Director Sentiment Survey 2024

INSIGHTS FROM
THE NEW ZEALAND
DIRECTOR COMMUNITY

Institute of DIRECTORS NEW ZEALAND

ASB ONE STEP AHEAD

Director Sentiment Survey 2024

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Survey insights

The clouds are starting to part on the economic gloom of the past 18 months, but directors are yet to feel the sun shining through.

Economic pessimism has been swapped for optimism, but directors remain wary with national and global political and policy uncertainty a key focus. Amid escalating conflicts in Ukraine and the Middle East, elections took place in countries home to nearly half of the world's population this year including Indonesia, Pakistan, France and Russia. The United States election was gaining attention at the time of the survey with Joe Biden stepping down as a presidential candidate and Vice President Kamala Harris receiving the Democratic nomination. Even with the results now known, exactly how the policies will play out and their impacts on New Zealand markets are yet to be seen.

Domestically, legislative and policy uncertainty remain high. Directors have welcomed the much-needed review of the *Companies Act 1993*. They are eagerly anticipating relief from the burden of liabilities, and clarification of directors' duties during insolvency – where the Court of Appeal's and the Supreme Court's Debut

Homes and Mainzeal judgments highlighted inconsistencies. Further repeals and reforms, changes to policy settings, and reduction in government spending remain an ongoing focus for directors.

Cost of living and inflation continue to take a toll. Consumer demand is still suppressed. But, unlike previous years, directors feel a similar level of confidence about the prospects for the national economy as they do for their own organisations – typically directors have demonstrated significantly greater optimism with regards to their organisational performance.

While this suggests a strong sense of short-termism, with the need to balance short-term viability over medium- to long-term issues weighing heavy, directors are clearly thinking ahead and looking to shore up their future.

Short-term pressure is providing an impetus for taking up technology, a much-needed opportunity to address issues such as productivity. Technology is also seen as a key tool for achieving cost efficiencies as directors look to growth after a period of pain. Nonetheless, technology and AI continue to provide both risks and opportunities. More directors are overseeing cyberattacks and many are assessing how technology might impact on their operations and workforce.

With high unemployment rates, concerns about workforce demographics and labour capability and capacity fell off the radar this year. This is despite the increasing numbers of young people leaving the country and the ageing workforce, and the impacts this may have on the future workforce and succession planning. In New Zealand in 2023, the average age of directors on listed companies was 61 years old. This suggests that we may face a (baby) boom of directors retiring in the near-term.

This year we saw a number of high-profile chair and chief executive retirements, for good or for bad, that have placed pressure on organisations. Proactive succession planning is key to supporting an organisation through a smooth transition and managing any potential stakeholder or brand impacts. Nonetheless, despite the risks it may pose, succession planning for both chairs and board members remained a relatively low priority.

Climate change also poses significant risks to organisations. Recent flooding in Dunedin and Spain, Tropical Storm Trami in Manila, landslides in the Kerala region of India, hurricanes in North and South Carolina and Florida and the 2024 northern hemisphere summer being the warmest since records began highlight the need for businesses to grapple with the physical risks of climate change.

These events also highlight the need to transition to a low emissions, climate-changed future. Coupled with the requirements of climate-related disclosures, either directly as a climate reporting entity or indirectly as a scope 3 emitter, exporter or trade partner, for example, there is a lot for boards to grapple with. Nonetheless, directors continue to kick the can down the road as financial viability and other pressing issues dominate. But New Zealand directors are not alone in this, with Global Risk Reports for the past 10 years showing that the impacts of climate change and weather-related events remain front-of-mind for the near-term, despite it now being a short-term risk.

However, directors are not confident they have appropriate risk management processes in place, and they are identifying skill and capability gaps on their boards, including those needed to meet the increasing risks and complexity of the current operating environment. Despite these discussions, neither board evaluations or processes to deal with underperforming or problematic directors are being universally implemented.

At the 2024 Institute of Directors' (IoD) Leadership Conference, 70% of directors said there was at least one board member that should step down. Governance is not for the faint of heart, and conversations about problematic board members, skills gaps, succession planning, climate change, technology and financial viability require directors to show courage, challenge assumptions, and speak up even when uncomfortable.

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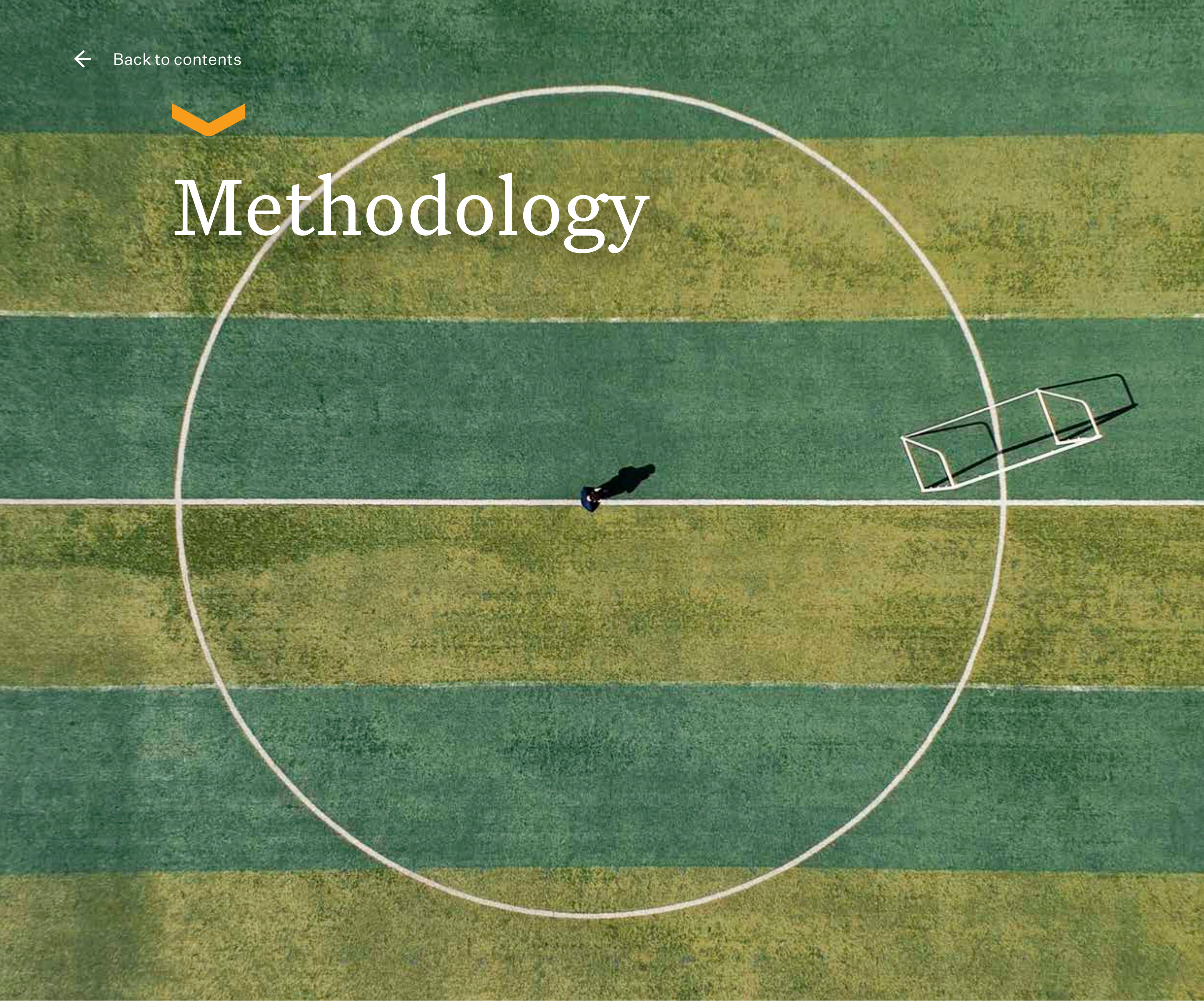
Methodology



The 11th annual Institute of Directors' (IoD) Director Sentiment Survey takes the pulse of New Zealand's governance community to identify issues and challenges that matter to our members across a broad range of entities on economic, business and governance issues.

The online survey was conducted from 12 August to 9 September; a fairly unremarkable period for business when compared with the past few years. Last year's survey was held in the run-up to the 2023 General Election (14 October) and, unlike previous years, there were no significant business disruptors such as Covid-19 or storms while the survey was in market.

The most significant event during the survey period was on 30 August, the passing of the Māori King, Tuheitia Paki, crowned Te Arikinui Kiingi Tuheitia.

After significant financial pressure, New Zealand was finally seeing an easing of interest rates and inflation coming down. Inflation peaked at 7.3% in April 2022 but by the June 2024 quarter it had fallen to 3.3%, just outside of the target range of 1% to 3%. This was followed by the Reserve Bank cutting the official cash rate (OCR) by 25 basis points to 5.25% on 14 August (the first cut in four years), with a further potentially larger cut anticipated.

Nonetheless, there were a raft of policy changes and government announcements over the survey period including the *Companies Act 1993* reform to 'modernise, simplify and digitise', further reforms to financial services regulation including the removal of personal liability for directors and senior managers of lenders under the *Credit Contracts and Consumer Finance Act 2003*, priorities within phase two of the *Resource Management Act 1991 (RMA) reform*, and the passing of the *Local Government (Water Services Preliminary Arrangements) Act 2024* (Local Water Done Well). Critical announcements included proposed changes to the Fast Track Approvals Bill in response to submissions, that a 30-year national infrastructure plan was to be created led by the Infrastructure Commission, terms of reference for phase 2 of the Royal Commission of Inquiry into Covid-19 Lessons Learned, and the next steps of the Electrify NZ plan.

Additionally, consultation on New Zealand's second emissions reduction plan closed 25 August, the updated Emissions Trading Scheme settings were released, the Prime Minister gave a "back to basics" speech at the Local Government New Zealand conference, and there was much discussion about the Treaty Principles Bill in light of a Waitangi Tribunal finding that the Crown had breached the Treaty in the creation of the Bill.

We had another strong response to the survey this year with a total of 1,240 IoD members contributing (2023 = 1,112). 58.1% of respondents had at least five years' experience as a director/governing body member, with 32% having more than 10 years' experience and, of the directors currently in a board role, 46% were board or committee chairs. Our membership, and the members who responded, encompass governing body members from a wide range of entities including trusts, advisory boards, co-operatives, private companies, Māori-owned entities and more. For the purposes of this report, the term 'director' will be used to refer to all governing body members.

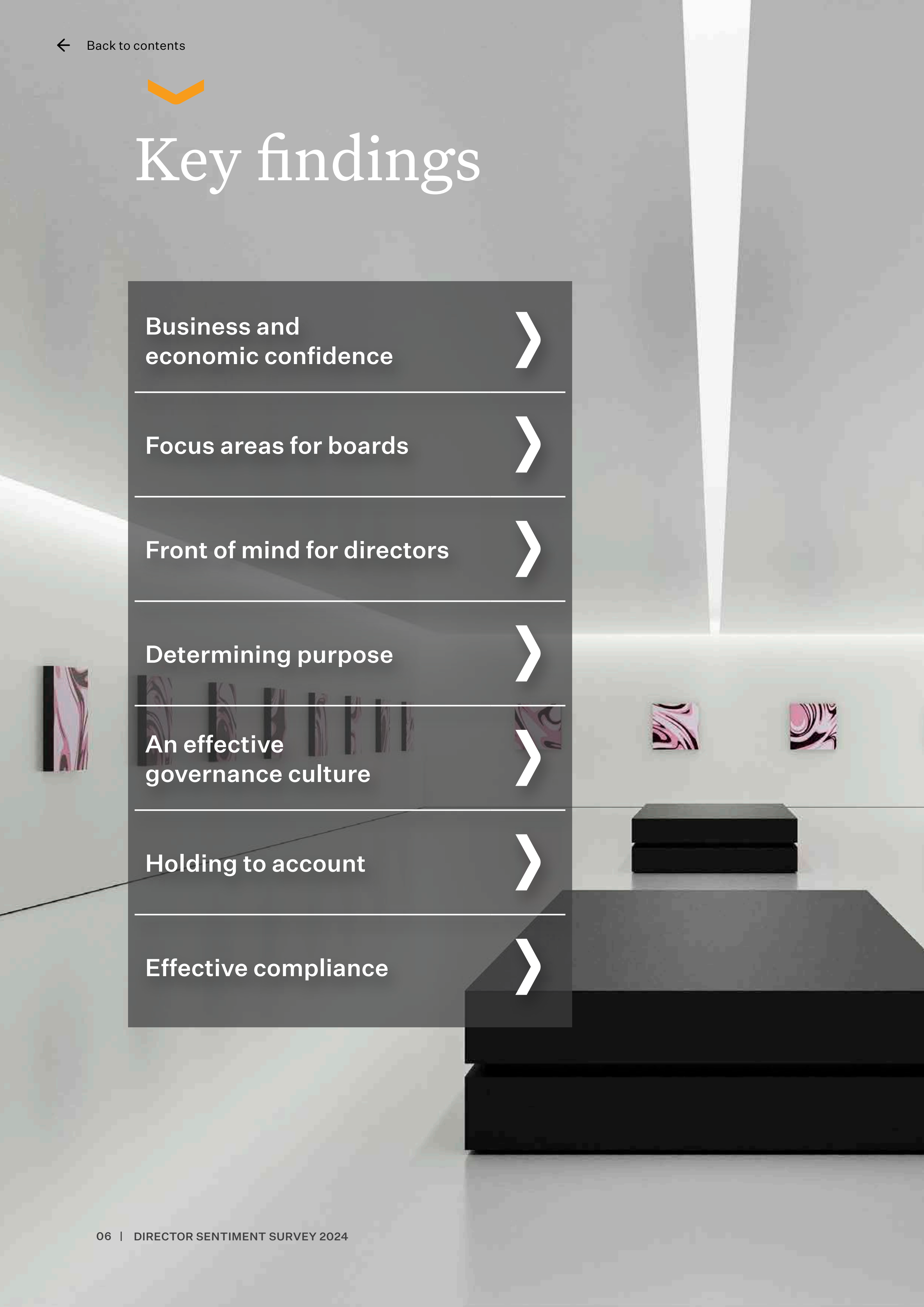
In addition to the survey respondents, we also interviewed six directors to gain further insights into the survey questions. Thank you to all of the contributing IoD member directors for your valuable input and perspectives.

We have partnered with ASB again this year, with the bank providing invaluable economic and business confidence analysis and insights.

Where pertinent, we have analysed data by organisation type:

- Medium to large private company (>$10 million turnover or 20+ employees) = "large private companies"
- Not-for-profit organisations = "not-for-profit (NFP) organisations"
- Small company (< 29 employees) = "small companies"
- Government organisation/State-owned enterprise (SOE) = "government organisations"
- Publicly-listed company including subsidiaries = "publicly-listed companies"
- Māori organisation/iwi = "Māori organisations"
- Local authority/Council controlled organisation (CCO) = "local authorities"

In addition to the main report, there is also a short not-for-profit insights report and a one-page infographic.



Key findings

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Business and economic confidence

Last year's economic pessimism has been replaced by the highest level of national economic optimism since the survey began, despite soft trading conditions, high unemployment and high interest rates. While organisational confidence was at a similar level to national economic confidence, the near closing of this gap was a new feature of the survey this year. Cost of living/inflation, productivity and global economic/geopolitical uncertainty were dominating factors, along with continuing sluggish demand for goods and services and national political/policy uncertainty.

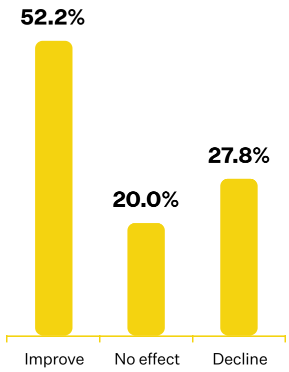
New Zealand economic performance[1]

Pleasingly, directors were markedly more upbeat about the economic outlook in this year's survey than in 2023. 52.2% of respondents expect the economy to improve over the next year, a turnaround from only 28.3% last year. Those expecting deterioration in the economy reduced considerably to 27.8% from 55.8% in 2023 (see Figure 1). On a net basis, improve minus decline, 24.4% expect the economy to improve over the next 12 months, again a significant turnaround from 2023 (see Figure 2).

The change of government is likely to have influenced business confidence. The incoming government is focused on improving productivity in the economy (long

Figure 1.

NZ's economic performance



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

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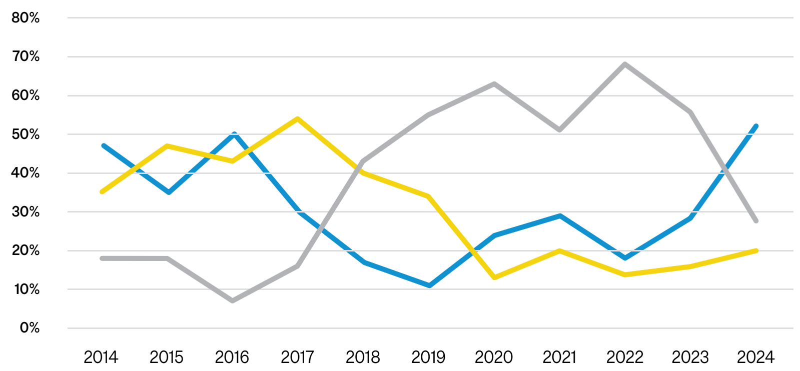
a concern of directors), reducing red tape and other impediments, and getting more value for money out of public spending – among other things.

