Boardroom

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WINTER 2023

The fight with inflation | SMEs with resilience in their DNA | The romance of startups | Afraid of the future? | Bots in the boardroom

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“Revenue is vanity, profit is sanity, but cash is king.”

We have all heard it – an axiom built into business lexicon – but there is no doubt cash is king in 2023, and maybe beyond.

New Zealand may have dodged a full-blown recession but there is shrapnel everywhere. ‘Cash is king’ and ‘cash flow’ are the bankable words in our winter edition as we focus on financial resilience, one of the top five issues facing directors in 2023.

Having adequate cash reserves will be vital, says one seasoned board chair and director, while another director and investor says “at the current interest rates, cash is not a bad investment and knowing how to balance investment risk vs investment return is important”.

‘Cash is king’ is also one of several mantras for a Kiwi entrepreneur in Europe. “We wouldn’t be here today if we hadn’t focused on monetising early and strategically. Doing so meant getting in a cash-flow-positive position early, ensuring we were in charge of our own destiny”. She tells us how she has spread her wings.

Cash flow is the lifeblood of SMEs and we look at two who have survived and thrived – one a century-old family-run enterprise that has resilience in its DNA.

What’s causing high inflation and interest rate hikes? And how long will it last? The New Zealand Institute of Economic Research answers our questions, while the Productivity Commission says an improved immigration policy could help relieve the pressure on a tight labour market and drive up productivity.

Startups. We all love them and want to climb blindly on board, right? Well, the romance doesn’t necessarily equate to the reality, says a board director and advisor specialising in new ventures, particularly in the aerospace world. Being a startup director is definitely not for the faint-hearted and building an experienced pool of talent in New Zealand is going to take time.

Still in a spin about ChatGPT and thinking we are all doomed? Stop right there, says a scientific futurist. It can do magical things but a simple prompt will show the language model for what it is, she says.

The problem with artificial intelligence, she says, is many directors are not educated in the ways of new and emerging technologies. But it is isn’t about emerging technology, it’s about the scaling of existing technology.

Directors need to be acutely aware of the potential risks and consequences of using artificial intelligence tools – help is inside – but once you have embraced AI it may be your next executive, an extra brain sitting next to you in the boardroom.

From the future we turn back centuries with Rotorua-based iwi Ngāti Whakaue exploring how its tūpuna (ancestors) governed as it creates its own pathway for elevating aspiring directors.

There is also plenty of aspiration and talent emerging from our First Steps in Governance Award, with young voices challenging old dynamics and the homogeneity of thought. A 31-year-old trustee says high-performing boards understand where they have got room to grow, and whose perspective they are missing.

Ngā mihi,
Noel Prentice, editor

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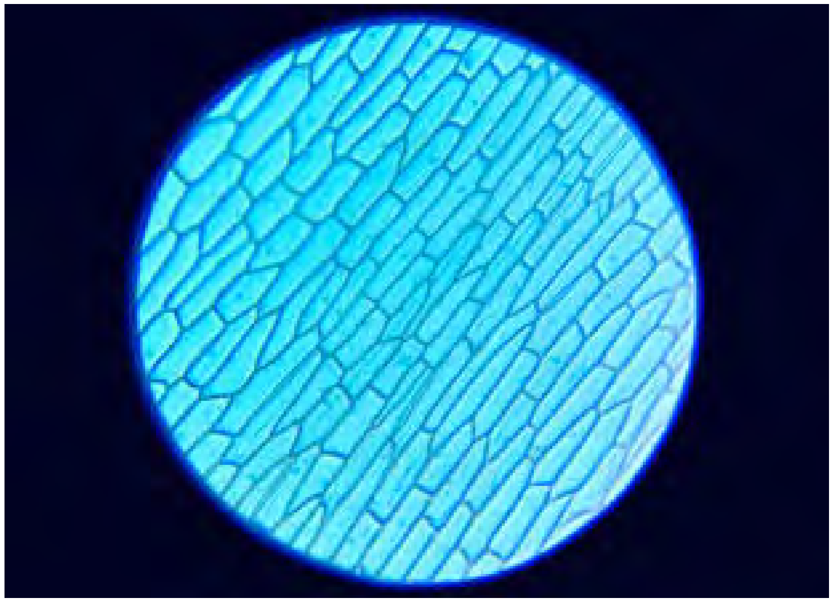

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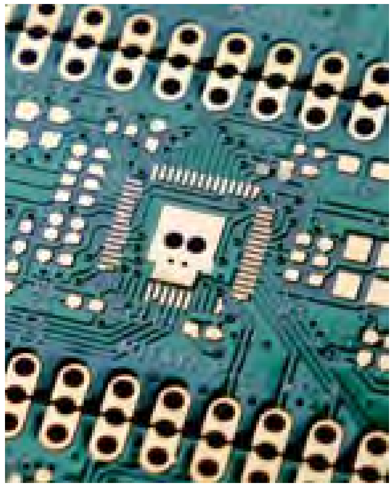

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CREATIVE GENIUS MEETS CUTTING EDGE TECHNOLOGY

Need another reminder that AI is the future? This modern masterpiece brings five of history's greatest artists back to life. Called the Impossible Statue, the globe-holding androgynous stainless steel figure, which weighs 500kgs and stands at 1.5m, is a fusion of generative AI and precision manufacturing. The statue is inspired by the dynamic, off-balance poses of Michelangelo (1475-1564), the musculature and reflectiveness of Auguste Rodin (1840-1917), the expressionist feeling of Käthe Kollwitz (1867-1945), the focus on momentum and mass exhibited by Kotaro Takamura (1883-1956), and the defiance in the figures of Augusta Savage (1892-1962). Created by Swedish high-tech engineering group Sandvik, the statue is on display at the National Museum of Science and Technology in Stockholm.

Photo: Courtesy of Sandvik

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South Africa
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FINANCIAL RESILIENCE

Immigration improves labour markets

Improved immigration policy could help relieve the pressure on a tight labour market and drive up productivity.

AUTHOR:
AARON WATSON, IoD WRITER/ EDITOR

In the 2022 Director Sentiment Survey, respondents identified "labour quality and capability" and "immigration policy" as two of the top three issues facing the economy.

The connection between good immigration policy and a flexible and capable labour market appears to be well recognised. (The third of the top three challenges to the economy was "supply chain disruption".)

Produced by the Institute of Directors, in association with ASB, the survey found 87 per cent of boards were discussing strategic talent-related issues and risks, such as employee engagement, performance and retention.

And it noted "recruitment and retention challenges look set to continue for the next couple of years with unemployment at its lowest in 40 years and net migration flows outward (with consequent upward wage pressures)".

That net outward flow of migration is in the sights of the Productivity Commission, which argues that improving immigration policy settings would ease the current risks in the labour market and make New Zealand's economy more resilient in the future.

"The Productivity Commission's report 'Immigration by the numbers', published in May 2022 as a supporting document to our final report 'Immigration: Fit for the

Future', captured a whole host of findings related to migration and the labour market and economy," says Productivity Commission chair Dr Ganesh Nana.

"For example, when examining migrants within the labour market it was clear migrants are active contributors to the New Zealand labour market and are more likely to be in the core working age (25-55 years) than the wider population."

The commission's research dismissed the idea that migrants push New Zealand-born residents out of jobs – at least that hadn't been the case over recent decades. However, it did recommend government addresses clear examples of displacement by providing training and short-term support. In the long run, the commission argues, improving the employment prospects of workers at risk of displacement is more likely to result in improved wellbeing than restrictions on immigration.

"Over the period of 2000 until the pandemic (a period of low and declining unemployment and increasing labour participation) the New Zealand economy required more migrants when expanding and, on average, migrant labour was not seen to be displacing domestic workers, but rather associated with net job creation," Nana says.

"Migrants also have similar employment rates to those born in New Zealand, although their employment is concentrated in cities and regions with substantial agricultural employment.

"Earning levels among recent migrants are also closely comparable to those born in New Zealand. However, in low-skill occupations migrant earnings are similar to, or slightly below, the earnings of those born here. At higher skill levels there is greater diversity, with median earnings among migrants often above those of comparable New Zealanders."

"Earning levels among recent migrants are also closely comparable to those born in New Zealand. However, in low-skill occupations migrant earnings are similar to, or slightly below, the earnings of those born here. At higher skill levels there is greater diversity, with median earnings among migrants often above those of comparable New Zealanders."

The relative earning power of high-skilled versus low-skilled migrants points to the broad range of shortages facing the labour market. That tends to make issues of "labour quality and capability", as expressed in the Director Sentiment Survey, quite different from industry to industry.

While there is a need for unskilled labour in industries such as fruit picking, there is also a lot of benefit to be gained from attracting highly skilled people who can help build the future strength of the New Zealand economy, says Nana.

"When examining migrants and the economy, it was clear that while there was a group of low-productivity industries that have a higher share of migrants, several high productivity industries were also highly reliant on migrant labour.

WILL THE GOVERNMENT CLARIFY GOALS?

"Regarding output, our econometric research suggests that skilled and long-term migrants make contributions to output that exceed moderately skilled New Zealand-born workers. This higher contribution is likely due to a mix of skill differences and/or hours worked that is largely reflected in higher wages. Conversely, migrants that are not on skilled visas are associated with lower output and lower wages than moderately skilled New Zealand-born workers, also consistent with a skills/hours narrative.

"Overall, our work suggests the positive impact of migration – both through the direct impact on productivity and contribution to taxes, and indirect impacts on knowledge, skills and innovation – is greater in high-skilled/high-productivity sectors."

In its Fit for the Future report, the Productivity Commission noted it was sometimes difficult to discern what New Zealand's immigration policies, historically, had been trying to achieve.

It recommended governments publish an Immigration Government Policy Statement (GPS) to improve the quality and transparency of immigration policy.

In April, the government agreed and it looks likely it will publish an immigration GPS. Consultation has been under way (through the Ministry of Business, Innovation and Employment) and a statement could be seen as soon as mid-2023.

Immigration Minister Michael Wood described such a GPS as an opportunity to provide a "stable platform" that businesses and workers could understand.

Even if the government does clarify its goals for immigration policy, it is not clear this will always guide the migrant experience. In May, Wood sent a letter of expectation to Immigration New Zealand setting out the government's expectation that "these sorts of deportations should only occur in extremis – in circumstances that absolutely require it".

"These sorts of deportations" referred to dawn raids on overstayers, just a year on from the official apology for the notorious dawn raids of the 1970s which were widely considered an attack on the Pacific migrant community.

Wood's office told the media Immigration New Zealand had conducted dawn raids on 19 people in the previous eight months – 10 Chinese, four Indians, two Tongans, one Samoan, one Malaysian and one Indonesian.

The gap between the government's statements and intent, and the actions of enforcement agencies hints at another attitude the Productivity Commission's research should dispel: "Migrants are also less likely to be receiving benefits than New Zealanders," Nana says.

"Overall, our work suggests the positive impact of migration – both through the direct impact on productivity and contribution to taxes, and indirect impacts on knowledge, skills and innovation – is greater in high-skilled/high-productivity sectors."

Will inflation drive up unemployment?

Speaking at an IoD event in April, RBNZ Deputy Governor Christian Hawkesby MInstD said periods of high consumer price inflation hit hardest for those with low or fixed incomes, such as a government benefit or pension, and those without significant wealth or savings to draw on.

"At the same time," Hawkesby noted, "lifting interest rates to cool the economy, and ultimately combat high inflation, also has consequences for those on the margins of the workforce with the least job security. This is why it is so important to foster an ongoing environment of low and stable inflation."

In its May Monetary Policy Statement, the RBNZ said "labour market pressures are easing, but still supporting inflationary pressure. Employment is above its maximum sustainable level."

It indicated high interest rates are still required to cool inflation and it is possible there will be an economic contraction over the remainder of 2023. It seems clear the RBNZ is anticipating an increase in unemployment as it uses interest rate hikes in an attempt to get inflation back into the mandated 1-3 per cent range.

Whether this will help relieve the "labour quality and capability" challenges that respondents highlighted in the 2022 Directors Sentiment Survey remains to be seen.

FINANCIAL RESILIENCE

The inflation virus

What's causing high inflation and interest rate hikes? It starts with C and ends in 19

Headaches, sneezes, fevers . . . high inflation? If you want to understand the underlying cause of inflation, look no further than Covid-19, says Ting Huang, senior economist at the New Zealand Institute of Economic Research (NZIER).

Globally, inflation is being driven by the "unprecedented stimulus" that policymakers authorised to shore up their economies during the pandemic. This is combined with supply constraints and labour shortages that were exacerbated by border restrictions, and supply chain disruptions caused by lockdowns, Huang says.

Oh, and a rise in the price of oil, which is just starting to ease.

In New Zealand, we are seeing the impact of these global drivers, says Huang, also pointing to supply chain disruption and the tight labour market as a big part of our inflation situation.

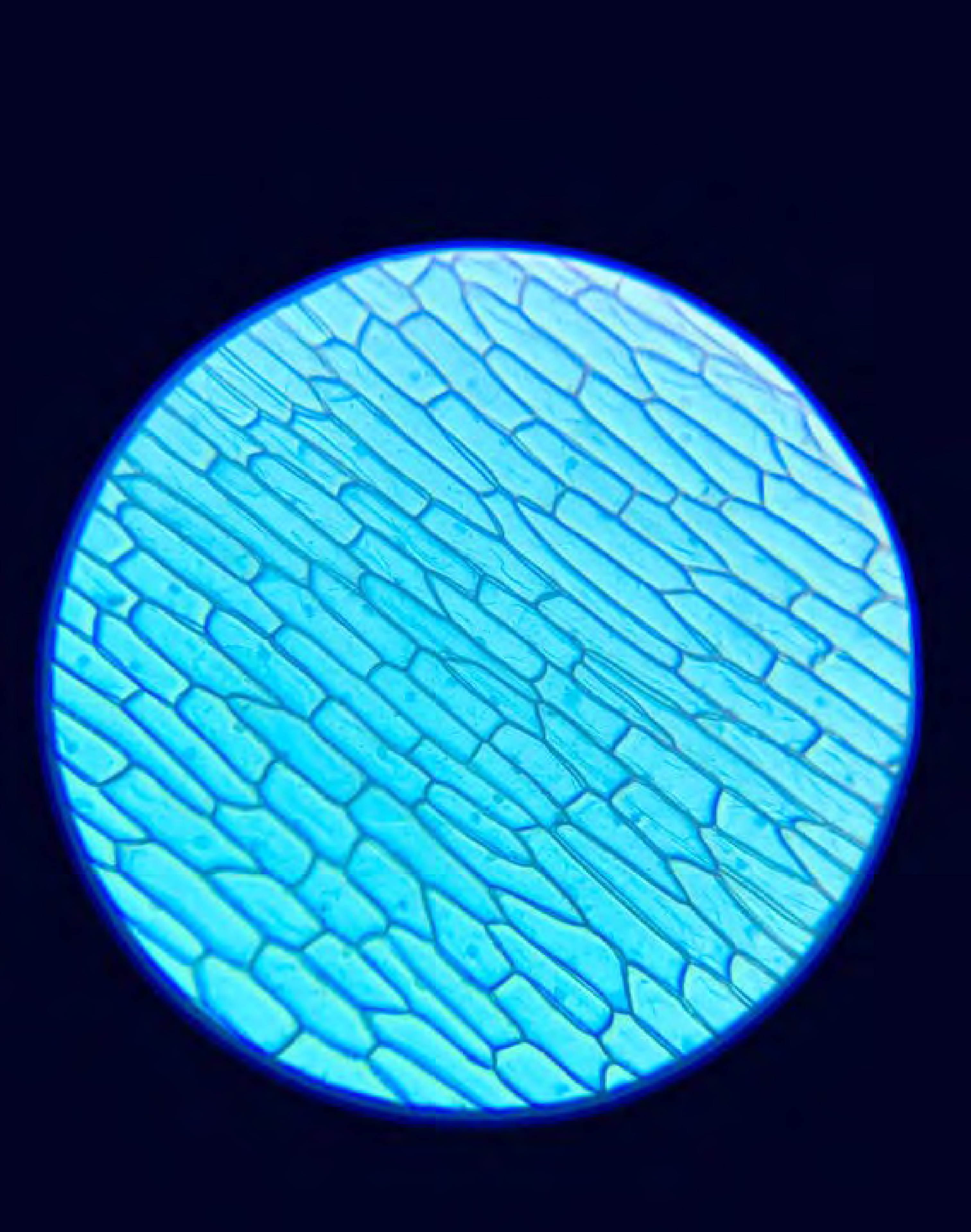
What is different, as shown by annual consumer price index (CPI) data, is where our inflation is occurring, says Huang. "Food prices and costs of construction have been the largest contributors – especially food prices, where we are seeing a really rapid rise."

Even though we are recovering from the pandemic, bad weather and high commodity prices are keeping the pressure on these areas, she says.

"The recent extreme weather events create upside risk and inflation pressures, especially to rents and food prices in the short term. Over a longer term, the rebuild from Cyclone Gabrielle will likely give construction demand a boost –

Photo by:
Ash Hayes on Unsplash

AUTHOR:
AARON WATSON



contributing to capacity pressures in the construction industry, which may heighten the risk of inflation staying high for longer."

ARE CORPORATE PROFITS TO BLAME?
In Europe, excessive profits have been highlighted as a driver of inflation, challenging the economic orthodoxy that inflation is caused by an imbalance between supply and demand. European Central Bank Board member Philip R. Lane acknowledged this in March, although he predicted this profit pressure inflation would ease.

"To the extent that supply capacity should improve over time and demand patterns normalise, the extraordinary conditions underpinning profitability in 2022 should not persist, with a decline in profit margins translating into lower inflationary pressures," Lane said.

US research shows inflation – at least in 2021 – was also riding on profit hikes. A study by economists from the Federal Reserve Bank of Kansas City found inflation from corporate profits was the main cause of US inflation in the early stages of recovery, a time when costs were actually falling. Again, they expect this profit-driven inflation pressure to drop off over time.

Both the US and European data suggests this is a short-term pressure. But the recognition that corporate profits are part of the problem at this time challenges the typical central bank response to inflation – raising interest rates.

"Interestingly, from NZIER's March Quarterly survey of Business Opinion, we have found out profitability continued to deteriorate, especially for building sector firms and retailers. Most of that is because of the intense cost pressures they continue to face, as well as the weakening demand the economy is beginning to show."

New Zealand's annual inflation rate hit a 22-year high in 2022 of 7.3 per cent.

The Reserve Bank of New Zealand (RBNZ) is charged with keeping inflation in a 1-3 per cent band. When inflation exceeds this band – as it has for a long time – the RBNZ lifts the official cash rate (OCR), which causes banks to put up their interest rates.

These OCR hikes are intended to dampen demand in the economy, which in turn should help close the gap between demand and supply and reduce inflation pressures.

However, this doesn't appear to be a major factor in New Zealand's inflation environment, says Huang.

"Interestingly, from NZIER's March Quarterly survey of Business Opinion, we have found out profitability continued to deteriorate, especially for building sector firms and retailers. Most of that is because of the intense cost pressures they continue to face, as well as the weakening demand the economy is beginning to show."

VARIETY OF OPINIONS
More challenging is the small size of New Zealand, which makes it easier for our big players to dominate and reduces competition. "A limited competitive environment will certainly add some barriers to the efficacy of OCR rises," she says.

Another challenge is that monetary policy works on the demand side, but this round of inflation has largely been caused by supply side constraints. "So you are trying to bring down inflation that is predominantly stemmed from supply factors," she says.

