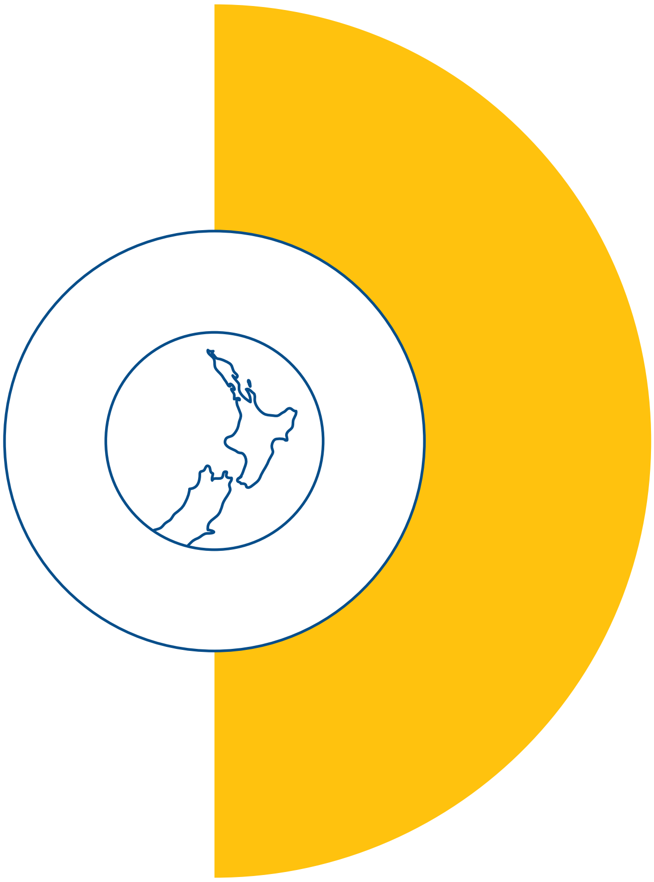


Director Sentiment Survey 2020

The Institute of Directors (IoD) with ASB has released its 2020 Director Sentiment Survey report. The survey takes the pulse of the director community in New Zealand.

ASB
ONE STEP › AHEAD

Institute of DIRECTORS
NEW ZEALAND

Contents

SURVEY INSIGHTS

The Institute of Directors' annual Director Sentiment Survey identifies the governance issues and challenges that are top of mind for our members. These directors represent a range of organisations large and small, across many sectors and from all over New Zealand. This year we gathered views on economic, business and governance issues and also included a focus on the impact of COVID-19 on boards and their organisations.

The survey ran between 1 October and 20 October 2020, with 914 IoD members responding – the fourth year in a row we have exceeded 900 responses. As always, we are incredibly grateful to our members for their contribution, which provides an invaluable insight into what matters to directors. This edition is the seventh annual survey and the fifth in which the IoD has partnered with ASB.

This report summarises the survey results. Throughout the report, we have highlighted sector-specific results where these have noticeably diverged from the total (for all sectors combined).

COVID-19 — impact and recovery

For many directors, 2020 will be the most challenging period for governance and strategic oversight they have ever experienced. The majority of directors (60%) said their organisations were adversely affected by COVID-19; however, one in five directors reported a positive impact.

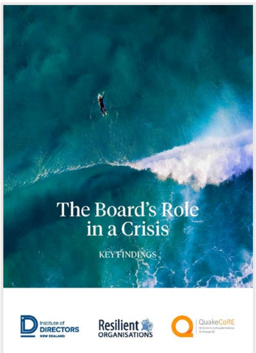
COVID-19 impacts and the global environment understandably dominated directors' views of the economic outlook, with 63% of directors anticipating the economy would decline in the year ahead. This is notably higher than last year's survey (55%) and despite New Zealand's economic activity starting to rebuild, or in some cases exceed pre-pandemic levels. Directors are likely mindful of continued uncertainty, particularly given the lingering impacts of the lockdowns, and the challenges created by border closures.

More encouragingly, directors were upbeat about their expectations for the performance of their own organisations, with half of respondents expecting their organisations to lift their performance over the next year. However, many still anticipated a challenging operating environment.

