boardroom

FEB / MAR 2018

Magazine of the Institute of Directors in New Zealand

Lessons from the Beehive to business

PAGE 12

Former Prime Minister the Rt Hon Sir John Key gives us his take on governance

What Matters

A note from the editor.

The 'What Matters' theme of this issue – stakeholder and shareholder *engagement* – got me thinking, as editors are prone to, about the word itself.

Engagement.

- It's what we do before marriage.
- It's the state of hanging on the phone.
- It's attentiveness (if not necessarily understanding).
- It's going into battle.
- It's a gig, a date, a previously agreed meeting.
- It happens at scrum time, right?

If anything unites these ideas it is a sense of participation – a concept that comes through very strongly in the 'What Matters' articles herein. Institutional investors increasingly want to participate with boards in discussions around governance and matters affecting the long-term sustainability of companies. Boards participating in these conversations can demonstrate the quality of their oversight and learn how their company's management and strategy are perceived in the market. Consumers also want to understand and influence the way businesses operate and the ethics behind profit making. They all want to be engaged.

The original meaning of the word 'engagement' was of a legal or moral obligation (from the French *engager*, to pledge).

Perhaps that's still the best way to understand it in a governance context. An obligation – owed by directors to the company, to the shareholders, and to the societies we operate in – to communicate about decisions taken and actions undertaken in a business.

The business leaders and directors interviewed for this issue have been very generous with their views on this topic. I hope you find something in what they say that engages you.

Aaron Watson
Acting *BoardRoom* editor

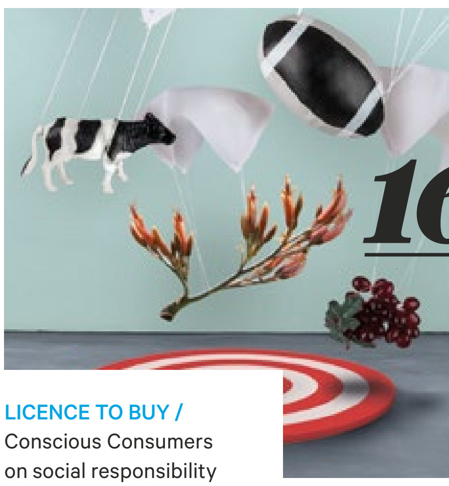
BoardRoom is the magazine of the Institute of Directors in New Zealand **iod.org.nz**

The Agenda

FEBRUARY / MARCH 2018

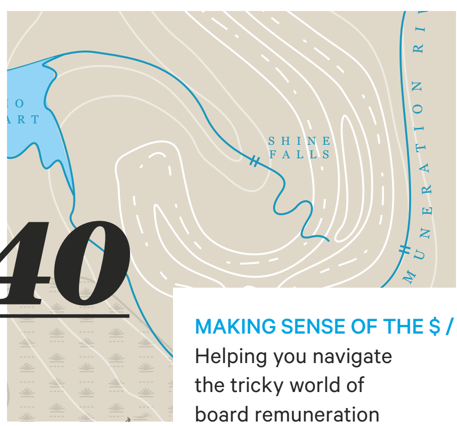
12

GOVERNANCE LESSONS /
From the Beehive to business



16

LICENCE TO BUY /
Conscious Consumers on social responsibility



40

MAKING SENSE OF THE $ /
Helping you navigate the tricky world of board remuneration

INSIDE IoD

FEATURES

FROM OUR PARTNERS

boardroom

BoardRoom is published six times a year by the Institute of Directors in New Zealand (IoD) and is free to all members. Subscription for non-members is $155 per year.

BoardRoom is designed to inform and stimulate discussion in the director community, but opinions expressed do not reflect IoD policy unless explicitly stated.

EDITOR
Aaron Watson
+64 470 2647
aaron.watson@iod.org.nz

Please contact the editor for any advertising queries.

INSTITUTE OF DIRECTORS IN NEW ZEALAND (INC)
Mezzanine Floor, 50 Customhouse Quay
PO Box 25253, Wellington 6146
New Zealand
Tel: 04 499 0076
Fax: 04 499 9488
mail@iod.org.nz
iod.org.nz

The Institute of Directors has staff based at the National Office in Wellington, an office in Auckland and eight branches. For National Office, phone 04 499 0076.

BOARDROOM IS PROUDLY DESIGNED BY

eightyOne

eightyone.co.nz
04 894 1856

When you have finished with this magazine, please recycle.

BRANCH MANAGERS
For a full list of branch managers, see *page 45*.

BOARDROOM IS PLEASED TO ACKNOWLEDGE THE SUPPORT OF

NATIONAL PARTNERS

ASB
asb.co.nz
0800 803 804

MARSH
marsh.co.nz
0800 627 744

NATIONAL CYBERSECURITY PARTNER

aura INFORMATION SECURITY
aurainfosec.com
04 894 3755

NATIONAL SPONSORS

KPMG
kpmg.co.nz
09 367 5800

PRODUCTION NOTES
Every effort has been made to guarantee the pages of this magazine are sustainably sourced and produced using paper that meets the environmental standards shown below.

MIX
Paper from responsible sources
FSC® C107054

The growing interest in how we operate

KIRSTEN PATTERSON
CEO, INSTITUTE OF DIRECTORS

Tēnā koutou katoa

Welcome to the first edition of *BoardRoom* for 2018.

Last year, we launched "What Matters", a series that profiles some of the biggest issues for directors through resources, events and courses. This edition of *BoardRoom* launches our first theme for the year – stakeholder and shareholder engagement.

Whether you call it shareholder engagement or shareholder activism all depends on where you sit on the issue being debated that day, but there can be no doubt that shareholders and stakeholders are now more engaged than ever before.

The KPMG Board Leadership Center has identified that engagement and activism is expected to increase with momentum for ESG issues such as climate change and board diversity increasing as investors become "more active, more assertive, and more public with their stances than in the past".

KPMG notes that a shift in engagement has occurred: "Two or four years ago, unless you were one of the biggest [investors] … you didn't have a realistic expectation that you would get a response from the company. That has changed."

Growing expectations around transparency have significantly increased the pool of people and organisations interested in our businesses and the way we operate. No longer is it just our shareholders, our staff and our direct customers who have expectations of a relationship and an expectation of communication. The interested bystander now plays a huge role in our social licence to operate. The ripples of our business impact on the community and environment around us are waves – and often tsunamis that can be especially hard to surf in these social media times.

Pay is no longer something private that we don't discuss over the dinner table.

The upcoming US proxy season is going to be an interesting one. Pay is likely to remain top of the agenda, as most public companies will be required, for the first time, to include pay ratio disclosure in their 2018 proxy statements. A survey by law firm Sherman & Stirling identified that gender pay was one of the most common compensation-related shareholder proposals of the 2017 season and recommended directors seek a review of any gender pay disparity within the organisations they govern.

Pay is also likely to remain on the agenda here in New Zealand, especially since the new government has announced a review of the Equal Pay Act, a strengthening of collective bargaining rights and the potential for industry-wide fair pay agreements. Pay is no longer something private that we don't discuss over the dinner table.

Our "What Matters" editions are intended to inform and challenge you on the issues ahead and to help lead the conversations in boardrooms around the country.

We hope this edition and the upcoming "What Matters" events at IoD branches provide food for thought.

Ngā mihi

Kirsten (KP)

UpFront

NEW YEAR HONOURS 2018

The Institute of Directors congratulates the following members who received honours in recognition of the contribution made in their respective fields.

COMPANION OF THE NEW ZEALAND ORDER OF MERIT (CNZM)

Dr William Blair Rhodes Rolleston, MInstD
SAINT ANDREWS
for services to the farming industry

Graeme Paul Wheeler, Associate Member
LOWER HUTT
for services to the state

OFFICER OF THE NEW ZEALAND ORDER OF MERIT (ONZM)

Robert Jan Jager, CMInstD
SAINT ANDREWS
for services to the farming industry

Penelope Jane Mudford, CMInstD
WELLINGTON
for services to arbitration and the primary industries sector

Helen Alison Robinson, CMInstD
AUCKLAND
for services to business, particularly the technology sector

MEMBER OF THE NEW ZEALAND ORDER OF MERIT (MNZM)

Bryce Robert Barnett, Associate Member
NEW PLYMOUTH
for services to governance and philanthropy

Dr Sally Davenport, MInstD
WELLINGTON
for services to science

Elizabeth Anne Dawson, MInstD
WELLINGTON
for services to sports and governance

Virginia Mary Goldblatt, MInstD
PALMERSTON NORTH
for services to arbitration and mediation

Cameron Cooper Moore, MInstD
CHRISTCHURCH
for services to the manufacturing industry and community

Dr Suitafa Deborah Ryan Nicholson, MInstD
WELLINGTON
for services to the Pacific community and health

Bruce Picot, MInstD
NELSON
for services to business

THE QUEEN'S SERVICE ORDER (QSO)

The Hon Kerry James (Chester) Borrows, MInstD
HAWERA
for services as a Member of Parliament

The Hon David Richard Cunliffe, MInstD
AUCKLAND
for services as a Member of Parliament

The Hon David Smol, MInstD
WELLINGTON
for services to the state

The Hon Evelyn Marion Weir, MInstD
HAMILTON
for services to seniors and the community

THE QUEEN'S SERVICE MEDAL (QSM)

Aidan Bennett, MInstD
AUCKLAND
for services to the community

For further information, visit **dpmc.govt.nz**

APPOINTMENTS

Alison Gerry
Chartered Member, has been appointed chair of online investment platform Sharesies

Sir Brian Roche
Member, has been appointed chair of the Ministerial Advisory Group to Health Minister David Clark

Michael Stiassny
Chartered Fellow, has joined the board of litigation funder LPF Group

Michael Falconer
Member, has joined the board of healthcare technology company Orion Health

Linda Robertson
Chartered Fellow, has joined charitable grants body the Central Lakes Trust

Anita Killeen
has taken up the roles of chair and president of the board of Fertility NZ

Abby Foote
Chartered Member, has joined the board of fishing and aquaculture company Sanford

Aimee Barwick
Member, has been appointed advisory sector leader for New Zealand at management, engineering and development consultancy Mott MacDonald

Q: The director's duty to act in good faith and in what they believe to be the best interests of the company under section 131(1) of the Companies Act 1993 is owed to who?

A. The shareholders
B. The company
C. Creditors

A: The company

Note: While directors must generally act in the best interests of the company, there are exceptions that allow directors of certain subsidiary and joint venture companies to act in the best interests of a shareholder.

Ana Morrison, 2016 mentee.

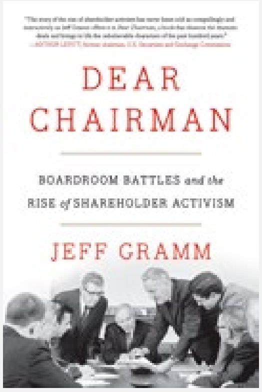
MENTORING FOR DIVERSITY

APPLICATIONS OPEN 28 MARCH 2018

Established in 2012, the IoD's Mentoring for Diversity Programme promotes diversity in its widest sense including ethnicity, age, skills and experience in addition to gender.

It provides mentees with the opportunity to further their professional career and enhance their ability to achieve board appointments to NZX and large company boards through the advice, guidance and support provided by their mentor.

More details and an application form can be found at **iod.org.nz**



POLITE WARFARE

The letters from activist shareholders detailed in Jeff Gramm's *Dear Chairman* are worded politely, but their intent is brutal. They all want to control the board.

BoardRoom has 10 copies of the book, which details boardroom battles and the rise of shareholder activism in the US, to give away.

If you are interested in successful strategies followed by high-profile activists such as Warren Buffett, Carl Icahn and Ross Perot, email **boardroom@iod.org.nz** with *Dear Chairman* in the subject line. The first 10 members will receive a copy of the book.

Biggest global risks

The World Economic Forum's Global Risks Report 2018 predicts these five risks will have the biggest impact in the next 10 years:

1. Weapons of mass destruction
2. Extreme weather events
3. Natural disasters
4. Failure of climate-change mitigation and adaptation
5. Water crises

SUPPORT FOR NZX LISTING RULES REFORM

The NZX is reviewing its Main Board/Debt Market Listing Rules, the first major review since 2003. Over 70 submissions were received, and these can be found at **nzx.com**.

The IoD made a submission, and this is available at **iod.org.nz**. There was broad support for the objectives of reform, including moving to a single equity market. Respondents were less supportive of NZX's proposal to introduce two tiers of issuers and divided on other matters, such as changes to the major transaction threshold. An exposure draft of the proposed rules is expected to be released in April.