The NZIER hosts an independent Monetary Policy Shadow Board which recommends what the RBNZ should do regarding the OCR. At the April Monetary Policy Review, the RBNZ lifted the OCR by 50 basis points to 5.25 per cent, which was a larger hike than the 25 basis-point increase the Shadow Board suggested. The OCR decision at the RBNZ's May meeting was in line with the Shadow Board's majority view that an OCR hike of 25 basis points to 5.5 per cent was warranted given domestic inflation pressures remained high.

While there were divided views on where the OCR should be in 12 months, they point to increased concerns about a weaker economic outlook and potential upside risks to inflation. The RBNZ, in its May Monetary Policy Statement, indicated a pausing in OCR increases, given they were starting to moderate demand and inflation in the economy, and the full effects were still yet to pass through. That said, the impact of interest rate increases will continue to be felt in the broader economy over the coming year.

For businesses, that means borrowing will remain more expensive than before the pandemic and that consumer demand is likely to decline.

The good news, although perhaps not for homeowners, is that around half of New Zealand mortgages are due to be repriced over the next 12 months, at today's higher rates. Higher mortgage costs will help restrain household consumption, says Huang. "This will help to bring inflation down more quickly over the coming years."

"Given New Zealand's exposure to climate change, extreme weather events will likely happen more often in the future. So it is very important for the government and businesses to keep a financial buffer, sufficient cash at hand, in order to prepare for, and respond to, those type of events."

Still, she does not expect inflation to return to the RBNZ's 1-3 per cent target range in 2023, suggesting interest rates will remain high even as inflation begins to fall. "Probably, inflation in New Zealand has already peaked," she says.

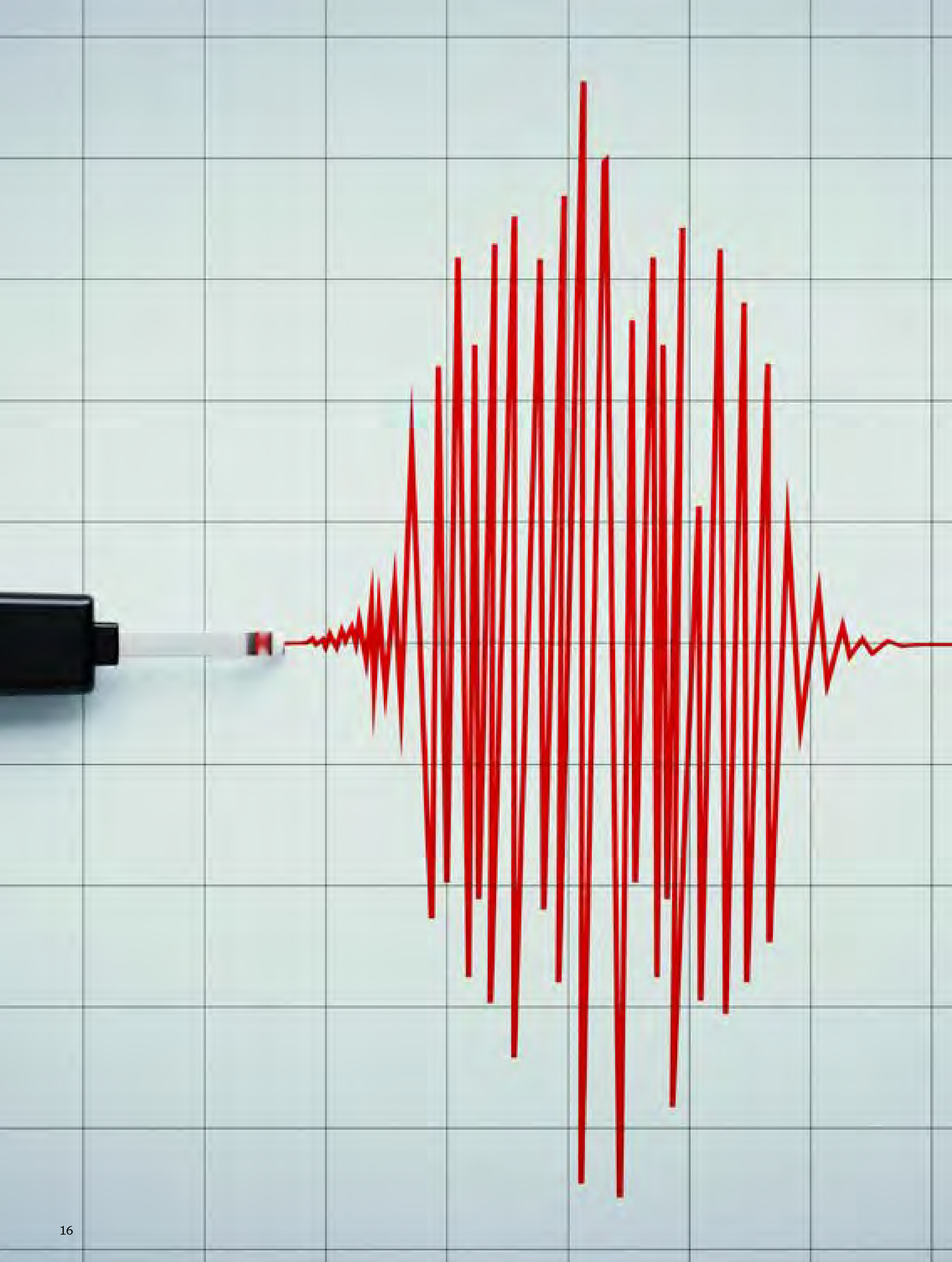
FINANCIAL RESILIENCE AND CLIMATE CHANGE

One of the IoD's Top Five Issues for Directors in 2023 was "financial resilience". It was selected because of the contemporary confluence of inflationary pressures, high interest rates and economic uncertainty.

Huang says directors should factor climate change (another Top Five Issue) into financial resilience planning. "The floods and Cyclone Gabrielle are a good example of the importance of financial resilience," she says.

"Given New Zealand's exposure to climate change, extreme weather events will likely happen more often in the future. So it is very important for the government and businesses to keep a financial buffer, sufficient cash at hand, in order to prepare for and respond to those type of events."

Businesses should also be prepared to invest in strategies and technologies that can help them adapt to climate change, says Huang. "This is a call for increased urgency around these issues."



FINANCIAL
RESILIENCE

How to survive and thrive in a shaky economy

Businesses can rely on old-fashioned deal-making to weather stormy times, says experienced chair and director Mike O'Donnell.

Seasoned board chair and director Mike O'Donnell MInstD urges exporters to prepare for a long economic winter, but look for the opportunities to grow too.

A series of global shocks have made the path for Kiwi companies to the world's markets rockier than ever in 2023. The Covid-19 pandemic and the Russian invasion of Ukraine led to supply chain disruption and commodity price hikes that were felt all the way from Auckland to Amsterdam.

The efforts by central banks to rein in inflation with interest rate hikes have eaten into demand for everything from wine to software – products New Zealand has done well selling to the world.

Local shocks only added to the pain, with Westpac estimating Cyclone Gabrielle will hit goods exports to the tune of $1.2 billion this year. It is not a completely gloomy picture – unemployment remains low in many of our key export markets and the instability in the banking sector seems to have been contained for now.

But the International Monetary Fund's outlook for global economic growth says it all – 2.8 per cent for 2023, down from 3.4 per cent last year, with a modest increase to 3 per cent tipped for 2024. In the advanced economies, such as the US, the UK and European nations where New Zealand has many well-heeled buyers, the landscape is worse, with growth slowing from 2.7 per cent last year to a forecast 1.3 per cent in 2023.

AUTHOR:
PETER GRIFFIN,
FREELANCE WRITER

That translates to sluggish business and consumer confidence. It manifests itself in hiring freezes and cancelled orders. Any business seeking to build a beachhead in an overseas market has its work cut out.

REMOVE THE FRICTION

But O'Donnell, who has worked with a host of export-orientated tech companies – Serato and Raygun among them – says a focus on good old-fashioned deal-making should see most businesses through hard times.

"Sales is not a four-letter word and it's not dirty. It's the life blood of acquiring and delighting customers," O'Donnell says. "I think good old sales pipes and funnels will come to the front again, with good operators focusing more on removing friction through the pipe rather than just tip in at the top."

Elaborate growth projects with longer payback periods need to be shelved in favour of "wearing out shoe leather" getting in front of customers. That could eat into margins, but is essential to keep the sales coming amid waning appetite from buyers.

Elaborate marketing, brand and soft metrics should take a back seat in favour of anything that shores up orders and keeps revenue looking healthy.

Global supply chain issues are easing, but a cocktail of extreme weather events has served as a sharp warning to exporters, particularly those in the primary sector hit hardest by this year's weather bombs.

"Companies need to look at building capability, having better preparedness and doing scenario planning to better guard against future unforeseen events," says O'Donnell.

Local supply chain issues will linger as long as roads, bridges and rail links remain broken and coastal shipping is feeling the strain of overwhelming demand. The impact is being felt hardest among those exporting to our closest market.

"I think a lot of companies who have made a tentative foothold in Australia will feel pain there," he says.

O'Donnell's preoccupation on hustling for sales in the current climate comes down to one old but well-proven axiom – cash is king.

"Having adequate cash reserves will be vital," he says. "If you don't have reserves then it's worth arranging a facility with your bank – sooner rather than later."

Equally important is having accurate cash-flow forecasting. "A plan delivering profit at year-end is all very well, but if you can't pay this month's bills then you're insolvent," he says.

He suggests looking very carefully at financial forecasts on a month-by-month basis, putting in place contingencies in terms of bank loans or adjusting the company's capital structure if you "expect to sail close to the wind", or as accountants put it, end up in 'negative cash flow'.

TIME TO VENTURE OUT

The final aspect to be considered, says O'Donnell, is "never easy" and is a situation many exporting businesses find themselves in – cost cutting. "No business can control its income. But it can control its costs," he says.

A staged series of cost reductions may be necessary – trimming headcount, cutting marketing budgets and downsizing office real estate. O'Donnell says "initially this can be cutting fat, with the latter stages being the slicing of muscle".

The key to surviving a recession is to take advantage of the faster-paced growth the global economy will inevitably return to. But there's also opportunity in adversity, O'Donnell suggests.

"It's timely for companies to look again at clean energy, clean distribution, smart packaging and expect higher demand, support and investment in these areas in coming years."

Mike O'Donnell

New Zealand food and wine is receiving growing recognition and NZTE's Made with Care campaign is pushing locally made food and beverages from India to Japan, focusing on "nutritious, safe and ethical" products.

Sustainability is a major theme driving investment and purchasing decisions globally, says O'Donnell.

"It's timely for companies to look again at clean energy, clean distribution, smart packaging and expect higher demand, support and investment in these areas in coming years."

He points to e-commerce giant Amazon's debut of its eco-friendly shopping platform touting household products with sustainable credentials and Deutsche Bank pledging to work only with suppliers who are net-zero carbon emitters.

Businesses tailoring their offerings to these global priorities may even see sense in venturing out to form new beachheads in offshore markets, despite the costs associated with doing so.

The climate for exporters, O'Donnell says, remains chilly. The winter may stretch through much of 2024. Additional curve balls will no doubt appear. But exporters who get their financial house in order and focus on getting sales over the line have plenty to look forward to as they seek to put New Zealand products and services on the map.

> "Having adequate cash reserves will be vital. If you don't have reserves then it's worth arranging a facility with your bank – sooner rather than later."

Constrained by Covid

Director and investor Catherine Savage says New Zealand's productivity has dropped and is likely to be further eroded by a loss of skilled people.

Catherine Savage CFInstD has lived through many financial ups and downs, including the Asian Financial Crisis and the Global Financial Crisis, but the aftermath of the Covid-19 pandemic could be different.

"Covid was the first truly global event. The Asian crisis and GFC were felt quite differently in different countries to varying degrees. You could argue it's the same with Covid, but it's probably the first time that globally we were all focused on it at the same time," she says.

The director and investment company owner, who has been involved in fund management and private equity for more than 30 years, believes the way each country responded to the crisis had a huge impact, not just on their current financial positions but also their citizen's psyche.

Very carefully, Savage suggests the position New Zealand took – rightly or wrongly – has become ingrained in us, making us more insular in our thinking, including in the way we do business.

"We have got to work through that. We've got to reconnect and we've got to recognise we have to restore our individual responsibility for our finances."

Savage says comparatively with the rest of the world, our productivity has dropped and is still likely to be eroded by a loss of skilled people which will make it tougher for us to recover.

And she agrees with many directors that New Zealand's economic performance will decline over the next 12 months.

"With rising interest rates – people's mortgages will be moving to the higher rates over the next six to 12 months – tight lending rules from banks, a high degree of real estate ownership versus businesses, and the fact we're largely owner-operated means the flow-on effect of the economy will be greater.

"People haven't realised the situation we're in. They're surprisingly still spending despite the rising cost of living. You think, where's this going to end?"

Savage believes the General Election in October will be a very important one in paving the way for how New Zealand resets and she says the government will have to be bold and make big choices and invest in things that will help businesses grow, otherwise productivity will be further eroded, and with it our financial resilience and standing in the world.

"The reality is the majority of the world economy works from Singapore north, with Australia included because of its size. New Zealand isn't part of that."

AUTHOR:
CAS CARTER,
FREELANCE WRITER

Photo by:
Thom Milkovic on Unsplash

Chastising herself for being too negative, Savage says there are opportunities particularly in Southeast Asia where the headway we had been making has stalled.

“Immigration,” she says, “has been incredibly disappointing. We haven’t taken the opportunity to have a reset on who we want to attract into the country, and we’ve been late allowing people back at all compared to the rest of the world.”

Savage’s corporate career, including two years as treasurer of the National Gas Corporation and managing director of AMP Capital Investors, ended when she joined her father, Roy, in the family-owned investment company, Savage Group, in 2007, pursuing a range of private equity interests in the Asia-Pacific and taking on select governance roles.

She believes in taking time to make decisions and to gather as much information as possible before assessing risk at the financial, investment business and personal levels. And that includes talking. She says she has been having lots of conversations, which she finds centres her so she can be in the best position to navigate through it.

That talking, and her own experience, means the respected businesswoman, who spent 12 years on the New Zealand Superannuation Fund board, including five years as chair, is not short of advice for her fellow Kiwi business people:

“We haven’t taken the opportunity to have a reset on who we want to attract into the country, and we’ve been late allowing people back at all compared to the rest of the world.”

Catherine Savage

1. While we still don’t know what the new normal is, continue to be strategic while you navigate your businesses through that. The flip side is there is a lot of opportunity as well.
2. Cash is king. At the current interest rates, cash is not a bad investment. Everyone has a different risk profile and knowing how to balance investment risk vs investment return is important.
3. Businesses need to manage through these times without eating into their capital, which means looking at efficiencies in everything you do.
4. Value your staff. Trust, integrity and partnership with staff is incredibly important. Businesses often don’t fully cost the value of losing staff or retrenching. When Covid-19 started we didn’t take money out of the businesses, we rode through it together with some staff dropping their salaries to help.
5. Boards have changed. Gone are the days where the board was made up of experts in certain areas. The board is a team and the chair-CEO relationship sets the tone. Boards shouldn’t just focus on insight and oversight, even when times are tough. The way they add value is through foresight.
6. Keep learning. The old style of board had all the knowledge, but the world is so dynamic you need to keep learning through reading, listening, travelling. Otherwise, boards become static and it is almost impossible to provide foresight.
7. Don’t just focus on profit and loss but ensure you have a relevant rolling forecast of cash flow. Keep six months’ worth in the bank untouched. If you don’t, you won’t be able to take advantage of opportunities and look after the welfare of your staff.
8. Don’t put almost all your eggs in one basket. In New Zealand, a lot of businesses are beholden to large customers. One of our businesses was 30 per cent reliant on one customer who then moved to Australia and didn’t pay for six months which greatly affected our cash flow. We were just too exposed.
9. And finally, when you have identified all the efficiencies and cash is under control, “lean in” to what you know and back yourself.

FINANCIAL RESILIENCE

Pulling their socks up

A century-old business knows how to respond in a crisis thanks to resilience being part of its DNA.

A family-run, award-winning business in Ashburton has withstood economic shocks and crises because resilience is its lifeblood, says the company chair.

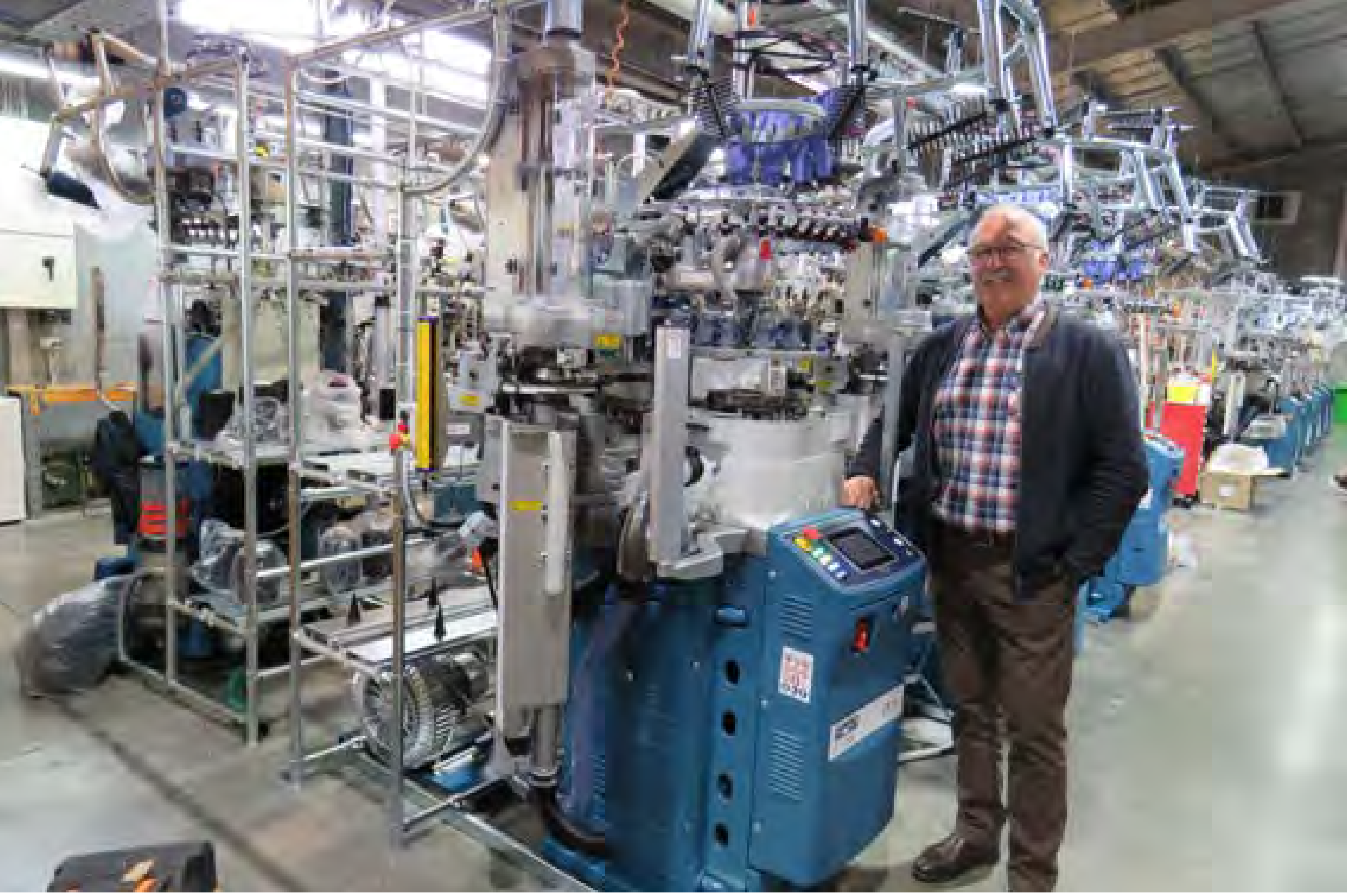
The New Zealand Sock Company, which has been running since 1901 and now boasts "one of the most modern plants in the world", has been able to fall back on its sound operating and financial decisions, says chair Gary Leech CFInstD.

