Boardroom

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WINTER 2024

SUCCESSION.

Institute of DIRECTORS NEW ZEALAND

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“By failing to prepare, you are preparing to fail”

– Benjamin Franklin, Founding Father of the US

Some organisations do succession well, some not so well. Planning, especially to replace a chair, can start years in advance. That was the case at BNZ with recently retired chair Doug McKay CFInstD telling us about the bank’s “textbook case” in succession planning, stretching over three years.

Over at ANZ, it was a slightly different case with Scott St John CFInstD taking over the hot seat from Sir John Key out of cycle. But the board had been “consciously structured” for any contingency and had an “outstanding chair” waiting in the wings.

Conversations about succession planning should not be difficult – or a secret – but be open and transparent. That’s the consensus from a lot of members we talked to for this winter edition, focusing on ‘Future-ready succession’ – one of the top five issues facing directors in 2024.

Difficult conversations often need to he held – there may even be a shoulder tap – and managing disappointment is another skill chairs need to add to their quiver.

You also need to be responsible about your own succession, says IoD facilitator Giselle McLachlan CFInstD, and “don’t wait until you get forced out because you’re no longer useful, no longer relevant”. She also has strong views on maximum tenures.

A high proportion of New Zealand businesses are family owned and tradition and family legacy can weigh heavily on a successor’s shoulders. One member recalls his shock introduction to the family business after his father fell ill. “I was pretty much running the show from that point on,” says Chris Tremain MInstD.

Almost every week we read or hear of boardroom turmoil or turnover, with some prominent New Zealand companies making sudden changes. Overseas, one of the most disturbing cases is Boeing, where the multiple failings of directors and officers have had catastrophic consequences.

Learning from high-profile cases, ITV drama *Mr Bates vs The Post Office* raises many questions about the role of directors in the scandal that has cost lives. It also illustrates litigation funding’s noble purpose. As Marie Hosking MInstD says, “It would be foolish to think the governance failings that enabled the Post Office scandal only existed there, wouldn’t it?”

Also inside: Does your board engage in continuous and deliberate learning practices? There are seven core practices to improve collective efficacy and subsequent organisational performance.

The IoD also spreads its wings and takes the Company Directors’ Course offshore for the first time – to the Cook Islands. For aspiring directors in Rarotonga, the bar has been raised.

Ngā mihi
Noel Prentice, editor

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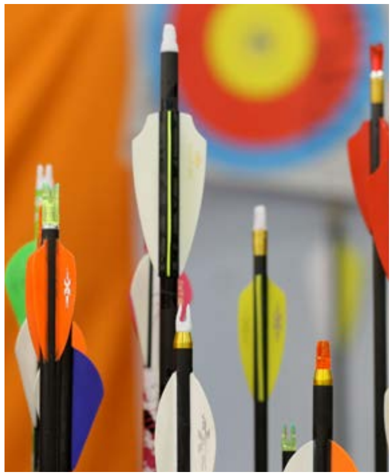
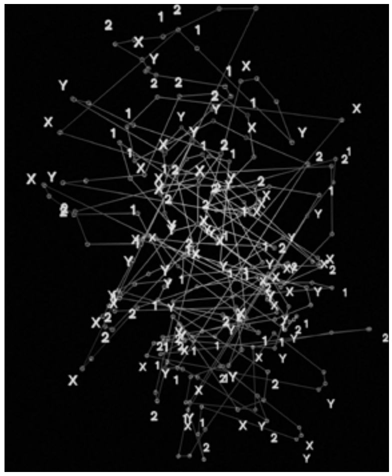
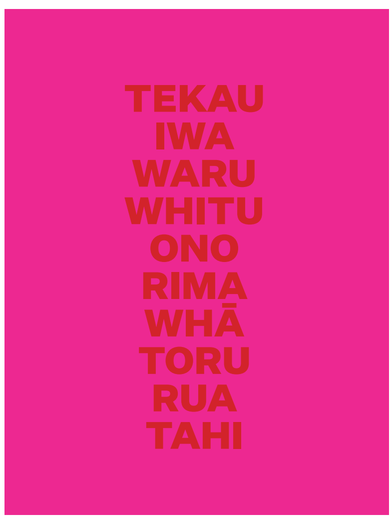
WINTER 2024







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Finding the right investment

Three years of planning reaps its return as Doug McKay CFInstD hands over the reins at BNZ.

AUTHOR:
NOEL PRENTICE,
EDITOR

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Laura Crowe on
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Retired BNZ chair Doug McKay CFInstD calls it a textbook case in succession planning – three years in the making and hardly a ruffled feather.

McKay served nearly 12 years on the board and was chair since 2015. He retired on May 31 and the transition has been seamless with Warwick Hunt now leading the organisation.

"We were planning for my succession some three years ago. We went local and global for people who we thought could have the potential, if appointed to the board, and if they could fit all our criteria and live here in New Zealand.

"We'd get to see them operate on the board, give them a senior role, and we as a board, and NAB [National Australia Bank] as the parent, would be able to get a good understanding of their capabilities and potential to be the chair."

McKay says if you don't have a full and extended view of prospects then you probably haven't done succession planning all that well. "We did everything in a timely, orderly and transparent fashion – it was something of a textbook case."

Hunt joined the board in November 2022 and has had plenty of time to find his feet, while chairing the audit committee.

"It's a demanding role, being the chair of a big, important organisation," says McKay, adding that they had such strength on the board they had no reason to look externally, and the bank's values "preferred" an internal appointment.

"Warwick is now a known quantity, and he has the skills and ability to drive the transformation required to take us to where we want to be. We have a long-term plan and he has a runway in front of him.

"Warwick and I have been very open about the future challenges at BNZ and in the banking industry in New Zealand."

McKay's appointment as chair in 2015 was a far different scenario. He had only three-to-six months to prepare after John Waller, who was in the role for eight years, fell ill. "That was very different to this transition."

McKay says the beauty of the BNZ board is "whoever you appoint, they are going to be of high quality".

"As time goes on and your strategy unfolds, you are going to need to update that skills matrix and be looking to supplement your board when the opportunity presents itself with people who can add value in those new areas."

Doug McKay CFInstD

"Banking's not for everybody. A lot of people would never join a bank board because they have a perception about its regulated nature. There are various factors . . . the board papers tend to be voluminous and there's a lot of reporting and compliance obligations. I'm on a few publicly listed boards and this is way more intense."

He says he "absolutely loved it" and it was a great privilege serving one of the oldest and most prestigious institutions in New Zealand.

"People have often said my biggest strength in being the chair of the BNZ is I'm not a banker. It's a strange thing to say, but it's the ability to lead the board, interact constructively with management, and create a good board culture around transparency, sharing, honesty, support and constructive criticism."

The most obvious attribute a chair needs, he says, is the ability to change. "It's not about having a specific technical skill set, or being a subject matter expert, or being this or that."

For succession planning, that skills matrix needs to be continually updated because board composition changes for various reasons – some planned, some unplanned. "You better know what skills you require generically on your board, and you have all those covered with your skills matrix and appointees. You also need good visibility of the forward strategy and plan for the business.

"I'm not talking about the annual plan – I'm talking about the five- to 10-year view of the business and the skills you'll require as you move through that business growth strategy. You may not have them. The world is changing so fast," he says, citing the challenges of artificial intelligence, cyber security, risk, customer experience, and a social licence to operate in an industry challenged by fraud and scams.

"There's always the requirement in banking for strong audit capability, strong risk capability, and customer experience. We have all those skills, tools and capabilities sitting in our skills matrix and we get it reviewed every couple of years with an external board evaluation. They helped me understand the matching of the personnel with the skills matrix.

"As time goes on and your strategy unfolds, you are going to need to update that skills matrix and be looking to supplement your board when the opportunity presents itself with people who can add value in those new areas."

"I've been very lucky. I've had to have some conversations with board members to flex their terms to create the opportunity to appoint and test out board chair succession candidates. You are moving into some sensitive areas for people."

The three-year appointment term gives the opportunity to pause, juggle or change-out if things are not working.

"You need a shared view of the world and are focused on doing the right thing by the organisation. That means not getting too hung up on their individual circumstance and life, or their career, because it's the business we must look after first," he says.

"I've been very lucky. I've had to have some conversations with board members to flex their terms to create the opportunity to appoint and test out board chair succession candidates. You are moving into some sensitive areas for people."

Effectively, that means creating some vacancies for new appointments and that needs to be communicated well enough and transparently enough, says McKay, so no one is under any misunderstanding, they know their role on the board, and they're valued for that.

"Not every board member has the potential to step up to be the chair for various reasons. It's being able to manage people through that disappointment."

McKay is the chair of Vector and on the board of NAB, IAG New Zealand and Fletcher Building. He will step down from Fletcher on June 30 and says of the situation there: "On the topic of board succession, it is not the way to plan board succession and I think that's pretty obvious."

He admitted the results at the company had been hugely disappointing. "I'm prepared to put my hand up and take accountability for some of that."

Money in the bank

An out-of-cycle chair change can be disruptive, but ANZ NZ had Scott St John CFInstD in position to take over from Sir John Key.

When Sir John Key stepped down as chair of ANZ NZ in March out of cycle – two years earlier than his term was due to finish – the board had been "consciously structured" in a way to deal with such a development.

The former prime minister had been in the role since 2018 and retired saying ANZ was "in a strong position" and had "an outstanding chair" waiting in the wings – that being Scott St John CFInstD, who had joined the board in 2021.

St John says there are varying amounts of notice you get in a transition and this succession was slightly different because it was not timed at the end of a three-year term.

"Out-of-cycle changes can lift the degree of difficulty in planning succession candidates," he says. "The cover for this scenario is an existing board that has the skills to comfortably cover the ground required while the subsequent search occurs."

St John says that while there was a sense that something might happen, Key's

AUTHOR:
NOEL PRENTICE

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Ricardo Arce on
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departure was not defined until very close to the announcement.

"However, the board was consciously structured in a way that the current suite of independent non-executive directors (INEDs) had the skills and characteristics to continue to fulfil our obligations, even if one were to leave. All of the INEDs are experienced and are chairs, or former chairs of large enterprises, so we had that as a very helpful base.

"As we look forward, perhaps not surprisingly, there will be nuanced changes in the sort of skills and experiences we need around the table. One of the steps was assessing that the board was well structured. We needed to contemplate some minor changes to committee leadership. And we needed to ensure key stakeholders were supportive of the direction of travel," says St John, who is also a director of ANZ Group.

St John follows in the footsteps of a chair who had the "much-desired skill of being able to get to the heart of an issue quickly".

"Sir John is relatively unique in the governance world in that in addition to well-honed commercial skills, he brought a lens developed as a politician locally and on the global stage.

"He also had very keen instincts for the wants and needs of the bank's stakeholders, including our most vulnerable customers. That said, great boards seem to get the best out of the collective skills and characteristics of the group."

St John says ANZ has a strong and diverse board that includes deep commercial, financial and social experience. "We work hard to both leverage our strong suits and to work on our improvement areas as a group. The latter will be included in characteristics we look for in the next director we bring onto the board.

"While the board misses Sir John and all he brought, we are comfortable that we are getting on and delivering for our stakeholders."

St John says the board can rely on "quality practitioners" in times of change and it is structured so a position can remain vacant until the right candidate is identified.

"It is important to consider that quality practitioners often have a number of important governance roles. Our craft does not always deliver predictable or convenient timing. To that end, we may need to consider taking a longer-term lens, potentially being more proactive, and

"Out-of-cycle changes can lift the degree of difficulty in planning succession candidates. The cover for this scenario is an existing board that has the skills to comfortably cover the ground required while the subsequent search occurs."

Scott St John
CFInstD

potentially moving earlier than we have in the past.

"Another angle is to be set up so you can be patient in terms of having one seat empty for a little while to get the right outcome. I believe our current structure delivers us that."

He says ANZ is in the process of further enhancing the way it goes about succession and the process framework wrapped around that.

The Reserve Bank, a key regulator and stakeholder of ANZ, has recently conducted a governance review across the industry and St John says one of the helpful suggestions was looking at the way they document their work in succession planning. "The skills we desire can change over time," he says.

"From time to time, things come out of nowhere, so to ensure you give the business the best opportunity of dealing with such events, not having significant experience gaps is useful."

St John says he has not been at ANZ long enough to have a deep sense of how succession was approached historically. "Looking back, you might say the common characteristics of directors were highly experienced, well-regarded for their judgement, relatively strong financial skills and an excellent ability to draw the best out of their colleagues as a collective group.

"In saying that, the group I serve with has a real diversity of thought. We come from different perspectives. We do include diversity in our succession deliberations. That said, meritocracy is also important. Banks are particularly complicated, highly regulated and the workloads are meaningful and growing.

"Within governance, there is always room for improvement – there is no finish line. This includes directors continuing to bring in ideas they have seen work or otherwise at other organisations."

"While every day is a learning day, I believe bank directors need to be operating at a relatively high level to entertain a seat on a bank board. This does not preclude any group, but it does set a high bar.

"Within governance, there is always room for improvement – there is no finish line. This includes directors continuing to bring in ideas they have seen work or otherwise at other organisations."

While it is suggested by some that nine years is a sensible rotation cycle, St John says he has a slightly more expansive view.

"You should be making your tenure decisions within a plan. Having regular director rotation makes sense from the perspective of having the right balance of freshness of thought, and continuity of institutional knowledge. Some skills are harder to acquire than others, particularly in a small market like New Zealand.

"In that context it may make sense to somewhat stretch the terms of those directors with harder-to-acquire skills.

"I would also note that a number of CEOs have suggested to me that directors hit their peak at five to six years on a board, inferring that we should have an open mind about tenure while ensuring we are acting in the best interests of the company. Another point to contemplate is chair and CEO tenure and timing."

St John is also chair of Mercury NZ and will retire as chair of Fisher & Paykel Healthcare in August.

The cream of the crop

AUTHOR:
AARON WATSON,
WRITER/EDITOR, IoD

Paul McGilvary became acting chair at Synlait with finding a successor a top priority.

When Paul McGilvary took on the role of acting chair of Synlait in October 2023, succession planning was front of mind. He had committed to staying in the role for as long as it took to find the right permanent replacement, and eight months later the goal was achieved with George Adams CFInstD appointed in May 2024.

Adams was brought onto the board as an independent director (a role McGilvary has now returned to) and there was public discussion of the possibility he would become chair at the dairy company. For McGilvary, that was one mark of a successful process because transparency and openness are essential.

"First of all, the person being succeeded needs to know, and understand, there is a plan for their succession. Far too often I see situations where plans are developed and then, for whatever reason, the person being succeeded doesn't want to go. That causes a lot of angst, especially when people have been told they are potential successors, and so on.

"Succession planning should not be a secret. A lot of companies keep it under wraps and don't divulge who the candidates are, or potentially who is going to be succeeded. With a little more openness and transparency, better outcomes could be obtained."

Another of McGilvary's tips is to focus on the succession process rather than simply on a person, or shortlist of candidates. Potential candidates can find new opportunities, change their goals in life or simply be unsure a role is right for them, despite being a prime contender in the eyes of the board.

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Mae Mu on Unsplash

"I've always found it quite helpful to focus on the process for particular roles, rather than focus too hard on individual people. Those names can change and make your plan a little bit redundant, quite quickly. It's better, when thinking about succession, for boards to focus on having a good process. This then kicks into play when the need arises," says McGilvary.

That process could include understanding which roles might best be filled with the assistance of an external recruitment agency, and which roles might be filled by an internal candidate. It may take into account issues of timing – is there a long lead-in, or an urgency, to filling a role. This needs to be understood and factored into a comprehensive process alongside consideration of what skills are needed, he says.

Boards need to be clear about what type of person and skill set they want in a role, he says, but also accept the criteria they agree on may change as the process progresses.

"Often, what you need changes as you roll forward. For example, in one case we wanted very strong financial skills in our CEO. As economic circumstances changed, our conception of the role developed, and we felt marketing and sales skills were probably more important. You need to examine the role as part of the process and be prepared to update your thinking."

With the boomer generation nearing retirement age, questions are being asked about who will replace them. McGilvary says companies would be wise to encourage their senior executives to gain experience of governance, so there is a wide range of potential candidates when the time for succession comes.

"It's a really good idea to give senior executives governance experience. It creates a sensitivity to the issues that

"Succession planning should not be a secret. A lot of companies keep it under wraps and don't divulge who the candidates are, or potentially who is going to be succeeded. With a little more openness and transparency, better outcomes could be obtained."

Paul McGilvary

boards grapple with. I did it myself, holding governance roles when I was a CEO. But you can't take on too many governance roles because, as a CEO, you are too busy.

"And it is not a good idea to put people in a governance role within the company they're an executive of. I know of examples where the governance and the executive parts of the roles got completely confused. They should get that experience elsewhere."

Encouraging executives to gain governance experience not only expands succession options, it is also a useful form of professional development, he says.

"When you are looking at a person in a current role, don't hesitate to add new experiences or make them responsible for a wider portfolio. You don't have to specifically target them as a potential successor to the CEO, for example, but you can help that person become much more capable.

"We should be constantly giving our senior executives experiences that extend beyond their current role, building their capability all the time so they can be put into a succession framework."

For Synlait, the succession process has been smooth and successful. Adams is now the permanent chair and will formally stand for election as an independent director at the company's Annual Meeting in December 2024.

"At the time that I stepped up to the chair's role I said I'll do it until the next AGM, if necessary. In the meantime, we formed the nominations committee and got to work on identifying a new independent director who we could then bring on with the idea of becoming the chair.

"And that has happened, so it was a good plan."


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Getting to know the CEO

Outgoing Auckland Airport chair Patrick Strange CFInstD stresses the importance of protecting the CEO relationship.

AUTHOR:
AARON WATSON

In March, Patrick Strange CFInstD announced his intention to retire as chair of Auckland Airport at the company's annual shareholder meeting in October.

The succession had already been decided. In the same notice announcing Strange's upcoming departure, former Institute of Directors' (IoD) chair and president Julia Hoare CFInstD was named as the person to step into the role.

But succession planning doesn't necessarily end with an appointment. At the IoD's 2024 Leadership Conference in May, Strange and Auckland Airport chief executive Carrie Hurihanganui shared how the important chair/CEO relationship is being protected through the succession process.

