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Ministry of Business, Innovation & Employment

Email: LTIB@mbie.govt.nz

Submission on Future of Business: Long-term Insights Briefing Discussion Document

The Institute of Directors (IoD) appreciates the opportunity to comment on the Ministry of Business, Innovation & Employment's (MBIE) discussion document: [*The future of business for Aotearoa New Zealand*](#). ('Document').

Key points

- Boards and directors have a key role in shaping the future of business and delivering well-being for Aotearoa New Zealand. It's important that a systems approach is taken to understand how the different business and institutional components work together to support healthy outcomes for society and where it is not working well. Governance has an important role to play within this context and should be valued so that its leadership potential can be fully harnessed.
- Organisations should reflect on why they exist and be clear with their shareholders/ members and wider stakeholders on what types of value they intend creating. Best practice governance encourages organisations to embrace a long-term view and develop strategy that results in sustainable business. We believe that all businesses have a purpose which is sometimes set out explicitly and should also be reflected in what is understood as the "best interests" of an organisation. We, therefore, suggest it can be useful to reframe "purpose-led" as an organisational focus on achieving multiple environmental, social and financial/ investment outcomes, supported by best practice governance.
- We also suggest exploring the use of a "best interests" statement (potentially included in legislation) that boards could develop to consult with shareholders, investors or members on medium to long-term, high-level outcomes and potentially track progress against. This might also be developed through engagement with stakeholders.

About the Institute of Directors

The IoD has over 10,000 members, is New Zealand's pre-eminent organisation for directors and is at the heart of the governance community.

We believe in the power of governance to create a strong, fair and sustainable future for New Zealand. Our role is to drive excellence and high standards in governance.

We support and equip our members who lead a range of organisations from listed companies, large private organisations, state and public sector entities, small and medium enterprises, not-for-profit organisations and charities.

Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good governance. This includes a focus on directors and boards leading their organisation by actively defining their strategy and purpose, setting expectations of management about how that will be addressed, and considering reporting on implementation of those actions.

- Boards will need to be able to steer their organisations through emerging technological developments advances and digital transformation. To do that, directors individually and boards collectively, will need to broaden their governance toolkit and upskill on digital and technological developments. This should assist governance to be leaders of management and business through anticipating, understanding and strategising about these and wider developments. Such leadership needs to be underpinned by sufficient governance capability and skill, including in relation to changing technologies. We, therefore, see a role for government to invest in governance as leadership by supporting the building of governance capability and an improved governance culture within Aotearoa New Zealand.

General comments on the future of business

The IoD welcomes the exploration of two key trends influencing the productivity and wellbeing within New Zealand businesses – purpose-led business and the use of blockchain technology. The IoD’s submission mainly focuses on issues raised by the Document that affects the governance of organisations.

Boards and other governance roles have a key role in shaping the future of business and other organisations. Boards are tasked with determining the purpose of the organisation, setting the strategic direction, building an effective governance culture, holding the executive to account and ensuring effective compliance. It’s important that a systems approach is taken to understand how the different business and institutional components work together to support healthy outcomes for society and where it is not working well. Governance has a central role to play in delivering well-being for Aotearoa New Zealand, as recognised by the Treasury’s Living Standards Framework 2021¹, and should be valued so that the leadership potential of governance can be fully harnessed.

As directors and boards look to the future, it will be important that they understand these trends and ready themselves through upskilling and embracing the ability to be responsive and adaptive to changing technologies and ways of doing business.

We encourage discussion on what it means to be a “purpose-led” organisation. In 2021 the IoD, with MinterEllisonRuddWatts, published a whitepaper [**Stakeholder Governance: A Call to Review Directors’ Duties**](#). This paper sets out some key developments, trends and issues for businesses in Aotearoa New Zealand, including corporate purpose, environmental, social and governance matters and sustainable finance.

We believe every business or other organisation inherently has a purpose, even if it is for a company to solely generate a financial return for shareholders. We consider it important, however, that organisations reflect deeply on why they exist and to be clear and transparent with their shareholders/ members and broader stakeholders on what types of value they intend to deliver, particularly over the medium to long-term. We question the usefulness of the concept of “purpose” and suggest it could be more useful to reframe it and see “purpose” as the desire and ways to achieve multiple outcomes, beyond financial outcomes, supported by best practice governance with a longer-term focus.