Pillar talk: AGMs

Five questions with Chartered Fellow Craig Boyce on his personal experience of *Four Pillars* 4.13: Annual Meetings.

Craig Boyce CFInstD feels AGMs are important to an organisation and that shareholders must have a place "to come and talk".

"The biggest mistake is when directors don't take them [AGMs] seriously," he says.

1. What makes a good AGM?

In my view, understanding the type of shareholders you are talking to, good communication and never taking the AGM for granted.

2. What is the most interesting thing you have seen at an AGM?

Activist shareholders who want to make change quickly. It's the right of shareholders to stand up and say what they think. If they have a grievance, that's fine so long as they say it with manners.

Photo courtesy of Image Services, Victoria University.

IN MEMORIAM

Athol Mann CMG, DFInstD

Professor Athol Mann CMG passed away in Wellington last November aged 86.

He had a long and distinguished career that encompassed business, the arts and academia.

Mann joined the Institute of Directors in 2000 and was awarded Distinguished Fellow status in 2007.

Among his governance roles, Mann was the inaugural chair of the New Zealand Symphony Orchestra, a director of Te Papa and Barnados and chair of the Health Sponsorship Council and the Medical Research Council alongside sitting on various company boards.

In the accountancy realm, he was a partner (at the age of 21) in a firm that evolved into KPMG. He was a past president of the New Zealand Society of Accountants (now Chartered Accountants ANZ) and a council member of the International Federation of Accountants.

His academic achievements included service as the Dean of Commerce at Victoria University and becoming an honorary life member of the Research for Life foundation.

For his service to the accountancy profession, the arts and the community, Mann was made a Companion of the Order of St Michael and St George in 1986.

"We feel very fortunate to have known Athol as a friend and supporter of the IoD," says IoD Chief Executive Kirsten Patterson.

"He was principled, kind and an inspirational example of the kind of contribution directors can make to their communities through applying their governance skills to not-for-profit roles. He is sadly missed, and our thoughts go out to his family and colleagues."

3. What is the most challenging thing you have seen at an AGM?

The most challenging is where you have to deliver bad news or account for performance that is below par. You always feel responsible.

4. Are digital AGMs the future?

For some shareholders, they are fine. I think they should be both [in person and virtual] to be honest.

5. Have you ever known shareholders to achieve the business of an AGM by resolution and not hold the meeting?

Only in private companies where there is a very small number of shareholders. Then the AGM can become more of a formality.

Comprehensive advice on holding effective AGMs can be found in *The Four Pillars of Governance Best Practice for New Zealand Directors* at chapter 4.13: Annual Meetings. iod.org/FourPillars

New Chartered Fellows

I'd like to congratulate our members who became Chartered Fellows (CFInstD) in 2017. This is the highest level within the IoD Chartered categories and is awarded to members whose knowledge, character and experience makes them a role model for other members, their organisations and the community as a whole.

LIZ COUTTS

President, Institute of Directors ONZM CFInstD

ROB CAMPBELL
AUCKLAND

HUGH FLETCHER
AUCKLAND

SARAH OTTREY
OTAGO SOUTHLAND

PETER CARNAHAN
OTAGO SOUTHLAND

QUINTIN HIX
CANTERBURY

JOANNA PERRY
AUCKLAND

DENISE CHURCH
WELLINGTON

MURRAY HORN
AUCKLAND

ROB TAIT
BAY OF PLENTY

NICKI CRAUFORD
WELLINGTON

TRACI HOUPAPA
WAIKATO

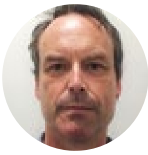
GAVIN WALKER
AUCKLAND

KIM ELLIS
AUCKLAND

SAM KNOWLES
WELLINGTON

A political take on business

Governance lessons from former Prime Minister the Rt Hon Sir John Key



AARON WATSON,
BOARDROOM EDITOR

Former Prime Minister the Rt Hon Sir John Key has the New Zealand economy front of mind as he establishes himself in governance.

Key stood down from the National Party leadership abruptly in December 2016 and left Parliament the following April as the close-fought 2017 election campaign heated up. He led the party to three election victories in 2008, 2011 and 2014.

In September, he joined the board of Air New Zealand, and in October, he took the chair at ANZ (NZ).

The importance of these companies to the New Zealand economy was a factor in his decision to take the roles, he says.

"I considered very carefully whether the companies fitted with my perception that I could add value, that they were companies I wanted to be associated with and that they had a strong role to play in the New Zealand economy," Key says.

"Clearly, the national carrier and the largest bank in New Zealand fit those criteria nicely."

Certainly as prime minister, I found that the more we communicated fully and openly with voters, even if they didn't like the particular policies, they could understand the general direction we were trying to take the country in.

As the country's largest bank, the ANZ carries nearly one in three of all banking transactions made here, so a significant problem there could have a flow-on effect to the wider economy.

"In Air New Zealand's case, we are clearly the largest airline and, arguably, the most committed to New Zealand, given that it is our home territory. So they were considerations – and I reached a decision to accept the offers that were made to me in relation to these two companies."

POLITICAL THINKING

Directors are increasingly called on to consider the place of their organisations in society and the economy as well as steer business strategy.

Environmental, social and governance (ESG) issues are impacting on business's reputations and licence to operate through regulation, shareholder activism and consumer expectations.

None of this is new to Key. In politics, considering public opinion and the broad societal impact of decisions is second nature.

When leading a government, economic issues can never be the only issues that matter, Key says, and the need to balance social and business priorities offers parallels with the challenge directors face incorporating broader conscious thinking into their business strategy.

"I think for a company, clearly, making a profit and reaching the objectives set by the leadership team are very important. But of course companies that do that without any concern for the wider environmental and social issues can do so in a way where they can do tremendous damage to the company.

"You can see that where you have had organisations that have, while lawfully, minimised their tax liability in way that is perceived to be unfair – and that has had quite an impact on the perception of those companies – or, for example, the way United Airlines handled the passenger that they removed because of the overbooking issue. While that was beyond their control, in so much as the person was removed through a government agency, the way that they responded to that publicly had a significant impact on their brand." >>

I think it is very important that the business community ...

MORE COMPLEX THINKING

Bringing ESG concerns into the board discussion can complicate already challenging business questions – not least where there are strong personalities and divergent views around the table. For Key, the ability to engage in robust debate and consider diverse opinions is integral to board functioning, and his time leading cabinet has taught him ways of maintaining team cohesion while allowing debate to flourish.

Some of those lessons learned leading the cabinet should prove valuable to him when chairing the ANZ board.

"It was quite often the case, when we as a cabinet had to consider issues that might have traversed both environmental and economic issues, that there was a divergence of views depending on what portfolio a particular minister held.

"One of the ways I have found can encourage that is to ensure I didn't intervene in the debate too early on, saving my comments till the end. Otherwise, you tend to stifle debate. It is also important that people know their view is valued even if it is different because through that difference, or divergent views, can come a more thoughtful response in the end."

Valuing different views starts before the board meeting – it is one of the factors that should influence decisions on board composition, he says.

"I think it is very important, obviously, to have diversity around the cabinet or board table – both gender and ethnic diversity. People bring their historical experiences to a debate or discussion, so the broader those differences are, in a way, the more likely you are to form a view that reflects the greater sense of the everyday community."

But is it possible to have too much diversity in a leadership team?

"I think the answer to that, in general, is 'no' – as long as the reason you are picking the members of the team is that they bring value to the organisation and they are not being solely chosen on the basis of diversity. Because, like any team, it is the quality of thought they bring to the process and the skills that they have, not just that they tick a box that satisfies the diversity register."

The business community has a genuine role to play in ensuring good public policy is developed. When the business community works in sync with the government, that's good for the economy and, therefore, good for everybody.

is active in dialogue with the government.

THE BUSINESS/GOVERNMENT INTERFACE

Government and the business community can sometimes find themselves at loggerheads. In a career that has spanned business, politics and now governance, Key has seen debates from many sides, and he says there are ways the business community can engage government effectively and manage regulatory risk.

"I think it is very important that the business community is active in dialogue with the government. The business community has a genuine role to play in ensuring good public policy is developed. When the business community works in sync with the government, that's good for the economy and, therefore, good for everybody. Obviously a significant amount of tax revenue comes from corporate tax, and that is used for the wider community as well.

"I think business shouldn't be afraid to speak its mind. There are times when they will have a different view, but it is also important that they are sometimes realistic – governments have to get re-elected."

Sometimes the policy positions advocated by business reflect self-interest or, alternatively, are just politically unpalatable, he says.

"And while they might be the right thing economically to do, or to do from a business perspective, they don't meet the test that they would be possible to implement. So it's a matter of give and take."

COMMUNICATION MATTERS

When asked about the importance of good communication with stakeholders, Key notes that it is not just vital to business success, it is actually legally required.

"Some of the most significant lawsuits these days in relation to directors are because of the failure by the board to meet its requirements in relation to continuous disclosure.

"There are situations where you can overcommunicate – where you don't have enough information and you end up raising more questions than you can give answers and that you ultimately could do damage to the share price by building in high levels of uncertainty that are unwarranted. But as I noted earlier, always the test is 'is disclosure required under the continuous disclosure laws'.

"Certainly as prime minister, I found that, the more we communicated fully and openly with voters, even if they didn't like the particular policies, they could understand the general direction we were trying to take the country in and the objectives that we had. And that made the implementation of those policies more palatable."

"Like anything in life, if you communicate fully, people can understand the direction you are going in and that can help, particularly, shareholders who are interested in the long-term direction of the company and why the management are making the decisions they are making."

Licence to buy

Conscious Consumers delivers on consumers' demands for ethical business practices and businesses' desire to be seen as socially responsible.

Conscious Consumers announced in November 2017 that it had raised $2 million to support its launch into the UK. At that time, this was one of the largest capital raisings for a social enterprise in New Zealand history, says Jamie Newth from impact investment specialists Soul Capital.

Internationally, ethical spending is on the rise, and home-grown companies like Conscious Consumers are well placed to promote their product to a global audience, Newth says.

The product he is talking about is multifaceted. Conscious Consumers verifies socially responsible practices by its signed-up businesses – on behalf of consumers who want to spend their cash responsibly. The businesses, in turn, get to promote their ethical approach to a ready market. Businesses can purchase data on the spending habits of this pool of conscious consumers.

The social enterprise has already achieved considerable domestic success. From its beginnings with one Wellington café – Fidel's – it has grown to serve corporate clients such as Meridian Energy, Icebreaker, and Kathmandu, and it has more than 20,000 consumers using its app.

SHOW, NOT TELL

It is in the marketing space that Conscious Consumers offers immediate value back to its business partners. Not only do they get to share their sustainability stories with a receptive market, they can also purchase data on the spending patterns of consumers who have registered eftpos or credit cards. For example, for a monthly fee, a retailer can track what this portion of its customer base is buying, when they are buying and where.

"Data for good" is how Conscious Consumers Chief Executive Ben Gleisner puts it.

"What that does is allow consumers to send a message when they buy about what matters to them. Animal welfare, for example – you could ask at a café if they serve free-range eggs and satisfy your consumer values that way," says Gleisner.