"Resilience is part of the company's DNA," says Leech, as companies and businesses in New Zealand brace for a new crisis – recession – while still trying to recover from Covid-19.

The company's board comprises two shareholder directors – one is company CEO Euan Sparrow, son of Cip Sparrow who bought the business in the 1980s – and two independent directors.

Siblings Paul and Gabrielle Sparrow often sit on the board as observers, giving them an insight into board-level thinking. "Even though it is a family business, they want to support the company's growth and know this starts at the top," says Leech.

AUTHOR:
SONIA YEE, SENIOR IoD WRITER



But there is change afoot. Two new directors and a new CEO will be appointed in the coming months – a shift in direction that is vital for succession planning, according to Leech.

“That intense focus on future strategic direction resulted in the adoption of a clearly targeted plan and its execution for growth,” Leech says of a strategy that will ensure the company’s position in the future.

“There is no doubt the Covid world has given the company a forced ‘hiatus’ in its planning over the past couple of years. The way the team has handled those issues has stood it in good stead to now accelerate the execution of the strategy,” he says.

The company’s manufacturing is all done at its Ashburton factory. While logistics

“That intense focus on future strategic direction resulted in the adoption of a clearly targeted plan and its execution for growth.”

haven’t necessarily been challenged by its rural location, being at the bottom of the world and away from their biggest markets has its drawbacks.

This has been especially the case in terms of sourcing and shipping raw materials, and exporting the final product.

With global supply chain issues, the company was impacted by freight delays and is facing a talent shortage. “Being rurally based, one of the challenges has been in recruiting skilled staff to relocate to a rural town. We lost a significant export order during that time because we could not run our plant to capacity,” Leech says of the impact of the worker shortage caused by immigration and border restrictions.

But to ensure the company is able to sustain itself the decision was made in

"It was a very good operating and financial decision. Among the chaos of Covid we brought back most of our manufacturing from China to New Zealand and we're now sitting at 95 per cent New Zealand-made, versus 70 per cent two years ago."

Gary Leech

late 2021 to invest significant funds to bring raw materials into New Zealand where they would sit in the company's warehouse, thereby guaranteeing production and avoiding freight delays and pricing shocks.

While the costs were substantial, the decision proved farsighted. It provided the company with assured raw material supply, including a buffer which has seen them through the past 18 months. But it has also meant they have more control of their production, locally.

"It was a very good operating and financial decision. Among the chaos of Covid we brought back most of our manufacturing from China to New Zealand and we're now sitting at 95 per cent New Zealand-made, versus 70 per cent two years ago," Leech says.

The company makes socks for a number of iconic Kiwi brands, and considerable energy and investment is poured into the export side, in markets in the UK, Europe, America and China.

"Anyone can make a sock, but we offer more than that. Over the years we have learnt that every market is different. Our clients in the US operate very differently to those in Europe, Japan and China," Leech says.

Gabrielle and Euan Sparrow have been looking after the export business over the past 40 years, including attending industry trade shows and meeting customers. Their knowledge has given them an understanding of the consumer landscape, but also the diverse cultural value systems and beliefs that underpin each region.

Two of the key markets are outdoor and performance sports. "We are seeing more growth in the military, and health and wellbeing sectors, and have some exciting projects under way targeting military and medical markets," Leech says.

But these market trends change rapidly and, in order to remain relevant, Leech says it requires not only having respect from suppliers and customers, but also having the same level of respect for the competition.

"As much as we all want to stay ahead of the competition, it's also worthwhile knowing them and being able to work together when needed . . . to make money in the export market you need to offer something that is of high value and like nothing else, you must tell your why before you show them the what," says Leech.

Last year, the company won a number of awards at the annual Ashburton District ANZ Awards. "A lot of time and effort was put into applying for the categories, so to walk away with two highly commended, one win, and then the Overall Business of the Year award, was sensational. I speak on behalf of the board and the family when I say we were all absolutely thrilled."

The family also shared the success with staff. "Without them, the Sparrow family wouldn't have been standing up on that stage," Leech says.

He puts much of the company's success down to knowing its value, which will help cement its survival. Ongoing investment in research and development; technology; identifying new weaknesses, including not stretching its resources; ensuring the strategy aligns with export activities and daily operations; and avoiding conflicts between domestic and international activities also add to its success.

Leech says New Zealand Socks is engaging in "promising research into the use of heavier micron wools", which will give them a leading edge over their competitors.

"We have a machine replacement policy that every year we purchase a new plant, and not just sock machines, but includes testing equipment for our R&D Hub. This has given us the advantage of having one of the most modern plants in the world," says Leech.


From Heretaunga
to the world.

FINANCIAL RESILIENCE

Apple of their eye

Rockit Global investor and board member James Beale says "it is people that make a business and it is people that make it resilient".

AUTHOR:
SONIA YEE

Hawke's Bay company Rockit Global has been producing its 'tiny' apples for the export market for a decade. The perfect lunchbox-sized healthy snack is packaged in clear, transportable bullet-like containers – the kind you are more likely to find encasing a multi-pack of tennis balls. But it's also what has put this perfectly formed fruit on the international map.

James Beale MInstD is a partner at Oriens Capital, a private equity fund manager that invests in businesses valued between $10 million and $50 million. He joined the Rockit Global board in 2017 when Oriens and fellow private equity fund Pioneer Capital bought out the founding shareholder.

"Craig Styris from Pioneer and I sit on the board as representatives of the funds. We are individual investors inside of Rockit Global, but we're there from a professional perspective as directors of the company working in the best interest of the business," he says.

After transitioning from a founder-led business, with what Beale describes as having "some good governance processes and experienced governors in place", to an executive-led one, the company has matured significantly in governance, management and with an average annual volume growth of 40-50 per cent.

That growth has also contributed to expansion, which has seen staff increase from 40 employees to about 200.

Adding to the company's success, last year Rockit Global took home two awards – Best Large Business and also the Supreme Award at the New Zealand Business Awards, where they were competing against 57 other businesses.

Judges cited the company's ability to market a product that has not been traditionally seen as 'a brand', which also means Rockit™ apples aren't just your average, run-of-the-mill apples.

For Beale, one area that has exceeded expectations in terms of the company's success is 'market price realisation'.

The product is distributed to 30 countries including China, and regions such as the Middle East and Southeast Asia, and continues to generate good price premiums. Able to sit in the market with little direct competition, it also holds the global licence for the plant variety, Prem 96A. But Beale says the licence and IP won't last forever.

> "That's the real longevity and value creator. Ensuring that people understand and love the Rockit™ brand because that will be what creates long-term value."

"It does expire over the long term and then others will be free to grow the plant variety," he says.

Beale isn't concerned and says it is the strength of the Rockit™ brand and quality control of the product that speaks for itself. While other producers may start to grow the Prem 96A variety, they won't be able to access the brand or the Rockit trademark.

"That's the real longevity and value creator. Ensuring that people understand and love the Rockit™ brand because that will be what creates long-term value," he says.

“It’s your people, including your senior leadership team, who are the frontline of any response, and particularly the human element of the response, which was very evident to me during the cyclone period.”

James Beale

More recently, Rockit Global also collaborated with Universal Studios and involved the Minions being paired up with Rockit’s own ‘Rocki character’ which were plastered all over Rockit tubes sold in China.

“For a business in the Hawke’s Bay to be able to partner with Universal Studios speaks volumes to the quality of the work from our marketing team, and also to the quality of the product and the reach of the brand,” Beale says.

Rockit Global has growers in 10 locations globally, including Hawke’s Bay where some of its orchards were badly impacted by Cyclone Gabrielle. “We feel for those growers and we’re trying to support them as best we can.”

Beale says addressing and growing its supply base has always been a focus. And next year the company will see its volume increase 75 per cent on its 2023 numbers. Rockit’s extensive planning and projections allow it to assess what the next season will look like, especially in the event of unpredictable supply issues.

According to Beale, the company’s financial resilience comes down to its business model and solid support from its equity and debt providers. He says Rockit is in a good position with strong, robust margins that help generate cash flow which is invested to support ongoing volume growth, infrastructure, market distribution and marketing support.

It is that planning and collaborative risk management that happens between the board and the senior management team that ensures they have “plans in place to pull off the shelf if we need to as various scenarios unfold”, says Beale.

In many ways, the events preceding the cyclone prepared the company to be able to weather the unexpected storm when Cyclone Gabrielle hit the region. That includes dealing with a shortage of RSE workers.

“It’s always a factor of agricultural or horticultural businesses, where you have to prepare for a one-year-in-seven not going to plan because of seasonal or weather effects. The reality is that because of our growth curve we still have more fruit to sell this year than we did last year.”

The change in supply is still not quite where the company predicted, but Beale can see some positives. “Our hope is that growers will see the price premium to help alleviate some of the pain,” he says.

The way the team responded to the cyclone illustrated their commitment to the business, says Beale, and that only happens when the company sets the right culture, has the right leadership, and cares about the health and safety of others.

He says having an ability to refocus back on the business happened quickly, and he admires the buy-in of staff who showed their belief in the business.

“It’s your people, including your senior leadership team, who are the frontline of any response, and particularly the human element of the response, which was very evident to me during the cyclone period,” he says.

“That was a really heartening aspect of the immediate response. It’s a really important observation that it is people that make a business, and it is people that make it resilient.”

Despite a potential recession, Beale feels confident they can continue to make headway.

“Perhaps some of the price increases we’ve seen in recent years may be more challenging to come by. But, to be fair, we’ve been saying that for the past two or three years and have been able to deliver price improvements. I’m optimistic. I don’t think recession is really our biggest challenge – it’s managing the growth,” he says.

How to deal with insolvency

Insolvency can have a number of implications for directors. Here is what you should – and shouldn't – do.

AUTHOR:
LEON BOWKER, PARTNER – DEAL ADVISORY

When a business is facing solvency issues, the scope of options available decreases as financial distress increases. Directors need to consider the options available and whether continuing to trade is in the best interests of the company and its creditors.

Acting early can increase the probability of a turnaround and lessen the likelihood of more extreme measures later.

Directors should address solvency issues early by undertaking a realistic assessment of the business' ability to recover. Early action can help reduce risk to creditors and the board.

Directors may be optimistic about the future but they may be putting themselves and others at risk.

By trading while insolvent, a company is effectively trading with creditor's funding which is being put at risk. New creditors may also be exposed to loss that they would not have been if the company had liquidated earlier. If the company fails, its creditors may go unpaid and may become insolvent themselves.

DIRECTORS SHOULD ALSO BE MINDFUL OF BREACHING THEIR STATUTORY DUTIES WHICH MAY LEAD TO PERSONAL LIABILITY.
The director duties under the Companies Act that are most relevant to insolvency scenarios are:

1. Act in good faith and in the best interests of the company.
2. Not allow the company to trade in a manner likely to create substantial risk of serious loss to the company's creditors (i.e. trade while insolvent).
3. Not incur an obligation unless they believe the company will be able to perform the obligation when required to do so.
4. Exercise their powers/duties with the care, diligence and skill that a reasonable director would exercise in their circumstances.

Photo by:
Nathan Dumlao on Unsplash

WHEN IS A COMPANY INSOLVENT?

- When it can no longer pay its debts as and when they fall due and/or the value of its liabilities exceed the value of its assets.

WHAT ARE THE RISKS WITH CONTINUING TO TRADE A BUSINESS THAT IS INSOLVENT OR NEAR INSOLVENT?

- Exposing existing and new creditors to loss that would not have been incurred if the company had liquidated earlier.
- Exposing directors to the risk of personal liability for breaching their legal duties.

WHAT CAN BE DONE TO AVOID OR MITIGATE INSOLVENCY RISKS?

- Undertaking an assessment of the company's prospects of returning to solvency and acting accordingly.
- Continuously monitoring and assessing the business' financial position. Going through a robust decision-making process, documenting key decisions made and seeking professional advice regarding the options available.

WHO GETS WHAT IN THE EVENT OF A FORMAL INSOLVENCY?

- Secured creditors will have entitlement to assets subject to their security interest. Thereafter, preferential creditors (employees and Inland Revenue) and then unsecured creditors.

WHAT INFORMAL OPTIONS EXIST TO RESTRUCTURE A BUSINESS?

- Negotiating with creditors to restructure the company's obligations for a managed wind-down.

WHAT FORMAL OPTIONS EXIST FOR RESTRUCTURING OR WINDING UP A BUSINESS?

- **Creditor compromises** can provide a company with the opportunity to restructure its obligations to creditors, subject to creditor approval.
- **Voluntary administrations** can provide a potential pathway to rehabilitate the company and salvage the business or otherwise to liquidate the company.
- **Receiverships and liquidations** provide for an independent party to take over the business to realise assets for the benefit of creditors.

The most common breach of these duties that leads to personal liability is allowing a company to trade while it is insolvent in circumstances where it would not be objectively reasonable to continue trading.

THE FINE LINE BETWEEN COMMERCIAL RISK TAKING AND RECKLESS TRADING – WHAT IS REQUIRED IS AN ASSESSMENT OF THE COMPANY'S PROSPECTS.

When a company enters troubled waters its directors should carry out a sober assessment as to the company's actual and prospective financial position and performance, and the potential for remedying the insolvency. This assessment is not a one-off exercise and instead requires consistent and regular monitoring of whether the company is financially viable and:

1. Whether continuing to trade is in the best interests of the company and its creditors.
2. Whether the company has the ability to trade out of its distressed position.

If a company reaches the point where continued trading will result in a shortfall to creditors and the company is not salvageable, then continued trading will be in breach of the Companies Act, absent an agreement with creditors through a formal or informal restructuring process.

Directors should seek advice from a suitably qualified legal advisor and/or insolvency practitioner that addresses their specific circumstances and provides a view on what options should be considered.

Read the *Solvency Guidance report* in full at **kpmg.com/nz/en/home/services/advisory/deal-advisory/fix-solving-problems-and-improving-performance/solvency-strategies.html**

ADVERTORIAL

More luxury, more performance

Porsche's new Cayenne

The third generation of Porsche's successful luxury SUV, the Cayenne, has undergone "one of the most extensive product upgrades in the history of Porsche".

It features comprehensive changes to the powertrain, chassis, design and equipment – further extending on-road and off-road performance, and luxurious everyday comfort.

The new Cayenne debuts with a highly digitalised display and control concept, new chassis technology and innovative high-tech features.

With its extensively upgraded design and more powerful engine range, the Cayenne emphasises its claim to be the sportiest car in its segment.

* MRP does not include additional options, delivery, registration, or Clean Car Programme charges.

1. A comprehensive upgrade
2. Porsche Driver Experience: new control concept and digital cockpit
3. Expressive exterior design with radical changes
4. Innovative HD Matrix LED headlights (optional)
5. Optimised chassis with new 2-valve suspension
6. More power in all engine variants

The optional high-definition HD Matrix LED headlights provide road illumination tailored to every driving situation, an air quality system filters pollutants from the air in the interior, and for the first time in the Cayenne, front passengers can have their own infotainment display should they select the option.

Porsche has integrated a completely revised display and control concept. The new Porsche Driver Experience, first introduced in the Porsche Taycan, focuses on the driver's axis and optimises operation. Frequently used functions are located directly on, or immediately next to, the steering wheel. A key feature is the right balance between digital and analogue elements.

The new Cayenne has an expressive appearance. A new front end combined with more strongly arched wings, a new bonnet and technically appealing headlights emphasise the vehicle's width.

The new models are available to order/configure online now and will be in dealerships from Saturday 15 July to experience.

The maximum retail price* for the standard New Zealand specification vehicle is:

- **Cayenne** – $165,200
- **Cayenne E-Hybrid** – $182,500
- **Cayenne S** – $209,300
- **Cayenne Coupe** – $171,900
- **Cayenne E-Hybrid Coupe** – $187,200
- **Cayenne S Coupe** – $216,500
- **Cayenne Turbo GT Coupe** – $369,900

Discover the Cayenne at
porsche.co.nz/cayenne

Seduced by startups

Being a startup director is not for the faint-hearted, says Angel chair Suse Reynolds, and building an experienced pool of talent will take time.

AUTHOR:
NOEL PRENTICE, EDITOR

Photo by:
Nik Geu on Unsplash

Mention the word startup and visions of innovation and new technologies flood the mind – along with unicorns and fantasy wealth.

Startup founders want to literally change the world – and do it today, not tomorrow. They are driven to solve problems, generate new jobs and revenue streams, and make a difference. But being a startup director is not for the faint-hearted, says Angel Association New Zealand executive chair Suse Reynolds MInstD.

"They aspire to change the world, building products and markets and scaling fast. This generally means raising money from others and taking big – but calculated – risks to create outsized impact and value. This is not for the faint-hearted from an operations and governance perspective," she says.

What New Zealand is lacking, but building pretty quickly, is an experienced pool of talent, those who have "learned by doing", and have experienced success and learned from failure.

"It generally takes about 30 years to build a thriving, experienced startup ecosystem," says Reynolds. "We are about halfway in and as such we don't have a huge pool of experienced startup directors.

"That said, there is still a terrific community of experience in New Zealand and in offshore markets and we need to get much better at leveraging that community of experience and asking for help. In tough times, one New York-based investor I spoke to said in a recession there is 'a flight to experience'."

There are about 2,400 startups in New Zealand, according to global benchmarkers Startup Genome. There is no specific data on how many may have gone to the wall in these turbulent times. What is known is it's a tough environment to raise follow-on investment.

"Management and investors may choose to hibernate an opportunity and sometimes a startup will look for an early strategic sale of the business, which can return investment or cents in the dollar but fails to maximise the bigger opportunity," Reynolds says.

Despite the excitement generated by a startup, it has always been a tough world and it is particularly tough at the moment because the world needs these problem-solvers more than ever, says Reynolds. However, the large pools of capital that were available just a year or so ago are no longer there.

"The market context has changed. Investors are being far more careful and discerning when they are making choices about where to invest. And with interest rates rising, investors can now earn a return from less risky assets, such as term deposits and bonds."

Reynolds says savvy investors are not pulling back from investing because it is well known that 'recession vintages' of startups generate better returns – valuations are more conservative, value-based investment decisions are being made as opposed to momentum-based decisions and there is a tighter focus on revenue generation.

"Early-stage investment decisions, while based on robust due diligence about the potential for the product or service to generate outsized value, are triggered by an emotional connection on the part of the investor to the problem the founders and startup is trying to solve," she says.

While there are broad sectors where New Zealand startup investors are focusing, such as business-to-business software as a service, clean tech, aerospace, gaming and agtech, Reynolds says all kinds of startups are getting investment.

Directors need to understand the ever-changing nature and context of a startup and be quick to respond.

"The word 'pivot' didn't come out of the startup world by accident," Reynolds says. "Concepts like 'agile', 'lean canvas' and 'product market fit' are all about running experiments to find where value is and where it can be created as quickly as possible."