The economy itself has remained under pressure over the past year, with GDP down 0.5% in the year to June 2024. However, light was starting to appear at the end of the tunnel at the time the survey was conducted. Inflation pressures have been easing noticeably. Over July, speculation that the Reserve Bank of New Zealand (RBNZ) would cut the OCR relatively soon started to grow. And the RBNZ did indeed cut the OCR on August 14, just two days into the August 12 to September 9 survey period.

The economic slowdown of the past couple of years has been driven by high interest rates needed to combat inflation. The reversal will lead to economic rebound. Personal tax cuts also came into effect over August. Accordingly, directors were focused on high inflation, geopolitical uncertainty and low productivity.

Figure 2.

National economic performance



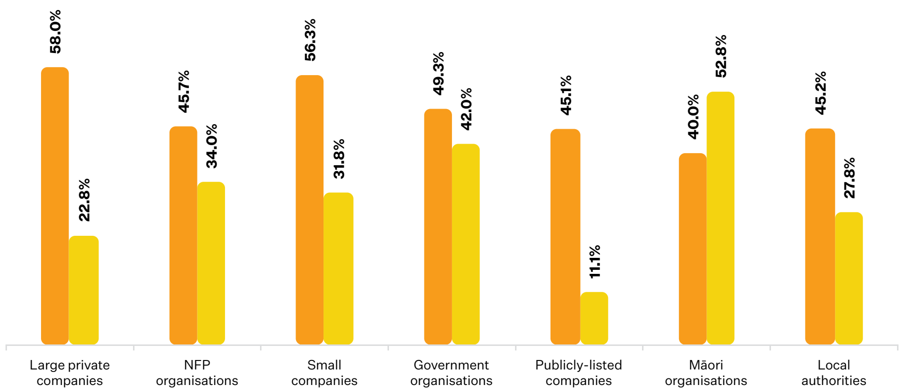
Improve
No effect
Decline

In this year's survey, large private companies (58%) and small companies (56.3%) were the most optimistic in gauging the economy would improve over the coming year.

At the relatively more pessimistic end for anticipating economic improvement were directors of Māori organisations (40%), a reversal of confidence from 2023 (see Figure 3).

Figure 3.

Expected improvement in national economic performance by organisation type



2024
2023

Organisational performance[2]

More than half of directors (58%) expect the organisations they are involved with to have an improved financial performance over the coming year (see Figure 4). That result is up from 47% in last year's survey. Looking on a net (improve minus decline) basis, sentiment lifted from net +21% to +41%.

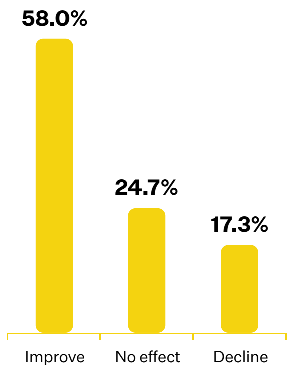


Figure 4.

Organisational economic performance

The lift in the proportion of respondents expecting improved organisational performance isn't as large as for the general economic outlook, though the levels are more similar now. One of the puzzles in past surveys has been the disconnect between the relatively positive outlooks for directors' organisations and their pessimistic views on the economy. The near closing of this gap, through a sharp turnaround in views on the economy, is a new development. It is the first time since the survey started in 2014 that there has been such strong alignment on the directions of organisations and the economy (see Figure 5). This alignment may reflect the coinciding of an anticipated upswing in the economy and a change in government to one putting added focus on areas directors have typically seen as economic impediments, such as red tape, productivity and the more recent concern around the cost of living.

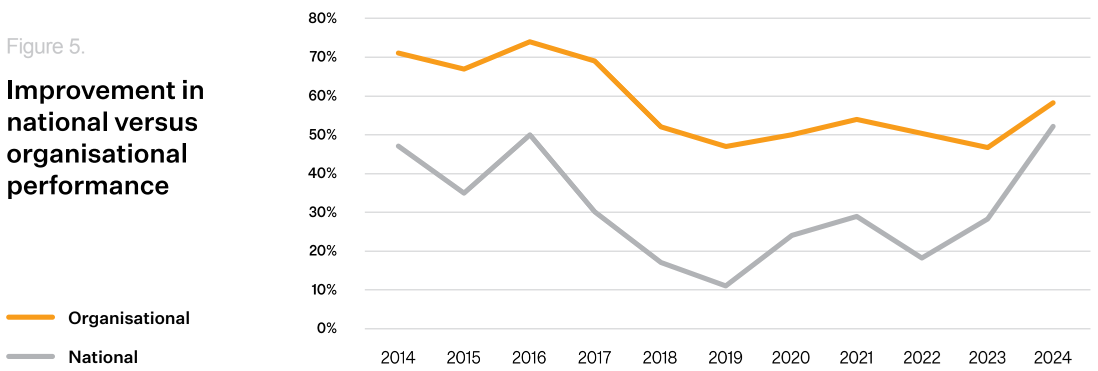
Nevertheless, there remains a gap, particularly when looking at responses on a net basis. There are good arguments for directors being relatively more optimistic about the future performance of their organisations, relative to their views on the economy. Directors will have a more thorough understanding of external influences on their organisations and can shape their path. In contrast, the economy has a much wider range of uncertainties, less complete information, and less ability for directors to exert much influence.

Increased concerns about demand has become an important challenge for organisations to grapple with in an environment of weak consumer demand. Past challenges over labour shortages have faded.

Māori organisations (70%) were most likely to consider their performance would improve, albeit down on 84.2% last year. This organisational optimism contrasts with their relatively pessimistic views on economic prospects. Small companies (66.2%) and large private companies (65.7%), closely followed by publicly-listed companies (64.7%), were the next most optimistic on their organisational performance, with the first two also relatively upbeat about the economy. Unsurprisingly, given the government focus on cost-cutting, government organisations (39.2%) were the least optimistic about their organisational performance followed by NFP organisations (47.1%) (see Figure 6).

Figure 5.

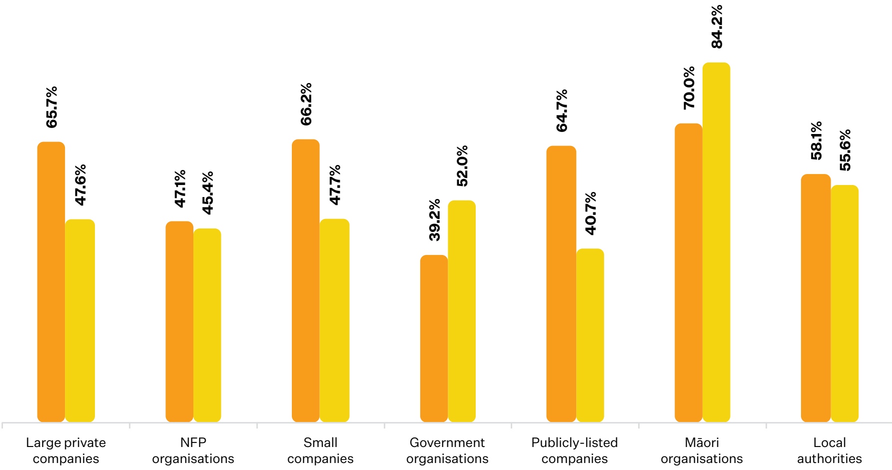
Improvement in national versus organisational performance



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

Figure 6.

Expected improvement in organisational performance by organisation



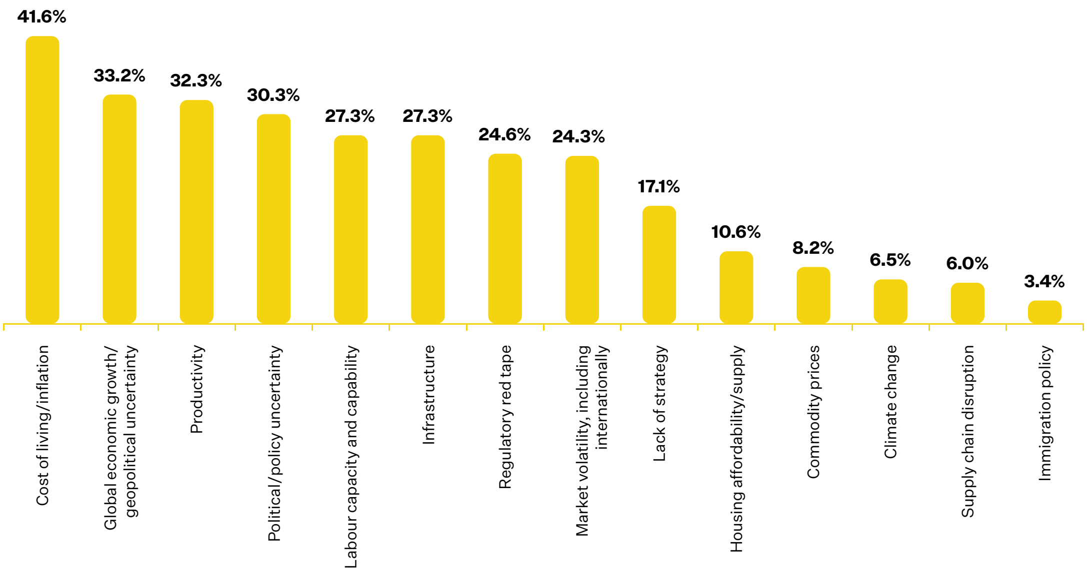
Impediments to national economic performance[3]

Directors chose up to three factors they viewed as being the biggest impediments to national economic performance. Resoundingly, cost of living/inflation topped the list for a second year in a row at 41.6% of directors, slightly down from 44.5% last year. Inflation at the time of the survey (3.3%), was still above the RBNZ's 1% to 3% target range but has been steadily falling (see Figure 7).

Global economic/geopolitical uncertainty edged into second place at 33.2% (up slightly from 30.7% as the fourth most commonly cited concern last year). Since the 2023 survey finished, an armed conflict between Israel and Hamas-led Palestinian militant groups started on 7 October with Iran, and other Iranian-backed proxies, also targeting Israel with missiles. Risk of a deeper Middle

Figure 7.

Impediments to national economic performance



3 **Question 3:** What in your view are the biggest impediments to national economic performance?

East conflict has escalated. Meanwhile, Russia's invasion of Ukraine grinds on. At the time of surveying, the US Presidential election was also garnering fresh attention in a tight race with the Democrat ticket changing to Vice President Kamala Harris from Joe Biden in July.

Productivity as an impediment lifted sharply into third place, up to 32.3% from 21.8%, the highest it has been rated in the survey since 2017. NZ's poor productivity has been a lot more front-of-mind during the downturn, with GDP per capita down nearly 5% since 2022, and low productivity also meaning less capacity to adapt to the rising cost pressures in recent years. Another notable mover (though much further down the list) was infrastructure, up to 27.3% from 15.3% in 2023.

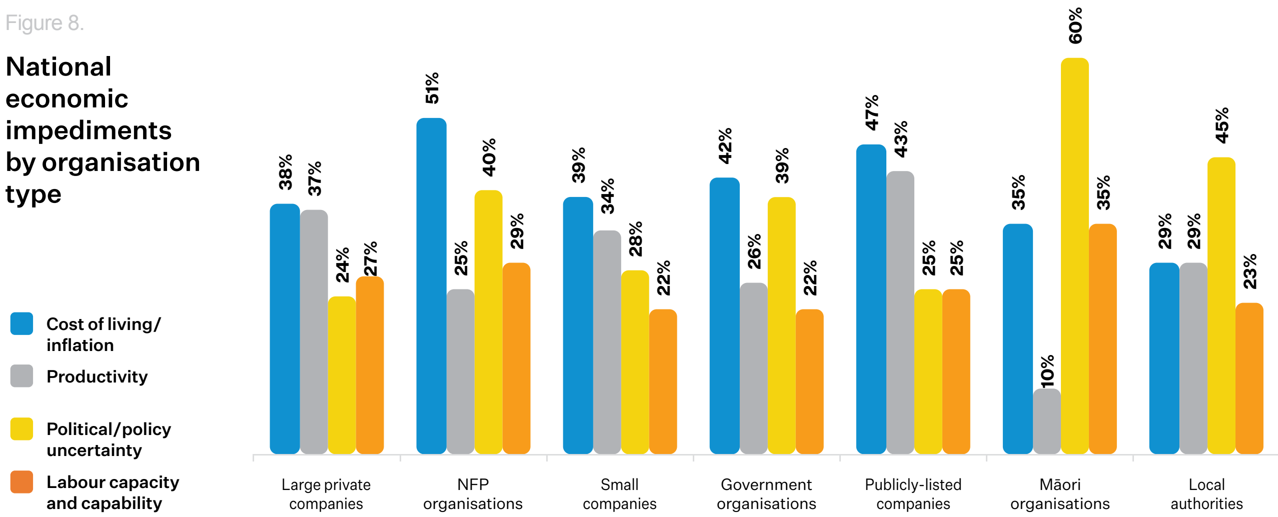
What was notable, was the drop of labour capacity and capability, cited by 27.3% of directors and down to fifth on the list. Even last year, when the economy was flatlining, labour was in second place at 42.5%. This year's ranking is the lowest since the survey began and the first time it hasn't been in the top two most cited impediments. That is a significant reversal, and a reflection of muted jobs growth through reduced appetite to hire and a sharp lift in population, leading to a rising pool of people missing out on job opportunities. Despite this, there is still concern within some industries who are continuing to experience skill shortages, such as healthcare and IT.

Looking by organisation type, there was a noticeable split in concerns. Cost of living was the most cited concern for all bar Māori organisations and local authorities. For the latter two, political/policy uncertainty was the highest, and was not far off being the top concern for government organisations. A new government has brought different policy directions, with a changed model for funding 'three waters' infrastructure, a different proposal for RMA reform, and the ACT Party focus on Treaty principles.

Productivity was the second-highest concern among small companies, large private companies and public companies – i.e. the private for-profit sector. These organisations feel the financial blowtorch of weak demand and high costs most acutely, with productivity/efficiency a primary response to those pressures (see Figure 8).

Figure 8.

National economic impediments by organisation type



Single biggest organisational risk[4]

Directors picked what they viewed as the biggest risk facing their organisations. The top concerns are a bit of a reshuffle of last year's (see Figure 9).

Demand lifted to being the foremost risk, cited by nearly 15% of directors (9.5% and fourth last year). In contrast, last year's clear top risk was labour at 20.6%, which has now dropped to the fourth-ranked risk (10.1%). This swap reflects the swing in challenges customer-focused organisations are experiencing (see Figure 10).

Consumer spending volumes have been fairly flat overall and down for goods spending, and construction is contracting. Margins have also been squeezed, with businesses less able to pass on cost increases. Meanwhile, employment growth has stalled and unemployment has risen. Staff are easier to retain and hire in this environment.

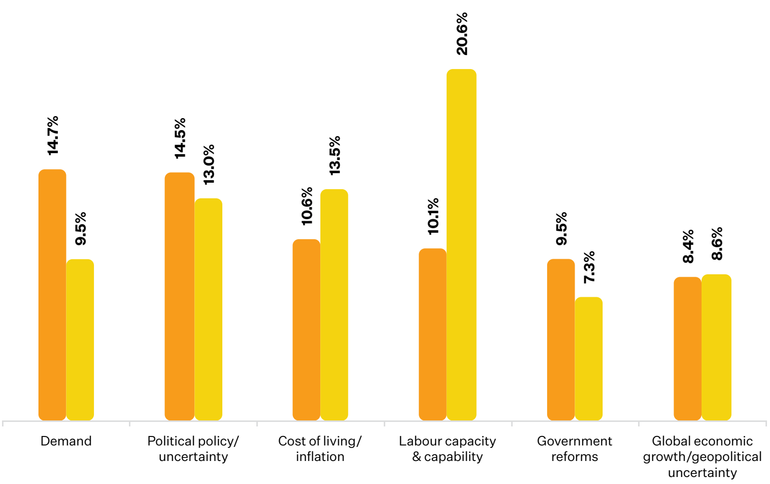
DIRECTOR INSIGHT

"It has been the perfect storm this year with demand going down and costs going up, so it's been important for directors to consider what levers they use to thrive in this environment and the opportunities to increase productivity and diversify offerings."

– Jackie Lloyd CFInstD

Figure 9.

Top 6 biggest organisational risks



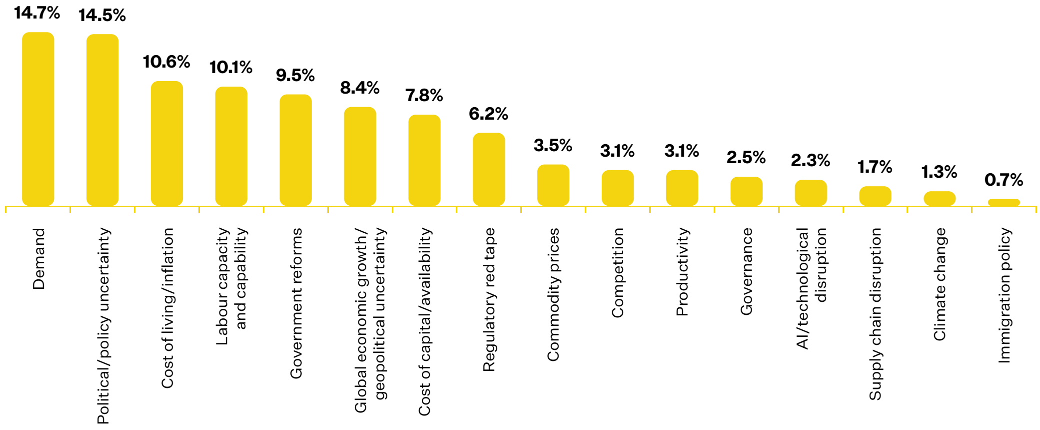
Political/policy uncertainty edged up into second place and virtually tied with demand. Similarly, government reforms lifted two percentage points to 9.5% and fifth place in the ranking of risks. The new government has swung into action, halting and reversing a number of the previous government's policies and is now focusing on its own policy platform. Policies such as RMA reform and the focus on reducing unnecessary regulation aim to make the operating environment for organisations easier, but uncertainty remains while directors await the final form. Eventual reform of the near unworkable *Holidays Act 2003* would be a minor though significant victory, if successful.

