

# board room

APR / MAY 2019

*Magazine of the Institute of Directors in New Zealand*

Institute of  
**Directors**

CELEBRATING 30 YEARS  
at the heart of NZ governance



DOUBLE DENIM

**A new view of  
women and work**

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**GCSB Director  
General on the cyber  
threatscape**

## A note from the editor

2019 marks 30 years of independence of the Institute of Directors in New Zealand.

We began as a branch of the UK IoD in 1966. That changed in when IoD New Zealand became an incorporated society, with around 500 members, on 22 March 1989.

We share a birthday with mime artist Marcel Marceau, composer Andrew Lloyd Webber and Kiwi cricketer Cec Burke. We share a feast day with St Patrick's lesser-known sibling, St Damerca. March 22 is also the earliest day on which Easter Sunday can fall – as it did in 1818 and will again in 2285.

In this issue we highlight some of the major events that have shaped our Institute, and talk to two members born in our founding year about their governance experience and ambitions.

We also hear from Governor-General Dame Patsy Reddy, who reflects on the dramatic changes in expectations of directors since she first entered the boardroom during the 1980s.

Change is also presaged in our preview of the first Wellbeing Budget, in which we investigate linkages between reporting, big data and integrated management in the public and private sectors.

And our cover story would perhaps have been unthinkable 30 years ago - an interview with a “gender consulting” service focused on improving outcomes for women in business and for the businesses they work for.

The times they are a-changing.

**Aaron Watson**  
BoardRoom editor



BoardRoom is the magazine of the Institute of Directors in New Zealand [iod.org.nz](http://iod.org.nz)

# The Agenda

APR / MAY 2019



**DAME PATSY REDDY REFLECTS ON THE CHANGING ROLE OF DIRECTORS**



**DOUBLE DENIM**  
A new view of women and work



**SUPPORTING THE DELIVERY OF INFRASTRUCTURE**

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# Party like it's 1989



**KIRSTEN PATTERSON**  
CEO, INSTITUTE OF DIRECTORS

## Tēnā koutou katoa,

1989 was a year of many significant worldwide events – the Berlin Wall came down and the first episode of *The Simpsons* aired. Closer to home, 1989 marked the beginning of Sunday trading, and the Institute of Directors was established as a stand-alone entity independent of the IoD UK.

It was in 1989 that Sir Tim Berners-Lee “invented” the World Wide Web. Sir Tim has said: “I hope we will use the net to cross barriers and connect cultures.” Mark Zuckerberg was five years old in 1989.

## So how far have we come in 30 years?

A review of the 1989 *BoardRoom* magazine provides, in many ways, a comforting snapshot of how some things are enduring.

It speaks to the need to ensure good development programmes are in place to raise governance standards across the community, ensuring directors meet their fiduciary duties, the Institute needing good commercial disciplines to ensure membership subscriptions are reasonable, and it promotes the upcoming conference.

Many of the IoD's priorities of 1989 remain the organisation's priorities 30 years later. Perhaps that is as it should be. Our purpose is clear and enduring.



But for all the things that have stayed the same, and for all the ways the IoD has gone from strength to strength, we know that much has changed in our New Zealand communities. Or possibly not changed enough.

1989 was also the year that the 14th Dalai Lama was awarded the Nobel Peace Prize. The Nobel Committee said the Tibetan Buddhist leader was being recognised because he “consistently has opposed the use of violence” and has instead has “advocated peaceful solutions based upon tolerance and mutual respect.”

A message that is as relevant today as it was 30 years ago.

**Kia kaha, kia kotahi ra. Our strength is our unity. As-salaam alaikum. Peace be unto you.**

**Kirsten (KP)**





# BOARDROOM

JOURNAL OF THE INSTITUTE OF DIRECTORS IN NEW ZEALAND  
Box 7436 Wellington

ISSUE 12

NOVEMBER 1989

## MAJOR IOD ACTIVITIES PLANNED FOR 1990

By

**Geoffrey Bowes**

**IOD Executive Director**

While the IOD has made considerable advances over the past few years, 1990 will be critical for the organisation.

One of our major thrusts must be to increase the membership base. We need to do this for two reasons: firstly, if we are going to be a force to be listened to we must have a large, representational membership base; secondly, we need the revenue generated by such a base to finance the range of activities we should be undertaking.

I estimate that only 450 of New Zealand's 1100 public company directors are members of the IOD. My personal opinion is that every public company director who claims to be responsible should be a member. We need to get our membership up to the 1000 mark next year.

During 1990 I would like to see the IOD run seminars on directors' duties in the major centres. I think we have a duty to ensure our members are up-to-date with developments,

and that new members are well versed in the elements of direction. I feel these seminars should focus on private companies because, under law changes proposed by the Law Commission, private companies will be operating under different rules. The Professional Development Committee will also be investigating the introduction of an IOD Diploma in Company Direction.

*Continued on page 6*

## PRESIDENT'S REPORT

This is the last issue of *Boardroom* for 1989, and I want to thank the ANZ Bank for financial assistance towards its production. I also would like to wish all members a joyous Christmas and a prosperous 1990.

This has been a year of achievement for the IOD. Most importantly, we processed and admitted more than 150 new members. We also produced our first book - *Practical Guidelines for New Zealand Directors*; moved into permanent premises; and appointed an administrative assistant to help the executive director. Further, we have become separate from, but allied to, the Institute of Directors in the United Kingdom, and have registered our own constitution.

We have tightened-up vetting procedures for new members and have implemented a system for terminating the membership of directors who act contrary to their fiduciary duties. We have run three seminars which have contributed to our income, and have produced ties and certificates for members. Finally, we have been actively involved in making representations to relevant officials on matters affecting directors and their companies. I hope that members will be well satisfied with the Council's efforts on their behalf.

All of the above activities require funding.



Gordon Gilmour

We again have been fortunate that Unisys has provided a very generous sponsorship, without which we would not have achieved all that we have. On your behalf, I thank Mr Brian Clark, general manager of Unisys, for his company's continuing financial support.

Next year we aim to reduce our reliance on sponsorship by increasing income from commercial activities such as seminars. However, there is no doubt that we will have to increase next year's subscription fee. I would like to welcome our recently appointed administrative assistant, Mrs Margaret Collis, back to the IOD. Margaret was involved with the Institute some years ago, and while both she and the executive director are retained on a part-time basis, the Wellington office is now operational during normal working hours.

Your Council is currently considering the activities which the IOD should undertake in 1990. We would welcome suggestions, which should be forwarded either to me or to any other Council member. Finally, may I remind you about the conference in Auckland on 28 February. This will be one of the year's highlights, and we are fortunate to have an international panel of speakers of such calibre. Note it in your diary now.

Gordon Gilmour  
President

Produced in association with the ANZ Bank

**I o D**  
Institute of Directors in New Zealand (Inc)

**IF YOU ARE A DIRECTOR OR WANT TO BE A DIRECTOR, THE INSTITUTE OF DIRECTORS CAN ASSIST YOU.**

You are the owner-operator of your own business, a director of a publicly listed company, or a director of a company. Legislation such as the Companies Act, the Financial Reporting Act, and the Commerce Act, to name a few, impact on the way you, as a director, conduct the affairs of your company. The Institute of Directors is currently offering 50 courses on corporate governance and related matters.

**FOR MORE ABOUT THE COURSES OFFERED BY THE INSTITUTE OF DIRECTORS CONTACT WRAY WILSON ON 0800 TO DIRECT.**

417840130000

# UpFront

## Director Vacancies

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

*Unless otherwise stated, the following positions will remain open until filled.*

AUCKLAND TRANSPORT  
**Role:** Independent chair  
**Location:** Auckland  
**Closing date:** 19 May 2019

AUCKLAND TOURISM, EVENTS AND ECONOMIC DEVELOPMENT  
**Role:** Independent directors (3)  
**Location:** Auckland  
**Closing date:** 19 May 2019

AUCKLAND TRANSPORT  
**Role:** Independent director  
 Committee Member  
**Location:** Auckland  
**Closing date:** 19 May 2019

PANUKU DEVELOPMENT AUCKLAND  
**Role:** Independent director  
**Location:** Auckland  
**Closing date:** 19 May 2019

REGIONAL FACILITIES AUCKLAND  
**Role:** Independent director  
**Location:** Auckland  
**Closing date:** 19 May 2019

SPORT NORTHLAND  
**Role:** Centrally-held list of directors/  
 director pool  
**Location:** Auckland  
**Closing date:** Until candidate pool  
 reaches capacity

**Q: When can directors rely on information and advice in exercising their powers and performing their duties?**

- A. When they act in good faith.
- B. When they make proper inquiry where the need for inquiry is indicated by the circumstances.
- C. When they have no knowledge that such reliance is unwarranted.
- D. All of the above.

### ANSWER

D. See section 138 of the Companies Act. There are also other limitations in the section relating to:

*the type of information and advice*

*when a director can rely on information and advice from employees, professional advisors and experts, and other directors and board committees.*

### Notice of Annual General Meeting of the Institute of Directors in New Zealand

The IoD's 2019 Annual General Meeting will take place on **19 June, 2019, at 12pm**. The AGM will be in the ASB Cube, 12 Jellicoe St, Auckland.



## What **advantage** could successful franchising or licensing add to your company?

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**APPOINTMENTS**

*Renata Blair*

Member, has been appointed to the board of engineering firm Harrison Grierson.

*Jo Brosnahan*

Chartered Fellow, has been appointed to the board of engineering firm Harrison Grierson.

*Angela Bull*

Member, has been appointed to the board of Callaghan Innovation.

*Scott Gower*

Member, has been elected to the board of Beef + Lamb NZ.

*Nicky Hyslop*

Member, has been elected to the board of Beef + Lamb NZ.

*Anita Killeen*

Associate Member, has been appointed to the Ngāi Tai ki Tāmaki Commercial Investment Board.

*Emma McDonald*

Member, has been appointed to the board of management company Pragmatix.

*Lauren Salisbury*

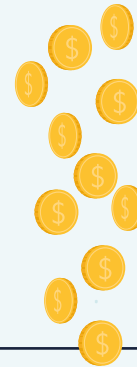
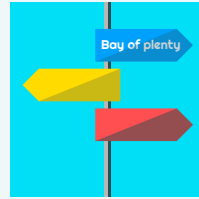
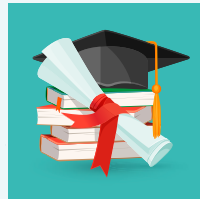
Member, has been appointed to the board of engineering firm Harrison Grierson.

*Grant Stapleton*

Chartered Member, has been appointed to the board of New Zealand Rugby League.