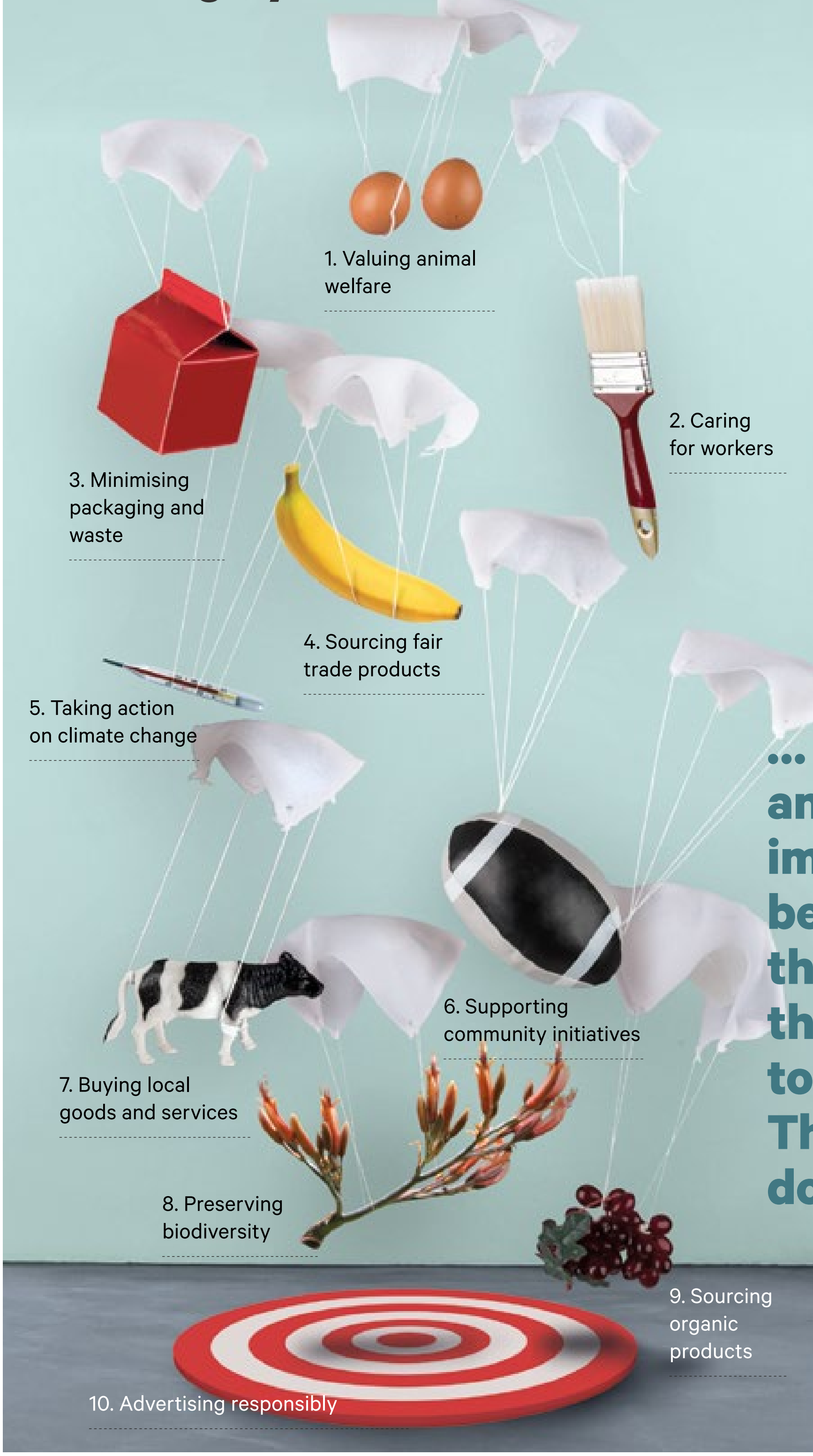
"But that person is the waitress, and who knows if it gets back to the decision maker."

Conscious Consumers sends that message back to the company.

It also offers insights into consumer opinion. For example, Gleisner knows minimising waste, climate change and workers' rights are the top three issues among his signed-up consumers.

Meridian Energy Head of Marketing Melanie Lynn has said it was a "no-brainer" to partner with him. >>

What values and business actions do conscious consumers rank most highly?



Source: Conscious Consumers

"As a 100% renewable energy generator, it's really important for us to show we are genuine about our sustainability goals. We're also keen to offer something that gives real value to our customers," Lynn says.

BUSINESS + SOCIETY

The underlying trend powering Conscious Consumers is concern that businesses should operate as part of society and in socially responsible ways.

Consumer choice is one economic lever for encouraging businesses to adopt this approach.

As this view has grown among consumers, businesses that do operate this way have searched for ways to demonstrate their social responsibility credentials. Endorsement from Conscious Consumers is one straightforward way they can do that.

Conscious Consumers has around 500 businesses signed up, ranging from cafés and hairdressers to taxi companies and large corporate clients. It offers an independent accreditation of their socially responsible business practices so consumers can be confident it is not just spin.

... this issue of social and environmental impact is going to be a defining one for the next 10 years – if the business wants to stay in business. That's what it comes down to.

TOTAL RESPONSIBLE INVESTING IN NEW ZEALAND FOR 2017

$131.3 billion

up from $78.7 billion the year prior

GLOBAL CONTEXT

In September 2017, Peter Holbrook, CEO of Social Enterprise UK and former chair of the Social Enterprise World Forum, visited Auckland to award it Social Enterprise City status from Social Enterprise UK.

Holbrook put this award into a global context, noting the changing atmosphere in which business operates.

"There is an appetite in Europe and across the world for greater social justice. Local communities are taking back control to harness the energy of businesses, community groups, charities and co-operatives to tackle the inequalities and divisions afflicting communities. Social enterprises are at the vanguard of delivering this change, innovation and hope," says Holbrook.

The Social Enterprise World Forum in Christchurch that same month demonstrated the breadth of social enterprise activity, drawing speakers from India, Australia, the UK, the US, Canada, Scotland, Singapore, Indonesia and New Zealand.

Back home, the Responsible Investment Benchmark Report 2017 published by the Responsible Investment Association Australasia (RIAA) valued "total responsible investing" in New Zealand at $131.3 billion, up from $78.7 billion a year earlier.

STRATEGIC IMPLICATIONS

Gleisner has a message that boards should consider: "We don't want to live in a world where the ocean has more plastic than fish."

"As a director on a board, I guess what we are really saying is this issue of social and environmental impact is going to be a defining one for the next 10 years – if the business wants to stay in business. That's what it comes down to," says Gleisner.

There is also a staff retention impact among workers who want to feel they are making a difference in their jobs, he says.

"That culture of business having a purpose – that affects customers and staff."

As a societal trend, Gleisner says the drive to more socially responsible business practice has the potential to impact across all sectors, and his message is addressed to "any board member of any business".

"If they haven't got this dimension of 'what's our purpose?' and thinking about our social and environmental impact, then they will lose both on the consumer front and have a hard time finding people. That's the trend."

"If [boards] are not doing it and thinking about it, then, strategically, they will suffer."

Ben Gleisner will be speaking at Leading Edge, the IoD leadership conference, at Auckland's Sky City Casino 10–11 April 2018. See **iod.org.nz**

The long view

We interviewed three large fund managers about their key issues for 2018. Michelle Edkins, managing director of BlackRock, talks board effectiveness; Anne-Maree O'Connor, head of responsible investing at the New Zealand Super Fund, shares her take on stakeholder engagement; and Sam Stubbs, managing director of Simplicity, tells us why he thinks diversity is everything.

Michelle Edkins, managing director of BlackRock and global head of its investment stewardship team, says the main governance concern of institutional investors is board effectiveness.

This is an issue the world's largest investment company, BlackRock, with US$5.4 trillion in assets under management at 31 March 2017, always has on its radar.

Based in the US, BlackRock is a thought leader in the investment arena, and its actions set trends that are followed by institutions around the world (including New Zealand). In January this year, its chief executive Larry Fink made headlines when he warned that continuing support from his company was contingent on companies making "a positive contribution to society".

Edkins, who will speak at the IoD's Leading Edge conference in April, says an effective board is essential if companies are to develop sustainable business models, engage appropriately with stakeholders and, ultimately, find a way to make a positive social contribution.

"One perennial governance issue is board effectiveness, which covers a number of dimensions of board leadership – looking at board composition, who is in the boardroom and are their personal and professional characteristics still relevant to the work of the board, particularly in relation to the long-term strategic direction of the company?" Edkins says.

"On board accountability, how has the board assessed its past performance and the performance of individual directors, and how do those learnings feed into future decisions and processes? Additionally, how is the board planning to evolve its membership over time to ensure continuing relevance and effectiveness?"

Her comments point to the importance institutional investors place on the sustainability of a business model – at both an operational and governance level.

"Another important governance issue is the disclosure of material environmental and social risks in the business, which has come to the forefront more recently but is evolving rapidly."

She notes that changes in accounting practice are bringing climate change risks and other non-financial information – known as integrated reporting – to the fore in company reports.

"Developments such as the Task Force on Climate-related Financial Disclosures and the International Integrated Reporting Initiative, among others, have advanced discussions around what information investors need in order to understand how well company management is anticipating and dealing with relevant environmental and social impacts, both positive and negative, of their daily operations."

GETTING ENGAGED

Environmental, social and governance (ESG) issues are an increasing focus of shareholder activism with pressure coming onto companies to eliminate slavery in their supply chains, reduce their carbon footprint and demonstrate they are good corporate citizens, among other things.

Edkins says managing activist shareholders and stakeholders is a matter of communication and understanding.

"The best way to mitigate the risk of shareholder activism is to have a clearly articulated long-term strategy, which management has discussed with shareholders through regular engagement, ultimately building a mutual understanding," she says.

"Additionally, the board needs to play an important role in helping assess the risk of shareholder activism by challenging management on issues and strategy. For example, the board should ask if the company is still the best owner of everything in its portfolio of assets to help pre-empt that conversation with an activist.

"Similarly, the board must take action to ensure people or processes change when management falls short, which can head off any underperformance that may attract external pressures for such change."

THE LONG HAUL

As the global head of BlackRock's investment stewardship team, Edkins is concerned with the protection and enhancement of its investment assets. This includes encouraging management practices that support long-term financial sustainability and providing information on ESG considerations.

"As a fiduciary investor with clients investing a significant portion of their assets in index strategies, BlackRock takes its stewardship responsibilities seriously and maintains a specific focus on long-term value creation.

"In the past decade, we have seen more active dialogue between companies and investors on long-term strategy and performance. Conversations with an index asset manager may differ from those with an active manager. We are more likely to focus on aspects of the company that impact performance over a longer term – such as board governance and oversight, risk management and controls and their approach to material environmental and social factors in the business. These can be indicators of the quality of management and thus the ability of the company to generate sustainable long-term financial returns.

"Our clients tend to have investment horizons that make quarterly results less relevant."

One long-term strategy Edkins advocates is maintaining diversity at board level. There is no question that diversity leads to better decision making over time, she says.

"Board diversity is absolutely relevant to all businesses. First and foremost, the board is a decision-making body, and diversity of thought is key to good decision making. Numerous behavioural studies show that homogeneous groups tend to make less robust and resilient decisions, particularly in complex and fast-changing environments.

"By contrast, diverse groups tend to take longer to make a decision but, having considered the issues from multiple – and often divergent – perspectives, they are more likely to make a better decision."

BlackRock recommends that board composition be considered with an eye to diversity in order to help address her first concern – board effectiveness.

"If directors collectively bring to their roles a diverse range of professional and personal characteristics, the decision-making process is likely to be more effective. Professional characteristics include, amongst others, industry experience, professional qualifications, service abroad and prior executive roles. Personal characteristics include, amongst others, gender, age, ethnicity and ways of thinking."

POSITIVE ROLE FOR THE CORPORATION

When asked if there is a "sleeper" trend for 2018 that is not currently in the limelight, Edkins reflects on the overall position of business in society.

"Perhaps not a 'sleeper' trend," Edkins says, "but something that is gaining momentum yet still isn't necessarily sufficiently addressed by business leaders is reaffirming the positive role for the corporation in society.

"More CEOs and other leaders in the private sector need to explain how they see capitalism addressing the rapidly evolving needs of the community. For example, how are companies helping their employees adapt their skills for the workplace of the future? How are businesses evolving and adapting operations and strategies to realise a low-carbon economy? What are companies doing differently to minimise their demand for scarce natural resources such as water, land and minerals? How can companies better work with governmental agencies on public-private partnerships to enhance infrastructure and other public goods that many governments aren't in a position to provide themselves?

"There are many significant challenges to address in the coming decade and beyond, and business has a key role to play by operating as a force for economic and societal good." >>

Ann-Maree O'Connor is the head of responsible investing at the New Zealand Super Fund, a government-mandated investment agency that finances superannuation payments. She won the Board and Management category in the Women of Influence Awards 2017.

KNOW THYSELF

Her role at the Fund has parallels with Edkins' stewardship responsibilities at BlackRock in that O'Connor oversees the integration of ESG factors into investment decisions and encourages good stewardship of investment portfolios.

The New Zealand Super Fund had $37.4 billion under management at 30 November 2017.

O'Connor says there is a huge issue for boards around stakeholder management, particularly as technology has increased the number of voices talking about business and news can be amplified rapidly.

"The new normal is social media – and stakeholders being ahead of the game. Stakeholder management is key," she says.

"One thing I say to executive and boards is that you need to sit outside your company and act as if you don't know it. Be really aware of how it is described."

Unless you understand the public discussion of your company, you cannot manage communications risk effectively, she says. That might be in the media, on social media, through customer ratings or in a business's reputation as an employer.

"You need to increase your awareness of what is happening in the communications space, particularly where that is out of your control."

TELL YOUR STORY

What shareholders respond well to is "improving reporting on strategy and risk", O'Connor says.

This includes considerations of board composition and diversity. Boards should consider their combined skill set and how to demonstrate that the expertise of the board aligns with organisational strategy and risk.

"There has been quite a lot of improvement in terms of board composition and succession planning. There is increasing gender diversity and different lengths of tenure."