4 **Question 4:** What in your view is the single biggest risk facing your organisation?

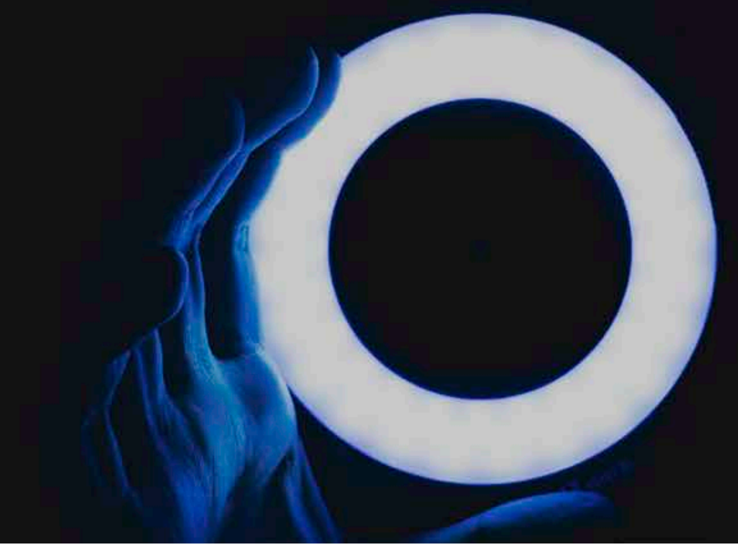
Cost of living/inflation moved down to fourth place at 10.6%, from the second-most cited risk last year. Global growth/geopolitical uncertainty remained static at 8.4% and in sixth place. Despite the heightened worries about potential economic impacts, at an organisational level directors appear more comfortable that their organisations won't feel much direct impact from the range of geopolitical risks; and with a number of central banks now cutting interest rates, global growth itself will start to recover.

Figure 10.

Single biggest organisational risk



Focus areas for boards



Directors were provided an open-ended opportunity to reinforce and/or elaborate on any issues already raised, or to introduce any new issues of primary focus for their boards through to the end of 2025[5] (see Figure 11). From the 4,745 responses provided to this question, 857 more than last year, four key themes emerged. In order of prevalence they were: technology and innovation, strategy and growth, cost management and efficiency, and financial management.

Technology and innovation

With nearly 700 responses, technology and innovation was a key theme for future focus. A high number of responses were about technological advancements, artificial intelligence (AI), digital transformation, and cyber-related innovations. A significant theme was around leveraging technology and AI for growth and efficiency. While AI/digital acceleration only ranked sixth in top strategic issues for boards (25.2%), the focus nonetheless reflects that it is seen as an opportunity/solution to address some of the key issues boards are grappling with including productivity, growth, and financial pressures.

Boards are looking to integrate cutting-edge technology and AI to enhance operational decisions, streamline operations, and remain competitive in a rapidly changing environment. While there was a drop in directors who considered their boards' approach to strategy and innovation needed a radical rethink (17.3%, down from 20.8% in 2023), it aligns strongly with 91.7% of respondents stating their boards discuss innovation and strategic opportunities at least annually. This indicates that AI and technology are increasingly mainstream issues for boards and part of core business considerations.

Cybersecurity was also mentioned, reflecting concerns about protecting data and infrastructure and reflecting the growing importance of safeguarding digital assets (see page 41).

5 **Question 5:** What are the top five things that will be of primary focus for your board through to the end of 2025?

Strategy and growth

The second most frequently mentioned focus area was strategy and growth. This theme encompasses discussions around strategic planning, business growth, market development and business positioning for future growth. It also includes realigning strategies to adapt to new market conditions, restructuring and taking on a long-term view.

Boards are realigning their strategic direction to stay competitive and capitalise on emerging opportunities, including expanding into new markets or adjusting to regulatory changes. There's a desire to ensure sustainability in business models while balancing risk and opportunity in growth strategies.

Cost management and efficiency

Controlling costs and increasing efficiency was the third most prevalent issue. Reducing operational costs and improving efficiency is a priority for many boards, especially with demand being regarded as the biggest organisational risk.

Organisations are seeking to improve productivity while managing expenses, which could include cost cutting, improving operational processes and optimising resource use. Productivity was also a strong theme throughout the survey responses this year with it being ranked third on the list of impediments to national economic performance, up from seventh last year.

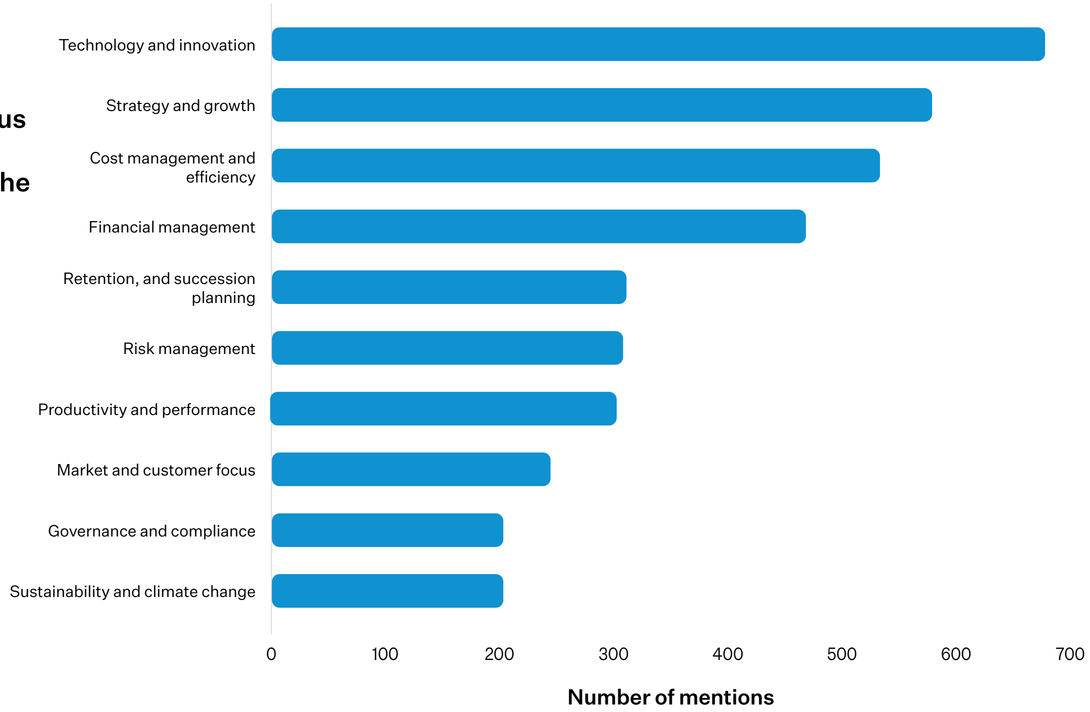
Financial management

Financial management is a key theme both for this question, and throughout the survey, including managing capital, funding, and improving revenue streams. There's a focus on balancing investment in innovation and growth while maintaining financial stability. Financial sustainability is a major area of focus with 57% of directors noting balancing short-term viability with long-term issues as the key strategic issue their boards were paying attention to (see page 17).

Boards were concerned with funding, capital management and improving revenue streams alongside cost management, productivity and efficiency gains and innovation/technological solutions. There was a clear emphasis on ensuring financial resilience, particularly in the face of political and economic uncertainty both nationally and internationally. Investment strategies were also prominent, as organisations look to allocate resources effectively.

Figure 11.

Top 10 issues of primary focus for boards through to the end of 2025



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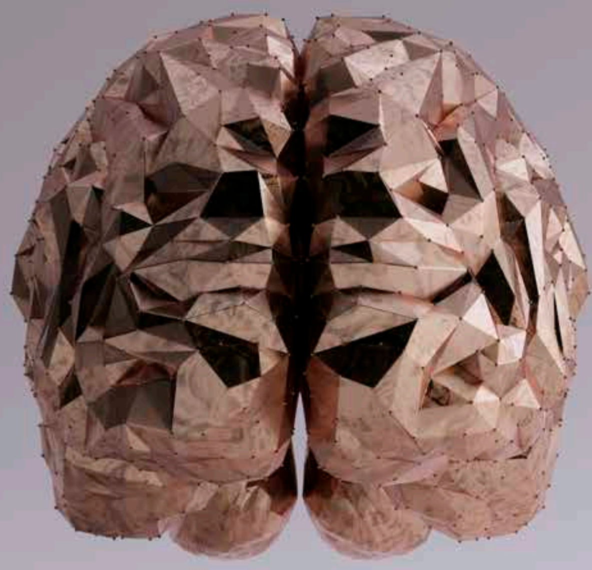


Front of mind for directors

Top strategic issues for boards[6]

Directors are feeling pulled in multiple directions. Ongoing financial pressure and reduced demand are making the balance between short-term viability and long-term issues hard to juggle. Changing stakeholder behaviours and expectations are adding to the pressures boards are feeling. A board must create value for, and be valued by, its full range of stakeholders in order to deliver long-term value for its shareholders. Ultimately, stakeholder and shareholder interests align in the long-term. However, this involves balancing the interests of various stakeholders' and shareholders' short-term expectations.

Directors chose up to three key strategic issues their boards were paying attention to. **Balancing short-term viability with long-term issues** was a new measure this year and took top spot on 57% (see Figure 12). Organisations are continuing to feel significant financial pressure. Despite inflation falling, the OCR cut, tax changes coming into effect, and the prospect of lower interest rates, most businesses are yet to experience economic upsides. While these changes were certainly reflected in the overall economic optimism, there is a definite lag being experienced with demand still suppressed and considered the biggest organisational risk. Consumer confidence is still lower than long-term average.

This 'candyfloss confidence' – a sweet sugar hit with not a lot of substance behind it – is unlikely to result in a sudden economic lift, particularly given gross domestic product fell by 0.2% in the three months to June 2024 and cashflows will only improve gradually. While there is a reduced propensity to "hunker down" as has been seen over the past two (or more) years, some industries are continuing to experience contractions (such as construction, retail and primary sectors). Conversely, there has been an uptick in others (such as manufacturing, tourism and information technology).

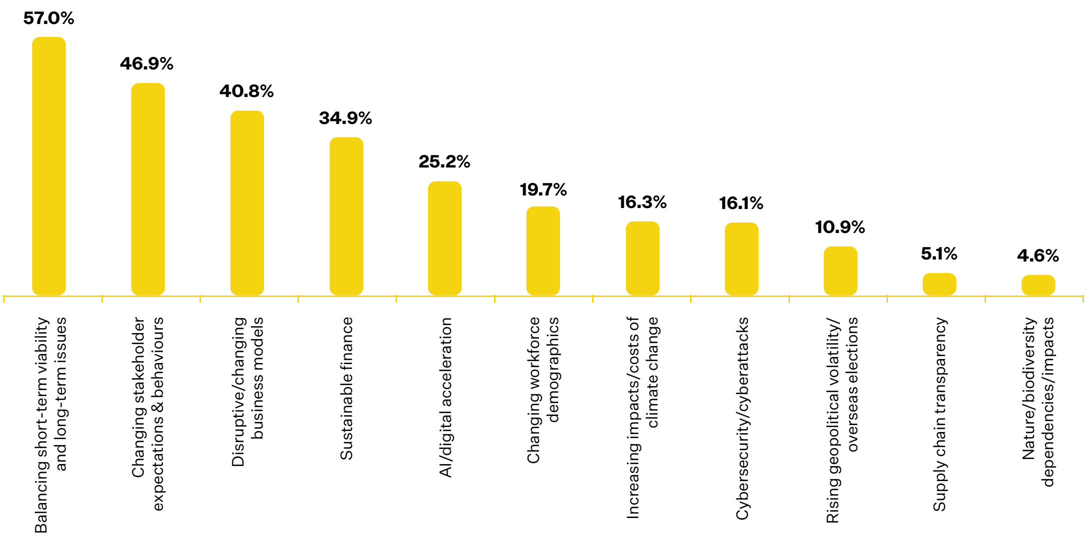
6 **Question 6:** What are the top strategic issues your board is paying attention to (choose up to three)?

Changing stakeholder expectations and behaviours, which had been number one for the past two years, was second on 46.9% (falling from 54.6% in 2023 and 60.4% in 2022). With suppressed consumer demand, businesses are needing to listen to their stakeholders. Further, despite the demand for more ethically and sustainably sourced products/services, many consumers are becoming less willing to pay a premium and concerns about greenwashing are resulting in increased consumer caution.

Disruptive/changing business models was third on 40.8% (dropping in ranking from second last year, despite being noted by a higher percentage of respondents than 2023's 37.5%). Despite this, less than half of directors (48.4%) considered that their industry would be affected by major/disruptive change in the next two years reflecting the more incremental changes businesses have been experiencing, such as technological advancement, shifts in labour markets, and energy transition.

Figure 12.

Top strategic issues



With the Centre for Sustainable Finance leading the work on a sustainable finance taxonomy for New Zealand and removal of EECA's Government Investment in Decarbonising Industry (GIDI) fund, it was little wonder that sustainable finance, a new measure, ranked fourth on 34.9%. Aligned with moves in jurisdictions overseas, including Australia, the taxonomy is designed to reduce concerns about greenwashing, attract greater investments to support our decarbonisation efforts and enhance access to sustainable finance. Sustainable lending is becoming a more prominent feature of the lending market with initiatives such as ASB's recently launched Clean Tech Fund.

AI/digital acceleration was reasonably static, increasing from 24.5% in 2023 to 25.2% and ranked fifth this year. Despite experiencing a 7.4% drop to 16.1% and ranking eighth of strategic issues, **cybersecurity and cyberattacks** remained a core focus for boards with regular reporting from management (62.2%) and assessments of the impact of technology, automation and/or AI being undertaken by nearly half of directors (48.4%) (see page 41).

Changing workforce demographics was the third strategic issue last year on 33% and this dropped significantly to 19.7% and sixth in the rankings in 2024. Stats NZ has been releasing insights from the 2023 Census in tranches since May 2024, with data released to date showing nearly 30% of New Zealanders were born overseas and ethnic diversity increasing. The major groups are Pākehā/European at 67.8% of the population, Māori 17.8%, Asian 17.3%, and Pasifika 8.9%. Overall population growth had slowed to 6.3%, with three in four people living in the North Island. Despite this, population growth in Auckland had halved and growth in the South Island was faster than the North Island (7.3% vs 5.9%). Further, there was a nearly 60% increase between 2018 and 2023 in people working from home and the population and workforce continues to trend older.

The impacts and costs of climate change also dropped significantly from fifth and 28.7% last year to seventh and 16.3% this year. **Supply chain transparency** reduced slightly from 6.5% in 2023 to 5.1% in 2024. Similarly, **nature/biodiversity dependencies/ impacts** dropped from 9.6% in 2023 to 4.6% in 2024, despite increasing international regulation and overseas buyers requiring information on environmental/nature impacts on areas such as soil quality and water usage.

While **rising geopolitical volatility and overseas elections** were a top strategic issue for only 10.9% of directors, they remained a core business and economic concern, with 33.2% considering geopolitical uncertainty a key impediment to national economic performance. Amid conflicts in Ukraine and the Middle East, elections are taking place this year in countries home to nearly half of the world's population including Indonesia, Pakistan, France and Russia, with the US 5 November election hotly anticipated at the time the survey was in market.

There were a few interesting organisational differences in the top three rankings. Balancing short-term and long-term issues was the top priority for the private sector as well as local authorities (see Table 1). Climate change was the number one issue for Māori organisations (55%), the only organisation type that put climate change within its top three. Sustainable finance was the number one issue for NFP organisations (56.1%) with its only other ranking in the top three being for government organisations at third (41.4%).

Table 1. Top priorities by organisation type

Organisation type	ISSUE 1	ISSUE 2	ISSUE 3
Large private companies	Balancing short term & long term (59.7%)	Changing business models (45.5%)	Changing stakeholder expectations (37.6%)
Not-for-profit organisations	Sustainable finance (56.1%)	Balancing short term & long term (55.4%)	Changing stakeholder expectations (51.4%)
Small companies	Balancing short term & long term (60.0%)	Changing stakeholder expectations (44.8%)	Changing business models (41.4%)
Government organisations	Changing stakeholder expectations (65.7%)	Balancing short term & long term (58.6%)	Sustainable finance (41.4%)
Publicly-listed companies	Balancing short term & long term (62.8%)	Changing stakeholder expectations (43.1%)	Changing business models (41.2%)
Māori organisations	Climate change (55.0%)	Changing stakeholder expectations (55.0%)	Balancing short term & long term (45.0%)
Local authorities	Balancing short term & long term (71.0%)	Changing stakeholder expectations (64.5%)	Changing business models (35.5%)

Emerging social issues[7]

Businesses are increasingly expected to take a stand and lead on social issues. Boards need to weigh up the relative merits of taking a stand. Whether they have a say publicly or not, their (in)actions will still be judged by their stakeholders. Social issues do not stop at the front door, and boards need to ensure they are mindful of the impacts various issues can have on productivity, health and safety, employee engagement and more.