# 30 years at the heart of New Zealand's governance network



OUR FIRST PRESIDENT WAS **GORDON GILMOUR** DISTFINSTD AND THE FIRST EXECUTIVE DIRECTOR WAS **LT COL GEOFFREY BOWES** DISTFINSTD.

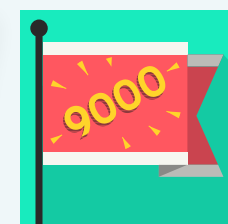
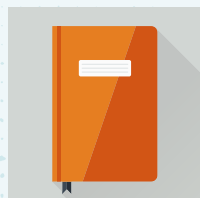
THERE WERE FOUR FOUNDING BRANCHES – AUCKLAND, WELLINGTON, CHRISTCHURCH AND DUNEDIN – AND AROUND 500 MEMBERS. THE AVERAGE HOURLY RATE FOR A DIRECTOR ON THE BOARD OF COMPANIES WITH A TURNOVER OF \$21-50 MILLION WAS \$96.

THE IOD LAUNCHED ITS BOARD APPOINTMENTS AND ADVISORY SERVICE IN **1990**, HELPING COMPANIES FIND THE RIGHT DIRECTORS FOR THEIR NEEDS. A YEAR LATER, THE FLAGSHIP COMPANY DIRECTORS COURSE TOOK ON ITS FIRST 28 STUDENTS.

BY **1992** THE ORGANISATION HAD GROWN TO REACH 1,000 MEMBERS. IN **1993**, GROWTH LED TO THE ESTABLISHMENT OF THE WAIKATO/BAY OF PLENTY BRANCH.

THE AVERAGE FEES PAID TO NON EXECUTIVE DIRECTORS WAS \$19,336 PER ANNUM IN **1996**.

IOD MEMBERSHIP REACHED 2,000 IN **1997**.



THE FIRST BOARDWIDE MEMBER GROUP WAS ABANO HEALTHCARE GROUP'S BOARD IN **2013**.

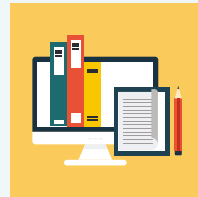
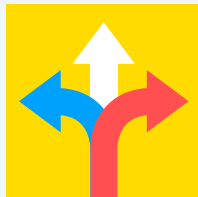
**2014** SAW THE ESTABLISHMENT OF THE CHARTERED DIRECTOR PROGRAMME.

LIZ COUTTS CFINSTD BECAME THE FIRST FEMALE PRESIDENT OF THE IOD IN **2017**.

MEMBERSHIP NUMBERS HIT 9,000 IN **2018**.

To celebrate the 30th anniversary of the Institute of Directors we look back at some of the key events that have shaped the organisation, and talk to two members born in 1989, the year the Institute was incorporated.

The Institute of Directors in New Zealand became an incorporated society on 22 March, 1989. (That makes us an Aries - courageous, determined, optimistic and honest but also a little impatient, impulsive and adverse to inactivity.) March 1989 also saw the worldwide web reach New Zealand, Sunday trading began and TV3 made its first broadcast.



THE FIRST "IOD BRANCH STUDY AWARD" (NOW THE EMERGING DIRECTOR AWARD) WAS GRANTED TO TIM ALLAN IN **1999**.

THE **MILLENNIUM** CAME AND WENT WITH NO Y2K ISSUES IN THE IOD'S SYSTEMS.

IN **2005**, AN ACCREDITATION SYSTEM FOR EXPERIENCED DIRECTORS WAS ESTABLISHED, A PRECURSOR TO WHAT IS NOW THE CHARTERED PATHWAY.

**2007** SAW THE NUMBER OF ACCREDITED MEMBERS REACH 100, THE LAUNCH OF THE FOUR PILLARS OF GOVERNANCE BEST PRACTICE FOR NEW ZEALAND DIRECTORS AND THE INAUGURAL "ESSENTIALS" SERIES OF IOD TRAINING OPPORTUNITIES.

THE MENTORING FOR DIVERSITY PROGRAMME WAS LAUNCHED IN **2011**, WITH 30 MENTEES TAKING PART.

**2012** SAW THE TARANAKI BRANCH ESTABLISHED AND THE LAUNCH OF THE FUTURE DIRECTORS PROGRAMME TO HELP DEVELOP THE NEXT GENERATION OF DIRECTORS.





# Members born in 1989

Directors are often thought of as, well, experienced. But Hannah Kelly and Guy Alexander, both born in the year the organisation was founded, are two IoD members who show that governance can call at any age.



## Hannah Kelly, Stratford, board member of Netball Taranaki

Hannah Kelly got her IoD membership for Christmas.

The young board member of Netball Taranaki describes herself as “a bit of a yes person” who has often found herself involved in committees.

“Mainly in sport and particularly in netball,” Kelly says.

When she put her hand up for a seat in the netball boardroom her parents gifted her IoD membership in order to ensure she was well prepared, and well supported.

“My dad had quite a big influence on that. He is currently the chair of the TSB bank and holds directorships on various organisations. Growing up around him I always knew about governance. He is a member and when he first started getting into directorships he found it really valuable – in terms of the opportunities that come up for professional learning.

“My parents paid for my membership to get me started. It was actually a great present.”

Kelly brings a youth perspective to the Netball Taranaki board, through her age and through her experience.

Her past roles include youth sport development manager at Sport Taranaki, so she is keenly aware of the importance of sport to young people.

“I think they saw in my background a skill set that would be useful to the NT board.”

Currently the strategic lead for education and youth at Wanganui and Partners, an economic development agency, Kelly says being involved in governance has improved the way she works.

“I report to a board in this role as well. Being involved in governance outside this role helps me in terms of knowing what they are thinking and how to communicate with them.”

Having “called retirement” on netball after many years as a keen player, Kelly enjoys being able to stay involved in the game through governance.

“I played right through the representative ranks and played provincial netball for Taranaki, Manawatu and the central zone. I have been coaching representative netball for the past few years as well. Being on the Netball Taranaki board is an opportunity to develop my own skills, but also to contribute.

“I will finish my role at Netball Taranaki next year and I would like to seek another governance opportunity. But I guess at my age I am keen to just grow my skills and stay connected to any professional learning opportunities. If my skills and background and time are needed, and opportunities arrive, I would like to stay involved in governance. Being involved in boards keeps your brain going and keeps you interested and is an opportunity to do something beyond the day job.

“I like to keep learning. Being young, I have limited experience so it is a great opportunity to engage in professional learning. I haven’t been super active so far.

“I have enjoyed my experience of being involved in governance at a young age. It’s a chance to be challenged and to make new relationships. That is the cool thing about a board.”



### **Guy Alexander, Auckland, board member of NZ Aids Foundation**

A brush with cancer led Guy Alexander to CanTeen and, ultimately, into governance.

CanTeen is a charitable organisation that helps young people through the stressful and intense treatment process for the disease.

“There was a mentor that said to me look, you are someone who it could be good to have on our board,” Alexander says. “For me, it was an opportunity to give back. CanTeen had supported my family and I during some rough times and helped me grow into a teenager that could tackle life post cancer, so it was a way for me to give back what I had an abundance of, which was time.”

CanTeen’s board was a mix of organisation members and professional directors. Alexander was just 19 at the time he took the role, and served from 2009 to 2013. During this time he also served as national president of CanTeen and as a representative on the board of the Child Cancer Foundation.

“It was a bit of a laugh because the CanTeen CEO at the time used to introduce me as his boss who was younger than his son.”

That would get a few chuckles.

“It is very different to working in a day job. I was fortunate [with CanTeen] in that I had started a business at a similar time so the skills I learned in the boardroom were quite applicable to me in my start up – and vice versa. I had this great crossover of opportunities and exposure to things that a lot of people my age would not have had.”

He turned his youth to his advantage, taking the opportunity to clarify issues where older board members were reluctant to ask questions.

“At a young age the hardest thing can be to ask questions that you are embarrassed to ask, you are worried that everyone is going to look at you because you should know this stuff. But actually the rest of the board probably want to know that too, but nobody was game enough to put their hand up. That is something that has stuck with me. There is never a wrong question. You have to challenge what you do not think is right and what you may not fully understand.”

Alexander’s day job is in the global product marketing team of accounting software provider Xero. He says the leadership has been supportive and sees value in the new experiences he is getting outside the company. This year he is planning to add a start-up to his governance portfolio. “Not a formal governance role but in an advisory capacity in an organisation that may not need a full board of directors at the moment.”

With nine years experience behind him in not-for-profit governance, he observes that it is a sector that needs a stronger commercial focus. NFP doesn’t mean run excessive deficits year after year – in fact it should be more about how we create a sustainable future, together and reinvesting surplus or profit into having an impact on the wider community, he says.

“Often the people around the table are there for the right reasons, their intentions are great, but sometimes they don’t have the right skills to take an organisation where it needs to go – and those are courageous conversations to have. A lot of NFPs are member led, or member driven, which can make it

challenging when you are one of one or two people who have the commercial skills. It can be quite frustrating when you are focusing on the wrong things and your board colleagues don’t understand the business drivers. But equally it is a chance to mentor your colleagues on areas they may need to upskill on in order to sustain organisations that provide a lot of social good to our communities.”


### **The IoD connection**

Alexander chose to join the IoD in order to improve his governance ability and demonstrate that being young was not a handicap.

“Part of that was to add some legitimacy to what I was doing. For me, saying that you are on a board is one thing but being able to say you are part of a professional body is important.

Secondly is learning some – I hate the term – best practice and being able to network with likeminded individuals. I had a similarly aged person reach out to me and say, ‘hey let’s have a coffee’. We are both interested in governance. Those opportunities crop up and it is quite fulfilling to talk to people about their challenges and to share your own, and get different perspectives.”

So it turns out that being shoulder tapped for the CanTeen board may have set him on a governance career path. Alexander is currently on the board of the NZ Aids Foundation.

“It’s not a question of if I go full time into governance or stay in management roles, it’s more about where can I add the most amount of value today, and do I get energy from doing it? I learnt fairly early on to drop the ego at the boardroom door and to constantly check your own expiry date so you don’t become the stale board member in a fast-paced conversation.” 



A woman with short brown hair, smiling, stands in front of a building with large stone columns. She is wearing a red and blue patterned dress with white geometric shapes and horizontal stripes. A black poodle dog is standing next to her. The background shows a dark building with horizontal siding.

# The view from Government House

AUTHOR  
AARON WATSON

The past decade has seen dramatic change in the complexity of governance, says Governor-General Dame Patsy Reddy.

For directors to consider the interest of society in general is a very recent development, says Governor-General Dame Patsy Reddy.

**“Having those interests integrated into a corporate model is quite a challenge, but such a desirable thing to do. It is a real challenge for directors who have so many responsibilities these days,” she says.**



Dame Patsy gained extensive corporate governance experience during the 1980s and 1990s, when the focus of directors was narrower.

