for predators, and monitor the conservation outcomes. And we've also got to maintain the fence, just looking for anything that might have breached it – or erosion."

Zealandia is a groundbreaking conservation project that has reintroduced more than 20 species of native wildlife into the area. More than 40 different species of native birds have been recorded in the sanctuary. It has also translocated rifleman/titipounamu, New Zealand's smallest bird, and they are now being seen outside the fence and around the city.

Meyer says they have "generally exceeded" their objectives since coming out of the pandemic. Before Covid-19 neither the board nor the chief executive had anything that kept them awake at night, figuratively speaking, he says.

"Things were running well. We were hitting our maximums on visitation and revenue and the like. So I said, let's contemplate that we might lose a bucket of revenue. We couldn't think of a reason. In September of 2019 the board had a plan before it on how it would support staff, without either reducing salaries or sacking anyone, allow the cost-to-income ratio to go up and then being able to recover the revenue."

It proved prescient. Within five months Covid-19 had arrived and the world stopped. The cruise ship market disappeared and with it nearly $2 million of revenue, or 30 per cent of Zealandia's total revenue.

> "It was turbulent in terms of trying to maintain the viability of the whole enterprise This year we're looking at our eighth operating surplus."

"We took the plan off the shelf and had to modify it a bit, but we applied it and we didn't have to sack any permanent staff. We maintained the valley and we took the opportunity to do some infrastructure improvements because all these things need maintenance all the time. And we saw our way through with government support as well, and delivered a surplus that year too, despite the big loss in revenue.

"It was turbulent in terms of trying to maintain the viability of the whole enterprise. This year we're looking at our eighth operating surplus," says Meyer, who stands down as chair in December having come to the end of the maximum term. Deputy chair Russell Spratt will take over.

As a whole

173

Zealandia is one of this number of organisations who have a whole board membership at the IoD.

1,146

The number of people who have access to the IoD's member benefits through the whole board membership.

The whole board membership (also referred to as Boardwide) allows for all members of an organisation's board to join as individual IoD members. When a board member leaves the new member can join the whole board membership as their replacement.

For more information go to 'services for boards' at **iod.org.nz**


TRUST

Why reputation matters

AUTHOR:
MARIE HOSKING
MInstD

It is hard earned but easily lost – just look at PwC Australia's tax leaks and Qantas' fall from grace.

There is a new kind of literacy needed around the boardroom table. Directors who would not dream of walking into a boardroom without being able to read a balance sheet now need to ask themselves whether they and their colleagues are sufficiently literate in the language of reputation.

Recent examples on both sides of the Tasman have demonstrated how poorly managed reputation risk can be the Achilles' heel of an organisation, destroying hard-earned trust and millions of dollars in shareholder value in the blink of an eye.

If you are still thinking about reputation as a non-financial risk, consider the case of PwC Australia. Senior partners breached confidential Treasury briefings about new plans to tax multinational companies, sharing the information with the very organisations the Australian government was targeting, making millions of dollars in fees along the way.

A Senate inquiry is raking over the coals, but the damage is done. Eight partners, including the CEO, have left and there is a police investigation. I would wager there are more heads to roll. PwC put profit above purpose. One of the outcomes was the sale of its now disgraced government consulting business, which had A$255 million government contracts locked in, for just A$1. And that is just the start, the financial impact will continue to be felt for years.

You do not need to be a CFO to tally the costs associated with losing the CEO and seven senior partners, the drag on internal culture, and the difficulty of attracting talent going forward. The top graduates from Australia's leading universities will be thinking seriously about their own reputations when they consider the offers in front of them this year.

It is likely PwC will end up having to pay above the market to attract the best and brightest in future. And then there is the declarations from influential clients,

Photo by:
Bernard Hermant
on Unsplash

such as the Australian super fund and the Reserve Bank of Australia, that they will not sign any new contracts with PwC. Still think reputation is a non-financial risk?

Media cycles are now almost non-existent. News and social media are instant and that means public and customer sentiment can turn on an organisation faster than ever. Increasingly, there is an expectation that someone will take the fall. And that desire for utu is reaching into the boardroom, as we have seen in the case of Qantas' spectacular fall from grace.

Qantas has faced a perfect storm of self-inflicted wounds. First, there was customer anger about an arbitrary deadline to use Covid-19 flight credits coupled with an impossible-to-navigate claims system. Then there was the perception Qantas was too influential in the government's decision to prevent Qatar increasing flights to the lucrative Melbourne and Sydney markets, protecting Qantas' commercial interests in the middle of a cost of living crisis. And the last straw was the allegation by the Australian Competition and Consumer Commission that Qantas broke consumer law by selling tickets for flights that had already been cancelled. The ACCC is seeking to impose a penalty of more than A$250m, double anything it has previously imposed.

It only took about three weeks of ongoing negative media coverage for Qantas' share price to drop up to 25 per cent on six months ago. The Qantas board has come under sustained scrutiny, ending with an announcement that the chair is to step down and the board "refreshed". Yet, each one of these issues was potentially foreseeable and preventable.

Qantas might be in a different place today if the board had taken the bolder step of appointing the chief executive of its loyalty programme, Olivia Wirth, to the top job, given her extensive corporate affairs and reputation management experience, rather than the more traditional route of elevating the CFO, Vanessa Hudson.

> "Increasingly, there is an expectation that someone will take the fall. And that desire for utu is reaching into the boardroom, as we have seen in the case of Qantas' spectacular fall from grace."

It is tempting for some to dismiss reputation as an ethereal concept. But reputation can and should be measured and tracked. Data from global reputation and insights company RepTrak shows Qantas' reputation score for the September 2023 quarter was 63.5, compared with scores consistently in the high 70s or even 80s before the pandemic.

The Sydney-based managing director of RepTrak, Oliver Freedman, believes reputation should be a standing item on a board's agenda every six months. "You need to be actively tracking your reputation and directors should expect to see these scores in their board packs," he says.

He is also adamant that reputation should be tracked across the community as a whole, not just a narrow group of customers or stakeholders, or there is a risk of missing early red flags.

Freedman also sees directors as having a role in educating investors. He says investors are starting to tune into sustainability issues that might impact an organisation but are still less likely to think about potential damage from broad-based consumer anger. "With reputation increasingly included in executive KPIs, they're nervous about the top team potentially being rewarded for great reputation results but poor financials. That's where an independent measurement tool that can't be easily gamed is worth its weight," he says.

Freedman warns directors that one of the biggest mistakes in reputation crises is boards listening exclusively to legal advice and ignoring their corporate affairs teams.

Former Air New Zealand CEO Rob Fyfe found himself in this position on the first anniversary of the 2008 Perpignan disaster. The leased Air New Zealand Airbus A320 crashed on a test flight in southern France, killing all seven people on board including five New Zealanders, and eerily coincided with the 28 November anniversary of the 1979 Mount Erebus disaster which claimed 257 lives.

How did Fyfe balance the legal and reputation imperatives leading up to the first anniversary of Perpignan when he made a historic apology to the families of victims of the Erebus disaster for the way Air New Zealand had treated them?

Fyfe acknowledged the experience of leading the airline through Perpignan made him reflect anew on the airline's response to Erebus. "I've always believed that when confronted with a crisis like that you need to respond with both your head and your heart to know the right thing to do. Then you talk to your legal and PR teams about how to bring that outcome to life in a way that minimises risk to the company. It's too easy to let the legal risks constrain you."

Fyfe took a proposal to the board that on the first anniversary of Perpignan Air New Zealand should issue a public apology for Erebus. He describes the reception as lukewarm, although chairman John Palmer was cautiously open to the idea.

Recognising this as a test of his personal integrity, Fyfe knew he needed to understand the issues better. He contacted the wife of Captain Jim Collins, who was in charge of the flight deck on the ill-fated flight. Maria Collins invited Fyfe and his wife to dinner with her now adult daughters. He walked away knowing, "we couldn't keep burying our heads and saying no comment as we had for 30 years".

Fyfe worked with his corporate affairs lead, Mike Tod, to come up with a plan. Fyfe approached prime minister John Key, with the idea of a joint apology with the Crown, as the airline was majority government-owned. But Crown Law vetoed an apology, concerned it would be an admission of fault. Undeterred, Fyfe and Tod pivoted to focus on an apology for the way the victim's families had been treated by Air New Zealand, steering clear of any suggestion of reapportioning blame.

"It is tempting for some to dismiss reputation as an ethereal concept. But reputation can and should be measured and tracked."

The apology, and a plan to offer a family representative of each Erebus victim the opportunity to travel to Antarctica, experience the last journey of their loved ones, and visit the memorial site at Scott Base, was taken back to the board. Fyfe says it took "a number of conversations" to get the directors comfortable and final approval came "very late in the piece".

From a governance perspective, Fyfe needed the support of his board and, having sensed that initial reluctance, would have been in no doubt the stakes were high. He was in uncharted territory; it could all have gone terribly wrong. By not allowing legal consideration to kill the idea and continuing to work on creative solutions, his apology not only enabled family members to find a sense of closure after 30 pain-filled years, it enabled staff to hold their heads high again, restoring mana to the koru. The impact on internal culture was immediate and deeply felt.

A good reputation is hard earned but easily lost – that applies equally to directors, executives and companies alike. The good news is RepTrak data shows reputation scores for organisations that have experienced major events have generally recovered by the two-year mark. The bad news is their teams are exhausted, customers have voted with their feet and the competition has galloped ahead. All things the investment community takes a pretty dim view of.