In the 2023 Edelman Trust Barometer, businesses were the only trusted institution globally (at 62%) as well as the only institution that respondents considered both ethical and competent. There was also an increasing expectation that businesses would speak up and lead on societal action such as climate change, economic inequality and access to healthcare. That a company shared similar values was a primary point of consideration for employees and a key influencing factor for consumers.

On the back of this, one of the topical questions we asked directors this year was which emerging social issues their boards were discussing/paying attention to. **Cost of living** was the stand-out on 62.5% (see Figure 13). This mirrored its high result as the biggest impediment to national economic performance (on 41.6%) as well as demand being considered the biggest organisational risk.

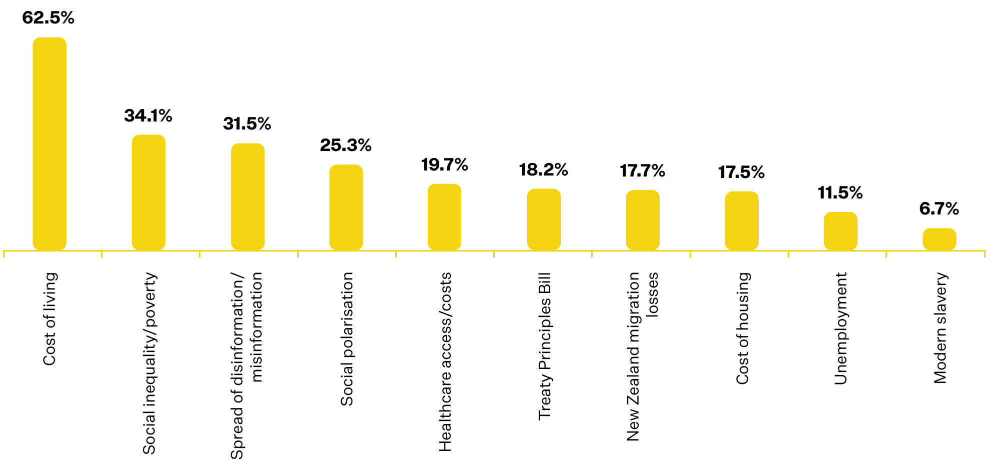
DIRECTOR INSIGHT

“There are a number of social concerns and broader socioeconomic issues that are impacting on businesses and on our ability to attract the right talent to New Zealand.”

– Pip Greenwood CMInstD

Figure 13.

Emerging social issues



7 **Question 7:** What are the emerging social issues your board is paying attention to/discussing (choose up to three)?

The next highest issue was **social inequality/ poverty** (34.1%). Inequality matters for business as it is associated with poor long-term outcomes in relation to education, physical health and psychological wellbeing. There is also a growing body of international work that demonstrates it can lead to poorer economic growth and productivity.

Despite this, it was interesting that **cost of housing** only ranked eighth on 17.5%. Stable, healthy housing has long been recognised as a key determinant of education, health and wellbeing outcomes. The latest Stats NZ 2023 Census data found a slight increase in home ownership rates (66% up from 64.5% in 2018) and, with the exception of Gisborne, homes were generally healthier and warmer than in 2018 (18.1% experienced dampness down from 21.5%; 14% had mould, down from 16.9%; and 66.8% had heat pumps, up from 47.3%). However, it was also noted that median rents had risen by 32.4% in the same period.

Housing affordability remains a key issue for New Zealanders with CoreLogic's latest Housing Affordability Report showing the median property value is 7.7 times the median household income. Despite the higher interest rates in the 1990s, the average house cost only 3.2 times the median household income. Employers in the least affordable regions also find housing affordability and availability can be an impediment to attracting employees.

The **spread of misinformation/ disinformation** ranked third on 31.5% with **social polarisation** fourth on 25.3%. Research suggests that increasing social polarisation is, in part, due to the spread of misinformation and disinformation. Social polarisation is a complex issue that impacts society – and business – and can contribute to a breakdown of workplace culture, more employee conflicts, increased stakeholder and shareholder activism, reduced brand loyalty, and politicisation of policy implementation.

While a lesser percentage of directors were directly concerned about the **Treaty Principles Bill** (18.2%), it nonetheless is adding to their concerns around social polarisation. The Bill, which has been criticised by Sir Geoffrey Palmer due to the lack of mandate and its divisiveness, was derived from ACT Party policy and agreed to as part of the coalition agreement. Despite this, both National and NZ First have, to date, stated they will not vote for the Bill past the first reading. Comments on social media highlight increasing polarisation surrounding the Bill.

Access to, and the increasing cost of, **healthcare** ranked fifth (19.7%), with cost of living being a barrier that is taking its toll. Employee health directly correlates with productivity, which was considered the third-biggest impediment to national economic performance (32.3%), as well as absenteeism. 'Presenteeism' refers to employees who are physically present at work but are not working optimally due to physical or mental health issues, and/or financial stressors (see page 26). While it's not new, it's a growing concern and cost for businesses with New Zealand's prolonged financial pressures impacting on New Zealander's mental health and increasing calls for health insurance (in a recent Employers and Manufacturers Association survey, 64% of respondents considered medical and health insurance important).

Colloquially known as the "brain drain", 17.7% of directors were monitoring New Zealand's **migration losses** with record-breaking numbers of people under 30 years old leaving the country in 2024. This was driven largely by the relatively high cost of living, low incomes, high unemployment and a constrained job market (**unemployment** ranked ninth on 11.5%). Data released by Infometrics shows that for 25 to 34 year olds, to the year ended 30 June 2024, employment rates were down nationally by 0.9%, but down by 3.3% for those in Wellington. For 15 to 24 year olds, the data was even more dire with a 6% drop nationally and 7.5% drop in employment in Wellington. While labour capacity and capability were no longer primary concerns for directors, experiencing a significant drop down the list of impediments to national economic performance (27.3% vs 42.5% in 2023), the impact of young people leaving the country impacts on the future workforce and succession planning.

While **modern slavery** was ranked lowest (6.7%), some businesses are still keeping an eye on modern slavery in relation to their supply chain risk. Modern slavery is frequently referenced as a supply chain issue, as is the brand and reputation risk that comes with that, it is also a very real concern within our own boundaries with the recent class action lawsuit filed against Gloriavale and five government agencies. Further, New Zealand has commitments under international standards and free trade agreements including NZ-UK agreements and the EU-NZ free trade agreement that came into effect 1 May this year.

Director duties and liabilities[8]

Concerns about director liability are increasing. With many headline cases, increased legal action, and changing legislation and policy shifts, directors are increasingly aware of their fiduciary duties and the challenges they can face from regulators alongside growing shareholder and stakeholder activism. The Companies Act 1993 is the legal framework for directors but, after 30 years, reform is long overdue but welcome.

The *Companies Act 1993* is just over 30 years old and hasn't undergone any significant reform in that time, so there are some longstanding issues that directors are keen to see changed, such as directors' residential addresses being publicly available (note that the *Companies (Address Information) Amendment Bill*, introduced by Hon. Dr Deborah Russell is currently before the Select Committee. Hon. Dr Deborah Russell has indicated that she will withdraw her Bill (assuming an adequate solution is introduced through the reform).

The Government has announced plans for a two-phase approach to amend the *Companies Act 1993*. The first phase will propose legislative change that "modernises, simplifies and digitises" the *Companies Act 1993*. Phase one includes the introduction of a unique identifier for company directors and general partners. It will also permit directors and shareholders to replace their residential addresses with an address for service on the Companies Register.

The second phase of reforms will involve the Law Commission carrying out a review of directors' duties. The starting point for this review is uncertainty about company director duties in insolvency situations highlighted by the Court of Appeal's and the Supreme Court's Debut Homes and Mainzeal judgments.

Selecting from six key areas, directors were asked what areas of the *Companies Act 1993* reform were most important to them. The burden of liability received 83.3% followed by prescribed directors' duties at 54% and enforcement of directors' duties at 45.7% (see Figure 14).

Liability burden is an increasing theme for directors as has been evidenced by recent commentary around the climate-related disclosures (CRD). Other than the addition of CRD, there have been no key changes around liability for directors, but with increasing financial pressures and some high-profile court cases, the issue is certainly front of mind.

DIRECTOR INSIGHT

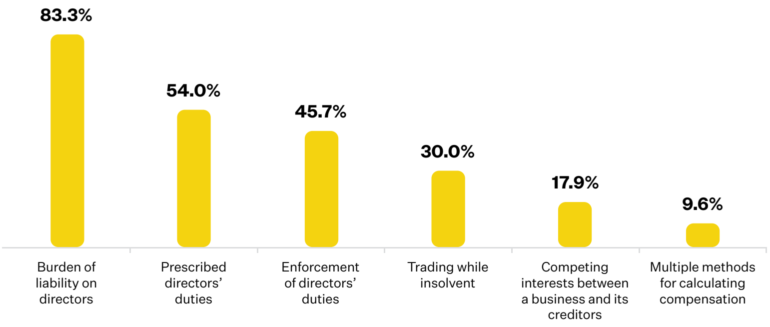
"If directors are hyper-aware of their liability, then it can make them resistant to innovation and more hesitant to take strategic risks. But if they're not focused enough on liabilities, then they expose themselves to risk."

– Oliver Mander

8 **Question 8:** The Law Commission is reviewing the Companies Act 1993. What areas of the review are most important to you as a director personally (choose up to 3)?

Figure 14.

Companies Act reform priorities



Directors' residential addresses help bring Companies Act reform into the spotlight

In the 2023 Director Sentiment Survey, we asked directors about their priorities for changes to the *Companies Act 1993*. The removal of the requirement for directors' home addresses to be published on the Companies Register was the top priority (44%), followed by 35.2% wanting a complete review of the *Companies Act 1993*. Subsequent to this, in February 2024 a Member's Bill was introduced which aimed to address some of the privacy and safety concerns associated with the publication of directors' residential addresses on the Companies Office website by providing for an opt-out provision.

The IoD received significant feedback on the Bill to support our submission, including a number of personal stories of harassment, stalking and risks to directors' families, due to the visibility of their personal information. In talking to the Select Committee we stressed the need for removal of the publication of all directors' residential addresses on the Companies Register and for this to be replaced by a service address. Our concerns were echoed by other organisations including the Privacy Commissioner, New Zealand Police and a number of key law firms.

These concerns fall into three main categories:

- Directors with security concerns due to their business: High-profile directors or those involved in controversial industries have been targeted. Examples include directors receiving threats from disgruntled shareholders, public protests against business activities, or even being doxed, leading to personal security breaches and harm to their families.
- Directors with personal security concerns: Many directors, such as medical professionals and forensic psychologists, face safety risks because of the nature of their work. They have been stalked, threatened and harassed due to their addresses being publicly available, with some being forced to move homes for their safety.
- Directors concerned about fraudulent use of their data: Directors worry about identity theft and fraud due to the easy availability of their personal information online, including their home addresses and signatures.

These safety concerns deter potential directors from taking on roles and impact the quality of governance. The IoD argues that the publication of home addresses is unnecessary and suggests that directors provide a service address instead, to balance accountability with personal safety and maintaining the integrity of the Companies Register.

Insights such as these from our annual surveys, strengthen and support the IoD's submissions on behalf of our members.

Read the full IoD submission here.

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Determining purpose

Strategy[9]

Strategic discussions are being held on how to balance short-term viability against achieving long-term growth and sustainability. Technology and innovation are clearly regarded as a major part of this discussion. This highlights that despite short-term financial pressures being a central focus, boards are continuing to keep an eye on the mid- to long-term.

Overall, a high number of directors reported that their boards continue to focus on the major risks and strategic opportunities facing their organisations, including innovation and strategic opportunities (91.7%) and long-term sustainability (84.9%) (see Figure 15).

While boards don't necessarily consider their approach to strategy and innovation needs a radical rethink (17.3%, dropping from 20.8% in 2023), the focus on growth, cost management, productivity and efficiencies does have them looking at ways to change processes and integrate technology to make ongoing improvements.

Understandably, the private sector – small companies (90%), large private companies (90%) and publicly-listed companies (88%) – had the greatest focus on the long-term sustainability of their business model.

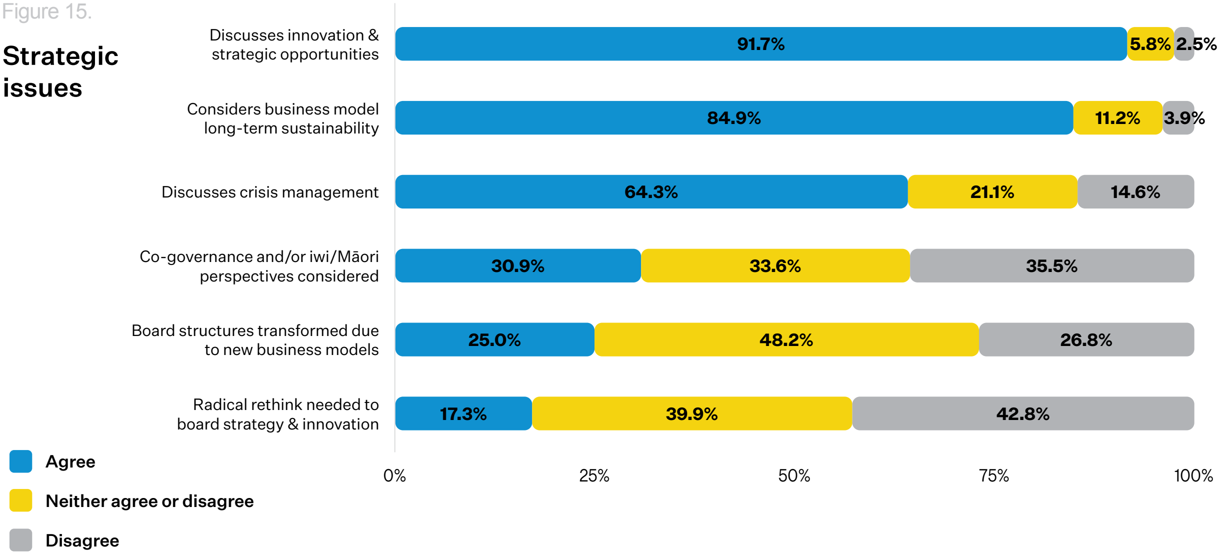
Following a three-year downward trend, there was a slight increase this year in the directors who consider that board structures, including committees, will be totally transformed in the wake of new business models – 25% up from 23.4% in 2023, 25.7% in 2022 and 34% in 2021.

Increasingly, boards are assessing what governance structures and director skill sets will best support their organisations. Further, the *Charities Act 2005* was amended in 2003 to include, among other changes, the need for charities to review their governance procedures, including how they contribute to and support furthering their charitable purpose, at least every three years. The change is designed to ensure directors are regularly thinking about how the charity is governed and whether the rules and

9 **Question 9:** Please indicate whether you agree or disagree with the following statements about strategy (agree, neither agree nor disagree, disagree).

Figure 15.

Strategic issues



processes are fit for purpose. This represents an opportunity for charities to also consider their governance structures.

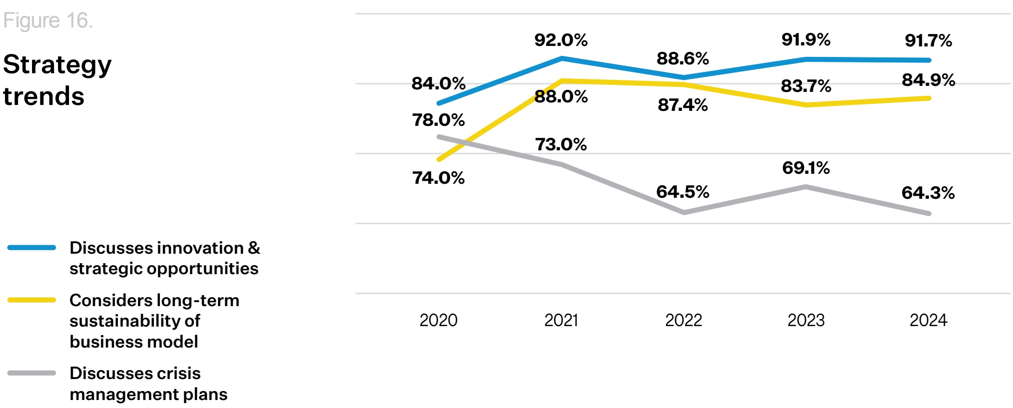
The proportion of boards who have discussed crisis management planning reached a peak in 2020, corresponding with the onset of Covid-19. However, it tapered off in 2021 and 2022 but regained some ground in 2023, possibly on the back of heightened awareness of cyberattacks and increasing climate-related events such as those seen in Auckland, Hawkes Bay and Nelson over that period, reaching 69.1%. It has tapered off again this year to sit at 64.3% (see Figure 16).

Directors of publicly-listed companies and local authorities (both on 84%) were more likely to say their board had discussed crisis management plans. Directors of NFP organisations (52%) and Māori organisations (60%) were least likely.

Discussions about co-governance and/or incorporating Māori perspectives reduced from 40.4% last year to 30.9% this year.

Figure 16.

Strategy trends



Organisation governance and issues facing boards[10]

Mental health and wellbeing continue to be recognised as key aspects of health and safety. Employees are facing increasing external pressures such as cost of living impacts and increased polarisation in society, so implementing mental health and wellbeing initiatives are a good investment in a critical resource – people. Short-term pressures pushed climate change further back this year as, for some, either the pay offs were seen as too far in the future, or the opportunities and risks were yet to be quantified.

