Boardroom

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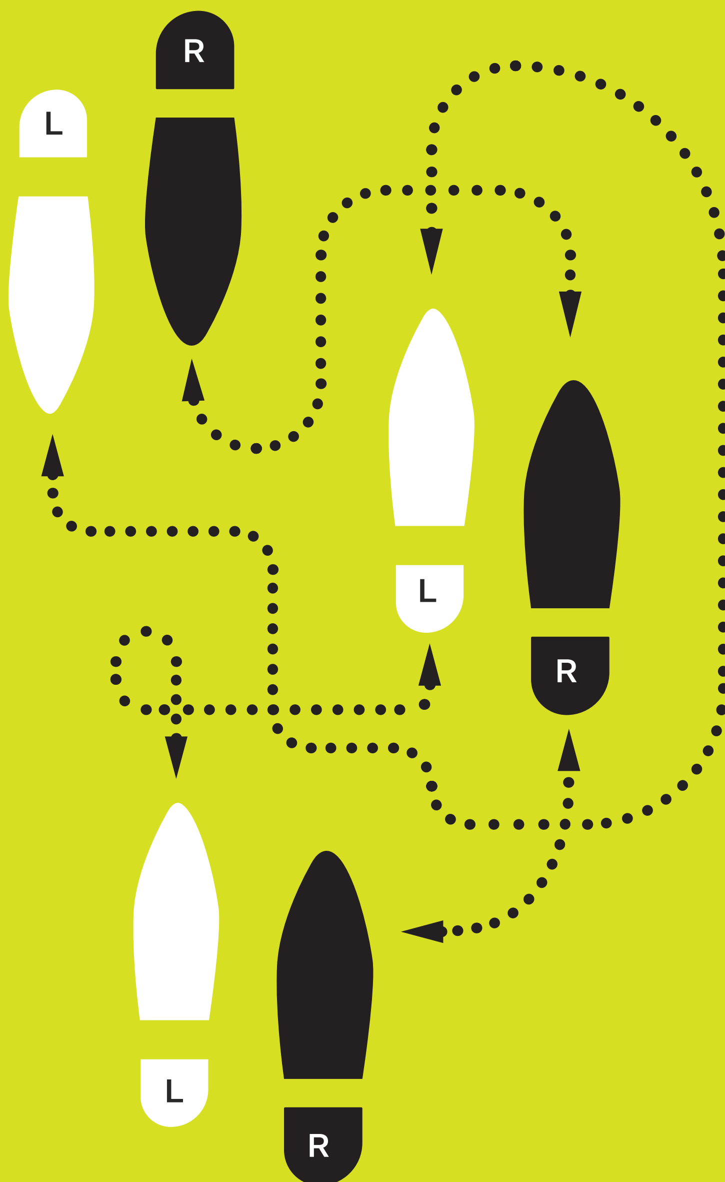
AUTUMN 2024



Institute of
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NEW ZEALAND

Out of step: why are we not productive? How can we work smarter? | There is no end to 'best practice' | Aged care sector facing crisis | Problem solving – and the Mainzeal connection

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“Focus on being productive instead of busy.”

– Tim Ferriss, American entrepreneur, investor and author

Why has New Zealand’s economy gone from being one of the most productive in the OECD to one of the least productive?

It’s not that we don’t work hard. In fact, we work too hard, according to a number of members interviewed for this autumn edition of *Boardroom*.

“Stubbornly poor productivity has been such a weight around New Zealand’s neck for so many years and it doesn’t seem to be improving,” says one Chartered Member. He says we are not adopting technology that allows us to potentially be more productive.

Enabling productivity – one of the top five issues facing directors in 2024 and explored in depth in this issue – becomes a simple matter of increasing the number of services or products an organisation produces, while retaining the same level of hours worked. Aggregated up, that is our national economy.

Is it that simple? The problem is we are working longer hours for the same outputs. Harder, not smarter.

Some say the answer lies in innovation, in technology, in research and development. Others say we need to be bold and raise our level of ambition. There is a wealth of opinion inside.

What is governance best practice? Academics at Massey University involved in research on corporate governance state their case from a master’s thesis completed last year. They suggest the concept of best practice is that board development and learning ceases to be necessary. They argue effective board practice cannot be constant – or static. It emerges from continuous learning and is subject to change. It must be dynamic.

With that sobering assessment of best practice, perhaps you need to confront ‘your ordinary’. A Chartered Member and former high-flying CEO has written a book about how to become extraordinary – but first you need to be willing to face where you are ordinary. He shares his model of mindsets and practices to set you on the pathway.

Also confronting is our look at the aged care sector and where we will be by the end of this decade – nearly a quarter of Kiwis will be aged 65 or over. “We are entering an era where a lot of our policies and values are no longer going to work given an old-age dominant society,” warns a leading demographer. The big question is, ‘Who is going to pay?’

With the dust settling on the Mainzeal case, we talk to its former CEO who has watched the saga play out over 10 years. He talks about the construction company’s successes in its early years, striving for excellence and his life after Mainzeal.

Ngā mihi
Noel Prentice, editor

In this issue

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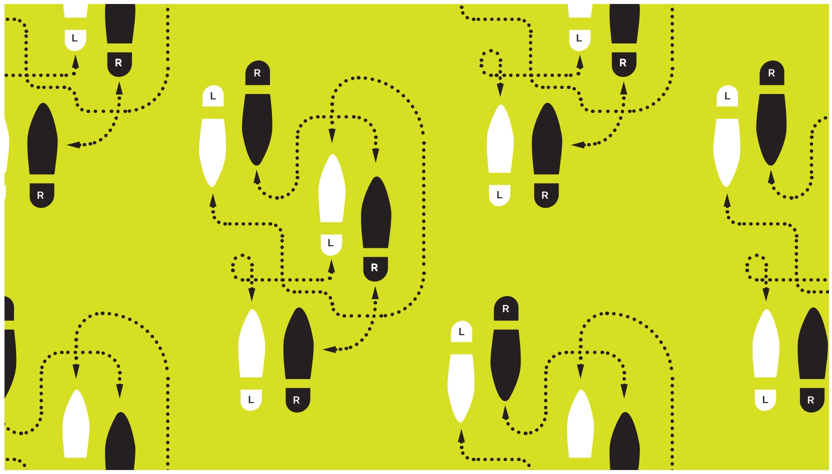


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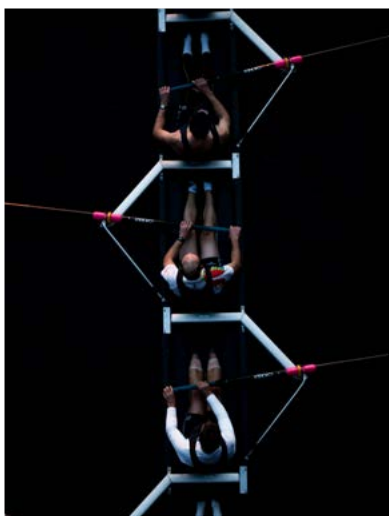


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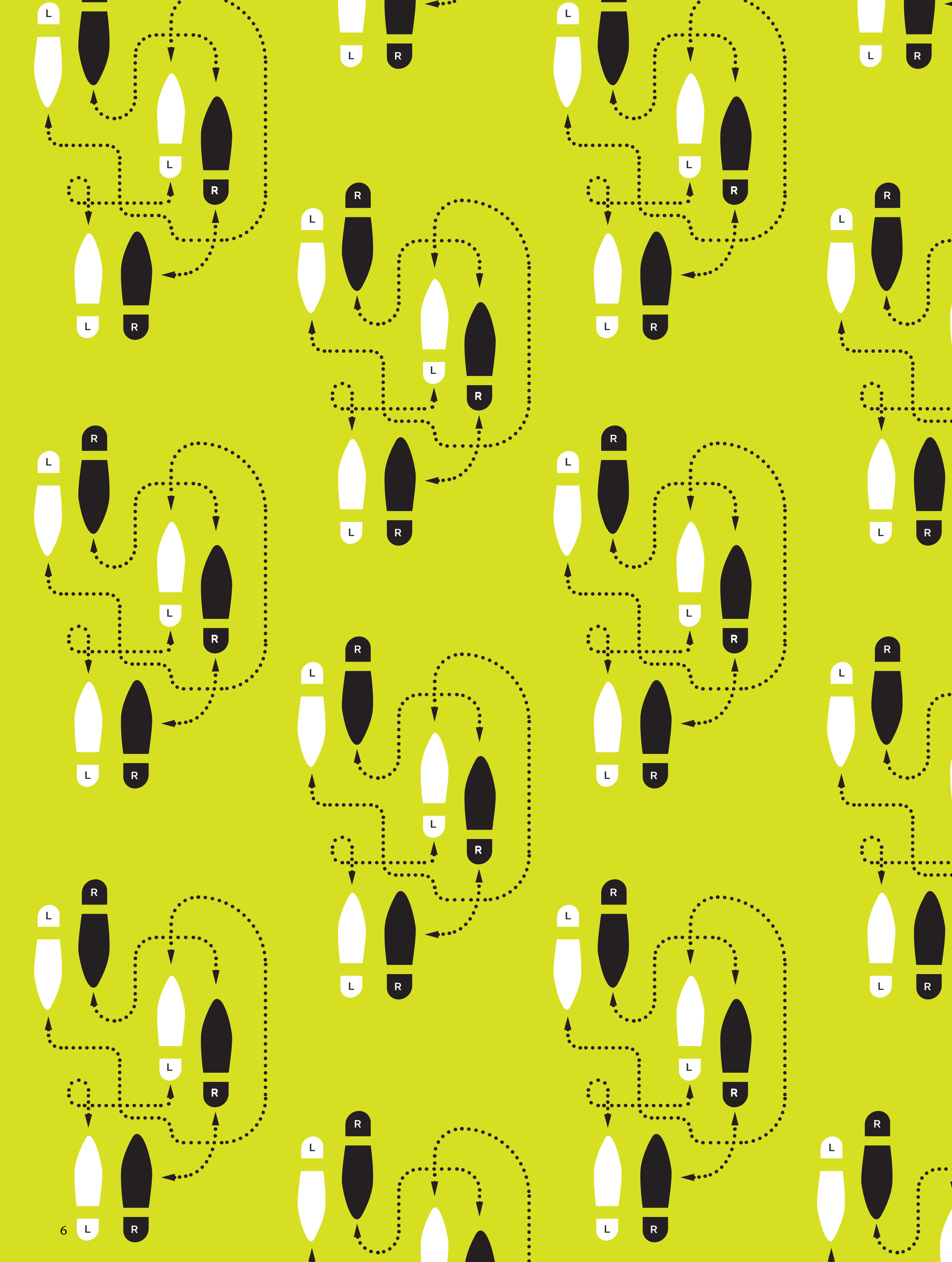

Prospering despite ‘poor’ productivity

AUTHOR:
AARON WATSON, WRITER/EDITOR

New Zealand’s productivity is one of the worst among developed economies, but are we really that bad?

New Zealand’s productivity is not as high as other developed countries. We work longer hours, but produce less.

Our GDP per hour worked in 1970 was US$24, compared to an OECD average of US$25 (countries that joined the OECD before 1975). By 2020, it had risen to US$42, but the OECD average was up to US$64. We are lagging in terms of productivity growth, but that doesn’t mean we aren’t prosperous.

Economic researcher Arthur Grimes says from 1994 to 2018 – “before Covid mucked everything up” – New Zealand’s per capita real incomes grew faster than incomes in Austria, Belgium, Canada, Denmark, France, Germany, Greece, Italy, Japan, the Netherlands, Portugal, Spain, Switzerland, the UK and the US. “New Zealand was incredibly successful over that period,” he says.

While being less productive? What has made New Zealand prosperous is not that we are more productive per se, but that we are producing what the world wants.

Grimes argues New Zealand has a productivity success story to tell, one that is directly related to our prosperity.

“If we talk about productivity in terms of allocative efficiency, New Zealand has been incredibly successful since the early 1990s in changing its production towards things that people want to buy. We were switching out of stuff that no-one wanted – such as wool and to some extent meat – to things they wanted, for which prices were rising,” he says.

Grimes differentiates between technical efficiency – producing more from the same inputs (be that labour or capital) – and allocative efficiency – producing things someone wants to buy. With the shift to mainly dairy, our incomes improved irrespective of whether or not we were more productive in terms of efficiency.

Grimes says the productivity discussion can be sidetracked by political imperatives. The Productivity Commission, for example, was created as part of a confidence and supply agreement between National and ACT and has now been disestablished as a part of a coalition agreement by "the same two parties".

"To be honest, the political discourse is such that if you are on the right of politics you want to say productivity growth in New Zealand is terrible because we have too much regulation, and we have to get rid of regulations," says Grimes.

"If you are on the left you want to argue that productivity growth has been terrible because of all the reforms that were put in place in the 1980s and 1990s, therefore they haven't worked and we have to get rid of those reforms.

"Each side agrees – on something that is wrong – and they both use it as an excuse for introducing their preferred ideological policies. But the data tells us that New Zealand has been a success story and we don't need to go to either policy extreme," says Grimes, a former Reserve Bank of New Zealand chair who was also on the board of the Financial Markets Authority. He is now a senior fellow at Motu Research and Professor of Wellbeing and Public Policy at Victoria University of Wellington's School of Government.

According to the latest data (2019-22) from the OECD, Ireland is the most productive country in the world as measured by GDP per hours worked. In a comparison of 43 countries, New Zealand came in at 29.

Former Fonterra chief operating officer Fraser Whineray led a delegation of business leaders to Ireland in 2023, under the auspices of public policy think tank The New Zealand Initiative, to find out more about the country's productivity success story.

The resulting paper, *Irish Secrets: an Irish lesson in prosperity*, advocated for an increased focus on education and more encouragement of foreign direct investment.

"We need to get back to keeping that focus, at a board level, on the core business. We need to develop good multi-year plans, and then make sure management are incentivised and rewarded for continuous improvement, rather than the shiny new thing."

Fraser Whineray

Whineray, whose directorships include the Port of Tauranga, Quayside Holdings and Waste Management, says they found a culture that was very business-friendly and extremely interested in attracting investment from large global firms.

That enthusiasm for foreign direct investment (FDI) was not just at the government level, Whineray says, but is shared by regular Irish people across cities and towns.

"This was highlighted to me by Simon Coveney, the Minister for Enterprise, Trade and Employment," Whineray says. "Simon said he gets pressured when he goes outside of Dublin to the smaller cities and towns. Where is our FDI? Where's my Microsoft? Where's my Intel? Where's all of this stuff? Because the locals know it brings high-paying jobs."

Investment from such global powerhouses has been a significant driver of Ireland's remarkable economic success story. From the mid-1990s to the late 2000s, Irish GDP surged, taking it from being one of Europe's poorest countries to one of its wealthiest, spawning the nickname "Celtic Tiger".

Whineray acknowledges New Zealand is unlikely to follow the same path, but he says lessons can be learned. One is that a good education provides benefits to students and their future employers. While in Ireland, he was impressed with their Delivering Equality of Opportunity in Schools (DEIS) programme, launched in 2005, in ensuring no students are left out of the education system.

Another is that a consistent policy approach across governments can have economic benefits to a country.

"The long-term approach to policy they've had over the past 40 years has meant they've played a reasonable set of cards extremely well. I think what Ireland, as a nation, has benefited from is a sustained multi-year focus on the core job of government."

The converse, political volatility, can deter investment, Whineray says. "I think all political parties need to make sure they keep creating an environment in which people can take risks. Small businesses, bigger businesses, making those investments and improving their competitiveness, hiring people, training them, developing them . . ."

At an enterprise level, there is a lesson in Ireland's integration into the global economy. This provides international exposure that drives the innovation required to thrive on the international stage – it makes companies sharpen up.

New Zealand boards that aren't exposed to international competition should create an environment within their organisations that "kind of forces that productivity to come through".

"If you're a director, think about the environment you are in and how to create an environment that will make people improve."

He also advocates that boards focus their attention on ensuring their organisations remain sustainable and profitable.

"We need to get back to keeping that focus, at a board level, on the core business. We need to develop good multi-year plans, and then make sure management are incentivised and rewarded for continuous improvement, rather than the shiny new thing."

If that sounds a little like Grimes' argument on behalf of allocative efficiency, it is. But Whineray also stresses that, once strategy and policy are set properly, productive efficiency should be a target.

"It's really important that boards create the right environment for the business to operate in. It will help align the executive, so they can dial up that efficiency."

Inside 'leprechaun economics'

When Ireland's GDP grew 26.3 per cent in one year (in 2015, and that growth was later revised up to 34.4 per cent) Nobel Prize-winning economist Paul Krugman coined the term "leprechaun economics".

Krugman was concerned the GDP growth was largely due to Ireland's low tax rates attracting global giants – Google, Microsoft, Pfizer and Meta all operate head offices there – rather than any underlying strength in the productive economy. Looking at GDP figures, or the more widely used gross national income (GNI), as an indicator of Irish prosperity was potentially misleading.

That 34.4 per cent jump was driven by Apple vesting its intellectual property in Ireland, which led to accounting savings for the company and a tax windfall for the Irish government. Ireland has low tax rates, which attracts big global players, and has been accused of being a tax haven.

Is Krugman right? Is Ireland's prosperity a mirage? What is the real size of the Irish economy? Ireland's Central Statistics Office (CSO), the equivalent of Statistics NZ, has tried to answer this question by developing its own measure – GNI modified (or GNI*).

GNI modified excludes what the CSO terms "globalisation effects". These are:

- Depreciation on intellectual property, which is disproportionately owned by foreign corporations and has little effect on the domestic economy
- Depreciation on leased aircraft, where leasers are based in Ireland for accounting purposes and the effect on the domestic economy is limited
- Money from global corporations that passes through the Irish economy but doesn't actually remain in it

GNI modified shows Ireland's workers are not actually twice as productive as their European counterparts – as bare statistics would suggest – and nor are they twice as prosperous. There are very real benefits to having large global corporates homed in the country, but they are not quite as large as they look at a glance.

While Ireland's GDP figures "should be treated cautiously", as *Irish Secrets: an Irish lesson in prosperity* puts it, its impressive economic growth over the past few decades is very real.

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The board's key roles

Two senior directors – Cathy Quinn CMInstD, director of 2023 Deloitte Top 200 finalist Tourism Holdings, and Mark Cross CFInstD, director of 2023 Deloitte Top 200 award-winning company Xero – share their perspectives on productivity.

AUTHOR:
AARON WATSON

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Cathy Quinn

What is a board's role in enabling productivity?

You can't understand your organisation's productivity performance without understanding what 'good' actually looks like, she says. Then you need to put appropriate metrics in place.

"What are the global or competitor benchmarks you can look to in order to measure your company's performance? For example, in a manufacturing business you might measure productivity versus capacity, run to target, unplanned downtime and the cost of quality failure."

Improvement on a particular metric is good, she says, but may not tell you much about underlying productivity because a lift from 60 per cent to 65 per cent on a particular metric is less impressive if the global or competitor benchmark is 75 per cent.

"Without the comparator data, the improvement may be reported as a success when really it isn't. The board can't be captured by what management thinks good looks like. It needs to ask for the relevant benchmarks to test the business' performance."

Investment in productivity is important, she says. That means ensuring the board signs off capital expenditure for productivity improvements and initiatives that can have an indirect benefit.

"Sometimes we have to spend money on things that may not provide an immediate financial return, but may go towards reducing risk, such as improving IT systems. Generally, it will also have a positive impact on productivity."

She offers an interesting example from Tourism Holdings, where investment in "telematics" for the recreational vehicle fleet has delivered improvements across multiple metrics.

"Without the comparator data, the improvement may be reported as a success, when really isn't. The board can't be captured by what management thinks good looks like. It needs to ask for the relevant benchmarks to test the business' performance."

"Telematics installed in a campervan will tell a driver they are going too fast, or they have taken a corner too fast. It will send them a message. That has a direct bearing on our repairs and maintenance costs because if people drive more slowly, it does less damage to the tyres, the brake pads and all of those things. That is a practical example of investing to enable a productivity saving, as well as a customer safety measure."

While a board needs to form its own view of productivity independent of management, it also needs to support management to understand what good productivity looks like, she says.