Governing a startup is significantly different from other entities and organisations.

"Board members need to understand and appreciate how to leverage risk for reward, how to navigate uncertainty, anxiety and fear, and how to put in place and execute on a robust capital strategy. We can, and will, all improve if we worry less about blowing cover by asking for help," Reynolds says.

Outset Ventures partner Mike Bignell says directors of startups need to understand far more about the capital journey and the business trajectory, than say other established entities.

"You need to be very focused on the things that really matter for the entity at that time, rather than getting overly concerned with the broader regulatory responsibilities inherent in larger organisations.

"The biggest risks are always in the first 12 months post raising capital. You must frame your board conversations around the things you need to do to build the business to obtain the next tranche of capital, not just mitigate ordinary day-to-day risks. You need to identify the business-critical steps forward and focus energy on achieving them.

"You also need to be able to adapt and cope with the inevitable landscape changes that occur. Like anything, if you leave your run too late with a capital raise, you will be in a difficult position."

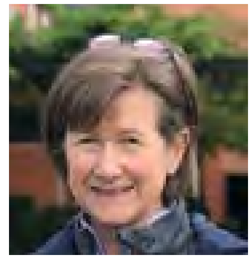
He believes more people are understanding governance in the startup world as the venture capital industry grows in experience and maturity.

"It's improving. I'm involved in governance with a national sporting organisation [he is chair of Hockey New Zealand] and I've been involved with lots of larger organisations. There are certain things that cross over, but you have to be far more flexible with startups."

Bignell says the sector is still full of people with great ideas and big dreams – and venture capitalists with money.

"We've got a very diverse startup ecosystem. It's all about the right idea at the right time. Outset Ventures is focused on deep tech and we're not seeing any shortage of companies coming through. Good companies and good ideas are still able to get money. The fundamentals haven't changed but patience is needed.

"It's exactly the same as always – ideas that catch on, ideas that don't. That's part of the startup world. There is always someone with the next idea."



"The market context has changed. Investors are being far more careful and discerning when they are making choices about where to invest. And with interest rates rising, investors can now earn a return from less risky assets, such as term deposits and bonds."

Suse Reynolds

To better understand startup governance visit **iod.org.nz/news/articles/its-a-startup-world**

Suse Reynolds is also chair of the IoD's Wellington Branch committee.

Shooting for the stars

Being on a startup board presents specific challenges because 'the plane is being built as it is rolling down the runway', says board director and advisor Anna Kominik.

"There's a romance around startups that doesn't necessarily equate to the reality," says Anna Kominik MInstD, a board director and advisor specialising in new ventures, particularly in the aerospace world.

Startups require a level of intensity and involvement that can surprise new board members as they support the founders and company to navigate the complexities of developing their product, and growing and maturing their company.

In general terms, a board is defined as a body that executes strategic governs and control in a company. While that is true for an established company, the role shifts for startups because "the plane is being built as it is rolling down the runway", says Kominik.

"Startup boards are often more involved with supporting the founder/senior management in setting up the foundation of the business, including the stages of market research, product development, first hiring, organisational development, fundraising, CEO coaching and mentoring.

"There are also specific relationships that can create additional complexity in startups, such as managing relationships between multiple founders, shareholders versus board, investor/directors, and shareholders versus founders.

Kominik says "great people" can come on to a startup board, with excellent governance experience, but that doesn't always fully prepare a director or chair for the very specific challenges and risks of early-stage companies.

"A lot of these companies have a fantastic idea that is quite different from anything else in the market," she says. "That has huge potential, but it is also challenging because customers may not even know they want the product that is being developed.

"It is rare for an early-stage company to start with a strategy and be able to maintain it. The first foray into the market can present a lot of challenges for both the company and its governors. It can be difficult to apply traditional corporate governance principles when your startup is having to pivot to sustain customer growth as it starts its go-to-market entry."

Failures are inevitable, she says, and they can be confronting for boards to manage. It is the learning that comes from failure and whether they are

AUTHOR:
NOEL PRENTICE

Photo by:
Alexander Andrews on Unsplash

"We have some impressive aerospace companies already working in New Zealand. These are companies not just employing New Zealanders but working with iwi and the education sector to excite our young people in the future jobs this industry brings."

Anna Kominik

applied well in evolving the product and the go-to-market strategy that will determine success.

"Once in market, the growth phase of an early-stage company can be equally challenging," she says. "Issues such as customer management, organisational development and quality assurance start to come into play and require a different set of skills to manage.

"Whatever the phase of business, the board and the founders/senior management have a lot of balls in the air at any one time and that takes a lot of energy, so a key challenge is to maintain the wellbeing of everyone involved."

Despite the challenges of startup governance, the demand for great directors is not going away, even with economic and global pressures.

"New Zealand is blessed with a rich vein of innovation and there are a lot of startups out there with brilliant ideas," she says. "Even in a downturn, people are looking for the next big thing. You only have to look at the amount of investment currently going into space and aerospace to see where a lot of investors are seeing the opportunity."

New Zealand's aerospace industry (both aviation and space) is generating more than $2 billion in revenue and has the potential to grow even more in the coming years.

"We have some impressive aerospace companies already working in New Zealand. We all know about RocketLab, but there is also Dawn Aerospace, Pyper Vision, Merlin Labs, OneReg, Kea Aerospace and Wisk. These are companies not just employing New Zealanders but working with iwi and the education sector to excite our young people in the future jobs this industry brings.

"It's a little known fact that, up to now, New Zealand has had a definite competitive advantage for aerospace globally," she says.

That competitive advantage comes from fairly uncongested skies, transparency of governance systems and a civil aviation authority that is respected by other key markets. This reputation for transparency and good governance also helps in global capital markets.

But there is a lot of complexity in aviation regulation and it is crucial to have a regulator that is able to provide consistent and sustainable support to a growing industry.

"The aerospace industry is concerned that New Zealand is in danger of losing our competitive advantage in aviation and aerospace because a lot of startup companies are still waiting to get into the regulator. Those delays, unfortunately, start to make other jurisdictions more attractive to advance these technologies," she says.

"We have an aerospace industry in the making but it's up to us to secure it and we don't have a lot of runway, because other countries, like Australia and Singapore, can also see the opportunity.

"As New Zealanders, we have perpetuated the view that early aviator Richard Pearse beat the Wright brothers in achieving flight. I would like to think that this time we will secure New Zealand's place in the aerospace and aviation world."

Anna Kominik is chair of the Hillary Institute for Global Leadership and the Edmund Hillary Fellowship and also independent chair of the Electricity Retailers Association of New Zealand.

She is on the board of Dawn Aerospace and is also an advisor for Pyper Vision, a Christchurch-based aviation company. Kominik is also working with OneReg, an innovative aviation software platform that is working with the Civil Aviation Authority of New Zealand and overseas regulators to transform compliance processes. She was the Asia-Pacific director of California-based manufacturer Wisk Aero, which is testing an autonomous electric air taxi in Christchurch.

Valued intelligence

Kiwi entrepreneur Genna Elvin, founder of a tech startup in Europe, says the secret to success is having a clear focus on the target market and monetising that.

AUTHOR:
CAS CARTER

Photo by:
Markus Spiske on Unsplash

Tough economic times have confirmed to Kiwi entrepreneur Genna Elvin they made the right decision to focus on using their own revenue to create growth within her company.

'Cash is king' is one of several mantras for the co-founder and chief officer of Luxembourg-based tech startup Tadaweb.

"We wouldn't be here today if we hadn't focused on monetising early and strategically. Doing so meant getting in a cash-flow-positive position early, ensuring we were in charge of our own destiny," she says.

A self-funded business put them in a stronger position, reassuring potential investors, particularly during volatile economic times.

The 34-year-old Elvin tells a lively story, peppered with colourful analogies about the 12-year Tadaweb adventure, but she often comes back to the same lesson – creating their own revenue at an early stage.

At the beginning, she and co-founder and husband Francois Gaspard were "fortunate" to have found angel investors in Luxembourg who were interested in building technology and helping diversify a conservative country reliant on an economy based on banking.

That enabled Tadaweb to focus on R&D rather than revenue at the beginning. It also meant when their product was ready to go to market, their revenue could be reinvested into developing the business without having to rely on external funders.

"We were naive at the beginning. We said Twitter is not profitable, so why do we need to be? Let's just build some really cool tech."

That appetite for risk changed quite quickly from uncalculated to calculated as accountability increased for their growing staff, investors and big-paying customers.

That's when the lightbulb really went on about the importance of cash flow, instead of having to regularly go through the stressful task of raising capital to grow.

But how were they going to deliver a positive cash flow? The answer, and what Elvin tells new startups, is to have a clear focus on the target market and monetise that. She follows this with another of her many analogies - in a nutshell, that a scattergun approach does not work. Having a sniper approach to monetarisation is really important to get cash-flow positive as soon as possible.

That has helped them produce organic revenue to invest in their own growth. In those first three years, they worked 18-hour days trying to "nail down" the market for their product, making many mistakes along the way.

"We sometimes wondered how we were going to pay people at the end of the month.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"I feel obligated to discussing and bringing issues to the table. There is still a real 'bro-club' mentality in tech which is not representative of a number of different demographics. We need to have the voice of women and other groups at the table."

Genna Elvin

But that's where the hacker mentality came in – the hacker always finds a solution."

The answer to the problem prompts another analogy: Vitamins versus paracetamol.

"We were still providing a vitamin at the time but if someone doesn't take a vitamin every day it doesn't make a difference. However, they definitely need a paracetamol if they have a pounding headache."

So Tadaweb's product became a must-have paracetamol instead of a nice-to-have vitamin.

Elvin says every phase is about new challenges and new stress. She talks about the balancing act of deciding what is going to have the most impact on growth: short term versus what will result in long-term capital, and then matching that to their risk appetite.

Time for another analogy where Elvin likens her role to managing a circus act where the juggler is trying to keep all the plates spinning, ensuring all the elements of the business can keep functioning, including guaranteeing the team has the resources it needs, keeping customers and investors happy and ensuring growth.

"I'm an all-or-nothing sort of person – go hard or go home. We've got people who are investing in us to have return and we just know there is so much more to do and we won't stop until we do it. At the end of the day you create a company to grow and growth is something we talk about at every executive meeting every week."

About five years ago, Tadaweb saw some big opportunities, including moving into the US market. This meant going through the arduous task of raising capital – in the middle of a financial crisis.

"Fund-raising is traumatic – the amount of due diligence you have to go through and the negotiation." But she says even when they fundraised they were cash-flow positive and believes any company trying to raise funds when they are not financially stable will have a lot less success.

WHO IS TADAWEB

Information on their website is sparse out of respect for their government customers who use Tadaweb tech across a number of topics.

"The past five years have been really unstable with a lot of different national security issues, so we have been trying to help where we can to make the world a safer place," Elvin says.

Tadaweb is a small data platform that discovers and analyses information on the internet to create an intelligent system that can understand the internet like a human.

It endeavoured to be a pioneer in the field of Open Source Intelligence gathering, enabling users to access valuable information that is often volatile and hard to obtain online.

"We build technology that can interact and understand inter-information just like a human would, which means we give customer information in a much more human way."

To give a hint of what that looks like, their clients have included New Zealand, supplying tools to help the government track information to ensure supply chains were secure during the Covid-19 pandemic.

"AI is super powerful and we should embrace it where needed, but what matters most right now is the human process and human input into tech," she says.

Despite her absence from New Zealand for many years, her birthplace is still very much in her psyche. She is a Beachhead advisor for NZ Trade and Enterprise.

Elvin says while New Zealand is world leading in some areas such as agritech, in others she believes Aotearoa is 10 years behind places like London.

"I'm really inspired to create awareness and ideally funds for New Zealanders so they don't head off to the US for investors and create an IP drain in New Zealand."

She sees no reason why more tech companies can't be successful and still be based in New Zealand.

"New Zealand is very fortunate that it acts and behaves the same way as Western European countries, so there is much potential for Kiwi companies to expand globally because business behaviour is so similar."

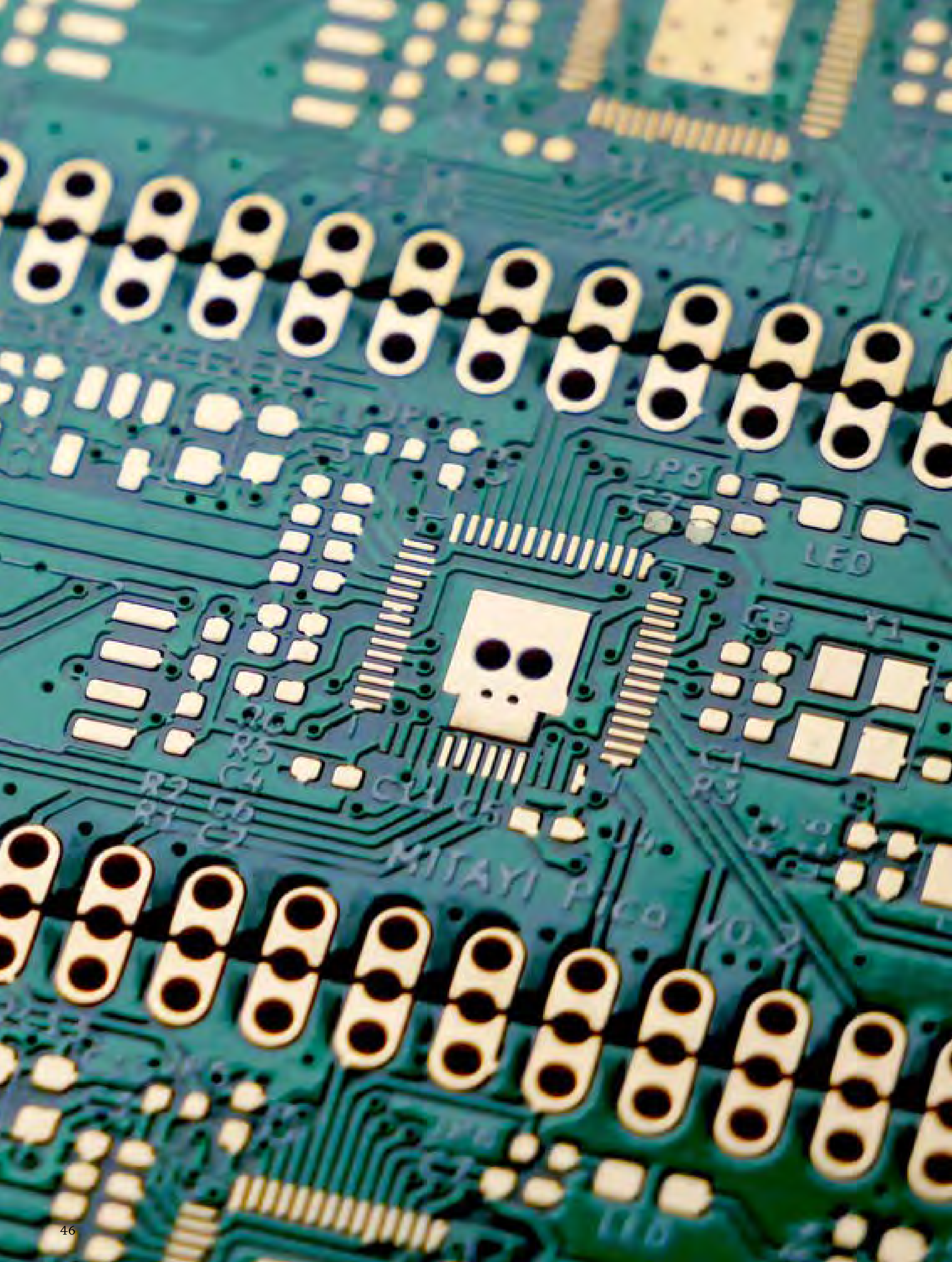
She is already an active part in that, creating the Australia and New Zealand Chamber of Commerce in Luxembourg.

> "We were naive at the beginning. We said Twitter is not profitable, so why do we need to be? Let's just build some really cool tech."

"I feel obligated to discussing and bringing issues to the table. There is still a real 'bro-club' mentality in tech which is not representative of a number of different demographics. We need to have the voice of women and other groups at the table.

"The next 10 years are going to be completely revolutionary and women need to be represented equally in the emerging data sets that feed the new AI models."

Elvin credits New Zealand's culture with helping her succeed. In an interview in Luxembourg, she said "New Zealand gave me solid roots and really big wings. It gives the younger generation, particularly women, ambition to travel abroad and see the world and start things from scratch".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AI

Afraid of the future?

AUTHOR:
NOEL PRENTICE

Photo by:
Vishnu Mohanan on Unsplash

Scientific futurist Dr Catherine Ball says not many directors are educated in the ways of new and emerging technologies. But it is isn't about emerging technology, it's about the scaling of existing technology.

Who am I? Still searching for the answer to life's most defining question? Ask ChatGPT, the language model that has the world in a spin.

The chatbot's response will allay any fears you may have over its perceived threat, or it may have no answer at all. This is how you check the truth of a large language model, says scientific futurist Dr Catherine Ball.

"Check it with the one thing you know," she says. "I do it around my businesses and I truth check myself. ChatGPT is a large language model and if it can't get things right, it makes it up.

"This is my advice to everyone, and anyone who is a director. Don't give any information out. Just literally ask who you are. It thought I was the CEO of a data company in the UK, which is completely wrong. A friend told me about their boss trying it and the prompt gave him his obituary. He's not dead. That's a little bit disconcerting, isn't it?"

Ball quickly dispels the notion that ChatGPT is about to put everyone out of work and bots will rule the world. Think of the ChatGPT 'revolution' like Google, Wikipedia or Ask Jeeves.

"When internet searching first came out, everyone was in a right tizz," she says.

"The students are all going to be cheating. No one is going to have any original thoughts. How will we ever play Trivial Pursuit again because all the answers are googleable? Cheating will be rife, the education system's done. Did it finish us?" she asks.

Remember the early functions of the iPhone and then being able to swipe – that's only 10 years old. It seems like it has been around forever.

Ball says the whole point of these examples is when technology is working, it's invisible. "It embeds itself seamlessly into our lives and we adapt to it, we adopt it, or we use it appropriately. If you want to be an average B grade student, you will use ChatGPT because that's all it will ever get you. Half the time it will pump out some rubbish that makes no sense. And it will lie and it will make it up because that's what large language models do."

On the other hand, she says, if you want to be an A grade student, you are not touching ChatGPT with a barge pole. Or if you do, you just recognise it as an information source like Google or Wikipedia.

American-Canadian cyberpunk writer William Gibson said in the 1990s "the future is already here, it's just not evenly distributed". Ball has taken the aphorism and modernised it: "The future is here. It's just not scaled yet."

She cites as another example – the phenomenon that was Pokémon Go. "Where's Pokémon Go now? It's still around, but it's not getting the headlines. Pokémon Go was a huge, 20-year project that everyone thought was an overnight success," she says.

"How long do you think ChatGPT, generative AI, has been in development? she asks, then answers. "About 30 years. The first people that were really using generative AI were people that were developing apps and capabilities.

"Chatbots have been around since the year 2000. We're talking about technology that if it was a human being they would have just graduated from university, or be in middle management. These technologies are not new, but everyone thinks they're new because they just hadn't scaled yet."

"Chatbots have been around since the year 2000. We're talking about technology that if it was a human being they would have just graduated from university, or be in middle management. These technologies are not new, but everyone thinks they're new because they just hadn't scaled yet."