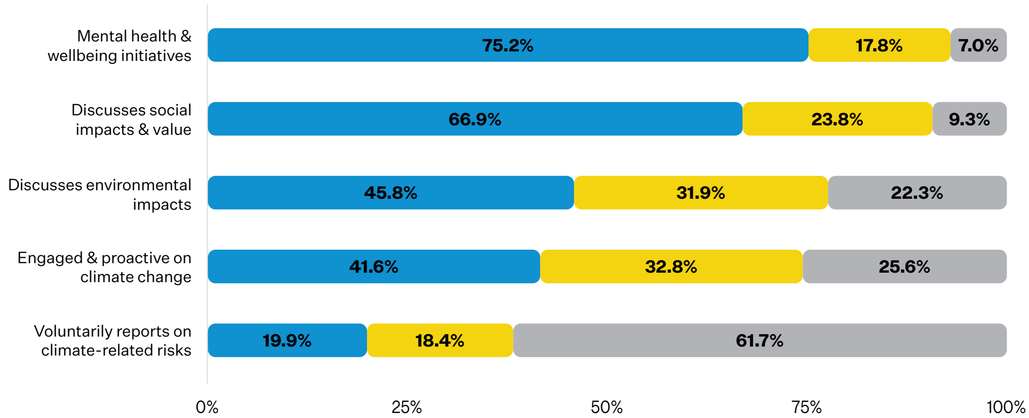
The percentage of organisations with workplace stress and mental health initiatives has remained static on 75.2% (75.9% in 2023). The IoD released a new [Health and Safety good practice guide] in conjunction with WorkSafe in July. The guide highlights that mental wellbeing is a core component of directors' health and safety responsibilities (see Figure 17).

Using a measure called disability-adjusted life years (DALYs) to determine the quality and length of life lost to injuries and illness, WorkSafe estimates that mental harm accounts for 17% of work-related injury and ill health, the second-largest category behind musculoskeletal disorders (27%). The total social cost to New Zealand for work-related DALYs is estimated at more than $2 billion per year.

With increasing financial pressures and higher unemployment rates, workplace wellbeing surveys are seeing more mental health impacts. The Mental Health Foundation reports that workplace cultures that value employee wellbeing have the highest productivity rates and that workplace programmes can expect a positive return on investment (with estimates of up to $5 for every $1 invested) through improved productivity, reduced absenteeism and

Figure 17.

Organisational governance and issues facing boards



Agree
Neither agree or disagree
Disagree

10 **Question 10:** Please indicate whether you agree or disagree with the following statements about governance in your organisation and issues facing boards (agree, neither agree nor disagree, disagree).

presenteeism, and lower numbers of compensation claims.

Despite stakeholder expectations declining to 46.9% this year, having been the number one issue for directors for the last two years (falling from 54.6% in 2023 and 60.4% in 2022), there was a slight increase in the number of respondents who stated that their boards regularly spend time strategically discussing their organisation's social impact and value (66.9% up from 65.9% in 2023, but still down on 69% in 2022).

Cost of living has changed some stakeholders' behaviour, for example, using public transport to save money. While this also provides an environmental benefit, as financial pressures are the key driver for this behaviour it will not necessarily be sustained once financial pressures ease (as we saw during and after Covid-19). Conversely, some behaviours, such as being less likely to pay a premium for sustainable products, are unlikely to change back. Businesses seeking to charge a premium will need to have a clear value proposition and be aware that, in addition to price point, greenwashing claims are also making consumers more cautious.

With demand being identified as the single largest risk to business performance, stakeholder engagement remains critically important. Businesses operate within an ecosystem of stakeholders – employees, customers, investors, insurers, regulators, supply chain, and more. Unlike shareholders, owners or members, within the private sector there is generally no legal requirement to engage with stakeholders, but they are critical to the de-risking, value creation, social license and brand of the organisation. Further, the number of values-based employees is increasing, and choosing who they work for. Of note, while designed to support investors to make more informed decisions about climate-related risks and opportunities, mandatory climate disclosures, for example, represent a shift in governance practices to integrate stakeholder requirements.

Impact reporting is becoming more prevalent. According to the Chartered Accountants Australia and New Zealand, a high-quality outcomes and impact report, or Statement of Service Performance (SSP), communicates the organisation's value proposition, builds trust and increases engagement. While certain NFP organisations are required to provide an SSP prepared in accordance with the External Reporting Board standards, many government departments and private sector entities are also choosing to report on their impact.

Measuring impact is not just a numbers game but about understanding the impact of your organisation on people and in the community. As well as highlighting the positive social, cultural and environmental contributions, impact reporting is also designed to raise awareness of unintended or unforeseen impacts. With increasing demands for transparency and accountability, being aware of your organisation's social impact and values supports board decision making and strategic direction. Directors of government organisations (79%), NFP organisations (76%) and Māori organisations (75%) were most likely to be strategically discussing their organisation's social impact and values.

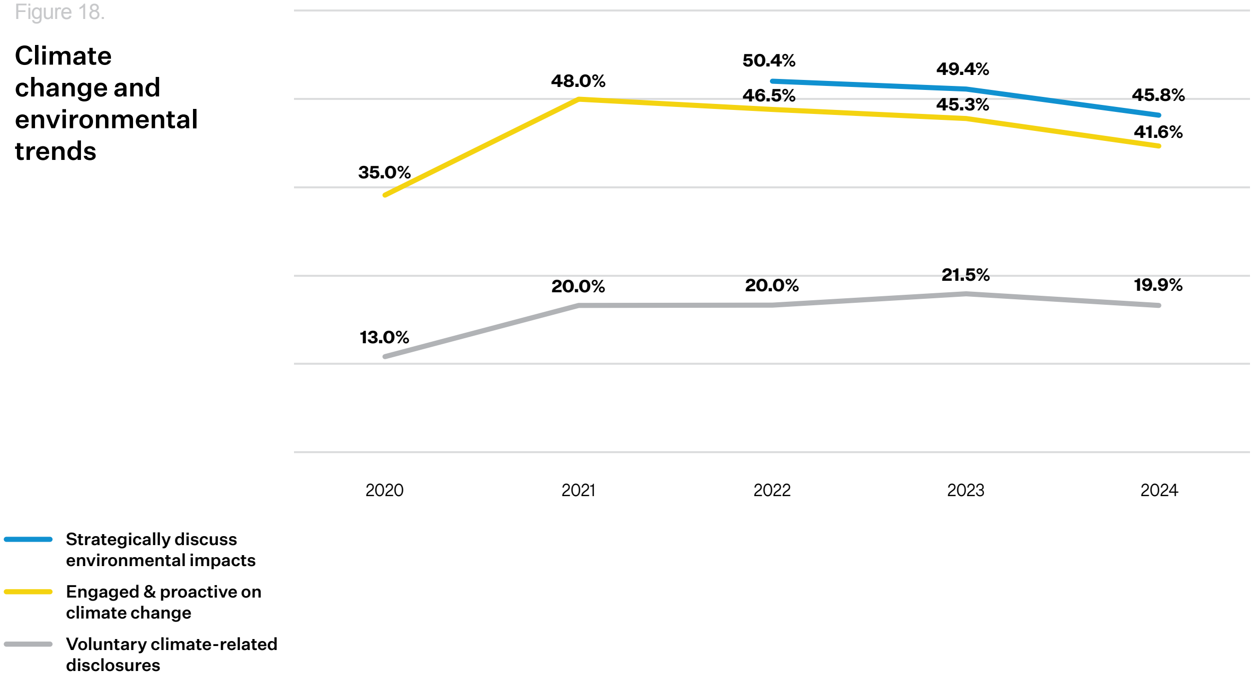
Climate change and environment

All climate change and environmental measures were weaker this year. Of note, while voluntary reporting of climate-related risks reduced by 1.6 percentage points this year, due to the increased sample size, plus the introduction of mandatory reporting, the number of directors who said their organisations undertook voluntary climate-related disclosures increased.

Discussions of environmental impacts reduced by a further 3.6 percentage points this year (45.8%, down from 49.4% in 2023)(see Figure 18). This, however, is significantly higher than the response to nature-related reporting, where only 4.6% of respondents stated that nature/biodiversity dependencies/impacts were a top issue for their boards. With significant environment and climate reforms and policy settings underway or proposed, it is likely a lot of businesses are waiting for new settings and/or incentives. This was highlighted by the degree of uncertainty that directors continued to feel with regard to political/policy uncertainty, with it ranking as the second biggest organisational risk.

Figure 18.

Climate change and environmental trends



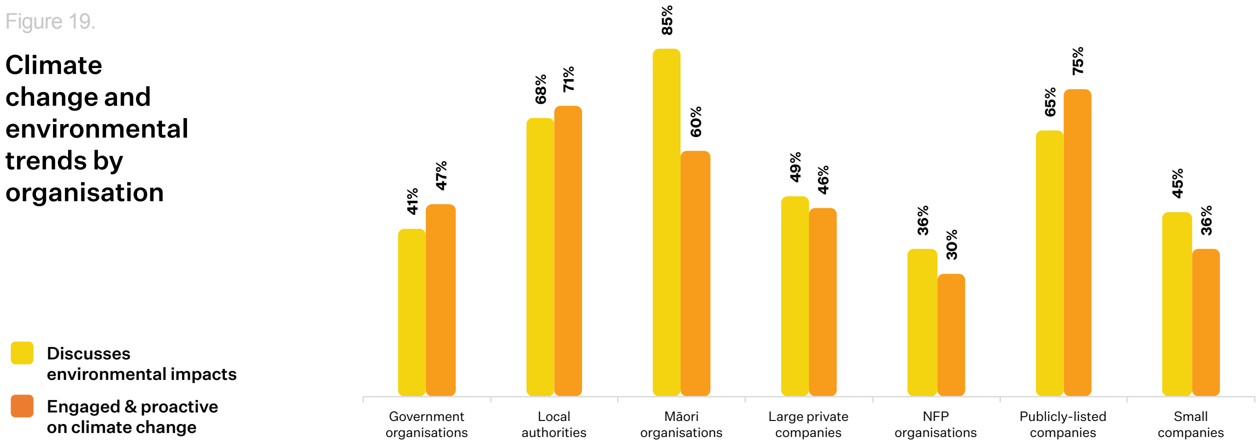
There was further softening this year in the percentage of directors who said their boards are engaged and proactive on climate change risks (41.6%, down from 45.3% in 2023).

Similarly, climate change dropped from fifth and 28.7% last year to seventh and 16.3% this year in top strategic issues for boards, and from 11% to 6.5% in impediments to national economic performance.

Despite this, in the open-ended question, there were two interesting correlations, one between technology/innovation and sustainability/climate change – whereby directors prioritising sustainability are also interested in technology and innovation – and a second between sustainability/climate change and financial management. The slight positive correlation suggests that directors that prioritise financial management are also considering sustainability.

Figure 19.

Climate change and environmental trends by organisation



Climate change continues to present itself as an enduring issue for boards, but one that can, especially in times of financial stress, find itself on the backburner. The complexity of the challenge, pace of change and time horizons are significant impediments to action.

Despite 2030 and 2050 targets, action is required now in order for boards to meet New Zealand's international commitments to reduce emissions. But the investment required now may not yield benefits for years to come, making the decisions hard for boards, especially with ongoing financial pressures. However, climate action is about long-term resilience and, while any action taken to adapt, mitigate or transition to a low-carbon, climate-resilient economy comes at a cost, the **costs of delayed action or inaction are escalating** and, conversely, the cost of action is coming down. Further, there are also a raft of opportunities that can be identified and seized.

There were some significant organisational variances, with Māori organisations, publicly-listed companies and local authorities the most engaged with regard to discussing both environmental impacts and climate change (see Figure 19).

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An effective governance culture

Board culture[11]

There is increasing pressure on boards for literacy in a wider range of areas than governance typically was considered to cover, such as technology, cyber, climate, nature and wellbeing. As well as the changing demographic profile of New Zealand, boards need to consider board composition, skills, experience and diversity, and ensure an inclusive board culture, to get the best value out of its mix of directors.

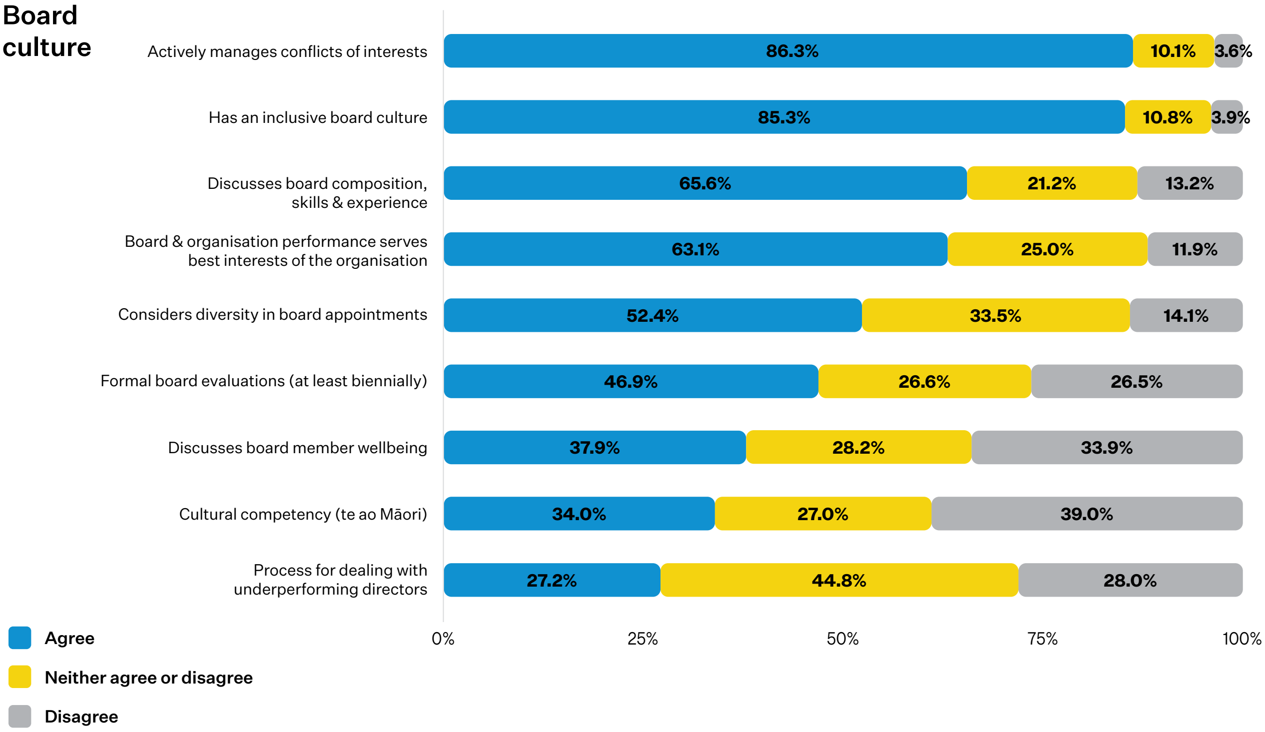
Managing conflicts of interest remained a high priority this year on 86.3%, only slightly down from 87% last year but still well up on 2022 (57.6%) (see Figure 20). With an increased focus on director liability (burden of liability received 83.3% in relation to priority concerns about the *Companies Act 1993)*, conflicts of interest is a key area for directors to enhance and manage. This is reinforced by specific requirements in the *Incorporated Societies Act 2022* and the NZX *Code of Practice*, and more general expectations of ethical behaviour (for example, in the IoD *Code of Practice for Directors*).

An inclusive board culture that enables the sharing of different views and perspectives around the board table remained in second place this year on 85.3%, slightly down from 86.6% in 2023 but still well up on 73.2% in 2022. Despite this, only 52.4% of respondents said their boards considered diversity when making board appointments (52.8% in 2023). Government organisations were more likely to say that diversity was a key consideration for appointments (71%), followed by NFP organisations (66%), Māori organisations (60%) and publicly-listed companies (59%). Diversity was less of a consideration for small companies (37%), local authorities (42%) and large private companies (46%) (see Figure 21).

11 **Question 11:** Please indicate whether you agree or disagree with the following statements about board culture (agree, neither agree nor disagree, disagree).

Figure 20.

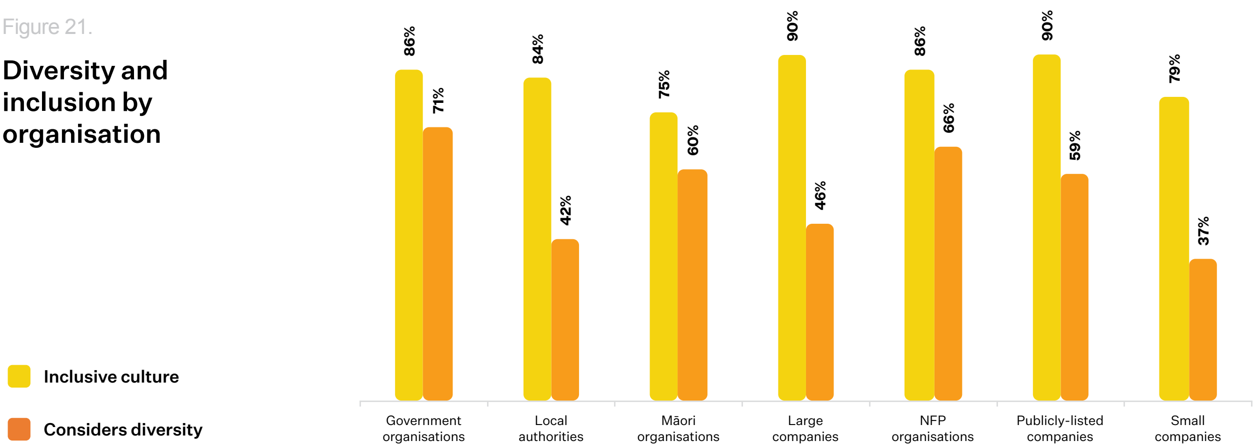
Board culture



While there is a noted disparity in some of the responses, it is acknowledged that for boards that have elections, including incorporated societies and local authorities, there is limited control over diversity of membership. Nonetheless, there is still an **educational role** that boards can undertake to support voters to think more strategically about board composition including open discussions about succession planning, tenure limits and quotas, and regular board evaluations.