Marie Hosking is a partner at Convergence Communications; independent director Rotorua Airport; and former Head of Communications at Air New Zealand.

Where is your strategy?

AUTHOR:
JO CRIBB CFInstD

Photo by: Brenna Huff on Unsplash

A higher level of governance is needed by NFPs to better serve communities and affect social change.

Twelve per cent of not-for-profit, for-purpose, community sector boards do not do strategy, according to my unscientific, non-representative LinkedIn poll. A further 17 per cent reported they only have strategic discussions on an ad hoc basis.

Unfortunately, the finding that nearly one-third of not-for-profit boards from the 42 responses do little or no strategy is backed up by New Zealand and international research (including by Sport New Zealand). They are instead focused on operations.

Scrolling news websites, we see constant evidence we have not made enough progress on key issues such as health, inequality, poverty, crime and education. Some social statistics are even trending backwards.

Yet the sector that has the 100-year track record of tackling these issues has many of its boards bogged down in operational detail.

A recent Harvard Business School working paper – titled 'Nonprofit Boards: It is Time to Lift Your Gaze and See the System' – found not-for-profit boards focus on two sets of responsibilities: their fiduciary and legal compliance (Level 1 Governance: Duty and Fiduciary Responsibilities), and monitoring their organisation's performance (Level 2 Governance: Organisational Mission Performance). Boards operating at Level 1 and 2 ask questions such as 'how well are we achieving our goals?'

Given not-for-profits' critical role in serving communities and affecting social change, the authors argue that boards should be aiming for Level 3 Governance: System Performance by asking 'what should our contribution to the well-being of our communities be?' and 'how can we influence the systems that create barriers for our communities?'

Many community organisations are small, and board members often wear governance, management and all other hats. The call

for not-for-profit boards to drive systems change seems aspirational when making sure there are referees for next week's matches, as well as enough money in the kitty, consumes valuable volunteer board members' time.

For not-for-profit boards, the key to being more strategic is about creating the space to be so. Board members need to first understand their governance role and how it differs from day-to-day management and technical roles, especially the role boards should play in holding a long-term vision.

Many directors serving on boards are passionate about the cause, but that does not make them competent governors. Thinking three to five years ahead is a specific skill that we need to recruit for and learn to do. So boards need to invest in individual and whole-of-board learning on the essentials of governance and strategy.

For-purpose boards can, however, be reluctant to invest in their own development. In a paper presented as part of a Winston Churchill Fellowship last year, I found boards are driven to keep overheads down and spending focused on the front line (both critical) so are unlikely to prioritise investing in their ability to create a compelling vision and strategy to achieve it.

For 55 per cent of boards that responded to my LinkedIn survey, strategy was a one-day session once a year. But how many plans created on one-day strategy sessions are implemented, budgets aligned to priorities, and KPIs developed for management to monitor delivery?

Strategy should be built into every board meeting. For some boards, the first agenda item is a deep dive into one aspect of their strategy. Doing this at each meeting puts the board in a strong position to understand the delivery and effectiveness of its strategy.

Putting strategy first means board meetings start in a strategic space, not diving straight into the weeds, hopefully setting a strategic tone for the rest of the meeting.

Board papers should then clearly link to the strategy. Board strategy becomes the guard rails and framework for decision-making.

Some not-for-profit strategies are pages long, like a shopping list of the organisation's hopes and dreams. Others are succinct one pagers, clear and targeted (often with lovely techno-colour images). Few, however, come with any metrics. Few provide the board with tangible ways of judging how much impact their organisation is making.

Quantifying social impact is complex; causal relationships are rare. But by creating a set of measurements – data and narrative – boards put themselves in the best position to do their job. Metrics also help the organisation demonstrate its impact to those it serves and funds, and many of us are required to do it anyway as part of our Statement of Service Performance (SSP) reporting.

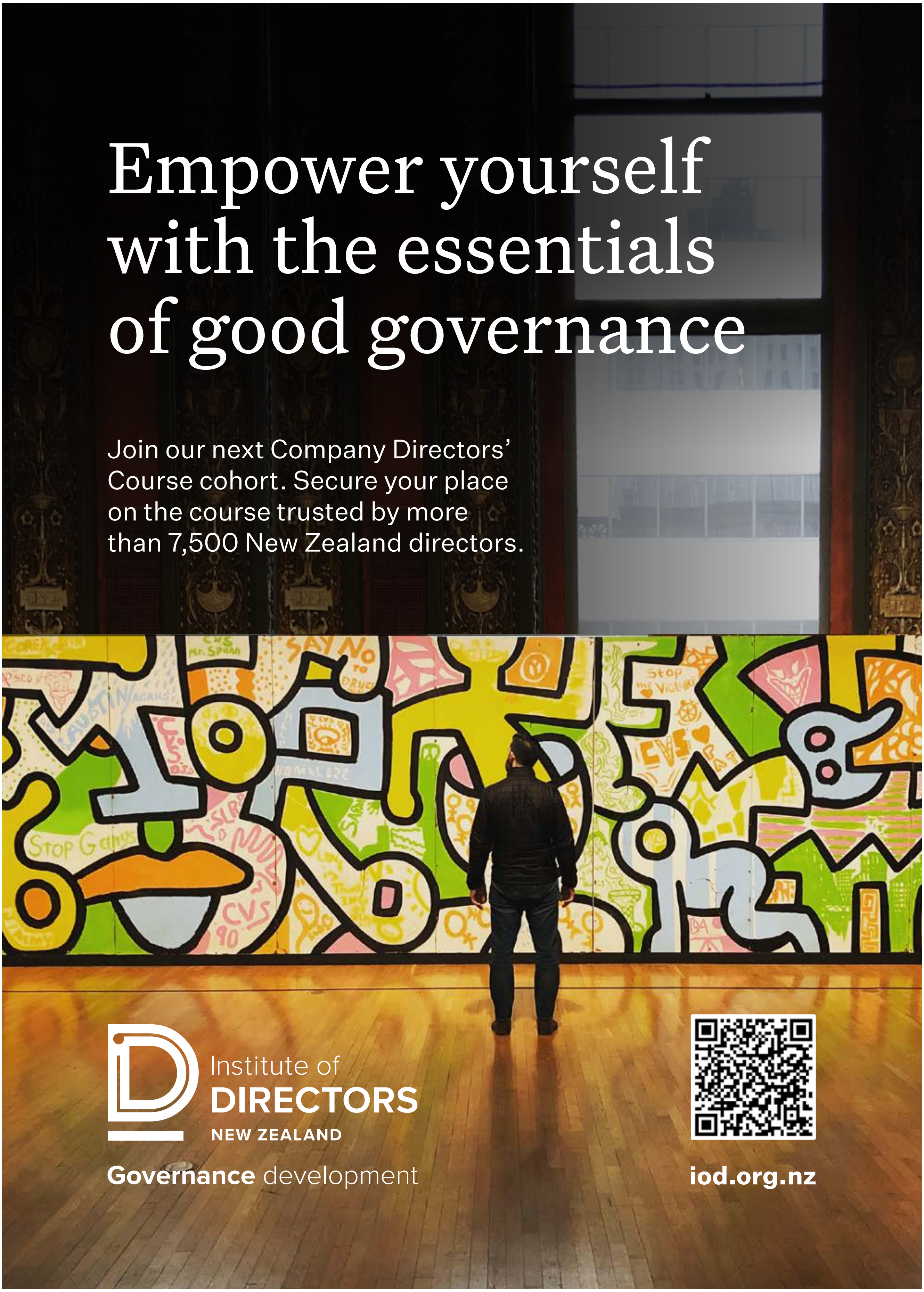
Not-for-profit boards interact with a range of advisors and agencies: auditors, philanthropic funders, government procurement teams, the Charities Commission, the Registrar of Incorporated Societies, and industry, peak and umbrella bodies.

All have a role to play in supporting boards to be more strategic and impactful, whether this is making compliance transactions easier or expecting good governance as part of funding or registration applications.

The strategic impact of not-for-profit, for-purpose community organisations needs to be unleashed. We need many more boards operating at Level 3, creating systems change, removing barriers and finding solutions so all communities thrive, and those social stats start trending in the way we all want them to.

Jo Cribb is an experienced governor with more recent roles including the Royal New Zealand Navy, New Zealand Winegrowers and Tātai Aho Core Education.

"Putting strategy first means board meetings start in a strategic space, not diving straight into the weeds, hopefully setting a strategic tone for the rest of the meeting."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What Kiwi businesses can learn from the Equifax data breach

AUTHOR:
PETER GRIFFIN, FREELANCE WRITER

Cyber security boss Jamil Farshchi, who shared insights on cyber governance at the IoD's Leading Directors' Forum in September, warns against complacency as the threat of ransomware and phishing attacks remains sky high.

As one of corporate America's most experienced cyber security executives, Jamil Farshchi was already used to mopping up after cyber incidents when he was asked in early 2018 to join global consumer credit ratings giant Equifax.

In 2015, he had helped Home Depot recover from a devastating cyberattack that saw credit card details belonging to 40 million customers stolen. The US home improvement retailer later paid a US$17.5 million settlement with 46 US states and the Federal Government over the incident.