But boards must evolve with the company, which can mean the ideal skills matrix of today will become outdated tomorrow.

Cyber risk is another area that is changing quickly, in particular, the evolving environment in which data is collected and used by organisations, she says.

"Issues around the privacy of information will grow – what rights organisations have to utilise the information that they gather on their customers and even their employees. Keeping an eye on the development of regulation and social expectations will be important."

She also highlights climate change as an issue of the moment and urges boards to ask themselves: Does your organisation have a climate change strategy? And what are the potential impacts as the world moves towards a low-carbon economy?

The Fund has already reduced its exposure to carbon-intensive industries such as oil, coal and gas, with former chief executive Adrian Orr noting in November 2017 that investments in these areas were down 20%.

"Boards need to be very cognisant of the need to report to stakeholders and shareholders on their strategy and on social issues – and climate change needs to be in there," O'Connor says.

Boards that want to get ahead of the game will also look at how their business supports human rights and other social concerns, O'Connor says, echoing the concerns about the role of businesses in society raised by Edkins.

"We don't operate in a social or environmental vacuum."

New Zealand directors can't turn a blind eye to social concerns, as the pressure from activist shareholders and stakeholders is increasingly likely to be matched by regulatory action, she says.

"I think it's coming in regulation, anyway. I don't think there is a choice."

The view from the shop floor

New Zealand Council of Trade Unions President Richard Wagstaff

"Employees are more than just another 'stakeholder' in a business. They are people who day in day out, year in, year out invest their lives in the business they work in, which they see often as their business too. And the fortunes of the firms employees work for are inextricably tied up with their wellbeing.

"Employee knowledge and perspective is usually underutilised by boards in New Zealand. Mechanisms like employee surveys are usually ineffective without a workplace culture of open communication, trust and engagement. A positive culture reinforces in staff's minds they will be taken seriously.

"There are long established practices in European countries like Germany and France where employees are formally represented on boards through a legal structure known as the Works Council that is complemented by a trade union organisation. This ensures robust democratic representation of employees' interests.

"Building worker representation into board processes breaks down silos in decision making and helps boards get a better picture of what's really happening in their business. In New Zealand, trade unions can provide independent and unfettered input for boards and there is real value in boards reaching out to them as a mechanism to better engage with employees."

Sam Stubbs, managing director of fund manager Simplicity, has a long-term focus on issues and that means his main concerns, "are no different in 2018 than they were last year or will be next year".

TALENT MATTERS

As a major manager of KiwiSaver funds, Simplicity wants to be sure its investment vehicles will continue to provide returns over many years. This leads Stubbs to focus on the capability of boards to adapt in a changeable business environment – and the advantage offered by diversity.

A company may have reserves of capital, it may have centres of expertise or many other tools at its disposal, but it's the application of these tools that matters, Stubbs says.

"That's done by people. Unless businesses tap the full range of talent, they are not going to be able to compete successfully."

He also believes sustainability and ESG issues are going to play an increasing role in business success in light of the corporate social responsibility megatrend mentioned by both Edkins and O'Connor.

"Conscious consumers and investors are going to start demanding serious action."

That pressure is going to be a mix of concern for environmental and social outcomes – the ESG matters – and simply the financial viability of the company, Stubbs says.

"We are going to start seeing shareholder pressure on whether a business has sustainable practices and has a long-term sustainable business model."

ECONOMIC TRANSFORMATION

One of the things corporate New Zealand underestimates is the size of the investment that KiwiSaver funds are going to make in the local economy, Stubbs says. Treasury has forecast KiwiSaver funds under management to reach $70 billion by 2020.

"Half of that will stay in the New Zealand economy. We are going to go from being a capital-starved to a capital-rich economy. Those companies that can tap into that with sustainable business models are going to do very well."

In turn, there will be more and more New Zealanders with KiwiSaver accounts – more shareholders and stakeholders – interested in the investment markets.

"There's going to be more populism to investing. Through KiwiSaver, everyone has a connection to it. We have probably seen the low point of investor activism."

The best way to mitigate the risk of shareholder activism is to have a clearly articulated long-term strategy, which management has discussed with shareholders through regular engagement, ultimately building a mutual understanding.

Michelle Edkins, BLACKROCK

Simplicity is already an activist investor, by New Zealand standards, he says. Stubbs has visited nearly all the chief executives and board chairs of the 50 major companies Simplicity is invested in. His message has been that "we support long-term strategic thinking".

"We want to be a counterfoil to the short-term pressure from investors for another record profit. Management are not hired to make easy decisions. The days of coming in and cost cutting, making short-term investment decisions ... those are only some of the decisions you are paid for.

"It is mad that the CEO should feel that the best they can do for themselves is to jack up the share price, cut costs and get a share payout. We need a long-term compensation structure in New Zealand.

"The great opportunity in KiwiSaver is not only the size of the pool, but the long-term nature of it. That is, in our view, a better way of operating."

SHAREHOLDER ACTIVISM AND RISK MANAGEMENT

Shareholder activism is on the rise at home and abroad. We talk to Daniel Wong MInstD, a director of the New Zealand Shareholders Association (NZSA), about how directors can improve their engagement.

2017 was a year of major campaigns led by shareholder activists, with multiple high-profile campaigns led against large-cap companies.

The growth in recent years of hedge funds acting as activist investors, such as Elliott, Trian Partners and ValueAct Capital, has seen US boards having to respond to requests for greater disclosure or shareholder accountability for CEOs. At the same time, investment firms such as BlackRock and Vanguard are exerting pressure on the long-term strategies of companies, looking at their plans for environmental, social and governance (ESG) issues. A recent Lazard Report for the third quarter of 2017 found that the amounts of capital being deployed by shareholder activists in the US were tremendous – almost US$45 billion to October 2017. This is more than twice the amount of capital deployed by shareholder activists in the preceding year.

It is little surprise then that, back home in New Zealand, shareholder activism is also seen as an emerging trend. The IoD's Governance Leadership Centre rates it a Top Five issue for 2018, citing a growth in activism and increasing scrutiny of issues such as CEO pay. In the IoD's 2017 Director Sentiment Survey, 67% of boards had discussed how they can engage more effectively with shareholders. The New Zealand Shareholders Association (NZSA) offers one interesting example of how this trend is manifesting in New Zealand – with lessons relevant to more than just those directors involved with large listed companies.

IoD member Daniel Wong has first-hand experience of shareholder activism as an NZSA director and through governance advisory engagements undertaken by his boutique corporate law firm, Flacks & Wong.

Wong says that activism in New Zealand tends to occur out of the limelight. Activism can take many forms, from informal discussion and consultation to proxy voting, media campaigning or even litigation. But sometimes shareholder discontent spills over into the public arena. One such recent example was the widely reported move – spearheaded by the NZSA – to remove a director from the board of struggling tech company Rakon at its AGM. The NZSA wrote to 6,000 shareholders asking them to give their proxy votes to the NZSA so it could force changes, including a move to freeze director fee increases, remove a family member from the board and elect two independent directors. Over 100 shareholders showed up at the meeting, and the event was covered heavily by media.

"That resulted in a board member not being re-elected," Wong says.

"We [New Zealanders] would much rather engage privately and constructively than through the media. That is true for the NZSA and would be the same for institutional investors."

He points out that activism is becoming increasingly co-ordinated as institutions take more interest in the companies they are invested in.

"For most AGMs, the NZSA makes its voting intentions clear and seeks to represents its members as proxy – but to vote down a resolution, we typically need support from and to co-ordinate with institutions."

CONSTRUCTIVE ENGAGEMENT

Wong's current governance positions include directorships at the NZSA and the New Zealand Symphony Orchestra, which gives him an insight into being both a director and a shareholder.

"Engaging proactively and regularly with shareholders is part of good corporate governance," he says.

"I strongly encourage boards to seek relevant market feedback where practicable before going public, whether that's feedback from the NZSA, institutional shareholders, regulators or other stakeholders.

It's part of a good risk management strategy, he says.

"It gives you the opportunity to better explain your proposal and get support for it and to be better equipped to deal with any adverse publicity."

It is not unusual for companies to modify proposals in response to private market feedback and thereby avoid potential controversy. This is risk management working in practice.

Digital technology has also created new channels for activism, with groups of shareholders able to collaborate and organise via social media. Where an issue moves into the public arena, real-time digital communication can create a groundswell. The need to manage public perceptions during a crisis is one driver of director interest in improving shareholder engagement strategies. Overseas, a growing area of activism is around ESG issues. Wong says local boards are watching this trend with interest.

"The old-world reluctance to engage is far less prevalent now," Wong says.

"Boards are much more aware of the need to do business in the right way – particularly from a social and environmental perspective. It's growing in importance, including from investors who want to see business playing its part to reduce inequality, increase diversity and contribute to better social outcomes.

IT IS NOT UNUSUAL FOR COMPANIES TO MODIFY PROPOSALS IN RESPONSE TO PRIVATE MARKET FEEDBACK AND THEREBY AVOID POTENTIAL CONTROVERSY.

STEADY AT THE AGM

One traditional public forum for activism is the AGM. This can provide a platform for investors – sometimes in front of a media presence, with consequent communications risks.

"Companies are, quite rightly, trying to make their AGMs uneventful – that's a sign that the business is running to plan. There should be no surprises. It should be BAU at an AGM, though there will be exceptions – such as Fletcher Building's recent AGM," says Wong.

"The fact they are so uneventful – and often poorly attended – is why a small handful of companies have expressed a desire to have virtual-only AGMs."

New Zealand companies have had the right to conduct virtual shareholder meetings, including online voting, since 30 August 2012. Companies experimenting with a mix of live and virtual meetings include Z Energy, Ngāti Kahungunu and Spark. It is a good idea for companies to consider how they might get the balance right between virtual and live meetings.

SHAREHOLDER ACTIVISM

The Governance Leadership Centre's tips for directors.

1 Have regular discussions about how to engage more effectively with shareholders.

2 Consider what opportunities (and risks) technology offers for better engagement, including getting more out of AGMs and social media.

3 Provide open and understandable disclosure of director and executive remuneration (use the IoD guides). Provide a rationale and context about alignment with strategic objectives and performance.

The IoD has produced the directors' brief *Shareholder Meetings in the Digital Age* to assist board decisions about using new technology. This is available in the members section at **iod.org.nz**

Māori shareholder and stakeholder relations: **a nuanced approach**

KPMG's Riria Te Kanawa explains how the Māori world view influences relationships with shareholders and stakeholders – and how it can also help lead the way in Aotearoa's drive for sustainable corporate outcomes.

In Western terms, being a shareholder is a very straightforward business. For Māori, it is more complex and nuanced – and sometimes downright conflicting.

Their ancestors could never have foreseen the landscape of 2018 where Māori are shareholders (both directly and indirectly) across a wide range of private businesses, land-based collectives and iwi commercial operations.

Although early Māori were renowned as vibrant traders and entrepreneurs, the modern-day notion of shareholding would be an unfamiliar construct. This is for two reasons – firstly, because it's based on the concept of ownership rather than guardianship, and secondly, because it's about an individual rather than collective right.

"In traditional culture, we had domain, or rangatiratanga, over our respective areas, but we simply didn't have a Western notion of ownership," explains Te Kanawa.

"Our society was also one where everyone had an obligation to contribute to the greater good. So the whole notion of shareholding – which implies an individual right versus a collective obligation – is at odds with that."

THE EVOLUTION OF MĀORI SHAREHOLDING

As with most impacts of colonisation, Māori soon adapted to the new constructs of shareholding and legal ownership.

"Our people have come to see shareholding as something quite normal, particularly since the formation of the land trusts and incorporations. However, it's not been without its problems for Māori, especially in relation to land."

The imposition of a shareholding system for Māori land was particularly problematic given that genealogical links (whakapapa) and legal ownership rights are two very different things.

"The tradeability of shares has resulted in many Māori, particularly minority shareholders, no longer having a legal interest in their whenua (land). This also causes a disconnection with the spiritual or emotional connection to their whenua and whakapapa."

Te Kanawa draws a distinction between Māori land trusts and incorporations (which have existed for many years) and the more recent Treaty of Waitangi post-settlement entities, the first of which were established in the mid-90s. She says the latter entities are more culturally aligned with the collective approach to ownership.

"Every beneficiary is equal – nobody has a greater say than anyone else, and that beneficial right is not transferable or divisible. That better reflects our collective society more than private shareholding does but nevertheless is still based on an individual interest in something."

SHAREHOLDER EXPECTATIONS AROUND CULTURAL VALUES

When it comes to Māori shareholder relations, perhaps the biggest differentiator is that they can be heavily nuanced by cultural expectations. In an ideal world, Māori want to see their organisations achieve a balanced scorecard across social, cultural, financial and environmental outcomes.