"There are things that we know are going to play out in the back half of this year, and into next year."

Carrie Hurihanganui

The *Four Pillars of Governance Best Practice* describes the chair/CEO relationship as crucial to an effective, well-functioning board. The interaction of the chair and CEO sets the tone for the relationship between the board and management interaction. The *Four Pillars* recommends this relationship be based on mutual support, respect and trust.

It also notes the chair and CEO should present a unified perspective and shared purpose in public and operate on a 'no surprises' communication principle, and that ensuring there is a strong, effective relationship with the CEO is a key aspect of the chair's role.

While that relationship is a professional one, it is also a relationship based on personality, which makes the succession of a new chair a potentially fraught process, from a CEO's perspective.

At the Leadership Conference, Strange stressed the value in protecting this relationship during a time of change. Succession planning for a chair is a long process and there are things you can do to make the transition as smooth as possible.

For Strange, this includes working with Hoare where decisions will impact the board she inherits. "I still run the meetings," he said, "but on things like looking for new directors, I'll make sure the new chair is aware, and almost leading it because it's someone for their board.

"If there was something in terms of board, committee appointments or board performance coming up, we would do that together and we'd do it quite a long way out. We are just going through a board review, and I'll probably work alongside Julia on that so it's an easy transition. We've worked together for a while; we know and respect each other," says Strange, describing this process as friendly, mature and respectful.

Alongside interactions with Strange, Hoare is already building a relationship with Hurihanganui, who has an open-door approach to board members who want to sit down and discuss matters.

For Hurihanganui, beginning to build the chair/CEO relationship means understanding what the new chair is expecting, and what Hoare's thinking is on upcoming major projects and board decisions.

"We don't really want the CEO appointing directors. That's really upside down. If you have an organisation that's doing that, and it might happen in America, your governance, I think, is wrong."

Patrick Strange CFInstD

"There are things that we know are going to play out in the back half of this year, and into next year," Hurihanganui said. "I share that with Patrick and then we agree, 'hey, that's something for Julia and I because it is part of the future state'. It's kind of pragmatic, in terms of that."

Establishing trust and understanding now will make the transition as seamless as possible, from the CEO's perspective, she said.

"It's a strong existing relationship [with Hoare], albeit in a different capacity, that will naturally transition over the next six months."

This is an extension of the approach Hurihanganui takes to all board members – the traditional 'no surprises' ideal.

"I regularly drop an email update to the board so everybody's on the same page, at the same time, with what's happening. Patrick's also comfortable for me to engage directly with board members on their subject-matter expertise."

While communication between the board and CEO is relatively open, the separation between board and management roles is maintained. Asked from the floor if the CEO should have input into appointing directors to the board, Strange was unequivocal.

"No," he said. "I mean, you should be sensitive. You don't want to appoint someone they're not going to like. That's not going to work."

But, fundamentally, the people who appoint the directors are the owners, the shareholders, and that must be respected, he said.

"We don't really want the CEO appointing directors. That's really upside down. If you have an organisation that's doing that, and it might happen in America, your governance, I think, is wrong."


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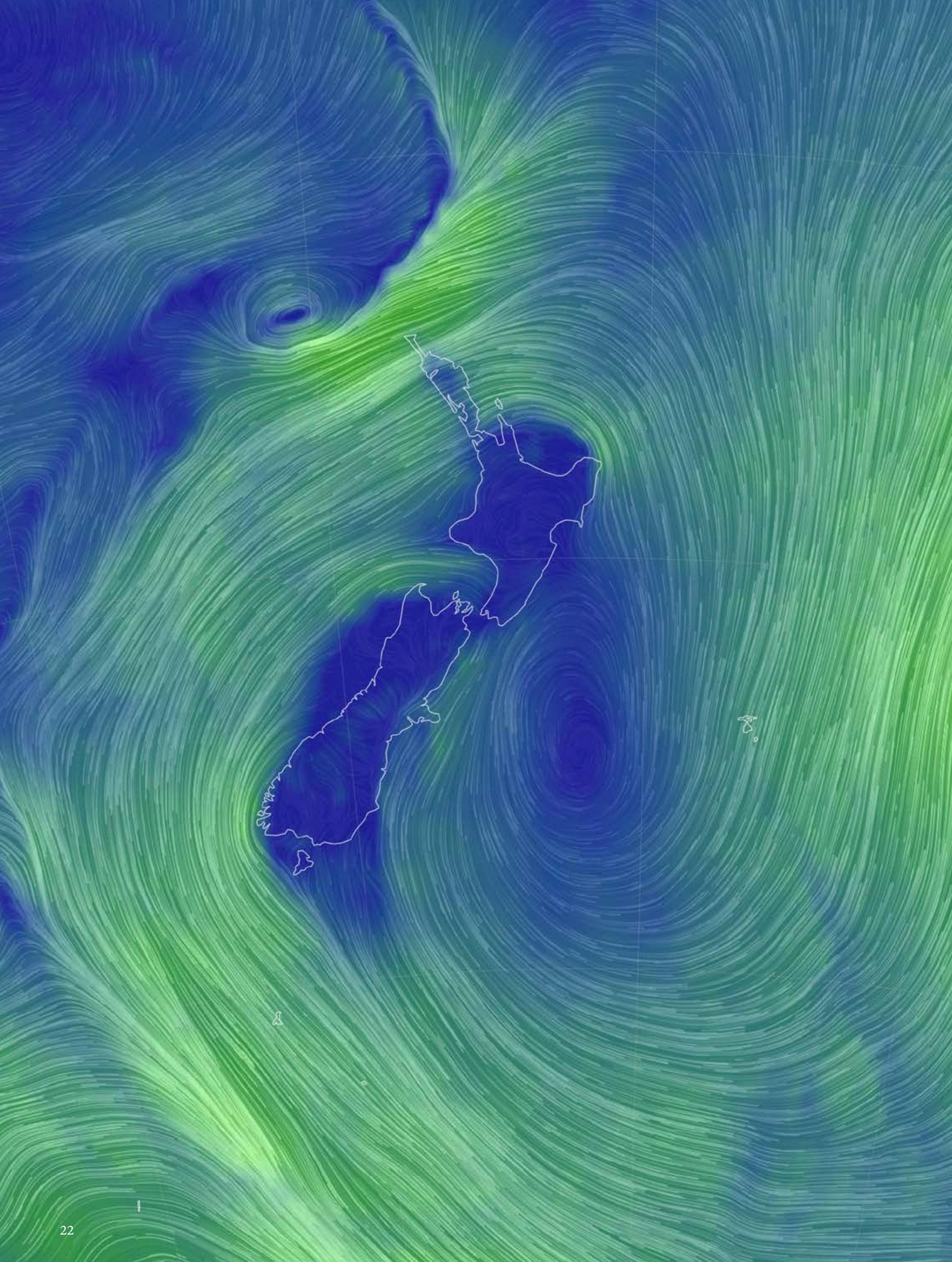

Boeing's failures a lesson for all

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Photo:
A visualisation of global weather conditions forecast by supercomputers at **earth.nullschool.net**.

Ongoing 'turbulence' and the failings of directors and officers highlights the importance of good practice.

There was a time when people said, "If it's not Boeing, I'm not going!" The phrase emerged at the start of the jet age and is still on T-shirts on the company's website. Whether this iconic slogan has the power it did back then is debatable.

Boeing has had its fair share of safety and engineering issues with its planes from near the end of the 2010s. Most notably, the issues have been with Boeing 737 MAX aircraft crashing in Indonesia and Ethiopia (with settlements of more than $2.5 billion) and more recently Boeing paying Alaska Air Group US$160 million in "initial compensation" when a door blew off.

These developments saw lawsuits, settlements, fines and ongoing changes in the board. Most recently this has included the departure of the chair and chief executive, and follows from earlier departures in 2019 of the chair/chief executive/president.

This ongoing 'turbulence' for Boeing provides lessons for New Zealand boards, and not just company boards. They reinforce the core elements of good practice governance which underpin the Institute of Directors' (IoD) governance development programmes and board evaluation services.

The IoD's *Four Pillars of Governance Best Practice* says the board is responsible for the direction and control of a company by:

- Setting company strategy (in conjunction with management) and monitoring the delivery of that strategy
- Having an effective board culture that appoints appropriately qualified people to the board and a culture that flows through into the company
- Appointing the chief executive, setting expectations and monitoring performance
- Ensuring and setting the culture and expectations for legal compliance

“One substantive change in 2019-20 was the separation of the chair and chief executive roles for the first time. While such separation is commonplace in New Zealand, this is a growing trend in the United States.”

Boeing shareholders went to court in 2021 claiming “Boeing’s directors and officers failed them in overseeing mission-critical airplane safety to protect enterprise and [shareholder] value”. The court found the shareholders claims should be upheld on the grounds of:

- “Directors’ complete failure to establish a reporting system for airplane safety”
- The board “turning a blind eye to a red flag representing airplane safety problems”

This shareholder lawsuit was settled in 2021 by the Boeing Company’s current and former directors for US$246 million.

Other court judgements and settlements required the board to implement an ombudsman scheme and for the board to take on more oversight of safety, including appointing people to the board with safety expertise.

Boeing has made ongoing changes to the board and chief executive since 2019 in the face of serious criticism of the company’s safety record. There have been significant changes:

One substantive change in 2019-20 was the separation of the chair and chief executive roles for the first time. While such separation is commonplace in New Zealand, this is a growing trend in the United States. Today, nearly 60 per cent of S&P 500 boards split the chair and CEO role, up from 40 per cent a decade ago.

Significant changes have also been made to the board recently, in addition to the ongoing fallout from safety failings and the changes in leadership. Six of the 11 current board members have only been on the board since 2021 and four of those were appointed in the past two years.

Those most recently appointed have backgrounds in engineering, risk management, safety and aviation. This supplements the existing board members with backgrounds in management, security and accounting/finance skills.

Succession is becoming an issue for some prominent New Zealand companies, although not necessarily as high profile or catastrophic as the events that lead to the major governance changes at Boeing. Over the past few months, a considerable number of board changes have

APPOINTMENT TIMING	CHAIR	PREVIOUS ROLE	CHIEF EXECUTIVE /PRESIDENT	PREVIOUS ROLE
2015	**Dennis Muilenburg**	President/ COO Boeing	**Dennis Muilenburg**	President / COO Boeing
2019-20	**Lawrence Kellner**	Director, Boeing	**David Calhoun**	Lead director Boeing / chairperson
2024	**Steve Mollenkopf**	Director, Boeing (from 2020)	**David Calhoun** (retiring December 2024)	As above

"Succession is becoming an issue for some prominent New Zealand companies, although not necessarily as high profile or catastrophic as the events that lead to the major governance changes at Boeing."

brought future-ready succession into sharp relief:

- **New Zealand Rugby:** On May 30 2024, provincial rugby unions rejected a governance change proposal adopted from the findings of an expert-led independent review. Among the recommendations was a wholly independent board. Instead, the unions voted for a watered-down counter-proposal, where three of the nine directors would need to have served on provincial boards. All appointments are to be recommended by an appointments committee
- **The Warehouse Group:** On 17 May 2024, the Warehouse Group chair announced the chief executive officer was stepping down with immediate effect and a board member would become interim CEO
- **Christchurch City Holdings Limited:** On 16 May 2024, Christchurch City Holdings Limited announced four independent directors had resigned from the eight-member board
- **Synlait:** On May 1 2024, George Adams CFInstD was elected chair and Dr John Penno, the company's co-founder and board-appointed director, stepped down. Adams was appointed as an independent director in March 2024 to fill a casual vacancy. Acting chair Paul McGilvary returned to his position as an independent director
- **Ryman Healthcare:** On 21 April 2024, Ryman Healthcare announced its chief executive officer had resigned, and the chair was going to act as CEO while a search was undertaken
- **Fletcher Building:** On 4 March 2024, Fletcher Building announced its chair was stepping down, an acting chair was being appointed and would oversee the search for a new CEO. On 24 March 2024, the company confirmed the appointment of an acting CEO and ongoing developments in the board renewal process. In 2018, substantial changes were made to the Fletcher Building board
- **Sanford Limited**: In November 2023, Sanford announced a director resignation and a retirement. This followed a CEO resignation (replaced by an acting CEO) and an earlier director resignation
- **Public sector board changes:** There have also been a range of board changes in public sector boards over the past few months, including, Antarctica New Zealand, New Zealand Transport Agency Waka Kotahi, Kāinga Ora and Creative New Zealand

In identifying future-ready succession as one of the top five issues for directors in 2024, the IoD said "[succession] is not just about CEOs and their executive teams. It applies equally to boards. Nominations committees will need to move into 'overdrive' to ensure there is a widening pool of potential directors to replace an increasingly ageing director workforce".

Boeing and New Zealand company/organisation board developments bear this out and more.

In the 2023-24 *Boardroom* summer edition, director Alison Barrass CFInstD pointed to four key areas for boards to consider when in the situation so many companies and organisations are facing:

- Boards need to realise succession planning will take a lot of thought and time. It is not just work that means 'cranking the handle'
- Succession processes need to be agnostic, professional, and robust. This must go beyond "shoulder tapping"
- The focus should be on filling broader skill gaps, including those that relate to leading company/organisational strategy
- Recruitment needs to look beyond skills and talent. Values, style, and the kind of board member needed are also important considerations

Embracing the generations

AUTHOR:
NOEL PRENTICE

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Unsplash

Governance structures need to be arranged to leverage talent and expertise across many age groups, says Craig Hattle CMInstD.

Effective multi-generational boards will become the norm and we need to construct our succession thinking in these terms, says Craig Hattle CMInstD.

"The reality is that people are living healthy longer lives, and so succession is more about embracing two, three or even four generations at the table contributing value, each in their own way."

Hattle, a professional director with a background in the primary sector, says there will be many people who will be looking to work well into their 70s, even 80s, and will be competent to do so.

"We will need to find ways of arranging our governance structures so we leverage this source of talent and expertise for longer, while at the same time including younger people with fresh ideas."

In one organisation he chairs, Hattle says they make use of board committees and encourage younger practitioners to join these committees, and to chair them where possible. The expectation is they will become shareholders in the practice one day and will be ready to join the main board.

To prepare for the future, Hattle says the most important thing is to have a succession strategy in the first place and to understand the purpose of any transition – whether it's for director rotation, independence joining a board, or a new chair.

"These successions are best done with a purpose that suits the interests of the business at the time – and for what the business is anticipated to need in the future.

"If you consider that the success of a board is largely determined by the quality of its decision-making, any succession strategy should be based around asking the question, 'What mix of skills and experience is needed to make the best decisions for this business going forward, right now'.

Values, diversity and equality are important in different ways, he says, and it's hard to be an effective board if values are not aligned across all members – a person's 'style' should not be mistaken for their 'lack of values'.

"Without diversity of thought you are likely to be a less effective board, however what diversity would be best for your board should be informed by the company purpose. In a rapidly changing world, diversity of thought might be what saves the company from wandering on into irrelevance," he says, citing the downfall of Blackberry and Blockbuster video rentals, which failed to adapt to changing technologies and market trends.

"All board members are there to contribute equally, usually all on the same remuneration unless a chair or committee chair."

Director transitions are part of embracing some ongoing disruption, he says, even if it is only to challenge the board's potential tendency to group think and not notice certain confirmation biases in decision-making, a tendency we all have to some degree.

"Renewal in this way is better than wholescale change when shareholders and other stakeholders are so dissatisfied in some way that they want to force rapid change."

Hattle agrees, on the one hand, that the loss of knowledge and skills of the baby boomers is likely to cause some issues for businesses, and the economy generally. But, on the other hand, much of the learned experience of these boomers was gained arguably in a social context that is quite different for what will be needed in the future.

"Competency is the ability to apply knowledge in a context – just having knowledge may not make a person a good director for the future," he says. "The answer must lie in effective strategies to transfer experience and knowledge, and this could mean building a mentoring culture.

"This may be challenging for short-term productivity, if two highly paid resources are working on a project that arguably could be done by one person. But this two-way mentoring is vital for longer term success: the boomer is mentored in context and relevance, and the younger person gets the benefit of insights from lived experience."

He says he does not support the notion that directors are people who have reached the end of their executive career and therefore moving towards retirement. "I believe that governance in general would benefit from more professionals who are still also involved in their executive careers, taking up governance positions.

"Becoming a director should be viewed as a professional career pathway in its own right, albeit sometimes alongside an executive career."

"The answer must lie in effective strategies to transfer experience and knowledge, and this could mean building a mentoring culture."

Craig Hattle CMInstD


EXIT

‘It’s OK to leave’

AUTHOR:
NOEL PRENTICE

Don’t wait until you get forced out because you’re no longer useful, no longer relevant, says Giselle McLachlan CFInstD.

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Belinda Fewings
on Unsplash

“Be responsible about your own succession” – that’s the message Grounded Governance founder and IoD facilitator Giselle McLachlan CFInstD gives chairs, directors and other executives.

Conversations need to take place about succession planning and be built into the board’s business, however difficult and time-consuming they may be, McLachlan says. At the end of the day, “change is healthy” – for the organisation and its leaders.

“Many boards are poor at making time for their own business. The board needs to do its own work on succession planning.”

Those conversations – and they should not be difficult, she says – should be part of the board’s annual work plan. “There has to be time dedicated for board succession planning, including a decent amount of board-only time. Use your EQ to make sure you keep people safe through those conversations."

These conversations should be one-on-one at first, co-ordinated through the chair or relevant board committee. Only once everyone has been through a safe individualised process, then a chair will gain permission to bring some transparency into the boardroom, says McLachlan, an experienced company director, chair, CEO and lawyer for more than 30 years.

Citing the Reserve Bank's 'Governance Thematic Review' published in 2023, she agreed there was a need for more formality, documentation and board teamwork around succession planning, instead of it being "something in the chair's head. Even our regulators have reminded boards that they need to do this well, document it better and do it more regularly."

But there's an inherent tension between the need for succession planning and people's reluctance to leave roles.