"That means maintaining a budget that allows them to go to conferences onshore and offshore, for example. Trade shows, visits to equipment suppliers . . . this is where they can learn a lot about potential productivity improvements and new technologies."

The board may also choose to go on trips to look at innovation, developments offshore and the like, she says. "These trips are not junkets. You can learn a huge amount. And having the board take a personal look is great for the management team because, while they can tell the board about things, it is sometimes more impactful for the board to see for itself."

Are there key appointments or policies that a board needs to consider through a productivity lens?

Health and safety policies can be a key enabler of productivity, she says. And she has a practical example.

"I've seen quite simple policies make a big difference. For example, in a manufacturing context, the requirement to use gloves – and providing the right gloves for the particular activity – can significantly reduce hand injuries. It's a simple policy, and not expensive, which can improve productivity alongside employee welfare.

"When you see a poorly performing business it tends to have poor financial performance, poor customer metrics and poor health and safety. So health and safety statistics can provide important insights. If you have a good environment and a good culture you are likely to have fewer injuries, which goes to productivity and reducing serious harm. You will typically also have improved employee engagement and improved customer satisfaction, and better financial performance. They all go together."

Policies that promote employee engagement can also be helpful because poorly engaged staff are "hardly likely to go the extra mile", she says.

While boardroom views on sustainability are varied, she advocates seeking opportunity when the topic is discussed. If you see sustainability as an opportunity for the business, instead of as a compliance or regulatory cost, you can improve productivity, increase revenue and improve your reputation all at once, she says.

"For example, at Fletcher Building's Golden Bay Cement we have invested significantly to enable the plant to use a large percentage of used tyres in New Zealand in the cement-making process. Tyres are a huge problem because they don't biodegrade. We also use other forms of waste from our sites. The tyres are combusted at 1,400 degrees Celsius and the rubber, metal and ash are combined in the cement. Even before this project, our cement had 20 per cent lower emissions than imports. The use of waste tyres and other materials reduces our footprint further, reduces our need for coal, raw materials such as iron sand, and supports local jobs as well as providing supply chain security for New Zealand's domestic building, infrastructure and construction industries."

What questions might a board ask itself to help an organisation become more productive?

Many reflect the experiences she has already described, plus a couple for boards on their own culture:

- Are we measuring the right things? Do we have the right external benchmarks?
- What is our health and safety culture like?
- Does our team scan the globe for technological or other innovation that could improve productivity? Do we see sustainability as an opportunity rather than a regulatory burden?
- Do we accept there will be failure when innovating?
- To what extent could we collaborate with others in our industry to improve productivity for all? "Obviously we don't want to breach any competition laws, but there may be ways we can collaborate to explore technology or other new innovations that may be useful to all of us."
- What can we learn from other industries?
- Are we allowing the organisation to be as productive as it could be?
- What's the best way to organise our board meetings without having management spend half a month preparing and then more time recovering from the meeting?

Cathy Quinn CMInstD *is the chair of Tourism Holdings and Fertility Associates, a director Fonterra Cooperative Group, Fletcher Building and Pro-Chancellor of Auckland University. Tourism Holdings was a finalist in the 2023 Deloitte Top 200 Awards, in the Company of the Year category.*

Mark Cross

What is a board's role in enabling productivity?

He begins by referencing the first of the IoD's *Four Pillars of Governance Best Practice* – determining purpose.

"Linking this back to Xero's purpose, productivity is all about how efficiently we can convert our labour and capital into software that makes life better for small businesses around the world – rather than simply making more money."

If Xero is making life better for small businesses, the money will flow, he says. "Simply put, if you are delivering products that customers want, you will sell more."

Productivity, in this sense, is a means to deliver more value to customers, as well as increase the cash flow of the company, he says. It's a holistic view that demonstrates the importance of a board having a focus on productivity.

"Being more productive over time means being able to offer better value for customers, higher pay for our people, profits and capital growth for our shareholders, and making a bigger contribution to the economies in which we operate."

The board has a number of key roles in enabling productivity, he says, which will allow the business to find ways to deliver improvements. First among these is fostering a culture that enables and encourages productivity – and this includes taking appropriate risks.

Another is to approach expenditure strategically. "In terms of being more efficient and generating cash flow, a board's role is to allocate capital to the highest returning uses."

Like Quinn, he highlights the importance of working with management and investing to drive productivity. For Xero, one of the more important objectives is efficiently converting inputs, primarily its people, into outputs, the software services.

"Linking this back to Xero's purpose, productivity is all about how efficiently we can convert our labour and capital into software that makes life better for small businesses around the world – rather than simply making more money."

Again aligning with Quinn, he notes that monitoring and oversight of productivity should be a priority for the board. It should agree key metrics and monitor these over time.

"Revenue per full-time employee is a commonly used productivity metric in the tech sector because people are the main cost. Rule of 40 is another common metric that combines revenue growth and profitability, the trick being to achieve some kind of balance between the two. These are important guard rails from a board perspective. The Jaws ratio (growth in revenue vs growth in operating expenses) is also widely used, perhaps more in traditional industries but still relevant to tech.

"Productivity in software development teams can be very data-driven, although the board would not typically have visibility of those lower-level metrics."

Are there key appointments or policies that a board needs to consider through a productivity lens?

Having already highlighted the board's role in establishing a strategy and culture that supports productivity, he answers with reference to one of the board's key responsibilities.

"As we know, appointing the CEO is one of the most important jobs of any board. What you are NOT looking for, unless the business needs it, is the classic slash-and-burn CEO. That person can promise an improvement in productivity through the short-term approach of getting rid of people. And that often opens up problems down the track."

Long-term productivity gains will come through a CEO who can unite people, he says. In this sense, he has a very similar view to Quinn on employee engagement.

"People will be more productive if they are doing a job that means something to them, and they understand that it means something to other people – as opposed to just turning up 9-to-5 and going through the motions."

That CEO, he says, should seek to understand the needs of their people, and the practical effects of operating models and policies on their ability to work efficiently – in short, to remove unnecessary impediments.

"This is not someone for whom improving productivity is narrowly defined and micromanages the workforce. Are our people able to do their job efficiently? Do we have the right operating model or have we created a bureaucratic monster in which every decision takes a meeting of 10 people?"

What questions might a board ask itself to help an organisation become more productive?

Some points he has already raised, but throws a few new ideas into the mix:

- Do we have the culture and values that encourage productivity?
- Do we have the right CEO and executive team in place?
- Have we got the right people in the right roles and are we attracting enough A-team players?
- Are our people qualified and experienced in their roles?
- Do we have the right balance of longer tenured people and new people bringing fresh ideas?
- Is there enough clarity on the why, the what, and the how to drive productivity? On the why, are our people driven by a purpose beyond just turning up and getting paid?
- Are the right performance management systems and remuneration structures in place, and do our people leaders have the capabilities to drive performance and productivity from the people they lead?
- Do our operating model and management structures support productivity – have we removed unnecessary bureaucracy to enable our people to spend their time productively?
- Have we invested in the right tools to enable our people to be more productive? Generative AI is obviously topical in that sense with developer tools and customer service assists.

***Mark Cross CFInstD** is the chair of Chorus and on the boards of Xero and the Accident Compensation Corporation. Xero was a winner of the 2023 Deloitte Top 200 Awards, in the Company of the Year category.*

'Where is our ambition?'

We need to empower businesses to reach for the stars, says David Downs CMInstD

AUTHOR:
NOEL PRENTICE, EDITOR

Poor productivity is a cross we have had to bear for a long time, says consultant and board director David Downs CMInstD, with the humble Kiwis' lack of ambition weighing New Zealand down.

"Stubbornly poor productivity has been such a weight around New Zealand's neck for so many years and it doesn't seem to be improving," Downs says.

"Everyone has to step back and look at it. Business, government, economic development agencies, whoever it might be, needs to ask, 'Are we empowering businesses in the right way to make the decisions to improve their productivity? Have we got the exemplars? Are we telling the stories? Are we enabling companies enough?' "

Downs says there is no simple fix, or we would have found it by now.

"We seem to have structural issues trying to resolve it. We're not really innovating ourselves at the level we need to. We're not adopting technology that allows us to potentially be more productive. At the heart of it is a business owner or leader who wants to improve and change, and make cultural shifts."

He says the language of productivity often leads people to think we are accusing people of being lazy. In fact, it is quite the opposite. "New Zealanders are working too hard," he says.

"It gets couched in an accusatory sense that people are saying, 'Oh, we're accusing you of being lazy, or not adopting technology because you are somehow not capable of it'."

Downs suggests it is often the other way around. "Because of our nature, we're a country born of tinkerers and the 'Number 8 wire' mentality. And our history is such that we are very self-reliant and the easiest place in the world to do business. We have one of the lowest corruption measures of any country."

He says it is a cultural challenge to change the Kiwi mindset.

"Why would I buy a piece of technology when I could do that myself? Why would I hire a marketing system when I could do that?" And you probably could, he says, but it means it is going to take longer, you are going to work harder, it will probably cost you more, and you will probably not get the same outcome."

In the SME world, in particular, Downs says he sees it time after time. "Again, there's no coincidence we've got this correlation between the easiest place to set up a business and do business, and then one of the lowest productivities. We're just constantly starting and beginning, instead of really pushing forward and trying to optimise.

"It goes back to this cultural challenge that even within New Zealand we are not aware of how good some people are and how productive they can be. It's a mixture of the Tall Poppy Syndrome, the 'kumara does not speak about its own sweetness' (Māori proverb), and these cultural norms about being humble.

"There are really good things happening around us, but we are just staying in our lane and not paying attention. We could learn more from some countries that are more vocal about their achievements and happy to talk about them."

In his day job as CEO of the New Zealand Story, an organisation marketing New Zealand to the world, Downs says they are looking at how New Zealand's science, education and technology sectors are perceived internationally.

"And the answer is not at all. There is a very poor perception. And yet when we have international round-table sessions and we show people examples of New Zealand's space industry, or our sustainability sector or even our food production, they're blown away by the technology and the innovation that exists here.

"I'd say the number one thing that differentiates a New Zealand company and an international business is their level of ambition.

"There are really good things happening around us, but we are just staying in our lane and not paying attention. We could learn more from some countries that are more vocal about their achievements and happy to talk about them."

David Downs CMInstD

"It's not the technical skills, access to technology or capital. When you set your eyes on a certain horizon, you tend to get there. And New Zealand is just a small domestic market. The nature of our long, spread-out country means you can be quite successful in your own domain and you think, 'OK, I'm successful'. But if you go to America, they're going, 'How do I become a billion-dollar business?' We're going, 'How do I become a million-dollar business?' It's just a very different level of expectation."

Downs says there are companies that have changed their game, setting their benchmarks as global companies where they measure their success.

"We all get the same 24 hours a day to spend at work. It's where you spend it and where you decide you're going to land that makes a difference. Bill Gates has only got 24 hours a day to work and he decided he would build a hundred-billion-dollar business. That level of ambition does make a big difference."

During an earlier role as general manager at New Zealand Trade and Enterprise | Te Taurapa Tūhono, Downs recalls an international adviser being perplexed at New Zealand's standing in the business world, using the All Blacks as a comparison.

"I don't understand it," the adviser said. "You come out onto the rugby pitch, give this most incredible challenge, play the fiercest game of rugby anyone has ever seen and yet you can't bring it to the business world. Those guys are nice, respected, good human beings, but they play to win and they play with a ferocity that makes a difference. You should bring more 'haka' to your business. If you were to do that, you could be very successful."

As chairman of business growth centre The Icehouse, Downs says it comes back to the simple things of management capability and skills as essential skills, then ambition and vibe.

"It's not just managing the business, it's managing the people in the business and empowering them, giving them the right skill set, getting them on the right training, whatever it might be to make sure they've got the level of expertise they need to do their jobs.

"There's so many times you see businesses trying to employ or install new tools and technology, and then not train people properly. Skills on tools is important, but it is also in the ways of working. There are modern ways of working these days, such as agile working, that significantly change the way businesses can think and grow."

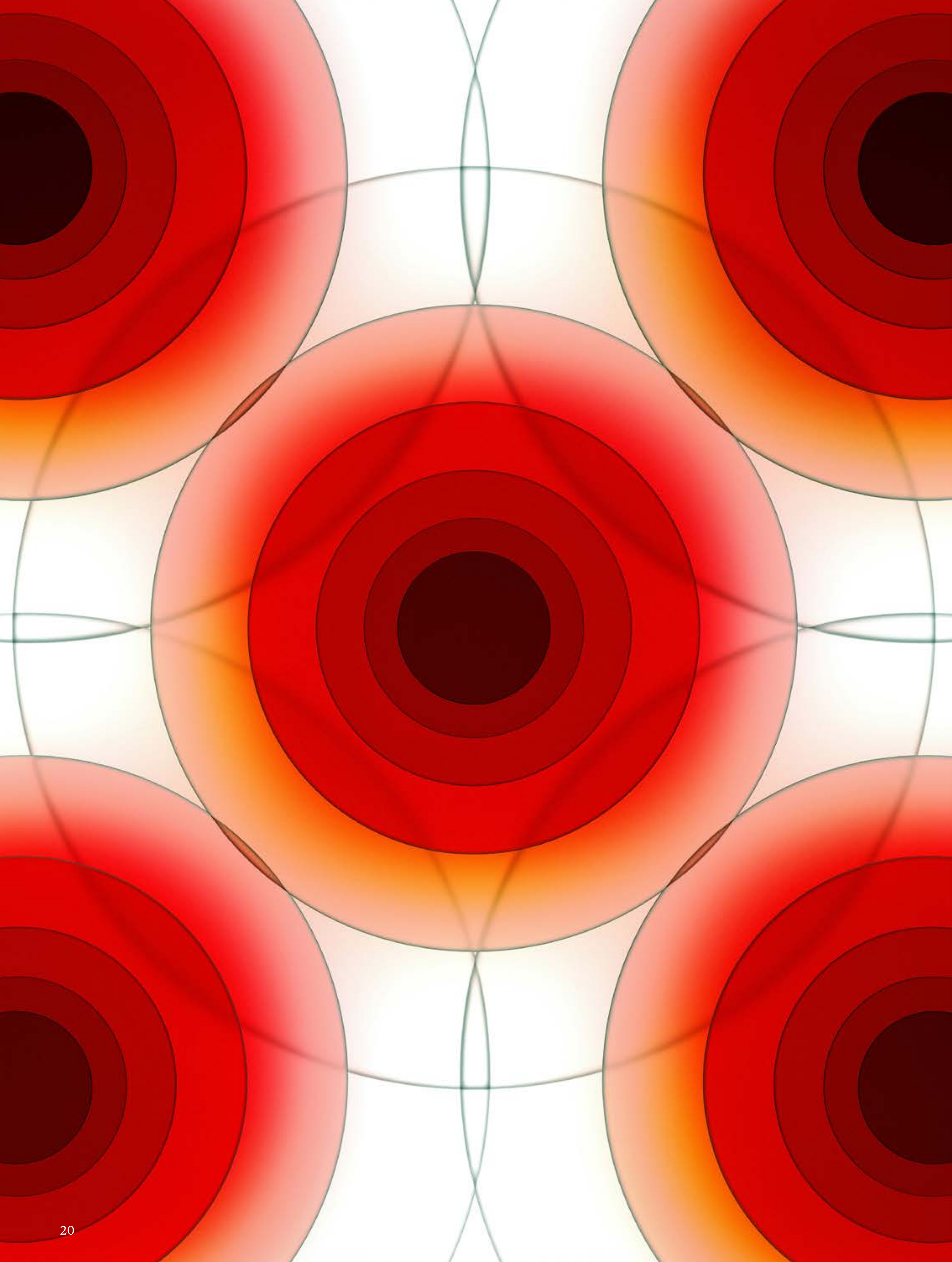
Downs says he sees hope in the early stage startup-type businesses, particularly in the tech world, with boards in tune with the *Four Pillars of Governance Best Practice*.

"One of them is helping and guiding the strategy for the organisation. If the board has set the strategy at a certain level you are almost certain to keep that level straight away. So your board, by definition, has got to be really pushing your chief executive, your leadership and management team to go bigger. And they've got to hold them to account, while clearing the roadblocks and making sure they have the resources they need. But it starts at defining and setting what success looks like for this business.

"This is going to sound terribly controversial, but if your board is your accountant and your brother-in-law, you're unlikely to get the level of challenge that you probably need. You should find board members who have been there, done that at a level 10 times what you want to be and they're going to drag you into that future."

David Downs CMInstD, a self-confessed genetically modified optimist, will be speaking at the IoD's 2024 Leadership Conference in Christchurch on May 13-14. The author and former comedian will host a breakout session, "Taking the 'bored' out of board meetings: 10 tips for better board meetings".

> "This is going to sound terribly controversial, but if your board is your accountant and your brother-in-law, you're unlikely to get the level of challenge that you probably need."



Fresh thinking needed in the face of global megatrends

AUTHOR:
JOHN BALLINGALL CMInstD

Photo by:
Shubham Dhage on Unsplash

Regulatory stability and a common purpose are good for business and good for society.

New Zealand directors have stated that lifting firm productivity is one of their top five issues for 2024. And rightly so. New Zealand's productivity performance has been dire since the 1970s and has hampered improvements in our living standards.

The reasons for our productivity woes are well known. They include a lack of scale, distance to markets, infrastructure challenges, shortages of skilled workers and managers, and slow uptake of new technologies.

New Zealand is now staring down the barrel of megatrends that could make the business environment even more complex in coming decades. Issues include the social and economic impacts of artificial intelligence (AI), a return to more power-based global politics, the damaging effects of climate change and a shrinking labour force (and big fiscal costs) due to demographic shifts.

These immense structural forces will complicate the business environment and should be hot topics around the boardroom table.

The current political environment rewards short-termism and business has a role to play in helping politicians overcome their natural tendency for short-term political point-scoring.

In a recent discussion paper for Business New Zealand – *'We're all in this together: How can business and government collaborate to address shared challenges out to 2050?'* – Sense Partners suggested these challenges are too immense and far-reaching to be subjected to short-term political point-scoring and bickering between politicians and the business community. They require a coordinated New Zealand Inc response.

The chances of success will improve if government and businesses can agree on some long-term priorities – such as a common purpose – and who is best placed to do what, and then stick to the plan.

This allows policies to endure and means institutions and businesses can adapt to structural forces irrespective of electoral cycles. Businesses seeking to invest to boost their productivity need regulatory stability so they can plan and invest with confidence.

Regulatory stability requires greater bipartisanship from our politicians. Continual policy flip-flops across election cycles – for example biofuels, agricultural emissions pricing, immigration and tax settings – work against regulatory certainty, curtailing investors' confidence and harming productivity.

New Zealand's history shows sustained progress on important economic and social issues has occurred when political parties have found consensus. Examples include foreign policy, trade policy, monetary policy, paid parental leave and KiwiSaver.

Politicians have made choices in the past to effectively depoliticise efforts to make progress in these critical areas, in the interests of the greater good.

New Zealand needs more of this bipartisanship around the megatrends we now face. On issues as monumental as climate change and AI, we don't have the luxury of waiting for political parties to stop bickering and overturning each other's policy settings every time there's a change on the ninth floor of the Beehive.

A question then is what can businesses do now to try to encourage such policy stability and bipartisanship? And what might businesses be prepared to offer in exchange for it? We can't assume politicians will get there themselves without support from the private sector – their incentives aren't well designed to focus on long-term issues.

This isn't to say that all politicians are incapable of thinking about the big issues beyond the next election. There are notable exceptions who concern themselves with boosting productivity and positioning New Zealand well for an uncertain future. It's just that realpolitik always tends to win in the short term.

Some possibilities canvassed in the paper are:

- **Demographic change:** If there were to be more political consensus over migration policy to provide a larger pool of workers, could more businesses commit to invest in labour and capital to boost productivity and pay wages that were more competitive with (say) Australia? Would the short-term cost to the wage bill be worth it if it secures access to workers?
- **Infrastructure gap:** If there is an agreed infrastructure plan that was less subject to political whims, might businesses be prepared to pay infrastructure levies, build more worker accommodation, promote congestion charging and support toll roads?
- **Technology and the rise of AI:** To avoid politicians making knee-jerk changes in areas such as technology regulation, might business champion distributional tools – such as a greater use of the welfare system and active labour market policies – to mitigate harmful economic impacts for households from technological change? Or might our tech firms take the lead on implementing socially responsible use of AI?
- **Climate policy:** If politicians from both sides of the House could agree on a gradual lowering of the Emissions Trading Scheme cap over time (and hence gradually higher carbon prices) and avoid flip-flopping over things such as biofuels and the clean car rebate, would businesses be more willing to invest in emissions-reducing technologies?

