Director Sentiment Survey 2017

The Institute of Directors (IoD) with ASB has released its 2017 Director Sentiment Survey report. The survey takes the pulse of the director community in New Zealand.

Institute of Directors

ASB

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Survey key findings

Background

This is the fourth annual Director Sentiment Survey and the second in which the Institute of Directors (IoD) has partnered with ASB. Each year we take the pulse of the New Zealand governance community to identify issues and challenges that matter to IoD members.

The survey was conducted during October 2017 and we had our highest level of engagement to date from IoD members with 934 responses. We thank our members for their valuable contribution. The survey provides insight from a broad range of entities about what's top-of-mind for directors on business, economic and governance issues. This year we included a focus on ethics and conduct risk, and about data governance and the use of data analytics to drive performance.

Business optimism but caution about economic outlook

Just over half of directors (54%) said that there will be little or no change in economic performance over the next year. 30% of directors expect New Zealand's economic performance to improve (50% in 2016) with 16% expecting a decline. The timing of the survey during the post-election period before a government was formed may have contributed to the cautious response.

Directors, however, were upbeat about prospects for their own businesses, with 69% of respondents expecting improved performance over the coming year. This divergence between views on the general economic outlook and own business activity is a commonplace feature of business sentiment measures.

Tight labour market a top barrier to national performance

ASB's core economic view is that while the demand backdrop is still very positive for the economy, capacity constraints will play a more influential role in determining how quickly the economy will grow. Directors identified that the tight labour market is making it more difficult for firms, with 54% of directors citing labour quality and capability as a major constraint to lifting performance.

Disruption – the new normal

Technological disruption is an increasing concern for directors with 15% of directors citing disruption as their biggest risk, and 58% (up from 47% in 2016) expecting disruption to impact their organisations. The time spent on risk oversight continues to be a challenge for many directors with more than two-thirds of directors (68%) saying the time their board spent on risk oversight had increased in the last year. Just over half (57%) felt that their boards had the right capabilities to deal with increasing business complexity and risk. Managing risks is an important part of doing business and a core focus for boards. Risk intelligence for directors, includes thinking holistically about uncertainty, eg integrating risk, strategy and sustainability to help build and maintain resilience.

Stakeholder interests a high priority

An overwhelming majority of boards (91%, up from 86% in 2016) said stakeholder interests are very important to their business. This indicates a strong alignment with global trends as stakeholder interests in corporate governance are attracting increasing attention. Over two thirds of boards (67%) have discussed how they can more effectively engage with shareholders. While annual shareholder meetings remain a key channel of communication, technologies such as electronic information briefings, provide an opportunity to increase engagement.

Environmental and social issues top of mind

Sustainability and the social impact of an organisation are increasingly on the radar with a large number (69%) of boards saying environmental and social issues are very important to their business.

The 17 UN Sustainable Development Goals are gaining increasing attention, including from boards. 26% of boards said they are engaged and proactive on climate change risks and practices.

Board skills, diversity and continuous improvement critical to success

Having the right skills and experience on the board underpins an effective board. 61% of boards regularly discuss board composition and capability needs, and 55% of boards regularly and formally evaluate their performance. It is important that all boards prioritise time to evaluate their needs and their performance to ensure continuous improvement and that they have the rights balance of skills and experience for current and future success.

Integral to this is diversity of thought and perspective in the boardroom which helps underpin business performance and innovation. Although variable across sectors, 62% of all respondents said diversity is a key consideration in board appointments, which is similar to 2015 (60%) but down from a high of 70% in 2016. Building a board that considers diverse perspectives in discussion and decision-making adds value to the business, and is core to effective governance.

Leading in a digital world

Digital leadership and data governance are key enablers to success and business transformation. Only 30% of directors think their boards have the right capability to lead the digital future of their organisation, down from 35% in 2016. This may indicate a greater awareness of the need for digital leadership and what it entails. This year we also asked if boards had discussed the use of data analytics (eg Big Data) to drive performance and strategic objectives, and half said they had. It's important that all boards consider the data governance needs of their business.

While half of all respondents felt that their board regularly discussed cyber-risks and were confident in their company's capacity to respond to a cyber-attack or incidents, less than half (45%) were sure that their board received comprehensive reporting from management about breach risks and incidents. We continue to encourage all boards to put cyber-security on the agenda before it becomes the agenda.

Boards need better reporting on ethics and conduct risks

Boards set the tone for healthy organisational culture, and hold management to account on ethical practices and risks. Just 40% of boards received comprehensive reporting on ethical matters and the actions taken to address them. 44% had assessed ethics risks in their organisation in the last year. It is important that boards monitor ethical risks as the repercussions can be devastating to organisations.

Whistleblowing policies and a speak-up provisions help promote and support an ethical workplace culture. Only 32% of directors had discussed how to make these more effective. The board can set the tone for ethical conduct by reinforcing and communicating a culture of whistleblowing.