Dr Catherine Ball

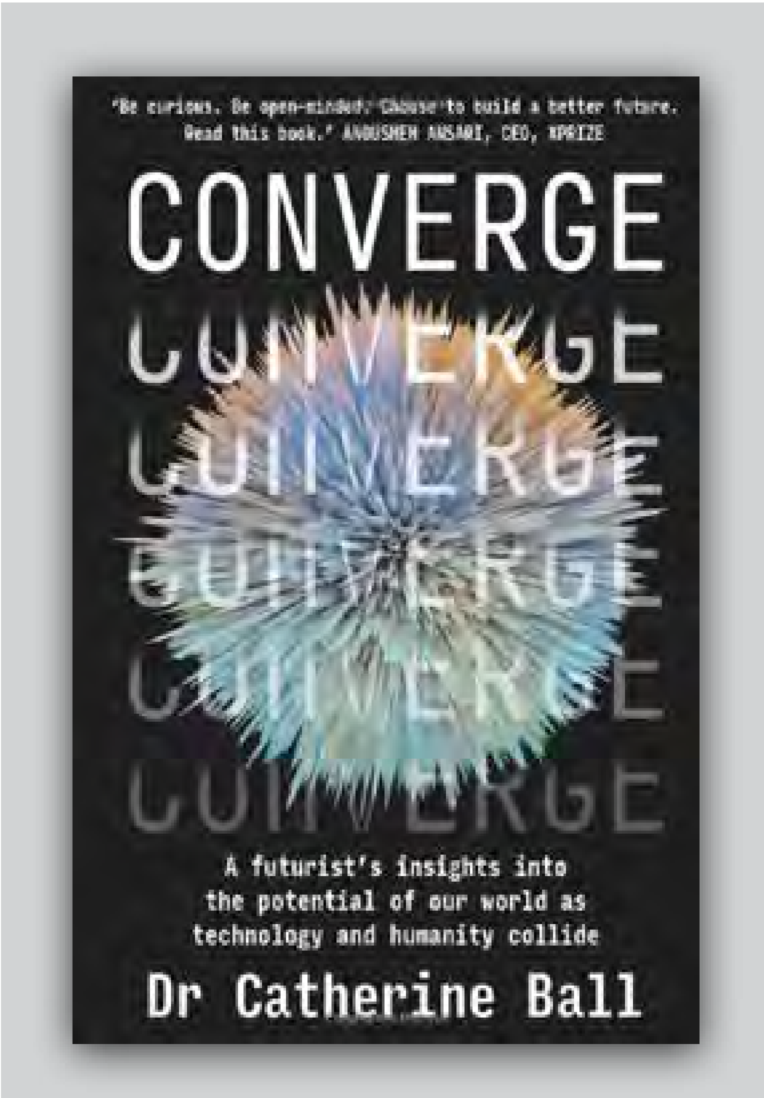
The Australian has a PhD in environmental science, with a penchant for numbers and patterns. She is also a speaker, advisor, author, founder, executive producer, executive director and company director working across global projects where emerging technologies meet humanitarian, education and environmental needs.

"Technically, I've been calling myself a scientific futurist, rather than a quantitative futurist or an economic futurist, or a cultural futurist or a demographic futurist. The term futurist is someone who is trying to extrapolate the knowledge we have now and go over the horizon. So as a scientist, I look at the technologies, not only those that are maturing now, but emerging technologies that are coming online and ready to scale.

"A big area of interest for me is that gap between capability and action, knowing that is not a linear gap, and there are levers that will accelerate or decelerate technologies according to the multimodal things we come up against. The scientific futurist looking at the science is one thing, but looking at the way in which that accelerates and scales is actually the key."

Ball is a big believer in using terminology and language everyone can understand, and making her work accessible.

She says one of the biggest criticisms of her latest book, *Converge: a futurist's*



Converge: A futurist's insights into the potential of our world as technology and humanity collide

insights into the potential of the world where humanity and technology collide, was the language and simple references. "I didn't want anything in an academic journal or behind a paywall.

"I don't believe that as a futurist, any of us need to dumb down. So if you say something like, all industries are going to be disrupted by the metaverse, you need to stop. What does the metaverse actually mean? The metaverse is a construct around virtual worlds where we're going to be taking things like Minecraft or Fortnite or Twitter or Sonic the Hedgehog and we're suddenly going to be using these online platforms like Wētā Workshop."

Ball connects the dots by asking "why would Peter Jackson sell his technology division for $2.3 billion to an American 3D game-development company? And why would a games company want to buy a movie company?" She quickly answers: "Because they are the same thing. They are telling stories. They are expressing creativity in a way that's immersive, taking you on a journey in a way the old movies from the 1970s with their cardboard cutouts did.

"We're now building these things in virtual worlds. For me, as a scientific futurist, everything is connected. Everything is converging. And the acceleration and deceleration of technologies is partially about how accessible these things are, but also how accessible the business models are. And this is where directors come into play.

"As board directors in general, we are not necessarily educated in the ways of new and emerging technologies," she says. "Emerging technology for directors isn't about the emerging technology, it's about the scaling of existing technology."

Ball says her work is not a mystery. “I try to look at the next business models that are going to scale and the technologies that are going to be converging. And the ways humans are going to be interacting with this. Is this healthy? Is this right? Is this wrong? Where do we need regulation and policy?”

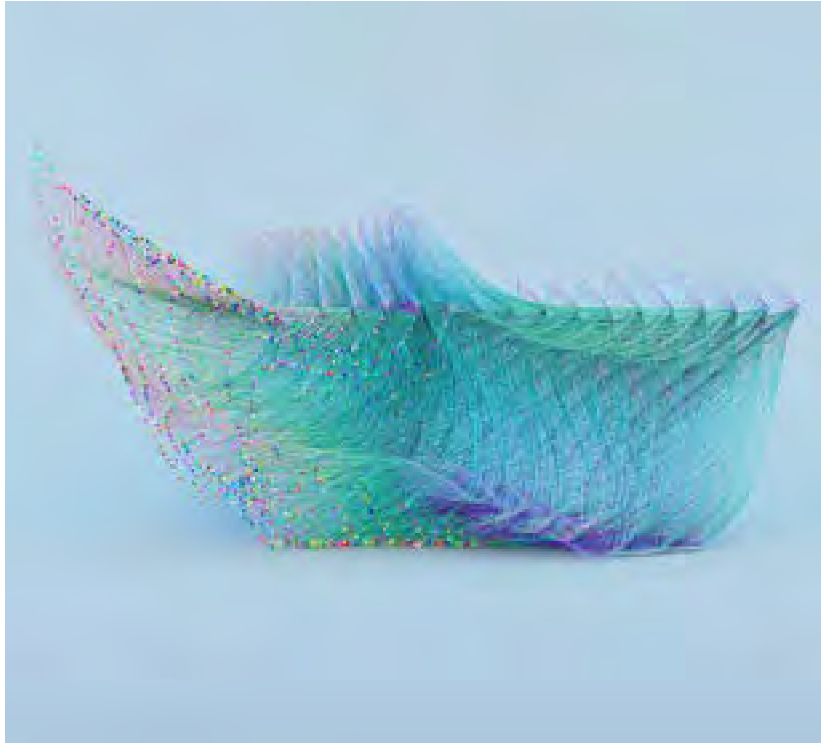
Two years ago Ball spoke at the IoD’s Leadership Conference and recalls conducting a straw poll about boards having a risk subcommittee. “Pretty much everyone put their hand up,” she says. But when she asked how many had an innovation committee “maybe three or four hands went up. There is a risk associated to not innovating and not being on the front foot.”

Ball’s book, which was published last October, gives an optimistic view on how technology can help provide answers to some of the biggest crises in living memory. It has lived up to its ‘prescient’ billing.

“In the very first manuscript – and I have this saved and timestamped so I could go to a court of law and defend myself – I predicted Facebook was going to rename itself Metaverse. In the 11 months it took between writing the book, finding a publisher and publishing it, they changed from Facebook to Meta. I was halfway right,” she says.

She also delves into using genetics for rewilding, bringing back the woolly mammoth and the thylacine (Tasmanian tiger) and AI curing cancer.

Dr Catherine Ball is a member of the Australian Institute of Company Directors. She is a founder of the World of Drones & Robotics Congress, speaking at the 2023 event in Auckland in May, and will host the first Futures Conference in Sydney on July 10-11.



Welcome to Web3 – the future of money

The metaverse can conjure up a frightening world for many, a fantasy world for some and a fulsome world for others – a place where virtual reality, augmented reality and other advanced technology allows people to have lifelike experiences.

Dr Catherine Ball describes the metaverse as hyper real, mega-connected, four-dimensial world space and virtual domains, where people (real or artificial) can live, work, play and connect.

The conference will also focus on Web3, the next evolution of the web powered by blockchain computing architecture and cryptocurrencies. “I think all directors need to be educating themselves about Web3, and doing it now,” she says.

“Web3 is all about the next stage of the internet. And that includes the future of finance and money, and how we’re going to be funding businesses. And how people are going to be investing, paying, saving and spending. The future of money is Web3.

“I don’t know what it is, but the startup world and the tech world do not know how to talk business. The business world doesn’t necessarily know how to talk academia and the government doesn’t know what to do with any of them.”

Photo by:
And Machines on Unsplash

The future of business is low emissions

Businesses, both small and large, face a number of real and perceived barriers to taking climate action. However, the evidence shows there are substantial advantages to acting now.

EECA data shows economic concerns are understandably at the top of the list for businesses. Only 55 per cent of business leaders report seeing climate change as an important or very important issue, and just 26 per cent are taking action.

So it's time climate action is recognised for what it is – good for business. And fast movers will be rewarded quicker, with:

- **Cost savings:** reduce operating costs through energy efficiency and fuel switching.
- **Greater social licence:** improve your reputation with socially responsible consumers and investors.
- **Increased brand value:** tap into new markets, spark innovation and create business opportunities.
- **Better employee engagement:** attract and retain talent.
- **Future proofing:** stay ahead of regulation for climate change mitigation.

The key steps to a climate pathway are:

1. Start with purpose.
2. Measure your business emissions.
3. Create an action plan.
4. Tap into co-funding and support.

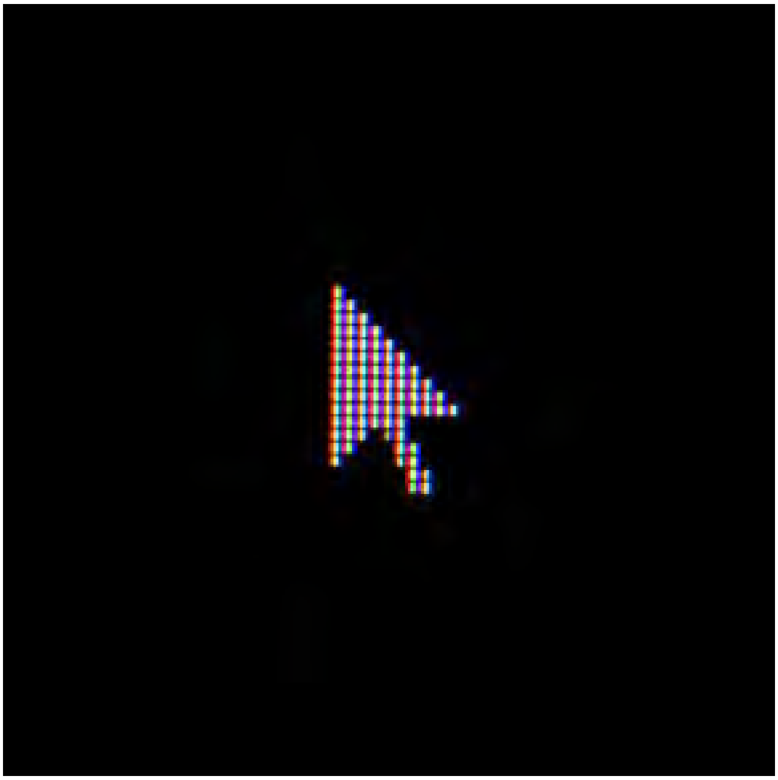
EECA and Gen Less can help you on your climate and decarbonisation journey.

Take your next step today – visit genless.govt.nz/business.

GEN LESS

EECA

Photo: Forest Lodge Orchard co-founder Mike Casey has turned his cherry orchard in Central Otago into a fossil-fuel-free business.



AI

Why AI might become your next executive

Imagine having an extra brain in your organisation, an extra thinker, and it just happens to be artificial intelligence, says Qrious chief executive Stephen Ponsford.

AUTHOR:
SONIA YEE

Photo by:
Liam Briese on Unsplash

The use of AI, data and analytics is in full train, triggering heated debate over the potential loss of creativity – and jobs – if full integration of AI takes place.

The mere presence of AI is forcing many workers to question their existence. But for businesses considering their financial survival with a looming recession, an ability to make hay while the sun shines means it is highly likely that AI is on the board agenda.

The persuasive argument is AI can boost productivity, which no doubt will cement its place in our working lives for the foreseeable future.

The question is, will it prove even more capable than any of us predict? And what do businesses stand to lose if they choose not to adopt these tools?

"There's an opportunity in front of us that could double the productivity of an average knowledge worker in a business," says Stephen Ponsford MInstD, CEO for Qrious, which provides consultancy for businesses around strategic integration of AI, data and analytics. A subsidiary of Spark, it has been operating for nearly a decade.

"Obviously, the competitive threat of other people doing that is too great for it not to become a major strategic priority right now," Ponsford says of an artificial intelligence space fuelled by data.

Formerly its chief technology officer, Ponsford's vision for the future of AI integration is limitless. And this is where you heed his wisdom. Ponsford believes AI has the potential to become your closest ally in the boardroom.

"Imagine just one more executive in your team and it just happens to be artificial intelligence. You can start asking questions and get it to do things," he says.

This is Ponsford crystal ball-gazing, for now. "That's probably how I would see those technologies – as an extra brain in

“I would encourage all boards to seriously start questioning how much benefit can be realised from these technologies, because if it’s not incremental you may miss a real opportunity.”

Stephen Ponsford

your organisation, an extra thinker. It’s quite something when you start thinking about it in more anthropomorphic ways.”

Ponsford can’t help but look to the future, one where AI is capable of doing that heavy lifting. For time-poor directors that could be a win if AI has the capability of scanning board papers to pull out the important risks and opportunities to inform crucial questions at the next meeting.

“I would encourage all boards to seriously start questioning how much benefit can be realised from these technologies, because if it’s not incremental you may miss a real opportunity,” he says.

Ponsford says it will also enable businesses to speed up manual, time-consuming processes. With some of this already under way and aspects of some jobs becoming automated, he says organisations will need to ensure they have a risk management strategy in place around privacy and IP protection.

So how can boards integrate this technology into their strategy to inform the future of their business? The answer lies in the collection of past data, he says.

“We know what’s happened in the past because we’ve got a fact set, and these are the types of things happening now in the business, whether they’re risks or opportunities. We’re really starting to lean into this stage of maturity and look at what might happen, what is happening, and some of the predictions we might have about the future through the data.”

That strategic insight will give boards an opportunity to maximise opportunities and financially sustain themselves, but can also be used to see and track things in the system that humans might miss.

“There are often leading indicators of future performance, but sometimes we don’t look at them. Like supply chain disruption, which generally hurts a manufacturing company in 12 months, but it doesn’t hurt them now because they’ve got enough supply.”

Having an ability to access relevant data points will enable businesses to visualise and understand them, Ponsford says.

“It is the hard-to-detect, multi-factor risk where you have ships not leaving a harbour, people not manufacturing goods, or people stuck at home. If you give that to a data model, it predicts supply chain prices really quickly. But for humans, when you’re living inside that, it’s really hard to understand.”

He adds this “impartial observer” will be useful in guiding boards and business through a recession. “We don’t know what the future looks like, but what you want to know as a business is whether something is going to cause you to get outside of your normal operating parameters, and understanding what those things are.”

Recently, the sector has seen a rise in significant investment in organisational capability through the implementation of data and analytics. Ponsford says this has also opened up new avenues and opportunities for those in the tech space.

But equally, in a tight labour market, he says boards can use these technologies to address the labour shortage.

“That skill shortage is going to keep growing, so it’s about how your business creates more low carbon, high-paying jobs by using data and improving the productivity of your business, as well as offering people different types of roles, apart from the more rudimentary ones,” he says.

But what are the risks of going too far? Ponsford suggests there is a fine balance between what businesses choose to automate versus talent optimisation.

“This is where it’s important to think about that magical human touch that you certainly don’t want to replace,” he says.

AI

Ensuring the AI dream does not become your biggest nightmare

AUTHORS:
HAYLEY MILLER, PARTNER, AND
GUNES HAKSEVER, SENIOR ASSOCIATE

Directors need to be acutely aware of the potential risks and consequences of using artificial intelligence tools.

ChatGPT requires only the mildest encouragement to become wildly florid. Invited to paint a picture of a future AI world, it writes:

"Waking up from a restless sleep, sweaty and short of breath, the haunting visions of both utopian and dystopian futures linger in our minds. The world stands at the precipice of unprecedented technological advancements, and the possibilities seem limitless, yet terrifying at the same time. However, just like most things in our existence, our future will not be determined by a dichotomy of two extremes."

It can appear at once both daunting in its possibilities and comically inept, but directors need to understand the benefits and risks of using this technology in their businesses, and be able to intelligently explain the pros and cons to their stakeholders.

The potent capabilities of ChatGPT offer remarkable productivity opportunities. However, like all emerging technologies, it also comes bearing dangerous gifts. Directors need to be acutely aware of potential risks and consequences from trust, information security and legal perspectives. We see four main risk categories:

1. PRIVACY

OpenAI, which developed ChatGPT, collects a broad swathe of user information. This raises the distinct possibility of private information – for which you are responsible – finding its way into the wrong hands.

The ChatGPT terms of use grant access to a great deal of your data: IP addresses, browser information, everything you ask, everything you type into their engine. And those terms also entitle them to share all of that data with unspecified third parties, without informing you.

New Zealand Privacy Commissioner Michael Webster expects anyone using systems that can take personal information to create new content to be thinking about the consequences of using generative AI technologies before they start.

Not only that, you are, when you use this technology, potentially putting customer, client, and even company/firm confidential data into the public arena. When the tool asks questions or performs tasks, any data you give is then indexed for future use by ChatGPT.

Photo by:
Branimir Balogovic on Unsplash

DENTONS KENSINGTON SWAN

Let's say you ask the tool to review a draft annual report. Everything you enter, as well as any work created by ChatGPT, is then included into its database and available to future users, which will likely include personal information and confidential information. It's then entirely possible for malicious users to use reverse prompt engineering techniques and prompt injection to dig up that material.

Given that organisations are responsible for safeguarding and protecting all such information and content, the gravity of the potential legal, financial, ethical and/or reputational risks should be all too apparent.

2. INTELLECTUAL PROPERTY

Compounding that vulnerability is the possibility that providing copyrighted content to ChatGPT as part of a prompt or request may infringe the content authors' or rights holders' intellectual property. Not only could this put a business under the risk of a copyright claim, it could also breach ChatGPT's terms of use, which require users to ensure they don't use the service in a way that infringes, misappropriates or violates any person's rights, and more interestingly, represent the output from ChatGPT as human-generated when it is not.

3. ACCURACY AND ETHICS

ChatGPT's knowledge is based on data up until 2021, which can limit its accuracy or lead to outdated responses. OpenAI has acknowledged this issue, as well as the AI's tendency to create "hallucinations" or plausible but incorrect answers.