Beyond COVID-19 and its global impact and resultant local challenges directors continued to see labour quality and capability, and regulatory red tape as the biggest issues.

Leading beyond a crisis

The board's leadership role is even more critical in times of crisis. Preparation is key and this year we have seen a good lift in the proportion of boards that had discussed crisis management plans (78%, up from 65% in 2019).



The board's role in a crisis, published in July 2020 by Resilient Organisations in partnership with the IoD and QuakeCoRE, includes guidance and insights from interviews with chairs, board members and CEOs who have experienced major crises.

As organisations moved quickly to find new ways to operate in response to COVID-19, it is no surprise that a quarter of directors reported needing different capability on their board.

Over the coming months, as many organisations look to recover, boards will need to consider how to strengthen their organisation's resilience and ensure they have the right skills and experience to lead effectively into the future. With the majority of directors (60% up from 51% in 2018), expecting their industry to be affected by major/disruptive change in the next two years, strong leadership and strategic focus will be critical to long-term sustainability.

Having the right team around the board table is crucial, yet still only half (51% similar to 50% in 2019) of directors agreed that their board had the right capabilities to deal with increasing business complexity and risk. Given increasing digital dependency it was concerning that only 35% of directors (marginally up from 33% in 2019) thought they had the right capabilities on their board to lead the organisation's digital future.

As 2021 approaches, it is important that boards take the time to assess their current composition and consider whether they have the skills and experience around the table to lead the future strategy of the organisation.

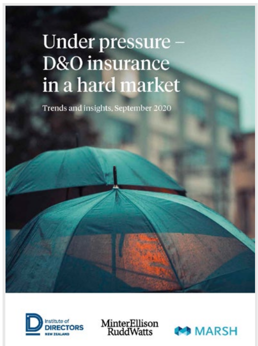
Directors wary about risk and liability

The growing trend for laws and regulations to extend director responsibility and liability continues to have a concerning impact; consistent with last year, 40% of directors said that the scope of director responsibilities was more likely to deter them from taking on governance roles now than 12 months ago.

The proportion of directors who agree they are more cautious in business decision-making due to increased personal liability remains consistent at 47%, while more boards (75% up from 71% in 2019) are spending more time on risk oversight than in the previous year.

Director liability insurance

COVID-19 has increased pressure on organisations, and we are in the midst of the most volatile and restrictive Directors and Officers Liability (D&O) insurance market in its history – known in the industry as a 'hard' market.



For trends and insights on D&O insurance see *Under pressure – D&O insurance in a hard market* (September 2020)

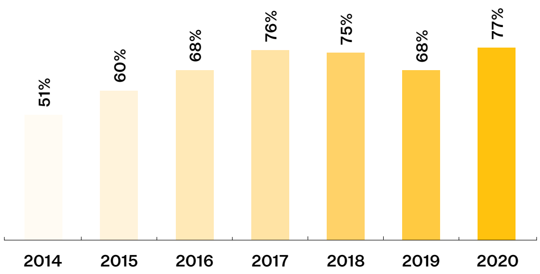
While 79% of directors said they had D&O insurance, 21% did not. This is concerning, especially as directors are increasingly wary of the level of personal liability and risk that they are facing.

It is important that all directors understand the details of their D&O policies, including coverage and costs. It is important not to leave this to management alone – it is advisable to engage directly with insurers to build a better-shared understanding of organisational risks and appropriate liability cover.

D&O insurance is getting more expensive. Just 1% of directors said the cost of their insurance had decreased in the past 12 months. At the other end of the scale, 1% had seen an increase of more than 50%, while 6% said their premiums had increased by 20-50% and just over a third (34%) reported their insurance cost increase by up to 20%. The increases are particularly acute for publicly-listed companies.

Looking after our people

When dealing with the global pandemic New Zealand has put the health of its people first. Boards have also prioritised the health of people and the majority (81%) said they had discussed workplace mental health and wellbeing issues in the past 12 months, up from 62% in 2019.



Right capabilities to meet health and safety obligations

Boards play a crucial role in setting the tone from the top and cultivating a strong and appropriate leadership culture. This includes being aware of and safeguarding employee health, safety and wellbeing. After a dip in 2019, the proportion of directors who said that their boards had the right capabilities to meet their health and safety obligations bounced back to 77% (up from 68% in 2019).