“I come from an era of free markets – Freidman economics – when as a company director you were focussed on the interests of your shareholders. Your responsibility was to increase the wealth of the company for the benefit of those shareholders. Now, we have a much wider, and I think better, view.”

A key driver for that change has been the response to the global financial crisis of 2009, which included increased regulatory oversight. Another has been the rise in prominence of non-financial reporting and environmental, social and governance (ESG) concerns.

“The acknowledgement of climate change, for example, put ESG issues on the agenda for shareholders and the public. Therefore directors need to look at a broader range of issues than perhaps we did when I first took up governance roles. This is much more complex and much more difficult for directors, in some ways.”

Dame Patsy retired from private sector governance in 2008 to focus on the public sector and is not sure how her experience would translate in the more complex environment of company directors today.

“In corporate governance terms that is generations ago, because we have moved so far. It is a completely different era now.

The world has changed. I don't feel I would be able to go back into a private company boardroom now with the right skill set.”

## PUBLIC-PRIVATE CONVERGENCE

Dame Patsy has extensive governance experience having served on the boards of Air New Zealand, Sky City Entertainment, Telecom Corporation and New Zealand Post, among others. In the public sector her resume includes chairing the New Zealand Film Commission, serving as deputy chair of The New Zealand Transport Agency, and sitting on the Risk and Assurance Committee for the Department of Prime Minister and Cabinet.

In a consulting capacity she was an independent reviewer (with Sir Michael Cullen) of Intelligence and Security in New Zealand, independent facilitator of the Joint Working Group on Pay Equity, and a Chief Crown Negotiator of Treaty Settlements for Tauranga Moana and Te Tokoturu.

She says working in the public sector has enabled her to combine her ideals with her skills in a way that was difficult in the private sector of the 1980s and 1990s.

“One of the reasons I felt it was time to give up private and corporate roles was that I found it difficult to reconcile the corporate model with the good corporate citizen approach that I felt was important,” Dame Patsy says.



A woman with short brown hair, wearing a blue military-style jacket with a gold chain and several medals, is smiling. She is standing in an office with a large painting of a harbor scene in the background.

**“If you can find the right chair and CEO that’s 75% of what a good company requires.”**

“It was hard for a director to be confident that what they were doing under the Companies Act and the NZX Listing Rules was also the best thing for the country and the welfare of people overall.”

Today, private and public sector approaches increasingly overlap. Sustainability issues, questions of diversity and environmental impact – that would once have been restricted to public sector organisations – are commonly addressed in both spheres.

When the government releases its Wellbeing Budget on 30 May, the Minister of Finance has said it will resemble a contemporary private sector annual report. Dame Patsy says it may show contemporary directors that the broader focus on ESG issues is now mainstream.

“We don’t quite know what a Wellbeing Budget will produce, but I have followed the Treasury’s work on their Living Standards Framework and I wholeheartedly support it. It is an appropriate way to look at the future of our country and our planet. This has been highlighted for everybody because of the immediacy of climate change problems and sustainability. I don’t think we ever talked about sustainability except in terms of the need to ensure the company didn’t go broke.

“The Wellbeing Budget will, hopefully, give comfort to directors that they are on the right track in looking more widely at the value their business is creating.”

## NEW GENERATIONS

Directors are at the sharp end of a generational shift, Dame Patsy says. Her duties as Governor General bring her into contact with a range of young entrepreneurs and future leaders and she feels the younger generations have quite different expectations than those of the free market generations that preceded them.

In February, Government House hosted a reception for the New Zealand branch of SheEO, a global organisation that supports female-led start-ups. Dame Patsy is a SheEO “activator”, one of many donors who contribute to a fund for the organisation’s start-up ventures.

“Part of that model is to show what they do to add value for the community beyond the product they produce.

Seeing so many, particularly young, people thinking in that way has been a heart-warming experience. We want to make a strong, profitable business but we want to do it in a way that’s adding value to sectors of our community that need more support.

“I have seen a lot more focus on social enterprise and companies and businesses being prepared to show how they are adding value or giving back to the wider community.”

A similar trend can be observed among young academics, she says.

“I chair the committee that selects Rhodes Scholars. We see the crème-de-la-crème of our young graduates. Whereas just a few years ago they were often focussed on hard subjects – physics or engineering, or black-letter law – a lot of it today is to do with environmental action, social action, looking after our planet, addressing mental health issues.

“I was astonished at that change. Where previously we might have had one out of eight, now we have seven out of eight looking at those issues. I think concern, particularly about our environment, has changed the way young people think about their future.”

## CLIMATE CHANGE

Nothing captures the spirit of the generational shift more clearly than the international efforts to address climate change. Dame Patsy describes it as the Y2K issue of today’s board concerns, “but far bigger than that”.

The Y2K bug was a widespread concern that computers could fail at the turn of the millennium due to the simplified date range that many early computer systems had been designed to operate under. Extensive mitigation and testing of the problem was undertaken in the late 1990s and the millennium came with no major Y2K problems emerging.

“It was a good news story – although afterwards people asked what we were worried about – but in fact that was probably because what we did beforehand, enormously expensive though it was for individual companies – I was on the Telecom board and it was a big issue for Telecom, making sure the networks worked and that phones still

connected – it was a good news story all around the world.

“Climate change is going to take a lot longer and may not be quite as much of a good news story. There is no answer to climate change other than to ameliorate the damage we have already done. We are never going to reverse it.”

Due to the massive potential for climate change to disrupt life itself on the planet, Dame Patsy supports moves towards more transparency from business on how their activities may impact the environment.

“Their strategies for dealing with, and helping to address, climate change should be clearly spelled out,” she says.

But it is easy, she admits, for somebody in her role to stress the importance of having a long-term strategy for dealing with climate change.

“As Governor-General, I don’t have to do quarterly reporting. I can take a long-term view. When you are in a company that has quarterly reporting measures, you have to have a very clearly defined long-term strategy that identifies this as an important part of your responsibilities to our society. And be prepared to take brave steps that might cost more in the short term but can be expected to add value in the long term.”

Protecting the planet is not something that can be done in a quarter, a year, a decade or even a century, she says.

“But it needs to be acted on now for the long-term protection of all that we have enjoyed. I do feel very strongly, perhaps because I am from that Baby Boomer generation, that we owe it to the generations following us, and our planet – not just the people on it but all the flora and fauna – to take this issue very seriously.





**“Climate change is going to take a lot longer and may not be quite as much of a good news story. There is no answer to climate change other than to ameliorate the damage we have already done. We are never going to reverse it.”**

“That means acting to protect the environment, not simply talking about it.”

### LEADING WOMEN

In 2009, Dame Patsy was one of the founders of Global Woman New Zealand, an advocacy group for inclusion and diversity in leadership. As a woman in governance, she had seen first-hand how the boards of the late 1980s and early 1990s lacked a female perspective.

“I was invariably the only female on the board,” she says.

“It was really difficult being one woman’s voice on a board. What you had to do [to communicate effectively] was stop thinking like a woman and try to think like the rest of the board.

“Just having one person who is different to the rest is not going to make a damn bit of difference.”

There were very few non-Pakeha directors involved in those years either, she says. But, as with ESG issues, Dame Patsy feels understanding and acceptance of diversity in the boardroom has improved dramatically this decade. Boards, and society more generally, are now more accepting that diversity can add value, she says.

“I think we have got past that in New Zealand. But it isn’t quite there. While we have more gender diversity than ever before we still have not got to 50/50. And we still don’t really have that experiential

diversity – the diversity of ethnicity, different backgrounds, and historical experiences – around the board table.”

Getting mainstream acceptability for the concept of diverse governance was very difficult, she says.

“In terms of diversity, we have come a long way in a relatively short time. I am thrilled at how effective it has been in the past year or two, but I am embarrassed at how long it has taken.”

In practice, she notes that diversity can bring challenges as well as benefits. A board that has a lot of different perspectives and opinions may find it harder to reach agreement than one made up of people with similar backgrounds and views.

“It is a lot easier to work on a board as a team if you have people who think the same way. But that is not necessarily going to give you the right result. Some of the boards I have worked on that have been the most effective have been really quite difficult on a day-to-day basis because there was always some stormy petrel or devil’s advocate or someone who was going to think in a different way.

“You have to recite your arguments and go through things. As long as you have people who are prepared to work as a team, ultimately, it really does add value to have robust debate and diverse opinions around the table.”


### THE RIGHT PEOPLE AT THE TOP

One of the biggest challenges for New Zealand boards and organisations identified by Dame Patsy is to ensure quality management and quality experience both at executive and board level. She advocates organisations put resources into training their people for senior roles.

“You can’t just wish it to happen.”

And that includes finding good chairs and CEOs who can manage diverse teams to get the best out of the variety of skills, experience and perspectives that are in them.

“The skill of chairing is quite different to being a director. It is very much about being able to read people and being a good communicator – by which I mean making sure that you are hearing the whole room and allowing everyone to have their say, but at a certain point saying we have to bring this to a head and have some sort of conclusion here. Or if you don’t think that you can say that we need to do some more work on this. It’s a really challenging field.”

“If you can find the right chair and CEO that’s 75% of what a good company requires.” 

## Board dynamics.

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# Long-term thinking

AUTHOR  
AARON WATSON

The first Wellbeing Budget on 30 May will introduce concepts from private and public sector reporting to the Government's accounts and put long-term outcomes at the heart of spending priorities.



As boards increasingly consider environmental and social concerns alongside business strategy, the Government is becoming more rigorous in establishing a business case for its spending.

When Finance Minister Grant Robertson delivers the Wellbeing Budget on 30 May it will include five specific priority areas against which future governments can measure the outcomes of their spending, rather than simply seeking to balance the books. This focus on outcomes will, ultimately, make the budget more business like, says ASB Chief Economist Nick Tuffley.

“It’s behaving a lot more as we would expect a private business to behave. In the past, governments had a tendency to focus on inputs – say, \$3b for health. That’s great, but what outcomes are we trying to achieve? This framework should give us a sense of how effective policy outcomes are – more measurement, more focus on achievement,” Tuffley says.

While not entirely new – Tuffley notes the OECD has been measuring living standards for years – the focus on outcomes for citizens has been hailed internationally as an innovative way to improve public policy value for money. That’s because having clearer goals will enable governments to develop new metrics, which in turn will lead to better policy development.

Tuffley says the key is expanding the measures reported in a Wellbeing Budget to provide a tool for assessing the effectiveness of resource allocation and policies.

“In a Budget sense, that means trying to get the most out of what you have got,” Tuffley says.

Jane Diplock CFInstD is chair of the governance and nominations committee of the International Integrated Reporting Council (IIRC). She describes the upcoming Wellbeing Budget as “extraordinarily important”.