Figure 21.

Diversity and inclusion by organisation



Discussion of board composition and skills/experience was third again this year on 65.6% (64.2% in 2023). Publicly-listed companies (82%) were most likely to be regularly discussing board composition and skills, followed by NFP organisations (75%). Small companies (52%) and government organisations (54%) were least likely (see Figure 22).

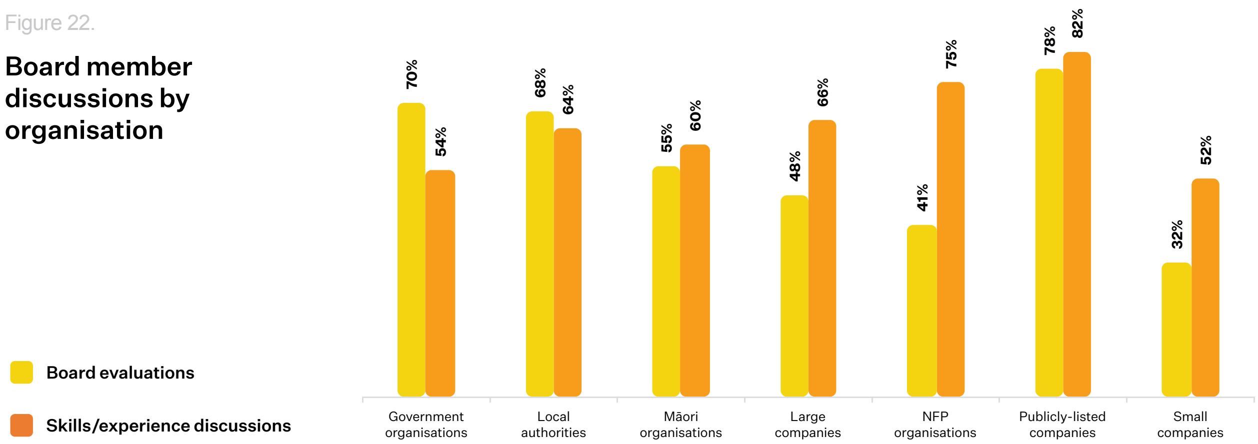
While less than half of directors considered that their boards had the right capabilities to deal with increasing business complexity and risk (see page 34), only 27.2% of directors said their boards had adequate processes and systems in place to deal with problematic or underperforming board members (a new measure this year). A pulse survey undertaken at the IoD Leadership Conference in June revealed that **70% of directors said there was someone on their board they considered should step down**, mimicking similar overseas survey results and suggesting consideration of skills and regular board evaluations may be more critical than ever.

Publicly-listed companies were most likely to state they have adequate processes in place to deal with problematic or underperforming board members (44%) followed by large private companies (32%). Local authorities (19%) followed by NFP organisations (21%) were least likely to have adequate processes in place. The changes to the *Incorporated Societies Act 2022* should, to some degree, help with this as there is now a requirement for a dispute resolution process to be included in their constitutions. While this is, hopefully, a point of last resort within a governing body, having to review constitutions presents an opportunity for officers of incorporated societies to review some of their governance processes.

Since 1 July 2003, local authorities were required to adopt a code of conduct in accordance with the *Local Government Act 2002*. Following concerns about the difficulties in dealing with a seemingly increasing number of conduct matters by elected members around the country, the Local Government Commission undertook a review in 2022. The Commission recommended a number of measures to strengthen the codes, including potentially looking into legislative changes to enable the removal or suspension of a member for repeated misconduct.

Figure 22.

Board member discussions by organisation



Despite all this, the percentage of boards who undertook formal board evaluations (at least every two years) reduced slightly from 50.2% in 2023 to 46.9% this year.

Succession planning has been a key topic of interest this year with a number of high-profile chairs resigning and hand overs (planned and unplanned) highlighting the importance of this critical area of governance (see page 43). 78% of directors of publicly-listed companies said they conducted a formal performance evaluation at least every two years followed by government organisations (70%). Interestingly, despite ranking second for discussing board composition/skills, only 41% of NFP organisations said they regularly undertook formal performance evaluations.

The percentage of boards that regularly assess whether the board's performance serves the best interests of the organisation was 63.1% (62.6% in 2023 and 62.8% in 2022). Acting in the best interests of the organisation is the core duty for directors and trustees, and as such, it is interesting that it didn't score higher.

The percentage addressing board member wellbeing increased this year to 37.9%, up from 34.3% in 2023 but still well down on 62% in 2021. While boards continue to have a strong commitment to employee health and safety, including mental wellbeing (with 75.2% implementing workplace stress and mental health initiatives), their commitment to their own, and therefore the ability to set the tone from the top, continues to be less proactive. While there was high recognition of pressures during Covid-19, brave and sometimes vulnerable conversations around the board table are not evidenced here, or in the lack of processes and systems to deal with problematic or underperforming board members. Māori organisations (50%) and small companies (44%) were most likely to be discussing the wellbeing of board members. Local authorities (19%) and government organisations (33%) were least likely.

Engagement by the board in developing its cultural competency remained steady on 34% (34.2% in 2023). Despite this, evaluation of co-governance models or ways to incorporate iwi/Māori perspectives dropped from 40.4% in 2023 to 30.9%, and only 18.2% said that the Treaty Principles Bill is an emerging social issue that their board is paying attention to/discussing.

Future board[12]

While boards may not be expecting radical changes, change is certain, particularly technological, so incremental strategy and business changes can help mitigate risk and alleviate pressure on an organisation. While boards are seeking external advice on strategy and risk, less than half consider that their boards have the right skills and experience to meet increasing complexity and risk, and less again are undertaking regular professional development.

Seeking external advice on strategy and risk was top of the list this year, albeit slightly reducing from 65.2% last year to 64.9% this year. With director liability and risk being key areas directors are focusing on, use of external advice can provide additional expertise, but may also be used to test internal advice. Advisory boards are also an excellent way to supplement knowledge. Unlike the board, advisory members don't have decision making authority, but can play a vital role in offering challenge, specialised guidance, expert insights and new perspectives.

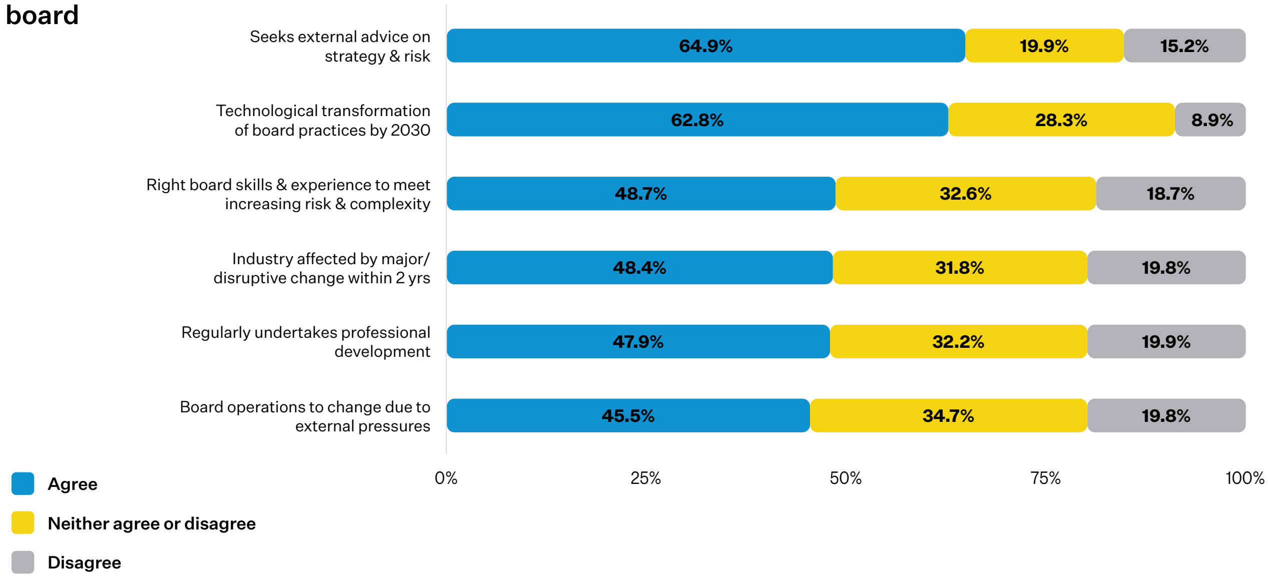
Technological transformation of boards dropped from first place (68.9%) last year to second place this year on 62.8%. This reinforces that last year's uptick was at least partially in response to generative AI prominence with the release of ChatGPT in November 2022.

Despite this drop, technology and innovation, with a particular focus on AI, remained front of mind for directors with it being the primary focus for boards through to the end of 2025. Boards saw AI as a transformative tool for enhancing operational decision making and improving processes as well as driving innovation and enhancing financial sustainability. However, like climate change where a say-do or

12 **Question 12:** Please indicate whether you agree or disagree with the following statements about the future board (agree, neither agree nor disagree, disagree).

Figure 23.

The future board



strategy-action gap has been identified, the amount of action on AI doesn't seem to align with the level of interest.

Only 25.2% said that AI/digital acceleration was a key issue that their board is paying attention to, being eclipsed by more immediate issues such as balancing short-term viability and long-term issues (57%) and changing stakeholder expectations (46.9%) (see page 18).

Again this year, less than half of directors considered that their boards had the right skills and experience to meet increasing risk and complexity (48.7%). Aligning with this, nearly two-thirds of directors (65.6%) are regularly discussing board composition, skills and experience, however, only 27.2% have a process for addressing underperforming or problematic board member (see page 31).

Despite concerns about the skills around the table, less than half of respondents (47.9%) considered that their board supported a culture of continuous learning for directors. Of note, respondents said less than half of boards (46.9%) were undertaking regular board evaluations.

Interestingly, one of the recommendations from the Local Government Commission report on elected member code of conduct was to enhance training and development, with good governance behaviours requiring a sound understanding of governance. Further, they suggest that governance education can be a tool for removing barriers to democratic participation and ongoing professional development would support directors to manage the increasing complexity of the role.

Less than half of directors (48.4%) considered that their industry would be affected by major/disruptive change in the next two years. This view has trended downwards over the five years this data has been collected. While directors may not be seeing significant change over the short term, there is a degree of incrementalism to a number of key issues such as climate change, cyber risk or supply chain transparency, that may be either unseen, or seem minor at the time, but nonetheless may result in major/ disruptive change. If boards are continuing to make incremental change, this can help mitigate risk and alleviate pressure on the organisation. The approach taken – incremental or radical – can depend on the issue. For systemic issues that impact long-term viability such as climate change, stakeholders are demanding to see the urgency and action that organisations are taking, with ambitious targets and business transformation, whereas issues such as technology adoption may be best facilitated by systematic steps.

Despite this, disruptive/changing business models was third on 40.8% (dropping in ranking from second last year) of top issues boards were paying attention to (see page 18). This result also corresponds with only 45.5% of respondents stating that they expect their board to change the way it operates over the next three years as a result of the impacts of external pressures (for example supply chains, geopolitical tensions and legislative change), which was well up from 35.1% last year. The increasing focus on external pressures can also be seen in the watching brief on global and geopolitical issues, in particular the US election result, with the potential of momentous shifts in trade and economic policy.

Ethics, culture and conduct[13]

A healthy board culture is increasingly recognised as a key component of board performance. However, its role in risk management and financial performance shouldn't be underestimated. Bullying, sexual harassment and unethical behaviour is a significant cost to organisations. Conversely, attracting and retaining talent is one of the most immediate responses to a positive board culture, along with increased employee engagement and productivity, and reduced absenteeism and presenteeism.

Three-quarters of respondents (74.5% - essentially unchanged from last year's 74.4%) reported regularly discussing and monitoring the culture of the organisation, down from 78.3% in 2022 and 80% in 2021 (see Figure 24).

Confidence in stakeholders/partners adhering to our organisation's ethical standards was slightly up from last year on 57.5% (56.2% in 2023). Setting the tone from the top means values and ethical expectations need to be purposefully communicated to all stakeholders. Absence of clear communication, and walking the talk, can lead to misinterpretation and misalignment of culture and values.

While supply chain transparency (5.1%) did not rate highly as a key strategic issue, increasingly boards are needing to engage with their supply chains over a myriad of issues including decarbonisation, labour practices, environmental impacts, innovation, product life cycles, logistics and transportation. Supply chain partners pose a reputational risk to businesses, and increasingly stakeholders are wanting transparency about product provenance.

DIRECTOR INSIGHT

"With the risk of modern slavery, bribery and corruption, I would encourage others to do careful assessment when partnering with businesses and use external sources to validate that they are ethical partners."

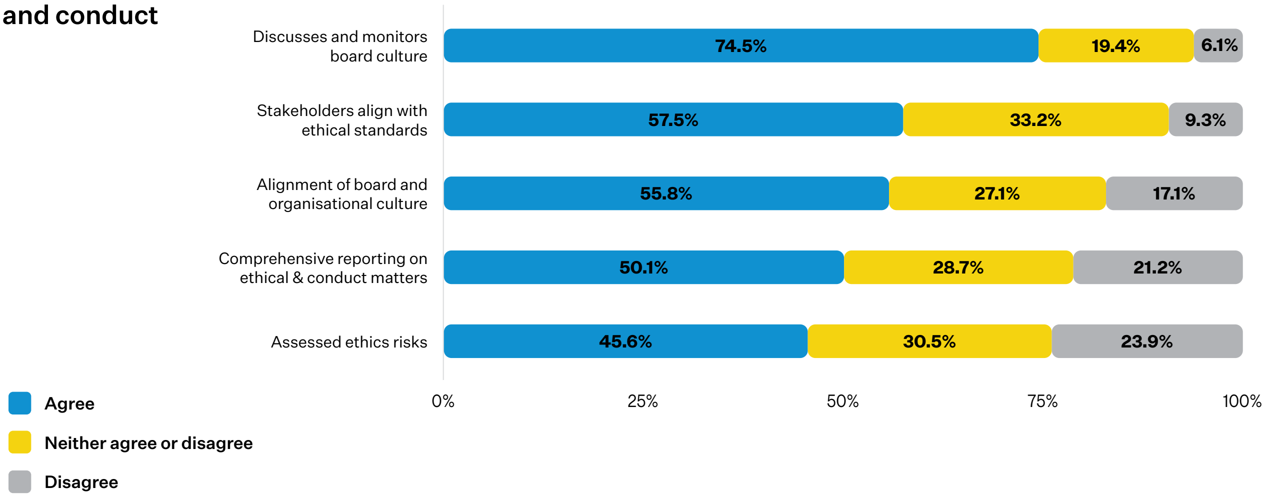
– Alison Gerry CFInstD

There was another uplift in the percentage of respondents who stated their boards receive comprehensive reporting about ethical matters and conduct incidents (50.1% up from 48.8% in 2023) as well as a slight increase in the percentage of respondents who said their boards assessed ethics risks over the past 12 months (45.6%, albeit still well down on 56% in 2021).

13 **Question 13:** Please indicate whether you agree or disagree with the following statements about ethics, culture and conduct in your organisation (agree, neither agree nor disagree, disagree).

Figure 24.

Ethics, culture and conduct



Publicly-listed companies were more likely to assess ethics risks (62%) and receive reporting about ethical matters and conduct incidents (65%) whereas NFP organisations were least likely to assess ethics risks (39%) and Māori organisations were least likely to receive reporting about ethical matters and conduct incidents from management (35%).

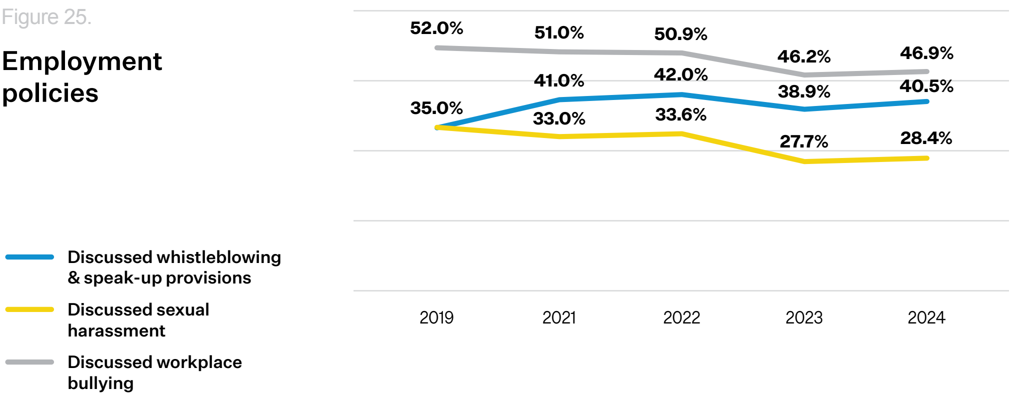
Ethics and culture continue to be under scrutiny by investors, employees and key stakeholders. There were minor upwards shifts in the three employee measures (see Figure 25):

- Workplace bullying 46.9% (46.2% in 2023)
- Whistleblowing and speak up provisions 40.5% (38.9% in 2023)
- Sexual harassment 28.4% (27.7% in 2023)

Earlier this year Te Kahui Tika Tāngata Human Rights Commission and KPMG **released a report** which conservatively estimated that the cost of bullying and harassment to New Zealand businesses is around $1.5 billion per year. In addition to the impacts on the individuals (and their families), bullying and harassment have multiple impacts across an organisation

Figure 25.