"I had a bit of a blueprint of what to expect, but Equifax was a completely different ballgame," says Farshchi, Equifax's chief information security officer, who has filled senior cyber security roles at Visa, Time Warner, NASA and the Los Alamos National Laboratory.

In March, 2017, hackers had stolen terabytes of customer data from Equifax's IT systems, including names, addresses, dates of birth, social security numbers, and drivers' licence numbers for up to 143 million Americans.

Here was a company responsible for verifying the financial health of a large section of the US population having failed to properly secure their information. The Equifax data breach ultimately started with an insecure consumer complaints web portal, but spiralled in scope due to multiple security failures.

"The first six or eight months was effectively a world tour to meet with all our customers, not just to offer an apology but, more importantly, to tell them what we had learned," Farshchi remembers.

The hack cost the jobs of several senior Equifax executives, including CEO Richard Smith. His replacement, Mark Begor, joined Equifax about a month after Farshchi and gave him a clear mandate to reinvent the company's approach to cyber security.

"He has this saying, 'say do'. We aren't just going to talk, we are going to deliver

Photo by:
Stoica Ionela
on Unsplash

on what we say we will do," explains Farshchi.

Equifax has since invested US$1.6 billion in bolstering cyber security. It was one of the first multinationals to publish an annual cyber security report and publicly released its control framework outlining its security practices and procedures.

The aim, says Farshchi, was not just to try to rebuild the trust of customers, but to help other businesses avoid the pain Equifax had gone through. "I think consistently, we're viewed as a leader within the space and one that others should mimic if they are found to be in that same kind of situation."

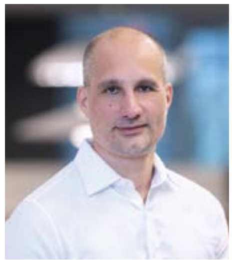
Equifax made the call to "lean in" on transparency and to double down on preventative security measures and inevitable future cyber incidents. Crisis communications, he says, turned out to be of critical importance, but are often ignored by boards and executive teams until they "are in the middle of a firefight".

Relationships with forensic analysis firms and external legal counsel were shored up and Equifax undertakes cyber security exercises with its board every year, as well as its teams around the world. "It helps to build up great muscle memory for how to respond," says Farshchi.

But he admits that, for all its best practices on cyber security, Equifax could again be brought to its knees if "[hackers in] China or Russia decided to turn their cannon on us exclusively".

"They would win that fight," he says. "I cannot find them by myself."

A major cyber security push by the White House is encouraging public-private partnerships and information sharing to build intelligence capability about the cyber threat landscape. Farshchi is a strategic engagement advisor to the Federal Bureau of Investigation and collaborates closely with the Cybersecurity and Infrastructure Security Agency (CISA).



"The first six or eight months was effectively a world tour to meet with all our customers, not just to offer an apology but, more importantly, to tell them what we had learned."

Jamil Farshchi

Earlier this year, he received a call from CISA director Jen Easterly about a looming cyber attack the agency's intelligence network had picked up. "Around 48 hours later, the attack started. Because I had that heads up from our government, I was able to make sure we had everything buttoned up," says Farshchi.

A regular visitor to customers in New Zealand and Australia, he says cyber security efforts in the region are "moving in the right direction", particularly in Australia, where high-profile data breaches at Optus and Medibank in 2022 spurred legislative changes and a ramp up in federal cyber security spending.

"They saw first-hand what it's like when you have a series of major cyberattacks and the effect it can have on the citizenry," says Farshchi.

For New Zealand companies, he urges executive teams not to fall into the trap of thinking their risk profile is lower if they aren't considered to be critical infrastructure players, such as banks, transport operators or power generators.

A wake-up call for the Americans, he says, was the ransomware attack on beef supplier JBS which shut down meat plants across the US and Australia for at least a day. JBS paid a US$11 million ransom to get its operations back online. A similar attack could be devastating for primary producers such as Fonterra and Silver Fern Farms.

Ransomware attacks, where hackers take control of IT systems and data, then demand money to unlock them again, remains the biggest security concern for Farshchi and his CISO colleagues, as well as the phishing attacks used to steal credentials that can enable a ransomware attack to be initiated.

"It's just really easy right now to execute those attacks at scale, have a ton of success and generate a king's bounty in terms of rewards for very little effort," he says.

The rise of generative AI, as popularised by ChatGPT, is playing into the hands of hackers, he adds. It allows them to create more convincing emails and messages to mask their phishing attempts and to automate aspects of the malware development process.

"GenAI reduces the barriers to entry. I might not have any coding skills, but I can have bad intentions," says Farshchi.

On the flipside, with the cyber security industry suffering a severe skills shortage, estimated at a deficit of three million positions worldwide, AI has a valuable role to play in automating network monitoring and taking the load off overworked cyber teams, he says.

> "It's just really easy right now to execute those attacks at scale, have a ton of success and generate a king's bounty in terms of rewards for very little effort."

New Zealand has a small but growing group of CISO professionals embedded in our larger organisations. Farshchi isn't hung up about the job title – some IT managers or CIOs (chief information officers) also have responsibility for cyber security.

Instead, he urges business leaders to place appropriate value on the insights cyber professionals bring to mitigating the risks the organisation faces.

"I think, oftentimes, people pigeonhole security folks. It's just cyber security. But to be good at security, you have to be good at technology as well," he says.

"Those people know much more than you probably think about how the business fundamentally operates, the technology stacks and the digital footprint that most companies need to be investing in."

AUTHOR:
JANE SWEENEY, EXECUTIVE CHAIR, ANTHEM

Photo by:
Jeremy Bishop
on Unsplash

Navigating the storm

How boardroom leadership can build resilience in a climate crisis.

Unprecedented climate-driven crises in New Zealand and globally in 2023 resulted in headlines and footage of our planet burning, or disappearing beneath flood waters. These have thrown a spotlight on the governance roles and responsibilities of business leaders.

Boardrooms, once confined to traditional audit and risk governance considerations, now grapple with unforeseen challenges like geopolitical disruptions, Covid-19, digital transformation and climate change.

In an era marked by escalating climate crises, board chairs are projected to become frontline climate ambassadors, bridging the gap between their organisations and stakeholders who are increasingly expected to demand meaningful planning and actions to address these challenges.

The role of effective crisis communication strategies, with oversight and guidance exerted by directors, will remain pivotal in safeguarding the resilience of organisations.

New Zealand company directors bear a legal and moral duty to exercise reasonable care, identifying and addressing foreseeable and material climate-related risks. These risks, intertwined with broader environmental concerns, require boards to consider their implications for business strategies and decision-making.

Climate risks become material when they directly affect operations, supply chains, asset values, security and business continuity.

The traditional role of directors in governing, providing strategic direction and monitoring performance is often likened to maintaining a ‘helicopter view’, where the board oversees the organisation from a higher-level perspective.

During a crisis, these dynamics can shift. The board chair and directors may need to temporarily ‘land the helicopter’ and engage more closely with the CEO and management team. By doing so, they can strengthen the crisis communications effort.

Robust risk analysis is the first step in preparing a strategy for responding to climate crises.

The board’s leadership role involves scanning and assessing the entity’s external environment, understanding its risks presented by climate change, including physical, regulatory, reputational and operational impacts.

During a recent workshop with communications professionals, sustainability practitioners and directors, it became evident that while many of us know that crises like droughts, floods and fires will impact our organisations, the challenges of addressing them is significant.

Anthem

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Recent evidence has also demonstrated the catastrophic consequences of putting those challenges in the too-hard basket. Failure by boards to exercise their leadership and ensure risks are well understood, and can have long-lasting material and reputational consequences.

Consider what happened when a governance entity – Auckland Council's elected members – had to respond to an unprecedented flood event without the benefit of a disciplined climate crisis communications plan.

A review of Auckland Council's response to the January 27, 2023, floods included findings that the council's emergency management system – including plans, policies and procedures – was not prepared for an event of that magnitude and speed.

The review was also critical of communications between key players at the council and emergency management staff, and called out senior leaders for underestimating the importance of their visible leadership roles. The consequences of these governance and communications failures became starkly evident for Aucklanders on Anniversary Weekend and the following months.

Your board is not going to sit down and write a climate crisis communications plan. It does, however, have a duty to thoroughly understand your organisation's climate risks.

It is important to dedicate time to workshop with management the likely impacts of these risks on your stakeholders and map them by priority, understanding who you need to communicate with, how, who is responsible and when.

Task management with creating a crisis communications plan that:

- Defines communications objectives and key messages
- Identifies your crisis response team and their roles
- Spells out the process for transitioning from crisis response to business as usual

> "As directors you must also ensure a clear delineation of board and management roles and responsibilities for each phase of a climate crisis communications scenario."

As directors you must also ensure a clear delineation of board and management roles and responsibilities for each phase of a climate crisis communications scenario. Stress test the action plan through the rehearsal of a crisis scenario – not once, but with sufficient regularity to ensure that when the time comes, your organisation can be committed, competent, clear and confident.

In the face of a crisis, the board strategically engages in decision-making and crisis response to support management and mitigate the risk of senior leaders becoming overwhelmed by the demanding, round-the-clock nature of crisis management. The chair may also take the lead in orchestrating crisis efforts, acting as a vital link between management and the board to ensure decisive action.

Clear communication is the glue holding each piece of your plan in place. Communicating in the fast-paced, high pressure intensity of a full-blown crisis requires real discipline.