¹ The Living Standards Framework (LSF) 2021, The New Zealand Treasury at: <https://www.treasury.govt.nz/sites/default/files/2021-10/tp-living-standards-framework-2021.pdf>

We suggest purpose can be considered along a spectrum in delivering these outcomes consistent with purpose: at one end is compliance with regulatory requirements and at the other sits social enterprise and charitable purpose where the organisation is focused on achieving a specific social or environmental outcome. In the middle are organisations that are incentivised to increase business success by achieving wider environmental and social, along with financial/ investment outcomes, supported by best practice governance. This may stem from ethical or cultural motivations, such as a te o Māori approach, or a desire for strategic positioning and/or to maintain a social license to operate.

Irrespective of purpose, best practice governance encourages organisations to embrace a medium to long-term view and develop strategy that results in sustainable business delivering value over time.² This supports organisations to demonstrate trust and maintain relationships, attract the right talent, attract capital/ members and be financially sustainable while creating broader value for stakeholders and future generations.

Despite this, it is usually difficult to know whether an organisation has taken a medium to long-term view and thought about future generations, when considering its business and strategic options.

Such a perspective is also implicit in directors' and the board's legal duty to act in the best interests of the company under the Companies Act 1993. Similarly, from late next year, officers of incorporated societies which reregister under the Incorporated Societies Act 2022 will also have this duty in relation to their organisations.

Like the perspective and time horizon that boards adopt, there is currently no way of knowing whether a board has explicitly thought about what the best interests of their company or organisation means.

In this context, rather than consider whether or not an organisation is "purpose-led", we think it could be more useful if organisations were to develop a "best interests statement". This could involve an annual declaration from the board stating it has turned its mind to what it considers "acting in the best interests of the company/ organisation" means in terms of medium to long term, high level outcomes (greater than 10 years) and setting those out as the purpose or mission of the organisation. This type of statement, that is regularly updated, could be presented to the Annual General Meeting for shareholders/ members (and broader stakeholders) to consider, and progress could be reported against. It would provide transparency by making clear the multiple outcomes the organisation is contributing towards as part of its organisational strategy.

The intention of a "best interests statement" wouldn't be for it to have legal effect or to constrain the organisation in any way. Rather, the intention is to aid transparency and support investor and consumer choice. Such an approach could be presented as an option for organisations to pick up on a voluntary basis as it could provide competitive advantage.

² See The Four Pillars of Best Practice Governance, section 1.3.1 Short-termism vs long-termism, which notes that: "...good corporate governance is critical to...[helping] companies strike the right balance in decision affecting short, medium and long-term horizons" (New Zealand Institute of Directors, 2021, p. 34)

Responding to big challenges

In what ways are you or your business responding to big challenges, like Covid-19, climate change and technological change?

We have found that company boards' response to Covid-19 (and previous other shocks, including earthquakes and financial issues) has been to take a more active role in their businesses, supporting management to respond to challenging circumstances. This also applies to not-for-profits and charities.

Our member resources show the areas for Board attention that arose through the pandemic to date:

- [IoD Covid-19 governance hub](#)
- [IoD not for profits and charities - Covid-19](#)

Boards have had a significant focus on talent as the labour market tightened and staff looked for new roles including looking overseas. A broad focus on health and wellbeing for staff and boards has become important throughout the pandemic as reflected in our guidance for boards, for example on [health and wellbeing - Covid-19](#)

Many companies and their boards are anticipating climate change impacts and responding to reporting and other requirements. This prompted the establishment of [Chapter Zero](#) - the national chapter of the global [Climate Governance Initiative](#).

Company boards are also increasingly focused on supply chains as a result of Covid-19, augmented by new geopolitical issues. This is reflected in our guidance to directors and boards including:

- [How well do you know your supply chain?](#)
- [Modern slavery in supply chains and Covid-19](#)
- [The keys to building a more resilient business](#)

Climate-disclosure reporting requirements will further reinforce this focus for major listed companies, large financial institutions and their customers. This is illustrated in the analysis related to [financial institutions driving a quiet revolution](#). There are also a significantly growing number of voluntary reporting initiatives that focus on supply chains.

In addition, issues with cyber security are attracting increasing board and director attention, but there are significant issues for smaller companies and organisations given the technical complexity and scarce talent to address those issues. To that end, and with the aim of supporting business and other organisations' sustainability, we have produced [cybersecurity resources for boards](#).

Finally, we also note, that not all significant enterprises are companies. There are potentially issues with some not for profits (including companies, incorporated societies and public sector entities) not being sufficiently attuned to issues, such as the increasing demands around climate change. While these are "for purpose" entities outlined in the discussion document, they have the potential to focus almost exclusively on that purpose, without sufficient focus on other outcomes (e.g. talent and environmental outcomes).