However ,the reality for many Māori shareholders, says Te Kanawa, is that they are "living in a paradoxical world".

"On the one hand, we want our businesses to deliver on our cultural values ... but on the other hand, the Western notions of entitlement and the 'right' to receive a dividend have become equally familiar."

The tension arises, she says, when the two mind sets collide. It is also a socio-economic issue – as not all Māori have the freedom to insist upon cultural-value returns.

Or as Te Kanawa puts it: "If you're relying on the dividend so you can relieve the financial burden of Christmas, the environment may well have to take a back seat."

KPMG

THE INTERGENERATIONAL VIEW

Culturally, taking a long-term perspective and intergenerational view is also important to Māori shareholders.

Mokopuna decisions – not just a five-year plan, but also a 500-year plan.

"We often talk about 'mokopuna decisions – those decisions we make today that will affect those who aren't born yet. The challenge now is to put in place some tangible markers that signal our short-term achievements en route to our long-term destination."

She cites Wakatū Incorporation, a Māori incorporation that has mapped out its intergenerational outcomes – not just with a five-year plan but also a 500-year plan. A large part of this is a strong investment in succession planning.

"They're building incredibly strong capability within Wakatū, with a pipeline that will continue for generations. That's a stunning example of taking what would have been short-term profit and investing it in capability development outside of the core business for the long term."

While intergenerational thinking is nothing new for Māori, Te Kanawa notes the rest of the world is starting to think this way. The head of the world's biggest investment firm, Larry Fink, wrote in his 2016 annual letter to CEOs that "today's culture of quarterly earnings hysteria is totally contrary to the long-term approach we need".

SUSTAINABILITY LEADERSHIP

Similarly, there's been a global groundswell of investor sentiment to demand greater transparency around sustainability of corporate practices.

"We're seeing the global business community really start to embrace the notions of sustainability and balance between people, planet and profit," says Te Kanawa.

"In traditional culture, we all had a duty to ensure we lived and operated in a sustainable manner – we wouldn't be here today if we didn't. That thinking is intuitive to our people. It's all we've ever known. Now the rest of the world is starting to think that way too, so this is an opportunity for us to embrace our 'Māori-ness' and really lead the way."

At a local level, changes to the NZX's non-financial reporting requirements are driving further focus on sustainable corporate practices.

"We're starting to see some non-Māori organisations use terms like kaitiakitanga [guardianship] and manaakitanga [hospitality].

"While that's an important first step of the journey, we need to look beyond the wording to ensure their practices are aligned. When advising our clients in this space, KPMG recommends measuring progress against globally- recognised frameworks as well as having independent assurance."

Riria (Missy) Te Kanawa (Ngāti Maniapoto, Tainui, Ngāti Porou, Ngāti Koata) is a director in performance consulting with KPMG New Zealand. A chartered accountant and former business owner, Riria Te Kanawa drives KPMG's work with Māori organisations and businesses. She is the lead author of KPMG's annual Māori thought leadership publication, *Māui Rau*, copies of which are available on the KPMG website.

Look who's talking

Managing organisational reputation in the age of social media.

"We don't have a choice whether we DO social media, the question is how well we DO it," says Erik Qualmann.

The author of *Socialnomics: How Social Media Transforms the Way We Live and Do Business* has a point.

While many organisations think they have a choice about whether or not they should get online, in reality, their customers and stakeholders are already online discussing them.

Social media is a powerful part of the digital revolution, providing platforms that allow people to network, congregate and communicate with organisations. These so-called Web 2.0 technologies change the traditional power dynamics of media. Where once marketing was one-way, requiring access to technologies of distribution, now anyone can get online and speak their mind.

This ability to talk back means social media is high on the list of things that directors should consider when thinking about risk management.

THE STAKEHOLDER SPEAKS

For businesses, this means the potential for consumers or interest groups to leverage social media to pressure companies into modifying their behaviour. One recent example of this is the Uber boycott where, following allegations of sexual harassment in the company, a hashtag began called #DeleteUber. In the next week, more than 500,000 people deleted their accounts. Back home, a recent example is the social media pressure instigated by SAFE (Save Animals from Exploitation) on the supply of caged-hen eggs to supermarkets. This pressure resulted in Foodstuffs and Countdown both making pledges to source cage-free eggs from suppliers in the next 7–10 years.

Social media activism from stakeholders can have a significant impact on the company's bottom line. Like cyber breaches, the reputational damage can tarnish the brand and impact on how customers engage with, and purchase the brand.

To make matters even more complicated, it is not just real crises that organisations need to worry about – they also need to consider the potential impact of fake news or slander. A recent study by Massey University Senior Lecturer Jenny Hou, in partnership with US PR consultancy Burson-Marstellar, found that, although it is not yet common in New Zealand, fake news is on the rise. The example she points to is a story on social media that quickly spread claiming the Kaikōura earthquake was caused by oil company fracking.

It's important that directors have a crisis communications plan in place in advance, providing guidelines on identifying the type and thresholds for identifying how serious a social media crisis is. It should also nominate who is contacted when a crisis occurs and who signs off on what and provide sample responses that are already signed off in advance.

The board has a key role in managing a crisis, even when management is dealing with the operational aspects. Directors can anticipate and prepare for problems (and may minimise or prevent them) by having a clear understanding of strategies and risks. *The Four Pillars of Governance Best Practice* has chapters called "Crises and the board" (2.14) and "Risk management" (3.4), which may be of use. >>

Tips for managing stakeholder and shareholder engagement on social media

1. Use social media to authentically tell your story. Social media provides a powerful vehicle for you to tell the story of your organisation. Too often, companies focus only on marketing without highlighting the kind of culture that comes with the organisation. Social media is the ideal place to tell the backstory of your brand, offering snapshots into the way colleagues relate to each other or behind-the-scenes views of how a product is made.

2. Listen to what people are saying about your organisation. Social media is an important feedback tool, so it is a good idea to incorporate social listening as part of your daily routine.

3. Use paid advertising to push out your messages. Use website pages that have information about your organisation for stakeholders or shareholders, and push these out through social media. This can make it clear to users where to go to find out more information on your website about a particular issue before a crisis happens.

4. Respond quickly to controversy. Small controversies can quickly grow into larger ones on social media as other users rally behind someone who feels that they have had bad treatment or is presenting a good point. It's important to catch these comments early and respond in a way that defuses the crisis.

5. Paid search; Using search targeting can help you to catch shareholders or stakeholders on their way to finding information, directing them to web pages that tell your side of the story.

SHAREHOLDER ACTIVISM

Social media's impact can also be influential in shaping shareholders' decisions.

A little over a decade ago, social media looked like a powerful force for minority shareholder activists to congregate for action. In 2005, Eric Jackson used YouTube, a platform that had just launched, to critique Yahoo's stock performance, in a campaign called Plan B for Yahoo. Jackson shot videos and loaded them onto a Wiki and YouTube using a widget called YouChoose.net to get other shareholders to transfer their shares to his cause. The result? Although beginning with just 96 shares, Jackson had a significant role in instigating the departure of then Yahoo CEO Terry Semel.

Another titan associated with this period was Carl Ichan, who gained 160,000 followers in less than a year through a very public battle with Dell Inc opposing a proposed management buy-out.

Other examples of the use of Web 2.0 technologies for shareholder activism during this time include Shareholders' Square Table, published by Ichan, and MoxyVote, a short-lived but influential experiment in creating a platform for minority shareholders.

The board has a key role in managing a crisis, even when management is dealing with the operational aspects.

Influencers still play an important role in informing shareholder decisions. A 2015 study by FTI Investing found that 40% of investors in the US seek information from third-party influencers via social media, including financial and business media, institutional investors and proxy advisers.

Directors need to have an awareness of how current and potential investors are searching for their organisation and where they are getting information. If portfolio information is available but buried in your website, you may need to look at how people search for this information.


Drive your governance career.
Do the Company Directors Course
You will be learning from the best practising directors. You will gain a thorough understanding of the ins and outs of governance here in New Zealand, a strong community of driven individuals, and you'll be in a position to lead the way in New Zealand business.
REGISTER NOW
iod.org.nz/cdc
0800 846 369
Institute of Directors

THE talent advantage

Diversity in board composition is attracting the attention of activist investors globally and presents a reputational risk for those who don't get it right. But rising to the challenge is also an opportunity for organisations to enhance their decision-making capabilities.

Internationally, the move towards a more holistic style of reporting has seen some boards become the recipient of negative media attention. Last year, the Australian Council of Superannuation Investors recommended its members vote against the appointment of male directors at ASX 200 companies with all-male boards.

Glass, Lewis and Co and Institutional Shareholder Services, the world's largest governance services providers, now generally recommend shareholders vote against the chair of a corporation's nominations committee if the company does not have a formal gender diversity policy and/or there are no female directors on the board.

Shareholder activists are also beginning to ask whether diversity in the boardroom is being reflected in the organisation's day-to-day operations.

With the new Corporate Governance Code for the New Zealand Stock Exchange requiring companies to "comply or explain" their board diversity, emphasis on diversity in New Zealand is also expected to rise.

CAPABILITY

Victoria University Pro-Vice Chancellor and Dean of Commerce Professor Ian O. Williamson is an award-winning educator who has taught at universities in the US, Australia, Switzerland and Indonesia. He is an internationally recognised expert in human resource management and organisational innovation.

His research examines the impact of 'talent pipelines' on organisational and community outcomes – in particular, how human and social capital influences firm operational and financial outcomes, talent management in the context of new ventures and growth-oriented firms, the role of human resource practices in driving firm innovation and the impact of social issues on firm outcomes.

Getting the right talent is essential to success at all levels of a business, from the boardroom to the shop floor, he says. And increasingly the right talent means a diverse team.

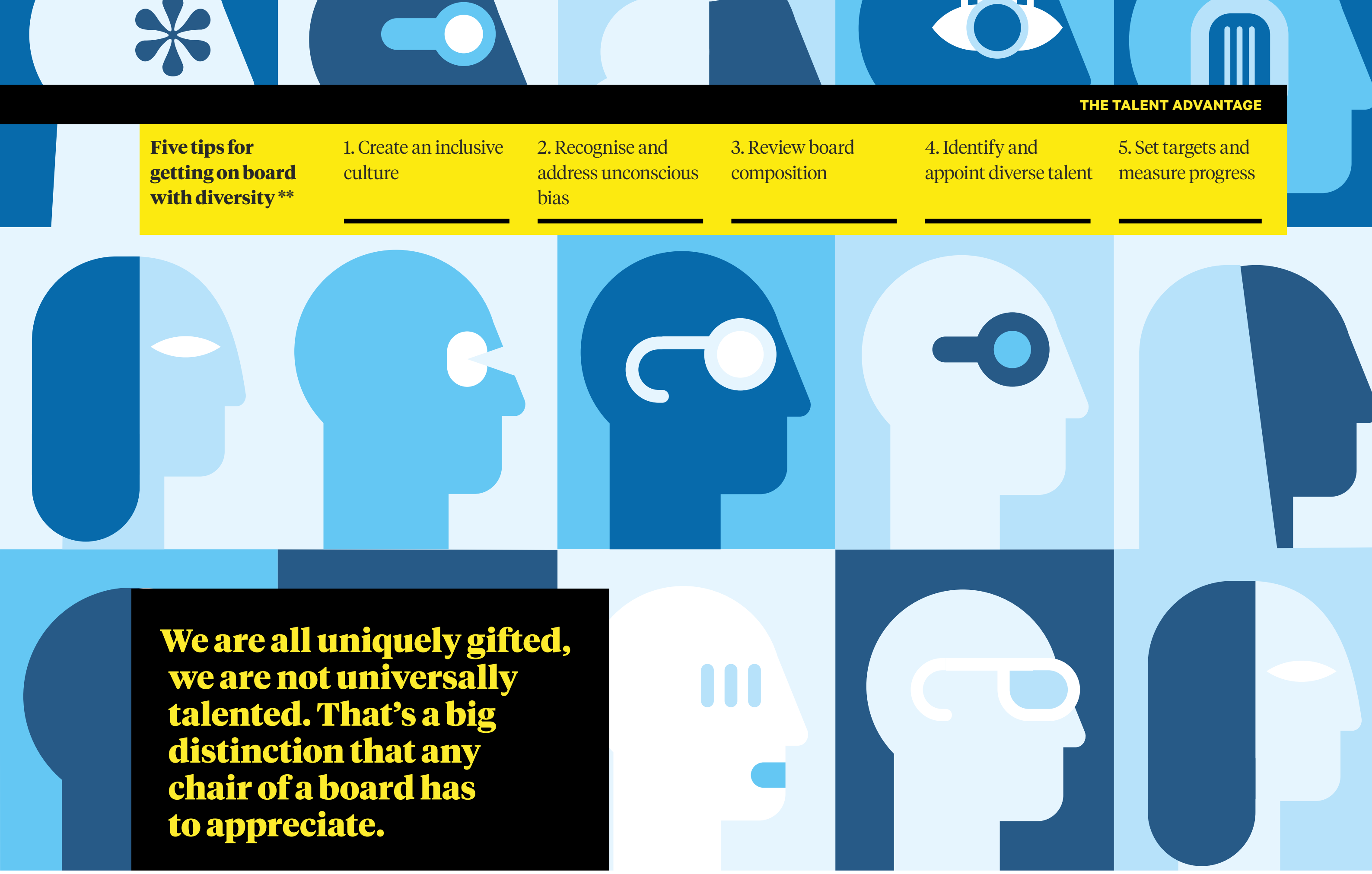
What is **diversity?**

Ian O. Williamson explains:

There is **surface-level diversity**, which we typically talk about with demographics – gender, ethnicity, religion to a lesser extent. Things that are physical attributes that people can pick up on. Things that governments tend to measure, Williamson says.