But what your stakeholders look for and need is remarkably simple:

1. They want to hear and see that an organisation is concerned
2. They want to know that it is committed to dealing with the issue at hand
3. They need to be confident the organisation has the competency to do so
4. They need that organisation to provide information with clarity, and that it demonstrates confidence in its words and actions.

The crises of 2023 have made it abundantly clear that climate-driven crises can no longer be relegated to a distant future but are a pressing reality.

By understanding climate-related risks and stewarding the development of a comprehensive crisis communications plan, boards can ensure readiness for an effective response to a climate crisis when – not if – it happens.

Investing in his future

Who will the decision-makers be in 20 years' time, asks the IoD's youngest Chartered Member, Te Aorangi Murphy-Fell CMInstD.

AUTHOR:
SONIA YEE

Is it possible to come to governance by accident? That's how Te Aorangi Murphy-Fell CMInstD (Ngāti Kahungunu, Ngāi Tahu, Ngāti Apa) describes his pathway to board roles. Now he is on three – BayTrust, Squash Bay of Plenty and the Hepatitis Foundation of New Zealand, where he is a member of the investment committee providing independent financial oversight.

"Two out of the three board roles are very much investment portfolio-focused," says the youngest IoD member to go through the chartered pathway. While not a legislative requirement to sit on a board, the chartered status demonstrates a commitment and dedication to the role of governance and its principles.

At 24 years of age, Murphy-Fell is something of an anomaly – the chartered pathway is often undertaken by experienced directors at the mid-to-top end of their executive careers. But with an interest in investing and markets from a young age, Murphy-Fell is not your run-of-the-mill early twentysomething. By the time he was 15, he already had his first investment portfolio.

"I had about $2,000 back when I was 15 from different jobs and I had nowhere to put that money, so my parents said to me, 'Why don't you think about putting it into shares?'"

They met with an investment advisor and Murphy-Fell continued contributing to the portfolio. "Eventually, I purchased my home with it. That's what really built my fascination with investments, and markets and portfolios," he says.

Pursuing his interest in investing, Murphy-Fell majored in finance and minored in te reo Māori and strategic management as part of his management honour's degree from the University of Waikato (2019). This year he completed his master's degree in te reo Māori.

While completing his undergraduate degree, he had the opportunity to spend time with ASB's global markets team. But his full-time focus now is working in his whānau's consulting business, Haemata Limited.

"That's still my day-to-day work, managing projects that deliver better outcomes for Māori. Much of our work is focused on the public sector," he says.

While governance is part-time for now, Murphy-Fell refers to it as a huge passion and a long-term focus, which enables him to utilise his financial background while also ensuring that boards and organisations are cognisant of their impact – or potential impact – on Māori communities. "That's partly why I find board roles fascinating, particularly the ones I'm on at the moment."

> "I think about where governance is heading in New Zealand and who the decision-makers are going to be in 20 to 30 years' time. We're becoming more diverse, people are getting older, but ultimately it's still going to be Māori [who are] making decisions in the future."

It also allows him to have a voice on what he sees as important kaupapa. Being young and Māori gives him a voice at the table, which he says is important for what Aotearoa will look like in the future.

"I think about where governance is heading in New Zealand and who the decision-makers are going to be in 20 to 30 years' time. We're becoming more diverse, people are getting older, but ultimately it's still going to be Māori [who are] making decisions in the future."

Already with some experience under his belt, Murphy-Fell is seeing change in the air, especially regarding the digital side of investing, which he says has gone hand-in-hand with the world of finance for some time now.

"With AI and digital, it's absolutely on my radar. I'm actually reading a book called The World in 2050 where the author talks a lot about the kind of future demographics and powers in the world, the socio and geopolitical things we're starting to see at the moment, and the role that technology plays as a leveller but also as an empowerer."

Murphy-Fell says a large portion of what happens in the portfolios, markets and modelling space is now technology-based compared to 30 or 50 years ago when practices were still very much done manually. This has come in handy when trying to analyse what future markets may look like.

"In the markets space, we're seeing examples now of AI models that are able to predict which companies are going to fall over in the next 10 to 15 years. That's partly exciting and partly scary."

He is hopeful humans will still be needed, especially where decision-making is concerned. "Technology is providing us with more and more information that ensures any decisions we make at the board level regarding finance and investment are evidence-based."

All for technology and embracing the benefits that come with it, Murphy-Fell says one thing he has learnt from his board roles is that the level of investment management is more removed from the day-to-day operations and budgets.

"Ultimately, your job is to ensure the portfolio remains aligned with the overall objectives and purpose of the organisation. From that perspective, the role that technology has at the governance level is probably not quite as profound at the moment, but will definitely be [moreso] in the future."

He believes there is still a significant need for people to make investment decisions. "Particularly generative AI, where those artificial intelligence machines are able to start thinking on their own, I don't necessarily think it will replace the role of humans on boards in the short term. There's still a need for humans because there are certain things humans can do at the moment that AI hasn't even really started to consider, particularly when you [look at] external stakeholders and managing relationships."

But where board practices are concerned, he is hoping much of it will be streamlined over the next five to 10 years, if it isn't already happening on some boards. "On one of the boards I was still getting hardcopy paper . . . in 20 years' time, I don't even think that'll be a thing," he says, emphatically.

"Technology is providing us with more and more information that ensures any decisions we make at the board level regarding finance and investment are evidence-based."

As for what it means to be an up-and-coming director, Murphy-Fell says one of the biggest challenges for younger people interested in board roles is a lack of access to information, including on the steps to get there, and the barriers that exist to gain that initial experience.

He recognises that if boards want diversity it means creating opportunities and ensuring these are accessible through the recruitment process, and that it is unrealistic for boards to expect younger people to come with governance experience when in their early twenties they may have only been in the workforce for "the best part of a few years".

On the other side of that discussion is how to behave when you get a seat at the table. Cognisant of the tone and level of experience in the boardroom, Murphy-Fell warns younger people keen to step into governance roles to be considerate of everyone's views.

A big mistake would be to "act as if you already know everything" and this is where Murphy-Fell says it is important to carefully balance the level of respect for others. "Technically, I'm dealing with people my parents' age. I'm trying to manage that while not coming across as being 'whakahīhī', which is being too proud of yourself," he says.

In terms of his career, Murphy-Fell doesn't need to rely on AI to determine what his future will look like. With his eyes cast firmly on the prize, he knows exactly where he wants to be – sitting on large company boards, with Air New Zealand at the top of his list.

"I think Air New Zealand's a great Kiwi company and it represents a lot of what's good about New Zealand, what we are about and what we're really good at as a nation."

Mixing politics and governance

Strong governance is really important to give the community confidence, says Rotorua Mayor Tania Tapsell MInstD.

AUTHOR:
PATRICIA THOMPSON, FREELANCE WRITER

When Tania Tapsell MInstD was elected to the Rotorua Lakes Council in 2013 – becoming the second youngest councillor in New Zealand history – she set herself a personal goal of only serving three terms.

In 2022, she was elected Mayor of Rotorua, the first Māori woman to take on that mantle. "I had served those three terms so I was either going up or out," says Tapsell. "Fortunately, the community supported me to go up.

"When I first became a councillor I was 21 and there were people who had been councillors longer than I had been alive. You see that a lot on councils and boards, and while experience is important, there needs to be a debate about fixed terms and succession plans."

The council Tapsell is leading is, however, full of fresh faces. Out of 10 members, seven are serving their first term. She says she has loved working with members, through a year that has been challenging professionally and

eventful personally. In early June, she and partner Kanin Clancy welcomed daughter Kahumoa, making Tapsell only the second mayor in New Zealand history to give birth while in office.

The challenges included addressing the council's $5.6 million deficit and the highly publicised situation of many people living in emergency housing and motels in the city.

"We manage $1.7 billion in public assets," she says, giving an idea of the scale of the council. "There was also a lot of work to do to restore Rotorua and work to do with the council. We came out with a tough annual plan to stop unnecessary spending while investing in critical infrastructure as a priority.

"We are now in surplus and by going hard on issues that were not working well we have been able to reduce the amount of households in emergency housing motels by half. We are driving a strong focus on making practical and measurable differences in people's lives. It's all very well to have policies and strategies but you also need an effective action plan on how you can implement them."

Tapsell says an important part of achieving those goals, and current and future ones, was creating an effective culture among councillors. "A very strong focus for me, from the start, has been that even if councillors have different views I will respect those. But if they start tackling each other and not the issues, I put a firm stop to that. We have changed the culture around the table – there is a focus on the right things. We have also led a lot of change internally to important decision-making processes and have improved transparency by opening more meetings and workshops to the public."

Tapsell also served six years on the New Zealand Community Board Executive, which represents 110 community boards, becoming deputy chair, and her Rotorua Lakes roles include chairing the council's Operations and Monitoring Committee.

"There are a lot of similarities between boards and councils, but for councillors there is very high public scrutiny. Everything we do and say is up for challenge. However, that is a great way to hold us accountable."

She cites strong effective governance as being critical to creating a strong effective culture and achieving the best outcomes for the community. "Particularly at a time when local government and politics is being questioned by the community, good governance is really important to give the community confidence and to remind people that, at a time of centralising, there is still great value and impact in local decision-making.