There's also a concern with bias in ChatGPT's responses, as it is influenced by societal dynamics from user interactions, potentially leading to misinformation. Without diligent human oversight, businesses risk reputational damage and potential legal issues.

The ethical use of AI technologies like ChatGPT has raised demands for regulatory oversight, in the way of other industries such as food, medical and aviation. But until such regulations exist, these technologies are governed by guidelines set by their creators, reflecting their ethical choices.

4. CYBERSECURITY

ChatGPT's potential for misuse in cybersecurity is significant because criminals can leverage its writing and code-correcting abilities to craft sophisticated malware or phishing attacks.

CONCLUSION

As directors navigate the landscape of integrating artificial intelligence like ChatGPT into their businesses, it becomes vital to understand the implications, benefits, and risks it holds. It is imperative to balance the lure of increased productivity and opportunities with the potential challenges surrounding trust, information security, legal and ethical implications.

As the technology rapidly evolves, so will its implications, necessitating vigilant monitoring. Businesses should identify safe use cases matching their risk profile.

Possible strategies range from banning ChatGPT altogether to staff training and creating internal use policies, but there are two immediate, key actionable takeaways for directors from a governance perspective:

1. Ensure your organisation does not input personal information, confidential information, or copyrighted content to ChatGPT (or other AI tools) as part of a query or prompt, or do so only by using modes that prevent the use of your inputs by the provider (either to train their AI tool or otherwise) such as ChatGPT's incognito mode or ChatGPT Business.
2. Always have human oversight, sense, and fact-checking processes in place requiring ChatGPT outputs to be carefully checked by trusted, validated sources before using any of it in relation to business activities. ChatGPT's responses or output can include bias, inaccurate or flat out wrong information. There has been incidents where imaginary cases produced by ChatGPT has been found in legal citations, which were requested from the New Zealand Law Society.

Our future is not, in the end, determined by the technology we create, but by how we choose to use it.

"Waking up from a restless sleep, sweaty and short of breath, the haunting visions of both utopian and dystopian futures linger in our minds. The world stands at the precipice of unprecedented technological advancements, and the possibilities seem limitless, yet terrifying at the same time. However, just like most things in our existence, our future will not be determined by a dichotomy of two extremes."

ChatGPT

Iwi-empowered governance

AUTHOR:
NOEL PRENTICE

A Ngāti Whakaue-led initiative, with history at its heart, is helping guide aspiring directors and giving them inner strength.

Ngāti Whakaue, a Rotorua-based iwi extending to the coastal township of Maketū, has taken a trip back in time to see how its tūpuna (ancestors) governed, as it sets about creating a pathway for elevating its aspiring directors.

The initiative is being led out by Ngāti Whakaue Assets Trust and supported by the Pukeroa Ōruawhata Trust, the Ngāti Whakaue Education Endowment Trust and an advisory group made of Ngāti Whakaue people with expertise in areas such as history, whakapapa, tikanga (customs) and governance.

A pillar of the initiative is whakapapa – knowing who you are, where you come from, how you are connected to other aspiring directors and the Ngāti Whakaue facilitators, and acknowledging you represent your tūpuna.

Assets Trust chair Hemi Rolleston MInstD says this belief will ground the aspiring directors and help guide them in decision making when they enter the boardroom, as well as give them inner strength.

Last year a first workshop for the aspiring directors was held, as part of a larger Ngāti Whakaue Future Governors' Programme that is being developed. The two-day workshop in Tamatekapua, the central wharenui of Ngāti Whakaue, started with mihimihi and then a session on the history of the iwi by a Ngāti Whakaue historian. The IoD also delivered its Governance Essentials course.

On the second day, Ngāti Whakaue facilitated sessions discussing governance principles, approaches and methods used by their iwi historically, and compared this against mainstream models.

Taurua Grant MInstD, a former CEO of the Assets Trust who was instrumental in the design and development of the workshop and the larger Future Governors' Programme, said "the aim of discussing and comparing both mainstream governance models and 'Ngāti Whakaue models' is to provide the aspiring directors with a balanced perspective on 'best practice governance', taking the 'best' from both models".

Grant believes that a rounded perspective and thought process is very powerful and ultimately beneficial to boardrooms. "At the same time," he says, "we want our directors to feel empowered to be proudly Ngāti Whakaue when they enter the boardroom – whether that's a Ngāti Whakaue boardroom or wherever.

"They don't have to leave their Ngāti Whakauetanga at the door when they go in becasue it actually enhances what they have to offer. That's why we deliberately started and ended the two-day workshop with kōrero led out by Ngāti Whakaue. Firstly, this is our tikanga on our marae – that as the tangata whenua we have the first and last voice, and secondly, it was a subtle way of telling them there is value in bringing their Ngāti Whakauetanga to the governance space."

The aspiring directors analysed and critiqued the decisions of their ancestors through a governance lens, gaining insights into their principles over the centuries, including the Rotorua Township Agreement (or Fenton Agreement) where Ngāti Whakaue gifted land to the Crown to help form the Rotorua township.

“We wanted to learn from our tūpuna by exploring how we as an iwi have governed over time, from when we left Hawaiki-tapu to now,” Grant said. “How was our iwi structured and governed? Did we have a single leader? Did we have a group of advisors, like a governance board? What was the strategic rationale in gifting land to establish the Rotorua township?”

And what was learnt?

“A lot of the principles used by our leaders and governors back then, as well as their key attributes, can be related to today,” says Grant. “They just operated in a different environment. There was a very strong community-driven, forward-looking focus.”

In some instances, it was revealed, when making big decisions the leaders would lock themselves in meetings and stay until there was 100 per cent agreement.

Rolleston says Assets Trust is determined to break down barriers, and build networks and support for its people. “We want to build more capability within our tribe at governance level. We want to harness our talent and have succession plans for our current and future Ngāti Whakaue entities, as well as other boards of importance. This programme supports this.”

Grant added: “Our approach in this programme, and in all initiatives at Assets Trust, is around creating a safe and comfortable learning environment. We hold it in our marae, surrounded by our tūpuna, sitting alongside our whanaunga (relations). We try to take away the barriers to learning – sometimes this is the location or the learning cohort, other times its things like providing childcare.”

“We wanted to learn from our tūpuna by exploring how we as an iwi have governed over time, from when we left Hawaiki-tapu to now. How was our iwi structured and governed? Did we have a single leader? Did we have a group of advisors, like a governance board? What was the strategic rationale in gifting land to establish the Rotorua township?”

Taurua Grant

Rolleston, the first Māori chair of the MacDiarmid Institute, is a “big advocate” of diversity and speaks from experience.

“Diversity is no longer nice to have, it’s a must have,” he says. “Otherwise, you are going to be left behind. There is no longer a shortage of talent to pick from which may have been a challenge in the past.

“Don’t do it to meet a quota, do it because it makes sense to have diversity on the board and it’s good for the organisation. You need those diverse perspectives at the table. There’s a well-known saying, ‘if you’re not at the table, you’re on the menu’. Those days are well and truly over.”

Rolleston, who is the general manager of Te Ao Māori and Science Services at Scion, says Ngāti Whakaue has a lot of talent and huge potential. “In the past we have tended to recycle the same people in our board roles. I was astounded by the level of capability at our inaugural Ngāti Whakaue workshop. It really helped to identify that.

“We have since had several participants take on director opportunities, with our entities and outside. I am sure this will be much the same across other iwi. What is also important is there are more roles now available other than only in our own iwi governance.

“Our initiative has sparked a lot of interest from other iwi who are looking at us. We will happily share our knowledge and learnings – that’s a given in the world of te ao Māori,” says Rolleston.

Grant says the younger generation are living in a different world – obviously from their ancestors, but even from their parents and grandparents. However, he says they are strongly versed in who they are and the values they have.

“These are our leaders of the future, so how do we support them? Things are changing so quickly and it’s our younger ones that are more in touch with, and

"Our initiative has sparked a lot of interest from other iwi who are looking at us. We will happily share our knowledge and learnings – that's a given in the world of te ao Māori."

Hemi Rolleston

closer to, the future. When I speak to our aspiring directors they are here to make Rotorua and Aotearoa a better place for all of us to live, not just Ngāti Whakaue. We need to support their development and open up opportunities for them.

"We're not saying that our workshop is a better model than other mainstream models, but we wanted to explore whether there were better models for Ngāti Whakaue, models that resonated more with our people by incorporating our kōrero and our whakapapa. I know other iwi will relate to this. As Hemi said, we definitely encourage the sharing of learnings with other iwi."

A more comprehensive associate governance-like programme is being developed, which will emphasise peer networks, coaching and formal training modules. Only those who have attended the initial two-day workshop will be eligible to apply.

Grant says Assets Trust puts a lot of emphasis on building peer networks, as a source of support and learning. This will be especially useful for the intensive training modules, where the aspiring directors will focus on critical thinking and analysis, and ensuring a 'governance' lens is applied.

"For example, we don't just want you to be able to simply read a set of financial accounts, as your accountant can do that if needed. We want you to be able to read the financial accounts and then look at the information and consider what it means from a strategic point of view."

Grant said while the iwi would love to be able to offer governance roles to all its aspiring directors, there are only so many roles across its entities.

"That's not necessarily a bad thing," he says, "because there are benefits for the iwi in our aspiring directors picking up governance roles elsewhere. That expands the reach, representation and influence of our iwi. We need to ensure the people who take outside roles feel adequately supported by the Ngāti Whakaue."

Grant, winner of the inaugural IoD Bay of Plenty branch's Te Moana a Toi – Kaitohu-Taura, Aspiring Māori Director award in 2022, is now CEO of Te Arawa Group Holdings, a commercial asset holding company with investment in forestry, horticulture, property and tourism.

Te ao Māori aligns with global shift

AUTHOR:
SONIA YEE

Incorporating the Māori worldview into boards and businesses needs to be authentic, people driven and begin with hearts and minds.

Traditional thinking at the board table has seen a major shift in recent years and moved beyond the financial, with a multitude of external and cultural factors impacting decisions. Social issues, technology, climate, wellbeing, and diversity and inclusion are now playing increasingly significant roles.

New Zealand's acknowledgement of its biculturalism and Te Tiriti o Waitangi – the Treaty of Waitangi is also integral for boards to consider as part of their duties. Many organisations across Aotearoa have begun upskilling their staff in te reo Māori, with some adopting te ao Māori into their organisational strategy. The question is: what do businesses stand to lose if they don't?

STORIES WRITTEN IN SAND

ASB has linked with New Zealand artist Marcus Winter, aka 'The Sandman', to "start a conversation with directors about Māori governance and build cultural capability". Winter, known for telling stories with his intricate sand art creations, produced a number of works at the IoD's Leadership Conference in May, inspired by themes such as the Māori economy and leadership. His artistic passion stems from his Māori roots and the desire to promote and preserve Māori culture on an international scale.

With an increasing emphasis on stakeholder engagement, directors on all types of boards need to be cognisant of the changes in the landscape to ensure they are meeting the needs of their customers.

But while seeing through a 'cultural lens' might be a stretch for some directors, the reality is te ao Māori aligns more closely to current global thinking and governance than people might realise, with benefits to firms' financial resilience, reputation and more.

The transition to thinking about 'people and the planet' is now part of director duties encompassed under ESG (environmental, social and governance). Ignoring the shifting tides of major global issues that also impact Aotearoa's supply chain would be neglectful of boards whose role it is to make decisions for the best interests of the companies they serve.

Krissi Holtz and Anthony Ririnui outline the importance of te ao Māori, a holistic perspective on the world where people, the environment and community are at the heart. They share how the Māori worldview can be adopted by boards and incorporated into businesses, but they warn there is a need to tread carefully.

"This kind of broader picture thinking is not about profit. This is about people and the planet, and these ideas of whānau and environment are fundamental to Māori culture and the Māori worldview," says Holtz, ASB Executive Manager – Kaupapa Māori.

The current shift in thinking coincides seamlessly with te ao Māori. Holtz sees this as an important opportunity for businesses to address global issues.

New Zealand businesses have the advantage of being able to draw on an established knowledge base that has existed for centuries. Holtz says directors can lean into this but need to take time to do it properly for the outcomes to be successful and, most importantly, authentic.

"We're not talking about just purely operational change, which is really common to switch into when you're in business mode. Instead, you need to go slow to go fast, but you need to do it right," Holtz says.

This is transformational change, according to Holtz, "which needs to be authentic, people driven and begin with people's hearts and minds. This is when the magic happens."

Ririnui, ASB Kaihautu Māori – Te Waka Whaihua, agrees: "There is also some intergenerational thinking that is going on right now. If we talk about people and the planet, it's about making decisions that are values-based."

In many boardrooms, there may be tension between old and new thinking: a push and pull of 'this is how we've always done things', versus a new approach to decisions that are now informed by external environmental and social conditions.

"We are in a unique position in Aotearoa because we have some guidance with Te Tiriti o Waitangi in terms of what a good partner looks like . . . we have these guiding principles as part of our Māori worldview," Ririnui says.

Holtz says incorporating the Māori worldview can help businesses represent themselves uniquely on the world stage.

"We're in this interesting period as a nation of understanding our own history as a country. So, it's really important for us to lean into some of the uncomfortable discussions about how our nation was built," she says.

But first, a shift in mindset must happen before applying key decisions across an organisation. This is important in order to avoid what Holtz refers to as, "Pai washing" or "Māori washing".

"We're in this interesting period as a nation of understanding our own history as a country. So it's really important for us to lean into some of the uncomfortable discussions about how our nation was built."

Krissi Holtz

"We have funded a number of Māori organisations who have also been recipients of government funding for social housing outcomes – these projects are important for a bank."

Anthony Ririnui

Just as greenwashing is used to 'cover up' or market sustainable values that may not be happening beneath the surface, Pai washing can have negative impacts on businesses.

"That's where we have to be really careful because it's easy for organisations to take one element of the Māori world, such as using te reo Māori in communications, which is important, but then not integrating other culturally important factors such as values, community connection and whānau and inclusivity. There needs to be a holistic view to do this right," she says.

The caution around moving too quickly can create a workplace culture that lacks authenticity, and while Holtz sees revitalising and normalising te reo Māori as a positive shift, she says a strategy is needed to ensure cultural elements are embedded through a gradual process with a longer term vision.

This will require boards to be mindful about how they implement their strategy in a meaningful way.

"Directors need to be really cognisant of outlining what steps they need to take to get there, so they can show they are being authentic, and not just taking elements of the Māori worldview because it looks good and it's going to bring profits. Boards need to make sure they're implementing initiatives to build really great outcomes for Māori and Māori communities and customers, but ultimately, for Aotearoa as a whole," Holtz says.

Ririnui's role is external facing, and he says climate and environmental issues are often seen as a corporate compliance issue. He adds it is also important for businesses to address social factors as part of the bigger picture.

Many of ASB's initiatives are driven by feedback. The company supports community projects, including financial inclusion programmes and financial literacy for school-age children. It also supports community housing.

"We have funded a number of Māori organisations who have also been recipients of government funding for social housing outcomes – these projects are important for a bank," Ririnui says.

For bigger corporate entities, he says social responsibility and engagement is necessary and important, including supporting Māori clients. Again, that comes back to te ao Māori bringing everything into the bigger picture to create success and wellbeing.

For those organisations struggling to understand the benefits of integrating te ao Māori practices, there are plenty of positive outcomes. According to Holtz, it can build a sense of pride and belonging in an organisation, and this is reinforced through the courage needed to create change.

"Directors will see their businesses and the people within the organisation thrive. We all make up the five million or so people in Aotearoa – it makes you a proud New Zealander because you know you're playing your part in terms of setting the path for the next generation," she says.

Ririnui says organisations will also earn their social licence and create stronger connections with customers, including higher engagement with the Māori economy.

"There is a higher likelihood that people would do business with a company because of this approach [integrating te ao Māori principles]. We've seen it across corporates. It enhances their reputation and supports their social licence within the business community." Ririnui says.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Fountain of youth

Expect to be challenged and expect change because young people have a different attitude to problem solving, and are, by nature, long-term thinkers.

AUTHOR:
JEMMA BALMER MInstD

I'm waiting in the Xero building in Wellington. I'm early because I'm nervous. I know I'm supposed to wait here, but I'm alone. Should I try to get up to the third floor? What if the lift is only operated by a staff fob and I look stupid? What if the meeting started at 12, not 1? What if it's tomorrow?

I'm just about to check the introductory email for the fifth time that morning, when in walk Guy, Aaron, Kim, Mary, Cal, Andrew and Arizona. Kim has a sparkly gold helmet under one arm, Arizona's popping her headphones back in their case, and Mary is trundling a stylish wheelie bag behind her.

"... and I've just heard about the new plans for lower Cuba Street, it looks like a – oh, kia ora, you must be Jemma?"

Andrew sticks out his hand without waiting for a response.

"Welcome to the board of Inspiring Stories. It's wonderful to have you here."

It's long been accepted that homogeneity around a board table compromises the effectiveness and foresight of directors. Although the word "diversity" may be so overused, it feels banal and insipid (rather like "community" or "pivot"), there is a reason you're hearing it talked and written about so much.

Simply put, the more different the skillsets, backgrounds and experiences of your directors or trustees, the more resilient your organisation. Leading the charge within diversity efforts seems to be gender and ethnicity, but boards are now commonly seeking and welcoming neurodivergence, a variety of gender expressions, those who are disabled, those in the LGBTQIA+ community, and those who live rurally.

In the spring issue of Boardroom, it said the average age of board members in October 2022 at Russell 1000 companies in the US was 61. This data is not collected in Aotearoa, but the average age for an IoD member in 2022 was 53. Though it is a small sample size, IoD members appointed to NZX Top 50 company boards between October 2020 and September 2021 had an average age of 61.