“I see it as a symbol of the realisation that the elements that are important to a society and to communities are not necessarily easily seen in GDP,” Diplock says.

“What else is a budget about, really, than the wellbeing of New Zealand?”

It is a real triumph for New Zealand to be the first in the world to be making this journey.”

## TRUST ISSUES

New and improved measurements of performance are something the private sector has been seeking for many years. In the past decade, the rise of integrated reporting (IR) and increasing interest in environmental, social and governance (ESG) issues have broadened the measures boards are putting in place to understand organisational success.

“Integrated reporting is a concept which has really, it’s fair to say, taken the world by storm,” Diplock says.

“It’s one of those ideas that had been building for quite some time – we had the triple bottom line, we had people looking at non-financial reporting. It became clear that corporations needed to be thinking about the business more holistically. Integrated reporting brought a number of concepts together, asking entities to integrate their sustainability reporting and financial reporting, and to describe their business model and how it adds value over the short, medium and long term. In other words, what makes their enterprise sustainable. Here in New Zealand it has been a great pleasure to see the interest grow and grow.”

This shift occurred at the same time as businesses were starting to understand that there has been a diminution of trust.

“There were calls for greater transparency about all the things that companies do,” Diplock says.

“It has become self-evident to most businesses that when they look at what their stakeholders are requiring of them that they can no longer rely merely on the financial reporting standards, that they need to tell their story in a way that their stakeholders can understand,” Diplock says.

“We are seeing business looking beyond straightforward profit and loss to things like customer satisfaction and their brand and reputation. They are seeking a more holistic view,” Tuffley says.

As business has shifted its approach, trust scores have improved. According to the Edelman Trust Barometer 2019, “my employer” is now the most trusted

institution globally (the 2018 survey, conversely, described an attitude of “stagnant distrust” across the global population). Edelman 2019 also found CEOs are now expected to lead social change with 76% of respondents saying a company can increase profits and improve social and economic conditions at the same time.

“Part of the raison d’être for IR is to enable stakeholders within communities, countries, companies to see what the business model of the company is – what they are really about and what they are trying to achieve,” says Diplock.

“Return for shareholders is not the only aim, or the only outcome, to having a company. It goes back to the level of trust.”

## GOVERNMENT TRANSPARENCY

Treasury Deputy Secretary and Chief Economic Adviser Tim Ng describes the Wellbeing Budget as motivated by similar ideas to those underlying integrated reporting – transparency, accountability and connection to data and evidence. The Wellbeing Budget will provide transparency, in that what the government expects to get for its money will be visible alongside how much is being spent, Ng notes.

“That transparency will provide accountability around what the government is trying to achieve, and what is being achieved,” he says.

Ng says the Wellbeing Budget will be, in a sense, the government drawing from trends in the broader reporting environment for its own prioritisation, planning and reporting processes. “The same factors, I think, underlie integrated reporting in the private sector, and in the public sector. The goal is to allow for integrated management, which is the whole point.”





Underpinning the Wellbeing Budget is Treasury's Living Standards Framework. This is a system for measuring wellbeing based around the four "capitals" of natural capital, social capital, human capital and financial and physical capital (IR is based on six capitals), and the different dimensions of current wellbeing these capitals support. Indicators of these fundamentals of wellbeing are tracked on a dashboard that describes wellbeing outcomes for different demographic splits, for the country as a whole as well as different regions, and for the future, including our resilience to shocks and changing circumstances.

"The Framework has been part of the process the Minister has used to develop the budget priorities," Ng says. "It is exciting. We are getting a lot of interest from overseas in how we are using these tools and processes to shift the way we provide public services and make policy decisions in New Zealand."

He describes the Living Standards Framework as a tool for "measuring better what ultimately matters to people, and analysing it in a way that supports policy development".

As the first country to deliver a Wellbeing Budget, New Zealand will be watched closely by the international community, particularly for what we choose to measure and focus on.

Nobel economics laureate Joseph Stiglitz says the metrics of a "wellbeing budget" must be developed to reveal impacts of policy as well as to help governments select the right tools to address issues. "Governments putting wellbeing at the centre of their agenda will redirect their budgets accordingly," Stiglitz says.

Ng is quick to note that we should not expect to get everything right first time.

"The availability of data has increased massively over the past 10-15 years. We are much more able to measure lots of things. Now, the challenge is about putting it together coherently with a causal view of what most influences wellbeing over the longer term. This is a journey. We are just at the start of that."

## WHAT SHOULD WE MEASURE?

Economists will measure "pretty much anything", Tuffley says, if it helps to

understand human behaviour and our use of resources.

"There is more data available. There are things that we couldn't measure before – the day-to-day or minute-to-minute data that some organisations, like Google, have access to which can inform them about things like spending patterns," Tuffley says.


"Where the Living Standards Framework comes in is where the Government is developing indicators that provide a basis for effective tracking. This is long-term and intergenerational. It's not about putting a policy in place then next year finding it didn't do what you wanted and trying something else."

Ng says that going through this exercise will help make clear which aspects of wellbeing are being measured effectively, and which are not.

"What we are continuing to discover is that what we really want to measure is not always being measured. That is one of the benefits of the process," Ng says.

He offers the example of child wellbeing as an area that needs to be measured better. "You can make assumptions, but most of the information collected is from, and about, adults."

Again, the private sector can offer a roadmap in this journey. Diplock says that putting together an integrated report requires corporations to collect data they may previously have overlooked and to place it in the context of their business strategy.

"Data collection can be very useful for a full understanding of the business model. Integrated reporting allows for telling a story and the understanding of business models inter-generationally – which is very important for iwi and for the government. On these wellbeing indices you may want to see some correlation between what the companies owned by the government are doing compared with the social mandate reflected in their integrated report." 

## More information

The IoD offers a course in Integrated Thinking and Reporting and the topic was investigated in a DirectorsBrief in January 2018. See [iod.org.nz](http://iod.org.nz)

# Government's five priorities



## Boosting innovation

Supporting a thriving nation in the digital age through innovation, social and economic opportunities.



## Creating opportunities

Assisting productive businesses, regions, iwi and others to transition to a sustainable and low-emissions economy.



## Backing Māori and Pasifika

Lifting Māori and Pacific incomes, skills and opportunities.



## Supporting mental health

Supporting mental wellbeing for all New Zealanders, with a special focus on under 24 year-olds.



## Improving child wellbeing

Reducing child poverty and improving child wellbeing, including addressing family violence.

# Add your voice to the 2019 IoD Directors' Fees Survey

## Opens 1 May

Play a key part in the understanding of governance fee levels in the New Zealand market. Your participation allows us to benchmark director remuneration and to provide best practice guidance and accurately represent the profession.

This is the only survey that collects fee information from both IoD members and New Zealand organisations, and we rely on a higher member participation to achieve depth and coverage. Survey responses are collected and compiled by our survey partner, EY.

If you have a current governance role, whether paid or unpaid, we would encourage your participation.

IoD members will receive an invitation to participate from 1 May.

Go to [iod.org.nz/feesurvey](https://iod.org.nz/feesurvey)



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AUTHOR  
AARON WATSON



## *What women want... at work*

Double Denim is a consultancy focused on improving outcomes for women in business, and for the businesses they work for.



A portrait of Angela Meyer, a woman with shoulder-length, wavy, light-colored hair and bangs. She is wearing a black blazer over a black top with a large, tied bow at the neck. She is also wearing large, round, silver earrings. The background is a dark, textured curtain.

Double Denim's Angela Meyer and Anna Dean have been told their pitch would be stronger if they had a man on the team.

"We set up initially as an advertising and marketing agency. Being told we would win more pitches if we had a man was... incredibly frustrating," says Dean. "We started looking around and realised we were quite unusual as two women owners in a marketing agency."

After discussing, but ultimately rejecting, the idea of hiring a stunt-male colleague for pitches, the duo channelled their frustration into creativity. And pivoted their business to gender consultancy.

"We decided to build a business for women in a business context. And for women as consumers," says Meyer, who was a finalist in the Women of Influence Awards 2018.

Double Denim is a gender consultancy that can run a "gender audit" of a business. This looks at aspects such as internal communications, or customer expectations, and puts a female lens across the data.

"A business may talk about putting family first but you see no pictures of women in its communications. Or perhaps no pictures of women in a certain age range, or demographic. We can come in and point out that what the organisation says is this, but what it does is that," says Meyer.

"Because we are independent, people can be much more open with us about the things that are actually going on in a business," adds Dean. "We then marry that with the business objectives - here's an opportunity, you have to fix this part over here. That's really powerful."





## FACT FINDERS

Double Denim commissioned bespoke research into the emotional and economic lives of New Zealand women.

“We were pitching campaigns to senior managers who couldn’t see it. So we decided to get the cold, hard numbers,” says Dean.

Having grown up in a generation that were told “girls can do anything”, they were saddened to find that many professional women feel they are overlooked for promotion because of their gender. Saddened, but not surprised.

Both Meyer and Dean have experienced sexism in the workplace during their careers, which between them span marketing, arts, event management, the film industry and business development.

“It wasn’t so much sexist behaviour, it was more this gendered bullying,” says Meyer.

“It manifests as women not being able to get into the top leadership positions. Or being undermined. Or doing an enormous amount of work and not getting any of the kudos for it. This is rife across the corporate world in New Zealand, our research shows.”

The research dovetailed with feedback the duo had received through another of their creations, the Ace Lady Network.

“Around six years ago we started the Ace Lady Network and over time we kept coming across women who had very similar experiences in the workplace. They work hard, achieve highly, stay late... and then find themselves being bullied, harassed and passed over,” says Meyer.

“A lot of them leave their roles. And the excuse given is that they want to spend more time with their families or they are starting their own businesses,” Dean says. “The reality is that they feel they have no other option but to leave.”

Women in the 40-45 year age range have often risen to a level where they find themselves stuck, they say, while being high enough up the ladder to observe incompetence above them – but when they call it out...

“That’s when things get...” starts Dean, “Shut down,” finishes Meyer.

There were other sobering findings from the research. For example, 87% of women feel unsafe in this country.

“That’s either a challenge, or an opportunity,” says Meyer dryly.

**Having grown up in a generation that were told “girls can do anything”, they were saddened to find that many professional women feel they are overlooked for promotion because of their gender. Saddened, but not surprised.**

## BUSINESS CASE

Happier staff, reduced turnover, reduced hiring costs, retaining institutional knowledge, better alignment with your strategic plan, more understanding of your customer base... Double Denim believes the benefits of incorporating female perspectives into business operations are varied and very real.

Organisations that don’t account for gender difference in their business strategy are likely to be underperforming in terms of organisational culture and in the marketplace, the duo warns.

“We often hear things like, our company has 53% women, we have even more women than men,” says Dean. “But how happy are they? What is their career trajectory in your company? And how often are you needing to replace them?”