New Zealand politicians and businesses cannot sit idly by as these megatrends hit us, gazing at our own navels and expect everything to work out.

Productivity and living standards will suffer and New Zealand will fall further behind our peers. It will become even harder to keep New Zealand's best and brightest on our shores.

This isn't the future we want, but it might be the future we get unless governments of all political persuasions and business can start working better together. Directors have a key role in exercising strategic leadership and offering a long-term vision for New Zealand that politicians can support through sensible, stable regulatory settings.

"Directors have a key role in exercising strategic leadership and offering a long-term vision for New Zealand that politicians can support through sensible, stable regulatory settings."

John Ballingall CMInstD is an economist at Sense Partners, a consultancy dealing in modelling, public policy, regulatory affairs and economic assessments.

Moving with the times

Dairy farmers are embracing technology to increase productivity and improve sustainability.

AUTHOR:
SONIA YEE,
SENIOR WRITER

Dairy New Zealand chair Jim van der Poel CMInstD says technology is helping the sector evolve, changing production processes which have contributed to its growth and sustainability.

Menial tasks have been stripped out, creating bigger and more efficient operations and operators.

"Technology is there partly for productivity, partly for sustainability and ease of management. It helps farmers manage their businesses better, which is important as there are a lot of risks in operating a farm," says Van der Poel, an experienced governor who has been in the dairy industry for nearly 45 years.

Poel is able to track his cows and find specific details about their lineage and health status, with an app measuring their activity, rumen and information around calving – all connected via a neck collar recording systems that link to his mobile.

"That's at our fingertips, so that technology is evolving all the time," says Van der Poel, adding that it makes farmers' roles and lives a lot more interesting.

The dairy industry plays a huge part in New Zealand's economic wellbeing, generating about 25 per cent of all export earnings. In the year to April 2023, the sector generated nearly $26 billion in export revenue.

"It is competitive and one of the most regulated industries in New Zealand, but it's also competing in one of the most protected markets in the world," Poel says.

But with New Zealand's ageing and urbanising population, future-proofing the sector and increasing productivity presents a real challenge.

A changing demographic and urban migration means a smaller talent pool. "Immigration has always played a part, my heritage is testament to that," says Poel, whose parents migrated to New Zealand from the Netherlands and started their new lives as farmers.

Migrant workers come from places such as the Philippines, India and Fiji, and Van der Poel says they make up a regional portion of the population that are now part of dairy farming communities and operations.

"Some people come with a bit of experience because it makes it easier to get into the country, but they will have worked in places like Saudi Arabia where it's a very different system."

A new regulatory environment implemented during Covid-19, while stressful for the industry at the time, has played a big role in maintaining quality control and mitigating risks around modern slavery.

While there are always a few bad apples, Van der Poel says the industry has always been good at looking after its people, and the tightening of regulations from a business and governance perspective has strengthened the industry.

"We put all those systems and processes in place to make sure when migrants come here, they have good experiences, and the roles are what they've been promised. It does make a big difference."

Dairy farmers have to constantly think about different ways to produce their products to ensure neither the quality, nor the reputation, is compromised. This includes ensuring dairy remains top-of-mind for consumers in New Zealand and abroad, investing in marketing, food service, and research and development around animal nutrients.

Van der Poel understands the world is changing with people making deliberate and conscious decisions about what they consume in line with their own values and health needs.

Being involved in oversight of the sector with first-hand knowledge of the structures and operations, Van der Poel says it is about helping to take the industry to the next level.

"We try to understand the issues we have, own them as an industry and find the solution. We collaborate with central and local government, and our communities, to solve the issues and walk through them.

"Where farmers are given the opportunity to do that, we always make more progress and it's more enduring. For all the hurdles we have, and the international barriers and tight regulations, the industry has continued to thrive."

Jim van der Poel CMInstD has also been on the board of the Fonterra Co-operative, Fonterra Shareholders Fund and New Zealand Co-operative Dairies.

"We try to understand the issues we have, own them as an industry and find the solution. We collaborate with our central and local government and our communities to solve the issues and walk through them. "

Jim van der Poel CMInstD

Executive mobility redefined – Nissan brings the future forward

In an era where executive choices in mobility reflect broader commitments to innovation and sustainability, Nissan embarks on a transformative journey with the upcoming Ariya. This mid-size executive EV with 515km WLTP range signifies Nissan's pivot towards a future where performance, environmental stewardship and sophisticated technology converge.

As the global automotive landscape undergoes a seismic shift towards more sustainable and innovative solutions, even if there is little consensus on what the right technologies may be, the concept of executive mobility is being redefined.

Traditional benchmarks of status and prestige are giving way to new priorities: environmental stewardship, technological innovation and a keen sense of corporate responsibility through concrete choices over greenwashed statements in earnings pamphlets. Within this changing tide, Nissan is positioning itself at the vanguard of change with its strategic pivot up the value chain, signalled prominently by the introduction of the Ariya.

The contemporary executive demands more than just transportation; that hasn't changed. They seek a vehicle that serves as a mobile command centre, aligning with their values and lifestyle from the CBD to Lake Karapiro and beyond. The Ariya meets these demands with cutting-edge technology, refined cabin experiences and advanced driver assistance systems, ensuring leaders remain connected and in control without losing sight of the need for Kiwis to make the most of our adventurous lifestyles.

The Ariya's design is bold and futuristic. Its interior is refined, quiet and decidedly upmarket. Its commitment to sustainability aligns with the growing ethos of corporate responsibility, making the Ariya a symbol of forward-thinking leadership without compromising on the foundational demands of executive class mobility. It's a head-turner in the CBD as you arrive for merger negotiations and its e-4ORCE all-wheel-drive and class-leading towing capacity will get you and your family to the boat ramp or ski lodge with ease.

Introducing the Ariya to your fleet signifies astute judgement on several fronts. Beyond reflecting a commitment to innovation, sustainability and a visionary approach to executive mobility, it's a communication of fiscal sensibility through opting for a badge rich in history with Kiwis from all walks of life, not just the top one per cent. Yet, the new Nissan offers all the refinement and comforts that the most productive members of your team expect, require and demand, not only as a means of mobility but also as a reward and recognition of their value to the organisation.

The Ariya challenges traditional psychologies of executive mobility. The short list of German and British executive cars has been static for generations, but that world is changing. The Nissan Ariya represents a shift in mobility choices and stands as a beacon for those who believe success is paved with responsibility and a commitment to the future.

The hot potato – getting the price right

AUTHOR:
SONIA YEE

Horticulture New Zealand has a goal to double exports, but it also has a responsibility to feed the country.

The need to produce affordable products for the Kiwi consumer, while also enabling the grower to survive, is the conundrum facing the sector, says Horticulture New Zealand | Ahumāra Kai Aotearoa chair Barry O'Neil MInstD.

The industry contributes 99 per cent of fresh vegetables to New Zealand supermarkets, with only 20 per cent – largely potatoes and onions – exported overseas. Fruit plays a bigger role in the export market, which creates more opportunities for growers. But O'Neil says finding the right pricing balance becomes difficult for the vegetable growers.

"Obviously, we're trying to increase our export revenue and we've got a goal of doubling exports in our horticulture action plan, but an issue we often forget about is that horticulture also feeds New Zealanders."

The sector plays a big role in the wellbeing of New Zealand, but the cost of living crisis has driven up costs for everyone, including production.

O'Neil stands firm that the sector does not want to see a future where Kiwis can only afford to buy frozen, internationally grown and sourced vegetables in the supermarket.

"We are working with the government, regional councils and our growers to try to find a way through this. We haven't solved it yet, but we need to as a country."

Horticulture employs about 60,000 people either full-time or seasonally, and one of its strengths is its close relationship with communities, enabling it to attract local talent and keep the industry afloat. With crops grown closer to residential areas, there is an increased need for open channels of communication.

"You get a lot more people close to where we're growing and don't like the dust or the noise. So we have to work with the community so they understand the land is special and it shouldn't be made into housing."

Climate change has revealed the immediate impacts on infrastructure, feeding into the narrative that underpins a need for greater resilience, and a sign that further investment is required to push an effective strategy.

"We have about 100,000 hectares of agricultural land we grow on. A lot of those areas are flood plains, as we found out during Cyclone Gabrielle. So under risk from climate events like that, there's about one million hectares of total land area that is suitable for horticulture. The availability of land for horticulture is not a limiting factor, but water can be."

Horticulture New Zealand is advocating to the government to address flood risk and water management which can be achieved in part by using larges water storage schemes, such as the Opuha Dam in South Canterbury.

"We've invested historically in flood protection, for instance, in the early and mid-1900s. But we haven't always maintained the depths or heights that's needed. We haven't invested in them sufficiently," O'Neil says.

"I think there are also ways we can adapt to how we grow, but it's hard, and we have to work together with the community. It is something we're committed to and it is certainly a priority we have for this current government."

With the devastation brought about by Cyclone Gabrielle, the reality is that some of the more established, older growers who can't face the burden – or trauma – of starting from scratch, have vacated the sector, which will also impact its growth.

But there is also light on the horizon, particularly with innovation and rethinking the shape of the industry. Growers have become more resilient in finding new ways to protect their crops, including growing under covers which has enabled productivity.

Māori growers are also contributing uniquely to the future of horticulture and expanding into new international markets.

"We have Māori kiwifruit growers who have a joint marketing venture with Zespri, exporting to Hawaii, where culturally there's a very close relationship. I see that as just the very beginning of opportunities for our Māori growers to be able to access markets with similar cultural connections."

About 10 per cent of the kiwifruit industry is Māori grown and owned, and Māori are being recognised as significant investors who also have culturally different approaches to growing. As a way of fostering that growth, Horticulture NZ is actively supporting Māori to enter the sector with new training programmes.

Without innovation and investment in research and development, the smaller product sectors will struggle to survive.

"Sectors like kiwifruit have got the critical mass needed, but if you're in the tamarillo sector or the squash sector, for example, you don't have that critical mass to be able to invest. There's different levels within horticulture as to what is achievable or not. I'm seeing the need at the lower end where the groups are not yet at a stage where they can support themselves as a priority in the first instance, and we have our Aotearoa Horticulture Action Plan to achieve this.

"We are concerned our science system has lost its focus in supporting New Zealand's primary industry to help it overcome some of the challenges. Science needs to develop new ways of growing with low emissions. It needs to help us to produce new plant varieties and, of course, we need to invest as well."

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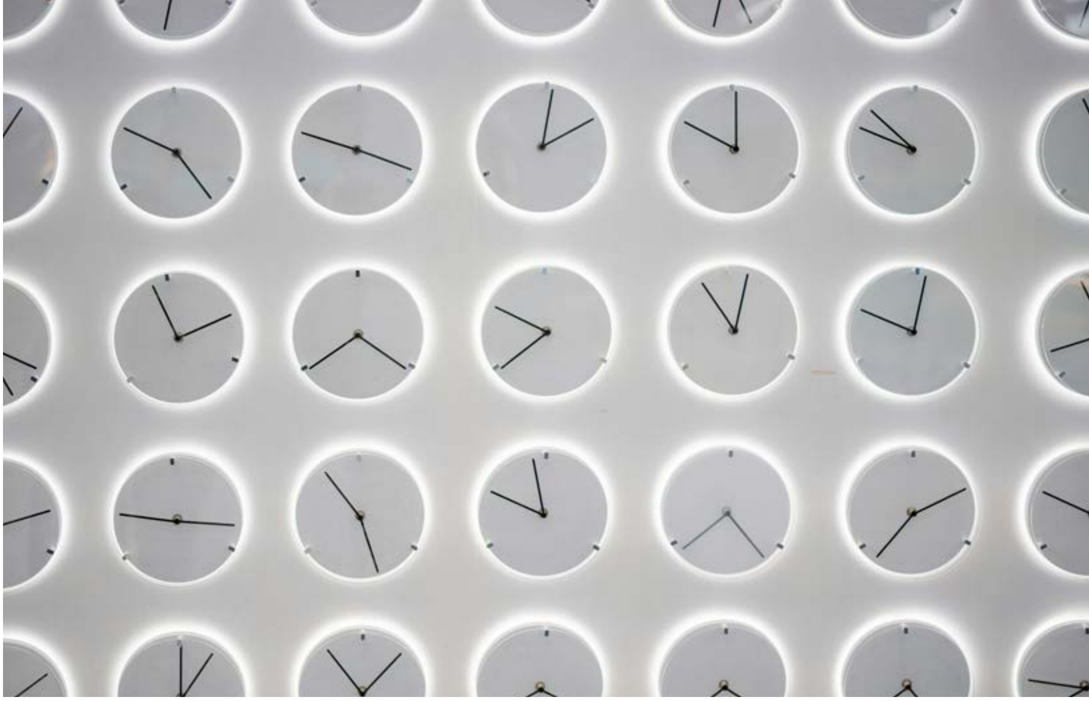
Barry O'Neil MInstD



Labour market dynamics – is it time to exhale?

There is no time to rest with boards needing to be smarter in analysing trends.

AUTHOR:
SARAH BADDELEY MInstD

After years of a relatively tight labour market, the recent Quarterly Predictions by the New Zealand Institute of Economic Research (NZIER) highlighted the change occurring for New Zealand firms and the impact of strong migration inflows.

The independent research firms says, " . . . there has been a remarkable turnaround in labour shortages over the past year. Net migration has recovered strongly with the reopening of international borders, as firms bring in workers from overseas".

That development should bring a sigh of relief from New Zealand employers and businesses who have been navigating persistently tight labour markets for nearly 10 years. This included the phenomenally difficult Covid period when border restrictions turned off the tap of highly valuable migrant labour.

In *Boardroom* in late 2022, I raised concerns about whether directors were sufficiently focused on the impact that wider labour market dynamics have on business and organisational performance, and on overall competitiveness. While the NZIER prediction indicates some relief, directors may not be totally off the hook.

Productivity is a measure of how efficiently a business – or, aggregated up, a national economy – turns inputs into outputs. When it comes to labour productivity there is strong evidence we excel at working harder, not smarter.

But as we face further economic and therefore fiscal headwinds, boards across the country are going to have to work harder and smarter. They will need to be smart in analysing the implications of labour market trends for decision-making in their own organisations.

This will include making capital investment decisions to drive efficiency, rewarding improvements in performance with higher wages, and being disciplined

Photo by:
Donald Wu on Unsplash

about whether to pass continued wage pressures through to customers while also facing competitive pressures. Navigating this will also depend on the quality of a firm's relationship with its employees and other workers in the supply chain.

Despite some improvement in business confidence and improvements in the terms of trade, global economic headwinds are strong, and the Reserve Bank has warned we need to keep an eye on productivity growth as it has remained weak coming out of the pandemic.

I won't be exhaling until we see definitive signs the labour market is softening (that is, unemployment rising). Only then will we be able to start to understand the implications this softening might have for wider monetary policy and macroeconomic policy settings.

The other group waiting to exhale is the Reserve Bank's Monetary Policy Committee. The February 2024 Monetary Policy Statement from the committee also noted the role net migration has had in boosting supply capacity.

How this potential softening flows through to wage and salary expectations is also relevant. Recent data indicates wage growth has been declining at a rate lower than expected.

A recent speech by Governor Adrian Orr highlighted concerns that price expectations may be baked in across the economy. While no-one is talking about the theoretical wage spiral, we do see concerns across economists about a feedback loop where businesses try to pass on increasing costs to their customers, and customers then seek higher wages from their employers to offset the increased cost of living – and on it goes.

In his recent speech to the New Zealand Economic Forum, Orr set this out clearly, saying: " . . . wage growth driven by excess demand in the economy – as opposed to wage growth driven by productivity gains – creates additional cost pressures for businesses and, in turn, upward pressure on consumer prices."

" . . . wage growth driven by excess demand in the economy – as opposed to wage growth driven by productivity gains – creates additional cost pressures for businesses and, in turn, upward pressure on consumer prices."

Recent data released by Statistics New Zealand highlighted a disconnect between wage pressures being seen in the public and private sector. While average hourly earnings overall were up 6.9 per cent, public sector earnings were up 7.4 per cent – the largest increase since March 2006.

However, fiscal austerity and redundancy programmes coming out of Wellington are likely to put downward pressure on wage expectations. Given that the public service doesn't exist in a hermetically sealed bubble in the labour market, and especially as 55 per cent of public servants live outside Wellington, this should also begin to flow through to the overall economy through an eventual softening of the labour market.

In this challenging context, what can directors do? It's essential to stay informed about labour market trends, to understand the impact on your organisation, and to adapt strategies accordingly. Specifically:

- Seek regular updates from management on labour market-related issues, including how competitors are responding and employment relation dynamics in those sectors with high degrees of union penetration
- Manage remuneration and benefits proactively – work the full range of your levers in this area to ensure you are rewarding performance and productivity where you can
- Keep an eye on wage pressures in your sector and signs of wage growth slowing to ensure your remuneration and bargaining strategy is well informed by the current market, rather than operating off an outdated 2022/23 playbook
- Place discipline on your revenue and pricing decisions

The Governor of the Reserve Bank is watching and directors should be too.

Sarah Baddeley MInstD is a partner at leading management consultancy firm MartinJenkins. She leads the Auckland practice and has expertise in labour market-related issues.

Reset
Align
Engage

Pruning for growth – how to optimise performance and productivity

AUTHOR:
MARK HUTCHINSON
MInstD

Continuous and targeted pruning allows resource to be focused more sharply on key priorities.

Delivering more for less, the definition of increased productivity, should be the goal of all organisations. Unfortunately, immediate cost-out targets mean the focus on long-term performance often gets lost in the haste to meet short-term budget constraints.

Reviewing focus and sharpening how resources are prioritised to achieve organisational strategy and outcomes should be a regular discipline. Instead, many organisations tend to wait for the next external shock to force hasty cost-out programmes under pressure.

I was contemplating organisational effectiveness while harvesting avocados recently and thought of 'pruning for growth'. Neglecting pruning results in a tangled mess, and fruit up high and difficult to harvest, with the bulk of the tree fruitless in the following year as buds form in direct light. This leads to the need for drastic cutting down the track.

Because the buds for next year's fruit form on the new wood above this year's fruit, if you cut too much or the wrong branches, you risk decimating next year's crop. The best approach is continuous and tactical pruning, sacrificing some higher branches to let light onto those below, and sometimes removing what seem likes strong healthy branches, which on close inspection are not yielding much fruit.

Likewise, in organisations, continuous and targeted pruning of activity (projects, initiatives, committees, forums and working groups) allows resource to be focused more sharply on key priorities and increases productivity.

To use the avocado metaphor, branches that are sucking resource but not delivering are removed, complexity is untangled, and light let in to stimulate productive growth. Done poorly, all that is achieved is improvement in this year's bottom line at the expense of future growth and productivity.

This is particularly evident in the way that restructures, if handled poorly, can have a detrimental impact on culture and capability. Who among us hasn't seen great people exited alongside poorer performers in the dance to fill a reduced number of seats?

How often have you seen good people paid off at great expense who are hired back at higher rates as contractors? Who else has noticed how often the organisations that restructure frequently end up with an increasingly toxic culture of self-preserving middle and upper management whose key skill is political positioning to protect their own interests?

When uncertainty persists, or engagement is destroyed in the way cuts and restructures are handled, it is the most talented people who take flight. These negative impacts on our people and culture are analogous to cutting next year's fruit-bearing wood during pruning.

So, what are the essential elements of more effective organisational pruning?

1 STRATEGY RESET

The board has a key role in ensuring this year's pruning doesn't compromise growth towards future strategic goals. Without laser-focused clarity around key strategic priorities there is huge risk of 'death by a thousand cuts' in any across-the-board cost-out programme.