Purpose-led businesses and other possible futures

Do you think that there will be a steady increase in purpose-led businesses? Are there other possible futures you think we should note?

Rather than think about an organisation setting a purpose, or being purpose-led, we suggest potentially re-framing to look at this through the perspective of an organisation contributing to multiple outcomes (as outlined above). For example, an organisation's outcomes may be to deliver a financial or investment return along with meeting specified social and/or environmental outcomes. These could, for example, support sales or attract investment that supports business financial outcomes, whether for-profit or not.

The discussion document prompted us to ask, who determines the purpose of an organisation? This can be determined and articulated in several ways:

- An organisation's constitution can stipulate its mission or purpose thereby locking such matters into management decision-making
- We are increasingly seeing investors (institutional investors and fund managers) and insurance providers set expectations for risk mitigation, long-term sustainability and value-add
- Purpose is clear for members of others organisations, such as incorporated societies, and beneficiaries are usually clear with trusts.

Businesses are required to function within various regulatory frameworks that require, to varying degrees, broader environmental, social and governance (ESG) outcomes to be delivered. The table below sets out a number of different ESG domains that can be the focus for long-term organisational sustainability and create value for its shareholders/ beneficiaries and wider stakeholders.

Environment	Social	Governance
Climate change and carbon footprint	Human rights and modern slavery	Board composition and diversity
Environmental protection	Employment standards	Leadership
Biodiversity	Health and safety	Remuneration
Pollution and resource depletion	Fair trade	Shareholder rights
Water use	Harassment/discrimination	Ethics, including ethical investment
Waste management	People management	Whistleblowing
Energy	Diversity, inclusion and equality	Disclosure and transparency
Sustainable procurement	Supply chain management	Risk management and internal control systems
Resource use and circular economy	Privacy and ethics	Anti-bribery and corruption

Environment	Social	Governance
	Consumer responsibility	Stakeholder engagement
		Business partner management, including payment
		Financial sustainability – long-term strategic view

Delivery of outcomes for many of these domains are now mandated through legislation, such as health and safety at work, minimum wages and working hours. Similarly, reporting on climate change will soon be mandatory for some businesses through the climate-related disclosures and business (and other organisations) need to meet the requirements of resource management legislation in relation to water and land use.

In future, more areas could attract minimum regulatory standards and mandatory reporting, particularly if the community feels that their wellbeing is undermined by the actions (or inaction) of businesses and other organisations. This raises the question whether it is the failure of present-day policy, regulatory and implementation settings that give organisations little choice but to act and be “purpose-led” in order to maintain a social license to operate in the face of increasing community expectations. For many businesses it’s about maintaining an authorising environment to operate within, with less reliance on government action and more business responsiveness to investor, customers and other stakeholders to maintain their financial sustainability over the medium to long-term.

From a governance perspective, it would be preferable to find ways to support positive incentives for organisations:

- to fully consider contributing to wider environmental and social outcomes over the medium to long-term
- to see this contribution as a strategic opportunity and embed initiatives into the organisation’s strategy rather than as an ‘add on’
- to encourage businesses and other organisations to voluntarily choose to reach for higher, in some cases ethical, standards.

It is important to incentivise the growth of ethically based initiatives that are born from a desire to create broader value, and that inherently develops greater trust rather than risk the development of short-term compliance cultures that aren’t effective at addressing core issues or ensuring medium to long-term organisational sustainability.

To support a consultative approach we suggest organisations:

- develop annual statements that explicitly set out how the board intends to meet the organisation’s purpose/ high level multiple outcomes for the medium to long-term
- seek feedback from shareholders and/or beneficiaries at the annual general meeting.

This would be a way for the board to start a conversation with their stakeholders about what is in the “best interests” of the organisation, and could form a basis on which to report progress against.

Are there other opportunities or risks that could arise from a steady growth in purpose-led businesses?

Purpose-led businesses that are looking to contribute to multiple outcomes will require a broader set of talent, skills and experience around the board table. Diverse boards that are more representative of wider society have been proven to deliver better financial results.

In addition, directors and boards will need to be increasingly flexible and adaptable. While there will need to be a continuing focus on long-term financial sustainability, boards will also need to attract environmental and socially focused skills and experience, along with those that support best practice governance. This may require a change in thinking about governance as suggested in recent work for the New Zealand Productivity Commission.³

Do you think there is a role for government in enabling purpose-led businesses? What role should or could government play?