“There are so many opportunities that speak to women’s concerns and issues. You are missing out on the largest in-plain-sight market there is. There is a fricken market out there waiting to be tapped. Have a strategy around women,” says Meyer.

Seeking gender diversity and board and senior management level is part

of that, she adds. “If you don’t then, in terms of board diversity, you are not representative of your consumers.”

## NEW WORKFORCE

The idea of a gender consultancy is quite new, but the very existence of Double Denim reflects changing expectations in the marketplace and in the workforce.

Consumers are increasingly interested – and making purchasing decisions – on their perception of a company’s culture. This is particularly prevalent among millennials, who are also reluctant to work in an environment they feel does not reflect their values.

“That younger workforce feels the clock is ticking and they want to spend their time doing something that is of benefit,” Dean.

“They want their work to be meaningful and they want the organisations they work with -they don’t see it as working for, they see it as working with – to be meaningful,” adds Meyer.

One driver for this is the rise of social media, which enables the sharing of ideas, views and values much more directly between people than was possible before.



“Digital natives have had access to social media all their lives, where their opinions and feelings are amplified. That becomes the key determinant of what they are going to do. It’s a different head space,” says Dean.

### BOARDS CAN DO ANYTHING?

According to Double Denim, it is a common misconception among business leaders that there are not enough qualified women out there for board or executive roles. With their women’s lens, they see the issue differently.

“I know of the CEO of a tech start-up who, when she became CEO, said I am not doing any interviews for roles until I have an equal number of CVs from males and females,” says Dean.

“She said she had to stay on that for 12 months until they started to find the CVs and they ended up with a roughly 50/50 gender split in those areas. People say that the women aren’t out there, but they are.”

So why was it hard to find women candidates? It could have been the tone of the job ad. It could have been the way the role requirements were listed.

Women and men communicate differently. Research shows women don’t tend to put themselves forward for a role based on having some of the required skills, but men do.

“Boards, exec teams and recruiters all need to ask themselves, ‘How do we reach people? Is our message getting to the right people at the right time?’” says Dean.

### AUDIT – YOU NEED?

To benefit from a gender audit an organisation’s leaders need to be prepared to “take their blinkers off” and make positive change, says Dean.

“It can’t just be put in the drawer,” she says.

“It has to go beyond the poster for the kitchen,” adds Meyer.

Sometimes that means looking at the big issues of professional expectations.

“We talk to a lot of professional women who are looking at senior positions, like partner, and it is not attractive. Those roles don’t account for you having a family or being a whole person.”

Other times it may be matters closer to the daily operation of the office. Even something as entrenched as the Friday


drinks culture might have to be examined.

“We have found some women would rather go home early or go and see their real friends,” says Dean. “A client we have which is a female legal firm, for their Christmas party they had a meditation and mindfulness session, alcohol free all health oriented.”

There is no one-size-fits-all to getting the best out of gender diversity, which is why Double Denim tries to bring their advice back to the organisation’s business strategy.

No matter how balanced or fair your think your workplace is, there is a good chance it has pockets of entrenched, cultural sexism, they say. And that can only be improved if the leaders demand it.

“We had the Equal Pay Act in 1972 but caregivers got equal pay in 2018,” notes Meyer. “In the meantime we had stopped smoking and got seatbelts in cars.

“Social change requires a carrot – and a stick.” 



AUTHOR  
**AARON WATSON**

# Cyber unaware

Many New Zealand organisations don't know what their main digital assets are, let alone if their data and systems are adequately protected.

**A** 2018 survey by the National Cyber Security Centre (NCSC) found just 33% of organisations deemed "of national significance" had identified their critical information assets. Nevertheless, 73% of them had increased their spending on cyber security in the past year.

"Linking back to governance and strategy, organisations need to be really clear about what their most valuable information is, where it is held, who has access to it and how to protect it," says Government Communications Security Bureau (GCSB) Director General Andrew Hampton.

"You should really do that first. The fact that a majority of organisations have increased their investment without going through a process to work out what their crown jewels are is a concern."

The NCSC operates under Hampton's GCSB. And that's not the only concern its survey threw up about New Zealand organisations' approach to cyber security.



Hampton notes that businesses are increasingly storing their data in the cloud through contracts with a managed service provider without properly managing the associated risk.

“While 72% of organisations in the NCSC survey use a managed service provider, only 40% of those included security outcomes as part of their negotiations and 36% didn’t have any mechanism by which they could hold their service provider accountable for security outcomes,” Hampton says.

“What I say to boards is that, as with any other contract arrangement, agree at the outset what the security outcomes are that you want, get regular reporting against this and have some ability to audit it.”

### SUPPLY CHAIN VULNERABILITY

Hampton knows the cloud offers huge business benefits but warns that you can’t “set and forget” your security through a third party. Every contact point in your supply chain increases the “threat surface” of your business, he says.

“Your supply chain is important because outsourcing your IT services or engaging with IT partners can be critical to business success. However, it changes your threat surface, your vulnerabilities, because it means an actor can potentially compromise you by targeting someone who has access to your systems but whose security may be weaker than yours. Organisations need to be prepared to re-negotiate service level agreements to ensure they reflect the requirements for effective security, reporting and auditing.

“If you have outsourced part of your IT service to a third party, or given a third party access to your systems, they are part of your risk.”

One recent attack, known as Cloud Hopper, compromised global managed service providers and put at risk the data of business and customers around the globe.

“This was a campaign that involved a number of global MSPs – organisations that provide internet services, telephony, email – compromised with the purpose of being able to compromise customer organisations to steal IP. Which they did and there was a New Zealand impact from that.

“If you compromise an MSP you potentially have an in to their customer organisations all around the world.”

### THREATSCAPE

According to the NCSC’s Cyber Threat Report 2017/18, the number of incidents linked to state-sponsored actors is on the rise. It identified state-sponsored actors as behind 39% of incidents, up from 33% a year earlier.

“Sometimes these incidents involved NZ organisations being directly targeted for espionage purposes, such as stealing IP. Sometimes for revenue-generating purposes. Fortunately, what we haven’t seen in NZ – that we have seen elsewhere in the world – is malicious cyber activity being used to achieve a political effect.”

On other occasions New Zealand organisations are caught up in attacks that are not aimed at them.

“What we have also seen is indirect attacks that affect New Zealand. These are attacks that are focused on a particular sector or known vulnerability. The NotPetya virus, for example, was designed to attack the Ukraine. It affected their version of a standard accountancy software package but was designed so maliciously that it spread around the world.”

Thirdly, Hampton says New Zealand infrastructure is sometimes attacked in order to provide a platform to attack a third party. This raises the complex question of liability for damages should the attack ultimately affect its target.

“I think you would need to get legal advice on that.”

While many cyber intrusions are stopped at the outset, the average length of time between a cyber intrusion first occurring and it being known is around 100 days.

“That’s the average time people are often active on your network without you knowing,” Hampton cautions.

**“According to the NCSC’s Cyber Threat Report 2017/18, the number of incidents linked to state-sponsored actors is on the rise. It identified state-sponsored actors as behind 39% of incidents, up from 33% a year earlier.”**

### GCSB PROTECTON

The GCSB, through the NCSC, protects New Zealand organisations by disrupting attacks, offering specialist advice and assisting when attacks occur. It works with organisations deemed of “national significance”.

There are “several hundred” organisations identified as “of national significance” including some of New Zealand’s largest companies, research institutes and infrastructure providers.

“The GCSB works closely with the New Zealand Police and the NZ Computer Emergency Response Team (CERT) which works with business and home users affected by cyber security incidents. We also work with the Protective Security Requirements (PSR) team from the NZSIS to engage with organisations to help raise security resilience across physical, personal and information security disciplines.

“What the GCSB brings is access to technology and threat information that you really only get by being an intelligence agency, and part of the Five Eyes,” Hampton says.

Since June 2016, the GCSB estimates it has reduced the harm caused by cyber attacks to a dollar value of \$67 million. But Hampton’s message for directors is that cyber security risk cannot be outsourced.

“We can help, but organisations need to take direct responsibility to ensure their own security. Cyber security is a team sport.”

## What is the GCSB?



The Government Communications Security Bureau (GCSB) collects and analyses intelligence as directed by the government and provides cyber security assistance to public and private organisations deemed to be of national significance.

The GCSB has two communications interception stations: one near Tangimoana and the other at Waihopai. Its National Cyber Security Centre (NCSC) provides tools and advice to government agencies and critical infrastructure providers to assist them to defend against cyber threats.

The organisation works closely with other government agencies, including the Computer Emergency Response Team and the Police, as well as with the similar international organisations of New Zealand's allies.

“The GCSB receives thousands malware signatures – which enable the detection and disruption of malware – per month, from a number of sources. We use these signatures to help prevent malware impacting the organisations we work with.

“We work with the consent of the organisations involved. How we do that depends on the nature of the organisation and the configuration of their networks. What we bring is classified information we get through our Five Eyes partners as well as what we see through our own capabilities.”

In 2017, the GCSB completed delivery of Project CORTEX, a cyber defence initiative that won Best Security Project or Initiative at the 2018 Information Security Awards NZ.

In addition, the organisation regularly publishes threat information and offers advice on how to improve cyber resilience, while Hampton also goes out spreading the word directly.

“I regularly go out and talk at IoD functions,” he notes.

### WHAT CAN BOARDS DO TO IMPROVE CYBER RESILIENCE?

The NCSC survey found that 19% of organisations did not have a chief information security officer, although some had this function incorporated into other roles. Hampton says the lines of responsibility for cyber security and resilience need to be very clear if an organisation is to develop effective strategies and practices.

“The first thing I would recommend is looking to ensure some accountability around that responsibility,” Hampton says. “And all organisations should have regular reporting – reporting both on incidents and on resilience on what you are doing to increase the cyber security of the organisation.

“Boards really need to engage with this. They shouldn't just be asking ‘are we safe?’ They should be asking ‘how do we know we are safe?’”

The NCSC has published a report, *Thinking Ahead. Being Prepared*, which outlines the threatscape and identified four focus areas – governance, investment, readiness and the supply chain – where organisations should focus their efforts for best effect.

Hampton also recommends reviewing the Australian Signals Directorate's “Essential Eight” strategies and measuring your organisation's cyber efforts against them.

“They should also look at the ‘Board Toolkit’ recently published by the UK National Cyber Security Centre (<https://www.ncsc.gov.uk/collection/board-toolkit>). The tool kit provides a cyber security discussion guide for boards and their technical experts,” he says.

“Find out how the organisation stacks up against those, and put in place some regular reporting against them.”

What directors need to internalise is that cyber security is a strategic risk that they need to get their heads around. It is not a matter for IT teams alone.