Attracting and growing the right talent to deliver on strategy is also an essential board role. This year 84% of respondents reported they regularly discussed talent and related issues and risks, including employee engagement, performance and retention. A smaller proportion (61%) had discussed the impact of technology, automation and/or artificial intelligence on their organisation, workforce and future skills needs.

Whistleblowing practices and speak up provisions help promote and support an ethical workplace culture. This year, 40% of respondents (up from 35% in 2019) had discussed whistleblowing and how the organisation made speak up provisions effective in the last 12 months.

The Government has signalled more protection for whistleblowers with the introduction into Parliament of a new Protected Disclosures (Protection of Whistleblowers) Bill to replace the Protected Disclosures Act 2000.

For more, see our Directors Brief on *Whistleblowing, Speak Up culture and the board* (2018)

Adaptive boards on the rise

Technology has the potential to significantly change the traditional board meeting, overcoming distance barriers and reducing travel. In 2019, the IoD and MinterEllisonRuddWatts paper, *Always on duty – the future board*, encouraged boards to ask how technology and innovative practices could transform the way they operated and contribute to future effectiveness. Although Zoom and other online meeting platforms were already available, COVID-19 and lockdowns compelled many to take board and committee meetings online, which may become the norm.

The majority of directors who responded have embraced virtual meeting technology and are looking at how they can be more adaptive and effective:

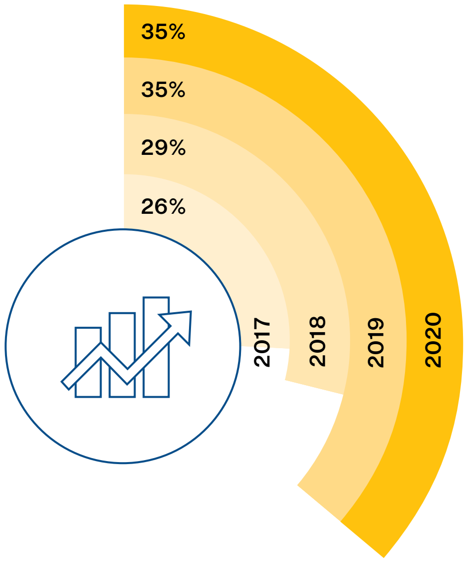
- 80% said that their board would continue to use virtual meeting technology in the future after their experience this year. This was particularly higher for state-owned enterprises (94%) but lower for directors of publicly-listed companies (70%).
- 83% said their board was more flexible/adaptive in how it operates now than a year ago. This was even higher for not-for-profit boards (91%).
- 85% said their boards (up from 77% in 2019) have discussed how to operate more effectively.

Action on climate stalled

Although 67% of directors responding said their boards considered environmental and social issues very important to their business, the proportion of boards actively engaged on climate change has stalled at 35%. There has been a slow but steady upward trend since 2017, and the limited engagement in 2020 is likely due to dealing with the COVID-19 crisis.

This year both climate change and COVID-19 were included in the lists of economic impediments and organisational risks (in Questions 4 and 5). Unsurprisingly, COVID-19 dominated the selections, however 8% of directors said climate change was one of the top three impediments to economic performance and 1% selected it as the single biggest risk facing their organisation.

In September 2020, the Government announced climate-related financial disclosures would be mandatory for publicly-listed companies and large insurers, banks and fund managers. There are some leaders in this reporting space, with 13% of directors saying that their latest annual report included disclosures on climate related risks and/or the impact of climate change on their organisation.