"There are a lot of similarities between boards and councils, but for councillors there is very high public scrutiny. Everything we do and say is up for challenge. However, that is a great way to hold us accountable. Rather than looking at it as a challenge, my mind set is it is an opportunity, to share how important council and local decision-making is.

"One of the key things I believe will result in good governance practice is knowing how and what you need to do, and not being afraid of change. When you are managing a budget and a cost of living crisis while maintaining access to services, the only way to be successful is to stay focused on what is important to you and to the people you serve. That and sticking to your values – that will always help in times of uncertainty."

Born and raised in Rotorua, Tapsell joined the city's youth council at the age of 14 and in 2010 was selected by Rotorua MP Todd McClay to represent the electorate at the New Zealand Youth Parliament.

"They give the next generation a taste of leadership and the highs and lows, and the realities of what it would be like being in parliament or council. Even at that early stage, those experiences taught me important lessons about decision-making processes and about needing to prioritise your time and your community.

"When you are discussing national issues it is easy to get caught up in that, but you don't want to forget about the people who put you there in the first place. It was an important learning, that a strong local voice is needed to do a good job at a national level."

Tapsell gained diplomas in business and marketing, and a Bachelor of Management Studies from the University of Waikato. She has worked in tourism and for BNZ Business Partners and Deloitte as a consultant growing businesses.

When she first decided to run for council, she says she felt it was very much "a long shot" but she was driven by the interest sparked by her youth council experiences and her desire to see more diversity in council.

"The Rotorua community does have a history of supporting a diverse council, but I remember as a teenager looking around at the decision-makers and thinking I did not see much representation of Māori or of women, and that we needed to make this more of a place for everyone."

The youth council planted the seed of what would ultimately become a career on council and a successful first year as mayor. "I was passionate about wanting to make a difference, but I remember speaking to my family and not feeling confident about whether the community would support me.

"I didn't see my diversity – young, female and Māori – as an advantage to being elected. But my family convinced me those were all the reasons why I needed to be at the table. I overcame doubt – from myself or from others – about whether I was competent by working so hard no-one could question that I was deserving of such an important role."

Not only was she the first wahine Māori mayor of Rotorua, she was only the second Māori mayor in the city's history, following in the footsteps of Harry Dansey (1941-42). "It had been a while," she laughs. "What was particularly moving was my iwi of Te Arawa welcomed me onto my marae with a special pōwhiri to acknowledge the significance.

"I didn't see my diversity – young, female and Māori – as an advantage to being elected. But my family convinced me those were all the reasons why I needed to be at the table."

"My hapū, Ngāti Whakaue, gifted much of the land that was used to create the original Rotorua township, including the land our beautiful museum, hospital, and some of education facilities are on. For my hapū to have gifted the land and for me to now be leading the city as mayor is very special."

While still serving as a councillor and throughout her mayoral campaign and early days as mayor, Tapsell was also participating in the IoD's Mentoring for Diversity programme.

Her mentor was highly experienced director Tania Te Rangingangana Simpson CFInstD, a passionate advocate for Māori leaders whose many governance roles include being the first Māori director of the Reserve Bank of New Zealand.

"The programme came at the perfect time for me," she says. "I started when I was a councillor and having the mentorship of someone as inspiring and grounded as Tania was extremely beneficial to ensuring I hit the ground running.

"One of the key lessons I learned from her was to be unapologetic of who you are and what you are doing. While I was settling into my new role as mayor, I really valued being able to have that mentor relationship. Even though I had achieved the pinnacle of my local government goals, the learning never stops.

"Tania was also very strong on not just focusing on the business side of things but also on the realities of managing personal life and governance roles." That is particularly relevant, given Tapsell is now balancing motherhood with a 24/7 mayoral role.

"I'm absolutely loving having, for me, the two most important jobs – being a mum at the same time as being a mayor. I often think about the suffragettes, women who fought for the right to even vote. I would love nothing more than to have had a conversation with them, to let them know it was all worth it."

New chair of Water Safety New Zealand Peter Kara MInstD says his biggest challenge is reducing the number of preventable drownings.

On a mission to save lives

AUTHOR:
NOEL PRENTICE

As a chemical weapons inspector in Iraq during the Gulf War and then working for the United Nations affiliate, the Organisation for the Prohibition of Chemical Weapons (OPCW) as a full-time inspector, Peter Kara MInstD (Ngāti Kahungunu and Ngāti Rongomaiwahine) has seen things he would rather not talk about. Destruction and human suffering were part of those experiences.

Now he is dealing with death and suffering on another scale – preventable drownings in New Zealand. As the new chair of Water Safety New Zealand, Kara is determined with others to reduce the number of people needlessly losing their lives.

“I relish the task and have some big agendas, but the biggest thing in my mind is how we reduce the number of preventable drownings,” he says. “We can’t continue doing what we’re doing.

And that's a massive challenge. It's something that keeps you awake at night because you're thinking 'how do we reach those target groups'?"

Kara says while the water safety sector and partners are really good at saving people when they are called upon, they still haven't found that magic solution to stop people doing the things that lead to danger – and death.

"Some of it is human nature. The water is a great place to go and play, and do lots of things, but it can have a price. We are trying to get people to understand a different day can bring different conditions."

The education is ongoing and he is hoping technology, data analytics and AI will all have a major influence in reducing fatalities.

"There's some real challenges and while I look forward to them, I find the weight on the shoulders to get it right. That's not a problem because we should all be invested in something like this. We are talking about our community. It could be any member of our family, our whānau affected; it could be a grandchild, a grandparent, a father, a mother, a son, a daughter. It's really important to get it right."

Kara says, like most things, the simple approach is always the best. That means listening to everyone around the board table because someone might have that idea or that strategy – or that magical solution – that needs to be explored further. The other thing, he says, is to ensure the board is providing all the tools to the operational teams that are doing the work.

"We have a fantastic operational teams in Water Safety NZ and our partner agencies, such as Drowning Prevention Auckland, Coastguard New Zealand and Surf Life Saving New Zealand, and all our board members are involved in the water sector and outdoor recreation. They are very much attuned, from learning to swim right through to being Waka Ama, to surf lifesaving, to Coastguard New Zealand to our iwi partners. Everyone has a huge role to play in preventable drownings."

> "I think the skills matrix may include things that weren't in there before because they haven't been an issue. It's really important to have diversity. Can we do better? We can always do better if I'm honest."

Kara says they have just completed a board matrix and it is being reviewed. "I think the skills matrix may include things that weren't in there before because they haven't been an issue. It's really important to have diversity. Can we do better? We can always do better if I'm honest.

"One of the most important things is to always keep the door open. That's something our previous board chair did and I'm keen to continue as well."

Kara says they should also be open to ideas from other organisations because the mahi is the same, no matter what organisation you are from. "The message is really clear and it's about drowning prevention. Of course, you can't do that work if you've got a board that's not functional. It's also really important to recognise when you need to put your hand up and get external advice."

He mentions the IoD and being able to tap into its "huge wealth of knowledge". "And I'm glad I'm on a governance board in New Zealand and not anywhere else because I know the moment I put my hand up and ask for help, someone's going to give us advice."

That contrasts sharply with his nearly 20 years' experience travelling the world for the OPCW and New Zealand Defence. "The first thing someone asks is 'what's in it for us'?"

Kara is now principal advisor emergency management for Te Whatu Ora Nelson Marlborough. He is also a member of Coastguard New Zealand board's Te Puhara Mana Iwi, a Māori Pacifica and Asian focus advisory group made up of board members, volunteers and staff. It was his love of the ocean that led him to join the local Coastguard unit in Whakātu Nelson.

He says the defining moment in his career came when he joined the territorials. “I quite liked that lifestyle and the recruiter sold me on joining the Army, where I fell into becoming a medic. It was a great learning place and something you carry with you when you leave the military.

“I didn’t want to be a soldier, just carrying around a pack, and then lo and behold I got to carry an even bigger pack for my medical supplies. I’ve met quite a few of my military colleagues around the traps doing some really exciting stuff, and it comes down to the background and the training they’ve had through the military. It has prepared a lot of business leaders to do some great things in corporate world.”

Kara was part of the UN inspection team sent to find weapons of mass destruction during the Gulf War in 1991. Like many New Zealand Defence personnel, there are “things we talk about and things we don’t”.

He does mention a brush with Saddam Hussein’s notorious Republican Guard, who were “very keen for us not to leave a particular area with the information we had”. Although military, Kara was a civilian on a mission. “Those experiences set you up and you learn a lot of things about yourself and people in general.”

With that experience, in 1996 Kara applied for a job with the newly formed OPCW, created to administer the Chemical Weapons Convention. Here, he added another string to his bow – diplomatic negotiations – as he visited more than 60 countries to enforce treaty compliance.

“One of the reasons I joined the OPCW after Iraq was to rid the world of CW, knowing what impact it has. Years later I was able to visit surviving CW casualties in Iran, who were scarred mentally and physically. Many were just children when they were attacked. This left a lasting impression on me.”

“One of the reasons I joined the OPCW after Iraq was to rid the world of CW, knowing what impact it has. Years later I was able to visit surviving CW casualties in Iran, who were scarred mentally and physically. Many were just children when they were attacked. This left a lasting impression on me.”

He is proud to have played a part in reducing the risk of chemical weapons being used in warfare. In 2013, he received a Nobel Peace Prize certificate for his part in the OPCW’s “extensive efforts to eliminate chemical weapons”.