As a 31-year-old trustee, I regularly find myself at board meetings and governance events with people more than twice my age. I understand why this is – a higher age often has a strong correlation with

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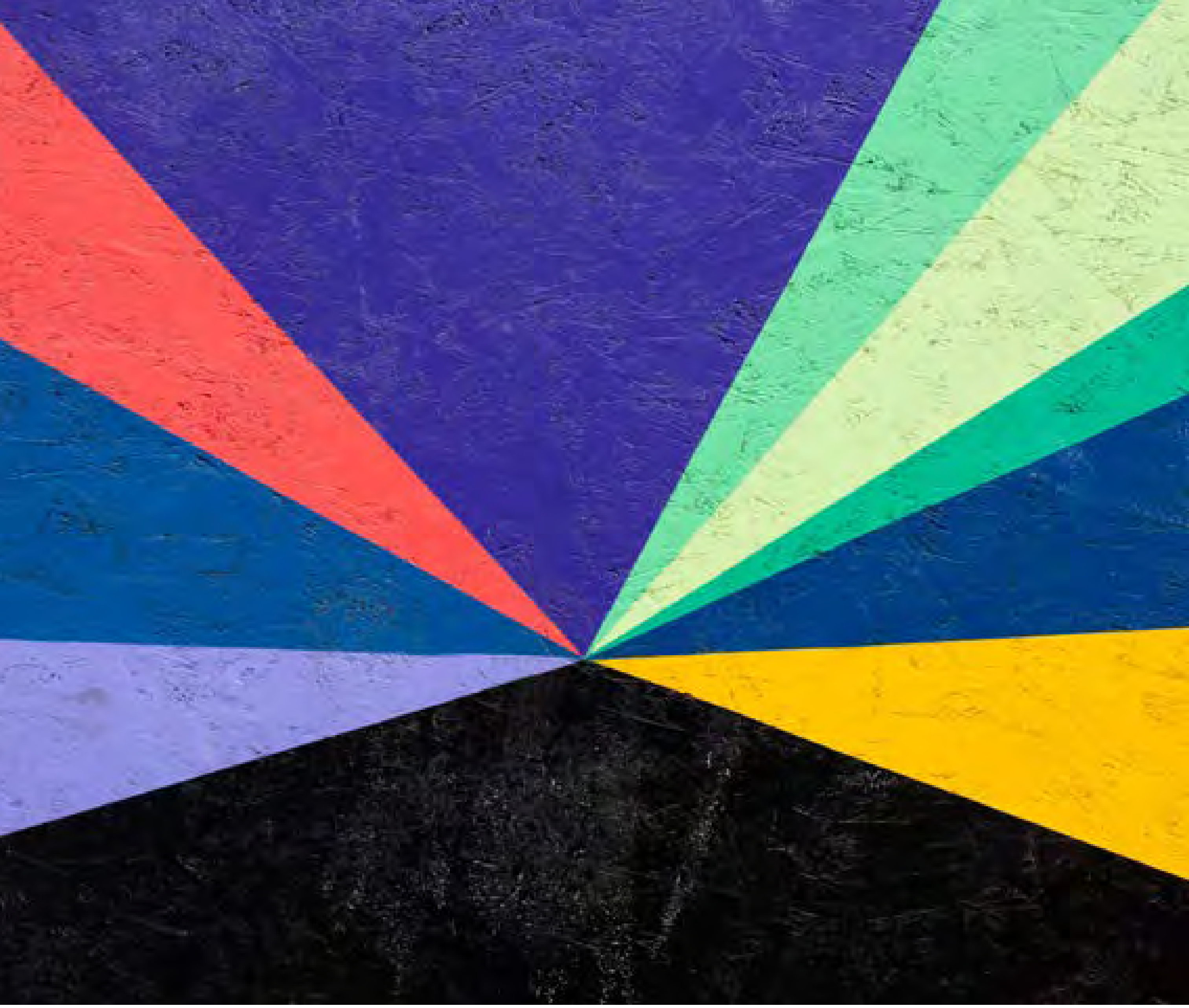
Delila Ziebart on Unsplash



more varied and relevant experiences that benefit a business or charity. While no generation is perfect, with experience can come complacency and an aversion to change. That's a dangerous combination.

The community of directors and trustees in Aotearoa is coming to understand the importance of having younger voices, where the value of our whakaaro is not in spite of but centred in our naivete – our willingness to ask questions, challenge why things are a certain way, and ensure the long-term impact of current decisions remains top of mind.

"The community of directors and trustees in Aotearoa is coming to understand the importance of having younger voices."

In acknowledgement of this, and wanting to support people early in their governance career, the IoD offers a First Steps in Governance Award in Ōtautahi, a stepping stone for traditionally younger professionals to join an established not-for-profit boardroom. Having seen eight of these award winners onto the Ronald McDonald House South Island (RMHSI) Trust Board, Jock Muir MInstD has seen the benefits first-hand.

Muir says younger people have a different attitude to problem solving. Just by being at the table, they challenge old dynamics between established board members, and the homogeneity of thought that can come with that. He says they changed more seasoned directors' thought processes and decisions, and as a board wanting to do the best for the families staying with them, that was just brilliant.

The experience of being one of those young trustees has a positive ripple effect. Maddy Sinclair was a First Steps award winner in 2017 and her experience with RMHSI changed how she governed the charityx Forward Foundation.

Sinclair says the award was a game-changer. Being on the RMHSI board opened her eyes to best practice, and helped her chart the path for the Forward Foundation to grow from the informal committee that they started out as to becoming a proper board, focused on strategy and risk.

Others eschewed the need for a structured programme where younger members were introduced to governance as observers by simply putting together a skills matrix that included 'youth' as a desired trait and going to market.

One of those was Inspiring Stories. I was one of four new trustees recruited onto the board in 2020. We were all under the age of 40. When I asked former board chair Andrew Weaver about this decision, he says it was intentional.

Weaver says there is a phrase in DEI (diversity, equity and inclusion) mahi that he had heard quite often: 'Nothing about us, without us'. He says they were a not-for-profit focused on young people, and it was painfully clear they needed that perspective on their board, from multiple angles.

There are differing opinions in governance about whether having interns on the board is a necessary step.

Weaver says if they were going to authentically include those who didn't necessarily have governance experience but brought all kinds of other lived experience, they didn't want them to just be observers. They were very clear – 'at this board table, no matter your age or experience, you have an equal seat, an equal voice, and an equal vote'.

> "Whether you bring young people on in a more structured way through the IoD's programmes or choose to prioritise this when you are next recruiting, those who have undertaken this mahi know the benefits will outweigh the concerns."

Threaded throughout conversations about this topic with directors, young and old, around the country, was the principle of ako – that beautiful, reciprocal idea of teaching and learning occurring simultaneously.

Erin Black, who is on the board of the Canterbury Chamber of Commerce and a member of the Australia New Zealand Leadership Forum, found that to be the case when she started mentoring an Aboriginal leader in the forum who was in her early 20s.

She says she wanted to provide young people with the ability to step into themselves. It turned out the leader was the one mentoring Black and she learned "so much".

High-performing boards understand where they have got room to grow, and whose perspective they are missing. Whether you bring young people on in a more structured way through the IoD's programmes or choose to prioritise this when you are next recruiting, those who have undertaken this mahi know the benefits will outweigh the concerns.

Sinclair says young people have such a natural disposition towards governance because they are, by nature, long-term thinkers. Thirty years into the future is when they will be in their fifties and sixties – where most directors are at now. Actions taken in the present have consequences these rangatahi will have to live with. They want to make that future as positive, equitable, and fertile as possible, Sinclair adds.

And as I think back to the nerves and excitement heading to the Xero lift with my security pass and a babble of introductions going on around me, and then walking into my first ever board meeting as an Inspiring Stories trustee, I knew that to be true, even then.

"We have all seen tokenism at play at board tables; this is known as 'hiring for diversity, managing for assimilation'. Ask yourself, as a board, are you ready to listen to what young people will want to share? Are you prepared to act on it?"

WANT TO BECOME A BOARD MEMBER?

ON FINDING ROLES

1. Never forget your age is an asset.
2. All of your experience can be relevant – if you know how to frame it. How can you come to understand your experiences as points of difference?
3. What do you have to lose by applying? As Seth Godin says, "'Will I get in?' is not nearly as good a question as, 'Is it worth trying?'"
4. Don't take 'no' personally. That's the fuel to try again.

ONCE YOU HAVE JOINED

1. Be proud of the mana you bring. You have now been chosen so you have a responsibility.
2. Make an effort to find common ground with other board members.
3. Seek out a mentor, either on your board or someone else with governance experience who can talk you through your experiences and offer their perspective.
4. Keep asking questions.
5. It will be hard. You learn governance by doing it.
6. Recognise when you're not 'young' anymore. Hold the door open for those coming after you.

SUGGESTIONS FOR BOARDS/ MANAGEMENT

IN PREPARATION

1. Bringing on a young person may be a part of your diversity, equity and inclusion strategy. Remember, one young person does not speak for all young people. We have all seen tokenism at play at board tables; this is known as "hiring for diversity, managing for assimilation". Ask yourself, as a board, are you ready to listen to what young people will want to share? Are you prepared to act on it?
2. Regardless of their age, preparing for a new board member requires time from the chair and management. Factor in spending more time answering their questions and giving them personal experience of your organisation – site visits, 1:1s with specific staff, or explanations about your specific industry or kaupapa.

ONCE THEY HAVE JOINED

1. Create the space for young people to speak up. This may mean changing how meetings are chaired, or how people are called on to contribute.
2. Be patient. You're seeing us work through the learning and growth curve in real time.
3. Encouragement goes a long way. We all remember the feeling of being out of our depth, or being an imposter. Ensure young people on your board understand that their perspective matters and their contribution has the power to change things.
4. Expect new perspectives to shift your own thinking. Expect to be challenged. Expect to start doing things in a new way. Expect to learn a lot. Expect change.

Why engineers bring value

Logical thinking is a strength and with every project engineers deliver they become well versed with the Four Pillars of Governance Best Practice.

When I joined the Institute of Directors, I came across the Four Pillars of Governance Best Practice and as engineers often do, I thought of whether I have seen a similar system before. And I found it in large project delivery.

Determining purpose – *all projects have a goal/objective*

"Build a net-zero carbon office building," or as one client said, "the largest building complex in the world". Having a purpose makes it easier to develop the strategy. A purpose statement helps bring focus to creative design minds.

Effective governance culture – *all projects need to have a strong project control group (PCG)*

PCGs are formed with client rep, project manager, risk manager, quantity surveyor and others as required from the discipline leads. The project manager plays the role of the chair and helps drive the culture. There needs to be robust debate that drives decisions that are sometimes based on data and sometimes on gut feel.

Holding to account – *With regular meetings, the actions are raised and allocated with deadlines to client/PCG/ discipline leads. This is used to hold all stakeholders to account.*

Being a consulting engineer, we know that time is money and so making decisions quickly seems to be the order of the day to keep the large teams moving. Even if we have fix fast as a team in the future.

Effective compliance – *with resources consents, building consents, the building act and all the related regulatory requirements, compliance spend can be enormous so finding effective ways to reduce compliance costs and effort is key to successful project delivery.*

With every project that engineers deliver they become well versed with the Four Pillars so it is easy to apply that in a board context.

What can be tricky is availability of data to be able to make good governance decisions. Data is what drives engineers. We all start our professions with calculations of some sort or the other that help us make decisions. As we gain more and more experience, the decisions are made by experience and the calculations are carried out as checks and for minor modifications.

With more time in the profession, the amount of black and white reduces and we are all practising in the grey. This is where an engineering mind is able to provide good governance in situations where defendable decisions have to be made with limited/no data.

AUTHOR:
KRISH SHEHARAN, MInstD

Photo by: Ashkan Forouzani on Unsplash

I help clients with large nationwide asset portfolios to understand their seismic risks and establish risk reduction frameworks. Once the risks are known, having a defendable and practical risk reduction frameworks (plan) is the area with a lot of interaction with boards and senior executives of organisations.

This helps in observing the various approaches adopted and where value is added with engineering arguments – for example, "will we able to defend our decision today if there was a seismic event and one of our employees got hurt or worse?"

As engineers are logical in their thinking, process or system design comes naturally. With a good process in place, accountability and compliance tend to get achieved on a consistent basis. In the same vein, lack of process stands out early and in a governance context this is a large glowing red siren needing attention.

Engineers mostly communicate complex solutions to non-technical clients/stakeholders and this means being able to explain difficult subjects that matter in a simple way. This same skillset can be transferred to the boardroom where time is limited and decisions that lead to simple solutions.

Lastly, from personal experience of working in locations where the culture is drastically different – I worked in Thailand for three-and-a-half years and experienced a few challenging differences:

"What can be tricky is availability of data to be able to make good governance decisions. Data is what drives engineers. We all start our professions with calculations of some sort or the other that help us make decisions."

1. Boardroom discussions are often not where the robust discussion happens, but where the final touches are made. There are discussions done beforehand so no one loses face in the boardroom (that means if an idea is tabled and it does not get the required support, there is potential for embarrassment). This has its upsides and downsides. The main downside is that key powerbrokers/influencers manage to "sway" the discussion and this may not be the right decision for the firm. The upside is that all opinions do get heard, which in a hierarchical society isn't always the case.
2. The boardroom is not a place for passion. You might be passionate about sustainability or such other topics, but bringing that out in a measured way is the norm. Getting excited and raising your voice is considered rude and will end up reducing the value of your input.
3. Language is a barrier. Knowing the language makes you understand the undertones of the conversation and this yields in better decision making. Investing in learning the language is worth its weight in gold.
4. As a board member there needs to be a line between governance and management unless the firm is in some strife (imagine a large factory fire). The hands-on approach you take as a board member in working with management or the team is seen as true leadership, where you have removed the perceived hierarchy and managed to get your hands dirty.

***Krish Shekaran** is Principal & Structural Engineering Global Structures Workshare Manager, Beca.*

OPINION

Taking a ground-up approach to sustainability

AUTHOR:
SEAN MARSHALL CMInstD

Photo by:
Charles Etoroma on Unsplash

Healthy buildings contribute to a healthy workforce, which studies have shown to increase productivity and staff retention.

Sustainability – like charity – begins at home. When it comes to demonstrating environmental, social and governance (ESG) leadership to stakeholders and investors, as well as adding to the bottom line, the buildings that companies inhabit are an obvious place to start.

ESG considerations are increasingly taking centre stage in the boardroom, meaning directors have to swiftly upskill on climate-related issues, and navigate the vast and perplexing maze of regulations, certifications, responsibilities and opportunities that apply to them. The path is seldom well marked, however, and directors frequently ask – where do we start?

One place where tangible results can be enjoyed in the short to medium term, as well as far into the future, is right under our feet.

New Zealand's Toitū Envirocare, whose leading-edge carbon reduction programmes have become the standard throughout New Zealand and beyond, has reinforced the significance of buildings in the sustainability landscape with the launch of its carbon-zero building operations certification programme. The scheme offers New Zealand building owners a robust pathway to certify their building operations as zero carbon.

Sustainability factors are a core part of that assessment, not just because of an increasing focus on corporate responsibility, but because of the substantial impact they can have on the value of a built asset.

In the commercial property sector, sustainable buildings are becoming easier to lease and sell. In Auckland's CBD, the percentage vacancy rates for Green Star-rated buildings is lower than non-rated buildings, as occupiers tend towards higher quality, more efficient spaces.

It's a no-brainer. Sustainable buildings are more efficient to run with lower operating costs. Energy efficiency in particular is a hot topic, with the government strongly signalling it is prepared to legislate to bring standards up. The NABERSNZ scoring system, which rates a building's energy efficiency, will be mandated on many commercial buildings by the end of 2024. If New Zealand follows the lead of the UK, we may also see it become unlawful to transact on buildings that perform below a minimum energy efficiency standard.

While energy often takes the headlines, water efficiency can't be overlooked either, especially in light of the climate-related disasters New Zealand has suffered. With its commodity value only likely to increase, building occupiers can look to make further savings on operational expenditure through water-saving and reuse techniques.

Increasing efficiency and reducing waste is often where sustainability efforts end. But futureproofing and extending the life of a building can also be achieved with other means, too. Healthy buildings contribute to a healthy workforce, which studies have shown to increase productivity and staff retention.

Accessibility, wellness and placemaking should also be considered a core aspect of a building's sustainability. In fact, the impact on productivity is so great, a Harvard study put the benefits from increasing ventilation – which increased cognitive function – at a staggering US$6,500 per person per year. “Green”-rated buildings with improved ventilation boasted a staggering 101 per cent improvement in workers’ cognitive function.

There is more to sustainability than a high Green Star rating or NABERSNZ score, and the lack of one doesn’t preclude a building being considered sustainable in the future. There is much that can be done to enhance the sustainability of existing buildings, and in turn their value as an asset.

Certifications can be useful tools for communicating a company’s tangible efforts and positive outcomes to an increasingly informed public, and internally to provide sensible frameworks for monitoring and improvement. But it’s important for directors to understand the financial and administrative burden associated with gaining and maintaining them.

> “If New Zealand follows the lead of the UK, we may also see it become unlawful to transact on buildings that perform below a minimum energy efficiency standard.”

Sustainable buildings offer lower risks and greater returns, as well as forming part of the wider strategy to achieve ESG targets. But whether acquiring new property or adapting existing premises, expert advice is critical to ensuring they also remain commercially viable.

Working through the challenge of improving sustainability can be viewed much like eating the proverbial elephant – best done one bite at a time. Starting from the ground up and taking small successive steps can still reap significant rewards.

Sean Marshall is a director of Prendos and Respond Architects, as well as a Registered and Chartered Building Surveyor. He is an internationally experienced technical specialist in the area of commercial property and has developed and refined the company’s approach to commercial surveying since 2010.

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Institute of Directors CEO and presenter Kirsten Patterson says directors need to understand and grapple with a rapidly changing social, economic and political landscape, and their decisions need to keep pace and remain well-informed.

"It is a director's job to ensure the wellbeing of the company or organisations they serve. Ultimately, the decisions they make impact on employees and volunteers, and that trickles down to the surrounding communities who might use an organisation's services, or buy a company's products," says Patterson.

Interspersed with director stories are perspectives from researchers and psychologists, including Dr Emily Beausoleil from Te Herenga Waka/Victoria University of Wellington, who talks about "the right to speak" and why it's harder for those who don't hold status in society to do so.

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Go to **iod.org.nz/news/articles/across-the-board-podcast/#**

'Across the Board' won silver at the prestigious New York Festivals Radio Awards 2023, 'Business Podcast'. The international platform recognises excellence in audio storytelling, craft, innovation and journalism and was judged by more than 200 industry experts from around the world.

Across the Board is presented by Institute of Directors CEO Kirsten Patterson and former RNZ broadcaster Sonia Yee, who produced the series.

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Public defender

Rodney Scott, a proud and passionate public servant, finds the perfect fit – not-for-profit boards whose missions are to advance the study and practice of public administration, and governance.

AUTHOR:
PATRICIA THOMPSON, FREELANCE WRITER

Rodney Scott CMInstD, chief policy advisor for Te Kawa Mataaho – Public Service Commission of New Zealand, began his professional career as an osteopath, but soon realised he could have a greater impact working at a policy or institutional level.

So began a journey that now embraces public policy, research and governance, with each role complementing the other.

Scott's primary role at Te Kawa Mataaho is helping design the structures, rules, responsibilities and practices that help the public sector be effective and act with integrity. He is also Chief Science Advisor for the organisation and participates in the cross-government Chief Science Advisor Forum.

He is a board member of the Institute of Public Administration New Zealand (IPANZ) and chair of Victoria University of Wellington School of Government Trust. As a Professor of Public Administration at the University of New South Wales, he specialises in public governance and has held visiting fellowships and lectured at Harvard, Oxford and Cambridge Universities.

"I think all of my roles are mutually reinforcing," says Scott. "My research work gives me insights that I can apply in designing public policies and in governing organisations. Work in policy and governance helps inform my research work by highlighting the issues that matter. Governance informs policy because it provides insights into the demands of governance roles."

Scott gained a double degree in Osteopathic Science and Clinical Science in Melbourne before moving to New Zealand in the early 2000s. Always "interested in helping people", he also founded an NGO to support adaptive life skills training for people with acquired physical disability – such as following strokes.

Osteopathy gave way to roles in larger NGOs, including in senior management for the New Zealand Plunket Society, which provided valuable insight into governance. "At the time Plunket was configured as a large number of nested organisations – branches and sub-branches, underneath an area society, underneath the national society.

"Each entity had its own volunteer governance board and the interface between a professional nursing service and community-based volunteer groups was the cause of a lot of the complexity, but also the unique value of the organisation."

Scott moved into government policy in 2008, in tandem with his academic career. He completed a PhD in system dynamics modelling and his ongoing research is focused on how public organisations are designed and, in particular, how to ensure that multiple organisations can work together on areas of shared or overlapping responsibilities, or can collaborate to achieve collective impact.

He has written five books. The most recent, both published in 2022, are *Contingent Collaboration: When to Use Which Models for Joined-up Government* (Cambridge University Press), and *Targeting Commitment: Interagency Performance in New Zealand* (Brookings Institution Press).