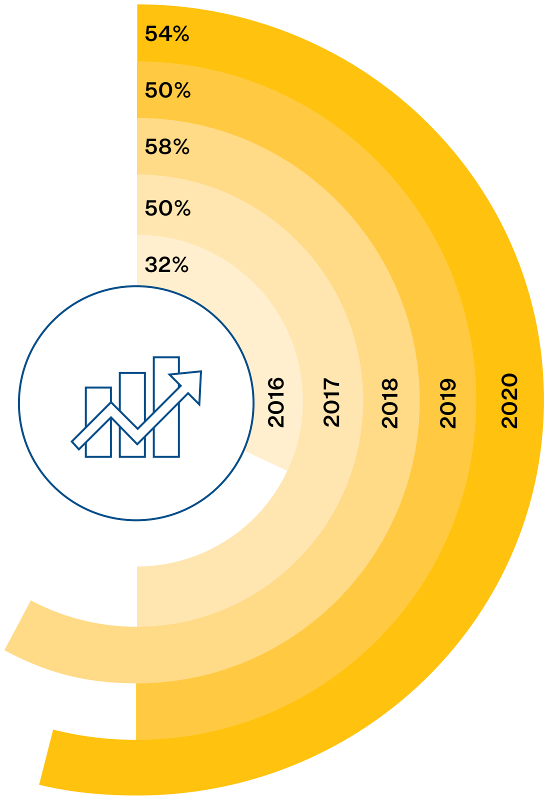
Board engaged and proactive on climate risks

Cyber vulnerability

Despite continuing media coverage and attention on cyber-attacks there was only a small lift (54% up from 50% in 2019) in the number of directors who said their boards regularly discussed cyber-risk and felt they had the capacity to respond to a cyber-attack or incident.

Similarly, there was a slight increase in the proportion of directors (40% up from 32% in 2019) who thought their board had a clear picture of their organisation's overall cybersecurity strategy and how it related to industry best practice.

Cyber resilience needs to be a priority for all boards. This has become more important as the pandemic has accelerated digital dependency, including the shift to more flexible and remote working. It is concerning that just 47% of directors agreed that their board received comprehensive reporting from management about data breach risks and incidents, and action taken to address them. However, this proportion is notably higher for directors of publicly-listed companies (66%). It is critical that all boards put cyber on the agenda before it becomes the agenda.



Discussed cyber-risk and confident able to respond

Cyber risk in Not-for-Profits

The survey results showed that not-for-profits were particularly vulnerable, with just 35% of respondents agreeing that their boards regularly discussed cyber-risk (compared to 54% for all sectors) and were confident that their organisation had the capability to respond to a cyber-attack or incident. Just 25% (compared to 40% in aggregate) said their board had a clear picture of their organisation's cybersecurity strategy and how it related to industry best practice.

Upping the game on privacy

While there was a lift in the proportion of boards who regularly discussed their organisation's privacy practices (51% up from 43% in 2019), it is concerning that nearly half of boards did not. Results were lower for small companies (45%) and medium-to-large private companies (47%). While not-for-profits were one of the highest (59%). With the new Privacy Act 2020 coming into force on 1 December 2020, it is vital that all boards understand the implications of the new legislation and, in particular, the introduction of mandatory breach notifications.

For more see, The new Privacy Act – key resources for directors (2020)

SURVEY KEY FINDINGS

QUESTION 1:

In what way has COVID-19 affected the performance of your organisation this year?

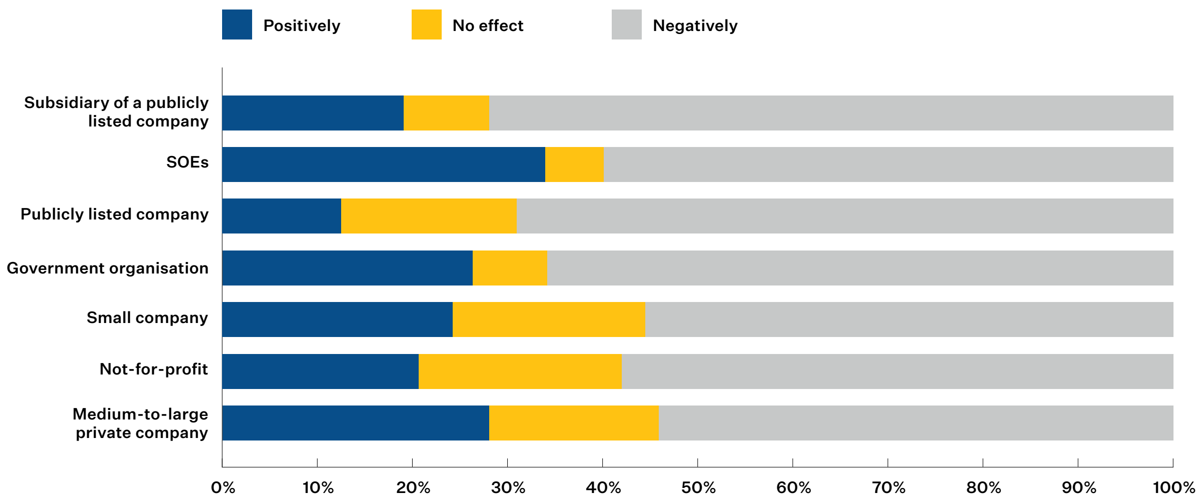
COVID-19 has been the defining event of 2020. Individuals, businesses, and governments alike have had their routines upended and their plans thrown into disarray. This year has required organisations to adapt and change at high speed. Many have had to reassess their business strategy to survive.