Leaving the military, Kara found the quiet life in Nelson to his liking. He also found catharsis in renovating his house but couldn’t stop the late-night binges on CNN and the BBC trying to keep abreast of events in the political hotspots.

“I then landed up in emergency management health because I was able to give back. And it turns out I’m good at what I do, helped with having all those experiences. I love working in health and I love that every day is different. I love some of the challenges, although Covid-19 was something I wouldn’t wish on anybody. But all our planning around that had been going on for years and we were ready for it.

“I like giving back to the community – everything I’ve learned in the army, the military, the knowledge, the skills and education. And it’s only right to give back into boards. There is no financial incentive, I do it because I’m passionate. There are a lot of incredible people doing incredible things out there. I’m just privileged and I guess in some ways humbled.”

Kara says he has only learned recently how to talk about the things he’s done, “part of my personal stuff”. He has also been acknowledged by his community, being named Kiwibank local hero award winner in 2022 for his services with Coastguard Nelson. He also received a New Zealand Search and Rescue award for operational activity in 2021.

“I’m not entirely sure where I’m heading in this journey. The moment I stop adding value is the moment it’s time to leave because you’re just holding the process up for everyone else. You’ve got to add value to whatever you do. Right?

Acting on scams and fraud

AUTHOR:
VITTORIA SHORTT, CHIEF EXECUTIVE OF ASB

Hard-earned trust can be fast lost and reputational damage can be ongoing – start by removing web links.

We humans are an optimistic bunch. As individuals, we tend to think bad things happen to other people, not ourselves. It is classic 'optimism bias'. It creates a false sense of security and can stop us from taking practical steps to protect ourselves or our businesses.

This can leave us susceptible to cybercrime, with many believing they would never fall victim to a scam. But with increasingly sophisticated scams and generative AI, the reality is that anyone, at any age, can be tricked by scammers. For the victims, the financial loss and emotional toll can be devastating.

Businesses and organisations are not immune either. Invoice fraud is on the rise and a simple employee scam can lead to a significant cyber event. The hard-earned trust of customers can be fast lost and the reputational damage can be ongoing.

We all have a role to play in protecting New Zealanders and our businesses.

As a banking industry, we recently announced a raft of joint initiatives to help combat this growing issue, including working towards the establishment of a centralised, multi-agency anti-scam centre and implementing a name check service that would enable customers to confirm the name of the payee when making payments.

We have also removed all web links from text messages sent by ASB. However, this practice is still widely used by a range of businesses – to confirm an appointment, to provide health information, to link to a media outlet or for event tickets.

This leaves the door open to scammers, who are impersonating well-known brands and their commonly used communication methods. Your organisation could become the next toll payment or package delivery scam.

Photo by:
Giorgio Trovato
on Unsplash

ASB
ONE STEP AHEAD

To really limit the effectiveness of this type of scam, all businesses need to eliminate web links in text messages – not just some. Unfortunately, as we continue to innovate and invest in fraud prevention so too do the scammers, developing complex workarounds and crimes that are increasingly difficult to detect.

As the web-link-in-text-message example shows, this is not just an issue for banks to solve. All business leaders need to be thinking, anticipating and finding solutions for this threat that is conservatively estimated to be costing New Zealanders at least $200 million each year.

As a bank, keeping our customers and their personal information and money safe is our utmost priority. We are investing tens of millions of dollars each year in verification, digital technology, in-branch screening and investigations.

We are blocking more and more fraud from occurring. We have seen a reduction in our customers impacted by unauthorised fraudulent activity, largely driven by improvements to target unusual logins. A two-way push notification system that we introduced in March 2022 has helped more than 37,000 customers digitally respond to card fraud alerts.

Cybercriminals target people when they are distracted, vulnerable or stressed, and socially engineer their victims to believe their promise of an investment return, a new romance, award or payment. And when payments are authorised by the customer who then may become embarrassed and ashamed when they realise they have been scammed, it is very difficult for us to retrieve the stolen funds.

SO, HOW CAN YOU REDUCE THE CHANCE YOU WILL BE SCAMMED?

At a personal level, we must all be alert to the risk of scams and fraud. Never click on links in text messages and be wary of cold calls or messages asking for personal details. If someone is trying to pressure you into doing something, it may be a sign they are trying to scam you. You should always check who you are dealing with before sending any money.

In addition to using unique, long passwords, there are a range of tools available. For example, you can set lower daily payment limits and two-step verification to ensure further protection. If you are ever concerned there has been a breach in your accounts, contact your bank immediately and report the matter to police.

For business owners, education sessions are a great starting place. We hold regular education sessions sharing insights and analysis on how to protect against cybercrime.

Consider the following three questions:

1. What practical steps can the organisation take to defend against scammers and avoid impersonation? We frequently run scam tests across the whole business, including the board and executive that help us understand where further education is required.
2. How would the organisation respond if caught up in a scam or major cyber incident? A playbook that is kept up to date with learning from real events is a key tool which can be tested with practice runs.
3. Who can we collaborate with in the fight against scams and fraud? This is good topic to add to your next industry meeting agenda.

There are also useful cybersecurity resources on the IoD website, which all directors and business leaders should be familiar with. CERT NZ's Own Your Online website is another helpful resource with business and personal cybersecurity advice.

By taking steps such as removing web links in text messages and adopting a collaborative mind set, along with education and vigilance, together, we can make a big impact.

"Cybercriminals target people when they are distracted, vulnerable or stressed, and socially engineer their victims to believe their promise of an investment return, a new romance, award or payment."

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Jackson Simmer
on Unsplash

Could your AI software generate problems?

AUTHORS:
JENNI RUTTER, PARTNER, AND **NADIA ORMISTON**, SENIOR ASSOCIATE

The threshold for what constitutes sufficient human involvement to qualify for copyright protection is unclear.

Some of our largest and most challenging existential questions right now involve artificial intelligence. But there are also some more straightforward ones. These have less to do with machines superseding humans and more to do with getting stuff done – such as "could ChatGPT help us with our newsletter" and "could we be using AI to get our marketing costs down?"

Let's look at some of the intellectual property challenges and uncertainties that might come bundled with your new generative AI software.

First things first. Generative AI is a type of AI system that can be used to generate new content, including text, images, audio, etc. The systems are trained on a selection of data and can then use that data to generate new content which is different from the training data.

This offers a world of possibilities to businesses, but as ever in new

DENTONS

territory, there are some unknowns and uncertainties.

In New Zealand, copyright protection for computer-generated works hinges on human creative input. However, the extent of this input remains ambiguous. Content created entirely autonomously is unlikely to be protected, but the threshold for what constitutes sufficient human involvement to qualify for copyright protection is unclear. Is it as simple as plugging in a request for a basic landscape with a house, a few clouds and a road? It's unlikely.

Even if there has been sufficient human input, if the output is not original, or only marginally original, then there will be limited or no copyright available in the work.

The US Copyright Office has so far taken a conservative approach to computer-generated work. In a recent decision, an author could not claim copyright in computer-generated art for a comic book, despite the hundreds of descriptive prompts provided to the generator to get a rendition of the work. Instead, the Copyright Office said the generator "generates images in an unpredictable way".

In Japan, the government has recently decided to expand fair use to include copyrighted works for training certain AI, such as ChatGPT, even for commercial purposes. Whether other countries will adopt a similar approach remains to be seen.

We have yet to see how this will play out in New Zealand, particularly given our Copyright Act recognises computer-generated works. In the meantime, keeping an accurate record of inputs, including prompts, re-prompts, and personal contributions will ensure you have a clear record of the 'human input' provided, should a copyright question arise.

Businesses should conduct due diligence on their chosen AI service provider before using any generation service. Like most software apps, free or cheaply available platforms are unlikely to offer much – if any – protection against privacy or intellectual property concerns.

"Like most software apps, free or cheaply available platforms are unlikely to offer much – if any – protection against privacy or intellectual property concerns."

It is important to understand the terms and conditions of the service provider. Key things to look out for are:

Training Data Legally: Has care been taken to ensure the AI has been trained using content that is in the public domain (i.e. not copyright material) or otherwise obtained legally? If not, using content generated by the platform could infringe copyright, especially if the algorithm is not well trained on a diverse library of content.

Data Usage: Will user inputs or outputs be stored or used to train the algorithm, or to generate content for other users of the platform? If yes, appropriate safeguards should be implemented to prevent users from inputting confidential information which may then be published or disseminated far more widely than intended.

Content Usage Restrictions: Does the platform have restrictions on how the generated content can be used? If so, it is important to understand the limits to this scope and make sure your use is within these bounds. For example, some platforms require users to identify the content as being artificially generated. Also be on the lookout for any warranties you may be providing about the ownership of generated works you license others to use or publish.

Clear and regularly updated company policies regarding the use of generative AI and thorough reviews of the terms and conditions will be needed.

In one sense, the answer to both the largest existential questions about AI and the more mundane ones are the same: immense potential, but proceed with care.

And, as ever in legal matters, never let your excitement about a shortcut cloud your good judgement.

What everyone misses when it comes to cyberattacks

AUTHOR:
ALASTAIR MILLER, PRINCIPAL CONSULTANT AT AURA INFORMATION SECURITY

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Matthew Henry
on Unsplash

Stopping the bad guys is not a realistic option – focus on your security posture as the best way to mitigate the risk.