This is the process where bits are snipped (sometimes fat, sometimes muscle needed for future growth). Initiatives that make the boat go faster – and may need additional investment – are no more likely to be saved than pet projects, or those that justify the existence of a senior manager's department. Without sufficient direction around what activity needs to stop, the tendency is to try to keep everything going as before, rather than prioritise focus.

Further down the organisation this tends to lead to unrealistic expectations (smaller teams trying to do the same amount of work in the same way), and longer hours, stress and disengagement ('silent resignation' as it is now called). In this situation, it is the most talented who head for the job market.

With real clarity around strategic goals, honesty around tough decisions and ruthless focus on prioritising for long-term success, it is possible to prune for growth in a way that optimises future performance and productivity. Some priorities will have to give, some projects paused or shelved, and ways of working to achieve key outcomes will need to be reviewed.

2 TOP TEAM ALIGNMENT

It can be hard for boards to get a line of sight on how the top team is truly operating. Executives will be on their best behaviour and often only see the board to present a paper relevant to their area. An astute observer of the chief executive and executive leadership team (ELT) working through the strategy reset, combined with a little diagnostic digging, will quite quickly identity whether the top team is firing on all cylinders or needs a reset.

For example, there are usually a number of indicators which show whether the team is operating as an "all-of-enterprise team" or creating competing silos. The interactions between inherent structural tensions in the organisation's design and the relationships between the responsible ELT members are invariably at play in how efficiently the organisation is operating.

The first step for the CEO is to be clear they have the right capability, composition and structure in their top team, given the efficiency gains required. When the pressure is applied to do more with less there is no room for passengers – or 'terrorists'. If the CEO (or board) has doubts about whether they have the right team to move forward, this needs to be tackled up front.

Difficult conversations put off at the front end of a big restructure or cost-out process inevitably come back to bite. Allowing

"When the pressure is applied to do more with less there is no room for passengers – or 'terrorists'. If the CEO (or board) has doubts about whether they have the right team to move forward this needs to be tackled up front."

senior executives to stay in place who do not meet the bar can lead to expensive and time-consuming unpicking of many decisions or actions. Worse still, they will frequently tend to be the leaders who will lose, rather than retain, the talent required to take the organisation forward.

Once the CEO is clear about team composition, alignment around the key strategic objectives is critical. It is important to dust off the team's ways of working, often described in a team charter or team operating model. Boards should review this team charter. If the team has never discussed its ways of working, and how ELT behaviour supports the organisation's values and desired culture, then the board might suggest now is the time.

Many CEOs/ELTs make the mistake of waiting until after the next wave of change to focus on how their top team operates. The best time to work on top team effectiveness is when it is under pressure to make key decisions and drive necessary change.

3 IDENTIFY, RETAIN & ENGAGE KEY TALENT

The critical thing in any efficiency-driven reorganisation is to ensure your best people and future leaders end up in the key roles, and are motivated to play to their strengths. Unfortunately, many organisations trying to get costs down through restructuring processes disengage their key talent in a number of ways.

The first is uncertainty. If you have waited until launching your change 'consultation' before auditing your talent you are stuck, unable to give any certainty while the process drags on. Your highest potential people will often feel undervalued and many will be at lunch with headhunters before the ink has dried on your new structure.

The second is there is a risk you don't get the best players in the right positions to accelerate performance. The best time to identify your key talent is now, not in the thick of a restructure with the fear of redundancies in the air.

Without an objective view of who has the best experience, capabilities or potential to carry out critical roles in your new leaner structure, your restructure will turn into a game of musical chairs. The most political will be the first to position themselves to get a chair. In the absence of an objective assessment, personal biases will come into play, leading to favourites keeping key roles while the more challenging, often diverse characters, often miss out.

The best way to engage your key talent is to identify them early, make sure they know they have career opportunities and then to invest in their development, including giving them broadening experiences. All restructures destroy value when they fail to lock in key talent. When people know they are valued heading into a change process, they are more likely to stay engaged and optimistic about their prospects than become 'terrorists' or take flight.

As a board you should regularly review strategy and ask your management team to focus resource on achieving key goals. Ensuring alignment of the top team is then critical to effective execution of strategy. Prioritising the retention and growth of key talent through this pruning process will support future performance.

Mark Hutchinson MInstD is managing director of organisational change consultancy Divergent & Co and a director at Airways NZ. He has worked with organisations as diverse as Barclays and Sainsbury's in the UK and Fletcher Building, NZ Post and Waka Kotahi New Zealand Transport Agency.

The do's and don'ts

CONTINUOUS AND TACTICAL PRUNING

Do: Regularly assess and adjust initiatives. Remove activities that don't advance key priorities.

Don't: Make abrupt, massive cuts without careful evaluation.

PRIORITISE LONG-TERM PRODUCTIVITY

Do: Reallocate resources, communicate clearly about ceasing activities and streamline processes.

Don't: Focus only on short-term gains; consider long-term productivity.

CONSIDER CULTURE

Do: Lead change in a way that preserves the positive aspects of organisational culture.

Don't: Underestimate consequences of poorly handled restructures.

RETAIN FLEXIBILITY

Do: Keep the organisation's ability to adapt nimbly to future changes in context in mind. Ensure the strategy can adapt to changing circumstances.

Don't: Stick rigidly to initial plans without considering future possibilities or consequences.

Holistic approach is key to measuring productivity

The Productivity Commission's demise does not mean we should abandon its work.

AUTHOR:
NICOLA NATION, CEO

Photo by:
Carole Smile on Unsplash

The demise of the Productivity Commission has seen workforce productivity in Aotearoa New Zealand become the topic du jour, or o te rā. It was birthed in 2008 by the same political parties – National and ACT – that believe it no longer effectively serves its purpose.

The commission was designed as an independent Crown entity tasked with investigating policies that may unintentionally harm national productivity, and counselling government on how these policies might be amended to improve productivity.

It is being replaced by a new Ministry for Regulation, which will look at ways in removing red tape for businesses and foster greater innovation. It is understandable the new Government wishes to focus on reducing regulation and increasing innovation. However, productivity will remain a key metric for our performance on a global stage.

Productivity, at face value, is simple to define – how much output an organisation can generate (products or services) within a given set of inputs (the number of hours worked by its staff).

Enabling productivity, then, becomes a simple matter of increasing the number of services or products an organisation is able to produce, while retaining the same level of hours worked by its staff.

At its most basic, the OECD measures productivity as GDP per hour worked. Aotearoa New Zealand is at an immediate disadvantage given its relative geographical isolation and its small population. Of course, it is not that simple, and the Ākina Foundation subscribes to a more holistic picture in defining productivity.

The commission's *'Productivity by the Numbers'* report, released in mid-2023, showed little change in economic productivity. We continue to decline in terms of national productivity and have gone from being one of the most productive countries in the 1960s to one of the least productive in the OECD, ranked 29 of 43.

It is certainly not the case that the commission's work had become redundant: in announcing its disestablishment in order to fund the new ministry, it highlighted our decades-long productivity problem.

Low productivity has a significant impact on Kiwis' quality of life. It is linked to our welfare as a nation and our ability to educate our young people, build and improve infrastructure, care for our elderly, enjoy

ākina

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more leisure time, and build our human capital and workforce skills. Businesses can, and do, make a positive contribution to our social fabric. Low productivity affects everyone, not just businesses.

New Zealand's productivity issues are driven largely by people working longer hours for the same outputs. There are some significant risks for businesses associated with this, including poor business performance and worker retention, and a dissatisfied, burnt-out workforce.

The Institute of Director's top five issues for directors in 2024 shows organisations are becoming increasingly focused on ways to enable greater productivity as they face cost and pricing pressures, supply chain concerns and increasing wage demands in a tight labour market.

Directors have also pointed to changing stakeholder expectations: their staff, customers and communities are all expecting more in terms of sustainability, social and community impact, and workforce wellbeing.

Kantar's 2023 Better Futures Report reinforces this, with 58 per cent of respondents prepared to invest their time and money to support companies that try to do good. Businesses that aren't focused on achieving a positive impact are losing customers, with 51 per cent of respondents indicating they had stopped buying certain products or services because of their impact on the environment or society.

On top of this, some of the positive social outcomes of a more productive economy are key concerns for New Zealanders – the cost of living, crime, housing and affordable healthcare all rank in the top 10 areas of concern.

In this respect, businesses have an opportunity to hit two targets with a single arrow – to increase productivity while meeting the expectations of their stakeholders, and to create a positive work environment that fosters productivity, innovation and employee satisfaction.

When linked to business strategy and delivered with authenticity, such initiatives give employees a sense of purpose and pride in their organisation. Engaged, empowered employees are more productive and committed to their work when they believe it has a positive impact.

"Directors have also pointed to changing stakeholder expectations: their staff, customers and communities are all expecting more in terms of sustainability, social and community impact, and workforce wellbeing."

This can be achieved through upskilling initiatives, a greater focus on delivering positive social and environmental impact through mahi, and measuring and then communicating that impact.

Equally important as reporting these impact outcomes to stakeholders is being able to recognise opportunities to contribute to the wellbeing of staff, customers and communities through an impact-led approach.

As stakeholders become more and more attuned to these outcomes, there has been a noticeable shift in perspective from more standard environmental, social and corporate governance (ESG) approaches. Approaches that were previously more harm reduction-focused have moved towards prioritising an organisation's positive societal contributions.

Ākina has seen an increase in organisations looking right across their business activities, sustainability strategies and community investments to identify where they can increase their positive impact.

There is no downside: more equitable workplaces – businesses that prioritise their ESG outcome – have higher business performance. That is, they are more productive.

The commission had long championed the refrain that productivity matters for wellbeing. Last year, chair Dr Ganesh Nana highlighted that "the choices we make today influence the productivity and standard of living, waiora, and wairua tomorrow, and for future generations".

Similarly, the OECD has repeatedly pointed to the link between productivity and inequality – a sliding scale showing that where productivity increases, inequality decreases, and vice versa.

By focusing on their long-term social and environmental impact, businesses have the power to drive greater impact and better performance through their governance practices, as well as to make a greater contribution to our national wellbeing.

Bold business can power productivity

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REBECCA JAMES,
EXECUTIVE GENERAL MANAGER OF BUSINESS BANKING

Photo by:
Ashutos Dave on Unsplash

A new report says just one per cent growth would set the country on a more prosperous path.

It's a question we have been grappling with for decades: how do we improve New Zealand's lacklustre productivity performance?

It's not about producing more, it's about sustainably producing more for less, or making existing processes and products better. The answer lies with innovation.

A recent report commissioned by ASB has found that if we can invest in innovation and increase productivity growth by just one per cent, we would set New Zealand on a different, more prosperous path.

By lifting productivity growth from its existing 1.5 per cent to 2.5 per cent, real GDP would hit $500 billion by 2045, an increase of about five per cent on current projections, and adding tens of billions to the economy each year.

The report *'Business productivity in New Zealand, assessing the drivers and barriers in the international context'*, from the New Zealand Institute of Economic Research, was commissioned to identify growth opportunities for Aotearoa based on the success of other economies of similar size and population.

It found high-performing small advanced economies invest more in research and development and drive more of their income from exports than we do in New Zealand, which forces innovation as businesses strive for international market share.

Companies in these economies also benefit from innovation ecosystems that help to spread technology and ideas, further enabling them to compete in global markets.

Meanwhile, New Zealanders are working longer to make up for low investment in capital, knowledge and research and development, and we are producing less than our overseas counterparts.

We have an opportunity to turn that around. For New Zealand to increase productivity, the report says business leaders need to be more ambitious, be prepared to invest and innovate, and enable their workforce to adapt.

While government certainly has a role to play in creating the conditions for growth and innovation, policy and regulation on their own cannot fix our productivity problems.

What practical steps can business take? The report called for business and the non-government sector to take leadership by developing skills, adopting new technology and being more flexible and open.

Business can start by collaborating and building sustained ecosystems to support innovation like we see in the Nordic countries, Singapore and Ireland, which perform better. In these economies, innovation clusters have enabled the growth of large, competitive frontier firms that drive and support performance overall.

In New Zealand, we can look to the food and fibre sector for evidence of ecosystems lifting performance and helping to create and market new products for export, such as the gold kiwifruit, which now accounts for about $2 billion in export earnings.

This commitment to innovation needs to be applied across the economy. For business, that means building an understanding and appetite for innovation and investment as an engine for growth and sustainability.

Business leaders should ensure their workforce has the capability to develop and absorb new ideas and this will help to increase international competitiveness.

There is an urgent need for this to happen. As a country, we are facing environmental and resource constraints, rising costs and an ageing population.

"The report called for business and the non-government sector to take leadership by developing skills, adopting new technology and being more flexible and open."

Without innovation and productivity growth, incomes will be stagnant, and we will be unable to access essential services such as schools and hospitals, that we all need to live happy and healthy lives.

Of course, business cannot in isolation solve our productivity challenges. A supportive environment for growth and innovation is needed and once a decision to innovate is made, government and the finance sector must ensure there are minimal barriers to scale.

The report identified banks have a role in supporting businesses by helping them to secure capital through both mainstream and innovative financing solutions.

ASB has created productivity lending to encourage business customers to take action and invest in innovation. And the bank is being ambitious, targeting $500 million in productivity lending before the end of June.

Financial tools and insights are available to empower customers to make the right decisions for their business. Innovation is being embraced with the approach to business banking too, with a series of lending initiatives for changemakers.

In 2023, credit settings were adjusted to speed up the delivery of affordable, social and Māori housing with the Accelerated Housing Fund. The bank is also working with innovative and sustainable food and fibre exporters to provide lending and ecosystem support.

Lending for early-stage clean tech innovators to boost the sector's growth has been announced, and supporting Te Ōhanga Māori (the Māori economy) with lending solutions, enabling whānau to build homes and return to living on ancestral land.

The potential exists and the best is yet to come. Investing for growth can be a big step and we are backing business to move New Zealand forward.

Read the full 'Business productivity in New Zealand' report at ***nzier.org.nz***

Seismic shift in climate risk

The narrative around New Zealand risk for the reinsurance market has shifted from earthquakes, to earthquakes and extreme weather.

AUTHOR:
AARON WATSON

New Zealand has "systemic problems" in managing climate change risk, says Tim Grafton CMInstD, outgoing chief executive of the Insurance Council.

Despite major flooding across Auckland and Northland in 2023, and the tragic loss of life and property due to Cyclone Gabrielle soon afterwards, the finance industry is still prepared to fund, and councils prepared to consent, developments in areas known to be prone to flooding, Grafton says.

In January this year, Auckland Council revealed 1,415 new homes had been consented on flood plains since the Anniversary Weekend floods of 2023. This represents more than 10 per cent of new homes consented during that time.

From an insurance industry perspective, regulatory and legislative settings that continue to see building on areas that will one day flood is a real problem, Grafton says. It shows the risks associated with more frequent, and more severe, extreme weather events have not yet been fully understood.

"While we have always known extreme weather events would become more frequent and impactful, what happened last year – the double whammy of two very big events – was a massive wake-up call," Grafton says. "For the first time, New Zealand has seen what these events could look like. They are huge. The question is, 'What do we do to reduce risk and make New Zealand more resilient?' "

With a business model based on assessing risk, the insurance industry has always been ahead of the game. Globally, it has been a topic of concern among reinsurers (firms that insure insurance companies against the cost of major payouts) for many years.

"For some reinsurers, we can go back three or four decades to when changing climate patterns were beginning to become discernible. What we talk about these days is the increasing frequency and severity of extreme weather events. We have started to see, globally, some of the most impactful climate events that countries have experienced."

In the global reinsurance marketplace, the wake-up call of 2023's floods has been heard loud and clear.

"It is now a narrative of seismic plus climate risk. Up until last year we would typically expect to experience claims from extreme weather events of $250-$330 million per year, which could be accommodated off the balance sheet of the primary insurer. Claims from those two events last year are somewhere between $3.5 billion and $4 billion. That is an order of magnitude much, much higher and it has triggered reinsurance claims."

But the business-as-usual approach to residential development is not the only systemic problem with climate risk that Grafton sees.

There is a broader question about what the Government will introduce to replace the Resource Management Act 1991, after scrapping the previous government's reforms. The current rules do not factor in climate risk as we know it today.

Science institutions, while reliable and publicly funded, do not always make their information free of charge to help New Zealanders make informed decisions. Emergency services are good at responding to events, but "probably not as good" at considering resilience to reduce the risk ahead of events.

For Grafton, there is a risk that some parts of New Zealand may become difficult – even impossible – to insure. "That is what we would like to avoid," he says.

"For the first time, New Zealand has seen what these events could look like. They are huge. The question is, 'What do we do to reduce risk and make New Zealand more resilient?"

Tim Grafton CMInstD

Grafton recommends boards take a close look at the insurance their organisations have purchased and understand how climate risk is covered – or not covered – in their policies. Doing this will not only help ensure their insurance is appropriate, it may also stimulate better understanding of future risks.

For example, supply chain vulnerability may be something boards need to understand. Are your suppliers vulnerable to flood or earthquake. What would happen if they were unable to work? Can we find alternative suppliers?

Business interruption insurance also needs to be considered, he says. "When catastrophe happens your employees will be looking to one thing only, their properties and their families. You are going to face business interruption even if your property is undamaged."

Mandatory reporting of climate disclosures for some large companies has led boards to develop scenarios over short, medium and long-term horizons to understand the risks and opportunities climate change brings. This is influencing board oversight and the strategy needed to respond to these changes.

Grafton says boards that are not mandated to make disclosures would gain insights from undertaking similar scenario planning to ensure the resilience of their organisations.

The insurance industry is now working with its customers to explain climate risk and how it relates to policies. "We are now absolutely focused, as a sector, on how New Zealand needs to reduce its climate risks. That's not simply something that insurers can do, or even local or central government. It has to be right across the system.

"These events are going to become more frequent and more severe. If we haven't heard the wake-up call from last year, then one day it will shake us until finally we realise, 'Oh, we need to get something done'. The sooner we learn that, the better."

Age-old problem

By the end of this decade nearly a quarter of Kiwis will be 65 or over. Will the aged care sector be able to cope?

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Photo by:
Lucian Alexe on Unsplash

In 1789, Benjamin Franklin declared, "There is nothing more certain than death and taxes". More than 230 years later, Franklin might have been surprised to find death is a lot further off and longevity could have an enormous effect on our taxes, and how we care for our ageing population.

Our average life expectancy will jump from 82 years old to 92 later this century and that will have a huge impact on our society, according to demographer Paul Spoonley. He says there is an urgent need to start talking about this.

"I'm a baby boomer. When I was growing up, seven per cent of my community were aged over 65. In comparison, by the end of this decade nearly a quarter of us will be 65 or over. At the same time, the number of under 15-year-olds will decline as fertility declines."

As a result, the aged care sector has grown enormously, with a huge increase in demand that is offering both challenges and opportunities. The challenges were most dramatically publicised late in 2022 by a group of members of the New Zealand Aged Care Association (NZACA) called 'Aged Care Matters', claiming we were on the precipice of a national disaster because of lack of resourcing.

They erected an enormous billboard photo-shopping then prime minister Jacinda Ardern and former finance minister Grant Robertson outside the Beehive, showing what the two politicians would look like in their 80s, and saying by the time they needed care New Zealand would be more than 66,000 beds short.

Last year, Te Whatu Ora | Health New Zealand allocated an additional $93.9 million a year to the aged care sector, while the previous government promised to allocate $40 million to address wage parity issues for aged care workers, with $200m annually after that. But that was also the year nearly 1,000 aged care beds closed, with the sector blaming chronic underfunding, rising costs and harsh immigration settings.

The issue is growing daily. About 80 people a day turn 65, which means in six years we will have more than a million people aged 65 or older. By 2040, that will rise to 1.3 million, and to 1.5 million by 2050, making up one quarter of the population. About 200,000 of these could be 85 plus.

Te Whatu Ora forecasts suggest around 78,000 beds for aged care will be needed by 2040. Currently, there are about 40,000 beds, with an occupancy rate of 86 per cent. The sector says about half of these beds are well over three years old and are no longer fit for purpose.