McLachlan is passionate about encouraging – and convincing – people that "it's OK to leave" an organisation. She regularly advises, "Don't wait until you get forced out because you're no longer useful, no longer relevant".

"If people aren't willing to do that, it makes it hard as a board to have those conversations. It's the chair's job to lead by example in these discussions and deliberations. The chair carries ultimate responsibility for teamwork and talent on the board team. And if they don't demonstrate succession planning for their own role, a willingness to be open, to move on, that makes it easy for someone else not to do it either.

"How does a chair make it OK for someone else to stand against you when you both have years ahead on the board? It's a fascinating topic."

Giselle McLachlan CFInstD

"The chair should be sharing their views on how long they should stay and be doing things like board evaluation processes, demonstrating they are accountable for doing a good job themselves. If they stifle that conversation, it makes it difficult for other people to question them."

She cites some organisations where chairs are elected every year – under their rules – by their fellow board members. "There's an interesting succession issue here. How does a chair make it OK for someone else to stand against you when you both have years ahead on the board? It's a fascinating topic.

"Boards do some succession planning for the role through appointing and experimenting with chairs of committees. There's a potential pathway. If you've got chairs of committees getting support, training and exposure, you can see how they perform. But then what? How do they stand for the board chair role against the current chair? This is where co-chairing and/or deputy chair roles can be powerful and helpful.

"Chairs should be bringing conversations to life about their own role regularly, having those private conversations with people about their future and that of the other board members. No one should be caught by surprise as their term nears its end, or finding out it is not going to be renewed. I encourage chairs to be open and honest and ensure all succession plans are transparent."

Observers appointed to boards can also be a form of succession, with their potential elevation to a director's role. They often contribute quickly and will be appointed to a formal director role quickly.

“I think the longest I’ve served on a board is five years. We’ve still got a lot of people who think it’s OK to serve out their nine-year entitlement. I’m not a fan of that – that’s often way too long.”

As one of the IoD’s CDC facilitators, McLachlan says one of the most common questions on the course is, ‘Who attends board meetings? Is it managers or the CEO fronting everything?”

The practice varies so much, she says. Seeing executives present to the board is a good way for the board to see the next layer of management and the talent waiting in the wings. “How does the board get to know the capability of those level two managers and executives,” she asks, and answers: “By seeing them in action in the boardroom. So succession planning can happen in every meeting.”

The next CEO could be staring them in the face. The chair and CEO should be talking about the succession plan and the next level of talent in their regular mentoring conversations, McLachlan says. Succession planning for the CEO, and potentially the management or executive team, is a key board role and can’t be left to chance.

McLachlan says a lot of people still view directorship roles as a retirement, a lifestyle option. “I don’t think that’s good enough. Being a director is a very responsible role, requiring fresh thinking and constant learning and investment. I see this as an important topic for self-reflection by directors; don’t make governance a retirement plan. It is a new career, a new set of obligations.”

And she is very strong in her opinion about maximum tenures, saying:
“I think the longest I’ve served on a board is five years. We’ve still got a lot of people who think it’s OK to serve out their nine-year entitlement. I’m not a fan of that – that’s often way too long.”

Any director has to work hard to deliver value, fresh thinking and high energy throughout their term on a board, however long it is. Chairs need to be adept at asking people to think hard about this and manage their expectations earlier, she says. “Each board needs to find a balance between longevity, institutional knowledge, and fresh ideas and thinking.”

She would like to see one or two terms become the norm for many board members. “It’s not how long can you stay, but how long should you stay? We always want the board to have the skills, capabilities and energy it needs to achieve its strategy. If we have a big change in strategy, we should also have a big change in board make-up. Once a new strategic direction is set, a succession planning discussion should follow.”

McLachlan says there is no shame in resigning and succession planning processes should make that clear. “A board lifecycle can help people to consider what is right for them and for the organisation. We should normalise change at the board table.”

A lot of boards in New Zealand are community organisations where people are involved in addition to their other obligations. “There’s an expectation that you come on to a board and commit six or nine years of your life. People are expected to give so much, but it’s often voluntary. So making it OK to say yes for a term, and no after that, would be a healthy thing.

“The succession conversation is an important step in making it OK to do one term, do your share for the community and move on. If more experienced directors take charge of their own succession, and do so transparently, they will light the path for others to follow.”

The nature of the beast

AUTHOR:
NOEL PRENTICE

In the fast and ever-changing startup world, the Ministry of Awesome creates a matrix as the cornerstone of its succession planning.

As the Ministry of Awesome has become even more . . . awesome . . . the board has had to change with the times. And that has meant creating a skills matrix with succession planning in mind.

Founded in 2012 to help build a vision for earthquake-hit Ōtautahi Christchurch, the Ministry of Awesome has become a force for high-growth startups and innovators in New Zealand thanks to a 2.0 reboot in 2018.

Marian Johnson MInstD, who has recently stepped down as CEO after nearly seven years at the helm, says the 'startup for startups' was a post-earthquake recovery organisation that functioned essentially

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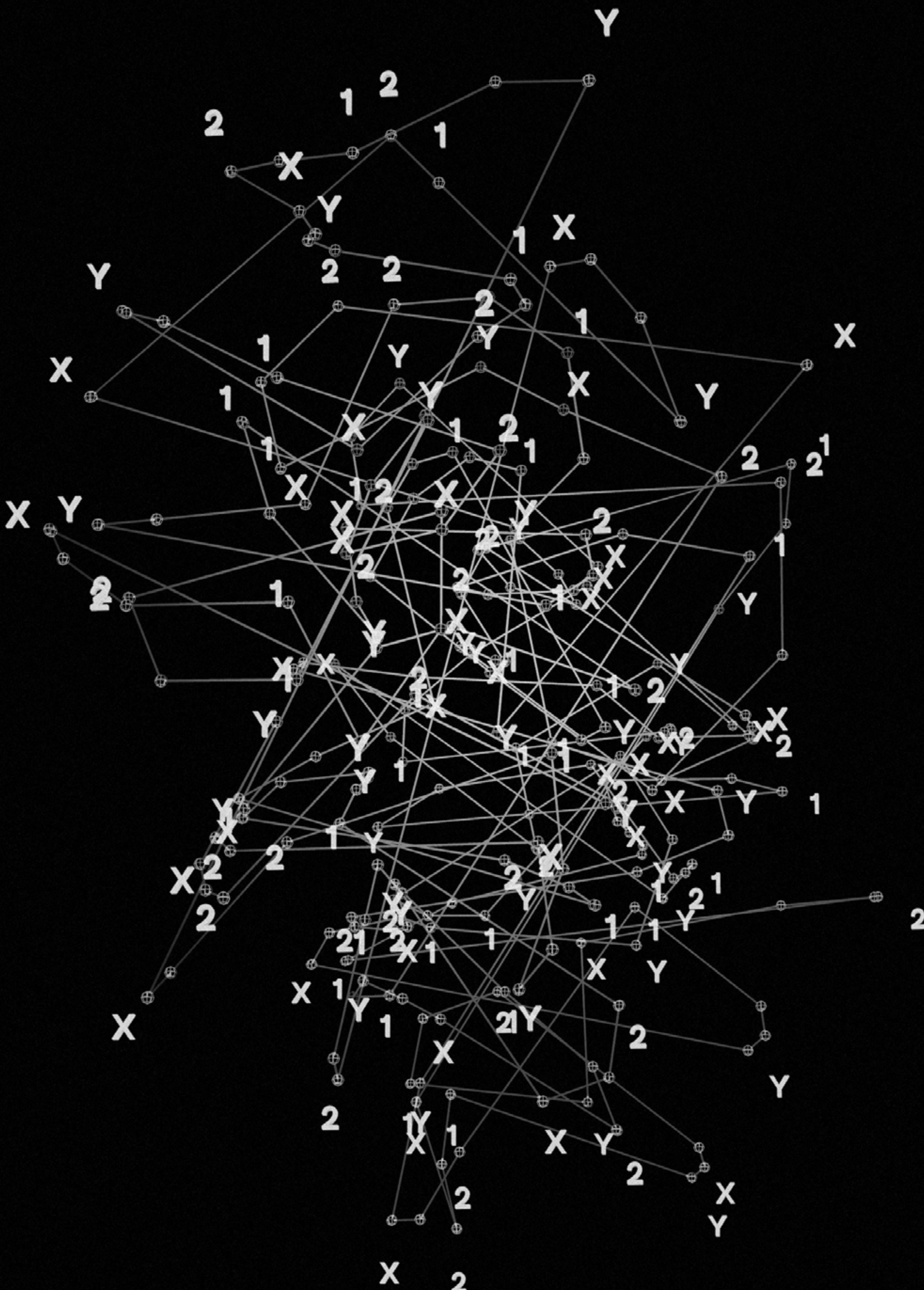

as a think tank for Christchurch and its economic future.

When Johnson joined, she says they needed to move beyond the think tank phase in the earthquake recovery period and into providing solutions for strategies that required execution.

"We had a powerful board, but it was made up of people who were most useful during the experimental stage of city development. Given we now had a city whose economic future relied on innovation (think aerospace, future food and fibre, healthtech/medtech), we needed to transform into an organisation that could deliver the foundation for a high-growth startup ecosystem."

She says the board had clear strengths, particularly chair Kaila Colbin CMInstD, who is well-known for her leadership in the technology and transformation sector (launching Singularity University for Australia and New Zealand, and being the founder of Boma).

"There were a few people on the board who were 100 per cent relevant for where we wanted to go, but we did need to rethink our structure, our governance, and our board members. We began to put a system in place, constructing a new matrix of skills and attributes, and looking at the experience and capability we needed going forward. The creation of that matrix was really the cornerstone of our succession planning because without that we had no guidance.

"Quite often that would have something to do with business development or being able to execute on a particular strategy. Those things are important, but there are other elements to consider which will keep the organisation on a righteous path heading towards the agreed vision. And that's the role of the board.

"Once we had that matrix in place in terms of skills, attributes, experience and the types of personas we needed on the board, that became our fundamental document for our succession planning," says Johnson, who now chairs Electrify Aotearoa and Electrify Accelerator, both empowering women and startup founders under the Ministry of Awesome umbrella.

She counts about three separate turnovers of the board in her time at the 'Ministry'. "The board needed to change each time to have the support and risk mitigation for the work we were doing, and the expertise to be able to navigate the new kind of territory.

"We used the board matrix regularly, as well as updating it at each successive stage. This was led by the chair and deputy chair and enabled conversations to be open, transparent, and respectful. The culture of the board has been very strong because it's hard to have conversations like these unless there is a purpose and a data set to refer to. Otherwise, it's a very difficult thing to navigate."

Johnson says as a CEO you need to find mentorship on your board for the various challenges you face. And she was lucky to be in the room with consistently strong players.

"Sometimes it's hard, even with the matrix, to find the right people. It's not only about the time people are willing to give and the time they have available, but also whether their personalities mesh, particularly with the CEO.

"When it does, an organisation really sings because then the vision, the ideas, the innovation, and the creativity are not on the shoulders of one person. The board involvement makes it much more powerful. We were successful in doing that, but there were times when it wasn't there and as a CEO that's a lonely place to be in."

Being open and transparent allows "difficult conversations" to take place and she says it was the chair leading by example. "The chair runs the show, but my relationship and feedback to the chair was obviously an important part of the considerations around executing on succession. It may have been before terms were up because something changed, something was demanded."

"Once we had that matrix in place in terms of skills, attributes, experience and the types of personas we needed on the board, that became our fundamental document for our succession planning."

Marian Johnson MInstD

Mutual trust and respect are the cornerstone of the board/CEO relationship. In this way, she says the board is never surprised and because there is a regular opportunity to “download, talk strategy and work through sticky issues”.

She says this sort of environment, where conversations happen easily and there is an intimacy in relationships, is something all boards should want to create no matter how large the organisation.

“Not every board-CEO relationship has that level of trust. And if you don’t have that, whether you are a large-scale or a small organisation, then the effectiveness of that relationship and the ability for the CEO to navigate difficult situations is always going to be hampered.

“I frequently hear about terrible relationships between CEOs and board members, and I just think, ‘how awful’. I would never have been able to do some of the things I’ve done without the support of the board and without the regular refresh of board members.”

That change brings fresh thinking. “I don’t have all the answers, but I’m happy to go to a board member and say, ‘Here are the challenges I’m trying to navigate, this is how I’m navigating them, and these are some solutions I’ve come up with’. What’s so powerful about diversity of thought, culture, experience and gender is generally they’ll come up with something I hadn’t even thought of.”

In the startup sector, she says advisory boards are critical, but there needs to be further education.

“It’s a huge challenge for founders who are running their own show and almost literally doing every job themselves. I often ask startup founders to create a strategy, then an organisational structure that executes that strategy. They find that hilarious because their organisational structure is them and one other person so imagining a future organisational chart can be an immensely empowering experience.

“In the beginning, many people come onto a board to fill a seat – and add to their CV. You can’t do that in a startup – and you can’t stay too long because startups grow quickly and your role on the board may no longer be useful if the startup is hitting its straps.”

“Generally, the minute you raise capital and have product market fit, you end up with a more formal board and one of the members is frequently your investor. Suddenly, you have someone to report to. And if you haven’t built that cornerstone of trust, it can heat up very quickly and become a negative situation. It does happen frequently enough for many founders to worry about that loss of control.”

Johnson says succession is not on a startup’s radar at this stage. “It’s too early. They’re barely getting used to the idea of having a board in the first place, if they even have one. Before the Ministry of Awesome I was at a high-growth startup, part of a well-funded tech incubator. My role was to validate potential use cases, potential customers for a product, and to raise capital. We were at that very vulnerable stage of early capital and still finding product market fit.

“Most of my learning on how to navigate risks in the startup environment come from everything that went wrong at that startup, because everything that could possibly have gone wrong, went wrong, and at no stage did anyone on the board raise a red flag or step up their involvement. It showed the crucial nature of a startup board. It will never be lost to me.

“In the beginning, many people come onto a board to fill a seat – and add to their CV. You can’t do that in a startup – and you can’t stay too long because startups grow quickly and your role on the board may no longer be useful if the startup is hitting its straps.

“In terms of succession, you very quickly know the qualities that are required. Be able to have open and frank conversations during board meetings and have regular reviews and 360 reviews. The CEO should be able to do a 360 on the board members and the board members should be able to do a 360 on their CEO. Likewise, the chair.

“I can’t even begin to tell you how important that is because it allows for transparency and the difficult conversations can begin from there.”

Facing change?

Navigate it confidently with independent support and guidance.

Wherever you turn, and in all industries, the level of change being experienced is unprecedented. Very few sectors are escaping unscathed from new ways of working, economic stress and the pace of change triggered by AI, digital disruption and critical skills shortages.

Now more than ever, organisations need to be prepared to deal with change effectively, efficiently and in a way that protects their brand integrity while looking after their people.

Whether this is in the form of how to prepare for a restructure, supporting leaders and teams through a period of transition or guiding the organisation into a better space, there's benefits to reaching out for independent support and help.

A family business, not a family nursery

Performance metrics provide clarity around expectations, helping make sure the right executives are in the right roles, says Sandy Kimpton CMInstD.

AUTHOR:
SONIA YEE,
SENIOR WRITER

Photo by:
Kristaps Ungurs
on Unsplash

Long-held tradition and family legacy can weigh heavily on a successor's shoulders when a family business is passed down, to not only keep tradition and dreams of past generations alive, but also to uphold the goodwill of the family name.

Sandy Kimpton CMInstD, managing director of Kimpton & Co, says when family businesses are looking at succession planning, one of the biggest decisions keeping them up at night is where parents (as the directors of the company) may be deciding whether to shut up shop or pass the business down to their children – who may not want to be involved.

Kimpton works closely with families, assisting them with strategies, professional advice and guidance, creating structures that enable continued wealth-building within their businesses, underpinned by a strong sense of purpose that positions future generations to thrive sustainably.

She says the key differences between the board of a family business and corporate governance are the overarching objectives and the time frames that need to be considered. For non-family businesses, there tends to be a shorter strategic horizon.

"A long time in business is a very short time in family – that's fundamentally where it's different," she says.

Kimpton is working with families to put in place a horizon of up to 100 years and says concepts around succession planning are not as embedded here as in other parts of the world; her own methodology is informed by international models with much longer histories.

"Oftentimes, here in New Zealand, we assume the child has to be involved in the business," she says.

Kimpton reinforces the importance of conversations taking place within the family to find out whether the children want to be involved, or if there are other avenues they want to pursue.

Where the next generation wants to take over, there needs to be long-term planning and training to ensure the business is well-positioned. This can include getting the children involved in the business from a young age, exposing them to various aspects of the operational side, or making sure they get experience in external companies.

"When they're employed in a senior role in the family business, ideally they go through an interview process like everybody else in the company," she says of the structure that needs to be factored into the process.

Putting performance metrics in place, as with any senior role, is also key and provides clarity around expectations, according to Kimpton. Without them, things can go awry and become detrimental to family relationships.

"This is where it's important to remember that a family business is not the family nursery . . . there needs to be the right executives in the right roles," she says of what it takes for any business to perform at its optimal level.

Exposing up-and-coming family members to broader governance issues can also help set the stage for potential governance roles.

"Using a family council structure with interns of the next generation creates a platform for a 10-year training plan. An IoD directors' course, offshore study, sitting on the board of directors informally or formally, all expose them to good governance," she says.

Kimpton refers to a family council as a think-tank focused on maintaining momentum across the whole family enterprise. This doesn't need to be formal by any means, but fundamentally, keeps what is truly important to the family at the forefront while also providing platforms for the upcoming generation to leverage from.

It can include anything from embedding family values, traditions and legacy, along with "relevant and practical aspects of education, oversight of family business interests, health and welfare provisions and anything else that's important to the family".

Understanding the family legacy and how it filters through the business is essential for a successful business transition to take place.

"Remembering too, the person who built the business and subsequent generations have often lived different lifestyles thanks to what the business has provided, and this influences both mindsets and motivations," Kimpton says.

An advocate of good governance, family businesses also require robust conversations, transparency of expectations and several of the family members holding sufficient governance skills to ensure solid overview of the business operations, according to Kimpton.

"Done well, the business has the potential to perform and provide for the family in a meaningful way for decades to come."