Alongside this intense work schedule, he says there were two main drivers for also becoming involved in governance.

"First, the Public Service Commission designs the institutional arrangements for public organisations, including arms-length bodies like Crown Entities, that are governed by a board. We recently passed the Public Service Act 2020 which has significant implications for Crown Entity governance, and we are the responsible department administering other relevant legislation as well, like the Crown Entities Act 2004 and the Protected Disclosures Act 2000, which has just been amended.

"I thought if I'm going to be contributing to the design and the legal and policy context of these types of entities it was important I had direct experience with governance.

"Second, in my academic role I do a lot of research on how to configure government to deliver the best outcomes and protect the integrity and legitimacy of those institutions. There are theoretical and empirical arguments in the literature for one governance arrangement over another, and it seemed appropriate to bring some of that knowledge to practice and also to test those inferences against practical realities.

"When we imagined these different roles it was going to be 20 hours' policy and 20 hours of research, but it is difficult to make that work because the demands of policy work are measured in hours and research work is measured in months, so urgent work would come first. Now I do sabbaticals to concentrate purely on research.

"I think there is a similar tension for people who do governance work and professional management work because the two often work on different time scales and different levels of granularity, so switching modes of thinking between the two requires some discipline."

"I think there is a similar tension for people who do governance work and professional management work because the two often work on different time scales and different levels of granularity, so switching modes of thinking between the two requires some discipline."

As a “passionate public servant”, his primary interest lies in public governance but he recognised his Te Kawa Mataaho role might make it complicated to take on governance in a public organisation such as a Crown entity. So he opted for two not-for-profit boards whose missions are to advance the study and practice of public administration and public governance.

The Victoria University of Wellington School of Government Trust – set up with a $4 million government contribution in 2004 – funds education and research programmes to improve public policy or public administration in New Zealand.

IPANZ is the professional association for public servants and aims to support the development of a high-performing public sector.

“Both organisations operate with a small budget and so have to be very judicious in how we allocate resources. There are about 60,000 employees of public service departments, and about 300,000 in the wider public sector, so we have to think carefully about what investments will make the biggest impact.

“I believe in the power of public institutions to do good, but I am not sure that is consistent with the stories the public know and that we tell ourselves in public service.

“If you think to the most important cultural and societal changes over hundreds of years, for every important human happening, you would be hard-pressed to find anything more important than public services. For instance, public education, reducing poverty and suffering, providing sanitation and public health. These are some of the most important things in society.

“Our country scores at the top, or near the top, of most international measures of public services. New Zealand is very good at it but we don’t feel proud of it in the way we should. I enjoy working with IPANZ because I like the idea of public servants being proud of being public servants and feeling excited about it.”

> “The value of public trust was particularly evident during the Covid-19 pandemic. So boards of public organisations need to be vigilant to protect the integrity and legitimacy of the organisations they govern, and continue to earn the trust of New Zealanders.”

He sees the issues and challenges facing the boardrooms of public and private organisations as “overlapping but distinct”.

“One issue that is particularly relevant to public organisations is public trust. New Zealanders have relatively high levels of public trust and confidence in their public institutions. In other countries where this has dropped, this reduces social cohesion, cooperation with government and the ability of public policies to be effective.

“The value of public trust was particularly evident during the Covid-19 pandemic. So boards of public organisations need to be vigilant to protect the integrity and legitimacy of the organisations they govern, and continue to earn the trust of New Zealanders.

“For example, there are new requirements for Crown Agents under the Public Service Act 2020 and the Protected Disclosure (Amendment) Act 2022. Amendments that are intended to protect the integrity of these organisations. The principle of political neutrality is a longstanding convention in the New Zealand public service, but was seen as eroding in some jurisdictions.

“Political neutrality was given a stronger legislative basis in the Public Service Act 2020 to protect it for the future. Political neutrality helps to protect the trust and confidence that New Zealanders have in their public institutions, and is likely to be under increasing scrutiny during an election year. Boards have an important role in ensuring the organisations they lead are acting in a politically neutral manner.”

On a personal level, he says he values the opportunity his governance roles provide to “look outwards and to look forwards”.

“In my other roles, I often find myself looking down at the work in front of me. In governance roles I spend a lot more time looking outwards at the environment and forwards at the strategic risks and opportunities.”

Voice of reason

AUTHOR:
CAS CARTER

Iwi-centric broadcaster Erana Reedy says a 'light switched on in areas I was dark about' at an IoD course, but she has been enlightening audiences for years.

When storms hit the East Coast residents turn to the heart and soul of their community – Radio Ngāti Porou. And the woman at the centre of that station knows just how much her people rely on them because she has her heart firmly planted in the audience she serves.

Thirteen years ago, Erana Reedy, CEO of Radio Ngāti Porou and with an impressive career in television, couldn't say no to a call from an aunty to come back to Ruatōria and manage the station.

Seven major storms have hit her region since then, the latest being one of the most devastating of all – Cyclone Gabrielle.

Reedy was ready after the previous storm knocked the station off air for three days. This time, she proudly says, the station managed to stay on air for all but two hours.

The radio boss takes the local's reliance on her station for information very seriously, and had purchased a large automated generator five years ago to feed both the AM and FM networks. That kept the station running for two months.

Despite her resilience, Reedy is visibly shaken by Gabrielle's impact, the effect on her staff and herself much greater than storms. One of her employees lived in Tokomaru Bay, which was landlocked after flooded rivers washed away SH35. Another lives at Whareponga, where the road washes away after prolonged rain. Even her own property, which sits next to the Mangaharei Stream, is being eked away with each storm.

"Major storms continue to leave us with many damaged or closed roads and many of our people have had to live with no power or connectivity for days, even weeks," she says.

Like every storm there was learning from Gabrielle and Reedy plans to purchase more mini star links with portable generators to support staff to continue to broadcast if they are trapped at home.

When she speaks about the iwi radio station (one of 21 around the country) and its place in the community, she is evangelical. This is clearly much more than a job, it is a calling.

She has been keeping her iwi abreast of current issues, as well as bringing the voice of her past back to life, through high-quality recordings made last century and editing them into slices of knowledge for her current audience.

"Your uncle might have passed away 20 years ago but the learning from the kōrero is still relevant and the quality of the recordings of the nannies and papas is exemplary."

It's not luck Reedy has this resource. She says Ngāti Porou has been the best iwi at retaining and recording knowledge. "We're one of the richest in terms of historical information that is stored in archives because our forebears saw the value of it."

This included statesman and politician Ngāti Porou's Āpirana Ngata, who is known for his mahi in inspiring the cultural renaissance of Māori, establishing wānanga, building wharenui and further developing carving skills in each iwi. In 1943, he insisted on recording parts of a large hui to hand over the Victoria Cross of Te Moananui-a-Kiwa Ngārimu, who was killed in action, to his whānau.

"It was the first ever hui recorded, taped on a wax cylinder. We now have a digital copy of some of the commentary of Āpirana Ngata speaking in a clipped English accent," she says.

Many of the pioneering Māori language broadcasters, such as Wiremu Parker and Whairiri Ngata, were Ngāti Porou.

"I am distressed at some of the things that I see or hear. But if we continue to provide culturally appropriate content on a daily basis, the education process should kick in if people just have an open mind."

Radio Ngāti Porou grew out of social unrest in Ruatoria in the Rastafarian era in the 1980s. The community understood they needed to bring people together and raised $40,000 through a radiothon to set up the station. "I'm proud to say, 35 years later we're still bringing people together," Reedy says.

Her background in producing reo Māori content for Māori Television, Te Karere, Marae, Mana Māori Media and as a freelancer, was a perfect training ground for the community station. "I have made programmes on everything from cooking to sports, current affairs, news and documentaries."

The past 12 years at Radio Ngāti Porou have been a "roller-coaster ride – inundating our radio waves and cyberspace with Ngāti Porou reo, tikanga, history, stories, waiata and tikanga", she says. About 90 per cent of her audience lives outside the tribal region, so her job is to connect those who come in from other parts of New Zealand and overseas to their language and history.

"We need to make sure our content is relevant and interesting enough to 'capture the ears' of our people. We have set ourselves up to be the one-stop Ngāti Porou shop, specialising in Ngāti Porou-centric local content. We also look at what is happening around the world and then discuss how those issues impact our audience." That included a large and concerted programme to explain and educate everyone in the iwi on the facts around Covid-19 and vaccinations.

Asked if she thinks she was ahead of her time studying Māori Language at Kapuarangi Waikato University in the early 80s, Reedy says "I didn't think I was anything special".

"I was raised by parents and grandparents who spoke Māori. My parents were both teachers. My two aunties were teachers, so was my uncle. My uncle and aunties taught at Hiruharama School, one of the first bilingual schools. There weren't learning resources so my whole whānau would be involved in creating reo Māori books based on some of our stories such as Kapuarangi.

"At university I had the opportunity to be taught by Sir Tīmoti Kāretu and Te Wharehuia Milroy, and came under the influence of those great men. Many of their students have done, and continue to do, great work to promote te reo Māori."

One of those students was Dame Hinewehi Mohi, who remains a close friend. Mohi made international headlines when she sang the New Zealand national anthem in te reo Māori at the 1999 Rugby World Cup in England. She continues to promote te reo Māori through music.

Reedy was influential herself. A student union leader at the time of the Springbok tour in 1981, she organised numerous protests and hui, bumping up against young Māori radicals such as Hone Harawira and Shane Jones. "I loved my uni days, the people I met and the situations I found myself in."

Reedy says she comes from a whānau of hard workers. Her grandfather's dairy farm financed the whānau through boarding school, but it was her mother's determination that connected her with the media.

"When I mentioned I'd like to have a job like (broadcaster) Derek Fox, my mother wrote to him and, surprisingly, he wrote back explaining options for journalism courses."

Reedy chose university instead, but years after completing her Bachelor of Arts she went on to complete the Waiariki journalism course and later a Diploma in Bilingual education.

She "loves" the moves that have been made around Māori broadcasting and the changes made by TVNZ to increase te reo online, but says it was a scrap to get there.

"When I was there, presenters didn't care if they mispronounced Māori words. At

"In our mock board meetings my colleagues were struggling to come up with single words that described the values they wanted. We used Māori terminology, like manaakitanga, to articulate how we manage and care for staff. That's the beauty of te reo Māori – one word can describe so much."

Te Karere we received phone logs full of comments that were redneck and racist asking, 'Why do we have this language on this TV station, we'd rather be looking at dog trials'."

Sadly, Reedy doesn't think much has changed as many still question the regular use of te reo on television. "I am distressed at some of the things that I see or hear. But if we continue to provide culturally appropriate content on a daily basis, the education process should kick in if people just have an open mind."

Reedy is a busy director on land trusts, her hapu trust, Te Whakaruruhau o Ngā Reo Irirangi Māori (the national iwi radio network), and is helping to create a workforce development strategy for Māori media.

At a recent Institute of Directors course, she says "the light switched on in the areas I was dark about" and she also saw the real value te reo Māori and culture could offer boards.

"In our mock board meetings my colleagues were struggling to come up with single words that described the values they wanted. We used Māori terminology, like manaakitanga, to articulate how we manage and care for staff. That's the beauty of te reo Māori – one word can describe so much."

And she says agreeing to open and close a hui with a karakia ensures the meeting goes well in a great collegial spirit and acknowledges that everyone brings equal value.

In the meantime, Reedy is very happy with her decision to move from big city Auckland to small-town Ruatoria.

"I count myself lucky, I love interviewing and talking to people and making a connection. But although I worked in television for a long time, this has been the best job ever. We're doing something meaningful for our people, and our mokopuna will benefit from the language resources we've built."

Captive audience

An alternative to commercial insurance, captives are effective tools in responding to risks and changing market conditions.

AUTHORS:
STEPHEN WALSH
AND **ANDRE KYBURZ**

Photo by:
Alev Takil on Unsplash

Over the past few years, insurance pricing experienced some of the highest increases ever seen and unfortunately, following the Auckland Anniversary weekend floods and Cyclone Gabrielle, by and large, this trend is going to continue.

As prices rise and coverage terms and conditions became less favourable, many organisations have begun to explore alternatives to the commercial insurance market, including using captive insurance.

By way of example, in the Pacific alone, the number of captives established and managed by Marsh has increased three-fold in the past five years. Primarily, this growth comes in the form of single-parent captives and cells in Protected Cell Captives (PCCs).

In 2020 and 2021, 40 per cent of new protected cell structures managed by Marsh underwrote cyber coverage, with more than US$70 million in cyber premium under management. The domain to consider these alternative structures falls well beyond the corporate listed or global entities.

When thinking about risk and financial resilience, one key attribute would be – can we make safe, then successfully recover from an incident/event? Be they cyber related, a natural catastrophe or liability driven, at the heart of the recovery is: Who is going to pay? How long will I/we be impacted/disrupted? Can I/we prevent this from occurring again?

Marsh

WHY NOW?
As the traditional insurance market continues to harden, we are at a pivotal point where organisations are being more proactive in exploring other risk transfer options and making conscious changes to the way they manage, finance and transfer risk.

Rather than simply accepting what the bounds of the insurance market has to offer, organisations are becoming more open to finding alternative ways of achieving risk-based financial resilience.

There are three primary motivators that are driving organisations towards considering these types of solutions.

1. These solutions can offer cost efficiency and resilience that the traditional insurance market may not be able to offer.
2. They establish a different avenue for obtaining more insurance capacity or higher limits.
3. They open the door for exploring protection options for previously uninsurable risks.

Why use a captive or cell to insure some of the organisation's risks?

While a captive or cell in a PCC is not a silver bullet, considering these alternatives provides organisations with flexibility and options for providing additional financial resilience to their broader risk management and transfer strategies. For example, having cyber coverage in a captive allows you to pivot during or prior to a renewal in the three key areas of cost, coverage and capacity.

It helps reduce the total cost of risk by retaining an amount of cyber risk in the captive or cell, thereby reducing the reliance on insurers, and captures costs and profits that are otherwise "leaked" to insurers. A captive or cell can also be used to lower the cost of cyber liability by obtaining a high deductible cyber policy on the commercial market and "buying down" that deductible.

PARAMETRIC INSURANCE SOLUTIONS
Parametric (also referred to as event- or index-based) insurance solutions are custom-built to cover a predefined event that could pose a threat to your business and present a way to "pre-agree" a claim pay-out following the occurrence of a predefined event/incident.

The pre-agreement nature of a claim pay-out under a parametric insurance solution provides more certainty to the organisation, whereas traditional insurance and claims processes can be lengthy, uncertain and open for assessment/interpretation on a case-by-case basis.

Parametric insurance solutions offer a formulaic claims recovery based on agreed triggers and financial parameters that are structured around a transparent third-party index.

Under traditional based insurance, there is no guarantee that a claim will be paid until the end of the process, whereas under a parametric insurance solution, the certainty is provided upfront. This helps to remove uncertainty and allows for greater efficiency and earlier answer to the question – who pays?

Parametric solutions are now an active part of several New Zealand organisation's risk-financing programmes, so perhaps it's time to consider if this is relevant for your organisation.

CONCLUSION
The ongoing challenges in the insurance market, combined with the uncertainty over the frequency and severity of events, makes it an even more pressing item for organisations to ensure they have the appropriate level of financial resilience to keep pace with the dynamic environment.

Using captives, cells in PCCs, or parametric solutions as part of your overall risk financing strategy can help set a steady course no matter the commercial insurance market trading conditions.

For more information, contact stephen.walsh@marsh.com (Chief Client Officer, Marsh NZ) or andre.kyburz@marsh.com (Head of Alternative Risk Solutions, Marsh Pacific).

"Parametric solutions are now an active part of several New Zealand organisation's risk-financing programmes, so perhaps it's time to consider if this is relevant for your organisation."

The ins and outs of 'cyber-attacks as a service'

AUTHOR:
CRAIG WILLIAMS,
CHIEF SALES AND MARKETING OFFICER AT KORDIA

Photo by:
The Blowup on Unsplash

Hacking groups have diversified, specialised and professionalised. Knowing what is out there is the first and most effective step towards mitigation.

By now business leaders and directors across New Zealand are familiar with the concept of '- as a service'. That's because software, technology infrastructure and outsourced support delivered as a service offers multiple benefits, such as cost efficiencies, flexibility and greater accessibility. It just makes good sense.

Turn that on its head and the benefits make just as much sense for the bad guys. That's the reality of the emergence of cyber-attacks offered as a service. The evolution of cybercrime over the years has seen it move from the early days jimmying the system for free phone calls, towards increasingly organised and professionalised groups.

Just as small businesses such as Microsoft or Apple in 1976 progressed towards formal structures and infrastructure, so too have the 'bad actors' behind cybercrime. The only major difference is the organisation of the cybercriminals has taken place outside the limitations and requirements of the law, though the structures, tools and technologies are often startlingly similar.

Make no mistake: cybercrime is big business. One estimate puts the amount ‘earned’ (stolen from others) from cybercrime at US$1.5 trillion in 2022 alone. Cybersecurity Ventures expects global cybercrime costs on businesses to reach US$10.5 trillion annually by 2025.

New Zealand is not immune to this enterprising industry. Kordia’s research found 55 per cent of Kiwi businesses surveyed suffered a cyber-attack or incident in the past 12 months.

Along with evolution into organisations with hierarchical structures employing people and operating out of tower blocks much like any other corporation, hacking groups have diversified, specialised and professionalised.

They use artificial intelligence and powerful cloud computing solutions, and have some of the smartest and most capable computer programmers available to their teams. It is all about making as much money as possible from their activities, whether directly or by providing cyber-attacks as a service.

This is where it starts getting interesting. On the dark web, marketplaces exist where hackers go to buy, trade and sell the services required for carrying out an attack.

It’s almost like a dark version of Trade Me, where bad actors will search for vendors of various tools or services, complete with rankings on how well they have performed their criminal activities. The tools are essentially available to anyone who knows how to get onto the dark web and wants to set themselves up in the cybercrime business.

Just like legitimate ‘as-a-service’ delivery made the best software and other services accessible to anyone, cyber-attacks as a service dramatically lowers the barrier to entry for a threat actor, while driving up the quality or likelihood of success.

“It’s almost like a dark version of Trade Me, where bad actors will search for vendors of various tools or services, complete with rankings on how well they have performed their criminal activities.”

It provides the best tools and services to anyone willing to pay for them, and because there is competition in the threat actor community, those services and tools have downward pressure on pricing. We’ve seen some of those adept at building tools focusing on their talent, hiring out specific attacks and making a stream of income derived from supplying other criminals.

Over the years, this has evolved into a segmented marketplace where various components and tools can be assembled for a complete attack. This might involve compiling lists of users of a specific application and vulnerability, credit card details and personal data for identity theft, pre-drafted phishing materials and the email addresses of company directors, keylogging software, ransomware, and more.

Or there’s the option to buy the entire attack as a service, rather than building it from various components. Specifically, “Ransomware as a service” has become popular, outsourcing a criminal organisation to run a complete ransomware campaign.

While this development and evolution is fascinating, it also means an escalated threat environment for everyone – both organisations and individuals. This means a comprehensive and unrelenting approach to cyber security is necessary. You should ensure all the basics are in place, combined with regular reviews of your posture, the evolving threat environment, and your organisation’s risk exposure.

Knowing what is out there is the first and most effective step towards mitigation. Cyber-attacks as a service are only going to increase in the future, so its important directors are across this evolving landscape, so they can support their organisations to deploy the right level of cyber security measures to manage these attacks.

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