The sector cares for more than 35,000 residents, nearly two-thirds of whom are at one of the higher care levels

"I'm a baby boomer. When I was growing up, seven per cent of my community were aged over 65. In comparison, by the end of this decade nearly a quarter of us will be 65 or over. At the same time, the number of under 15-year-olds will decline as fertility declines."

Paul Spoonley

(hospital, dementia, or psychogeriatric) and require highly specialised care by registered nurses and caregivers/ healthcare assistants.

However, this does not mean there are spare beds, as any additional beds are needed for flux of movement, such as hosting respite patients.

A 2022 Business and Economic Research Limited report says the sector is a broad church, with a wide range of ownership models, including religious institutions, charitable trusts, family-owned, not-for-profits, publicly listed and privately owned facilities, and groups of varying sizes.

Many bed closures, and therefore loss of facilities, are coming from these ownership segments who have no alternative income streams to supplement their funding, unlike retirement villages.

It is easy to confuse the services of retirement villages and aged care residential facilities. Retirement villages are typically self-funded residential communities, while aged residential care is closer to a hospital, with registered nurses offering four levels of care: rest home, hospital, rest home dementia, and psychogeriatric specialist.

To confuse the issue, many retirement villages also offer aged residential care. These publicly listed providers (not all are publicly listed corporates) operate 34 per cent of the sector's bed supply.

NZACA board member Rhonda Sherriff MInstD says the challenges of an ageing population are a global issue. "Populations are getting older, medications are more effective, people are getting fitter and doing everything they possibly can to stay healthy. Consequently, we are seeing a lot more people growing into older age."

An ageing population will put pressure on many parts of the economy, with estimates the government could be spending up to 40 per cent of its outgoings on age-related issues.

It is a growing market and easy to assume the business would be a good opportunity. Industry revenue for aged care residential services in New Zealand has grown at a compounded annual growth rate of 2.4 per cent over the past five years, reaching an estimated $3.9 billion in 2023.

But Sherriff says it is a sizable investment to get into the sector. "It's a multi-million-dollar business they're running, with a massive amount of upkeep where the costs are significant. The weekly fee paid doesn't cover maintenance, gardening, and the upkeep of all the facilities residents are signing up for as their expectations grow."

And she says the industry is cross subsidising with what money they make from the retirement villages going into sustaining the care side of the business and hampering growth.

That underfunding is also impacting on staffing numbers with registered nurses being lured to higher paying jobs in the public health system, with a turnover of almost 50 per cent in a year. Couple that with too few nurses or caregivers being trained. There are 33,000 caregivers employed in aged care in New Zealand.

The global pandemic has added to the woes, with the country slow to open up immigration when the sector relies heavily on a migrant workforce. In 2022, 43 per cent of nurses and one-third of caregivers on visas came from the Philippines and India.

"Populations are getting older, medications are more effective, people are getting fitter and doing everything they possibly can to stay healthy. Consequently, we are seeing a lot more people growing into older age."

Rhonda Sherriff MInstD

Sherriff warns that whether the government wants to or not, it will be paying for beds in the long run as more patients, too frail to return home but with no access to aged care beds, end up back in the public health system.

"In fact, addressing the residential care sector funding issues would have a fundamental impact in relieving the pressure on the public health system," she says. "Older New Zealanders would be able to access aged care beds quicker, at less cost, and keep more expensive ($1,500 per day) acute beds open for those that require them."

Spoonley cites Australia, which has a compact that sets out the responsibilities of individuals and families and governments, and he believes our social contract need to be renegotiated.

"We are entering an era where a lot of our policies and values are no longer going to work given an old-age dominant society, and we're deferring what will be some tough conversations. We are going to have to change because we can't afford for our millennials and Gen Zs to provide for us, especially as the dependency ratio between paid workers to those reliant on a state benefit moves from 4-1 to 2-1.

"There is an intergenerational lack of agreement of what we should be providing and this will be more of an issue as we see a younger generation dominating political decision-making," he says. "We need about an additional 12,000 long-term care beds. So, the questions are – 'Who is going to provide them', 'Who will pay for them' and 'Where are they going to be located?'

Spoonley says the reality is the baby boomers are the wealthiest generation; wealthier than their parents were, and their children and grandchildren will be, with the average boomer household wealth around $433,000.

"The question becomes: 'Do you begin to move towards a model that recognises the wealth that has been made and means-test superannuation? But we are reluctant to have this conversation."

His words echo the Retirement Commission, which in February this year released a report which included a call for a bipartisan political agreement on how we proceed to talk about our ageing society.

That said, Oceania, an owner and operator of residential aged care centres and retirement villages, says there are strategic issues that boards can address now.

CEO Brent Pattison MInstD believes it is the responsibility of business leaders and boards in the sector to recognise their role in this crisis and rise to the challenge of meeting demand.

"As an industry, we simply cannot wait to address this problem until it becomes too late, and the number of affected Kiwis increases tenfold."

Oceania is heavily investing in expanding, upgrading and modernising its portfolio. The provider is also attracting and training nurses to address the shortage of registered nurses and caregivers.

In 2023's financial year, $150 million of capital was deployed for future growth,

"As an industry, we simply cannot wait to address this problem until it becomes too late, and the number of affected Kiwis increases tenfold."

Brent Pattison MInstD

and Oceania has added more than 1,400 units and care suites through developments and acquisitions. It owns the Wesley Institute of Nursing Education, which provides an intensive course to more than 1,000 students a year. In 2023, Wesley assisted almost 1,500 people to become registered nurses.

As a member of the Aged Care Association and board member of the Retirement Villages Association, Oceania also works closely with the sector to lobby the Government for change.

There is a growing expectation towards retirement, too, from the way older people want to live to what their families expect for them.

Sherriff says she has seen massive changes, from working in an old building not fit for purpose, with six people to a bedroom, to residents living in their own apartments sharing multiple facilities, such as heated indoor pools, all-weather bowling greens, cinemas and cafes.

So, too, has former Aged Care Association CEO Norah Barlow CMinstD, who first started working in the sector when facilities were all owner-operator, not-for-profit groups and government-run hospitals. Over time that changed with Ryman Healthcare and Summerset Retirement Villages leading the move to combine aged care facilities with retirement villages, followed by Metlifecare, which has taken over a number of old facilities.

"I remember going to aged care facilities where customers moved in at 60, living in rooms that could have up to eight beds. This was gradually codified so there is a requirement to have 11 or 12 square metres per person. Now that is more likely to be around 22 square metres with consumer expectations having increased."

Barlow was CEO, then director of Summerset Villages, CEO of Australian company Estia Healthcare and CEO of Heritage Lifecare. She was also president of the Retirement Villages Association and chaired the committee that developed the 2008 Code of Practice in New Zealand.

She has watched the development of large facilities providing to a variety of needs, from full care suites through to three-bedroom plus independent living valued at anything from $150,000 to well over $1 million.

Barlow believes the sector must be the biggest housing builder in New Zealand, with the variety and quality continuing to rise. But she says to move into one of these units requires a level of home ownership, so a new addition to the market is expected to be rental models for people who don't have the money to buy.

"There is no question. KiwiSaver will get bigger so more people will have more cash but not assets. I see the demand getting higher, including at the lower price point levels, as well as an increase in quality and service."

Barlow sees much greater growth in many facets of the sector. "New Zealand has seemed to become more violent and older people are often more worried about this aspect of society. I have no doubt I will live in a retirement village, particularly if I don't have a partner where I won't lose independence, but I will be safer and living in more of a community."

"There is no question. KiwiSaver will get bigger so more people will have more cash but not assets. I see the demand getting higher, including at the lower price point levels, as well as an increase in quality and service."

Norah Barlow CMInstD

And she would like to see working in the industry as more of a career option, with many companies offering scholarships, particularly in nursing. "There are many nurses who love what they do, but there is also a great opportunity to move into management roles, as regional managers and then general managers."

Directors and managers are working on two avenues. The first is to continue lobbying the Government, knowing that as boomers continue to move into retirement they will leave, in their wake, fewer taxpayers to fund greater numbers in care. The second has been to find additional sources of revenue.

Former NZACA chief executive Simon Wallace says this includes offering people premium room services, over and above standard rooms, or by the sale of Occupational Rights Agreements. "As a direct result of chronic government underfunding, providers are being forced to find additional income streams offering people premium room services, over and above standard rooms," he says.

Spoonley also has a challenge for all boards. He is calling for directors to think more about the impact of an ageing population in all sectors. He says while many organisations have gender policies, it is difficult to find one that has specific policies around an ageing workforce or ageing customers.

It's a lot on the plate of directors but many are prepared for the challenge in a sector which they describe as purpose-driven and dynamic with a committed workforce. "It is hard to find a business that has a purpose and what should be a good financial outcome," says Barlow. "And you would never find staff more committed to their product and their customer."

What is ‘best practice?’

Boards must learn at a rate faster than the rate of change – and strive for yet better and more effective best practice.

AUTHORS:
JAMES LOCKHART CMInstD, **PETER ALLEN** AND **WAYNE MACPHERSON**

Photo by:
Possessed Photography on Unsplash

It is intuitively appealing that the concept of board ‘best practice’ has value: value to directors and their boards, value to shareholders, and to broader stakeholder groups. The term ‘best practice’ implies there is a suite of reasonably static transferable practices and procedures that, if adopted, position the board as being a best practitioner.

No doubt there are some practices that all boards should employ, and there may even be value to be had in attempting the practices of other supposedly successful boards. Consequently, the adoption of best practice implies the board has arrived, at least temporarily at some effective end-point.

However, it is time to stop and question what actually is ‘best’, and not simply accept it as being something currently promoted. Surely good boards, those that strive to achieve the best practices for themselves that actually contribute to organisational performance, create an environment that may be relatively stable but not necessarily static. The concept of arriving at some point being an anathema to them. Therefore, at risk with the concept of best practice is that board development and learning ceases to be necessary.

The full extent of this way of thinking is that our boards could reach an end point where we can be deceived into thinking we don’t need to learn or develop any more. Simply adopt best practice. If best is to include continuous learning and development, then static practice it is not. For effective board practice cannot be constant, it emerges from continuous learning and hence is subject to change.

Best practice exemplars may be useful, but are not an end in themselves. They appear to be just the beginning. Reliance upon, or the quest for, board best practice may introduce more, not less risk to the board. More so, if it is not also learning and developing to produce better responses to new circumstances that it both creates and to which it responds.

Boards ought to embed learning as one of their key attributes, if not the single key attribute. Yet the idea of embedding learning in board practices is not well-developed in practitioner material, the research literature or associated commentary. Hence, in the absence of deliberate learning and/or development practices, the encouragement of best practice ought to be undertaken with caution. A contrast to that which is being openly promoted. For how long will best remain good enough? A month, a quarter, or a year? More or less?

Some boards appear to be immune from the omnipresent fall from grace. These boards have grown, sheltered, nurtured, developed, and sustained their respective organisations for decades and decades, sometimes centuries. To do so they must either be actively learning, or being grossly overindulged with good luck.
We suspect the former. They are not just adopting the ubiquitous off-the-shelf battery of best board practices but must be responding to, and creating opportunities for, their respective organisations that are then passed among directors through

both individual and deliberate collective learning.

Boards have a fiduciary responsibility to the organisations they serve. The meaning of fiduciary, from which fiduciary duties arise, requires the fiduciaries themselves have an obligation to be first learning in order to be able to act. The actions of fiduciaries then require new learning from which to observe and understand the impacts of their decision-making.

The etymology of the word governance, from the Greek word kubernetes, also has a more sophisticated meaning. It is firstly, to steer, direct and guide; and secondly, albeit implicitly, to learn. A yachting analogy is useful. Learning is implicit in steering – taking the helm. To keep steering, the person at the helm must continuously learn of the environmental changes requiring synchronous course adjustments. The very moment someone moves the helm of a yacht requires immediate reflection on that steering's impact.

Understanding and subsequently being able to predict causality is central to boards' decision-making. The rarely mentioned process between decision-making and establishing causality is board learning – both that of the individual director and that of the board as a whole, namely, the collective experience of corporate governance.

The Cadbury definition of governance, namely a "system by which companies are directed and controlled", requires that directors learn in order to continually better direct and control. All common theories of governance, including agency theory, stakeholder theory, the resource-based view and network theory, require directors learn in order to act. Which is a significantly different proposition to that of adopting 'best practice', unless of course best practice is board learning: A deliberate and orchestrated collective experience using both crystalline and fluid intellect.

Governance is typically enacted in cycles, which includes but are not limited to committee cycles; the board meeting cycle; an annual planning and review cycle; and, a longer term strategic cycle.

> "Boards ought to embed learning as one of their key attributes. If not the single key attribute. Yet the idea of embedding learning in board practices is not well-developed in practitioner material, the research literature or associated commentary."

The boardroom meeting cycle – the collective – whether it is recognised or not, should be a learning cycle. Being part of a wider organisational system, governance must constantly change to meet and create the complex and evolving array of internal and external factors that challenge every organisation.

For each director, governance emerges as a deliberate dance between learning and contributing simultaneously. And, for the board this synchronicity ought to occur both during decision-making and its subsequent review. Therefore, learning and directing are indistinguishably wedded. Yet, of board activities, learning appears to be the silent partner for many directors, and consequently the boards within which they contribute. But we suspect that collective learning is not just the silent partner but is curiously absent from much board activity. If learning is not an explicit attribute of boards, its absence could well thwart a reasonable attempt at enhancing board effectiveness.

The problem is not that directors are uneducated. Directors are often highly educated and have been successful in their education. Directors use that education and are typically successful in their other realms of work. Many have acquired qualifications and expect that to be a ticket to a good job (of which the MBA has long become the classic talisman). But many have not been educated enough to question what they have been taught; to question their own reasoning and assumptions; to distinguish between their own and others' assumptions and assertions; and, to embrace critical reflection.

As we may have all seen, directors fail to question the information they have been provided. Worse, as directors, we often become defensive when our reasoning is challenged. Boards do not appear to openly reflect on the decision-making that led them to make certain decisions, and seldom engage in double-loop learning.

Boards repeat mistakes – recent notable failures such as Carillion (FTSE), Mainzeal (NZ), and Wirecard (DAX) – are all characterised not by one mistake, but the same or similar mistake being repeated over and over again.

The abundance of hubris and lack of humility results in the assertion that past successes apply in new situations. Directors' use of crystalline intelligence, predominantly the knowledge of facts and procedures, influenced by personality and temperamental factors, appears to be a significant part of the problem.

Why do we as directors not learn from our mistakes? Is it because we find learning tiring and have limited time for it? Do we get trapped in a cycle of hubris?

Yet, emerging literature suggests that wisdom is the sole – for the time being anyway – characteristic of board success. Wisdom is a specific form of experienced-driven, highly advanced cognitive and emotional development, the basis of which is the deliberate application of collective fluid intellect.

In contrast to crystalline intelligence, fluid intelligence is a novel problem identification and solving capacity deliberately applied when crystalline intelligence is considered to be of little if any use. Board learning, the collective experience, appears to emerge then from the deliberate use of fluid intellect – as opposed to the application of routine processes and procedures.

Consequently, what is it that really matters when directors are selected? What are the correct indicators of effective contribution? Is it their qualifications? Their knowledge and experience? Or is there something more? Is it not the ability to critically reflect, learn, and learn quickly?

There are two interdependent learning functions of boards. Learning by the individual director, occurring independently of others (in or outside the board), and learning by the board as a collective. Learning as a skill appears to conform to the four stages of skill development: unconscious incompetence, conscious incompetence, conscious competence, and unconscious competence. Unconscious competence is seen as the pinnacle of skill development and describes mastery.

"For each director, governance emerges as a deliberate dance between learning and contributing simultaneously. And, for the board this synchronicity ought to occur both during decision-making and its subsequent review."

In the context of boards, and learning by individual directors, its effective proxy appears to be wisdom. However, whether or not that same level of mastery can be achieved for collective learning remains moot. It is more likely to be expected in the form of conscious competence, a deliberate activity undertaken by the board while in session. Otherwise, the activity is mere coincidence.

The results of directors that learn and their boards that learn can be observed. Inherent biases, held both individually or collectively, are openly challenged. Hubris, too, is challenged and transformed into a positive contribution.

Directors can expect that learning and development as an embedded attribute will be transformational both personally and corporately. Learning at the individual director level becomes an unconscious competence. While that of the board, as a collective of directors, is embraced as being consciously competent.

For these directors, learning and development is anticipated as being exhilarating, of which they are unlikely to get enough. As a consequence their boards dynamically change in tune with their organisation's needs and opportunities that they wish to create. The frame offered by current best practice that does not embed learning and development is seen as a constraint, as opposed to an opportunity.

Consequently, best practice cannot be static, it must be dynamic. Not malleable as to its standards, but dynamic enough to be constantly applying wisdom to new circumstances to find a yet better practice.

This is necessary because the macroenvironment is unstable, so boards must learn at a rate faster than the rate of change or their organisations will face the consequences: An outcome to which no board appears immune.

Research on corporate governance at the Massey Business School over the past two decades has produced a stream of practitioner articles, academic papers and doctoral and masters theses. This article has emerged from the study of board learning by Peter Allen.

How to confront 'your ordinary'

Many of us aspire to great things, says Mike Bennetts CMInstD, but there is a gate you need to go through.

Photo by:
Roseanna Smith on Unsplash

AUTHOR:
NOEL PRENTICE

Directors need to confront their ordinary, says former Z Energy CEO-turned executive coach Mike Bennetts CMInstD. When you climb that mountain – or open that "gate" – you can become extraordinary.

There are a lot of adjectives to describe extraordinary – from rare to remarkable to unbelievable to out of this world.

For Bennetts, extraordinary means something beyond the predictable. "That's not to say that 'the predictable' isn't hard or challenging, but there are times where we often settle for delivering on the predictable, which is, come to work and repeat what we've been doing for the past couple of years. And that gets us the answer."

Directors are no exception, he says.

"You need to have that willingness to confront where you are ordinary. Many of us aspire to great things, and we don't necessarily realise that means we need to confront what we're short of, what we're not good at and our blind spots.

"Confronting your ordinary, if you like, is the gate you need to go through. If you are willing to do that, then there a series of mindsets and practices on how to get beyond that."

They are revealed in Bennett's book, *Being Extraordinary by Confronting your Ordinary*. Working harder is not among them. Quite the opposite, in fact.

In his work as a coach consultant, he tries to get people to understand the bigger picture.

"So many business leaders do what they do effectively and efficiently, but is that really their game worth playing?

"That's an important part of them being willing to confront things, to try new things because they know they can't just work harder to play that sort of game. It's above and beyond that.

"When the leaders play ordinary, the organisation can only play ordinary. When the leaders play extraordinary, the organisation can transform. Most importantly, the organisation doesn't change until the leaders do. And nothing changes without action."

Bennetts says extraordinary performance can require you to give up some of the ways in which you would normally apply your working harder strategies, which is 'I'll work longer, I will ask more of my people, I won't be as caring or as long-term in my views'. This is part of confronting your ordinary.

In talking to directors, Bennetts says he has had a lot of feedback around context – with the role of top leaders in designing the context rather than the content.

"There are three contextual horizons – the current context, the predictable future and then what I call the generated future. If that context is not quite fully understood and mutually agreed, then given actions flow from context, that's often why boards and management are seemingly in disagreement with one another."

Directors and management can be on the same page by fully understanding and mutually agreeing those three contextual horizons – 'Where are we today, what's our predictable future if we keep on doing what we're doing, and what do we want to generate as an alternative to that'?

Bennetts says everything flows from context and gives a simple visualisation: "If I came into the room and said 'jump out of the window', you'd think I'm an idiot because the context is that would be an unsafe thing to do. But if I said, 'Hey, the building's on fire, there is no way out but through the window, and you'll only fall a metre on to a cushion'. You go, 'Great, I'm going to jump'. That's why context is so important because it shapes our thoughts and our actions. That's why context needs to be fully understood and mutually agreed. Otherwise, you're running off in different directions."

Being extraordinary is not easy, says Bennetts, because it implies you are extraordinary all of the time.

"Directors need to confront – like management do, particularly senior

"Directors need to confront where they are ordinary and to understand what are the mindsets associated with a more regular and reliable delivery of extraordinary outcomes. That's what boards often want, but the typical solution is work harder, or what they call stretch performance."