What springs to mind when you think of a cyberattack? Two sides, good and evil, locked in battle? The entertainment industry often conjures up war imagery around hackers and cybercrime. And while businesses may feel battle worn, the fighting analogy is somewhat misleading.

Cyber security is not a battle – it cannot be 'won', and it is not as black and white as 'us vs them'. Digital threats are constantly growing and evolving. Hackers, like weeds, adapt to their environment – weaving around defences, looking for new opportunities or forgotten backdoors to access unnoticed and wreak havoc.

Stopping the attackers from trying to breach your business is not a realistic option. Instead, the focus should be on your own cyber security posture as the best way to mitigate the risk. With cyberattacks, it is nigh on impossible to predict what the 'next thing' will be. Sometimes the latest attack is simply an age-old tactic, tweaked for the current circumstances.

In 2020, while everyone was worried about emerging sophisticated ransomware attacks, lo and behold it was a spate of DDoS attacks – popular in the 1990s – that made headlines, with NZX and other significant Kiwi businesses targeted.

Today's hackers are largely driven by money. Any business is fair game if it carries information that can be sold for profit on the dark web, or would pay an extortion fee in exchange for restoration of malware-afflicted systems. Cybercriminals will use any method available to breach your business.

Rather than focusing on the latest emerging threat, businesses need to take a risk-based approach to managing cyber security.
The best way to implement an effective strategy is to start by assessing your current environment. If you do not know what data or key systems you have, then you will struggle to protect them.

Identify all the physical, virtual, data and third-party assets – classify their sensitivity and criticality to the business and then assess their risks. Once this is done, prioritise the key assets and look at ways to mitigate the greatest risks to an acceptable level. No company has an endless security budget – this is the key to investing the right amount to suit your risk profile.

For example, third-party attacks coming

through software and managed service providers are on the rise, as technology becomes more advanced. If digital acceleration has seen your vendor reliance increase exponentially, you might want to reduce risk by prioritising security vetting and proper management of your partners, particularly if they are entrusted with your key data or assets.

Protective layers need to factor in a range of possible attacks or breaches. We call this a 'Defence in Depth' approach. Consider the major attack paths, such as email phishing or unpatched software, and put a control in place to deal with each one.

A combination of controls functioning as deterrents, prevention, containment and detection gives you the best chance to cope with a single control failing or being circumvented. From there, defence must be continually maintained and reviewed to achieve a constant secure status. Real resilience comes from the ongoing canvassing of your risks and constant improvement.

Even if your defences are top-notch, the chances are your business will be impacted at some point – controls can and do fail. This is where the ability to respond and recover comes into focus.

A robust backup and recovery plan is essential. In the unfortunate event your digital assets are compromised, deleted or corrupted, a properly tested and implemented backup of your key systems and data is the best way to get your business up and running, fast.

Once you have done a full backup, look at differential and incremental backups, which will cover you for any new data that is created or changed since the last backup.

The frequency and approach of your backups will be determined by a range of factors, including level of risk, business type, budget and compliance requirements. Store those backups in a separate environment so they cannot be accessed by attackers.

An incident response plan is also essential, which covers roles and responsibilities during a crisis. This is also a good chance to lay out and agree on clear steps the business would take. For example, which stakeholders do you need to communicate with? When do you bring in technical experts? Would you ever pay a ransom?

To ensure your plan is fit for purpose, it is a good idea to test or rehearse it regularly.

A director's role is not to micromanage every action the security team makes. However, a director can help their organisation better address its risks by encouraging a risk-aware mindset approach to bolstering cyber security.

The mandate is to be cognisant on a high level of the current environment, while encouraging your organisation to develop a risk-based framework.

Questions you need to be asking to gain confidence that a risk-based approach has been adopted include:

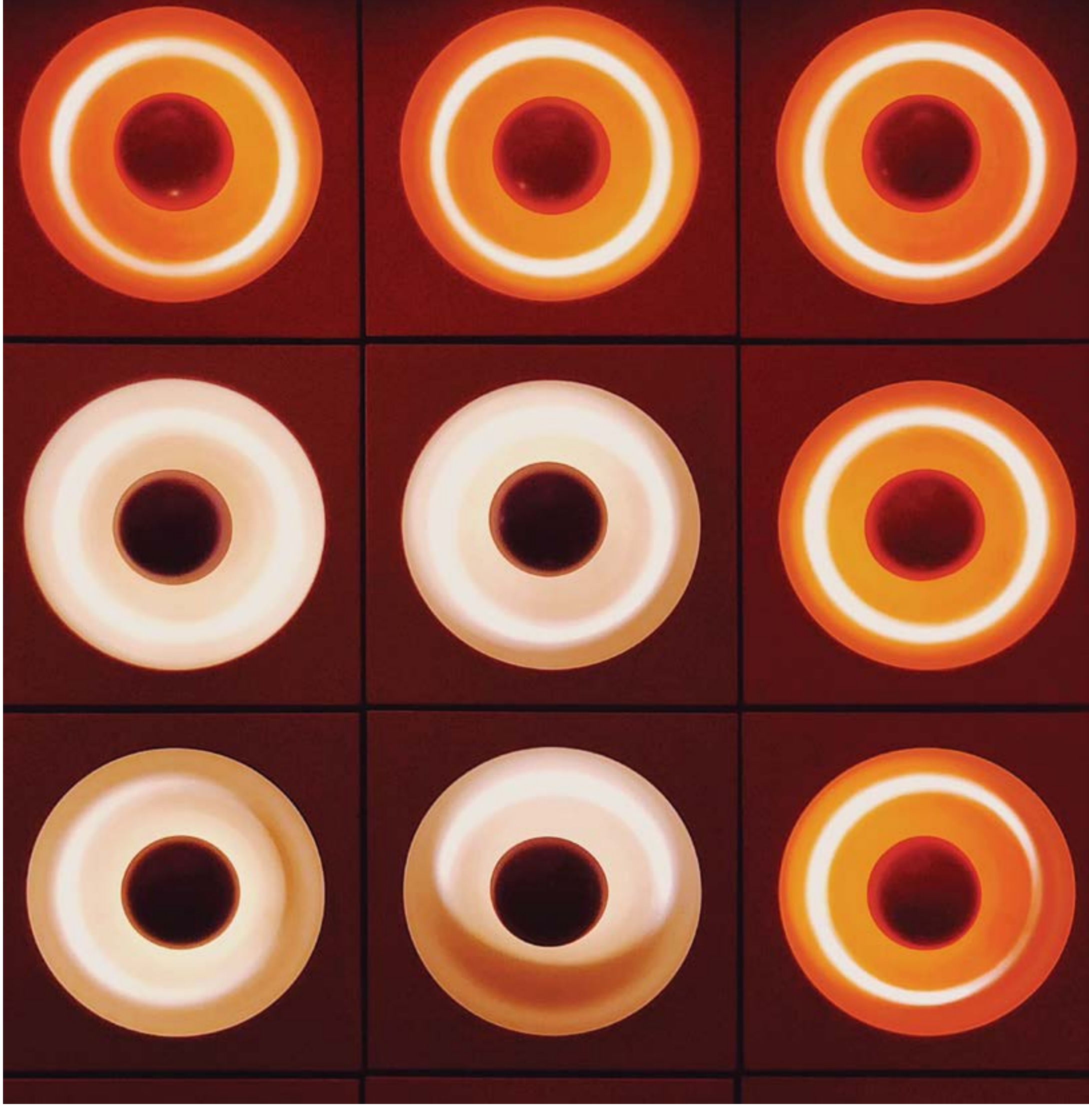
1. Is there a good understanding of important data and assets, and how is this being protected?
2. Has anyone assessed how a wide range of different cyber incidents would impact the business – a DDoS attack will be felt quite differently from ransomware, or a cloud breach? Which is most likely to impact your organisation?
3. Are there backup and recovery plans in place, along with an incident response playbook, to guide the organisation in the event of a major breach or attack?

The best takeaway is this: Make sure all risks are understood and managed to an acceptable level. That way you will maximise your investment in your defences and have a clear view of why you are spending that money.

Cyber security cannot be summed up as simply fighting the bad guys. It is about sustaining, maintaining and constantly refining your cyber security posture to withstand whatever threats could come your way.

And that is what everyone misses.

> "As a director, your role is not to micromanage every action the security team makes. However, you can help your organisation better address its risks by encouraging a risk-aware mindset approach to bolstering cyber security."



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KPMG

The pressing issues for Kiwi CEOs

Heading into 2024 and facing tougher conditions, flexibility will be key.

As the Institute of Directors looks at five key issues facing directors in 2024 – climate leadership, future-ready succession, harnessing AI, enabling productivity, and the value-adding board – the ninth edition of KPMG's global survey of CEOs reveals a different set of issues for Kiwi CEOs.

The survey, conducted during August and September in 2023, also tells us that New Zealand CEOs are having to flex their priorities to meet tougher conditions. Here are five key findings that point to areas of concern and opportunity for the C-suite in the year ahead – and our thoughts on addressing them.

1 SUPPLY CHAIN – A THREAT TO GROWTH

More than a quarter (27 per cent) of New Zealand CEOs named ‘supply chain’ as the greatest threat to growth, a big increase from seven per cent in 2022.