"When they're employed in a senior role in the family business, ideally they go through an interview process like everybody else in the company."

Sandy Kimpton CMInstD

Thrown in the deep end

AUTHOR:
SONIA YEE

Chris Tremain MInstD makes sure succession is part of the conversation after his shock introduction to the family business.

Thrust into the world of governance after his father fell ill, Chris Tremain MInstD had to learn the ropes – quickly.

Kel Tremain, an All Black great in the 1960s who became chair of the Hawke's Bay Rugby Union and was touted as a future chair of the New Zealand Rugby Union, owned Tremain Real Estate and Travel (originally Tremain and Greentree) when he became sick, leaving his wife, Pamela, and son, Chris, to take over the family business.

"I was pretty much running the show from that point on," says Tremain, who was

Photo by:
James Coleman
on Unsplash

in the middle of his OE after graduating from Massey University. "It came as somewhat of a shock to have to take over the business, but that was the extent of our succession plan – very little."

Along with his brother Simon, the pair grew the business, adding Sotheby's and Colliers into their stable. Later, Chris' transition into politics as the National MP for Napier (2005-2014), allowed his brother to take the helm. Since retiring from parliament, Tremain has returned to the family fold.

"We now have a business called Real Estate Brands and I am a director. It operates from Tauranga through to the Waikato, Taupō, Rotorua, Hawke's Bay and the Wairarapa, and we've now purchased Sotheby's in Palmerston North and opened Tremains in Levin," he says.

As for what their succession plan looks like today, due to the growth of the business which has external shareholders and a non-family member as its CEO, there is now less dependence on family. "We've got a really significant business, so we can evolve, sell shares and bring on other directors," Tremain says.

But that's not to say that succession isn't front of mind. His brother is chair of the board and there are plans in place for what happens next. "He does a great job, and increasingly our focus is, 'how do we ensure the business can evolve beyond Simon and what he brings to the table?' " Tremain says.

Succession planning means treading carefully when dealing with family dynamics. It requires empathy and sensitivity, and that has always been at the forefront of Tremain's mind when coming into other family contexts as an independent director.

"When you've been the leader of your own business for a long time, it's hard to bring in an external person who starts challenging you, so you need to have an open mind if you're going to invite an independent person to come to the table – you don't want them to turn up to an ugly situation where people are just not getting on."

"When you've been the leader of your own business for a long time, it's hard to bring in an external person who starts challenging you, so you need to have an open mind if you're going to invite an independent person to come to the table – you don't want them to turn up to an ugly situation where people are just not getting on."

Chris Tremain MInstD

Over the past five years, Tremain has been on the board of family business Mangarara Farms, alongside husband-and-wife team Rachel and Greg Hart. Long-time friends, Tremain was inspired by their regenerative farming techniques while watching the business grow.

When an off-shore partnership opportunity fell through, Tremain came up with the idea of forming a syndicate to keep investment local, creating opportunities for people to buy into the farm so it was wholly New Zealand-owned.

"We sold it to a range of people who were already in our investment community, and the group is called The Future Farming Syndicate. They now own 25 per cent of the farm and I represent the shareholders," says Tremain.

By bringing an investment mindset to the table, Tremain has helped to future-proof the business by removing the debt, and creating additional capital that allows the farm to innovate and expand.

In Tremain's first summer on the board, drought was looming, and water was an issue on the hill country which needed to support 700 cattle. He helped to mitigate risk and bring new thinking to the board table, including showing that by investing upfront they could save and earn revenue by having water in those paddocks over a period of time.

"We sat and stewed on it for a while, the numbers were done and it stacked up, so a plan was put in place," says Hart, who believes having Tremain involved on the board has brought a different approach because of his experience in the corporate world.

"Sharing burdens and decisions with an independent advisor are skills Chris brings, and it has been so beneficial in many situations," says Hart, adding that another benefit was creating a document that stated the holistic goal for the farm business.

This was shared with all potential investors to ensure they understood the ethos behind the business and, additionally, Hart says it also provided a framework for decision-making. "Any tough decisions can be run through a process that ultimately ensures we stay on track with our holistic goal," he says.

Putting more of a structure around their governance has also assisted with reporting disciplines, including staying across health and safety, which has been encouraged by Tremain.

"We have formal board meetings and an agenda, we put tough items on it that need to be discussed and addressed up front, and we're transparent around them. You don't hide from them. You must bring difficult conversations to the board table."

> "We have formal board meetings and an agenda, we put tough items on it that need to be discussed and addressed up front, and we're transparent around them. You don't hide from them."

Tremain's input has enabled the business to capitalise on what is readily available on the property and continue growing its sustainability initiatives.

Tremain's key advice for independent directors coming into a family business is understanding where the family is coming from, the drivers for their business, and knowing what needs to be done "without getting too much in the way".

A solid foundation for communication and building on the relationship allows for ideas to be challenged through board processes that are understood and embedded. "That relationship is fundamental. You can add value and give ideas, but ultimately, the family are still the drivers of the business and you must understand that," says Tremain.

Confidence in the next generation

Just like genetic gain, the next generation will be better than the current one, says Murray King CFInstD

AUTHOR:
SONIA YEE

Farming in New Zealand has been through some tough times, with a history that Murray King CFInstD refers to as "having lost a generation of farmers back in the late eighties".

"Someone once said to me that farming is diametrically opposed to making money; it's got everything going against it," says King, a fourth-generation farmer and owner of Kingsway Farms Ltd in Nelson.

Through the 'Rogernomics' era in the 1980s, King was working as a farm management consultant in South Canterbury, and witnessed farmers faced with drought, low product prices and interest rates skyrocketing to more than 20 per cent. Entire operations were obliterated, forced to sell up and move on, or remain and endure the hardship.

But that loss of talent and expertise in the sector brought with it a raw reality that sees King continuously planning.

Having taken over his family farm about 25 years ago, the business has expanded to include succession. Now with about 20 direct employees, there are other opportunities for the next generation without having to do intensive on-farm work.

"There is no expectation for our children to be involved in the business at all. The last thing you want is put pressure on people or make them think they are obligated – you've got to have a passion for it, otherwise what's the point?" he asks.

There are three different tiers to the business: properties which will appreciate over time because of their location; cash-generating farms; and

Photo by:
Karsten Winegeart on
Unsplash

investments in other farms and food marketing – Appleby Farms Ice Cream being one of them.

"We make premium ice cream, but we also make frozen yoghurt and it's the only frozen dessert with a four-and-a-half star health rating," says King, adding that their recent collaboration with Cookie Time and the creation of its ice-cream sandwiches will see a life in an international market.

With that expansion, Kingsway Farms has appointed an advisory board to keep the business on track and awake to opportunities and risks.

For King, governance and farming go hand in hand, and he has plenty of memories of conversations around the dinner table that are interwoven with family life and the farm. He says discussions about putting a board in place have been ongoing over the past 20 years.

"With my background, I understand governance and management. It's quite good to have a group of people to test and challenge, and I guess that's where we get the most value out of it," King says.

The board is comprised of current and former business professionals who have previously worked with the family – one of them a specialist in agrifinance.

"I like to have a bit of tension in the boardroom with mutual respect. I've been on boards that are difficult, where it's just awful. But I have been on others with good directors who are very clever and articulate, and if they don't get their way, they don't hold a grudge."

King refers to the old-fashioned model of succession where the eldest son would take over the farm. His family's view, reinforced by his mother, is that succession should always be equitable but not necessarily equal, "so it was a matter of fairness".

"Often farms are very expensive, but they don't generate enough return on capital so it's always going to be difficult. We did the process over a period of about five years that involved a lot of meetings," says King.

"I like to have a bit of tension in the boardroom with mutual respect. I've been on boards that are difficult, where it's just awful. But I have been on others with good directors who are very clever and articulate, and if they don't get their way, they don't hold a grudge."

Murray King
CFInstD

Discussions with his siblings meant finding out who truly had the capacity and desire to be involved in the business without feeling obligated. There was also an agreement that the farm shouldn't be given but earned.

"I wanted to grow and to borrow money to invest back into the business, and other family members didn't want to do that. So we went through a process," he says.

With so many factors to take into consideration, King believes succession planning for family businesses requires continued self-development and investing in the business.

"You have to seek out knowledge, but don't be afraid of seeking the help of experts. The very best advice is often the most expensive and if you nickel and dime it, you'll regret it."

For the transition to be successful, it is important to come from a position of strength. "If you've got a weak business or one that's not profitable, it probably hasn't got a hope of helping you in a fair and equitable way – especially today because so many things are working against each other, between risks around interest rates, exchange rates, commodity prices through to the challenges of climate, people . . ."

As for what the future holds, King is confident in the next generation and what they will bring to the sector, including an ability to adapt to a rapidly changing world the older generation of farmers have struggled with.

"There's been so much change over the last, say, 50 years, and more recently changes to legislation when you look at climate change, nutrient loss, deforestation and land use.

"The reality is that our kids don't see it the same way and will bring something different, so it's important to have a positive outlook. Just like genetic gain, the next generation will be better than the current one," says King.

The power of family legacies

Balancing tradition and innovation is crucial for the sustained growth and prosperity of family businesses.

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Photo by:
Blake Weyland on Unsplash

The legacy of a family business is as unique as the family itself. It is born out of the entrepreneurial vision of the first-generation founder and builds as a young business grows into a multigenerational family enterprise.

Legacy has a profound impact: for some, it's a way of honouring the company's heritage, preserving its traditions, and protecting the reputation of the business that, in many instances, is the family's name.

For others, legacy is one of the important building blocks for future success, with the resilience, spirit of entrepreneurship, and achievements of previous generations as a strong foundation.

In our latest Global Family Business Report, KPMG examined four components of a family legacy: material, biological, identity and social. The findings highlighted that these components, individually or in combination with others, impact businesses and families differently.

Through the research, a fifth component emerged – the entrepreneurial legacy – which is interwoven throughout the family business journey as the focus between the other legacies shifts through the generations.

KPMG

While family legacy is an underlying driver of success, it is a process rather than an outcome which may originate from many different factors. Legacies strengthen the emotional bond that defines the family's identity and serve as a springboard for transgenerational entrepreneurship, providing fertile ground for younger generations to pursue their interests and learn from past adversities.

Transgenerational entrepreneurship represents families' ability to sustain their businesses' entrepreneurial orientation through a continuous stream of family members' entrepreneurial activities across multiple generations.

We see three dimensions as the primary contributors to the strength of a family's transgenerational capability: family relationships, family entrepreneurship orientation, and a focus on future generations.

Family relationships are an amplifier and enabler of every legacy component, with stories and achievements from past generations assisting future generations in building on past success and learning from their challenges.

Each of the legacy components has interdependencies and trade-offs. As the family business evolves across generations, the focus may shift from one legacy component to another. This evolution is a natural part of the family business journey, reflecting each generation's changing needs and aspirations.

With the increased focus on global environmental, social, and governance (ESG) priorities, younger generations will likely be more concerned with their family businesses' social and entrepreneurial legacies. In contrast, older generations may continue valuing material legacies and the family bloodline.

> "We see three dimensions as the primary contributors to the strength of a family's transgenerational capability: family relationships, family entrepreneurship orientation, and a focus on future generations."

These differing perspectives can potentially manifest themselves into generational conflicts about how the business should be conducted. They highlight the need to facilitate dialogue and build generational bridges between both generations to fulfil the various aspects of their legacy.

Understanding your legacy and where it could lead to is an important step towards building a successful multigenerational family business.

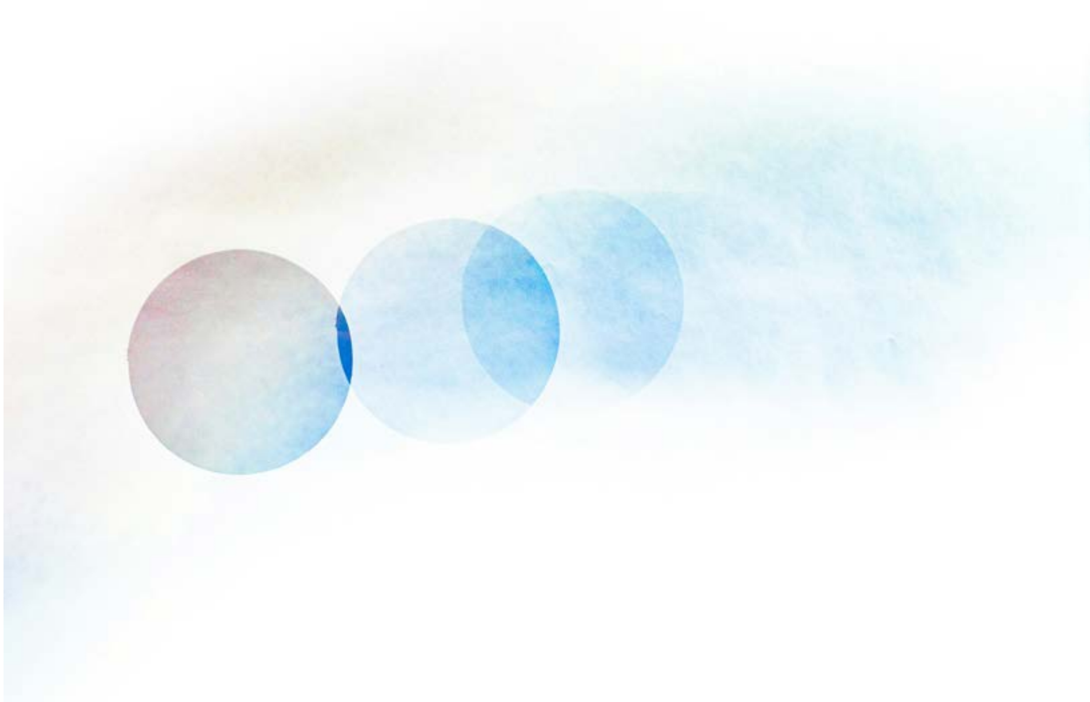
The experiences and knowledge accumulated over generations serve as valuable resources for the next generation, emphasising resilience, adaptability, and reinvention. However, balancing honouring tradition and embracing new leadership is crucial to steering the business forward.

While it's essential to honour tradition, it's equally important to embrace new leadership and ideas. Finding this balance isn't just a luxury, it's a necessity.

Ultimately, family businesses should embrace their legacy and share its essence with the next generation, while giving them the freedom to create their own. This dynamic process can lead to lasting success.

Considering these points in your next board meeting, you can foster a deeper understanding of the family legacy's impact on the business and create a forum to explore strategies for effectively navigating the complexities of legacy, tradition, and innovation within your family business.

The views in this article reflect insights from the Global Family Business Report from KPMG Private Enterprise and the STEP Project Global Consortium: Unlocking Legacy – The path to superior growth in family businesses.



Steps a family business can take

Understanding the intricacies of a family business system, and the overlapping circles of family, ownership and business within it, will bring the best outcomes.

AUTHOR:
SILVIA McPHERSON,
PARTNER, DENTONS

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Evie S on Unsplash

A high proportion of New Zealand businesses are family-owned and many of those families want to keep things that way. But, too often, the important conversations to make that possible, or to consider viable alternatives, don't come soon enough.

Succession planning for family businesses can be tough. The assets are often illiquid and are imbued with sentiment and emotion. There is often pressure to keep the business within the family, regardless of practical considerations.

Business succession planning requires a holistic approach that stretches beyond the realm of the business into the realm of the family. It is therefore essential to understand the intricacies of a family business system that comprises three partially overlapping circles of family, ownership, and business.

Within this three-circle model, developed at the Harvard Business School in 1978, there can be as many as seven different stakeholder groups, each with its own legitimate perspectives and goals. These include family members who own and work in the business, those who work in the business but don't own it (or the other way around) and those who are not involved at all. Then there are non-family members who either own or work in the business, or both.

Once we grasp the make-up of a family's business system, we can identify potential transition challenges from the perspectives of these diverse groups. Challenges can be obvious, such as issues with the organisational structure, uncertainty around roles and responsibilities, the financial health of the business, and overly complex or not fit-for-purpose asset protection structures of the business owners.

Or they can be less visible, such as emotional tensions, family relationships, cognitive biases and owner psychology. Advisors should deliberately and strategically plan for these specific challenges rather than apply generic solutions to generic issues (real or imagined).

It is also crucial to do some contingency planning and plan for the unplanned. The Exit Planning Institute specifically identifies 'The Five Ds' for special attention: divorce, disagreement, disability, distress, and death. There are no universal or fail-safe preventative measures for The Five Ds, but there are a few guiding principles:

Divorce (or separation): Negotiate a relationship property agreement with your spouse or partner, whether or not they are involved in the business, to agree how you will divide the ownership (and your other property) in the event of a separation. Avoid using collateral in the family home to finance the business. If the spouse or partner has an active role then there must be a person or a team ready and willing to take over their responsibilities in the event of a separation.

Disagreement: When dealing with a disagreement within the family, effective communication is essential. Develop protocols for the family to follow. Have a shareholders' agreement to regulate how the family engages with each other in a business context. Clearly define roles, responsibilities, and desired actions for each family member.

Disability: Ensure the shareholders' agreement or family charter provides for disability as well as life insurance. Appoint attorneys to deal with matters of personal property and personal care if a disability or medical event impacts a family member. Document business processes to limit the impact of disability on business operations.

Distress: Have a financial contingency plan to deal with unforeseen financial distress. This should include risk mitigation issues to deal with climatic events, workplace accidents, supply chain issues, biosecurity breaches, etc. Review insurance policies to ensure adequate financial provision and sufficiently broad coverage.

> "The Exit Planning Institute specifically identifies 'The Five Ds' for special attention: divorce, disagreement, disability, distress, and death."

Death: Ensure there is insurance cover to provide funds to hire someone of similar calibre to fill any role vacated by the unexpected death of a key person. Make sure family members have wills to mitigate legal difficulties for dependents. Have comprehensive structural capital and documented processes for the continued success of the business when an owner dies.

If there is a scale to justify it and a capable management team can deliver it, a well-designed family governance programme can help with succession planning. It is about addressing how the various stakeholder groups and the advisors will communicate, solve problems, and make decisions together.