Mike Bennetts CMInstD

management – where they are ordinary and to understand what are the mindsets associated with a more regular and reliable delivery of extraordinary outcomes. That's what boards often want, but the typical solution is work harder, or what they call stretch performance."

The language you use is also important and an indication of how committed people are, Bennetts says. "The example I like to use is, 'try, hope and possibly' are not the same as 'I will, I promise, you can count on me'.

"I wonder again, when boards and management interact, how often people are saying, 'Yeah, I'll try to hit that goal'. 'We hope the third quarter will be better'. That's like me saying to you, 'I hope we'll pay you next month. I'll try to make sure you have a job next week'.

"We have this language around performance – particularly in times of uncertainty or change, or where you want to get to that next level of performance – where we still use the very ordinary language of the predictable future. 'I'll try to do that. Yeah, that's possible. I hope that things get better'.

"Hope," Bennetts stresses, "is not a reliable strategy."

Bennetts says his book is designed to work as a system. "There's a metaphor that says the eight practices work together or the eight mindsets work together. And equally you could just grab one or two to work with and you would have more regular and reliable delivery of extraordinary outcomes."

He also warns of a 'phenomenon' he calls 'The Drift' – akin to 'Quiet Quitting'.

"I use a metaphor of 'The Drift' being like sitting in a kayak or canoe and going down the river, and ending up at a destination. Thinking about it from a business perspective, that destination is around time, quality and budget. Those are usually the three variables that determine a good outcome or not.

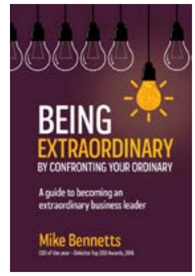
"I don't want people to think 'The Drift' is that people just come to work each day and are mindless in what they do. What I'm saying is the future is predictable because you're not confronting your ordinary, expecting the same result and you're not on the same page around context or the language of real commitment. 'The Drift' isn't a good or a bad thing. It is just there all of the time, unless you have an awareness around it and you do something about it. It's the feeling and sensation we have that keeps us from striving for the extraordinary."

Bennetts, named Deloitte Top 200 CEO of the Year in 2016, has served as a director of various private and public companies and joint ventures in New Zealand, Singapore, China and South Africa. "I've been a director for 25 years and a CEO for 20. So I've actually been a director longer than I've been a CEO."

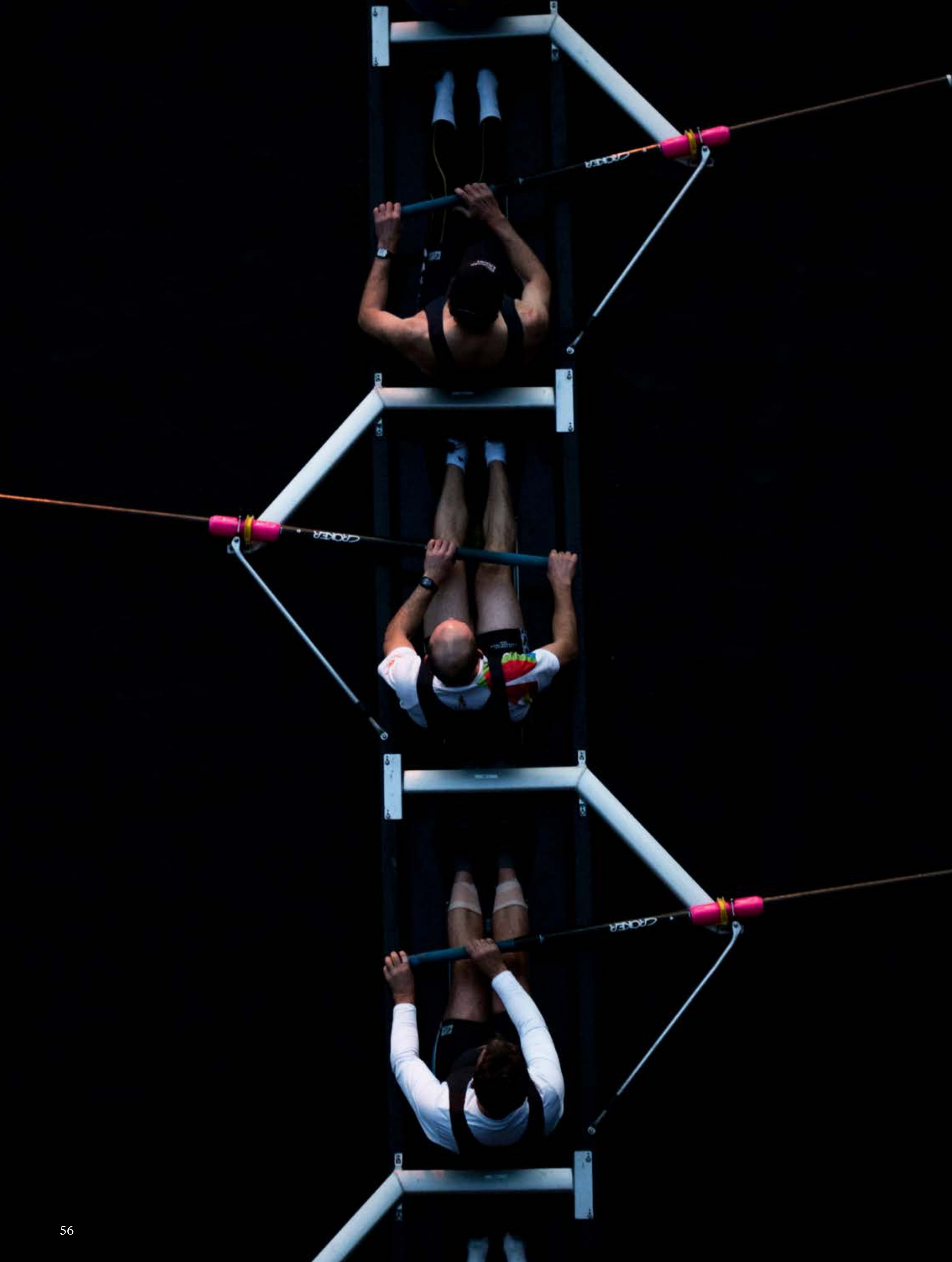
He says he wrote the book primarily for New Zealand leaders. "I've accumulated a lot of experience over many decades of getting it right and also getting it wrong. I've got a lot of practical experience I think would be helpful to people.

"And I heard there was a need for a reasonably comprehensive business book written for primarily New Zealand business leaders. It's very contextual to New Zealand, although it's not some sort of hokey Down Under type thing. I think it is useful in any culture."

Mike Bennetts CMInstD is the chair of venture capital investor Punakaiki Fund Limited. He was chair of BP Energy Asia Pte Ltd and was on the board of BP Singapore Pte Ltd, BP Guangzhou Development Oil Product Co, China Aviation Oil (Singapore) Ltd, New Zealand Refining Company and Loyalty New Zealand.



We have two copies of *Being Extraordinary By Confronting Your Ordinary* to give away. To be in the draw to receive a copy, email **boardroom@iod.org.nz** with subject line 'Being Extraordinary' and include your mailing address.



Putting people first

AUTHOR:
NICK McKISSACK MInstD, CHIEF EXECUTIVE OF HUMAN RESOURCES NEW ZEALAND.

Photo by:
Josh Calabrese on Unsplash

People issues can be a significant blind spot for boards. Help is at hand with a new capability framework.

IoD Council President Jackie Lloyd CFInstD sees great value in having a strong, experienced and professional head of Human Resources/people and culture who understands the role of governance to support the board.

She says this could be providing confidential advice on chief executive and senior executive employment and remuneration matters, succession and talent management, sensitive cases, or more broadly on the people elements of strategy, culture, business performance and execution.

Lloyd also says including 'governs' as a key element in the Human Resources New Zealand (HRNZ) Capability Framework acknowledges the importance of the profession in enabling businesses and their people to thrive.

That capability framework has recently been reviewed with company directors being a key stakeholder group during the project. The research was valuable in informing us about the important capabilities but also provided insights into how forward-thinking directors seek to engage in relation to people issues in their organisations.

There is an increasing importance for boards in monitoring people-related metrics and issues as part of best-practice governance. Health and safety risks have been on the radar for most boards for some time. The scope continues to increase with new legal precedents emerging in respect of employer obligations for their employee's mental health and wellbeing.

Organisations are increasingly finding the availability of talent to be a constraint on business growth and so boards need to understand approaches to talent management and retention.

The issue of organisational culture is another frequent topic for boardroom discussions. Culture can be a significant enabler or constraint for implementing long-term strategic change so an understanding of an organisation's culture is imperative when considering the veracity of long-term plans.

Another simple reality is that people costs are often a significant proportion of any organisations operating expenses so understanding the main drivers of employee costs and liabilities is critical.

Boards need to be well served in terms of reporting about the people issues within their respective organisations and ensure they are asking the right questions of executives. It is because of these and other people issues that we were keen to ensure a governance perspective was included in what makes an effective HR leader in modern organisations.

Speaking to directors with perspectives from the private, NFP and public sectors, it was no surprise to find they were less concerned about the technical skills of HR leaders – what we call the 'Domains of Knowledge' – and instead focused on other attributes needed for success when working with the board.

The areas identified by directors and chief executives as being most important are captured within the new framework in six core capabilities. These are:

- Knowledge of te ao Maori
- Understands and values people
- Reads a room or situation
- Brings people on the journey
- Solves workplace problems
- Sees and mitigates risk

These capabilities reflect an expectation by boards that HR leaders will bring a broad perspective to their thinking about organisational priorities, including having a commercial lens, will be innovative in their approach to problem-solving, and will provide courageous leadership at all levels.

The capability framework includes descriptions of each of the core capabilities for HR professionals when operating at a governance level. There was no suggestion that technical knowledge isn't necessary but more an expectation that this is a given for anyone in an HR leadership role. The ability to demonstrate the core capabilities differentiates the effective HR leaders.

Another learning from our research has been the interaction between the board and the senior HR leader is highly variable. Where leadership of the HR function in an organisation sits below executive level, directors can be denied the opportunity to delve deeper into significant people issues in the business.

This problem can be exacerbated where there is no HR capability or experience around the board table. HRNZ was fortunate to speak with directors that had direct experience of an HR function.

"Successful organisations will assemble a team of proven human resource professionals with a commitment to the continuing professional development needed to stay abreast of an increasingly demanding and critical business function."

Boards with established people committees, including the presence of the senior HR leader, are the best positioned to navigate the increasing people issues facing their organisations. There is a clear trend for people committees to extend their remit beyond the traditional focus on CEO performance and executive remuneration. Regular engagements with the CPO/CHRO enable the subcommittee to dig a little deeper into overall people strategies and cultural issues.

It is also a useful risk assurance step for boards to understand the extent of professional accreditation within the HR function. Gone are the days when people issues can be managed by a competent administrator.

Successful organisations will assemble a team of proven human resource professionals with a commitment to the continuing professional development needed to stay abreast of an increasingly demanding and critical business function.

Through the development of the capability framework and the alignment of this with professional accreditation standards, HRNZ has created a valuable tool for ensuring human resource teams are able to serve all of their various stakeholders including at a governance level.

It is evident people issues can be a significant blind spot for boards and an area where underlying organisational culture problems can be creating business risks that are difficult to see. It has therefore been heartening to see there is a growing awareness within the professional director community of the need to strengthen governance oversight in this area.

For more information on 'The Path' visit **hrnz.org.nz/professional-accreditation/the-path-the-new-capability-framework**

Building a better world

Scholarship Fund winner Sophie South MInstD is looking to expand her governance horizons.

AUTHOR:
NOEL PRENTICE

Photo by:
Greg Rosenke on Unsplash

Principal Civil Engineer Sophie South MInstD says she always liked the idea of making the world a better place – even as a child.

Born in the "nuclear-free generation" – and only two months after the Rainbow Warrior bombing in 1985 – South remembers having a conversation with her mum.

"I really liked what Greenpeace were doing. We had that conversation around, 'Do you want to be on the activist side or actually design and create solutions?' That's what really led me into engineering. I can make things happen, rather than just talking about it," says South.

The IoD Scholarship Fund recipient specialises in stormwater quality and conveyance design, hydrology and environmental assessments at Davis Ogilvie and Partners Ltd in Christchurch.

"Working from the inside out, being able to design solutions and create outcomes, that's how I can make a difference," she says. "Water is an incredibly precious resource and becoming more so all the time. With every new infrastructure or road we are designing solutions or ways of managing any potential flooding and removing contaminants before they wash into our waterways."

With her passion to contribute to the community after having her first child, she started event volunteer work in 2015 for charity Dress for Success Christchurch, which supports women towards financial independence.

"I spent several years working with their volunteer team. They do great things in the community for women and I got the opportunity to join their board in 2019. This was my first experience of governance and the board's role."

South stepped off that board after five years and started looking at other charitable opportunities in the environmental space. "Habitat for

Humanity Christchurch popped up and there were a lot of synergies in terms of what my professional skills are, and my understanding of the industry."

She joined the board in 2022, bringing a different skill set. "Habitat for Humanity Christchurch helps families build and improve a place to call home. Using my engineering expertise and knowledge, I contribute an understanding of the construction process, resource consents and assisting with due diligence."

As well as "making a positive difference in the community", South says the rewards are also being able to work with a group of different directors that she would never have "bumped into" in her professional career. "For my personal and future professional growth, it's great having these networks."

The Scholarship Fund gives South a boost with the resources she needs to build her not-for-profit and professional governance career. This includes the IoD's five-day Company Directors' Course, which she will attend along with other fund recipients.

South says she is a "little bit nervous" as she tries to break out of her comfort zone and expand her governance horizons. "I have heard it's challenging, but I'm looking forward to it."

The intensive course includes board simulation exercises, bringing to life case studies that highlight the unpredictable nature of business and the human nature of directorship.

South says she is looking forward to delving into real-life boardroom scenarios and establishing relationships with other directors. "Obviously, there are also subject areas in terms of basic competence, such as risk, strategy and financials.

"I'm mindful that I'm coming from not-for-profit and charities. There will be lots of people there with all this experience, from companies and corporates. It's similar but different."

"I'm really enjoying working with charities. You're making a difference and helping the community. The focus is not about making money for you or anyone else. I'm motivated to work collaboratively to create better outcomes, both as an engineer and in governance."

Sophie South MInstD

The CDC could be a defining moment and help her transition into the corporate governance world. "I'm hoping the course might give me a little bit more clarity, and confidence that this is what I want to be doing.

"I'm really enjoying working with charities. You're making a difference and helping the community. The focus is not about making money for you or anyone else. I'm motivated to work collaboratively to create better outcomes, both as an engineer and in governance."

About the Scholarship Fund

Applications for the IoD's Scholarship Fund will open on 4 June and close on 1 July 2024. The fund, supported by executive search consultants SWR Group, provides opportunities for members who have a current role on a not-for-profit board and gives them access to professional development. This year, the IoD is offering two places on the Company Directors' Course and 10 places on one of the suite of one-day Essentials courses.

"Being on a board today isn't easy and having the chance to assist the not-for-profit sector will only create more growth and prosperity for the communities they serve," says SWR Group director Graeme Sandri.

The IoD hopes to unlock more places for people to access development opportunities. If you or your organisation is interested in supporting this initiative please go to **iod.org.nz/membership/development-programmes/scholarship-fund**

Institute of DIRECTORS NEW ZEALAND

Scholarship Fund

Investing in succession

AUTHOR:
AARON WATSON

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Nik Shuliahin on Unsplash

The MTF board is bringing on shareholder/owners in a programme to improve future governance and smooth succession.

MTF Finance is facing the board succession challenge head on with a programme to create 'future directors' with governance experience from within the ranks of its membership.

On a board comprising a majority of owner-operators, rather than experienced directors, it can be a challenge to ensure the members have not just have business skills, but also effective governance skills.

MTF is effectively a cooperative. It is a nationwide group of vehicle dealers and finance providers that offers personal and business loans, predominantly to enable vehicle purchases but also for other purposes.

Its board is small, just six directors. It is comprised of four MTF members/owners elected by the shareholders – all of whom are themselves franchisees or MTF motor vehicle dealers – and two independent directors.

Chair Mark Darrow CFInstD, one of the independents on the board, says the organisation has adapted the IoD's Future

Institute of DIRECTORS NEW ZEALAND
Future Directors

Directors' programme, which enables people interested in governance to spend time with a board, to prepare for future succession needs.

In the Future Directors' programme, host boards take on one 'future director', with the aim to improve that person's governance knowledge and capability.

In 2023, MTF hosted three future directors, each for three months with the dual aims of improving governance skills and creating a pipeline of talent. Darrow describes it as "future directors on steroids".

"The board we have at the moment is exceptional and the directors are up there with any professional board I have been involved with," says Darrow, an experienced director who also chairs TSB Bank, Armstrong's, MTF Finance, Invivo & Co, Riverton Farms and is deputy chair of Auckland Transport.

"But we have to make sure we have succession planning. The base we are drawing from are not professional directors and have little experience beyond their own businesses, so we have to make sure we have got people ready. That's the problem we need to solve, long term."

The first three MTF members to go through the programme also became ambassadors for the work the board is doing. It instils confidence from the membership that they have a capable board, Darrow says.

"We didn't want to only prepare people for that opportunity, we also wanted our shareholders to better understand what actually happens around the board table. After their first meeting they tend to be almost speechless at what a board does – the complexity

"As a member organisation it is important we develop new directors from within the small shareholder base. We have been delighted with the calibre and number of people putting their hand up."

Mark Darrow CFInstD

and the depth we go into, the work the subcommittees do and how that feeds into board deliberations. By the end they are excited by it, by understanding the business at a completely different level."

MTF Finance Thorndon owner Hamish Jacob MInstD was one of the 2023 Future Directors. He says it was a rewarding experience that gave him an insight into how governance decisions are made.

"Many do not realise the work that is put in by company directors behind the scenes and the unseen hours invested by these directors," Jacob says.

MTF Finance Fraser Street owner and MTF Taupo co-owner Lauren Silkstone MInstD says the programme helped her understand how much work directors are asked to put in.

"The role can be demanding of your time, and there's a lot of work to be done before the board meeting itself occurs and within the subcommittees. If you are thinking of giving it a go you should commit fully, come prepared with your reading and analysis done, have a view to share and prepare to have it challenged," Silkstone says.

For Darrow, the 2023 programme showed MTF's Future Directors "on steroids" will produce a talent pool that helps the board continue to operate at a high governance level.

"As a member organisation it is important we develop new directors from within the small shareholder base. We have been delighted with the calibre and number of people putting their hand up," he says.

In 2024, the MTF Finance board will again be augmented by three members of its shareholder base, learning about governance now in order to step up in the future.

Problem solving – and the Mainzeal connection

Peter Menzies DistFInstD says he is proud of the construction company's successes in its early years.

AUTHOR:
NOEL PRENTICE

Peter Menzies DistFInstD watched the Mainzeal saga play out over 10 years, detached from its demise, having left the Mainzeal group in 1996, and says he is saddened by the losses suffered by subcontractors and staff.

The Mainzeal company, which he joined in 1971 and which listed on the New Zealand share market in 1975, had a culture and systems to deliver high-quality facilities at market prices and was a loss to the industry, Menzies says.

On 6 February 2013, Mainzeal Property and Construction Limited, formerly

known as Mainzeal International Limited (Mainzeal), was placed in receivership and, 19 days later, in liquidation.

Following Mainzeal's collapse, court action has reached the stage where the Supreme Court has upheld the Court of Appeal's decision that the directors of Mainzeal breached their duties and has ordered the directors pay compensation for the losses incurred by the company's creditors.

The Supreme Court determined the directors must contribute $39.8 million to Mainzeal's assets. When Mainzeal went into receivership about $110 million was owing to unsecured creditors.

During his tenure, Menzies says the Mainzeal group had very conservative rules around what debt would be accepted and how things were done. "Mostly, we built major projects by having them funded progressively by someone we had sold the whole project to, because our balance sheet could never have withstood a large debt coming at a time of stress in the property industry."

Engineers have, as a priority, risk management because their work is based on proven science and mistakes can lead to collapse of structures or systems with serious impacts on people's lives, he says. Risk is a constant companion.