Maintain vigilance on health and safety governance

The number of boards that consider they have the capability to comply with obligations under the Health and Safety at Work Act 2015 continues to improve year-on-year, up from 51% in 2014 to 76% in 2017. This is a welcome trend but it is also a timely reminder to maintain vigilance in the boardroom on health and safety.

Removing directors' residential addresses from the public arena

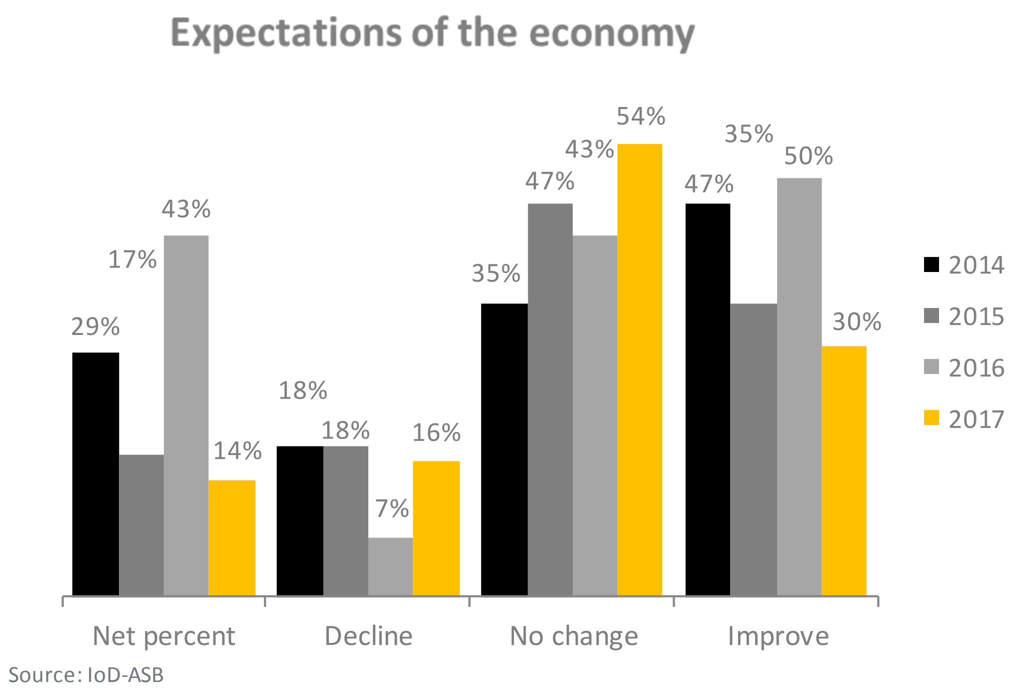
This year we asked directors if they would prefer to publish a service address (eg a business address) rather than a residential address on the Companies Register. An overwhelming 79% responded yes, highlighting directors' concerns about their addresses being publicly available. The IoD is advocating to change this requirement as disclosure can cause problems, eg directors and their families can be put at risk from customers, staff, and other stakeholders approaching them at home.

Summary of survey results

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

Just over half of directors (54%) were of the view that there will be little or no change in economic performance over the next 12 months, the highest proportion on record. The proportion of respondents expecting improved New Zealand economic performance eased to 30%, the lowest in the four-year history of the survey. The proportion of respondents expecting a decline in economic performance rose to 16% (from 7%), but is still below 2014 and 2015 levels.

New Zealand economic growth was 2.7% for the year ended June 2017 (compared to the previous year), a similar pace to what was achieved over the June 2016 year. We expect similar rates of growth to be maintained over the next 12-months, consistent with the sentiments in the survey.