The essential ingredients of a family governance programme may include (depending on scale):

- A formal business succession plan
- A formal dividend and salary structure for family members working within the business
- Internal and external communications policies
- A family constitution or charter
- A family council/steering committee
- A family office (single/multi-family or virtual)

Key practices for an effective family governance programme require listening to foster understanding, setting clear roles and responsibilities between the board, management and advisors, and engaging family members based on their generation and their personal interests.

Succession planning is a process, not a transaction, even though it might eventually involve a transaction. Best outcomes occur when succession discussions begin well in advance of any anticipatory transition. The challenge is to firstly overcome inertia to develop an appropriate, coherent, and agreeable strategy.

Laying foundations for the future

AUTHOR:
NOEL PRENTICE

Engineering New Zealand implements a major overhaul of its structure, with the board now comprising elected and appointed members.

Engineering New Zealand Te Ao Rangahau (formerly known as IPENZ) is making the most significant governance changes in 30 years to service the needs of the profession and the organisation into the future.

The changes have significant implications for the makeup and operations of the board, moving it away from being fully representative to comprising both elected and appointed members. Changes also include the size of the board, terms of the president and deputy president, and the ability to pay appointed members.

Professor Jan Evans-Freeman CMInstD, who was elected president in March, will lead the organisation for a two-year term, rather than one year. She welcomed the organisation's change of focus from the board being fully representative to focusing on skills and diversity.

"Engineering New Zealand is a complex organisation, and the recent rule changes help us to ensure we continue to have the appropriate skills around the board table to lead the organisation into the future.

"New Zealand needs a strong engineering profession and our role as the Engineering New Zealand Governing Board is to ensure we lead, support and advocate for the profession and engineers in the best way possible," says Evans-Freeman, who has been an elected member of Governing Board since 2014.

A full transition to the new board will take two years, as board membership is reduced each year as the terms of two elected members end and one is appointed.

Since the governance rule changes have been enacted, the board has appointed its first emerging member – Kishan Seger.

Photo by:
Ricardo Gomez Angel
on Unsplash

Chief executive Dr Richard Templer joined Engineering New Zealand in 2020 and says he has worked with five presidents.

"These presidents have been outstanding, but the one-year term is just not enough time for them to realise their ambitions as president. As both the figurative head of Engineering New Zealand and the chair of the board, the one-year president's term has been challenging for all to manage. We are looking forward to working with Professor Evans-Freeman for two years."

Engineering New Zealand, which has more than 23,000 members, also regulates the profession, as the Registration Authority for Chartered Professional Engineers. Established in 1914, it now has 82 staff, 18 branches, supports 29 technical societies and groups, and has an annual revenue of $19 million.

Since the organisation's formation, Engineering New Zealand's governance model has largely been representative. In the 1930s, voting members had to be 35 or over and this age restriction, among wider concerns, led to a turbulent time.

In the early 1940s, young engineers felt the organisation was not taking sufficient steps to raise or maintain the status of the profession and petitioned for representation. When this was denied, they formed a new organisation called the Professional Engineers Association of New Zealand. The two organisations remained separate for 16 years until they merged again in 1959.

By the 1950s, the council governing the organisation was made up of 30 people. This large council model lasted for several decades until 1995 when the then 29-member council was restructured to a 12-member board of directors.

The new board consisted of four senior office holders (vice president, deputy president, president, and immediate past president) and eight elected members. In the late 2000s, the 11th and 12th director positions became discretionary.

"New Zealand needs a strong engineering profession and our role as the Engineering New Zealand Governing Board is to ensure we lead, support and advocate for the profession and engineers in the best way possible."

Dr Jan Evans-Freeman CMInstD

In 2021, Engineering New Zealand commissioned Jo Cribb CFInstD to review its governance structure and she recommended:

- Amending election processes to ensure appropriate governance capabilities on the board
- Reducing the board to eight voting members, including independent positions and an emerging director position
- Considering whether board positions should be paid instead of being voluntary positions
- Reconsidering the current Rules around senior office holders, removing the requirement that senior office holders be Fellows of Engineering New Zealand
- Introducing sanctions for poor performance

Also in 2021, the governing board separated governance of its regulatory functions by establishing the Chartered Professional Engineers Board. In establishing the new board, Engineering New Zealand addressed existing conflicts of interest between its regulatory and membership components.

The Chartered Professional Engineers Board now oversees all the organisation's regulatory work, including assessments, reassessments and the management of complaints and disciplinary proceedings, as per the Chartered Professional Engineers of New Zealand Act 2002.

In February 2022, Engineering New Zealand's governing board agreed in principle to the changes proposed by Cribb. Over the next year, Engineering New Zealand worked to implement those recommendations that did not require changes to the organisation's Rules.

A new board skills and diversity matrix was developed (based on the Institute of Directors' Director Competency Framework), the elections process now included a 'Meet the Candidate' session, and elections became focused on asking candidates about their governance experience and capabilities as well as their engineering backgrounds.

The UK Post Office scandal – the cost of justice

AUTHOR:
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MInstD

Photo by:
Simon Lee on Unsplash

Litigation funding enables sub-postmasters to clear their names, but the scandal is a salient lesson in boardroom failure.

The ITV drama *Mr Bates vs The Post Office*, which tells the story of the British Post Office scandal, is the UK's most watched programme of 2024 and ITV's biggest new drama in over a decade.

This compelling David and Goliath tale of a 20-plus year battle for justice by a group of sub-postmasters wrongly accused of theft, false accounting and fraud is based on a true story described by UK Prime Minister Rishi Sunak as "one of the greatest miscarriages of justice in our nation's history".

The scandal has cost lives, caused individual financial ruin and stained personal reputations. There have been calls for individuals who held positions of responsibility at the Post Office to be charged with corporate manslaughter.

For directors, *Mr Bates vs The Post Office* is a salient lesson in boardroom failure that was decades in the making. About 80 directors passed through the Post Office board during the time the scandal slowly unfolded, including some high-profile names in UK governance who have gone on to serve on the boards of other significant entities.

There is, of course, the inevitable inquiry. The Post Office Horizon IT Inquiry led by retired High Court judge Sir Wyn Williams has been trying to get to the truth since it launched in 2020. The inquiry has entered phases five and six, examining issues including governance, redress and whistleblowing. Not surprisingly, one of the areas the Inquiry is tasked to look into is the Post Office's conduct in regard to the group litigation.

After enduring decades of stonewalling, obfuscation and allegations at the hands of a UK government-owned entity, a group litigation launched on behalf of 555 sub-postmasters finally went to trial in England's High Court, and after much legal manoeuvring eventually won an out-of-court settlement for their wrongful convictions of £58 million, as well as the right to appeal those convictions. After the significant legal costs involved were settled, the postmasters received about £20,000 each.

I don't think there can be any dispute the sub-postmasters would never have seen the inside of a courtroom without the support of UK litigation funder Therium. In return for a share of any proceeds, Therium agreed to pay the legal costs and shoulder the other substantial risks of the class action, including paying costs if the case was lost.

The Post Office scandal can be viewed as an illustration of litigation funding's noble purpose. The sub-postmasters didn't have the skills or funds to undertake the case alone; the support of a litigation funder unlocked the opportunity for them to take their case. It makes sense that funders are only likely to be interested in – and fund – deserving cases and it would be hard to find a better example.

It's easy to be critical of how little was left in the pot for the sub-postmasters but as a Therium investment officer put it, the costs ended up the way they did because of the defendant's "scorched earth" approach to the litigation.

The reality is the Post Office used its size, financial resources and political influence to cover up wrongful conduct for more than a decade. It consistently refused to acknowledge its wrongdoing or provide financial compensation to its victims. Its conduct during the various legal proceedings was characterised by delay and disruption, which ultimately clocked up further legal costs. It even tried, unsuccessfully, to have the judge recuse himself.

For his part the judge noted, "The Post Office's approach to evidence, even despite their considerable resources which are being liberally deployed at considerable cost, amounts to attack and disparagement of the claimants individually and collectively. . ."

This type of conduct can be seen as abusive. Yet a defendant using size, influence and financial resources to bully a plaintiff to either settle cheaply or drop their legal action altogether is unfortunately not uncommon. Nor is a 'deny, delay, defend' approach which seeks to make the prospect of any meaningful outcome feel so remote to plaintiffs they just give up.

That didn't occur in the case of the Post Office plaintiffs because litigation funding enabled them to match the defendant's financial resources and stay the course. Of course, their win was much more than just money, it was their opportunity to hold the Post Office to account, have their side of the story told, and finally clear their names.

In New Zealand, it's possible to see parallels with the Mainzeal case where the founder of local litigation funder LPF Group, Phil Newland, is on record saying that achieving a legal outcome took three times longer and was three times more expensive than anticipated because the directors and their insurer prolonged the case by deciding to fight every point and appeal in every New Zealand court "with no regard to the merits".

> "Yet a defendant using size, influence and financial resources to bully a plaintiff to either settle cheaply or drop their legal action altogether is unfortunately not uncommon."

If the defendant's litigation strategy is to force the plaintiffs to spend more and more money on lawyers and litigation funders, it's difficult to see how they can raise concerns at the end about how the plaintiffs haven't received all of the proceeds of the case. It implies it is somehow the fault of the plaintiffs' lawyers or funders that it has taken so long to resolve.

There's no doubt that when things get litigious, positions become entrenched. Executive teams can feel under attack and there can be a tendency to want to dig in and fight. The involvement of a litigation funder may even amplify that reaction.

However, an important role and responsibility of governance in this situation is to be a considered and dispassionate voice of reason; to make a truly independent assessment of the situation.

That could, and possibly should, involve the board seeking its own independent legal advice about the merits of the case, which shouldn't just be about whether the case is winnable. It should include an assessment of what's the right thing to do. Where parties have been wronged, it should consider the organisation's responsibility to address that wrong.

There should also be a careful weighing-up of broader factors, particularly the potential for reputation damage. How many organisations have doggedly won the legal battle only to find they have lost miserably in the court of public opinion? The Post Office manged to lose both the legal case and its reputation.

Many questions remain about the role of the numerous directors who oversaw the Post Office saga as it slowly unfolded. These will perhaps be answered over time, but maybe the more important question is, 'Where are those directors now?' – because it would be foolish to think the governance failings that enabled the Post Office scandal only existed there, wouldn't it?

Nature's Boardroom

Nestled in harmony within Glenorchy's stunning alpine environment, The Headwaters Eco Lodge is the perfect setting for meetings, leadership retreats or as the ultimate incentive destination.

The Headwaters Eco Lodge is New Zealand's, and the world's, first visitor accommodation to be designed, built and operated based on regenerative design principles to Living Building Challenge (LBC) standards.

All elements of the lodge have been thoughtfully designed to enhance and respect the natural environment, so much so that The Headwaters Eco Lodge has become synonymous with sustainability and regenerative practices.

Comfort and style are not compromised and the net positive energy boutique accommodation encourages and inspires guests to take a moment, appreciate their surroundings and recharge.

From the purposeful use of non-toxic construction materials and cutting-edge technology to reduce water and energy, to the lush native plantings and exceptional garden-to-table dining at The Headwaters Dining Room, the attention to regenerative detail is thought-provoking.

"The lodge is also gaining a reputation as a premium provider of corporate meetings," says Business Development Manager Paula Buchanan.

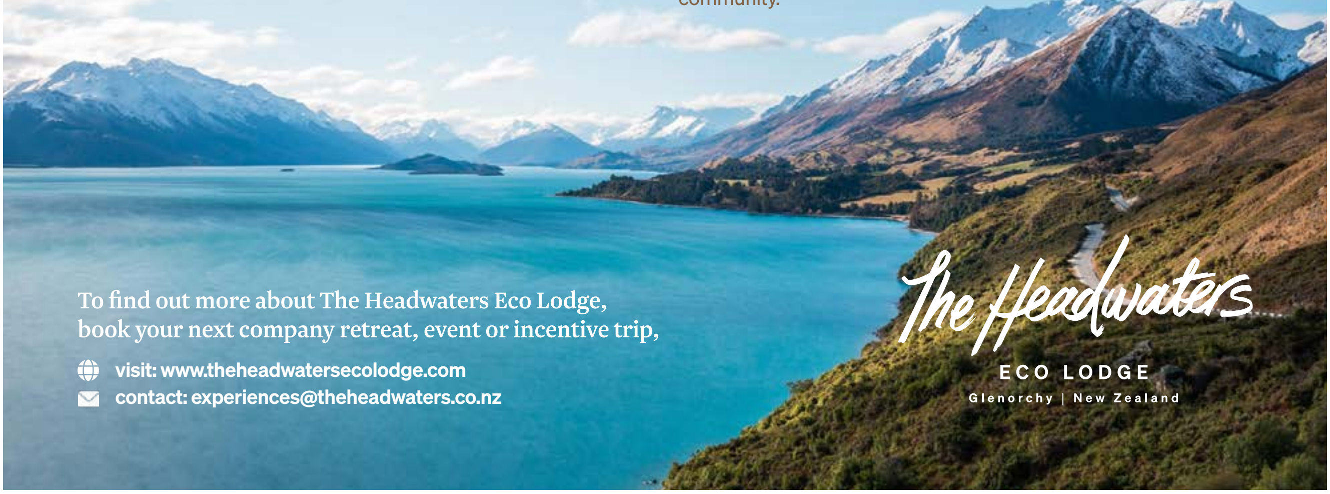
"When business or leadership groups stay here, they're able to escape all distractions, inspired to refocus, nourish minds and bodies and let creativity flow in 'nature's boardroom'."

Accommodation at the lodge features 14 elegantly appointed premium eco chalets and a three-bedroom house, while the main lodge building is home to a sunroom, lounge, dining room and a dedicated meeting space with breakout rooms and the latest technology.

Guests indulge their tastebuds at The Headwaters Dining Room, where the Chef's Choice dinners and our sample group menus are seasonal and garden-to-table. Fresh, local produce, herbs and flowers are all grown and handpicked from the kitchen garden and state-of-the-art solar-powered greenhouse.

An outdoor Scheelite Shelter with roaring open fire and a rustic setting under the night sky often proves a highlight with visiting groups.

Founded by philanthropists Debbi and Paul Brainerd, The Headwaters Eco Lodge established a locally administered charitable trust which funds vital projects for the wider Glenorchy community.



To find out more about The Headwaters Eco Lodge, book your next company retreat, event or incentive trip,

visit: www.theheadwatersecolodge.com

contact: experiences@theheadwaters.co.nz

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How lift-off was achieved

AUTHOR:
PATRICIA THOMPSON,
FREELANCE WRITER

Unique partnership for Rocket Lab's satellite launch site based on embracing kaupapa Māori values and principles.

When George Mackey shared his governance experiences at an IoD Company Directors' Course he wasn't expecting the level of interest it created.

As former chair of the Tawapata South Incorporation management committee, Mackey led the process of partnering with Rocket Lab to host a satellite launch site on part of the Māori entity's land at Māhia Peninsula.

"There was a very diverse mix of participants on the IoD course, including a number of CEOs and CFOs, so I wasn't sure what I could add to the conversation," says Mackey. "But people were really interested and wanted to hear more about the process we worked through."

Essential to that successful process was the two organisations embarking on a journey together, with kaupapa Māori values and principles placed front and centre, and a clear focus on how the relationship would work effectively into the future.

"The interest from people on the course made me think more about the value of having board members providing a Māori perspective on the boards of non-Māori organisations," says Mackey.

"The Māori economy is now around $70 billion so if an organisation or business wants to be succeeding in New Zealand they have to consider having a relationship with Māori business and having that Māori context on the board because there is opportunity there."

Mackey has significant experience in Māori public policy, having worked for Te Puni Kōkiri for more than 19 years. He is currently regional director for Ikaroa-Rāwhiti.

His governance work has included 10 years as a member of the Tawapata South committee of management, two as chair, before stepping down three years ago. He also served on the Māori relationship board for the former Hawke's Bay District Health Board.

Tawapata South has 1,700 shareholders, descendants of Polynesian voyages who settled in the area centuries ago. The land is also home to a large sheep and beef farm, but the committee had recognised the need for diversification.

However, after Rocket Lab founder Peter Beck approached them, identifying the location as ideal for his unique venture, a huge amount of work was needed before

“You have a Māori incorporation and 10,000 acres of Māori freehold land you have hung on to post Treaty. That is significant, so shareholders are going to be risk adverse and do everything they can to protect and retain that land, environment and cultural sites sustainably for future generations.”

George Mackey

the committee and shareholders could be confident the arrangement would meet their commitment as caretakers of the land.

While Rocket Lab, New Zealand’s only commercial space launch company, embraced those values and requirements wholeheartedly, Mackey says Māori perspective is not always well understood in business.

“You have a Māori incorporation and 10,000 acres of Māori freehold land you have hung on to post Treaty. That is significant, so shareholders are going to be risk adverse and do everything they can to protect and retain that land, environment and cultural sites sustainably for future generations.

“When we got the offer, it required quite an unusual fiscal review. There was the opportunity and potential but also so many other values around that from the kaupapa Māori point of view.

“It is a significant stretch of coastal land. We had to look at how the proposal would be viewed by shareholders, by the wider community and in iwi politics, which is strengthening daily as iwi has a voice at an increasing number of tables.

“We had to carry all that along the pathway and the committee had to work hard to ensure our values were aligned and to bring the shareholders over to being confident of that.

“There was a strong feeling of wanting to help a fellow New Zealander to do something quite amazing, but it had to tick all the boxes, not just as an opportunity and fiscal framework but also our values as Māori landowners.

“It was a long process – about 10 months of talking before we reached a commercial agreement and then three years before the first launch in 2017.”

Initially, a draft agreement bounced between respective lawyers for some months. “It was costing quite a lot in legal fees and not quite hitting the mark. With respect to the legal firms, no one had ever negotiated a rocket launcher site on New Zealand land before,” Mackey says.

“We sat down with Peter and went back to the first principles, and that is where the Māori perspective came in. We said, ‘we want to help you to be the best launch facility you can be – and they said, ‘we want you to be the best farmers and the best Māori organisation you can be’.

“We made so much progress and from that one day we ended up with a commercial agreement based on reciprocity and our shared dual outcomes.”