In accepting the role of development manager for a project, the risks of financial problems are added to the responsibilities, he says. Short-term finance is necessary for development projects, but the company's balance sheet must be able to accept sudden negative changes in the debt market.

Menzies is proud of what the Mainzeal group achieved in its early years, saying they had "some really big individual successes". He says he enjoys problem-solving and that's what was needed

"To build a team, which was necessary for each new contract, one had to create a structure within which people were encouraged to talk about ideas they have and these ideas are then treated with genuine consideration."

when the Mainzeal group took over the troubled Bank of New Zealand building in Wellington, which had stopped because of "a tough union attitude and a major dispute with the contractor, an Australian company".

"The first thing we did on being appointed to run the contract was to ask the bank to form a construction company, which we staffed. This was because we knew we would be doing things that would create precedents outside the normal construction industry practice.

"We worked our way through the problems and brought an end to the strike. There was some financial compensation to the workmen involved to restore a culture of working as a team and producing an excellent building. Finishing the building to a high standard ahead of the new completion date was quite an achievement."

Menzies says he realised during his final year at university, as president of the University of Canterbury Students' Association, that he was more interested in working with people rather than doing technical work. And it didn't take long for him to show that trait at his first job, at the then Ministry of Works.

"I was given a job of running motor scrapers and tractors excavating the downstream face of a spur where spillway structures and penstocks were to be built. I had never worked with earth-moving equipment before. When I went to a meeting to introduce myself as the engineer in charge I managed to put the overseers and foremen listening to sleep by talking about the technical aspects of the work.

"A voice within said, 'Ask them to tell you how to do the work'. There was a stunned silence following this request so I added, 'I'm very serious, I know nothing about earth moving. I can tell you the technical aspects and with your ideas I can write a plan'. The meeting then came alive as the participants came up with ideas based on their experience and a plan was formed.

"Some months later, the engineer for the project came to me and said, 'Wow, that job's just flying. What did you do?' I said, 'Nothing, they did it all. I just wrote the plan'.

"That experience never left me," says Menzies. "To build a team, which was necessary for each new contract, one had to create a structure within which people were encouraged to talk about ideas they have and these ideas are then treated with genuine consideration."

Menzies soon moved into private enterprise construction, having to shift with every big job which became a serious problem.

"It wasn't good for our children. I wanted them to have a good home life and education. I took myself off to Auckland and finished up in charge of the Auckland Harbour Board redevelopment scheme. I became a property developer and enjoyed the role with complete responsibility for the project.

"When I retired from property development I accepted some directorships and assisted with some problems on development projects."

Menzies says he never had any formal training for a board role or for management. "I found my engineering training, which is based on having information, logic, decision-making, and getting on and doing things, coupled with my formation as a practising Catholic, was all one needed. Experience on the job was invaluable."

He says he has always sought excellence and it can never be compromised.

"Excellence in every aspect of your work has to be the focus. By that, I mean the culture within which the staff are employed, the way that subcontractors are treated and products and services are understood. And, of course, the shareholders have to be well-informed."

"Excellence in every aspect of your work has to be the focus. By that, I mean the culture within which the staff are employed, the way that subcontractors are treated and products and services are understood. And, of course, the shareholders have to be well-informed.

"If excellence at first seems difficult, you have to find a solution by approaching the problem in a different way. The characteristics that are very important in a company are that you live the truth and you trust your colleagues. These two are the rocks upon which you build an organisation. Excellence blossoms out of it."

Menzies says he has always been a great believer in the free market because it regularly gives you a surprise, showing how wrong you were.

"I really love the free market. If the government is based on a democracy and people are voting for the basic things that democracy needs, the free market and democracy need each other.

"The free market has an amazing ability to solve problems and devise new ideas, which lead to company formation and growth in the economy. The government must let this market flourish, attending to the overall law requirements and other functions such as education and regulations."

At the age of 86 and now living with cancer, Menzies says his future involves accepting treatment and enjoying what life brings with such restrictions. "I try to exercise as much as I sensibly can, but I'm not able to responsibly contribute to any business activity because my thinking is somewhat compromised as well. Life is what one makes of it."

Weaving academia with governance

A solid understanding of New Zealand's constitution and legal framework serves Jacinta Ruru CMInstD well in the boardroom.

AUTHOR:
PATRICIA THOMPSON, FREELANCE WRITER

Photo by:
Sharron Bennett

Jacinta Ruru CMInstD began her governance career at an early age, while a young law lecturer. Today, as Distinguished Professor of Law at the University of Otago and the new inaugural Deputy Vice-Chancellor Māori at Otago, she finds her academic work continues to inform her work with boards, ranging from a community arts organisation to Te Papa Tongarewa, Te Wānanga o Aotearoa and the Environmental Defence Society.

"My research helps gives me confidence in the boardroom," says Ruru, whose more than 100 publications consider indigenous peoples' rights, interests and responsibilities to own and care for lands and waters – ki uta ki tai (from the mountains to the sea).

She has multi-disciplinary research collaborations around the world, co-leading a vast number of projects on considering how legal systems can support reconciliation and restitution with indigenous peoples, creating a legal education system that recognises indigenous laws, and celebrating Māori-authored non-fiction books.

"I have a solid understanding of the constitution and legal framework of Aotearoa New Zealand and that helps shape what I can contribute in a

governance role. I love to learn in practical ways and doing so strategically as part of a governance team is an amazing privilege."

Ruru says her research and governance interests have their roots in her upbringing. Her whakapapa connects her to the North Island, to Raukawa and Ngāti Ranginui, but she was raised in the South.

"My father grew up next door to his father's marae just north of Tirau and my Pākehā mother grew up in New Plymouth, but mum and dad brought us up on the takiwā of Ngāi Tahu. It was a remarkable childhood, growing up around Lake Wakatipu and those big mountains and beautiful beech forests. That place has framed a lot of my identity."

Initially studying politics and Māori studies at Victoria University of Wellington, Ruru switched to law after discovering the law papers "had interesting readings around the Treaty as being of constitutional importance".

In 1996, she moved to Otago to complete her law studies and stayed. She began working at the law faculty as an assistant lecturer in her mid-20s with her academic and governance careers taking flight together.

"As a law student I volunteered at the Ngāi Tahu Māori Law Centre, an entity that provides free legal advice in the complex area of Māori land law. Māori land is often remote with hundreds of listed owners, sometimes even landlocked, meaning there's no vehicle access. When I began working in the faculty, the governance board invited me to join them.

"That early governance experience taught me so much, including the fundamental differences between governance and management, the important strategy role of governance, and the bigger picture of funding streams and budgets.

"I also saw early on how fundamental the board chair is. During my time, we had two very experienced Ngāi Tahu board chairs – Dr Darryn Russell and Trevor McGlinchey.

"That early governance experience taught me so much, including the fundamental differences between governance and management, the important strategy role of governance, and the bigger picture of funding streams and budgets."

It was amazing to see governance operating in a Māori way and being supported to have the confidence to add value to the board discussions. It was such a great first experience of governance.

"Governance is a huge privilege and has certainly enriched my life. I have the opportunity to work with incredible people in a collaborative manner where we are all striving for the entities we are serving. It has been a great contrast to my university job, where I stand in big lecture theatres teaching students, and my work in my office, reading and writing. I love having both dynamics in my life."

Ruru's academic achievements include becoming New Zealand's first Māori professor of law in 2016, fellowship of New Zealand's Royal Society Te Apārangi and winner of the Prime Minister's Supreme Award for Excellence in Tertiary Teaching. She is a Fulbright-Ngā Pae o te Māramatanga senior Māori scholar and a TEDx speaker.

As her governance career has evolved alongside her academic one, both have been driven by similar principles to help drive positive transformative change, recognising the value of education, the environment and the arts in shaping the wellbeing of people and place. Her board choices continue to reflect these values, ranging from small community organisations to major entities.

Ruru spent about 10 years with the Blueskin Resilient Communities Trust working to create climate solutions for the coastal communities just north of Dunedin, where she lives.

"Being on a governance board for a small local community is really interesting with all the challenges and opportunities it brings. It was incredible to see the dedication of the community and how hard it is for community-type trusts to operate with little secure funding."

She is on the board of Dunedin's Blue Oyster Art Project Space – Te Tio Kikorangi, which supports experimental and innovative art practices which she describes as inspiring.

"Someone advised me early in my governance career that, one, you can't say yes to everything and, two, it's useful to weave together a story that connects your governance work with your values.

"I am passionate about the power of education to transform lives, be it in the university, wānanga or museum sector. I'm passionate about community and the environment, and about our story as New Zealanders, our history and future.

"My upbringing near the mountains, and my daily life now by the coast, shape why I feel our roles and responsibilities to care for community and place is best done by recognising the special long generational connections mana whenua have to place, and how their laws and values have so much to contribute to best practices and solutions for us all.

"Te Papa has been built on biculturalism and bilingualism and Te Wānanga o Aotearoa provides free courses across the country to drive the te reo revival and whanau transformation.

"The Environmental Defence Society is litigating to protect our environment and working to build stronger relationships with Māori. Blue Oyster has a whole new Māori strategy. It's wonderful to see across all of these entities strong and natural commitments to Te Tiriti, knowing it just makes sense on all levels – business and societal – to strive for reconciliation."

She confesses that, in 2018, when she was first approached by Manatū Taonga | Ministry for Culture and Heritage about potentially joining the Te Papa board she assumed the email had been sent by mistake.

"My governance career was mostly local and to me Te Papa is one of the most important entities in our country. I couldn't believe I was being given the opportunity to contribute to the board.

"The government has been apologising for these wrongs. We can be proud of this. Our country is doing the right thing and many businesses and public entities are similarly being more inclusive of Māori, of Māori ideas, values, mātauranga and tikanga. It is humbling and tika."

It was a like a dream come true to spend regular time at our national museum that cares for so many taonga and shares the stories of New Zealanders."

Ruru says all boards are facing up to many new challenges but she also sees opportunities.

"We need to be brave because there is enormous change afoot – climate change, rising inequity, mental illness and AI. It is important to have a deep understanding of our changing demographics and environment, and to have vision in decision-making that will lead entities in the best interests of our whole country.

"We have skills and resources, especially if we make the most of all the best knowledge systems, including Western and Māori. We can harness the powers of education and learning, and values that honour whanaungatanga, relationships and connections to lead us well.

"The strategic commitments many entities throughout our country have made to Te Tiriti o Waitangi will help us move forward with more grace and integrity."

Ruru says she hopes we maintain our confidence in Te Tiriti. "It is no accident that Māori, just like indigenous peoples in other colonised countries, occupy all the wrong side of statistics. Relentless law and policy for over 150 years deliberately ensured the removal of Māori from their land and criminalised who they were.

"The government has been apologising for these wrongs. We can be proud of this. Our country is doing the right thing and many businesses and public entities are similarly being more inclusive of Māori, of Māori ideas, values, mātauranga and tikanga. It is humbling and tika.

"There are no easy or quick answers but if we can continue to be brave and work with humour and humility then our little island country can be world-leading in these huge societal problems."

Focusing his energy on the community

Wharerimu Iraia MInstD leaves the high-flying world behind to drive local projects and serve Westland.

AUTHOR:
CAS CARTER,
FREELANCE WRITER

Wharerimu Iraia MInstD is a natural storyteller with a great tale to tell. It starts in a forest in the Bay of Plenty, has a number of chapters in the United Arab Emirates, and lands in Hokitika where he is now serving the community.

Whare, as he is simply referred to, is the chief executive of Westland Rural Education Activities Programme Incorporated Society, more commonly known as REAP, which provides educational pathways to local communities across the Westland and Grey Districts.

His life's experiences helped him discover his motivations were not driven by money, but by a desire to drive projects and serve his community. You wouldn't have thought so if you had met Iraia and his lawyer-wife, Davina Ruru, working throughout Europe while living in a nine-bedroom villa with a driver and a maid to help them run their busy Abu Dhabi- and Dubai-based lives.

"I'd sometimes think, 'How did this boy from Kaingaroa Forest end up in a team bidding for, and implementing multi-billion-dollar renewable energy projects'," he says.

That path probably started when he decided there must be a better way than working long hours in the bush. He enrolled at Victoria University of Wellington | Te Herenga Waka and then moved to Waikato University studying law, Spanish and Māori with a plan to be a diplomat.


HOKITIKA

He didn't make the cut through the Ministry of Foreign Affairs' arduous graduate programme, but instead found himself with a scholarship at law firm Russell McVeagh, where he spent more than four years as a commercial lawyer in the property team.

Keen to step up his earnings and travel, Iraia signed up with international law firm Clifford Chance. "They called us recruits 'lightbulbs' – employees who would burn out in a couple of years."

He didn't burn out. After about 18 months as Senior Legal Counsel, he moved to Abu Dhabi renewable energy company Masdar. For nine years, he worked on projects including negotiating construction contracts, a carbon neutral city in the desert to offset oil production, the construction of a desalination pilot plant in the UAE, and power projects in the Seychelles and Jordan, including a wind power plant.

But life turned on its head when Ruru was diagnosed with cancer and, after initial treatment, the couple and their four children returned home in 2018.

"Then my focus changed," he says. "Although I was well paid and, for some people, had the ideal job, it wasn't me any more. My heart wasn't in it and I realised money wasn't a motivator."

Returning home turned out to be a culture shock. "I'd forgotten how slow everything was. In Dubai, if they want something to happen it just happens. For example, they wanted to host Formula 1 and within what seemed a couple of years it was set up with full food and beverage offerings, and a golf course."

Back in Hokitika, he decided it was time for a career change to a socially led focus and a strong emphasis on fostering the needs of the community. "My dedication to community improvement extended to my role as a member of the Hokitika Primary School Board of Trustees, which allowed me to actively contribute to the educational development of young students in our town."

"Our vision is lifelong learning and so we create learning opportunities that are outside the norm to meet the needs of the community and fill in the gaps. There is a lot of isolation in rural New Zealand and I wanted to bring a fresh perspective to address that."

Wharerimu Iraia MInstD

There were many ways that Iraia felt New Zealand had changed since he left and one of those was education. So much so that he found himself successfully applying for his current role at West REAP, where he manages the community's educational needs from early childhood to adult.

"Our vision is lifelong learning and so we create learning opportunities that are outside the norm to meet the needs of the community and fill in the gaps. There is a lot of isolation in rural New Zealand and I wanted to bring a fresh perspective to address that."

In practice, that means developing and managing a number of core contracts with the government, including play groups, melody makers, parenting courses, events, kapa haka, adult education, te reo and literacy. But Iraia did not stop at education when addressing core needs in the community such as food resilience, which led him to set up a food bank.

"I am deeply committed to addressing issues of food insecurity in our community and to ensure no one in our town goes hungry. At the food bank, our organisation coordinated food drives, organised distribution efforts and worked tirelessly to secure donations to support those in need."

Building a strong sense of connection to cultural identity is another area where he has created opportunities, establishing a mātāwaka organisation which focuses on connecting individuals with their Māori heritage, raising awareness through activities that deepen an understanding and appreciation of te reo and te ao Māori culture.

Iraia's dedication and commitment to social purpose, one underpinned by a strategic, legal and commercial lens, has not gone unnoticed. He is a recipient of the Institute of Directors' Canterbury Branch First Steps in Governance Award 2023.

Established in 2014, First Steps in Governance is awarded to young professionals and helps them gain first-hand experience on a not-for-profit board. Eligible recipients must not have held any substantial board roles, but can have experience on local sports, schools or community boards or trusts.

Selection panel chair Rex Williams DistFInstD said: “We believe Wharerimu’s strong foundation of being socially and community driven aligns with the core values associated with strong governance and leadership. This holds true now more than ever, especially at a time when stakeholder values impact decisions made by boards.

“Wharerimu illustrates the passion and drive, as well as the strategic thinking and purpose needed around the board table today, and we look forward to seeing how this opportunity assists him on his governance path.”

Iraia says he has an unwavering commitment to making a positive impact on the lives of those around him. “I am motivated by people and seeing them succeed. The role of director excites me as the effects of good governance and successful strategies can bring about immense success.”

In his work as a lawyer and project manager, Iraia saw how boards with a strong strategic vision could work effectively to make a difference to their communities.

“It has been interesting sitting in the governance environment after spending many years being the one making submissions to boards, assessing all elements of projects from legal, geopolitical, financial to people.”

“It has been interesting sitting in the governance environment after spending many years being the one making submissions to boards, assessing all elements of projects from legal, geopolitical, financial to people.”

Crafting a tax system for the good of society

How do we create a system that encourages innovation and investment while balancing social responsibility?

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BRUCE BERNACCHI, PARTNER

Photo by:
Etienne Girardet on Unsplash

DENTONS

An election that heard a great deal about tax has delivered us a new coalition Government. Various changes to the tax rules are now in motion. Although it was front and centre in the debate, the largest questions about tax were barely asked or answered.

We heard about reducing personal taxes, about removing GST on fresh food and about restoring interest deductibility on residential investment properties. And a controversial tax on foreign buyers was proposed.

But with the possible exception of that last item, these were all short-term tax reform measures. There was no long-term view offered by either party about ensuring our tax base remains sufficient to meet our needs.

Ignoring a problem doesn't make it go away and this one only grows more pressing. We need to be asking some hard questions about what might be required to continue to fund the sort of society we expect ours to be.

Consider these demographic and fiscal challenges:

An ageing population: By 2030, one in five New Zealanders will be over the age of 65, according to Stats NZ. We will have a smaller workforce trying to support a larger retired population, perhaps only two workers to support each non-worker in the economy by the latter half of this century.

The ageing population is going to result in significantly increased costs for Government: Treasury's most recent Long-Term Fiscal Model sees national Superannuation obligations lifting from four per cent of GDP to possibly eight per cent in 2060. The pressures that will be placed on the healthcare system may be equally heavy, rising from six per cent of GDP to possibly 10 per cent in 2060.

Government debt remains high: At the last fiscal update by Treasury, net debt was $71 billion and rising. We're not projected to return to Budget surplus until 2026, which means we're continuing to borrow.

We have a dilemma: In short, we're going to be looking for other sources of revenue, but at the same time we need to remain a desirable place to do business. Merely adding new taxes or raising existing ones is not the answer.

People and businesses are more mobile than they have ever been. Young people continue to do the "big OE" and the length of time they spend away has been increasing. Our nearest and dearest neighbour (Australia) has opened its doors to increased immigration and has recently made the path to citizenship easier for New Zealanders.

We're also a small country at the bottom of the world. Foreign talent and capital has no need to come here. While to some extent we represent a safe haven from escalating conflicts in Europe and the Middle East, this in itself is not enough.

So what does all this mean in terms of tax system design? We need to be a place that is attractive to retain domestic talent and capital, to attract skilled foreign migrants and foreign investment, to grow the economy. But if we step outside international norms, or impose new taxes that near neighbours don't have, we risk losing people and capital, and never attracting talented people and business who otherwise may have wanted to make New Zealand their home.

So ideas such as wealth taxes and significant increases in personal tax rates need to be viewed with great caution. It is all too easy for these to be avoided – people can simply leave or never come here in the first place.

We need a robust tax base, but one that is also internationally competitive. We seek, in other words, the kind of economy that attracts and retains talent, and promotes growth while still maintaining a robust tax base.

> "If we are serious about being a desirable destination for wealthy and skilled migrants we need to roll out the red carpet for longer."

What kind of measures might satisfy this prescription? Some possibilities are:

Red carpet exemptions: What if we were to broaden the scope of tax exemptions for high net worth and highly skilled migrants – people bring skills, networks and capital? They create economic activity and innovation. Our current four-year tax holiday on foreign-sourced income is nowhere near as competitive as those offered by a wide range of other developed nations. If we are serious about being a desirable destination for wealthy and skilled migrants we need to roll out the red carpet for longer.

Capital gains tax: We remain an outlier in the OECD in not having a capital gains tax. Imposing one would be unlikely to frighten many horses. Capital gains tax doesn't punish the earning of income. And given the ubiquity of taxing capital gains, it is unlikely to be seen by talent and capital as making us less competitive than other countries.

Inheritance taxes: Yes, we've been there before. But whatever objection might be raised, it can't be said that inheritance taxes stifle innovation during a person's lifetime.