Under that lies **deep-level diversity**, rooted in a person's life experience. Diversity of thought and diversity of life experience are intimately related, says Williamson. What's important to comprehend as a director is that people understand information in different ways depending on their background and experience. It is this background that provides their frames of reference.

"So if you tell me you have no women or people from this ethnic group, fill in the blank ... it's going to be difficult for you to have different reference frames [at board level] – not impossible, but difficult."



Five tips for getting on board with diversity**

1. Create an inclusive culture
2. Recognise and address unconscious bias
3. Review board composition
4. Identify and appoint diverse talent
5. Set targets and measure progress

We are all uniquely gifted, we are not universally talented. That's a big distinction that any chair of a board has to appreciate.

"The big goal here is to provide a breadth of understanding for any decision or context, so the organisation is going to be making, holistically, the best decisions. That, we know from research, without a doubt tends to produce better outcomes for organisations," Williamson says.

"If you are going to have a thriving organisation – government, for profit or not for profit – you are going to have to deal with diverse markets. The notion that you can do that adequately without having diverse perspectives represented at the most senior level, really at all levels, of your organisation is not true."

And while much of the shareholder activism is focused on gender, diversity is a much larger concept that includes ethnicity, patterns of thought, age, culture and expertise, he notes.

New Zealand is an increasingly diverse society, particularly in metropolitan areas. For example, one in four Aucklanders identifies as of Asian descent, and there are more than 200 ethnic groups represented in our largest city, according to recent Census figures.

Our export markets are also diverse. NZ Trade and Enterprise notes that 70% of our exports go to APEC nations. Our top 10 export recipients include China, Japan, the Republic of Korea, India and Germany.

In this context, diverse talent should be considered a valuable business resource, Williamson says.

"If you as an organisation are having to deal with innovation of some sort – new markets, new clients, new products, disruption, technological change – then diversity is a capability that you desperately need."

In companies that do not have a diverse leadership or workforce, boards need to ask hard questions, he says.

"Where do we get talent from? What are the selection criteria we are using? Are there structural things in place that preclude us having conversations with a broader range of people – whether that be where we recruit from, the screening mechanisms we put in place, the type of credentials we expect?"

Understanding these potential roadblocks in the organisation can lead to the development of a more effective talent strategy and, ultimately, better appointments. But diversity can only deliver on its promise if the organisational culture supports it.

Williamson says that, for an organisation to benefit from diversity at board level, all directors must be allowed to shine when their experience is relevant to an issue.

"Deconstructing a problem to what type of expertise is needed to solve it, that's how you can allow multiple people to shine over time. Somebody can shine who may not have shone on the last issue. In that type of environment you are creating legitimacy of voice ... you can have a very diverse board but if you don't have legitimacy of voice, it doesn't matter, that's unrealised potential."

There also needs to be a commitment to mutual respect and a tolerance for opposing views.

"We are all uniquely gifted, we are not universally talented. That's a big distinction that any chair of a board has to appreciate.

"I guarantee you that diversity is not going to lead to the fastest board decisions. It's not necessarily going to lead to the calmest board meetings."

But it will lead to more robust discussions and – hopefully – better decisions.

** These tips are from *Getting on Board with Diversity*, a guide to making informed decisions about diversity in the boardroom. The guide can be found at **iod.org.nz**

Developing benefits for a changing workforce

Matching workplace benefits to employee needs can help you attract, and retain, talented staff.

ALISON BAMFORD,
MERCER MARSH
BENEFITS LEADER

One of the top five issues for directors in 2018, as identified in December's *BoardRoom* magazine, is access to skills and talent. A key point is to ensure that an organisation's talent strategy is "adaptive and fit for future needs".

There would be few people that would dispute the fact that good employee benefits help to retain and attract staff to your organisation. A current issue, however, is that the workforce has evolved or is evolving while benefit programmes have not.

Navigating the changing talent ecosystem by supporting employees' health and wealth needs is becoming a large market differentiator. Employee benefit programmes now often don't meet these needs, which include the increasing incidences of lifestyle-related illnesses such as cancer, diabetes and mental illnesses.

Boards should therefore be encouraging management teams to review their employee benefit design to ensure that they meet the needs of today's employee. Staff can be viewed as a key stakeholder group, and an organisation's talent and engagement strategies should be aligned to staff needs.

Thomsons' recent research of over 2,000 global employees, *Expectations and Reality: the Widening Gap in Global Benefits*, showed that benefits that help employees stay physically and financially healthy, offer them advice and help them manage childcare are those that are more likely to create higher engagement and greater return on investment for the employer.

The research uncovered in particular that benefits programmes are not supporting the short-term needs of younger generations. For example, 67% of 26–35-year-olds have the goal to buy a home, whereas only 11% of benefits plans support this.

There is also a cross-generational need for support around physical and mental wellbeing.

The Health and Safety at Work Act now defines 'health' as including mental health and 'hazard' as including a person's behaviour, regardless of whether that behaviour results from physical or mental fatigue. Employers and organisations must therefore consider the mental health of their workers when planning a safe workplace.

Given these trends and changes, employers may need to segment their workforce, for example, by age group and lifestyle, in order to meet workforce needs appropriately. Directors should be cognisant of these trends and ensure the organisation's talent strategy is structured accordingly.

MEETING THE NEEDS OF AN INDIVIDUAL

Offering choice and flexibility is important for all employees – one solution does not fit all. Each generation has different wants and needs based on the stage of life they are in and the different issues that come with getting older.

This was also reinforced in the Thomsons' survey, which said that 70% of employees want their employer to talk to them about benefits around life stages, such as childbirth, but only 46% said that their employer did so.

Personalisation is essential for creating an experience that resonates with employees. According to *Mercer's 2017 HR Global Talent Trends Report,* less than half (49%) of employees say that their company understands their unique interests and skills, while 53% want their company to increase this understanding and help them invest in themselves.

Employees are increasingly bringing a consumer expectation to the workplace, since it is how they engage in almost every aspect of their lives.

What do the **different generations** want?

Millennials

Millennials are currently about a third of the workforce but will be more than half of it by 2025.

They are a more health-conscious generation and therefore place an increasing interest in preventive health measures and their overall wellbeing.

The majority of research points to them wanting a comprehensive health insurance package. It does, however, need to be customisable to their needs – a blanket policy won't suit all.

One in five young workers has experienced on-the-job depression, compared to only 16% of Gen X and Baby Boomers. Given these higher rates of depression, many want their benefits to provide access to mental health professionals.

Income protection becomes increasingly important as they take on added responsibilities, such as buying a house or starting a family. Coupled with that, millennial parents want some sort of childcare-related benefits in their package.

Flexible working, more holidays and volunteering opportunities also rate highly.

Generation X

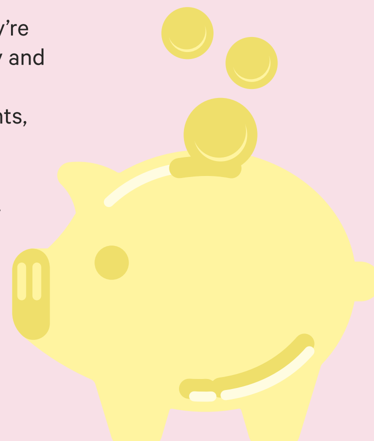
The sometimes forgotten "sandwich generation" also has their own specific needs. Generation X (Gen X) may not receive the same media attention as the Millennials or Baby Boomers, but as these workers likely represent a major portion of your staff, it's vital to recognise the nuances in how to manage them relative to younger and older employees.

With the average child bearing age increasing, the youngest of Gen X are typically having or caring for young children. Even the oldest of the demographic may find themselves with childcare issues. Many Gen Xers will also be looking after elderly parents or family members.

Having their income continue when they're unable to work and have a mortgage to pay and a family to support is invaluable.

Trying to balance children, elderly parents, work aspirations and their own health and wellbeing is demanding – so a focus on work-life balance and flexibility is essential.

Gen Xers are also concerned about retirement. They are aware, unlike for their parents, that there may not be a pension by the time they get to retirement age, so investment or savings plan options are important.



Baby Boomers

Figures from Statistics NZ show that just under a quarter of people aged 65 or over, about 168,000 people, are currently in the workforce. This is up from just 9% in 1986 when about 30,000 people worked past 65 years.

Employee benefit programmes – which are geared to retirement age with a dead stop at 65 – are therefore becoming inadequate, are open to potential age discrimination challenges and need to be restructured. For example, older people are more likely to buy health insurance and claim more benefits. An ageing workforce will have greater usage and hence place greater engagement value on the provision of this health benefit.

A higher number of older workers also means a higher proportion of the workforce having disabilities – with mobility issues being the most common for people aged over 65.

The Southern Cross *Wellness in the Workplace 2017 Survey Report* showed that three-quarters of businesses do not have policies in place for their older workers, though the trend does show gradual improvement.

Employers must re think the make-up of their benefits by creating access to health insurance – voluntary or subsidised plans – along with group salary continuance and life policies.

Older workers also have interest in tailored exercise programmes, financial seminars and value health screening programmes such as hearing and eye checks.

CONCLUSION

Business growth relies on engaging and empowering the workforce. Thus, employers who embrace change and have a nimble, flexible culture to stay ahead of the changing workforce will be those that will be more successful. Boards have an important role to play in influencing these changes.

A tale of **recent mergers**

BY **DR ROSS PATTERSON**
AND **KRISTEL MCMEEKIN**

Activism from third parties is not just growing in the governance space. It is increasingly impacting decisions of the New Zealand Commerce Commission on proposed mergers and acquisitions.

MinterEllison RuddWatts

In the five-year period from 2011 to 2015, the New Zealand Commerce Commission (NZCC) approved 49 merger clearance applications and declined one. In 2017, it cleared three and declined four. Many observers concluded this signalled a change to a more "activist" approach by the competition regulator. The four clearance applications declined all involved major high-profile transactions: Sky/Vodafone (two applications), NZME/Fairfax and Vero/Tower.

However, closer examination reveals that, in substance, the NZCC's approach to merger clearances has not changed. What is new is zealous opposition by third parties in the clearance process, leading to a greater degree of scrutiny of contested mergers together with a concession by the NZCC that barriers to expansion by small players in concentrated markets may be more difficult than it had previously thought.

MERGERS AND ACQUISITIONS UNDER THE COMMERCE ACT

Section 47 of the Commerce Act prohibits mergers or acquisitions that would or be likely to substantially lessen competition (SLC) in a market.

The NZCC administers a voluntary merger clearance regime. It can grant clearance for a proposed merger if it is satisfied that the merger would not be likely to have the effect of SLC in any market.

Clearance provides the merger parties with statutory immunity from legal action under the Commerce Act by the NZCC or third parties provided that the transaction is completed within 12 months of the date the clearance was granted.

SKY/VODAFONE

The proposed vertical merger of pay TV operator Sky and telecommunications provider Vodafone was the most contested clearance application to date. The NZCC received an unprecedented 65 submissions and expert reports including vigorous opposition from Spark, 2degrees, InternetNZ and Trustpower.

The NZCC analysed the impact of the proposed merger on competition in both the broadband and mobile telecommunications markets. The applicants tried to downplay the impact of digital convergence arguing that Sky's premium sports content is not a 'must have' for broadband/content bundles, content does not drive broadband uptake and the market for content/broadband bundles is close to saturation. These arguments were inconsistent with statements made by Sky in documents provided to its shareholders for approval of the transaction.