“It's really important that cyber security be viewed as a strategic risk by organisations, and something that is of concern to the entire organisation. Cyber security needs to be aligned to your business strategy and the more digital you are becoming the more important that alignment is.”

**“Boards really need to engage with this. They shouldn't just be asking ‘are we safe?’ They should be asking ‘how do we know we are safe?’”**

The IoD offers a course on Reporting to the Board and has published a guide on Reporting Cybersecurity to Boards. See [iod.org.nz](http://iod.org.nz)

# The Essential Eight

Mitigation strategies recommended by the Australian Signals Directorate.

## To prevent malware delivery and execution:

1. Application whitelisting of approved/trusted programs to prevent execution of unapproved/malicious programs including .exe, DLL, scripts (eg Windows Script Host, PowerShell and HTA) and installers.
2. Configure Microsoft Office macro settings to block macros from the internet, and only allow vetted macros either in trusted locations with limited write access or digitally signed with a trusted certificate.

3. Patch applications, eg Flash, web browsers, Microsoft Office, Java and PDF viewers. Patch/mitigate computers with extreme risk vulnerabilities within 48 hours. Use the latest version of applications.

4. User application hardening. Configure web browsers to block Flash (ideally uninstall it), ads and Java on the Internet. Disable unneeded features in Microsoft Office (eg OLE), web browsers and PDF viewers.

## To limit the extent of cyber security incidents:

5. Restrict administrative privileges to operating systems and applications based on user duties. Regularly revalidate the need for privileges. Don't use privileged accounts for reading email and web browsing.

6. Multi-factor authentication including for VPNs, RDP, SSH and other remote access, and for all users when they perform a privileged action or access an important (sensitive/high-availability) data repository.

7. Patch operating systems. Patch/mitigate computers (including network devices) with extreme risk vulnerabilities within 48 hours. Use the latest operating system version. Don't use unsupported versions.

## To recover data and system availability:

8. Daily backups of important new/changed data, software and configuration settings, stored disconnected, retained for at least three months. Test restoration initially, annually and when IT infrastructure changes.

“...boards must have the right information in order to challenge management on important issues including issues about breaches of law and standards of conduct ...it is the quality, not the quantity, of information that must increase.”

— Royal Commission into Misconduct in the Banking, Superannuation and Financial Services, Final Report, February 2019, pg 400.

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# Cyber insurance

Many business interruption insurance policies do not cover cyber attacks, warns Insurance Council CEO Tim Grafton.

AUTHOR  
**TIM GRAFTON**  
 CMINSTD, CEO INSURANCE  
 COUNCIL OF NEW ZEALAND

**Online interconnectivity means every entity faces cyber risk. The costs to business can be very large, so boards and their risk committees should have it on their agenda, yet the evidence is that many pay it scant attention.**

**R**isk is the other side of the coin to strategy. It demands as much attention. Identification of risks and their mitigation include options to transfer of risk to insurance. Yet, 90% of small businesses have no cyber insurance as part of their approach to managing this risk.

Boards are more comfortable when dealing with more familiar issues like business interruption, material damage, professional indemnity, general liability and directors' and officers' liability cover.

It suggests little due diligence has been applied by boards either to their vulnerability. Possibly, they mistakenly believe their standard policies cover them already. Most standard business interruption policies are triggered by material damage, not cyber events, and,

with the increased availability of specific cyber insurance, will often contain cyber exclusions.

Research shows that low uptake of cyber insurance is due to several factors. SMEs tend to think that cyber risks and incidents are to be managed by their software provider and none have cyber risk managers. Not surprisingly therefore there is very low understanding of the risk at management level, particularly of the intangibles like reputation that have value and need protecting.

Even those companies large enough to have a chief information officer, who does understand the risks, may see taking out insurance as an admission that they are not doing their job properly. This is where the board should be exercising oversight to gain the needed assurances. When was the last time an intrusion was detected? How much time elapsed between the intrusion occurring and detection?

## REAL THREAT

In Australia, a survey by Chubb found that 60% of small businesses had had a cyber attack in the past 12 months. Here, the government's Computer Emergency

Response Team (CERT NZ) reported 870 cyber incidents in the third quarter of 2019, the highest number of incidents reported since it was established.

Cyber threat landscape and resiliency technologies are continually evolving, which means businesses must implement flexible information security policies that will allow them to adapt their system controls in a risk-based manner. So, it is not just a matter of transferring risk to insurers.

Cyber losses can be as catastrophic as earthquakes but go global. Lloyds' estimates the losses from an attack to be between US\$85b to US\$193b, whereas research by Accenture Research suggests the cumulative value from attacks in the period from 2019 to 2023 will be up to US\$5.2 trillion.

Recent cyberattacks, while not catastrophic, have been costly. In 2017, the NotPetya attack cost Maersk, the world's largest shipping company, more than US\$300 million. Damage for all companies affected by the attack came to more than US\$10 billion. The WannaCry attack didn't cause financial losses to the same extent but managed to cripple the United Kingdom's National Health Service with



the cancellation of operations putting lives at risk.

Closer to home, a New Zealand panel beating firm was recently hit by a cyberattack, first detecting the breach when a staff member found they were unable to log into the IT system. The firm was heavily reliant on their IT system, and while total costs have not yet been confirmed, it is expected the attack will cost around \$140,000, a potentially crippling cost for a small business.

## POTENTIAL COSTS

Boards need to consider reputational risks, for instance, from the inadvertent loss of clients' personal data. CERT in New Zealand, and the Office of the Australian Information Commissioner show that the leading cause of data breaches and main thoroughfare for cyber attackers into an organisation's computer system is through human error, either malicious or accidental.

Most cyber failures result from internal staff errors, so setting a strong culture around cyber safety and minimising risk needs to come from the top.

Data errors and failures carry legal


consequences that don't necessarily stop at the New Zealand border.

A business located in New Zealand, which operates in foreign jurisdictions may be subject to data protection laws such as the Mandatory Data Breach notification scheme in Australia, or the General Data Protection Regulation (GDPR) in the EU. Fines for violations of the GDPR can be up to 20 million euros, or up to 4% of global turnover for the preceding fiscal year.

The costs of technical expertise, and legal and reputation management advice are additional to those presented by actual business interruption loss. Consideration of cyber insurance will see boards being asked questions by underwriters that might give some insight into the risks they are not covering. It could lead to risk mitigation measures that would limit the cost of transferring risk, but at the very least it will start the conversation that rarely happens now.

Cyber insurance can complement the cybersecurity measures already in place within an organisation. Depending on the policy, common benefits include costs to cover the loss of personal and corporate information, liability cover for

losses suffered by third parties, costs for defending cyber claims, such as legal and defence costs, reputational management which can help to minimise the damage to a brand, system damage such as lost or destroyed IT systems and records, and extortion costs if subject to a ransomware attack.

The prevalence and size of cyberattacks in 2019 is only expected to increase. Businesses, no matter the size, cannot be complacent. All the evidence shows it isn't a matter of if an attack occurs, it's a matter of when. 

**...the government's Computer Emergency Response Team (CERT NZ) reported 870 cyber incidents in the third quarter of 2019, the highest number of incidents reported since it was established.**

# How secure are your suppliers?

Cyber attacks on third parties are a growing “Trojan Horse” threat to businesses.

AUTHOR  
**PETER BAILEY**,  
GENERAL MANAGER OF AURA  
INFORMATION SECURITY

When thinking about cyber security, most organisations focus on their own vulnerabilities – how to ensure their systems, people and processes are not going to let them down in the event of a cyber-attack.

**H**owever, what many organisations don't realise is that, while their own security may be in good shape, attackers will always look for another way in. One of your suppliers may just be the gap that they are looking for.

So, how can one of your suppliers, a third-party company your organisation works with and trusts, be a risk to your business?

As always, attackers are looking for the weakest link to gain access to your data or network environment. They know that most organisations use a host of smaller suppliers to provide services, and they are therefore looking for the one that has the worst security, and the best access to your systems. This “Trojan Horse” approach has been very successful for attackers in the past and continues to be used today.



## TARGET IDENTIFIED

In December 2013, at the peak of the Christmas shopping season, we saw a breach through a third-party supplier that had both immediate and far-reaching repercussions for the company that was hacked. US company Target was breached, with more than 70 million customer records and 40 million credit card credentials stolen by hackers.

This was a big deal at the time (although today we see much bigger breaches) but gained particular focus for the way the breach was carried out.

The attackers gained legitimate access to the Target environment via Target's heating, venting and air conditioning (HVAC) supplier before carrying out the attack. They did this by stealing the credentials the supplier used to gain access to Target's network through an external vendor portal. The reason they were able to was because the HVAC supplier did not have adequate security protocols in place to stop this from happening, and so Target was left holding the bag.

These third-party breaches show no sign of slowing down. In 2017, over 50% of organisations had experienced a third-party breach, up 7% from the previous year, according to security firm NormShield.

In 2018, we continued to see more of these types of attacks. The most famous (and largest) was the Cambridge Analytica attack on Facebook.

In this attack, Cambridge Analytica was a genuine user of Facebook's system, and seemed to be legitimately gathering data. They then used this position to gather more data than they had the right to, even scraping information from pages of friends of the users they were targeting. Using this method, they gathered data for more than 87 million users, and then on-sold this as marketing material to a number of customers.

Again, while Cambridge Analytica was eventually shut down, it is Facebook that has suffered in the media following this breach.

Other attacks through suppliers last year have included The Perth Mint, British Airways (affecting 380,000 passengers), Blue Cross Blue Shield, the University of Louisville, and Wegmans supermarket

chain, which lost over \$900,000 when dealing with a Chilean seafood company that was used by hackers to infiltrate Wegmans' email account and redirect payments.

## US company Target was breached, with more than 70 million customer records and 40 million credit card credentials stolen by hackers.

### RISK TO NZ

What most customers ask us when they read these headlines is: how can this affect my business, and what can the impact be? New Zealanders are increasingly realising that being geographically isolated from the rest of the world doesn't mean that we are safe from these types of attacks.

As many organisations use local as well as international suppliers, the potential attack surface for hackers is constantly growing.

For New Zealand, the fact that we are a country of small businesses makes us a prime target – many small companies don't have the knowledge, focus or resources to make sure they are secure, and many think that because they are small they will not be a target. This is not the case and, as we have seen in the past, this makes New Zealand incredibly vulnerable to attacks.

In 2016 New Zealand was awash with ransomware, with many small businesses falling victim to these email attacks. The same approach is often used by attackers when trying to find a weakness in a small company to see if they can reach a larger organisation – particularly sending malware through emails or gaining access to the supplier's network in order to jump to the larger organisation's infrastructure. This can even be done in a way that may take some time before the crime is even noticed, increasing the potential damage that the attackers can inflict.