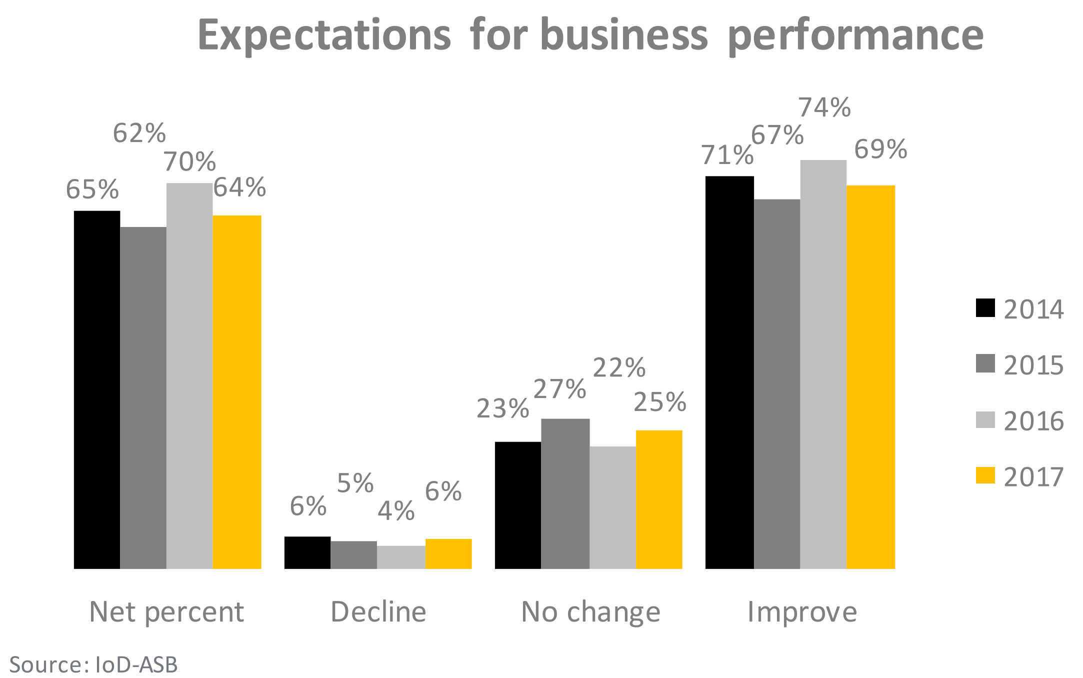


**The net percentage is a summary measure which subtracts the percent of respondents expecting a decrease from the percent of respondents expecting an increase.*

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

In contrast to the more circumspect views on the general economy, directors remained reasonably upbeat on the outlook for their own organisation, with 69% expecting an improved performance and just 25% expecting no change. Very few (6%) expect a decline. The net percent of directors expecting an improvement in business performance (64%) was down from the high of 2016, but on par with 2014 and 2015.

Directors are generally more optimistic about the future performance of their own companies compared to the general economic outlook, a result that is consistent with the pattern in other business surveys. The difference can reflect the higher degree of knowledge and control directors feel that they have over their own businesses compared to the general economy. The gap in own businesses' expectations versus those for the general economy may also be partly driven by the air of uncertainty around the country's political direction at the time the survey was undertaken, with the risks of slower growth overstated.



**The net percentage is a summary measure which subtracts the percent of respondents expecting a decrease from the percent of respondents expect an increase.*

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

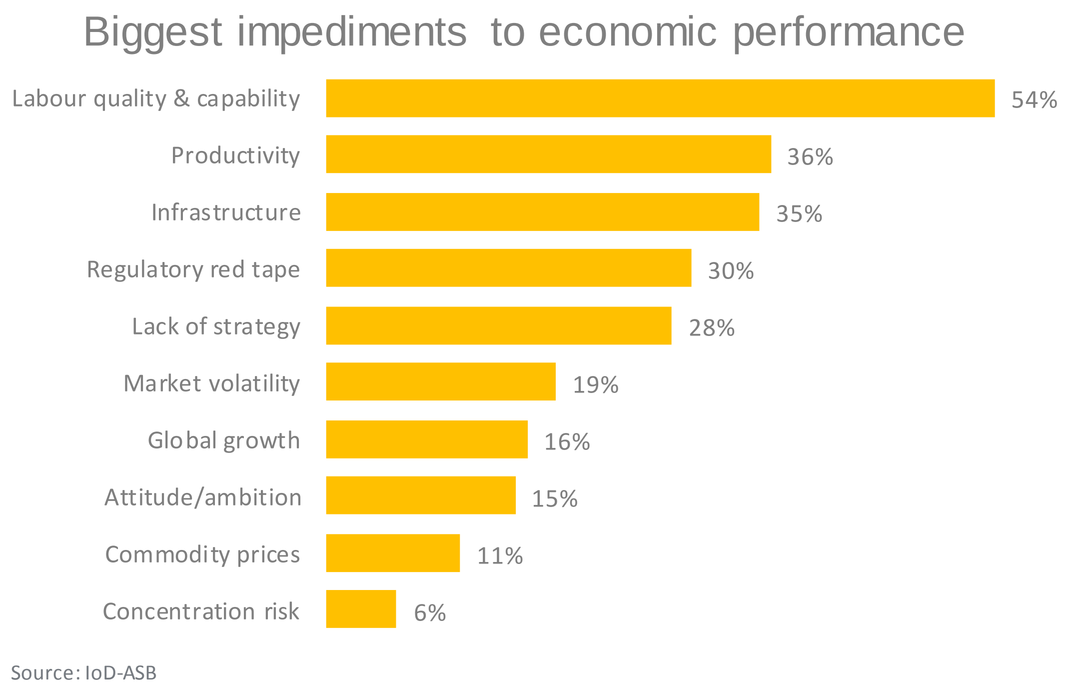
Capacity-related factors scored strongly in this year's survey. More than half of respondents (54%) cited labour quality and capability as an impediment to general economic performance. As the economic expansion has matured, the labour force has tightened significantly and firms have found it increasingly difficult to access labour and skills. Insufficient productivity (36%) and infrastructure (35%) rounded off the top three impediments. While New Zealand currently has one of the fastest growth rates in the OECD, historically-low productivity has been a key reason for our relatively weak per-capita growth performance among other developed countries.