If a merger clearance decision is finely balanced, vigorous opposition is likely to tip the scales towards a decline.

The particular concern of opponents was the ability of a merged Sky/ Vodafone to use ownership of premium sports content to make buying Sky on a standalone basis less attractive than buying it in a bundle with Vodafone's broadband and mobile services – a bundle that could not be matched by competitors because they could not themselves access that content.

Ultimately, the NZCC was persuaded by third-party submissions and evidence that it could not exclude the real chance that the merger would result in a loss of scale for telecommunications service providers which would squeeze margins, reduce investment and innovation and materially lessen their competitive constraint. The outcome would be higher prices than those that would prevail without the merger.

NZME/FAIRFAX

The NZME/Fairfax merger proposed to bring New Zealand's two largest newspaper networks and corresponding online news sites under common ownership. The application's rationale was that consumers and advertisers are agnostic to the platforms that they use to access information and audiences, and the merger was necessary to enable the applicants to compete effectively against Facebook, Google and other international giants.

The NZCC concluded that in none of the markets where the merger would substantially lessen competition – online national news, Sunday newspapers and community newspapers (for both readers and advertisers) – would these international companies constrain the merged entity.

On 18 December 2017, the High Court dismissed an appeal brought by NZME/ Fairfax against the NZCC's decision.

VERO/TOWER

In Vero/Tower, the NZCC declined to clear the proposed merger of the second and third largest players in the national market for domestic house, contents and private vehicle (HCMV) insurance. The merger would leave only two substantial competitors in the HCMV market – Vero/ Tower and AIG. While there were other competitors, their size or niche character meant they were unlikely to expand sufficiently within a two-year timeframe to constrain the merged entity.

The NZCC's decision contrasts with its 2012 clearance for the IAG/AMI merger. In Vero/Tower, the NZCC noted that its decision benefited from observing HCMV markets since 2012. Market entry/ expansion that it had anticipated had not in fact occurred. This led the NZCC to conclude that expansion was difficult and to decline the merger. The NZCC's thinking in this regard was likely to have been influenced by an internal analysis of previous clearance decisions, which revealed that, out of 17 mergers in which anticipated entry influenced the NZCC's decision to grant clearance, entry had not occurred in a third of them.

PLATINUM EQUITY (STAPLES)/ OFFICE MAX

A global merger of Staples and Office Max had been cleared by the NZCC in 2015 but declined in other jurisdictions so did not proceed. In 2017, private equity firm Platinum Equity purchased Staples' New Zealand business and subsequently agreed to purchase Office Max NZ.

Platinum chose not to apply for clearance as the NZCC had cleared the 2015 transaction, even though that clearance had expired.

This strategy might have proven effective but for opposition from Complete Office Supplies (COS), which filed a third-party application for declaration that the transaction contravened section 47 of the Commerce Act and an injunction restraining the transaction proceeding. While the ability of third parties to bring legal action under section 47 of the Commerce Act was introduced in 1990, this was the first time it had been used. The NZCC, after initially deciding to close its investigation of the transaction, subsequently issued its own proceedings and applied for consolidation with COS's proceedings. A four-week trial is scheduled for June 2018.

LESSONS TO LEARN

If a merger clearance decision is finely balanced, vigorous opposition is likely to tip the scales towards a decline. Therefore, part of the assessment process when considering an acquisition should be the extent to which regulatory risk is increased by likely opposition from competitors and customers.

Secondly, it is essential to ensure that any submission to the NZCC about market conditions and the likely competitive effects of the transaction are consistent with the company's internal documents.

Thirdly, if considering a merger in a concentrated market, it is likely to be more difficult to persuade the NZCC that the merged entity will be sufficiently constrained by small rivals expanding, or possible new entry, than was previously the case. It is therefore essential to be satisfied at an early stage that compelling evidence will be available to establish that entry or expansion is likely and will be effective.

Risky business

AUTHOR

STEPHEN EVERETT,
GENERAL MANAGER
PORTFOLIO LABS, NZI

Consideration at board level should be given to insuring their company from the financial costs incurred in dealing with a cyber threat to enable them to get back up and running, as well as manage any reputational damage.

As the world changes and businesses continue to adapt and respond, so do the insurance needs of New Zealand companies.

We're seeing more technology advances, natural disasters and health and safety regulation. What was once the precedent is no longer, and insurance providers must evolve to meet the demands of today.

Vehicle technology is developing at a rapid rate and with it the increasing cost to repair damaged vehicles and new smart parts. Businesses also need to start to consider what their company would look like in a driverless environment.

Cyber crime is another key issue facing businesses. A recent Norton NZ small business security survey found one in five small businesses have been targeted by a cyber attack. Despite this only 6% of SMEs in New Zealand have cyber insurance. There's a real need for business owners to be aware of the serious implications of this, and take the time to educate their staff of best practices to prevent an attack from occurring. Consideration at board level should be given to insuring their company from the financial costs incurred in dealing with a cyber threat to enable them to get back up and running, as well as manage any reputational damage.

Climate change is not only set to transform our environment, it's also likely to change the way we insure. There's a big focus on the impacts of climate change-related sea levels. A number of low-lying areas of New Zealand are at risk, and there's still a lot of work to be done for companies to understand what it means for them.

Over the past three years, the number of storm and flood insurance claims has increased by 56% in New Zealand. Data from the World Meteorological Organization predicts the pace of weather disasters to continue for the next four decades. The increase in severe weather events will certainly have an impact on insurance as well.

On top of these global changes, businesses and individuals are now facing greater exposure under the health and safety reforms brought in two years ago. Under the changes, anyone in a position to exercise significant influence on the management of a business is now more likely to be personally liable. Fines under the Act increased to up to $600k for an individual and $3 million for an entity, about six times higher than previously.

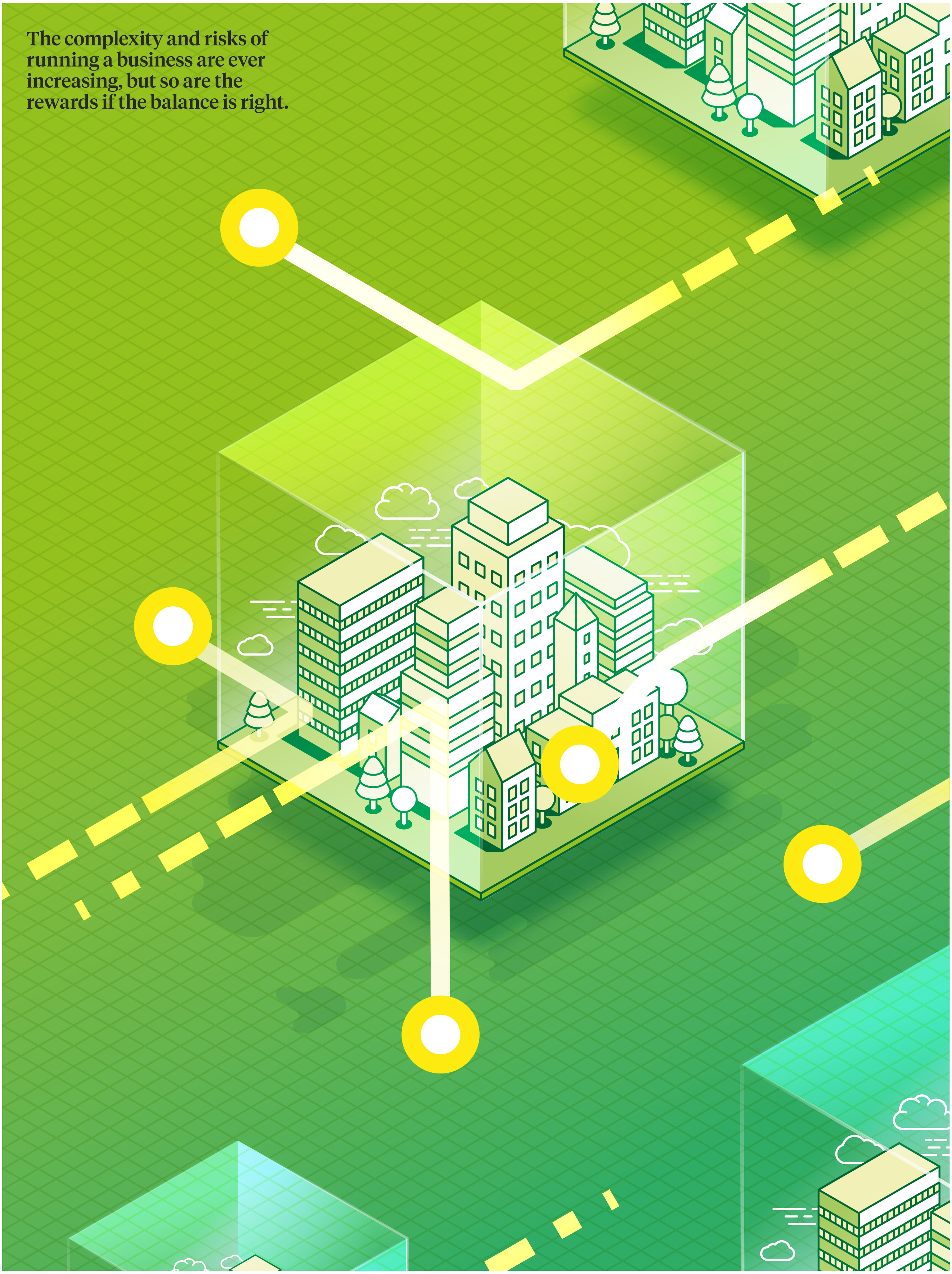
Since the changes, we've seen companies having to top up ACC shortfalls for their employees. In one instance, NZI covered the cost of around $200k of the top-up under the insured's statutory liability policy.

The Commerce Commission has also been much more active investigating breaches of the Fair Trading Act and much more aggressive with enforcing penalties. It's now more important than ever for businesses to consider having statutory liability insurance to help out when you or one of your employees is investigated.

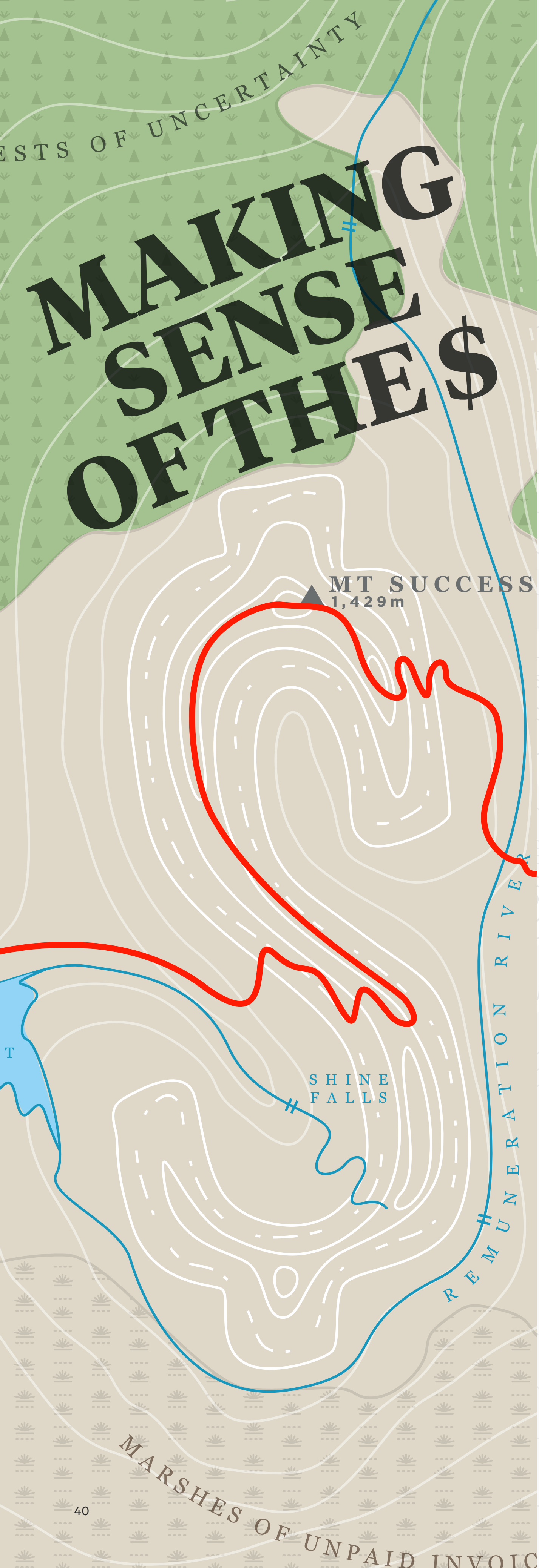
NZI is continually seeking to understand how we can best provide insurance solutions that take into account environmental, economic and societal factors.