So, is there anything you can do about it? Absolutely! The first thing is to identify your risk level. Do you have third-party

suppliers? Who are they? What level of access do they have into your networks, or what level of trust is there between this company and yours (eg are you likely to open an attachment from this company without checking the email address)?

Once you know who these companies are, and what threat they might pose to your business, you will need to approach them to discuss their current security posture. A number of organisations now use a checklist for third-party suppliers to ensure they have some basic cyber security in place, but you can decide what works best for you. As a number of these organisations may be quite small, becoming compliant to a global standard (such as ISO2701) may be unrealistic. But they can still follow some best-practice security hygiene at very little cost. This might include items like:

.....  
 running an up-to-date antivirus  
 .....

installing the latest version of operating systems  
 .....

regular data back-up and restore  
 .....

a strong password policy, including the use of two-factor authentication  
 .....

educating staff about cyber security.  
 .....

There are also some excellent guides available online for security such as those from CERT and the Australian Cyber Security Centre.

Your company's security is only going to be as good as the people and organisations who access it. Do all you can to keep your data safe. **🔒**



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## Directors' & Officers' Liability

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# Supporting the construction industry to deliver infrastructure plans


New Zealand's "infrastructure deficit" is now widely accepted across the political divide and by the public.





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Like many jurisdictions, New Zealand is experiencing an increasing population in our larger cities, a number of aging infrastructure networks, and changing patterns in the way people move around our centres and how businesses get their products to market.

Added to this is an increasing focus on the resilience of our infrastructure against rising sea levels and extreme weather events.

Businesses and central and local governments have responded to the demand by announcing plans for significant infrastructure and real estate investment, including \$28b over the next 10 years for Auckland transport projects. The focus is now shifting to how these projects will be delivered.

The scrutiny of new infrastructure and real estate projects is intensified by the capacity issues the New Zealand construction sector is currently facing, in particular for projects in the \$50m-\$400m range. This issue has been largely driven by several large recent failures, for example Ebert and Arrow International.

While failing businesses of all sizes in the construction sector tend to publically state their insolvency as the result of a one-off financial event, what tends to be the reality is that a single event is simply the final nail in the coffin, or the catalyst for a quicker decline into insolvency.

### **BUSINESS SUSTAINABILITY**

New Zealand construction firms of all sizes are being operated on marginal terms and with very slim balance sheets. One of the drivers is that companies have prioritised dividends and have not adequately built up their capital reserves in the good years, often due to a lack of foresight into the scale and nature of the long-term risks across their portfolio of projects. This means that in a year when significant risks



materialise on one or more projects, there are not sufficient reserves to weather the impact.

Yes, costs of both raw materials and labour have increased and there has been an attitude of the lowest price wins – both leading to lower margins.

However, this cannot bear all of the blame for the sector’s current position. Construction firms also need to take a measure of responsibility and build more sustainable balance sheets, with shareholders owning the risk of losing capital. Equally, construction firms need to ensure their bid margins reflect an adequate return for the capital retained in the business. Opportunities exist for construction firms to invest in longer-term assets like technology and people to achieve competitive advantages to support high margins.

Project owners, including government, should support construction firms implementing good business practices through emphasising the importance of non-price attributes in procurement processes.



**GROW CAPITAL**

To deliver on New Zealand’s infrastructure plans, the construction sector needs more medium-sized firms to step up in size to meet demand. And the only way they can do so without placing undue stress on both their business and its supply chain, is to grow their capital.

Of course, growing capital is not always easy, particularly when low margins mean low profits to reinvest in the business. It’s not a quick and easy fix. However businesses can start now by taking a longer-term view of the risk profile of their portfolio of projects and their decisions on the distribution of profits.

At KPMG, we are increasingly being asked by both public and private organisations to undertake financial due diligence on construction firms as part of procurement processes. This not only involves assessing financial statements, but understanding the realisable nature of assets and considering what is not shown in the statements, including the state of current projects and the future impact they will have on the entities’ financial position.

Our advice is always that a business with a higher level of equity, backed by



tangible realisable operating assets, is in a stronger position than another with lower equity but a guarantee or a letter of support from a holding company or individual shareholders.

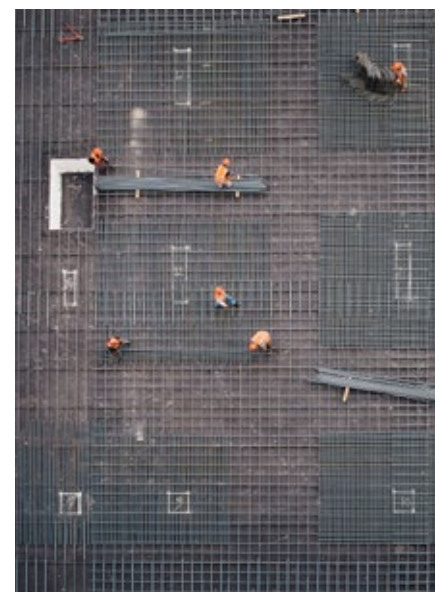
It is therefore in the best interests of a construction business to build a strong balance sheet to help them win work and grow.

**IMPACT OF RETENTIONS LEGISLATION**

The Construction Contracts Amendment Act, which came into force on 1 April 2017, required construction firms to hold retention funds in trust. This has an impact on cash flow, as historically this money was generally treated as being available to fund working capital. However, businesses are struggling to adjust their capital position to reflect the legislation changes. As a result, they are even more susceptible to failure.

Additionally, there still appears to be a significant lack of understanding of the retentions requirements and non-compliance implications. These are both areas that need to be addressed.

If New Zealand is to deliver on its ambitions for infrastructure and real estate, then serious focus needs to be given to growing the capacity and sustainability of the construction sector.



# GLC Update



**FELICITY CAIRD**  
GENERAL MANAGER,  
GOVERNANCE LEADERSHIP  
CENTRE (GLC)

Already this year, governance has featured in its fair share of headlines including the financial sector culture and conduct reviews and the Mainzeal case. We provide an update on these and other matters that are important for boards and directors.

## » Culture and conduct require board-level attention and oversight

This is a key takeaway from the FMA/RBNZ banking and life insurer reviews and the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia. Other takeaways for boards include:

**Culture and conduct:** The tone must be set at the top by directors. By shaping how businesses are run, governance shapes culture and it can – and must – be assessed. In the financial sector, entities need well-trained staff who have good customer outcomes front of mind, policies and procedures with a customer focus, and effective speak up cultures and whistleblower policies.

**Information:** Boards need to have the right information in order to discharge their functions. In some cases, the quality (not the quantity) of information from management must improve. Boards can also utilise information from third parties.

**Holding management to account:** Boards also need to do more with the information they receive to oversee and challenge management (especially in relation to risk).

**Risk:** Boards should prioritise both non-financial and financial risks. This includes giving sufficient attention and resources to manage non-financial risks.

**Remuneration:** Remuneration and incentives (particularly variable remuneration programmes) tell staff what entities reward, and it is evident that poor remuneration and incentive programmes in the financial services industry have led to poor customer outcomes. It is a timely reminder for boards to review remuneration policies and practices to ensure they are fit for purpose.

**Accountability:** There need to be well-defined roles in entities responsible for proactively identifying conduct and culture risks, and assessing and managing such risks.

**Shareholder and stakeholder interests:** Directors must exercise their powers and discharge their duties in good faith in the best interests of companies. This does not simply involve a choice of choosing between the interests of shareholders and the interests of customers. There must be consideration of more than just the financial returns for shareholders in any particular period.

Significant regulatory reform is expected in Australia as a result of the Royal Commission and it is uncertain the extent to which some of the changes will have a flow-on effect in New Zealand. In addition, the New Zealand Government has signalled that it will fast-track customer protection measures across the financial sector.

For a summary of the Royal Commission's final report see our article "Misconduct in the Australian financial industry - what can boards learn?" at [iod.org.nz](http://iod.org.nz)

For more on whistleblowing see the DirectorsBrief *Whistleblowing, speak-up culture and the board* [iod.org.nz](http://iod.org.nz)



## » Updated corporate governance code for ASX entities

The ASX Corporate Governance Council has released the fourth edition of its *Corporate Governance Principles and Recommendations* (last updated in 2014). The principles and recommendations apply to entities listed on the ASX and follow a tiered approach to reporting (ie there are principles, recommendations and commentary). Entities must disclose in their annual reports whether they comply with the Recommendations and if not, why not.

The overall structure is largely the same but there are amendments to the principles, seven new recommendations (with a total of 35), and significant revisions to the commentary.

Some of the key changes are aimed at addressing recent and emerging corporate governance issues around culture, values and trust and include reference to protecting an entity's reputation and standing (which has replaced the proposed "social licence to operate" wording).

Another change is a new requirement for entities to have and disclose a gender diversity policy in full with measurable objectives covering the board, senior executives and the workforce generally. It recommends 30% female representation on the boards of organisations in the S&P/ASX 300 Index.

For more, see the article "Revised ASX *Corporate Governance Principles and Recommendations* released" available at [minterellison.com](http://minterellison.com)

### Keeping members current with the Governance Update

Read about key governance developments, trends, and emerging issues in the GovernanceUpdate sent to members in April including:

developments relevant to IoD's Top 5 Issues for 2019

court decisions and other proceedings involving directors

recent policy and advocacy matters

governance-related reforms in the United Kingdom and Australia

research and guidance on topical issues and trends.

## » Mainzeal appeal

There has been a lot of commentary on the High Court's Mainzeal decision which:

found that four former directors breached their duties by trading while insolvent

ordered them to pay compensation to the company in aggregate of \$36m (three directors are liable for a maximum of \$6m each and the fourth is liable for it all).

For a brief overview of the case, see our article "The High Court's Decision in Mainzeal" available at [iod.org.nz](http://iod.org.nz) and the article "Lessons for directors from Mainzeal decision" by MinterEllisonRuddWatts (who act for the liquidators) available at [minterellison.co.nz](http://minterellison.co.nz)

The Court's decision is being appealed by the directors, and the liquidators are cross-appealing on some aspects including the amount of compensation. The IoD is considering how it can share further insights and learnings from the case for directors and will keep members informed of any other developments.

### Reminder for directors

Given that the decision is being appealed, it could be some time before matters and law are settled. Notwithstanding this, the case serves as a general reminder for directors about:

the complexities of the role and responsibilities of being a director

personal liability – being a director can carry a high level of personal and reputational risk along with responsibility

D&O insurance which, for directors, should be viewed as an investment in risk management.





## » Does the Charities Act review go far enough?

A review of the *Charities Act 2005* is underway to ensure it is fit for purpose. This is the first major review since it was enacted 14 years ago. It raises a number of questions.