Employment policies



including workplace culture, productivity, absenteeism and increased turnover, as well as time spent addressing complaints, all adding cost and risk to businesses.

The Australian Human Rights Commission's Respect@Work report called for boards to consider sexual harassment as a key organisational risk. From a board perspective, sexual harassment can impact organisational culture, health and safety, risk management and legal compliance.

It is noteworthy that only 55.8% of directors said their boards regularly discussed the alignment of board culture and organisational culture. Culture starts from the top with honesty, integrity and ethical behaviour as three of the key measures. Leading from the top means boards should be considering policies and practices, training and support, reporting frameworks, monitoring and accountability, to address workplace bullying and sexual harassment.

A culture of systemic abuse

The Abuse in Care Royal Commission of Inquiry's final report was formally tabled in Parliament and released publicly on 24 July 2024. The 3,000-page report made for sober reading as it laid bare the sorry state of State and faith-based institutions in New Zealand between 1950 and 2019. The report found that a successive list of leaders and governors were at fault for either directly or indirectly allowing, or failing to stop, systemic abuse in care institutions.

Included within the report's [138 recommendations] were that:

- appointments to governance and advisory roles should, among other criteria, appropriately and proportionately reflect the diversity of people in care
- abuse and neglect prevention should be embedded in the leadership, governance and culture of all State and faith-based entities
- leaders of all State and faith-based entities providing care should ensure there is effective oversight and leadership of safeguarding at a governance level
- keeping full and accurate records relevant to safety and wellbeing is an integral part of institutional leadership, governance and culture

Beyond the damage done to the 200,000 vulnerable children, youth and adults, there is significant reputational damage done to the organisations and people directly and indirectly involved.

While this represents one of the largest, systemic abuses of power in New Zealand's history, it is not an isolated incident. Bullying and sexual harassment scandals have rocked a number of sports organisations and corporate businesses, but ignorance is not a defence.

Within care institutions, whistleblowers were frequently ignored or actively silenced, so having a robust speak up policy and receiving regular reporting and monitoring the effectiveness of the policy is critical. *The Protected Disclosures (Protection of Whistleblowers) Act 2022* seeks to protect those who expose wrongdoing in their own workplace. The definition of what 'serious wrongdoing' means was revised in the Act, which replaced 22-year-old legislation and now expressly includes behaviour that is a serious risk to the health and safety of any individual, which could include instances of sexual harassment and bullying.

Boards are responsible for organisational culture, health and safety, and for holding management to account. Directors set the tone for ethical conduct by reinforcing and communicating a culture of speaking up. They also hold management to account on transparency and accountability on ethical behaviour. Whistleblowing policies and speak-up procedures help promote and support an ethical workplace culture.

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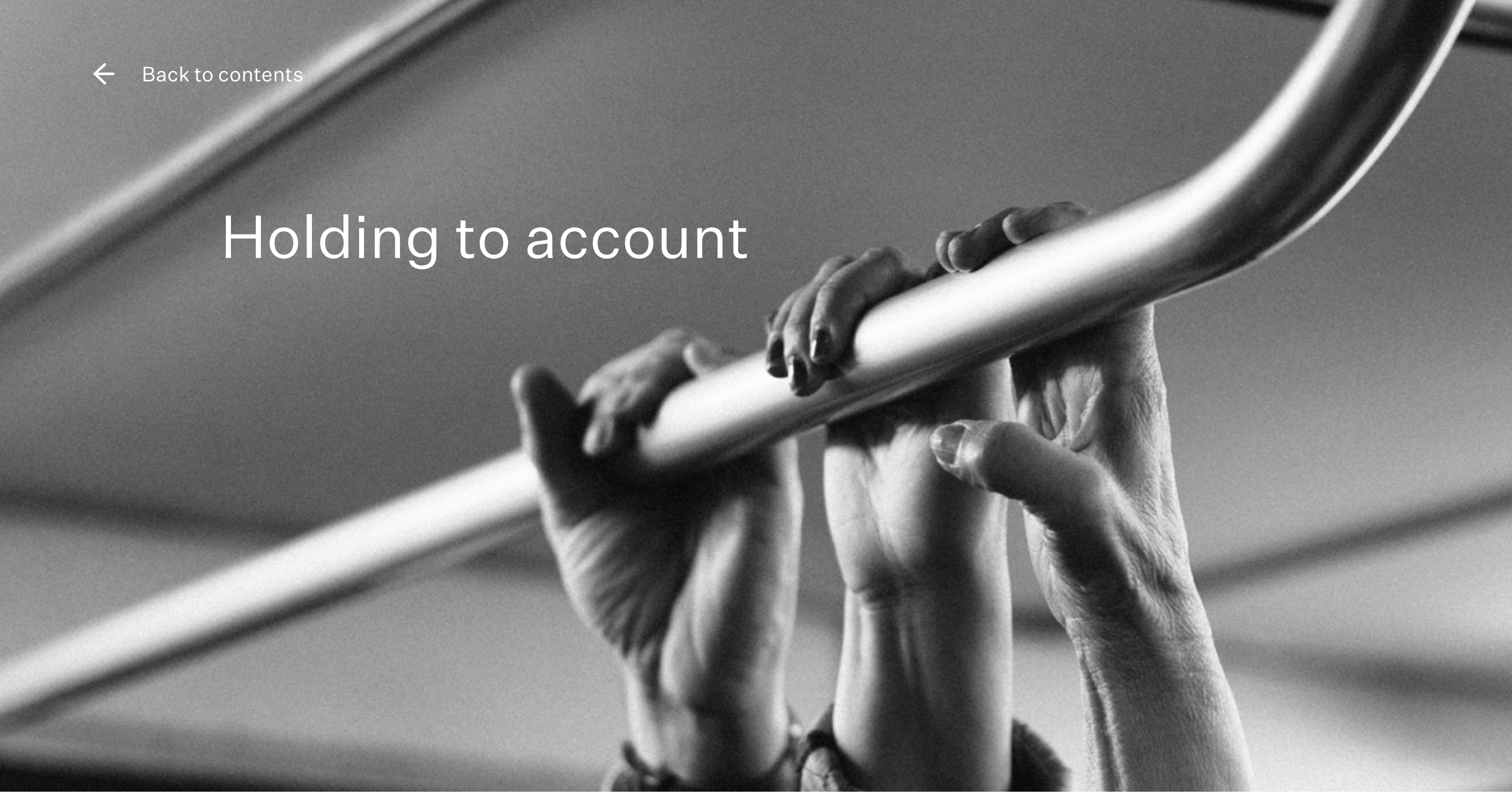


Holding to account

Risk oversight[14]

Only two-thirds of boards said they had appropriate risk management practices in place, with assessment of modern slavery risks within the supply chain languishing on less than 20%. With an increased focus on liability, risk management practices need to be revised and reconsidered to ensure they are fit-for-purpose and directors need to be receiving timely and appropriate reporting to ensure they have good oversight and strong confidence in the systems in place.

Brand and reputation discussions topped the risk oversight list again this year on 85.5%, albeit slightly lower than last year (87.1%). While modern slavery was ranked lowest (6.7%) on emerging social issues (see page 21), 18.5% of directors said they had assessed risks and issues associated with modern slavery and worker exploitation in their organisation and supply chain. As noted in the previous section (ethics, culture and conduct), there are strong brand and reputational risks associated with supply chains that need to be actively managed. Stakeholders expect active leadership and not knowing is not a defence that boards can use.

DIRECTOR INSIGHT

"Climate change is the existential threat of the 21st century. You're not doing your job as a director if you're not thinking about the medium and long-term risks associated with climate change, here and overseas."

– Jonathan Mason CFInstD

14 **Question 14:** Please indicate whether you agree or disagree with the following statements about risk oversight (agree, neither agree nor disagree, disagree).

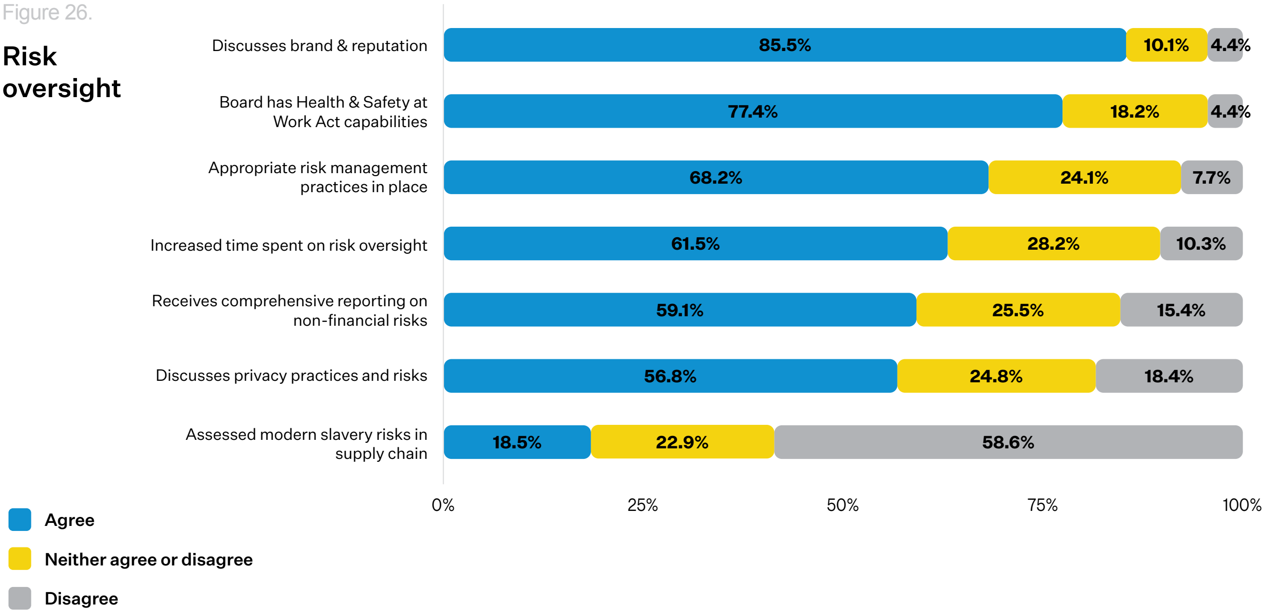
Board capabilities to comply with health and safety was second on 77.4% (76.8% in 2023). Health and safety obligations continue to feature prominently including [Whakaari/White Island]() and sentencing of the Whangārei Boys' High School board for health and safety failures over the death of a student on a school trip in 2023.

New Zealand's health and safety record continues to be called into question with the Business Leaders' Health and Safety Forum's 2024 State of a Thriving Nation report stating that the cost of lost lives, lost earnings, serious injury costs to ACC and health issues rose to $4.9 billion last year, up from $4.4 billion in 2022, and noted that New Zealand workers were twice as likely to die from a workplace incident than Australian workers. Research released by the Forum shows that New Zealand's health and safety performance is continuing to fall behind Australia and the UK, despite similar legislative settings.

Publicly-listed companies were most likely to state that their boards had the right capabilities to comply with health and safety requirements (94%), whereas NFP boards were least likely to consider that their governing members had the right capabilities (65%).

Figure 26.

Risk oversight



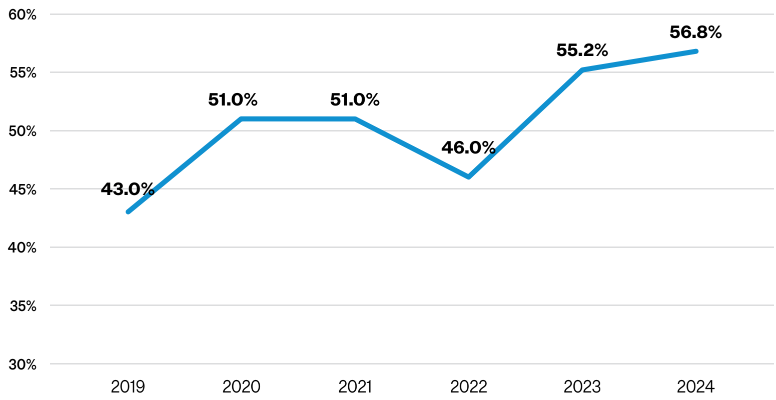
A new measure for 2024, two-thirds of directors (68.2%) said their boards had appropriate risk management identification, assessment, mitigation and monitoring systems in place. There were wide ranging responses for this new measure, with publicly-listed companies most likely to consider they had the appropriate systems in place (90%), but Māori organisations least likely (55%).

Time spent on risk oversight reduced slightly this year to 61.5% (down from 63.1% in 2023), the smallest percentage in the nine years of data on this measure. Further relief is anticipated with the Government's focus on reducing red tape (which ranked seventh in impediments to national economic performance on 24.6%).

Only 59.1% of boards said they received comprehensive reporting from management about non-financial risks such as culture, reputation and social media (slightly down from 59.3% last year but well up on 37% in 2016 when this measure was first surveyed).

Figure 27.

Privacy practices and risks



Privacy practices and risk is another area of oversight that increased slightly this year (56.8% up from 55.2% in 2023). The modernisation of the *Privacy Act 2020* was reflected in an immediate increase in oversight (lifting from 43% in 2019 to 51% in 2020), however there was a dip again in 2022. The Office of the Privacy Commissioner released new guidance in July to lift the standard of good privacy practice. Further, in September, the Statutes Amendment Bill (an omnibus Bill) proposed some minor amendments to further refine and clarify the *Privacy Act 2020*.

To mark Privacy Week, the **Privacy Commissioner reinforced key elements of the Privacy Act 2020** including directors' duties and the role of third-party providers as well as the importance for businesses of maintaining trust and confidence.

Assessment of risks relating to modern slavery and worker exploitation dropped slightly to 18.5% (from 19.8% in 2023) reflecting that this issue has remained on the back burner after consultation mid 2022 by the Ministry of Business, Innovation and Employment on new legislation to address modern slavery and worker exploitation, including elimination within our supply chains.

Australia's *Modern Slavery Act 2018* underwent an independent review in 2023 which found that the Act had not resulted in meaningful change for people affected by modern slavery. The review made 30 recommendations to strengthen modern slavery obligations for reporting entities, including the introduction of a positive requirement to conduct due diligence and the introduction of a federal Anti-Slavery Commissioner (the role was subsequently passed into law in May 2024).

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Technology and information governance[15]

Technology is a double-edged sword, with more organisations impacted by cyberattacks, but also looking to technology to support growth targets and gain efficiencies, particularly in relation to enhancing productivity. For businesses seeking to maintain a competitive edge, integrating technology and AI into strategy is seen as increasingly important.

All technology and information governance metrics saw positive increases this year. It was also a key focus area for directors with an eye on productivity gains, cost efficiencies, improving processes and growth. While only 25.2% of directors said AI/digital acceleration was a key strategic issue their board was paying attention to (see page 18), its role in driving operational transformation is front of mind. If businesses can find ways to do things more efficiently, precisely and quickly, AI has the capacity to make radical, not just incremental changes and can transform business operations.

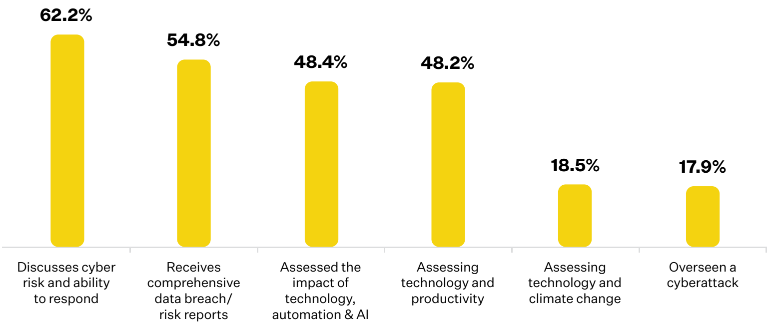
Respondents who said their boards regularly discuss cyber risk and are confident that their organisation has the capacity to respond to a cyberattack or incident remained static this year on 62.2% (62.3% in 2023). However, the percentage of directors who said their boards had overseen a cyberattack over the past 12 months increased significantly from 12.8% in 2023 to 17.9% (see Figure 28).

Cybersecurity insights released by the National Cyber Security Centre for the second quarter of 2024 revealed New Zealanders had reported total losses of $6.8 million to cybercrime, with over half of these due to unauthorised access incidents (where the attackers get inside your system). The 1,203 incidents represented a 22% decrease from quarter one, but represented a 3% increase in monetary losses.

The percentage of respondents who said their boards receive comprehensive reporting about data breach risks and incidents saw a slight further uplift to 54.8% (54.3% in 2023 up from 38.5% in 2022).

Figure 28.