Regulatory red tape has again featured prominently this year, being the fourth highest concern of directors (30%) with regard to New Zealand's economic performance.

Along with capacity, regulatory and productivity concerns, directors were also worried about leadership of the New Zealand economy, with 28% of respondents concerned about lack of strategy.

The improving global backdrop and reasonably benign market environment has seen concerns over global growth (16%) and market volatility (19%) slightly recede in terms of importance.

Only 6% of respondents were concerned about concentration risk, which reflects the widespread number of supports to the New Zealand economy. Despite the elevated terms of trade, commodity prices still concerned 11% of respondents.



**Consistent with last year respondents were asked to select up to 3 of 10 options (derived from issues that had been frequently noted in previous surveys), or to select 'other'.*

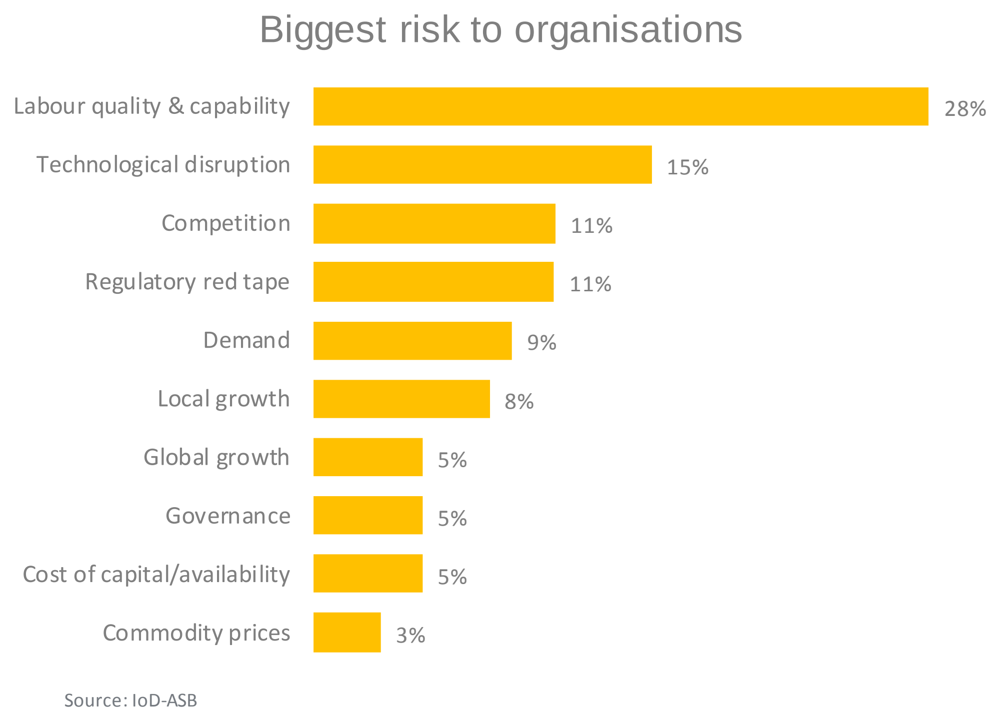
Question 4*: What, in your view, is the single biggest risk facing your organisation?

Labour quality and capability was the biggest risk for 28% of directors when asked about the biggest risk facing their own organisation. As mentioned above the labour market has tightened over the past year. Net immigration has been strong, which has helped satiate labour demand to some extent. However, with net immigration looking to have peaked, firms may not be finding the right skill mix, as significant parts of the net inflow are either students or New Zealanders returning from Australia.

Technological disruption was the next highest concern of directors, with 15% seeing this as a risk to their own business. Concerns over competition (11%) and regulatory red tape (11%) completed the top four.

Demand was considered to be less of a concern to directors, with just 9% of respondents in this year's survey citing demand as the biggest risk facing the organisation. Funding and finance was not a significant concern, with just 5% of respondents seeing risks around cost of capital and availability. Interest rates are likely to remain low by historical standards for some time yet.

Commodity price concerns featured lower at the individual level, than at the economy-wide level. Just 3% of respondents saw commodity prices as a risk.