While the full-blown supply chain crisis of the pandemic has abated, challenges persist. Our distance from important global markets means a longer supply chain, and more links mean more opportunities for problems. Any disruptions or congestion in shipping networks mean New Zealand’s freight shipping routes are highly impacted, resulting in increased costs, longer lead times and unpredictability.

Recommended areas for attention:

- Implementing robust operational and predictive analytics to provide the transparency required to rightly diagnose root causes
- Achieving end-to-end supply chain visibility
- Keeping ahead of new and impending regulation, such as New Zealand’s modern slavery legislation and the Business Payment Practices Act 2023, and the EU’s Corporate Sustainability Due Diligence Directive

2 ESG – NO MORE BUSINESS AS USUAL

It is not just consumers demanding improvements in environmental, social and governance factors. ESG reporting is mandatory for large companies in the EU and UK, and it is on the cards for the US. However, our research suggests local businesses are dragging their feet:

- 70 per cent of New Zealand CEOs are unsure about their capability and capacity to meet new reporting requirements, compared to global CEOs at just 18 per cent

> “Companies that are progressive on ESG will have a major strategic advantage over their local competitors in the high-end global marketplace.”

- 37 per cent of New Zealand CEOs say ESG has been fully embedded into the business to create value, versus 69 per cent of global CEOs
- 60 per cent of New Zealand CEOs believe it will take at least five years to see a payback on ESG investment, compared to 22 per cent globally

This apparent uncertainty and lack of maturity surrounding the business case for ESG investments may hinder progress. Companies that are progressive on ESG will have a major strategic advantage over their local competitors in the high-end global marketplace.

Recommended areas for attention:

- Taking personal ownership of ESG issues
- Challenging the ‘compliance’ mindset and looking for value-add opportunities
- Collaborating with peers and partners to identify risks and opportunities

3 MERGERS AND ACQUISITIONS – THE GROWTH OPPORTUNITY

We asked CEOs: What do you think is needed to reach your growth objectives in the next three years? Over 30 per cent of respondents chose inorganic growth, which means mergers and acquisitions (M&A) are going to be a priority. And with 84 per cent of Kiwi CEOs stating they are likely to undertake acquisitions in the near future, we are expecting considerably more activity in 2024.

This may present challenges, particularly in industries which rely mainly on discretionary consumer spending, such as hospitality, automotive, durable goods and apparel. It can be challenging for these companies to provide reliable forecasts, and it is tough going for acquirers looking to acquire debt financing. Our survey found 'availability of financing' was the most-named precondition for focusing on M&A activity, with 37 per cent of CEOs seeing it as crucial.

M&A can be an effective way to drive growth, but it is vital to get it right.

Recommended areas for attention:

- Funding options for M&A activity, including private equity
- Scoping likely buyer appetite in detail
- Establishing clear valuation thresholds

4 CYBER SECURITY – INVESTING IN THE FUTURE

This year, 10 per cent of New Zealand CEOs surveyed named cyber security as the greatest threat to their organisation – up from three per cent on the previous year.

In November, a massive cyberattack shut down operations at several of Australia's largest ports – just one of millions of incursions happening globally every day.

Companies that underinvest in cyber security could be catastrophically affected – the operational, regulatory and reputational risks are hard to overstate. Boosting cyber maturity is a type of insurance for your data and operation. It might seem expensive now, but once your customer data is being held to ransom, the cost of improved cyber security will probably feel like a bargain.

Recommended areas for attention:

- Upskilling people right across the business
- Securing operational technology (connected physical assets)
- Identifying breaches rapidly and having a plan to deal with them

5 COSTS – GAINING CONTROL

Inflation-proofing capital and input costs were named by 27 per cent of CEOs as the top operational priority required to achieve their growth objectives over the next three years.

Inflation has hit every industry, making input costs skyrocket and leading to unpredictable margins. Construction, transport and hospitality have been among the industries hardest hit. Interest rates have risen in response, with the official cash rate at the highest it has been since 2008 – and the forecast is 'higher for longer'.

While consumers were willing to accept price increases in 2021 and 2022, they are now feeling the pinch and spending has declined. Any businesses which can keep their input and interest costs steady will benefit from being able to keep prices stable, maintain profits and grow market share.

Recommended areas for attention:

- Exploring new supplier options and strengthening relationships
- Reviewing and potentially restructuring or refinancing lending
- Optimising processes to reduce waste

FINAL WORD

Flexibility will be paramount – both for CEOs who will need to be on top of shifting market conditions, and boards who will need to be ready to flex with them and move at pace when threats and opportunities arise.

The ninth edition of the KPMG CEO Outlook provides unique insight into the mindset, strategies and planning tactics of CEOs. A total of 1,325 CEOs were surveyed globally between 15 August and 15 September 2023, including 30 in Aotearoa New Zealand.


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The vision for GRC technology

Bridging the gap between seeing the data and understanding what it is saying.

"There's never just one cockroach in the kitchen when you start looking around."

With that picturesque quote, billionaire investor Warren Buffet summarised his risk management philosophy in 2017 when asked about the Wells Fargo fake accounts scandal.

Times have changed, but also not so much. After weathering a pandemic, wars and economic recession, leaders would do well to take the imagery of scuttling and ever-multiplying risk to heart, as their roles in overseeing and managing risk shift with the times.

Risks to financial performance, technology and political situations remain constant, but these are now joined by evolving threats such as cyberattacks, crypto and climate change. Directors now need to cover broader ground as boards increasingly focus on risk management as a means of driving performance. The latter is doubly important when organisations find themselves in a crisis situation, which seems to occur more frequently.

Dynamic environments translate to an increased need for constant, rapid and concise information-sharing between management and other areas of the business to aid in quick decision-making.

More data seems to be the answer, yet paradoxically we are in what scientists are calling the "Notitian Age" – drowning in data but thirsty for understanding. In the business context, leaders know the ever-evolving deluge of data is meaningless if they cannot interpret it. To equip leaders for the future, technology must bridge the gap between seeing the data and understanding what it is saying, to ultimately arrive at actionable insights.

Governance, risk and compliance (GRC) has evolved into another means for organisations to manage performance. It has become the third leg of the stool, along with customer relationship management (CRM) platforms and enterprise resource planning (ERP) software. While CRM drives sales growth and ERP helps organisations understand costs and plan their finances, GRC addresses the non-financial aspects that have a material impact on leaders' ability to focus on performance.

GRC technology encompasses a wide spectrum, including board tools. In the past, board preparation involved manual collating, printing, ink-signing, in-person meetings, physical archiving and handwritten note-taking. Now, board technology enables executive teams to digitally collaborate in real time, and

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Kyle Glenn
on Unsplash

Diligent

get feedback and approvals within the same system. Not only does this cut down on prep time and costs, but it enhances overall good governance practices and cyber security controls.

As great as this is, it is only the tip of the iceberg when it comes to GRC technology.

Diligent, for example, is building a fully connected GRC landscape, where every team's tool – from board portals to internal audit, risk compliance and even ESG – can securely and contextually "speak" to each other; fuelling real-time insights powered by the organisation's data that would otherwise be housed in disparate and disconnected places.

The solution, Diligent One, centralises the GRC practice into one platform – unifying data from across the business and enabling benchmarking against powerful third-party proprietary intelligence. It allows risk, audit, compliance and ESG teams to engage technology that powers their own activities, while providing a simple, secure and one-click solution to disseminate insights to the board – without ever leaving the platform.

Boards and executives can connect the dots, view a unified perspective on risks and make informed decisions that drive their business forward. Risk, compliance, audit and sustainability teams can achieve more with fewer resources, especially the scarcest resource of all: time.

GRC technology is also going to be significantly impacted by artificial intelligence. With AI, users could engage a conversational tone to ask the system to run a task, predict or identify emerging trends in a particular industry, model possible scenarios and even automate manual tasks such as capturing meeting minutes.

Some GRC organisations are already harnessing the power of AI across their solutions. Rather than poring through reams of ESG disclosure documents and reports, Diligent's latest ESG benchmarking capability uses AI to analyse available data to create heat maps and allow organisations to score themselves against their peers.

"It is key for directors to be able to understand the compliance implications of their future decisions to make wise choices before rushing to add AI to their GRC tech kit."

But with opportunity comes risk. The concern with AI centres on the security and propriety of data. The future of GRC means pursuing powerful insights and ease of use without removing important checks and balances. Organisations need more control over their data, not less. AI in GRC technology needs be governed by the same principles in which we operate today: to make the leader's experience as efficient, intuitive, easy and ethical as possible.

It is understandable that boards are concerned about their ethics and responsibility duties in this area. It is key for directors to be able to understand the compliance implications of their future decisions to make wise choices before rushing to add AI to their GRC tech kit.

Leaders who want to explore the AI landscape can gain benefit from certification programs which help identify opportunities and navigate effective risk management strategies around AI adoption.

Just 23 years ago, humanity held its breath wondering if the Y2K bug would bring about the collapse of technology. Today, we are wondering the same thing about AI. Where will we be in another 23 years?

With the intersection of business and innovation, there is limitless potential for unprecedented efficiencies, disruptive business models, and with that, ethical considerations. Digital transformation will play a major role in not only the continued viability of enterprises but also their role in shaping a responsible, technologically advanced future.

Where will your organisation be? How efficient is your leadership in seeing and managing potential risk? Are they making the connection between governance, market expectations and performance? Discover how GRC technology can positively impact your organisation.