A decade on, the enduring effect of that careful future-focused process is clear.

Taking a long-term view, Tawapata negotiated a royalty payment for every launch. It also entered into a 21-year agreement with Rocket Lab, set out as a series of three-year leases, with six rights of renewal.

“Every three years everyone sits down to talk about how the system is working and if we need to make any changes. That provides more control to the farm and for Rocket Lab, and a potential ‘out’ on either side if required.”

The corporation now earns more revenue from the Rocket Lab relationship than from farming, Mackey says. “That is good for the shareholders. Many farms are expected to make a loss this year, so the Rocket Lab funds are particularly important during the hard times.

“We now have a full commercial launch facility on the land that we get better than commercial returns from. There have also been by-products, such as some good infrastructure that government has supported, including roads upgrades, power supply sustainability and reliable internet.

“Rocket Lab also provides a scholarship covering study fees up to $20,000 for students with whakapapa to the site or from the wider Wairoa community, who are studying science, technology, engineering or maths.”

How to make boardroom learning deliberate

AUTHORS:
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Photo by:
Geranimo on Unsplash

Seven learning practices provide an integrated process of collective board learning.

Is your board effective without deliberate learning activities? If learning is not an explicit activity, its absence could be responsible for constraining the board's effectiveness.

Boards often look to increase their effectiveness either reactively when circumstances change in the environment within which the business operates, or proactively by, say, adding or changing a member or members.

In the latter case, the assumption being made is that board performance is limited by one or more of the directors or a combination thereof. That assumption is not unreasonable given that board composition is promoted as a panacea for many of the supposed boardroom ills. But few boards appear to proactively look to increase, let alone maintain, their effectiveness through continuous learning practices.

Proactive explicit learning practices maintain a board's self-awareness. Is self-awareness not a one-off matter? No. Because few boards operate in a stable and static environment. Change is pervasive and persistent.

For example, a lack of awareness of growing hubris can result in the board accepting – arguably succumbing – to intolerance of scrutiny: a sign of board dysfunction. Once self-awareness is dulled, board dysfunction is more likely to go unchallenged – much like a yacht approaching the proverbial unknown reef.

Persisting with the yachting analogy, continuous explicit learning is like the helmsman making a decision to minutely change direction and synchronously reflecting on that steering's impact. Moment by moment. Little by little. Just like the sail trimmers continuously tuning sails to maximise a yacht's performance in response to the existing and oncoming conditions. The total alertness to performance.

Should the board be alert to its own performance and effectiveness? Moment by moment while in the boardroom, collectively reflecting on its decision-making? Something that can only be undertaken by the directors themselves, individually and collectively?

If the board is able to affect organisational performance, then a dysfunctional board also affects the organisation's ability to fulfil its purpose. So when there are challenges to organisational performance each challenge emerges as a direct challenge to the board and its very effectiveness. In this age of unprecedented organisational problems and opportunities, boards must change in tune with, and in advance of, the organisation's needs and the opportunities they wish to create.

The board must maintain its alertness to its ability to perform: its self-awareness alongside of, and in anticipation of, that change. Organisational sustainability is dependent upon board effectiveness being sustainable, of which board learning appears a key, if not the key collective attribute.

Our research shows boards have an opportunity to embed explicit learning practices enabling them to maintain and increase their effectiveness. It shows effectiveness is developed quickly through the deliberate adoption of intentional learning practices.

When learning became an intentional practice, awareness of the learning's why, what and how came into focus (the board's double-loop learning). That awareness sharpened the board's focus on the changes they were making to their own effectiveness and what they could do next to further increase that effectiveness. When the mode of learning changed from reactivity to proactivity, the boards felt in control of their own effectiveness and their ability to anticipate and meet internal or external challenges.

"Organisational sustainability is dependent upon board effectiveness being sustainable, of which board learning appears a key, if not the key collective attribute."

That is not control in a hubristic – arrogant – sense but control in a learned sense. One steeped in wisdom. There is a clear distinction here between these two behaviours. Both result in a board observed to being in control, evidently unflappable. Only one of which emerges from learning, knowledge and the resulting wisdom created and subsequently shared.

So what does intentional learning and development of board effectiveness look like? There are two interdependent learning functions of directors on boards. Learning by the individual director, occuring independently of others (inside or outside of the board), and learning by the board as a collective.

The research identified seven core board collective learning practices:

1 **A learning and/or board development plan:** Adult education research has shown that learning and/or development requires three concurrent elements: content, motivation, and a process of interaction. Content refers to the knowledge, understanding and skills being developed; motivation refers to the volition that the directors have to make the next decision; and interaction being the action, communication and cooperation they use. The first practice guides the board in the content it needs to maintain and develop for its collective efficacy. A good board evaluation should produce a number of ways the board can develop itself, and when prioritised, should form the basis for the learning plan.

2 **A designated boardroom learning coordinator:** Arranges the interaction needed for learning and/or development. The learning coordinator must be one of the board members, and take responsibility to ensure learning and/or development continues

to happen – both individually and as a collective. The coordinator may facilitate that learning, or on occasions may ask a subject matter expert to guide the learning. That expert could be among the directors, within management or external to the business.

3 **The creation and maintenance of a 'safe zone' for robust discussion:** This provides the 'rules' for how all interaction happens around the table. It is an agreed set of behaviours to which the members hold each other accountable and by which they can scrutinise themselves, challenge hubris, and channel it for the good of the organisation. A safe zone isn't necessarily warm and comfortable, but it is a safe place and space – the boardroom – that provides an opportunity for robust discussion, challenge, learning, and development.

4 **A board culture of learning, development, and continuous improvement:** Such a culture is effective when it becomes part of the DNA of how the board works. Without this culture the motivation to keep learning, developing and improving eventually dissipates. Learning and development should challenge directors' desire to maintain the status quo and requires their humility to admit there is a lot they don't know.

5 **The inclusion of an explicit learning/development item in the agenda of every meeting:** This ensures content makes its way from the learning plan to the boardroom and keeps the learning focus alive. It could simply be a restatement of something that would have been in the agenda anyway, but the language changes to one of learning as opposed to decision-making.

6 **The board scrutinises its own collective efficacy at the end of every meeting:** This ensures the evaluation of every board meeting is an interaction that produces learning and development. For example, how the board operated and how each member behaved with respect to the agreed safe zone. Members can take turns to evaluate each meeting. Everything is open to scrutiny, other than the wording of the decisions and actions upon which the board has just agreed.

7 **A methodology for learning from experience, such as from past decisions (whether good or bad):** Deliberate learning from experience is another form of interaction that produces vital learning and development. The board reflects upon and scrutinises how past strategic decisions were made and actions agreed upon in light of the results. Reflection provides the means through which directors distil their experiences into something from which they can learn.

> "A safe zone isn't necessarily warm and comfortable, but it is a safe place and space – the boardroom – that provides an opportunity for robust discussion, challenge, learning, and development."

This article is a result of a study of board learning by Peter Allen CMInstD – involving 26 directors and trustees representing 26 entities – and research on corporate governance at the Massey Business School over the past two decades.

The adoption of explicit board learning practices is not especially common. This may be due to a lack of knowledge about the practices and their benefits; a shortage of time in board meetings; or hubris often encountered among directors and boards.

Developing an awareness of the seven practices and creating time is easy. There is no paradox, explicit board learning practices should, over time, reduce the time taken in meetings because effectiveness increases. As effectiveness increases, alongside awareness, hubris and a resistance to learning ought to also decline. A virtuous circle of practice is created and maintained as the thirst for learning embraces board practice.

A deliberate boardroom learning or development focus may appear to be yet another layer of something to implement not core to the business itself. On top of greater compliance regimes in free-market economies, such a reaction is not surprising. Except that a learning and development focus is neither new, nor another layer. It is an unambiguous restatement of the board practices that lead to continuing collective efficacy and subsequent organisational performance.

Here are the fresh perspectives to help us prosper

For New Zealand to thrive, we need to bring our brightest young minds into our organisations – we simply can't afford for them to be hindered by their socio-economic status. The key to unlocking a prosperous future is addressing inequity in education. Fortunately, the work has begun; our task is to run with it.

At 24 years old, Steve Carden saw that not everyone had the same opportunity to succeed at university. In 1998, he launched the First Foundation to tackle the problem head on. Its unique scholarship provides comprehensive support — mentorship, work experience, financial assistance, and a strong network of connections.

Twenty-five years later, 1000 scholars have proven that all they needed was a hand up. Their success is rippling throughout society; most of these young people were the first in their families to attend university. They've been trailblazers; their siblings and peers are now following in their footsteps.

First Foundation's impact is profound, helping to break the cycle of poverty and equip students with the skills and networks necessary to excel at the highest levels in industry.

Businesses in Aotearoa New Zealand are on the cusp of reaping the benefits. This new generation of educated, resilient young people is ready to give back and take us all forward.

Support from our scholarship partners has meant that in 2024, First Foundation awarded 90 scholarships – the biggest cohort so far. The reward to business is immediate.

Gareth Marriott, Managing Director - Australia & New Zealand at OCS Group, which has supported 10 scholarships, says, "It's about the impact this programme has, not only on a family but also on our business. The pride we feel when we see the growth in our scholars over the four years is immense, they are a part of our family and we feel so lucky to be a part of their journey."

As leadership teams and boards, we stand to win. These alumni bring different perspectives because their journeys have been different. They reflect and can relate to the rich diversity of New Zealand's future workforce. They're prepared to challenge the status quo, embrace opportunity and work for a better future.

There's only one drawback: there's not yet enough of these young people to go around.

Every year, the First Foundation turns away at least seven eligible students for every scholarship that we're able to offer. The need for scholarships greatly outweighs our ability to supply them. This is despite the evidence that companies with top-quartile diversity in teams and boards are up to 27 per cent more likely to outperform financially (McKinsey, 2023), have 19 per cent higher innovation revenue, and 9 per cent greater EBIT margins (HBR, 2018).

Supporting a First Foundation scholar is an investment in a prosperous future.

"We can't create a high-performing economy while our kids' future is determined more by their postcode than their potential."

Steve Carden,
First Foundation Founder
and IoD member

If you'd like to be involved or find out more, please contact Amanda Gilchrist:
amanda.gilchrist@firstfoundation.org.nz

FIRST FOUNDATION

Not your traditional scholarship

Like a duck to water

Shannon Wright MInstD quickly finds her feet and earns a place on the Bone Marrow Cancer Trust.

AUTHOR:
NOEL PRENTICE

Shannon Wright MInstD made quite an impression when meeting her board for the first time. She had done her research and recognised some names on the Bone Marrow Cancer Trust, one member in particular.

"I was super nervous walking into the boardroom for the first time, thinking will I get on with this group?" she says. "And then there was this funny moment because one of the trustees used to live down the road from me when I was a child.

"I said, 'I know you. I used to live down the road and you paid me to come and feed your ducks and chickens'. And he says, 'Oh, yes, I remember'."

Then came the icebreaker: "Full disclosure," Wright says, "since we're about to sit around the boardroom together. When you weren't there, I used your pool. And he says, 'fair enough, at least someone used it'."

With the ice broken, Wright took her place at the table and then the learning came fast. "It's quite nerve-wracking. You have it in your mind that the buck stops here.

"They were quick to stop a meeting and ask, 'Do you understand why we're doing this? And what do you think about this?' I thought I would just observe but it was very much that my opinion mattered – and from the start, which was amazing."

By the end of the first term Wright says she felt like she had worked her way into the team and could ask whatever she wanted without feeling like it was a stupid question. "They extended my internship and when one of the board members had to step down, I was asked if I would be willing to put my name forward."

Wright recalls an awkward moment where she had to step out of the boardroom so they could vote on her appointment. "I came back to the room, and everybody was smiling and happy. It was a lovely moment."

Wright's governance career had begun. But she already had plenty of exposure to the boardroom, reporting to and informing boards in her role as a professional health and safety consultant.

"I just naturally had it in my mind that I wanted to go into the governance sphere. I just didn't know how that was going to work, so I carried on doing my thing."

An observer role on the New Zealand Institute of Safety Management board had earlier piqued her interest and then being confronted by a board member asking: 'What is it you want to achieve?'

"I'm just really interested in how things work," Wright says. "I'm from health and safety. I'm not really about the operational aspects of health and safety. I'm about the strategy and the culture of an organisation and its people, and I just want to see how these things are being influenced and the messaging being pushed from the top down.

"He said, 'OK, you know the traditional board has always had your standard lawyer and your accountant and so on'. I said, 'Well, how am I going to get here. Realistically, I'm just focusing on health and safety at the moment, so what's my next move?"

Understanding she needed to add more to her offering, Wright enrolled in an MBA at the University of Canterbury, and through its partnership with the Institute of Directors, she became aware of the First Steps in Governance programme.

She threw her name in the hat, impressed in her interviews and was then assigned to a board. "You don't get to choose your board, but I hit the jackpot – the Bone Marrow Cancer Trust," she says.

"On the first day, CEO Mandy Kennedy put her arm around me and said, 'We really need you here. We're really interested in what you have to say. Come and meet everybody'. and I remember her saying, 'I bet you end up being on our board'. They just threw the doors open and welcomed me in; they are just a fantastic team."

> "They were quick to stop a meeting and ask, 'Do you understand why we're doing this? And what do you think about this?' I thought I would just observe but it was very much that my opinion mattered – and from the start, which was amazing."

Wright says she made it quite clear early on that she did not want to be shoehorned into a health and safety role. "I have owned two businesses and I've worked in leadership teams, and I feel I have more to give than just health and safety.

"I've been involved in many discussions and decisions, whether it's about budget, sustainability, systems implementation, remuneration review . . . it's all-encompassing. My opinion is asked for and also valued."

She says the trust's board has already driven a huge amount of change, including diversity. "They have already shaken the tree and have diversity on the board, but the big question now is what does diversity actually mean and can we do more?"

She is also prepared to roll up her sleeves and help – "I know the general rule for a board is 'noses in, fingers out', but it's a little bit different on a not-for-profit".

The trust is focused on finishing a new apartment facility, boasting 43 two-bedroom apartments, to help take the pressure off Rānui House. It is expected to open later this year.

"That means we have to look seriously at our funding models, our budgets, our resourcing and systems to manage what is essentially a dual site now," Wright says.

"There are two organisations and two parts to our board – the Bone Marrow Cancer Trust, which is where we provide the accommodation for patients undertaking medical treatment, and the Bone Marrow Cancer Research Trust.

"Our immediate mission is to support families who are going through treatment and staying away from home. But we are now looking at how we generate more funding into the trust, which is something we are passionate about."

"Our immediate mission is to support families who are going through treatment and staying away from home. But we are now looking at how we generate more funding into the trust, which is something we are passionate about.

"It's not just dealing with the ambulance at the bottom of the cliff, but how do we be more proactive? It's an exciting board to be part of because it's dynamic."

Wright believes ESG and sustainability will become an even bigger focus for boards in the future. "I've just expanded my business to focus in on the ESG space, it's the area that I am passionate about and it's also part of my personal growth.

"The other part of my future is, can I lock down some more board roles? What can I give to other organisations? I have 20 years consulting across multiple industries and at multiple levels and I feel like I have a lot more to give."

CEO Kennedy says Wright was the standout candidate in the selection process, exceeding all the criteria laid out by the trust to the selection committee and in her in-person interview. "Her selection to become a trustee on our board speaks volumes about the impact she made during her time as a FSiG intern."

Kennedy says Wright has enriched board discussions with her dedicated expertise and insightful contributions, offering new perspective and helping drive informed decision-making. "She has a proactive approach and commitment to excellence which overall have strengthened the board's effectiveness and enhanced its ability to fulfil its responsibility.

"This is our first foray into working with the FSiG programme. It has been highly rewarding and exceeded our expectations. We look forward to continuing our partnership to achieve even greater success."

STEP IN THE RIGHT DIRECTION

The First Steps in Governance Award provides opportunities for young professionals at the start of their governance journey to gain experience in the not-for-profit sector.

Established by the Canterbury branch in 2014, it includes a NFP governance internship and mentoring from an experienced director/IoD member, plus complimentary IoD membership, local event attendance and funding for a one-day Essentials course.

Eligible recipients must not have held any substantial board roles, but can have experience on local sports, schools or community boards or trusts.

Applications for the next award will open in early September. It is open to both IoD members and non-members residing in the Canterbury/Mid-South Canterbury and West Coast regions.

Raising the bar in the Cook Islands

> "One of my fears was not knowing what I didn't know. I feel I have gained a better overview of what it takes to be a good governor and a stronger sense of direction when it comes to my governance roles and where I see myself fit in."
>
> **Ashleigh Steele**

AUTHOR:
NOEL PRENTICE

The first CDC outside New Zealand provides a springboard for aspiring directors in Rarotonga.

The first Company Directors' Course held outside New Zealand has lifted the sights and standards of aspiring directors in the Cook Islands, with Deputy Prime Minister Albert Nicholas also keen to sharpen his skill set.

The course attracted more than 20 participants, most from the state-owned Cook Islands Investment Corporation (CIIC), which manages all the government's assets on Rarotonga and outer islands.

One of the participants, Ashleigh Steele, says the course gave her confidence in understanding the bigger picture. "One of my fears was not knowing what I didn't know. I feel I have gained a better overview of what it takes to be a good governor and a stronger sense of direction when it comes to my governance roles and where I see myself fit in.

"The dynamics in the boardroom are key, being able to share different points of views are very important, and that this can be done in a respectful way," says Steele, who is on the board of government-controlled water authority To Tatou Vai and is a member of two school boards.

CIIC director Rohan Ellis says the course has given him the confidence to think about a chair role. "I was fortunate to act as chair in a board simulation exercise and this experience has given me confidence to step up as a chair of a future board."

Ellis has served on boards as an ordinary member for the past 12 years without formal governance training, he says, relying on professional experience to guide him in etiquette, engagement and decision-making.

"The CDC reaffirmed my personal understanding of governance, but more importantly it has helped me appreciate the breadth and depth across all facets of business, from vision development to reporting and evaluation. I now understand the far-reaching impacts good governance can have on an organisation."