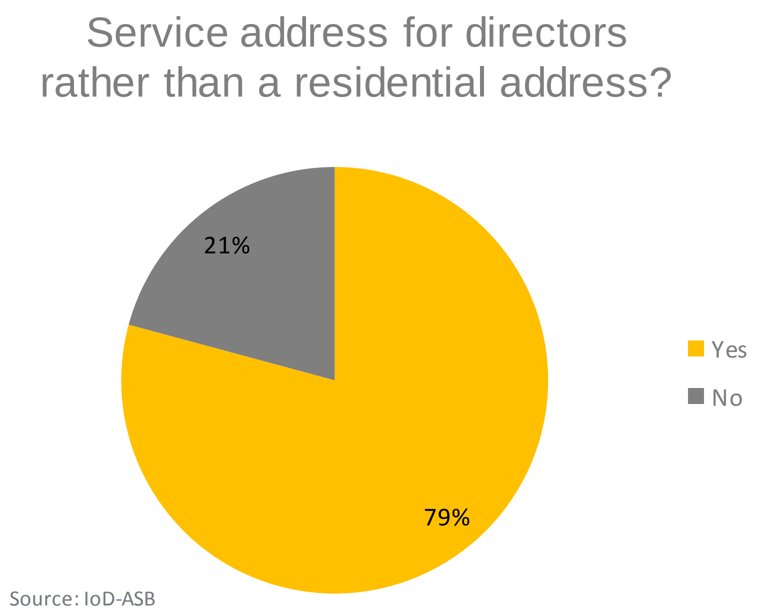
** Last year, respondents were asked to select up to 3 of 10 options (derived from issues that had been frequently noted in previous surveys), and this year we asked for the single biggest risk.*

Question 5: Director's residential address

This year we asked directors if they would prefer to publish a service address (eg a business address) rather than a residential address on the Companies Register. An overwhelming 79% responded yes, highlighting directors' concerns about their addresses being publicly available.

In New Zealand, company directors must disclose their full residential address to the Companies Office when they become a director. The Register makes this address available to the public, which can cause problems. For example, directors and their families can be put at risk from customers, staff, and other stakeholders approaching them at home. There is also inconsistency with other legislation which explicitly allows privacy of residential addresses in certain circumstances.

Other countries publish non-residential addresses for directors on public registers. In the United Kingdom, Canada, Hong Kong and Singapore, directors can list a service address instead of their home address. In Australia, directors can list an alternative address where there is a risk to personal safety.



Question 6: Governance issues

Insights from the survey about key governance matters facing directors.

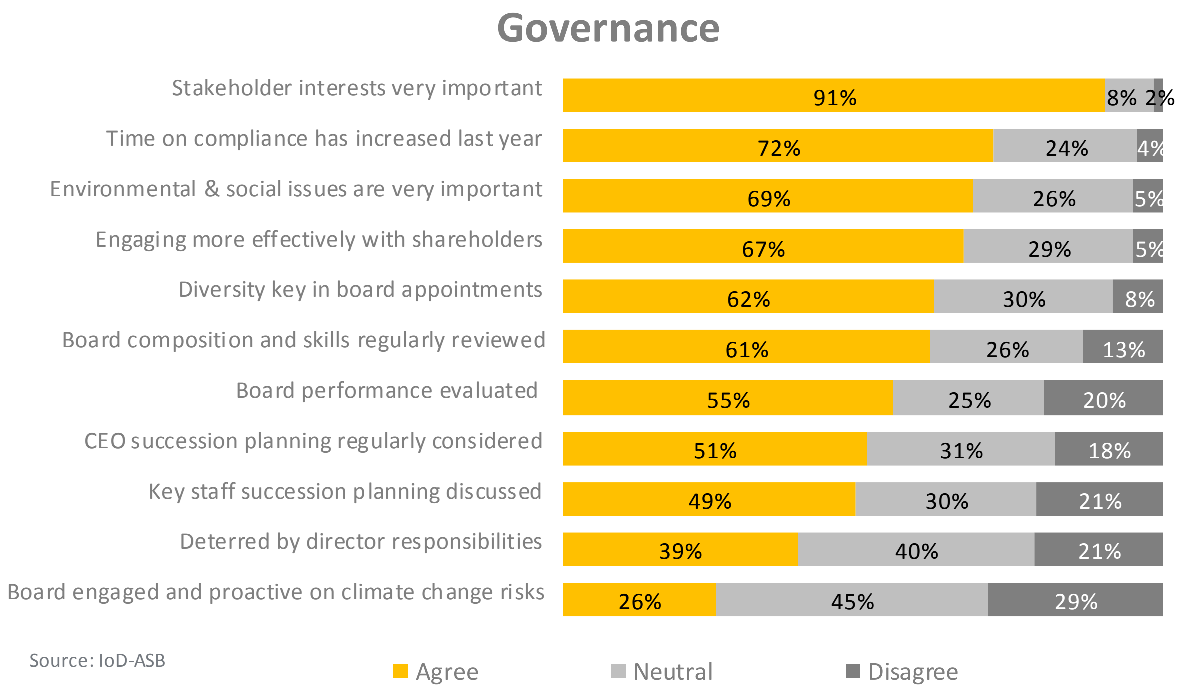
- The overwhelming majority of boards (91%, up from 86% in 2016) consider stakeholder interests very important to their business. 67% of boards have discussed effective shareholder engagement in the past 12 months, including 81% of directors of publicly listed companies.

- Sustainability and the ethical impact of an organisation are increasingly on the radar with a large number (69%) of boards saying environmental and social issues are very important to their business. However only 26% of boards are engaged and proactive on climate change risks and practices.