**Accumulation of funds:** Should charities be required to be more transparent about their strategy for accumulating funds and spending funds on charitable purposes? And should certain kinds of charities be required to distribute a certain portion of their funds each year? These questions were raised by the Tax Working Group in its interim and final reports.

**Governance standards:** Should New Zealand develop governance standards to help charities to be more effective (eg emulating the NFP governance standards in Australia)?

**Reporting:** Is more support required for charities to meet their obligations? And should reporting requirements for small charities be reduced?

**Advocacy:** Should charities have greater freedom to advocate for policy or law change? What should the limits be, if any?

**Te Ao Māori:** What is working and what is not for Māori charities?

### **Charities with unrelated businesses:**

How should charities report on their business operations and business subsidiaries? Should charities be required to report separately on business subsidiaries that they control that are not registered charities?

The review is limited in scope and it has led some experts to question whether it goes far enough to address all significant concerns with the operation of the Act. Submissions on the review are due by 31 April 2019. The IoD will submit and welcomes feedback from members to the Governance Leadership Centre at [glc@iod.org.nz](mailto:glc@iod.org.nz)

## » One step closer to a new Privacy Act

The Justice Committee reported back on the Privacy Bill in March with recommendations for change. Key matters include:

**Higher threshold for mandatory privacy breach reporting:** The Bill introduces mandatory privacy breach reporting to the Privacy Commissioner and affected individuals in certain circumstances. The Committee has recommended increasing the reporting threshold from “harm” to “serious harm”. This is something the IoD called for in our submission last year (among other reasons, to ensure reporting is not excessive and burdensome on organisations and that there is alignment with the Australian reporting regime).

### **Monetary penalties and compliance**

**mechanism:** The Privacy Bill includes fines for non-compliance up to \$10,000 (up from \$2,000). The Privacy Commissioner has advocated for fines for serious privacy breaches up to \$1m for organisations, and \$100,000 for individuals. In line with the IoD’s submission, the Committee has not recommended increasing the level of fines. However, it has recommended that the Commissioner have the ability to publish details of compliance notices (including the identity of the agency).

The Bill is proceeding to the House for a Second Reading and we will keep members updated. See also the IoD’s 2018 DirectorsBrief *The Privacy Bill – how will it impact your organisation?* available at [iod.org.nz](http://iod.org.nz)

All GovernanceUpdates, DirectorsBriefs, submissions, guides and other resources are available at [iod.org.nz](http://iod.org.nz)

## Charities fast facts

27,000  
charities

THE SECTOR  
GENERATES +\$17b  
every year

230,000  
volunteers

180,000  
paid staff



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# Educational reforms

A series of key educational reforms are underway in New Zealand. Outlined below are some of the key governance-related proposed changes to the schooling and vocational education systems, together with some of the IoD's concerns.

## » What will become of Tomorrow's Schools?

The Independent Taskforce's report *Our Schooling Futures: Stronger Together – Whiria Ngā Kura Tūātinini* on the review of Tomorrow's Schools recommends significant changes to the schooling system, including in relation to how schools are governed.

There are more than 2,500 schools in New Zealand and many IoD members serve (or have served) as trustees of school boards. In March, we asked members about the current, and proposed, governance of schools. Thank you to the 368 members who responded to the survey. It provides valuable feedback on the proposed changes, enabling us to better represent member views in our submission. Of those who responded, more than half are or have been a school trustee.

### Key insights from IoD members include:

Sixty-nine percent of respondents agreed or strongly agreed that their school board of trustees has the right capability to govern the school effectively. Twenty-four percent disagreed or strongly disagreed, while 7% neither agreed nor disagreed (or were unsure).

The biggest governance challenges for school boards were identified as:

- strategic thinking (48% of respondents)
- funding (36%)
- property management (35%)
- appointing and managing the principal (33%).

More than half (57%) thought the current school governance model was effective or very effective. Twenty-nine percent thought it was somewhat effective, and 14% thought it was ineffective or very ineffective.

The majority (63%) disagreed or strongly disagreed that the proposal to establish regional Education Hubs will improve the governance of schools. Only 21% agreed or strongly agreed that the proposal will improve governance. Seventeen percent neither agreed nor disagreed (or were unsure).

Fifty-eight percent said they were less likely to serve on a school board if the scope of responsibility is reduced as proposed in the report, while only 12% said that they were more likely to serve. Thirty percent said their decision to serve would not be influenced by this proposal.

### Key governance related recommendations in the report include:

The role of boards should be re-oriented so that their core responsibilities are the School Strategic and Annual Plan, student success and wellbeing, localised curriculum and assessment

Education Hubs (set up as Crown entities) would assume all the legal responsibilities and liabilities currently held by school boards with automatic 'delegation back' to principals regarding control of operational grants and staffing entitlements and recruitment.

Further 'delegation back' opportunities would be provided regarding property development through five-yearly agreements.

Boards should be involved in the principal's appointments and retain final right of veto on their appointment, but will not be the employer of the principal or teachers.

Boards will not be responsible for decisions on student suspensions, exclusions and expulsions.

Mandatory mana whenua representation on boards.



## Summary of the IoD's submission

The IoD's submission focuses on the key governance-related recommendations. While we support the schooling system being reviewed to ensure it is fit for purpose, we are concerned that the Taskforce's report recommends fundamental change to school boards without robust evidence and analysis. The school board governance model is not fundamentally broken. Many boards are operating effectively and there are significant benefits to schools being governed by people within their communities. However, some boards and schools are not operating effectively and this needs to be addressed promptly. We have suggested in our submission the following measures the Government should consider in improving boards and addressing issues and challenges:

Promoting the importance of trustees and their role.

Strengthening the skill base of trustees by providing better support and training.

Bolstering boards where required by providing access to experienced trustees or professional advisers who may be co-opted on to boards for a period of time.

Providing better access to professional/external advice.

Facilitating ways for local school boards to work more collaboratively together for the benefit of their schools and local community (eg with small and/or rural schools) and learning from the recent introduction of Communities of Learning | Kāhui Ako.

We have significant concerns with the recommendation for Education Hubs and especially their ability to carry out governance responsibilities given the large portfolio of schools (circa 125 per hub) they will be required to oversee. We have outlined a number of challenges Education Hubs and their boards could face and the potential for schools to be unduly impacted. We have also highlighted our strong concerns with the recommendation for Education Hubs to employ principals. One of the most important functions of a board is to appoint and manage the principal and to hold them to account for performance. We question the ability of Education Hubs to manage the performance of around 125 school principals effectively and to hold them to account. In addition, the change to Education Hubs employing principals would undermine a school board's relationship with its principal.



## Changes to vocational education

In February, the Government put forward a discussion document with proposals aimed at establishing a unified, coordinated, national system of vocational education including:

creating a new institution (with the working title of 'the New Zealand Institute of Skills & Technology') that would bring together 16 Institutes of Technology and Polytechnics (ITPs) as a single entity. This would be governed by a Council, with Councillors appointed by the Minister of Education

redefining the roles of education providers (ie ITPs, Wānanga and private training establishments) and Industry Training Organisations (ITOs)

implementing a unified funding system.

The IoD's submission on the discussion document focuses mainly on the proposal to create the New Zealand Institute of Skills & Technology and related governance matters. Given the importance of vocational education to New Zealand, we support the Government reviewing the system to ensure it is fit for purpose and can respond to the challenges of the future. However, we have concerns about the review and the extent of the proposed changes including:

the discussion document doesn't sufficiently cover what is broken, what is working well, or why the Government believes the proposed changes will be effective in addressing identified problems/challenges

there is no estimate of costs of the proposed changes (or other options that were considered)

the proposal that the New Zealand Institute of Skills & Technology be operational by 1 January 2020 is likely to be problematic given the extent of the proposed changes and impact on stakeholders

whether the appropriate balance between national and regional interests has been struck under the proposal to create the New Zealand Institute of Skills & Technology

the Council of the new Institute is likely to face significant challenges in sufficiently discharging its governance responsibilities under the proposals given the large portfolio it will be required to oversee. If the Institute is established with a Council, it is critical that the Council consists of highly capable and professional directors with the right mix of knowledge, skills and experience, and that there is a transparent and robust board appointment process.

We will keep members updated as the reviews of the vocational education system and Tomorrow's Schools progress.

# Out & about

## *Auckland*

Leading director Rob Campbell spoke at a New Year lead-off breakfast in February at the Northern Club in Auckland.

### **Auckland**

- 01 Grianne Tout
- 02 Jo Baxter and Ant Self
- 03 Rob Campbell
- 04 Steve Walsh, Mary-Jane Daly and Liz Coutts (IoD President)
- 05 Grant Brady and Gordon Shaw



01



02



03



04



05



**Canterbury**

- 06 Tony Baldwin addressing members
- 07 Geordie Hooft (branch chair) presenting Kim Wallace with her Chartered certificate

**Waikato**

- 08 Peter Wood And Craig Young
- 09 Linda Rademaker and Stuart Anderson
- 10 Courtney Mill, Rebecca Jackson, Megan Beveridge and Criag Rowlandson
- 11 Parmindar Singh, John Wilkinson and Rachel Afeaki-Taumoepeau

*Canterbury*

Advisory and management consultant Tony Baldwin spoke to over 100 members and guests in Christchurch providing insights into the Fonterra experiment.



*Waikato*

Waikato members in February were treated to an insight into Company Governance in Developing Economies - Experience from India with Earl Rattray (founder and chairman) and Pankaj Navani (founder and CEO) of Binsar Farms Limited.





# Eventsdiary

For more information visit [iod.org.nz](http://iod.org.nz), contact the director development team or contact your local branch manager.

## April

- 18** Hamilton  
The Future of Work lunch  
with Laurie Sharp

## May

- 1** Dunedin  
Evening site visit to  
Cargill Enterprises
- 2** Tauranga  
Transitioning to the  
Future of Work

- 7** New Plymouth  
Lunch event with IoD  
CEO Kirsten Patterson

- 7** Auckland  
Cyber security and the  
cloud – how secure is it?  
with Peter Bailey from  
Aura

- 7** Christchurch  
Business and  
sustainability with  
Professor Michaela  
Balzarova

- 8** Invercargill  
Lunch event with  
Graeme Milne

- 16** Hamilton  
How to simplify your  
board meetings with  
BoardPro

- 22** Rotorua  
Effective networking,  
with Nicki McClintock

- 23** Taupo  
Leading through change,  
with Nicki McClintock

- 27** Nelson  
Lunch event with  
Mark Verbiest

- 29** Waikato  
Lunch event with  
Rob Campbell

- 30** Dunedin  
Evening event with  
David Kirk

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## BRANCH EVENTS

- » For information on member events in your area, see [iod.org.nz](http://iod.org.nz)



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# 7

**Ways** to avoid the mistakes reported in the 'Mainzeal' case

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