Nancy Matapuku, the deputy chair of the Cook Islands Airport Authority, says the course came at the right time for her, having first become a director in 2020.

"The in-depth study and live board simulations helped me shift my mindset into a governance role, away from the operational or management side of the business, which for me as a small business owner proved challenging at the start.

"The role is to oversee, to have a 'noses in, fingers out' approach, much like a helicopter as it hovers over a landscape,

"The role is to oversee, to have a 'noses in, fingers out' approach, much like a helicopter as it hovers over a landscape, and ensuring there is a strategic plan in place that can be realistically executed, alongside effective policies to guide this."

Nancy Matapuku

For more information about the Company Directors' Course please visit us at **iod.org.nz** or contact us on **0800 846 369**.

and ensuring there is a strategic plan in place that can be realistically executed, alongside effective policies to guide this. We were given a broader perspective of boards in New Zealand and the professionalism that is required to perform at high levels."

Matapuku, a qualified financial accountant, says one of the most important takeaways was that managing and demonstrating high levels of emotional agility is equally important as having high levels of intellectual agility.

"It is our responsibility to bring our best to the board table at each meeting, being present and prepared. And ensure that as a board director we each have the responsibility to foster levels of respect and trust which allows each director to express an opinion. Constructive and robust discussions should be facilitated so good decisions can be made at the board table."

Being thrust into the role as a chair in the board simulation was a little daunting at first, she says. "However, it gave me a taste of facilitating an actual board meeting and how to manage personalities. The challenge was understanding how to activate each board member, facilitate a constructive debate so a decision can be made that is balanced and in the best interest of the entity.

"Towards the end of the board simulations there was a sense of collective accomplishment, and the confidence I gained was truly rewarding. The skills learnt and the tools provided have given us all a springboard."

Caren Rangi MInstD, a course facilitator and member of the IoD's Pacific Advisory Group, started a director development programme in the Cook Islands eight years ago and the CIIC's involvement showed they wanted to do "things right".

"Most of the people on the course already had a foundation in governance, starting off with the Essentials' suite about five years ago. And the bulk of them were connected to the CIIC.

"This was the first time there's been such an intensive course – five and a half days – and I was impressed by their level of commitment and engagement. They appreciated this opportunity right on their doorstep."

Rangi, a New Zealand-born Cook Islands Māori, says the heightened learning came in the board simulations and participants exercising and testing their styles of governance alongside their peers.

"They've all been involved in strategic planning on their boards, but this was probably the first time they got a chance to really tease that out. What does effective strategic planning look like and then being able to practice it in their sessions.

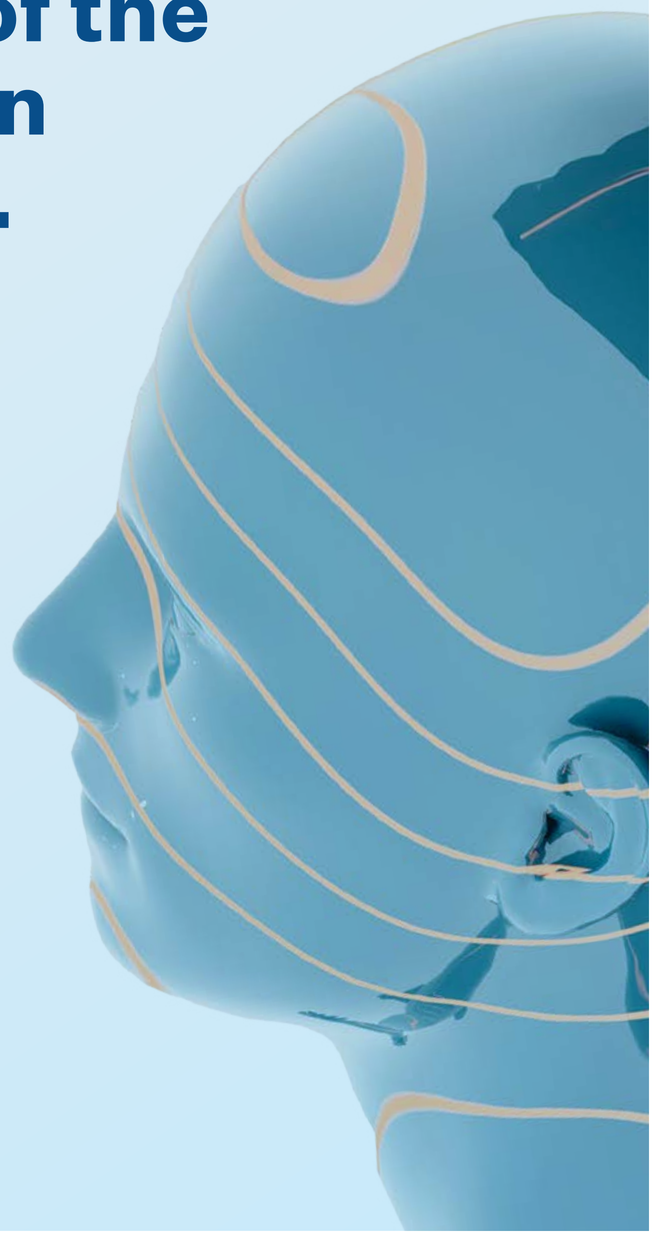
"Finance tends to be an area where people get quite nervous because it seems far more technical. It's that balance between saying to people you don't have to be an accountant, but you do need a minimum level of literacy. And this is what that looks like. So again, a chance to test it out."

Another important aspect involved legal liability, acting out scenarios, with a local lawyer bridging the gaps between New Zealand legislative requirements and what is the same or different in the Cook Islands.

The course attracted media and TV attention, with Deputy Prime Minister Albert Nicholas, who is also the Minister responsible for the CIIC, showing his interest.

"He's sitting at the biggest governance table in the country, but he made the point that no one is trained in governance, having gone into politics. And he's quite keen to do the next course," says Rangi, who was "thrilled" to be involved with the first CDC delivery outside New Zealand, and "probably even more chuffed" it was in the Cook Islands.

The IoD will stage another CDC in Rarotonga from 24-29 November.



The gift of giving

Behavioural change champion Tracey Bridges MInstD takes inspiration from working with adult learners.

AUTHOR:
SONIA YEE

The wild weather and scenery around Wellington's South Coast provide the perfect setting for Tracey Bridges MInstD to gather her thoughts and get a fresh perspective. A regular volunteer in her spare time, the director is involved in adult literacy and numeracy tutoring, working every Friday with three to four learners, mostly based in Porirua.

"The adult learners I work with inspire me for their courage, strength and perseverance," says Bridges, who is drawn to volunteering because of the positive and "almost immediate" difference it makes in people's lives. Whereas with governance, the manifestation is much slower.

"Sometimes, it's only when you stop and look back that you can see how far you've come," she says.

Driven by a desire to leave the world in a better place, she volunteered in a prison, too, an experience that left a deep impression and a reminder that not everyone's worlds are created equally.

"It's hard to be present in that environment for very long without realising the value of the gifts you were given in life, and the lasting impact of the absence of those gifts for others," she says.

Bridges is the chair of Education New Zealand and WellingtonNZ, and also sits on the Whānau Āwhina Plunket board, The Good Registry, Digital Media Trust, Wellington Regional Stadium Trust, and WELLFed.

As part of the Prime Minister's trade delegation to Southeast Asia in April and seizing a "great opportunity to represent Education New Zealand", she says a speaker at an event in Singapore struck a chord with these four words – 'Act fast, think long'.

"That phrase really made sense to me because that's what we do in governance all the time – you have to act fast and do what's in front of you. But you have to combine a visionary thought process so your actions aren't accidentally taking you in a direction you don't want to go," she says.

With each of her boards different in size and complexity, Bridges brings that thought process, clarity of thinking, care for people and a focus on purpose to her roles. She says she is always mindful about not being stretched too thin, referring to a couple of the boards as smaller, less-complex entities, making it more feasible to give quality time to each one.

One of the biggest challenges for many directors today is preparing for what's coming next – the intangible and the unknown. That makes staying the course difficult at the best of times,

"You're never going to get it 100 per cent right, but you have to keep trying . . . and it's the quality of thinking you bring with an eye on the future that makes a difference."

but directors now are more attuned to rapid change following major climate events, the pandemic, and the quick-fire evolution of AI.

Larger organisations might be more readily equipped to prepare for what's next, with the caveat that it will bring change, and for bigger organisations it will have far reaching implications, according to Bridges. Conversely, for smaller entities there are limitations that get in the way of necessary future planning.

"I don't work with a single organisation that has any fat in its budget," says Bridges, who stresses that it is still a necessary part of the board's annual cycle. "You're never going to get it 100 per cent right, but you have to keep trying . . . and it's the quality of thinking you bring with an eye on the future that makes a difference," she says.

She believes that continuing to learn more about the world, people, and the organisations you are leading can help facilitate rigorous discussion, and that diversity at the table can help the board plan for the future, going hand-in-hand with stakeholder values and understanding their needs.

"The more similar the thinking and life experiences of the board members, the greater the risk of being blindsided by a change you didn't see coming," she says.

This is where the chair role becomes pivotal for the organisation's ability to move forward, and Bridges looks at the qualities of the person leading the board before joining; assessing whether they are leading for change and setting the tone for an open and constructive board culture.

"When you've got that in place, the board can do anything. But getting your board ready for that is a challenge that requires continual thinking because you can't say, 'I've seen the future once, I'll set my board for that' and then stop," she says.

Succession planning for the chair role is also vital and needs to happen at the right time in the organisation's cycle. She knew when it was her turn to do just that and successfully succession-planned herself out of a role on a charitable trust board.

"I became its chair at a particular time in its cycle and did the things that needed to be done. But we got to a certain point where I could see what needed to happen next, and my skills weren't quite right for the next phase."

From a capacity perspective, there were other things she wanted to pursue. Having her eye already on the perfect candidate to fill her shoes, Bridges aided the transition and remained on the board while the new chair settled in.

"It's been a delight to see how that was the right thing to do. She's doing an amazing job of guiding the organisation to the next place and I'm still able to contribute and support her in that work," she says.

Having that kind of vision takes courage. She says at any one time, a director can have a very clear sense of their contribution, while at other times that may not be the case, adding that if a director isn't clear on their contribution, they need to either adjust it, or consider whether they're still the right person for the role.

Getting the right CEO in place can also create forward momentum.

"An excellent chief executive officer will lead that thinking in the organisation, and from a governance point of view, we have to ask ourselves, 'What is our own thought process, what is our agility, what is our openness to change?' "

She cites the Whānau Āwhina Plunket board as an example of an organisation that has fully embraced change led by the board, including becoming "a stronger bicultural organisation that orients towards pro-equity".

"I became its chair at a particular time in its cycle and did the things that needed to be done. But we got to a certain point where I could see what needed to happen next and my skills weren't quite right for the next phase."

"It's clear we have health inequities in this country and as a health organisation, Whānau Āwhina Plunket absolutely needs to be part of the solution for that," she says.

The arc of that shift has been huge for the organisation, involving a process of addressing the makeup of the board, ensuring it has the right skill sets and includes people from the communities it serves. Change is fundamental to remaining relevant and meet the future needs of the organisation, and Bridges reinforces that while it might seem counterintuitive, change can bring stability.

"Succession planning and future thinking is continual and our own self-reflection and thinking about our contribution also has to be continual, too," she says.

To be future-ready, she emphasises a need to think ahead when it comes to board appointments and think well ahead of the person who has just left and "replace for the next change".

"When people leave a board, you lose important skills . . . so if you replace them for the next change, you create a better ability for continuity and to really learn about the organisation as it's evolving."

Having seen the positive outcomes of succession planning and the role diversity plays within it, Bridges is matter of fact about what that really looks like.

"Having true diversity on a board can be very challenging, but that very challenge is what makes it great. I don't think you can overdo diversity, but it's remembering as a chair, that you have to make room for those different discussions that will take place – that's how organisations stay ahead."

Young director Josiah Tualamali'i MInstD is a driving force for mental health and wellbeing needs.

Community wellbeing at heart

AUTHOR:
NOEL PRENTICE

At the age of 14, Pacific community elders in Ōtautahi Christchurch saw the potential in Josiah Tualamali'i MInstD and his peers, creating a leadership programme so the young teenagers could bring their voices and experiences to create a better world around them.

At 16, Tualamali'i was on his school board as the student trustee and then bringing his frontline youth advocacy to several roles. By 2018, at 22, he was one of the six-member panel and co-author of the government Inquiry into Mental Health and Addiction report, 'He Ara Oranga' (pathways to wellness).

He also co-led a petition with his friend, Benji Timu, to Parliament in 2021, calling for the special debate on the infamous Dawn Raids of the 1970s, part of the breadth of voices calling for a government apology.

He has worked with UNICEF and WHO in adolescent child wellbeing, assisting in the design and facilitation of conferences on mental health in Florence, Italy.

Now, the 29-year-old is co-chair of Le Va, a Pasifika wellbeing organisation; a director of Te Pou, a national workforce centre for mental health, addiction, and disability; and a deputy chair of the Rata Foundation, which empowers communities to thrive. He is also a Children's Commissioner and on the board of Mana Mokopuna, Children & Young People's Commission, which was established in 2023.

From those teenage years, which also include "supporting his peers to participate in democracy" through the Pacific Youth Leadership and Transformation Trust and on his school board, he says he revelled in being part of group decision-making and achieving outcomes for the long term.

"My first boards were around young Pasifika people's voices and eventually working into youth mental health and wellbeing, which led to the board of Le Va," says Tualamali'i, who is of Samoan, Scottish, Irish and Polish descent.

Being young worked in his favour, although he felt nervous when first joining his school's board and sitting around the table with a lot of wise and experienced people.

"I felt like I had to carry the youth voice all by myself – the pain young people were experiencing – and try to find a solution, but to know it's the board's responsibility to carry that . . . over time I've become comfortable with that."

"I felt like crying, but I held it in and tried to put on a brave face. I was encouraged by one of the board members who said I knew the students best, and I just needed to be confident that my perspective was enough. The board members helped me feel that."

During the mental health inquiry, Tualamali'i says he learnt one of his most valuable lessons in the boardroom. "There was a situation I wasn't confident about and one of the board members said, 'We carry everyone's voice'. The board members helped me come to the realisation that's the level of responsibility everyone needs to take.

"I felt like I had to carry the youth voice all by myself – the pain young people were experiencing – and try to find a solution, but to know it's the board's responsibility to carry that . . . over time I've become comfortable with that. We learn to understand our colleagues, through everyone sharing the responsibility," he says, stressing though that an aspect of making that happen is everyone taking personal responsibility for their own continued professional, cultural and board team development.

When he joined the Le Va board, he says they made no secret they wanted young blood "because they knew the largest population from the Pacific was young people and they didn't have direct influence on decisions the board was making, and they wanted to change that".

"The Le Va boardroom, and our board work, has been an incredible experience of mentoring. My colleagues put me forward in 2021, saying it was time I became one of the co-chairs. It's unlikely I would have felt ready if my colleagues had not said so."

Tualamali'i says co-leading a board is a privilege and serving firstly with Julie Nelson MInstD and now Shelley Campbell [at Te Pou] has helped him grow significantly. "Being surrounded by these quality leaders has helped me be more confident in my leadership style.

"At Le Va and Te Pou, I'm grateful that we can help the helper – our mental health and wellbeing professionals, clinicians and cultural workforces, as well as parents, coaches, teachers and community leaders – to upskill and be able to strengthen their service of their communities.

"In my previous work as a co-author of 'He Ara Oranga', we noted the data that underpins what we know about mental health and addictions prevalence in our communities is 20 years out of date.

"I don't believe it is possible to meet the mental health and addictions needs our communities face without a better understanding of the breadth of that need. Our work at Te Pou, responding to the Inquiry report to pick up that call and do background work to help enable such a piece of research in the best interests of all New Zealanders, is something I'm very proud of.

"I would encourage all directors to look into this work and encourage businesses, communities, and decisions-makers that we need this data to better serve our communities and that our mental health and addiction wellbeing needs are being met."

Tualamali'i says he has been the youngest person by 15 years or more on most of the boards he has served and he is concerned the boardroom does not appear to be getting any younger.

"It's not at the level I would hope. Maybe I'm wrong, but from what I see a lot of governance is viewed as something to do in mid to late career. I don't think that's in our best interests – in the boardroom or as a country. We're not setting ourselves up strongly for long-term quality governance for the future."

He fears a vacuum when "many of these wonderful leaders" are no longer with us. "If we don't find ways to transmit that knowledge our communities will be poorer. That's one of the beautiful things about Samoan, Māori and Pasifika communities – we pass things across generations."

He is passionate about communities and says what has happened in his career shows there are good people in New Zealand who care, and we should keep finding ways to share our thinking and experiences.

Armed already with the knowledge of having been on investment, audit and risk, and finance committees, along with access to IoD training, Tualamali'i is about to start an advanced health and safety module.

"Once I finish my Masters, I'll have time to get my Chartered membership. It's all about continual development," he says.

And continuing to encourage Pasifika to enter the world of governance. Many have the skills, he says, but may consider themselves unsuitable or restricted by language. "We can help with that."

> "Maybe I'm wrong, but from what I see a lot of governance is viewed as something to do in mid to late career. I don't think that's in our best interests – in the boardroom or as a country. We're not setting ourselves up strongly for long-term quality governance."

A disruptor and a transformer

The Lion Foundation provides an 'awesome learning environment' for tech disruptor Karl Rosnell MInstD.

AUTHOR:
NOEL PRENTICE

Some people surround themselves with smart individuals to look good. Tech disruptor Karl Rosnell MInstD did it to learn and grow.

As a new CEO responsible for 180 people at the age of 33, he was still coming to terms with that role, let alone the world of governance, and his first foray into a boardroom was with founders who were also company directors by design.

"They were very clever individuals and knew how to run their business, but I would say my original understanding of the world of governance, as it applies in the formulaic sense, was very limited – 'let's do what we've done before . . . but do it better'."

Fast forward nearly 15 years, and Rosnell is now the CEO of Devoli, a telco disruptor, and enjoying his first board role as a trustee at the Lion Foundation, where he also chairs the Northern Regional Grants Committee and sits on the technology audit and risk committee.