- 61% of boards regularly discuss board composition/renewal and the skills/experience needed now and in the future, similar to two years ago (62% in 2015). 55% of boards regularly and formally evaluate their performance at least every two years, also similar to two years ago (54% in 2015). Having the right skills and experience on the board reinforces an effective board and it's important all boards prioritise time to evaluate their needs and performance.

- Diversity of thought and perspective in the boardroom underpins business performance and innovation. The percentage of directors reporting diversity as a key consideration in board appointments has dropped from a high of 70% in 2016 to 62%, similar to 2015 levels (60%). There is noticeable differentiation among sectors with stronger responses reported in government (76%), NFP (75%) and listed companies (70%), and lower levels in large private companies (54%) and SMEs (50%).

- Directors continue to spend an increasing amount of their time on compliance activities.72% said they were spending more time on compliance related activities in the last 12 months.



Question 7: Strategy and innovation

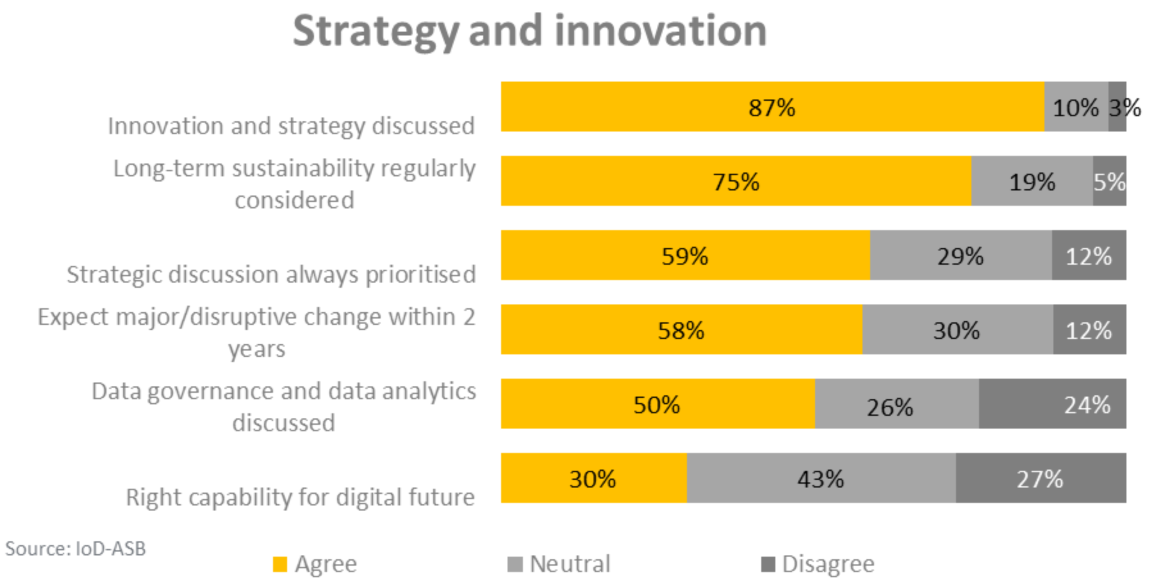
Insights from the survey about strategy and innovation.

- Technological changes are transforming business and business models. 58% of directors (a notable increase from 47% in 2015 and 2016) expect their industry to be affected by major or disruptive change in the next two years.

- 59% of boards prioritise strategic discussions at every board meeting, and 87% discuss innovation and strategic opportunities at least once a year. 75% consider the long-term sustainability of their business model at least every two years. Boards who are not already spending regular time on strategy and innovation should prioritise this on their board agendas.

- Critically, only 30% of directors think their boards have the right capability to lead the digital future of their organisation, 43% are unsure or neutral, and 27% don't have the right mix of knowledge, skills and experience to provide leadership and governance in a digital era. Although down from 35% in 2016, this may indicate a greater awareness of the need for digital leadership and what it entails.

- Data governance and the use of data analytics to drive performance and strategic opportunities have only been discussed by 50% of boards in the past 12 months. It is important for boards to understand both the challenges and the opportunities big data poses.



Question 8: Ethical conduct

Insights from the survey about ethics and conduct.

- Just 44% of directors assessed ethics risks in their organisations in the last 12 months, and only 40% (slightly up from 37% in 2016) had received comprehensive reporting from management on ethical matters, conduct incidents and the actions taken to address them. The board sets the tone with transparency and accountability on ethical behaviour. As part of comprehensive risk management, it is crucial that boards assess conduct risk within their organisation and hold management to account, including through comprehensive and regular reports on ethics risks and follow through.

- This year we also asked directors whether their boards had received comprehensive reporting about fraud, bribery and corruption incidents and risks in the previous 12 months and only 49% had. Directors need to hold management to account and ensure procedures are in place to prevent and detect any occurrences of fraud or corruption in the organisation.