Regulatory approaches to support the achievement of wider outcomes need to consider the role of governance in the system, and monitor effectiveness and efficiency. This should involve understanding the overall impact of the compliance burden on directors and boards, particularly the impact of increasing the legal liability on directors by activist regulators. Instead of a compliance approach boards need to be supported and incentivised to direct and guide organisations in a more dynamic way. To maximise this approach, government could support the building of governance capability and an improved governance culture within Aotearoa New Zealand. This is especially for growing businesses that would benefit from improved governance and not-for-profit organisations that support the delivery of wider outcomes for society.

Do you think that there is a greater role for business in contributing to wider societal outcomes? If so, what do you think business needs to be able to do this?

Contributing to wider societal outcomes is not just for business – there is a need to look at a range of other major organisations, including not-for-profits. For example, a not-for-profit may be focused on its stated purpose, but could be weak on environmental or managing talent outcomes.

Business and other organisations are increasingly recognising the need to maintain their license to operate with the general public. They are also responding to expectations set by lenders, institutional investors and insurance providers. This is reflected in the view of about half of our directors who said that Chief Executives should speak out on social issues beyond the business of organisation and 54% said that boards should speak out on these issues.⁴

³ See (2021) Teece, D and Brown, K., New Zealand Frontier Firms: A Capabilities-Based Perspective, Prepared for the New Zealand Productivity Commission, See [New Zealand Frontier Firms: A Capabilities-Based Perspective \(productivity.govt.nz\)](https://www.productivity.govt.nz)

⁴ See ASB/ IoD Director Sentiment Survey Report 2021, p, 21 at <https://www.iod.org.nz/assets/Resources-insights/Research-and-analysis/Institute-of-Directors-Director-Sentiment-Survey-2021.pdf>

There is potential to develop clear outcome focused frameworks to guide disclosure in key ESG priority areas, beyond the current climate-related disclosures.⁵ The External Reporting Board has a legislative mandate to do this.⁶

In some situations, frameworks will be imposed on New Zealand companies from overseas regulators. As the focus on supply chains increases, New Zealand companies may be required to comply with regulations in other countries because the overseas company that they are dealing with is required to ensure that their supply chains are also compliant with their own regulations. In some cases we are starting to see larger global organisations asking vendors to comply with specific reporting frameworks, and giving them a few years to comply. Otherwise they will be dropped as a vendor, in favour of a supplier that is compliant. This is both a business opportunity for those able to adapt and respond, including with board leadership.

Business and other organisations who choose to pursue the achievement of higher standards will want to be able to demonstrate the contribution they have made in a meaningful way to their shareholders/ members customers and broader stakeholders. It would be helpful therefore to standardise methods of reporting that allow for the tracking of progress.

Any reporting requirements should be proportionate to the size of the entity.

The use of blockchain

Are there any other aspects to the current development and use of blockchain that you are aware of?

We are interested in the board's ability to steer their organisations through emerging technological changes. We see the use of blockchain within a wider technology and digital transformation context that embraces developments such as the Metaverse, and more generally.

We note the growth forecast for use of blockchain equates to about one percent of US GDP by 2030. We, therefore, consider there is a need to avoid the current hype and tread carefully as we respond to the risks and challenges the technology presents. We presume that the Reserve Bank of New Zealand and the Treasury will explore any wider macroeconomic and monetary management implications at some point.

What else do you think may be probable or possible about future developments in the use of blockchain? Are there other opportunities or implications?

In considering limited liability for DAOs, it may be useful to explore legislation that allows for a generic "one registry" governance approach, at a minimum. A "governance act", rather than different legislation for different types of legal entity, may allow for greater simplification around incorporation and cope with changes in the platforms for businesses, even when the underlying governance framework and principles remain the same or similar.

What approaches should or could Aotearoa New Zealand take with blockchain going forward to manage risks and enable opportunities?

⁵ The intention is for the International Sustainability Standards Board to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

⁶ The Financial Markets Conduct Act 2013 allows the XRB to issue non-binding guidance on non-financial reporting.

We note New Zealand's Digital Strategy sets the scene for responding to wider developments in technology.

There is currently a focus on the use of digital identity technology and Estonia is using digital identity for government services. There is also digital identity legislation currently before the NZ House of Representatives.

There will be a need to upskill governance roles in the use of the new technology, including to increase their adaptability to changing contexts and technology.

We appreciate the opportunity to comment on behalf of our members and would welcome on-going discussion on these issues.

Yours sincerely



Guy Beatson
General Manager
Governance Leadership Centre



Susan Cuthbert
Principal Advisor
Governance Leadership Centre