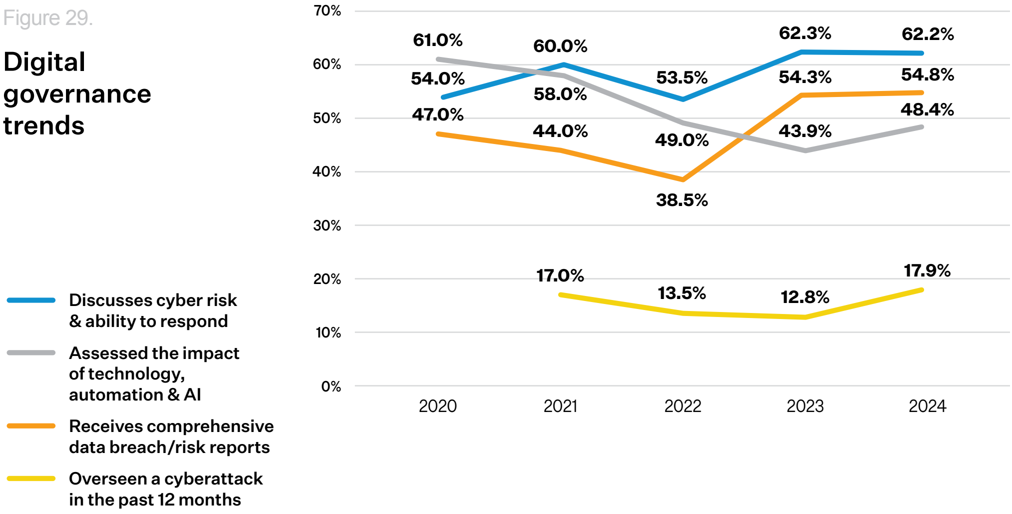
Technology and information governance



15 **Question 15:** Please indicate whether you agree or disagree with the following statements about technology and information governance (agree, neither agree nor disagree, disagree).

Figure 29.

Digital governance trends



There was an increase in the percentage of respondents who said their board had assessed the impact of technology, automation or AI on the organisation and workforce, increasing from 43.8% in 2023 to 48.4%. This is still lower than 2020 when it peaked at 61% and organisations were looking at ways to provide online services during Covid-19.

Two new measures were added this year – the use of technology/AI to support climate change response (18.5%) and whether the board was working with management to determine how technology/AI could enhance productivity (48.2%). The latter aligns strongly with productivity's significant movement in the rankings of highest impediments to national economic performance to third on 32.3%.

Productivity and performance were also a key focus area through to the end of 2025 with boards looking at how to enhance financial performance through internal efficiencies, productivity gains and use of technology.

Publicly-listed companies (63%) and large private companies (60%) were most likely to have assessed the impact of technology, automation and/or AI on the organisation. Māori organisations (30%) and NFP organisations (32%) were least likely.

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Succession planning[16]

Directors are focusing their attention on senior management rather than on themselves, in relation to succession planning. Succession planning is critical for business continuity and navigating change, as well as taking into account demographic changes and the need for increasing literacy in new and emerging areas including decarbonisation, technology and geopolitics.

Future-ready succession was one of the **Top 5 issues for directors** in 2024.

Discussions about strategic talent-related issues and risks have rebounded to 86.5% after a slight dip last year to 83.4%.

Succession planning for key staff other than the CEO reduced from 65.2% in 2023 to 60.1% in 2024 and similarly, succession planning discussions about the CEO decreased slightly from 61.5% in 2023 to 60% (see Figure 30). With a tighter job market there is less movement. Nonetheless, creating a pipeline of talent and a smooth leadership transition is important, regardless of your organisation size. The CEO plays a critical role in shaping your organisation's future, so succession planning is a key element of risk management, especially as not all departures are planned. The last few months have seen the departure of CEOs of Ryman Healthcare, Kordia, Xero, Kāinga Ora, The Warehouse Group and Stuff, to name a few. Each for very different reasons, but the departures have, for good or bad, impacted on share values, reputation and stakeholder sentiment.

DIRECTOR INSIGHT

"The conversation around upskilling and consideration of succession planning needs to be ongoing. It's important to have active programmes about emerging directors and a live skills and attributes matrix."

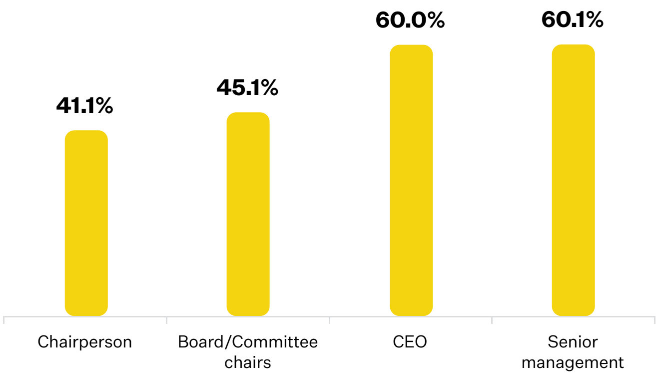
– Sarah Ottrey CFInstD

Similarly, we have also seen a number of chair resignations including at Health NZ, Environment Canterbury, ANZ, KiwiRail and Synlait.

This year, two new measures were added, board member/committee chair succession planning discussions and chairperson succession planning.

Figure 30.

Succession planning discussions



16 **Question 16:** Please indicate whether you agree or disagree with the following statements about succession planning (agree, neither agree nor disagree, disagree).

Only 45.1% of directors said their boards regularly discussed board member/committee chair succession planning and, lower still, only 41.1% discussed chair succession.

With the looming retirement of baby boomers, there is the risk of lost skills and knowledge as well as the potential risk to the organisation's strategic direction. And, like the resignation of the CEO, there can also be impacts on organisational stability, market value, and reputation.

Strategy and growth was the second most frequently mentioned focus area for the top five things that will be of primary focus for your board through to the end of 2025. With this focus in mind, it would be anticipated that succession planning of management and the board would have had higher prominence as boards plan for the future. Despite this strategic focus, boards are not necessarily leading the conversations. Similarly, it's noted that boards did not have processes in place to deal with problematic or underperforming board members (27.2%).

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Effective compliance

Compliance[17]

While compliance-related activities may not have increased this year, climate-related disclosures and the ongoing legislative and regulatory reforms were clearly impacting on directors with political/policy uncertainty being ranked fourth on the list of biggest impediments to national economic performance and as the second highest organisational risk. Ongoing concerns about director liability remain prominent.

There was a slight increase in the percentage of directors who stated that increased personal liability had made them more cautious in business decision making (52% up from 50.3% in 2023 and 39% in 2022).

Despite this, there was a further reduction in the percentage of respondents who stated that time spent on compliance-related activities had increased over the last year – 51.2% down from 54.4% in 2023 and 70.3% in 2022.

Further, and perhaps aligning with the reduction in respondents who stated that compliance-related activities had increased over the past year, there was a decrease in the percentage of directors who considered the scope of director responsibilities would deter them from the role 34.8%, down from 38.8% in 2023.

With regard to the announced *Companies Act 1993* reform, the burden of liability received 83.3% followed by prescribed directors' duties 54% and enforcement of directors' duties 45.7%.

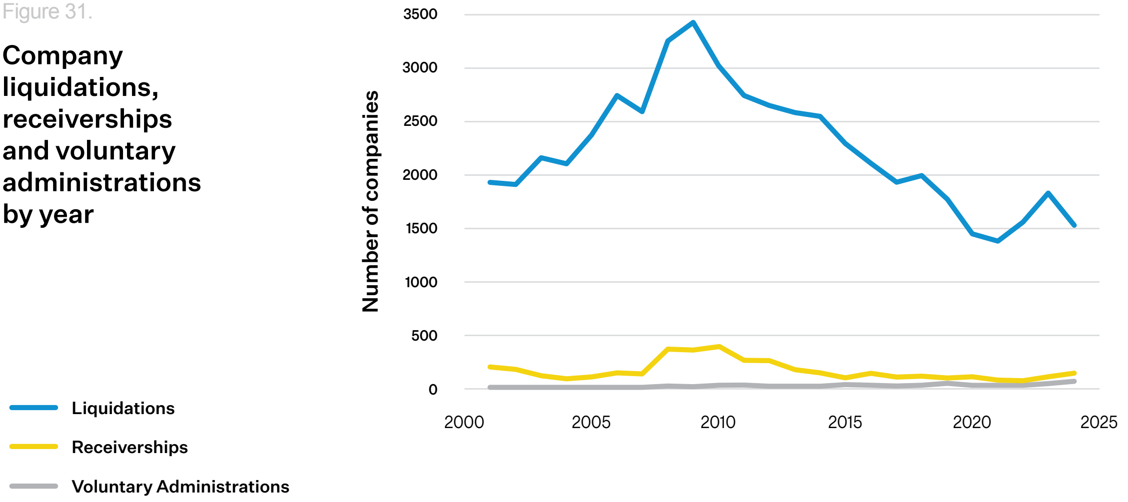
Nonetheless, perception is reality, and the increased number of high-profile legal cases against directors and the recent increase in liquidations (see Figure 31), along with ongoing financial concerns, is making directors more risk averse.

Liability burden is an increasing theme for directors as has been evidenced by recent commentary around climate-related disclosures (CRD).

17 **Question 17:** Please indicate whether you agree or disagree with the following statements about compliance (agree, neither agree nor disagree, disagree).

Figure 31.

Company liquidations, receiverships and voluntary administrations by year



(Graph compiled using monthly data from the Companies Office, as at 31 August 2024)

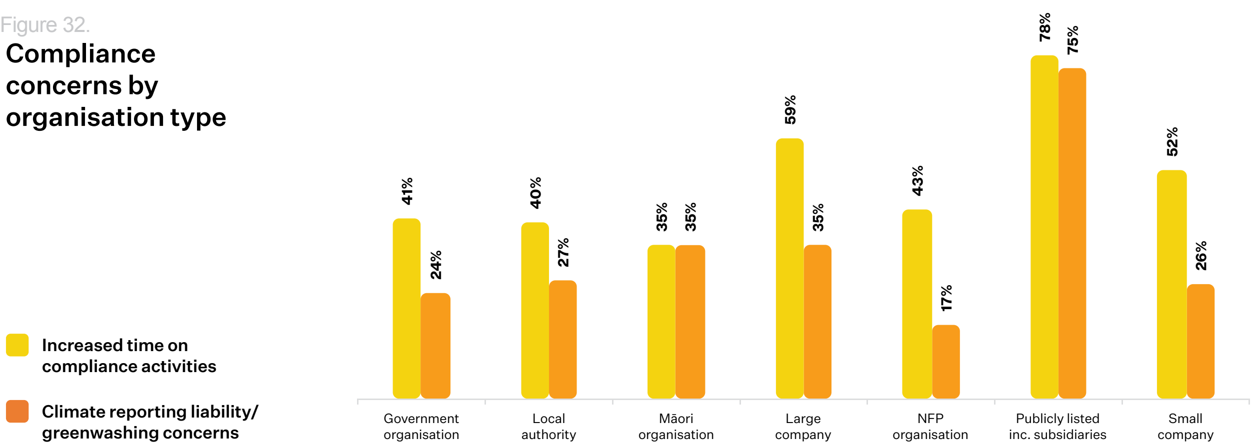
There were some strong organisational differences with publicly-listed companies most concerned about the potential liability of climate reporting and greenwashing. Three-quarters of directors of publicly-listed companies stated that the potential legal risk of CRD or greenwashing was an increasing concern (next highest was large private companies 35%). Similarly, 78% of directors from publicly-listed companies reported an increase in time spent on compliance-related activities, well above the next highest, large private companies (59%) and the average of 51.2%.

Increased personal liability was a key concern for most directors, with the exception of local authorities who do not have personal liability under the *Health and Safety at Work Act 2015* or other legislation. 60% of respondents from Māori organisations, 58% of small company directors and 57% of publicly-listed company directors were concerned about personal liability.

Despite recent court judgements and WorkSafe prosecutions, directors did not report an increased focus on health and safety since the previous year, with no real difference by organisation type.

Figure 32.

Compliance concerns by organisation type



Climate-related disclosures adding to liability concerns

In 2021 New Zealand became the first country in the world to adopt mandatory climate reporting. Leading the way has resulted in directors, preparers, assurers and advisors alike experiencing a steep learning curve for year one under the Aotearoa New Zealand Climate Standards (the Standards), even for those who had previously been voluntary reporters for a number of years.

The need to transition to survive and succeed in a low-emissions climate-resilient economy remains a core focus for directors. Support for the Government's objective to address climate change and the introduction of mandatory climate reporting requirements similarly remains high, and the reporting regime is seen as a vital step towards a sustainable future.

While eager to ensure their successful implementation, directors also had to balance liability concerns against their disclosures. In ***Lessons from the front line***, released in October by KPMG and Chapter Zero New Zealand, directors with first-hand experience of this challenge shared their learnings as they grappled with the requirements of the Standards.

Whether organisations are captured by the regime or not, the lessons learned are important considerations for all directors to better understand what is required and how to generate value from climate reporting. The need for directors to be open to opportunities so they can unlock the benefits for the organisations they govern, as well as mindful of the risks, is an underlying theme of the guide.

Compliance and reporting in itself is not the end goal; it is about communicating with stakeholders, identifying the risks and opportunities, and positioning your business for a climate-changed future. Directors therefore need to understand how their organisation and value chain will be impacted, demonstrate how they are identifying and managing the risks and opportunities, and decide whether a change is needed to the strategy and business model.

To support this, directors need to be actively engaged in the process. Building climate knowledge, reviewing board structures, building a shared understanding of organisational impacts, industry collaboration, considering risk appetite, enhancing internal capability and capacity as well as engaging external expertise where needed, are all activities that can help build board alignment and capacity.

You can download the guide **here**.

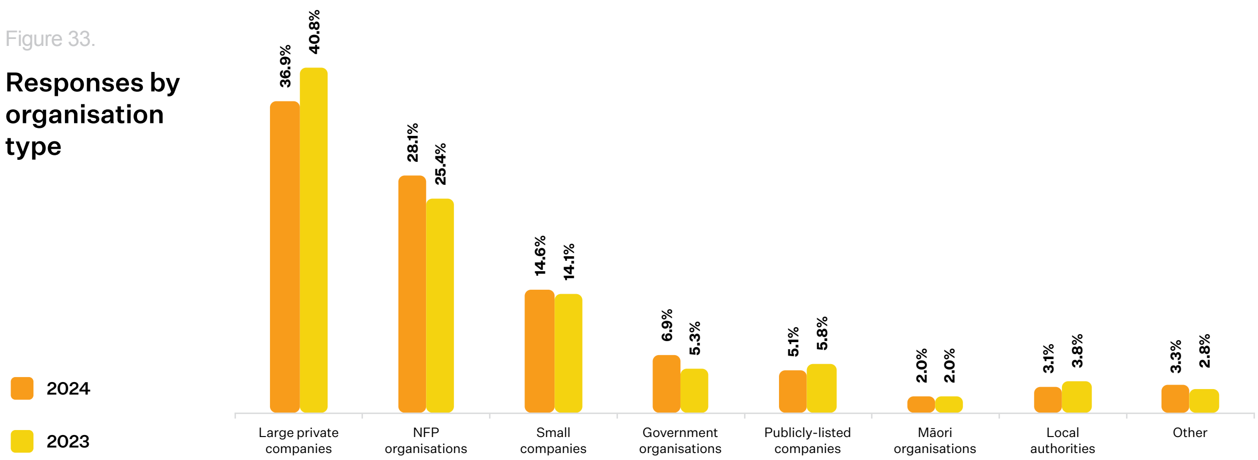
Demographics

Organisational category

This year there was some movement in representation from among the different organisation types, with fewer directors of larger entities (3.9% reduction), and an increase in responses from directors of NFP organisations (2.7% increase).

Figure 33.

Responses by organisation type



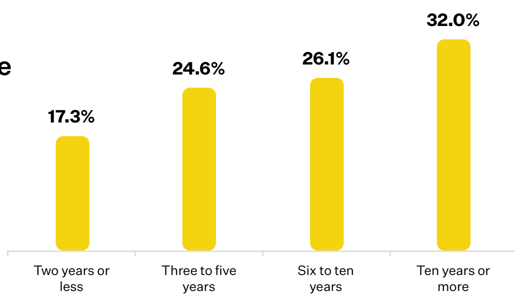
Governance experience

Of the directors that completed the survey, nearly 60% had at least five years' experience as a director/governing body member, with 32% having more than 10 years' experience.

Of the directors currently in a board role, 46% were board or committee chairs, 34.5% were independent or non-executive directors, and 19.5% were trustees/not-for-profit governing body members (up from 15.6% who identified as trustees/not-for-profit governing body members last year).

Figure 34.

Governance experience



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Contributors

About the Institute of Directors

The IoD has almost 11,000 members, is New Zealand's pre-eminent organisation for directors, and is the heart of the governance community. We believe in the power of governance to create a strong, fair and sustainable future for New Zealand.

Our role is to drive excellence and high standards in governance. We support and equip our members, who lead a range of organisations including listed companies, large organisations, state and public sector entities, small and medium enterprises, not-for-profit organisations and charities.

The annual *Director Sentiment Survey*, run in conjunction with ASB, is one of our key research tools for assessing issues and impacts for directors, as well as identifying areas where we can provide further advocacy, education, support and guidance.

About ASB

ASB is one of the largest providers of financial services in Aotearoa, serving New Zealanders for more than 175 years. People are at the heart of everything we do at ASB. From our unique culture, to our commitment and support of the communities we live and work in. We are proud to support more than 1.3 million personal, business and rural customers, with a team of around six thousand people and network of 80 branches throughout the country. We believe all Kiwis, our whanau, our businesses and our communities have the right to benefit from progress and we are committed to our purpose of accelerating financial, social, and environmental progress for all New Zealanders.

In keeping with this spirit, the ASB Economics Team is focused on providing quality research and commentary on the New Zealand economy and financial markets. Led by Chief Economist Nick Tuffley, the team aims to deliver timely analysis and up-to-the-minute accounts of market trends and developments.

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Chief Economist

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In addition to the 1,240 directors who completed the online survey, we also interviewed six directors to gain further insights into the survey questions. We appreciate their time and candour.

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- Pip Greenwood CMInstD
- Jackie Lloyd CFInstD
- Oliver Mander
- Jonathan Mason CFInstD
- Sarah Ottrey CFInstD

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