It's with this information that we continue to challenge ourselves as to how we can better help a growing New Zealand and support businesses to continue to thrive. Being there to help them recover in their time of need is why I'm still in the business.

The complexity and risks of running a business are ever increasing, but so are the rewards if the balance is right.



MAKING SENSE OF THE $



Directors' fees need to be set at the right level to attract and retain talent as well as being acceptable to key stakeholders and shareholders.

Remuneration is an issue that is attracting increasing interest from shareholders – witness the 2017 media coverage of CEO salaries at Fonterra, Sky City and Fletcher Building, to name but a few local examples.

In the case of Fletcher Building, shareholder disquiet led to a 20% cut in directors' fees for 12 months – announced at the company's AGM in October 2017.

In this environment of increased scrutiny, organisations may find it helpful to think of how they can communicate effectively to shareholders in a way that builds trust and confidence. At the same time, fees need to remain competitive to attract good directors to deliver on shareholder expectations.

John Cook MInstD serves on the Zespri board and remuneration committee, which undertakes an annual review of fee trends and director activity across the horticultural sector. He is also a director of Horticulture New Zealand.

Zespri's remuneration committee uses IoD's DirectorRem advisory services for its annual reviews.

Cook says having an independent view of fee trends helps the committee communicate with shareholders and helps shareholders understand fee recommendations.

"We like to have a formal document so we can stand up in front of shareholders and say, 'This is the report that underpins our decision'."

This gives the board confidence it is making a sound decision while supporting transparency and shareholder engagement, he says.

"Shareholders are happy with the process – and at the last AGM, 97% supported the proposals."

There are, he notes, times when shareholders are "not particularly happy" with the performance of the board, and this can make directors' fees a contentious issue. Having a comprehensive rationale for any recommendations can be even more important at such times.

MORE INFORMATION

The IoD undertakes an annual survey of director remuneration in New Zealand, in association with EY. This data is captured in the *Directors' Fees Report*, available from **iod.org.nz/feesurvey**

For more information on DirectorRem services, contact the Board Services team:
P: 0800 846 369
E: boardservices@iod.org.nz
W: iod.org.nz/DirectorRem

The IoD has produced a *Guide to Disclosing Director Remuneration in Annual Reports* that supports transparent and consistent disclosure of director remuneration. This is available at **iod.org.nz**

The updated NZX Corporate Governance Code recommends that listed companies release a summary of any independent remuneration reports when publicly noting such reports have been used in decision making on director remuneration. The Code can be found at **nzx.com**

TIMING

Most professions would expect their salaries to be reviewed annually, yet only 32% of the participating organisations in the IoD's 2017 directors' fees survey undertake annual fee reviews. Some organisations only review governance fees on a five-year cycle.

Cook says. "Five or six years ago, the Zespri board remuneration had got a long way behind." That coincided with the impact of a significant PSA outbreak – the disease attacks vines and can devastate a kiwifruit orchard.

When the industry is hurting or has recently struggled, it can be difficult to raise the question of how much directors should be paid. "But the industry is back in good heart now, and it's important that we stay that way."

Alongside its annual review of trends, Cook's committee undertakes comprehensive sector reviews on a five-yearly cycle to avoid slipping out of step with the market again. The IoD's director fee advisory services are used to delve beyond movements in the CPI to consider time commitments and other director duties, as well as trends in industry governance.

"We like to get a sense of any changes that are happening in the agri-business sector," Cook says.

"We undertook a comprehensive review in 2014 and will do that again in 2019. That gives us comfort that we can stand up in front of shareholders and explain our rationale."

TRANSPARENCY

Not all organisations pay at the same level. Fees vary across organisation types, sizes and industries. Many not-for-profit board roles are not remunerated at all, although there is a trend towards remuneration.

But small and not-for-profit organisations are under the same pressure as corporations to have a transparent process around fee setting that delivers an outcome acceptable to all stakeholders.

"That's where our DirectorRem SnapShot can be very useful," says IoD Board Services Advisor Ellen Hodgetts.

"It's a cost-effective report on director fees in your market – based around organisation type, size and the industry you operate in. And it provides a general overview of director fee trends and considerations when setting board fees."

Larger or more complex businesses may benefit from the DirectorRem Tailored service, which provides a formal report giving on independent assessment of appropriate fees for board members. This takes into account aspects such as the type and size of the organisation, the time spent on board work, expectation in the industry and factors specific to the organisation such as operating complexity and risk profile.

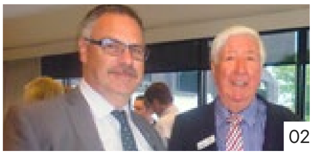
"There is no one-size-fits-all model for director remuneration. Our tailored service is comprehensive and provides guidance directly related to the circumstances of that particular board and organisation."

Out & **about**

National

The inaugural Bold Steps Conference in December attracted more than 500 of New Zealand's leading female business leaders. Speakers included a panel discussion (pictured) on governance as a career.

01


02

Canterbury

In mid-November, Rob Hewitt, co-chair of Silver Fern Farms Limited, spoke to members and guests in Christchurch on several areas including governance in agri co-operatives, the governance challenges of working in foreign markets and managing sustainability in New Zealand's red meat sector.


03


04


05

06

07

08

Nelson Marlborough

There was a great turn-out for the 2017 AGM and Christmas Dinner on 7 December. This event, sponsored by Port Nelson, featured NZ Rugby Union chief executive Steve Tew as guest speaker and also saw IoD Vice President Alan Isaac present long-standing member John Palmer with his Distinguished Fellow certificate.

Company Directors' Course

20 November 2017, at the Grand Mercure in Auckland

BACK ROW: Richard Fraser, Murray Robertson, Alwyn Corban, John Hannan, Kevin Palmer, Simon Bilton
MIDDLE ROW: Matt Bond, Chris White, Howard Long, Rob Heebink, Brenda van Zyl, Kelvin Watson, Tania Armstrong, Gary Leslie, Jim Stuart-Black
FRONT ROW: Mark Sadd, Dave Stanley, Craig Candy, Trish Bolger, Kirsten Ralph, Allan Tribble, Margaret Gibbs, Stephen Hunt, Kevin Murphy

01 Paula Rebstock, Cathy Quinn, IoD President Liz Coutts, Tania Simpson
02 Craig Price, Allan Williams
03 Colin McGeever, Sylvia Maclaren, Dr Anthony O'Brien
04 Vincent Pooch (chair), Rob Hewitt (speaker), Richard Hegan (ASB)
05 Greg Smith, Stephanie Sisson
06 Tracy Johnston, Andy Rowe (front left and right)
07 John Rollston, Euan McIntosh
08 John Palmer, IoD Vice President Alan Isaac

Events **diary**

For more information visit **iod.org.nz**, contact the director development team or contact your local branch manager.

AUCKLAND

MARCH

05 Governance Essentials

06 Strategy Essentials

07 Finance Essentials

22 Audit and Risk committees

APRIL

04 Finance Essentials

05 Not-for-profit Governance Essentials

13 Breakfast with Spark MD Simon Moutter

TARANAKI

FEBRUARY

28 Annual General Meeting

28 Future business trends and the role of directors with KPMG's Ross Buckley

MARCH

01 Alan Dunn

06 Governance Essentials

07 Reporting to the Board

13 Governance CV workshop

BAY OF PLENTY

MARCH

01 Health and Safety – Critical Risks

07 Annual General Meeting

NELSON MARLBOROUGH

FEBRUARY

21 Business disruption without mentioning Amazon, Airbnb or Uber with Foodstuffs South Island CEO Steve Anderson

22 Social enterprise entrepreneur Daniel Flynn of Thankyou

WELLINGTON

FEBRUARY

21 Finance Essentials

22 Strategy Essentials

22 Annual General Meeting

MARCH

01 Reporting to the Board

01 Change is hard, but stagnation is fatal with KPMG's Steve Graham

08 Health and Safety – Critical Risks

13 Partnering with your Board from a not-for-profit perspective with Graeme Nahkies from BoardWorks

20 Advanced Health and Safety Governance

21 Governance Essentials

22 Finance Essentials

28 After 5pm new members' event

CANTERBURY

FEBRUARY

28 New members' lunch

MARCH

01 Board dynamics intensive

09 Sponsor's lunch with Rob Frost, head of business risk at Marsh

19 Annual General Meeting

APRIL

17 Governance Essentials

18 Strategy Essentials

19 Digital Essentials

20 Reporting to the Board

OTAGO SOUTHLAND

FEBRUARY

28 Lunch with Jeff Grant, chair of AgResearch

MARCH

14 Annual General Meeting

APRIL

09 Governance development programme

WAIKATO

MARCH

14 Lunch with adventurer and philanthropist Sir Graeme Dingle

Company Directors' Course

A fundamental five-day course for directors and senior executives with governance experience.

04 MARCH
Waiheke Island

11 MARCH
Queenstown
waitlist operating

18 MARCH
Auckland

15 APRIL
Queenstown

06 MAY
Wellington

11 MAY
Auckland

13 MAY
Queenstown

21 MAY
Auckland
waitlist operating

10 JUNE
Auckland

17 JUNE
Queenstown

9 JULY
Wellington

19 AUGUST
Auckland

26 AUGUST
Wellington

02 SEPTEMBER
Auckland

16 SEPTEMBER
Queenstown

30 SEPTEMBER
Auckland

14 OCTOBER
Queenstown

28 OCTOBER
Queenstown

04 NOVEMBER
Wellington

11 NOVEMBER
Waiheke Island

What Matters

Strategies for engagement

Shifting the focus from activism to strategies of engagement, our panel will contribute their views on how to shape a long-term organisational vision that accounts for shareholder and stakeholder concerns with the goal of maximising value.

You can attend the event in person or via live webcast.

14 MARCH

The Northern Club, Auckland

Event: 5.35pm
Webcast: 6.00pm

Go to **iod.org.nz/what-matters** for more details and to register.

BRANCH EVENTS

FOR INFORMATION ON MEMBER EVENTS IN YOUR AREA, SEE **IOD.ORG.NZ**

BRANCH MANAGER CONTACT DETAILS

AUCKLAND
Shirley Hastings
P: 021 324 340
F: 04 499 9488
auckland.branch@iod.org.nz

BAY OF PLENTY
Laura Gaveika
P: 027 588 8118
bop.branch@iod.org.nz

CANTERBURY
Sharynn Johnson
P: 03 355 6650
F: 03 355 6850
canterbury.branch@iod.org.nz

NELSON MARLBOROUGH
Karen Goodger
P: 027 525 7400
nelson.branch@iod.org.nz

OTAGO SOUTHLAND
Vivienne Seaton
P: 021 152 2809
F: 04 499 9488
otago.branch@iod.org.nz

TARANAKI
Julie Langford
P: 021 806 237
taranaki.branch@iod.org.nz

WAIKATO
Megan Beveridge
P: 021 358 772
waikato.branch@iod.org.nz

WELLINGTON
Juanita Hudson
P: 021 545 013
F: 04 499 9488
or 04 474 7534
wellington.branch@iod.org.nz

Webinars

Access expert knowledge on specific topics.

27 FEBRUARY
Chairing fundamentals
10.30–11.30am, 2 CPD points

27 MARCH
Risk trends
10.30–11.30am, 2 CPD points

DirectorVacancies

DirectorVacancies is a cost-effective way to reach our extensive membership pool of New Zealand director talent. We will list your vacancy until the application deadline or until you find a suitable candidate.
Contact us on 0800 846 369.

The following positions will remain open until filled:

CONNECT SOUTH
Role: Board members (2x)
Location: Dunedin

LIANZA
Role: Treasurer
Location: Wellington

CANTERBURY BASKETBALL ASSOCIATION
Role: Board members, including independent chair
Location: Christchurch

INSTITUTE OF DIRECTORS
Role: Auckland branch committee member
Location: Auckland

ASPIRE CANTERBURY
Role: Chairperson and treasurer
Location: Christchurch

HOME OF ST BARNABAS TRUST
Role: Board members (2–3)
Location: St Clair, Dunedin

MOSGIEL MEMORIAL RSA
Role: Board members (2–3)
Location: Mosgiel

GLAUCOMA NZ
Role: Voluntary board members (2x)
Location: Auckland

VILLAGE COMMUNITY TRUST T/A WORKSTAR
Role: Chairperson, treasurer, general members
Location: Nelson


Future
Directors
A fresh perspective
Host a future director on your board
Benefit from a fresh outlook, gain new insights and enable your board to look at issues and decisions differently.
To get involved email Stella at stella.lawson@iod.org.nz
futuredirectors.co.nz
Institute of Directors