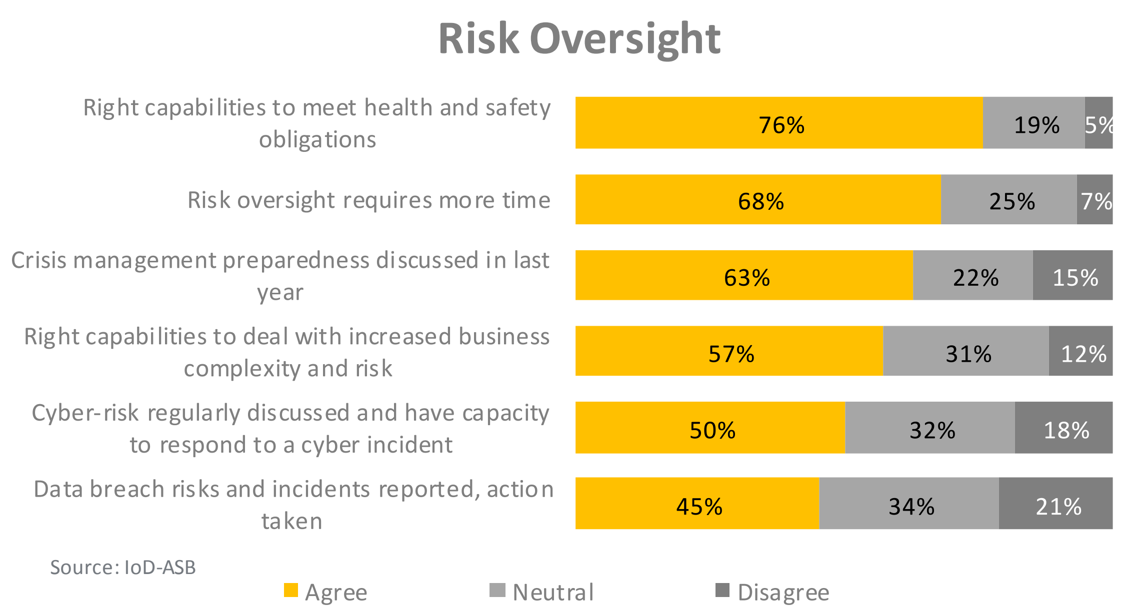
- Only 32% of boards discussed whistle-blowing and speak-up provisions in the last 12 months. It is important that organisations have a policy on whistleblowing and protected disclosures for both employees and contractors. Boards not already discussing this topic should ensure it is included in the work plan for 2018.

- With an ever increasing focus on human rights issues, ensuring there is a good understanding of ethical standards and expectations is essential to managing reputational risk including the supply chain. Consistent with 2016, 48% of boards felt confident that their board, staff, business partners and supply chains adhered to the organisation's ethical standards.

Question 9: Risk oversight

Insights from the survey about risk oversight.

- Time spent on risk oversight continues to be high for many directors with 68% (74% in 2016) reporting that they are spending more time on risk oversight.
- Capability to deal with increasing business complexity and risk is similar to last year at 57% (56% in 2016).
- More boards are discussing cyber-risk, 50% this year up from 32% in 2016. However, 18% of boards are still not asking the questions or feeling confident in their organisation's capacity to respond to a cyber-attack or incident. It is critical that all boards put cyber-risk on the agenda and build cyber-resilience.
- 63% of directors have discussed crisis management plans in the last 12 months. The best form of crisis management is preparation before a crisis occurs. Boards not already prepared should discuss getting prepared.
- The number of boards that consider they have the capability to comply with Health and Safety at Work Act 2015 obligations continues to improve year-on-year, from 51% in 2014 to 76% in 2017. A welcome trend but no time for complacency.



Detailed survey results

The online survey was conducted in October 2017. Results are summarised from 934 responses. Not all questions were answered by all respondents (the average skip rate per question for the 2017 survey was 3.3%). Percentages may not add to 100% due to rounding.

	Question	Improve	No Change	Decline	Net %
Q1.	How do you expect the performance of the New Zealand economy to trend in the next 12 months?	30%	54%	16%	14%
Q2.	How do you expect the performance of your organisation to trend in the next 12 months?	69%	25%	6%	64%

Q3. What, in your view, are the biggest impediments to national economic performance? (you can choose up to three)	
Labour quality and capability	54%
Productivity	36%
Infrastructure	35%
Regulatory red tape	30%
Lack of strategy	28%
Market volatility	19%
Global growth	16%
Attitude/ambition	15%
Commodity prices	11%
Concentration risk	6%
Other	13%

Q4. What, in your view, is the single biggest risk facing your organisation?	
Labour quality and capability	28%
Technological disruption	15%
Competition	11%
Regulatory red tape	11%
Demand	9%
Local growth	8%
Global growth	5%
Cost of capital/availability	5%
Governance	5%
Commodity prices	3%
Other	8%

Q5. Do you agree that directors should be able to publish a service address on the Companies Register rather than their residential address as is currently required?	
Yes	79%
No	21%