Taxes on vacant properties: Australia has them. And the idea was proposed by Te Pāti Māori last election. Perhaps its time has come?

User Pays: Why not expand 'user pays' charges, including congestion fees and road tolls? Effectively you're funding necessary infrastructure developments while fairly distributing the cost among those who benefit most from these services.

It's a political reality that few taxes are easy to sell. But the foundation we have long taken for granted is now eroding. We need to be thinking about reconsolidating. The work is coming due.

Cybercrime and the board: An issue that affects everyone differently

From data breaches to deepfake scams, directors need to wake up to the threat landscape.

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Nik Shuliahin on Unsplash

The Director Sentiment Survey 2023 held some sobering insights for those of us working in the cyber security industry. A mere 23.5 per cent of surveyed directors say cyber security is a key issue for the board. Only two-thirds say they regularly discuss cyber risk and are confident their organisation has the capacity to respond to a cyber attack or incident.

While this was a positive shift from the previous survey, the initial reaction is these figures are still somewhat deficient. With a recent Kordia survey finding one-in-three businesses had their operations disrupted by a cyber incident in the past 12 months, cyber security clearly impacts a huge number of organisations and people.

With good security governance and preparation, cyber risk can be managed, yet despite years of increasing activity in the threat landscape, that message doesn't seem to be hitting home for some boards.

The core reason some boards aren't treating cyber risks as a priority is they probably assume it is strictly a technology issue. However, understanding cyber security as business risk, rather than a technical one, is key to good governance and management.

Perceptions of cyber risks can also be mistakenly narrowed in focus to the data breaches that make headlines. However, most organisations now rely on internetconnected platforms and services to manage infrastructure or transact with suppliers and customers. This has led to many cybercriminals now targeting operational downtime to inflict damage on their victims.

Look at Australian port operator DP World, which had to take down all of its online systems – from email through to container tracking – in response to a serious cyber attack. A few days offline brought container movement to a standstill, with a serious flow-on effect for the entire shipping industry in Australia.

In today's complex operating environments, the assumption that an organisation can continue operations by rolling back to 'pen and paper' misses technology-based dependencies. That's why it is important to ensure your organisation performs cyber risk assessments and maintains a cyber risk register to ensure this is well understood.

Another key finding in the survey is a downward trend in views on 'the positives of automation and AI'. This isn't surprising; the promise of AI has not yet been matched in delivery. According to Gartner, Generative AI is sitting high on the hype cycle, approaching the peak of inflated expectations, and is expected to be productive in five-to-10 years.

However, the rate of change is accelerating and AI is already showing surprising capabilities in some areas, while confirming limitations in others. Like many emerging technologies, employees have often started using AI well ahead of their employer's having an official approach or policy. This may introduce new vulnerabilities and boards should be guiding their organisation to provide controls that ensure its use is not creating new risks.

Also, cyber security is an asymmetrical arena. Cybercriminals will be watching and testing AI and using it where it works – they often need just one successful attack to reach their target. The obvious use case for AI is in spear phishing, which may involve imitating targeted business leaders to trick unsuspecting employees into harmful actions. The speed and accurately at which AI will be able to analyse and replicate the tone of an individual will far exceed that of a human, making these scams incredibly difficult to spot.

> "More than ever, it is critical that boards lead a risk-based conversation, especially if the organisation's executive layer isn't already doing so."

In February, police in Hong Kong highlighted a case of an employee at a multinational company parting with more than US$25 million after an entire video conference was deepfaked, showing the potential of AI in the arms race between those tasked with defending against cybercrime, and those committing it.

New Zealand has recently appointed its first Minister of Regulation, but unlike Australia, has not yet appointed one for cyber security.

However, this mooted idea has drawn steady support. Kordia's survey of business leaders found 42 per cent of respondents like the idea, and about the same number (43 per cent) agreed that reporting all cyber attacks should be mandatory (right now, this only applies to those where privacy breaches occur). No-one likes fines, but 51 per cent believed penalties should be harsher for organisations failing to protect personal data.

These findings come back to the point that boards should appreciate the magnitude of cyber risks and should expect more government direction in dealing with those risks.

Cyber risk is very real. Almost every New Zealand organisation needs to manage digital risk, as the threat landscape continues to evolve at a rapid pace. It is likely one of the most complex and dynamic risks that your organisation faces today, and in the future. More than ever, it is critical that boards lead a risk-based conversation, especially if the organisation's executive layer isn't already doing so.

Navigating permacrisis and embracing uncertainty

Boards must cultivate specific characteristics and skills, and act as catalysts for change.

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Robert Ruggiero
on Unsplash

Business as usual, whatever that meant, has permanently left the (board)room. In recent years, the world has entered a state of 'permacrisis', an extended period of instability and insecurity. This term encompasses the overwhelming sense of volatility, uncertainty and emergency that has become the new normal.

Two years on, lingering post-pandemic fatigue, climate disasters, global insecurity, economic chaos and a heaving hippodrome of political pantomimes means we are firmly living in an age of 'permacrisis'.

In this operating context, boards can no longer rely on the 'white gloves' of absolute independence. Instead, they must act as navigators in an ambiguous, opaque and increasingly daunting environment.

Directors must embrace their role as catalysts for change by setting the right tone, staying on top of disruptive shifts, and fostering the resilience and wellbeing that enables the conditions for exceptional adaptability and flexibility.

They need to be equipped with the skills and characteristics to manoeuvre and manage in a complex and swiftly moving environment. This requires the ability to navigate 'system transformation' – sensing non-linear systemic shifts rather than just the linear change of individual variables, and at the same time create structure and direction where it doesn't exist.

In the permacrisis environment, the challenges we face are frequently characterised as 'emerging complexity', which arises from disruptive change where the solutions are unknown, the problem statements keep changing and the stakeholders are not clear.

Tackling the converging complexities of, and succeeding in, this permacrisis requires an 'emerging futures' mindset – an ability to find equanimity in holding opposing ideas together, dislocating thinking from past experiences and leaning into the new challenges we may be facing today.

Success in steering an organisation depends not just on predicting or anticipating the future as spectators, but also actively participating in shaping it by creating a joint vision and mobilising stakeholder, management and business networks to support and realise this.

Directors must break free from the knowing-doing trap of governance in order to adopt new ways of thinking and establish new norms within systems that are historically reliant on doing things faster, better, cheaper – an approach which can feel incredibly uncomfortable and difficult.

Yet, without the full support of the board, management teams are unlikely to take the big bets required to innovate, let alone execute successfully on transformational change. This requires breaking habitual patterns in board and management relationships, letting go of agendas and defences, and applying a heightened level of awareness and curiosity.

The very foundation of a board role requires the ability to anticipate and embrace risk, while continuing to avoid, mitigate and manage it.

However, as operating environments and challenges become more complex, so too does the risk-reward expectations of directorship. They must navigate the delicate balance between control and dynamism, while also having the courage to influence the social capital, coordination and understanding required for effective governance.

To succeed in this environment, directors must develop and refine their own purpose as linked to the performance of the organisation. They must also create a shared language that encourages new ways of working and thinking, and align participation around the table to build the organisation's capacity to pivot into uncharted territory. Even micro changes built into mental models and process can help drive fundamental shifts to support decision-making and progress when the path ahead is unclear.

It is important to get comfortable with uncertainty and see it as an opportunity for growth and development. Directors can do this by engaging with unconventional voices and seeking out trailblazers within their networks to open up new and unfamiliar questions and foster a level of comfort in not always having the answers. Ultimately, it helps nurture the intellectual muscle required for future-focused leadership.

Decision-making can be a lengthy process in New Zealand. It's a culture that prides itself on consensual, participatory and egalitarian decision-making where subordinates are just as important as leaders in the consultation process. While this is a wonderful and equalising trait, it can slow down an organisation's ability to change in a timely manner.

> "Directors must break free from the knowing-doing trap of governance in order to adopt new ways of thinking and establish new norms within systems that are historically reliant on doing things faster, better, cheaper."

To overcome this, structures and frameworks are needed to liberate the choices and decision-making ability of the broader management and create tangible shifts in an organisation's ability to adapt and evolve. A future-focused lens allows for understanding of multiple scenarios and the ability to shift to alternative pathways as things change or become clearer.

The 'Barnier method' can provide a blueprint for critical momentum. Employed by the EU during Brexit negotiations, it provides an approach to maintaining unity towards a collective goal, despite differing benefits, costs and agendas among parties and stakeholders. In the context of unifying agendas and creating transformational shifts at speed, this approach could be adopted to provide an innovative solution to pursuing long-term strategies and objectives.

Fostering and enabling sustained organisational resilience and agility in a volatile and constantly changing environment requires comfort in, and nurturing of, a culture of experimentation.

For directors and leaders, that means having the ability, as well as the stakeholder backing, to change course when solutions are not working. Directors should support efforts to build strategic foresight capacity and embed flexible frameworks and ways of working.

Reviewing the current board governance approach is a good starting point. Questions to ask may include, 'Is our approach outdated?' 'Does it constrain rather than allow the organisation to flex and change in times of need?' 'Is there value in exploring innovative mechanisms for decision-making processes and more loose forms of coordination?'

Expertise and experience aside, directors and boards prepared to adapt and evolve will be instrumental in shaping and creating a legacy that will inspire future leaders.

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Christopher Burns
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How data deluge disrupts decision-making – and what leaders can do

Rather than drive a positive impact, data may inadvertently hamper organisational growth and performance.

Today's businesses face high uncertainty and economic headwinds as 2024 gets under way. New Zealand may be at risk of another 'technical' recession in 2024, with growth still below its long-term average until the end of the year. Australia narrowly avoided a recession in 2023, but unemployment may rise and, while interest rates may be stabilising, the Reserve Bank is not ruling out another rate rise if conditions call for it.

To remain resilient no matter the crisis, organisational leaders are challenged to work smarter, improving productivity and efficiency, and enabling innovation. They must optimise scarce resources and make swift, smart, strategic decisions that will steer the company in the right direction.

But data deluge – the generation of more data than we can efficiently manage and leverage for insight or, put simply, 'drowning in data' – often stands in the way.

When it inhibits the productivity of governance, risk and compliance (GRC) teams, data deluge may be particularly harmful to organisations because it reduces the likelihood of identifying and managing risks, ensuring regulatory compliance, and making leadership decisions based on clarity of information.

By 2025, the world will generate 175 zettabytes, or 175 trillion gigabytes, of data every year, according to the International Data Corporation. But even today, businesses already struggle to manage their data.

A study by Oracle and data scientist Seth Stephens-Davidowitz reveals the challenges business leaders grapple with because of data deluge:

- **73 per cent** report that high volume and lack of trust in data has prevented them from making a decision
- **87 per cent** have experienced decision distress, or "regretting, feeling guilty about, or questioning a decision they made in the past year"
- **92 per cent** say having an increasing number of data sources has held their organisation back
- **38 per cent** believe managing many different data sources has hampered strategic decision-making
- **31 per cent** think having many data sources has "introduced more opportunities for error"

Diligent

The report's findings have important implications for GRC teams trying to stay ahead of challenges in a fast-changing environment.

GRC is an interconnected ecosystem, but different departments usually work across disconnected systems, spreadsheets, platforms and SharePoint files. The sheer volume of data produced from these disconnected tools, which lack proper data management, prevents business leaders from having good risk oversight and from making quick, effective decisions.

This scenario also makes it difficult for GRC teams to communicate, collaborate and work more productively. They likely are not sharing enough information and are instead managing their own processes separately without a single source of truth, increasing the likelihood of errors and often duplicating workloads.

This data deluge creates significant productivity deficits for GRC teams, organisational leaders and the board.

The same study also found there is substantial faith in the power of data when leveraged correctly. Respondents believe data can help them make better decisions (43 per cent), mitigate risks (37), speed up decision-making (40), improve profitability (37) and prepare for the unexpected (30).

In other words, the gap lies between the mountain of data and the ability to manage, analyse and glean actionable insights from it.

The good news is there are several ways organisations can harness and manage data to prevent data deluge from derailing productivity:

Culture: Foster a culture that values data-sharing and collaboration, and put centralised and connected systems and processes in place to enable different departments to work more seamlessly together. Aside from making processes more efficient, this can also help teams draw from each other's data to get a big-picture view of GRC concerns.

"The sheer volume of data produced from these disconnected tools, which lack proper data management, prevents business leaders from having good risk oversight and from making quick, effective decisions."

Striving towards Business Integrated GRC – one of the key trends for 2024 identified by GRC 20/20 Research – can also help companies improve productivity by integrating GRC into core business processes and aligning these with strategy, objectives and performance, instead of having "additional layers of compliance band aids disconnected from the business".

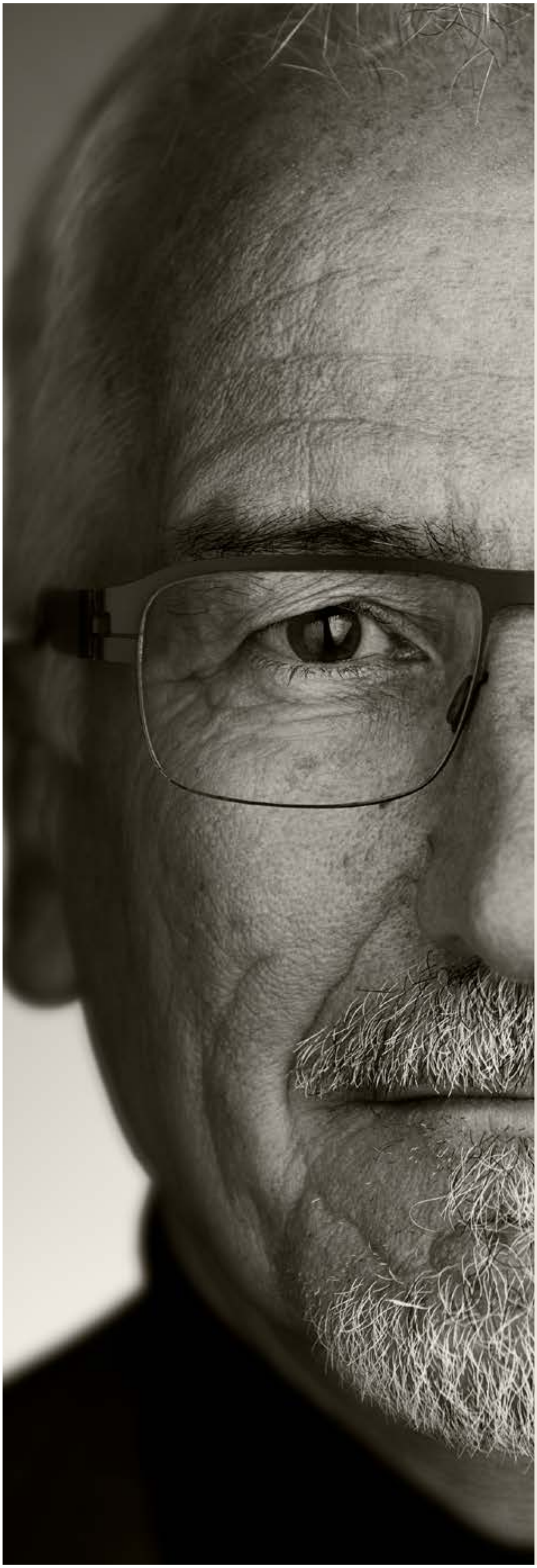
Technology: When bringing in new GRC tools, opt for ones that integrate with existing enterprise resource planning (ERP), customer relationship management (CRM), human resources (HR) or other relevant platforms the company is using. Take advantage of automation, analytics and artificial intelligence (AI) to truly maximise the usefulness of your data and remove human-resource bottlenecks.

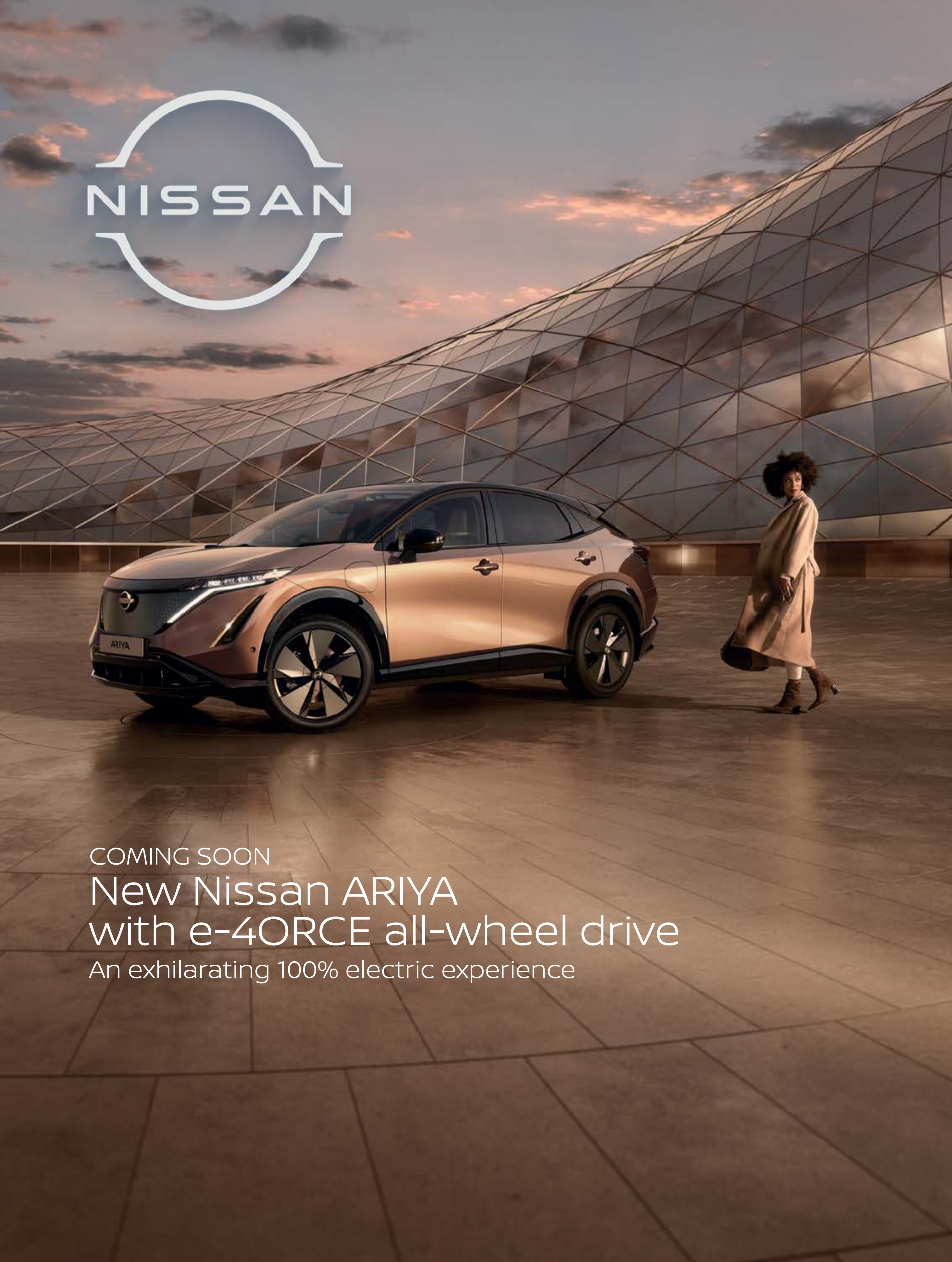
Solutions that enable you to have a single source of truth for all GRC matters are also key. Harnessing a centralised solution to manage GRC removes workload duplication, streamlines activity, improves data quality, enhances business clarity and fortifies the strengths across all three lines of defence.

The Diligent One Platform gives organisations a broad range of GRC applications on a single, easy-to-use platform. This can help practitioners understand and manage risks better and share insights with their organisation's leaders.

Diligent One also securely and seamlessly connects with ERP, CRM, HR and other data sources, ensuring a clear view of the bigger picture, and makes sharing insights – with committees, the board and other groups – safer and easier with customisable templates and dashboards.

The platform has inbuilt AI, automation and analytics capabilities, as well as third-party data feeds, that offer access to independent and comparative benchmark data on areas like environment, social and governance, cyber and investor insights.

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