Rosnell was part of the IoD's Future Directors' programme, where he observed board meetings and contributed without being an official trustee until being formally appointed in August 2021.

He says he quickly learnt to separate the two roles. "As a CEO, you're focused on solving problems, but as a board member your job is to listen carefully and ask the right questions. The Lion Foundation board's effectiveness is impressive – meetings are polished, and the board members are well-aligned and understand how everything plays out in a complex industry. It is an awesome learning environment."

Rosnell says he has a close relationship with Lion Foundation chair Peter Kean and deputy chair Jackie Lloyd CFInstD. "They both have a great style of bringing the team together, canvassing the thoughts of the trustees, and carefully getting to alignment. It doesn't necessarily have to be 100 per cent agreement, but an alignment that this is the direction we're going in. That relationship is strong and has been brilliant for me."

This goes back to his truism: 'Surround yourself with people who are smarter than you'. "I know that sounds clichéd, but that's how I learnt," he says.

"The Lion board was well-governed around legal, financial and risk. All those boxes were well covered if you're looking at a matrix, but the business was lacking an outlier strength in the tech space.

"True leadership in the digital age means embracing technology not just as a tool but as a catalyst for growth and innovation. Effective governance ensures this transformation is strategic and sustainable."

Karl Rosnell MInstD

"I believe innovation and growth happen when you are uncomfortable in a trusted environment. The Future Directors' programme is a great initiative because it's about bringing in a range of perspectives but not necessarily fixating on what piece of diversity you're looking for."

Rosnell admits to being obsessed with digital transformation and the opportunities this presents for long-term sustainable growth, creating efficiency and relevance. He is a big advocate for using technology to solve business problems, both large and small.

"Digital disruption is not just a buzzword. It's about rethinking how we will do things better, faster, and more efficiently using technology.

"True leadership in the digital age means embracing technology not just as a tool but as a catalyst for growth and innovation. Effective governance ensures this transformation is strategic and sustainable."

Rosnell is also working with the Lion Foundation CEO in implementing a new IT and technology strategy. "We're on a journey because our business largely runs in the analogue world. It's still cash and coins that come out of poker machines.

"But through our whole process, harm minimisation is the key tenet of our strategy. We are always asking ourselves what we will do as a provider to the community to minimise harm. How will we use technology to make better decisions and be more efficient so we can return more to the community?"

When the board and committees meet to decide on where the money should go, he says, "there are robust conversations and people are passionate about where money should be spent. There's a strict governance element and a strong compliance around any perceived conflict of interest.

"It's a big responsibility and one the trustees take great pride in serving. It is about returning money back into the communities as fast as we can, making sure there are enough quality applicants and a great representation of recipients across a wide variety of sectors."

Back at Devoli, New Zealand's fourth-largest telco, Rosnell led the transition from owner/operator to professional management and eventually a full founder exit. Alongside the shareholders, he created an independent board to enhance governance and add key skills as the business embarked on a 10X growth strategy.

"By integrating cutting-edge technology and fostering a culture of innovation, we've been able to stay ahead of the curve and drive substantial growth – beating the telcos at their own game. Now, three independent directors, including an independent chair, sit alongside the shareholders focused on helping me build a great business," he says.

> "At its root, technology is not difficult, but it does need to be carefully considered alongside the existing trends and challenges of the business. Get people on your boards who can remove the fear and help you focus on the opportunities."

Having spent the bulk of his working life in the technology industry with a strong emphasis on sales and marketing, Rosnell says many businesses may be at a choke point where they are not sure about their next step or how to make it.

"There may be an IT manager who has a grand vision but doesn't have the resources or wherewithal, or whatever it might be, to be able to get it up the chain. And then you might have a board that is reluctant to take the risk. There could be many reasons.

"I would encourage people to bring more tech-focused directors or advisers or contributors to the board forum. Don't be scared of opening the net wider to capture that – people who have been there, done that, and have the battle scars and can add some value in the real world."

He says boards need to add directors or engage with people who have a digital-first mindset to help them break down the complexity and hyperbole that marketers are so good at creating.

"At its root, technology is not difficult, but it does need to be carefully considered alongside the existing trends and challenges of the business. Get people on your boards who can remove the fear and help you focus on the opportunities.

"You don't know what you don't know until you learn something new."

Backing the change-makers

AUTHOR:
REBECCA JAMES,
ASB EXECUTIVE GENERAL MANAGER OF BUSINESS BANKING

The world is rapidly changing. We are on the edge of major technological advances that will transform the way we live and work. Global population growth is driving food demand and climate change is impacting traditional food production and where and how we live in rural and urban areas.

In Aotearoa New Zealand, we have a housing crisis, an ageing population and declining productivity that urgently needs our attention if we are to maintain our great Kiwi lifestyle and quality standard of living.

We all have a role to play in shaping our collective future. At ASB, we are changing the way we bank, to help New Zealand and New Zealanders meet these challenges and deliver a better tomorrow.

Recognising the unique role a bank can play in supporting a country's progress, financial, social and environmental outcomes are being built into everyday decisions and long-term planning.

The Business Banking team banks one in five businesses in New Zealand. From sole traders and small family businesses to large-scale manufacturers and exporters, innovative food and fibre producers, farmers and rural customers, to Māori and iwi-led organisations, there are business relationships across the whole economy.

The role is to help customers embrace change and grasp the opportunities that lie ahead, and that means adopting a more flexible approach to lending.

Take for example, New Zealand's food and fibre sector. Built on a special relationship with the land, founded on kaitiakitanga, care and respect, the sector is vitally important to the economy. Food and fibre accounts for around 80 per cent of our merchandise exports and has a strong global reputation for sustainability, food safety and world-changing food innovation.

But reaching consumers offshore is capital intensive and, alongside a great product, requires connections, contacts and expertise.

ASB ACCESS supports high-potential food and fibre businesses to scale and embrace

Photo by:
Paul Campbell on Unsplash

ASB
ONE STEP AHEAD

international market opportunities. These companies include plant-based jerky producer Off-Piste Provisions; sustainable packaging provider Grounded, which offers plastic-free options for the food and consumer goods industries; Lilo Desserts, a circular business that turns imperfect fruit into value-add desserts; and Almighty Beverages, which is motivated to help support better drinking decisions through its healthy, clean beverages.

To support these early-stage companies, it means taking a broader assessment beyond simply looking at balance sheets to recognise the future potential if they are supported to scale at the right time. Alongside working capital facilities, participants will receive tailored trade support to ensure they can take advantage of export opportunities.

Jade Gray, founder of Off-Piste Provisions, says there is a mutual interest and desire to grow the food and fibre sector and that's exciting because it has huge potential for New Zealand. He adds that the programme engages with innovative and creative solutions for a startup that has unique and unconventional needs, and a willingness to share that risk and go on that exporting journey.

Alex Worker, founder of Lilo Desserts, says the programme has helped them build up a strategic working capital facility that's enabling their export strategy faster than what they could have done with other banks, or through dilutive equity fundraising in the current climate.

Another area of focus is housing. With around 30,000 people on the social housing waitlist, there is an urgent need for more homes to be built. Feedback from the residential property sector says the lending metrics were getting in the way of the development of affordable housing. To be an enabler of housing development and investment, the bank decided to think differently about how to lend.

The $500 million Accelerated Housing Fund supports the development of affordable housing, investment in social housing, and a portion of the fund is earmarked for Māori housing development and investment. Lending metrics and criteria were adapted to help get projects off the ground quicker and increase the access to and supply of houses.

> "Business should lead the charge by being more ambitious, embracing technology, adopting an international focus, and working together and sharing resources to drive innovation."

Community housing providers, private developers and industry bodies have all reacted positively to the fund, which has so far committed lending for several developments across affordable, social and Māori housing. By supporting the delivery of up to 1,000 new homes over two years, that could see around 4,000 New Zealanders living in warm, dry, healthy homes and building thriving communities.

Underlying many of the challenges we face is New Zealand's poor productivity performance. New Zealanders are working longer and producing less than counterparts overseas. We need to take action to ensure the future sustainability of providing essential services such as health and education.

Business should lead the charge by being more ambitious, embracing technology, adopting an international focus, and working together and sharing resources to drive innovation.

Business lending for productivity has been created to encourage and give confidence to leaders to make productivity investments and future-proof their business. As an extra incentive, business customers that take out this lending may be eligible for a productivity grant, paid at 1 per cent of the loan, up to $50,000.

Through this lending, customers have been supported to, among other things, extend their manufacturing facilities, centralise operations to improve efficiencies, and purchase machinery to increase product range and quality.

The bank is walking this path of change alongside customers and as a result, is more flexible, future-focused and determined to make a difference where it matters most for all New Zealanders.

ASB Bank Limited's lending and eligibility criteria, terms and conditions, rates and fees apply. Offer is subject to change and may be withdrawn at any time.

Avoid that own goal

AUTHOR:
LYAL COLLINS,
AURA INFORMATION SECURITY

With savvy cybercriminals trying new extortion models, businesses need to be continually risk-managing the moving goalposts.

Cybercrime is a business. And just like companies working on the right side of the law, the most successful cybercrime syndicates are innovating their operational model to generate more revenue per data breach.

Regardless of the industry, company size or brand, the challenges of identifying and qualifying cyber security risks into neatly labelled small, significant or 'company ending' categories are becoming much more complicated, as the threats and the consequential impact landscape changes.

Financially motivated threat actors will pivot and leverage their access to your systems and data to extract as much revenue as they can. The word 'revenue' emphasises the point that this is big business. The cybercrime industry is predicted to swell to an estimated US$10.5 trillion annually by 2025, making it the third largest economic force in the world after the US and China.

Ransomware, a type of malware that locks your digital networks by encrypting data and systems, is a good example of the evolution of cybercriminal behaviour. In a typical ransomware attack, cybercriminals hold a business hostage, only sending a decryption key if the victim pays a ransom fee.

This style of extortion model works a treat against companies with no data backups and recovery capabilities. For many years, targeted businesses of all sizes succumbed to the demands of hackers because, in many cases, it was their only option to resume normal operations.

However, with payouts eroding as organisations took business continuity and disaster recovery more seriously, as well as regulators and shareholders discouraging payments from an ethical standpoint, ransomware became less profitable.

Cybercriminals now turn to additional income streams enabled by their core skill sets, while continuing to milk the diminishing cash flow from 'pay up or lose your data' extortion.

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Lesly Juarez on Unsplash

kordia

A quick review of some of the most significant cyber incidents of 2022 and 2023 shows cybercriminals are leaning into less typical forms of extortion. One of the most concerning methods is where the company's own data and assets are being weaponised against them, or their customers, for financial gain.

The 2022 attack on Medibank in Australia is a great example. The cybercriminals threatened to release sensitive, personal medical records unless the company paid a reported ransom equivalent to US$10 million. This fundamentally changed the impact of the breach not only on Medibank, but on millions of everyday citizens whose own data was now being used as ammunition to extort the company.

In a more personal example in Finland, hackers directly blackmailed patients of psychotherapy provider Vastaamo, threatening to release sensitive personal and medical information unless the victims paid up.

Another tactic to turn up the temperature is using industry regulators to catch out victims who would rather deal with the cyber incident behind closed doors.

This was the recent case with US financial software giant MeridianLink. It was unique in that a cybercriminal gang claimed it reported MeridianLink to the Securities and Exchange Commission (SEC), alleging violations of new reporting requirements issued by the regulator.

The key outtake is the risk profile isn't static when it comes to cyber security – it's constantly evolving. Businesses need to ensure they are continually assessing and addressing those moving goalposts by improving preventative measures and refining their response preparedness.

Even if you have a robust plan, if you don't continually evolve it against your risk profile, chances are it won't be fit for purpose in 12 months.

More and more organisations are improving their cyber maturity and regularly reporting on cyber issues from an IT perspective. However, many are yet to make similar progress in adopting mechanisms for evaluating potential financial, reputational and regulatory impacts.

> "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."

Far too often, we see major incidents reflecting failures to accurately gauge risk. The data breaches in Australia with Optus and Latitude Financial encapsulate this.

In both cases, a significant portion of compromised content relates to former customers. This old data, which was not generating revenue for these companies, had become a liability – and clearly no one had mitigated the risk of retaining this information, should it be accessed or otherwise compromised in a cyberattack.

These cases highlight the role of a CISO. Expanding the conversation to other departments and functions using a risk-based approach is a starting point. But understanding information security risks needs to be done from the top-down to ensure appropriate allocation of resources to mitigate cyber risks.

Boards and directors are central to evaluating the regulatory and reputational consequences of failing to protect both personal data and delivery of services in the face of expanded cybercrime threat vectors.

To support this, the C-suite has a powerful role to play in ensuring information security and business continuity policies and procedures continue to evolve and reflect changes in the threat landscape against the context of the strategic and operational flows across the business.

Getting proficiency and advice from the lens of an information security expert can be invaluable in understanding your current risk profile and the trends and threats driving cyber security incidents. An expert consultant can also coach an organisation to upskill their evaluation and management capabilities, improving the home team's score, while preparing effective response plans.

One thing is clear. Given the agility of business-savvy cybercriminals, business leaders must act now – before the next major cyber incident knocks you out of the game.

FROM OUR PARTNERS

The rise of shareholder activism

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Ehimetalor Akhere
Unuabona on Unsplash

Diligent

In an era of increasing corporate scrutiny, institutional investors are voting against directors more frequently.

Shareholder activism is increasing around the world and boards need to be ready. According to the Diligent Institute's Shareholder Activism Annual Review 2024, there was a 4 per cent increase in the number of companies subjected to activism in 2023, compared to the previous year. That was the highest since 2019.

Across the Asia-Pacific region, there was a 13.4 per cent increase year on year. In the United States, 550 companies experienced activist demands – a 7.8 per cent increase from 2022. In Canada, the increase was event higher at 25 per cent.

For Asia, shareholder activism used to be concentrated in Japan, but in recent years we have seen increasing activity in countries such as South Korea and Australia.

One of the main reasons is that in the US and Europe, everyone has been grappling with rising inflation and market volatility. As a natural response, activists have been looking elsewhere for value creation opportunities, says Rebecca Sherratt, editor for Diligent's *Market Intelligence*.

While Australia and New Zealand experienced lower incidences of shareholder activism compared with the US and Europe, it remains a growing risk, especially in an era of increasing corporate scrutiny from the public. This is evident in cases such as AGL Energy, one of Australia's largest power producers, where shareholders forced the company to scrap a demerger plan and elected four activist-backed nominees to its board.

The annual review also showed 41 per cent of directors surveyed said shareholder activism highlighted the need for good governance. A robust approach requires long-term planning that includes succession planning, as well as a comprehensive governance, risk and compliance (GRC) strategy, underpinned with organisation-wide risk scanning and reporting.

The risks of increasing assertiveness from shareholders include disruption of management plans, reputational damage, and potential to drive a change in control.

Shareholder activism also makes directors' roles more complicated. "Institutional investors are voting against directors more frequently and for more reasons than they have in the past," says Brian Valerio, senior vice president of Alliance Advisors, in the review.

As such, shareholder activism must be a key risk mitigation and resilience focus for directors and executives in the years ahead. Boards must prepare their response through greater awareness of shareholder activists, potential campaigns, trends, and targeted replies.

As board members get older, they must also consider shareholder activism as a part of their succession planning to help mitigate risks in the long term.

According to another recent Diligent report, there are five key drivers of the recent activist activity and several solutions for how boards can best respond (see infographic).

Sherratt says the area with the highest increase in scrutiny was remuneration, with campaigns in this area seeing a 37.3 per cent increase. Executive pay has risen higher on the activist agenda as well. Three proposals seeking claw-back policy amendments won 36.5 per cent average support in 2023, up from five and an average of 27.5 per cent support in the previous year.

While succession planning and shareholder activism are seemingly unrelated, an effective and robust plan for executives or directors can help organisations manage it in the long term.

After all, the threat of shareholder activism will likely surpass the tenure of existing board members. The loss of a key member of the board or executive team can also lead to significant disruptions within an organisation, and active investors may pressure boards to fill the vacancies as soon as possible to minimise downtimes.

With many activist campaigns revolving around remuneration, organisations must be mindful of their succession planning practices. Shareholders may demand clear and transparent procedures for selecting top executives and justification for remuneration packages.

Proper succession planning can also address some of the key drivers for recent shareholder activism, such as diversity and inclusion. Boards should be mindful of including members who not only have the right competencies and skill sets but also varied perspectives and backgrounds. For example, studies have shown that having women in board positions can result in better business performance.

With proper short-term and long-term planning, companies can build a pipeline of skilled candidates, identify shareholder activism early, avoid common triggers and drive a company's future success.

"With many activist campaigns revolving around remuneration, organisations must be mindful of their succession planning practices."

Key driver	Problem	Solution
Overboarding	To find new board members, companies often look at existing board members. This results in overextended directors.	Limit the number of boards on which a director can serve, track and evaluate directors' hours of service and use modern governance tools to consolidate a director's board commitments.
Poor board diversity	Boards generally lack diversity, with activists calling for more women and people with racially or ethnically diverse backgrounds in board positions.	Review board policies and practices, use tools to source candidate profiles through trusted nomination processes and use digital D&O questionnaires to manage a director's background and experience.
Lack of engagement with key ESG strategies	Activist actions related to the environment have been increasing. More investors are looking for organisations that walk the talk in terms of ESG strategies.	Educate board members on ESG issues, prioritise these issues among relevant committees and roles and use technology to collaborate with ESG stakeholders and monitor risks.
Excessive executive compensation	Investors are more cognisant of CEO pay and actively revolt against companies if they disagree with leaders' compensation.	Use modern governance intelligence tools to benchmark executive compensation practices across peer groups, industries and regions. Use digital D&O questionnaires to consolidate director's pay information and engage with expert consultants for the best compensation practices.
Toxic management culture	Investors also pay more attention to company culture as it directly impacts company strength and shareholder returns. They are less tolerant of toxic management cultures that ignore complaints by female employees, or those that have incidences of racial insensitivity.	Encourage healthy discussions about difficult topics, use modern governance solutions to communicate issues and enlist outside specialists to rein in difficult situations.


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