Q6. Please indicate whether you agree or disagree with the following statements about governance in your organisation and issues facing boards:	Agree	Neutral	Disagree
Compliance related activities have increased in the last 12 months.	72%	24%	4%
Diversity is a key consideration in making board appointments.	62%	30%	8%
My board regularly (at least annually) discusses board composition/renewal and the skills/experience we need now and for the future.	61%	26%	13%
My board regularly (at least every two years) makes a formal evaluation of its performance.	55%	25%	20%
My board regularly (at least annually) discusses succession planning in relation to the CEO.	51%	31%	18%
My board regularly (at least annually) discusses succession planning in relation to key staff other than the CEO.	49%	30%	21%
Increased personal liability has made me more cautious (risk averse) in business decision-making in the last 12 months.	39%	40%	21%
My board considers environmental and social issues are very important to our business.	69%	26%	5%
My board is engaged and proactive on climate change risks and practices in our business.	26%	45%	29%
My board considers stakeholder interests are very important to our business.	91%	8%	2%
In the last 12 months my board has discussed how we can engage more effectively with shareholders.	67%	29%	5%

Q7. Please indicate whether you agree or disagree with the following statements about strategy and innovation in your organisation:	Agree	Neutral	Disagree
I think my industry will be affected by major/disruptive change in the next two years.	58%	30%	12%
My board regularly (at least annually) discusses innovation and strategic opportunities.	87%	10%	3%
My board prioritises strategic discussion at every board meeting.	59%	29%	12%
My board has the right capability (skills and experience) to lead our organisation's digital future.	30%	43%	27%
My board regularly (at least every two years) considers the long-term sustainability of our business model.	75%	19%	5%
In the last 12 months my board has discussed data governance and the use of data analytics to drive performance and strategic opportunities.	50%	26%	24%

Q8. Please indicate whether you agree or disagree with the following statements about ethics and conduct in your organisation:	Agree	Neutral	Disagree
My board consistently applies a written code of business ethics (ie code of ethics/code of practice) to board decision-making.	45%	34%	21%
My board has assessed ethics risks in our organisation in the last 12 months.	44%	31%	25%
My board receives comprehensive reporting from management about ethical matters and conduct incidents, and the actions taken to address them.	40%	34%	26%
I am confident that our board, staff, business partners and supply chains are familiar with and adhere to our organisation's ethical standards.	48%	40%	12%
My board receives comprehensive reporting from management about fraud, bribery and corruption incidents and risks, and the actions taken to address them.	49%	31%	19%
My board has discussed whistle-blowing, and how the organisation makes speak-up provisions effective in the last 12 months.	32%	33%	35%

Q9. Please indicate whether you agree or disagree with the following statements about risk oversight:	**Agree**	**Neutral**	**Disagree**
The time my board spends on risk oversight has increased in the last 12 months.	68%	25%	7%
My board has the right capabilities (skills and experience) to deal with increasing business complexity and risk.	57%	31%	12%
My board has the right capabilities (skills and experience) to comply with director obligations under the Health and Safety at Work Act.	76%	19%	5%
My board regularly (at least annually) discusses cyber-risk, and is confident our company has the capacity to respond to a cyber-attack or incident.	50%	32%	18%
My board receives comprehensive reporting from management about data breach risks and incidents, and the actions taken to address them.	45%	34%	21%
My board has discussed crisis management plans (eg in the case of natural disaster, CEO emergency or viral social media incident) in our organisation in the last 12 months.	63%	22%	15%

Q10. Please indicate the organisational category to which your most substantial directorship belongs (this is the organisation in respect of which you have answered the question above):	
Large private company (>$10 million turnover or 20+ employees)	34%
Not-for-profit organisation	22%
SME company (<20 employees)	17%
Government organisation	9%
Other private company	8%
Publicly listed company	7%
State-owned enterprise (SOE)	3%
Subsidiary of a publicly listed company	1%

Contacts

About the IoD

The Institute of Directors in New Zealand connects, equips and inspires its more than 8,500 members, to add value across New Zealand business and society. Through thought leadership, our extensive network, professional governance courses, events and resources.

The IoD aims to raise the standard of governance in all areas of New Zealand business and society.

The IoD Chartered Membership pathway is a commitment to professional standards for directors. The Chartered designation offers stakeholders an assurance that directors have met professional standards of knowledge and skill that supports them to carry out their duties as a director. Their knowledge, background, character and experience make them role models for other members, their organisations and the community as a whole.

About ASB

ASB Bank is a leading provider of integrated financial services in New Zealand including retail, business and rural banking, funds management and insurance. A member of the Commonwealth Bank of Australia (CBA) Group, ASB has carved a name for itself in the New Zealand banking landscape, looking after the financial wellbeing of more than 1 million customers. Committed to being an unbeatable team providing an unbeatable customer experience, ASB staff are passionate about helping our customers stay one step ahead.

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

Authorship

This report has been jointly prepared by the IoD and ASB.

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