Of those surveyed, 60% of directors said their organisations' performance had been negatively affected. Surprisingly, 22% found the impact on their organisation had been positive. The remaining 18% of directors reported no effect.

The pandemic has had a diverse range of business and economic impacts. In particular, through New Zealand's initial March to June lockdown, whether or not an organisation was deemed 'essential' made a material impact on the ability to trade. During Alert Level 4, ASB estimated around 67% of normal business activity was possible, rising to 88% under Alert Level 3. Those businesses linked to tourism, events and hospitality have faced considerable headwinds from the border closure and social distancing requirements. In contrast, retailing has generally recovered to pre-pandemic spending levels.

Sector snapshot:

- Compared to all sectors (22%) more directors of medium-to-large private companies (27%) and of government organisations (26%) saw a positive impact.
- Compared to all sectors (60%), more directors of publicly-listed companies (70%) and government organisations (67%) reported a negative impact on their organisations.
- Fewer directors of small companies (57%) and medium-to-large private companies (55%) reported a negative impact.



QUESTION 2:

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

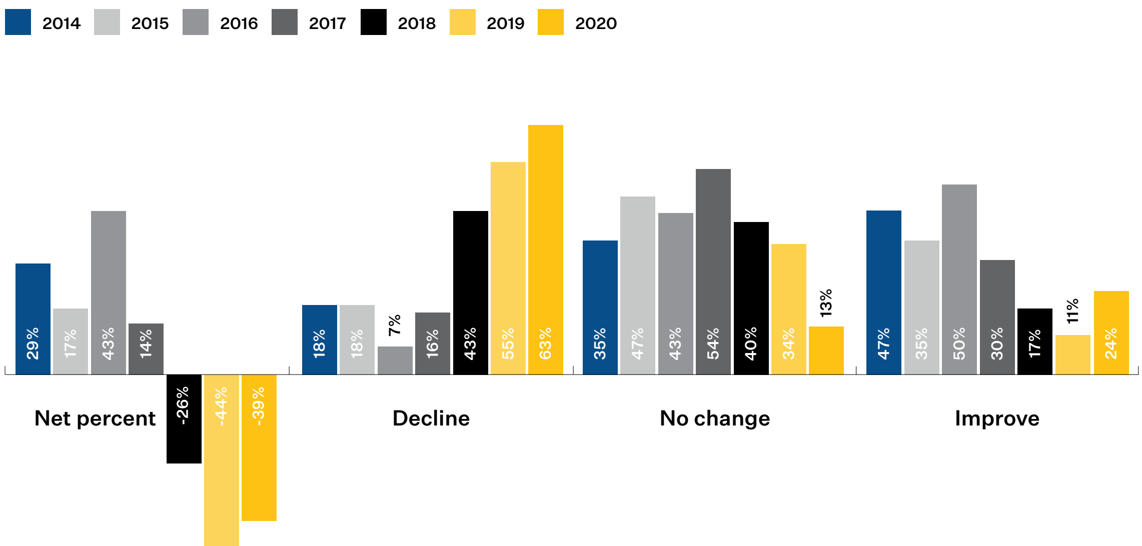
Directors felt more certain in this year's survey that the economy's performance would shift pace over the next year, with only 13% of directors expecting no change. Twenty-four percent of directors expected the economy to improve in the year ahead, up slightly from 11% in 2019. Meanwhile, a greater proportion of directors were more pessimistic about year-ahead economic fortunes than they were last year (63%, up from 55%), despite New Zealand hopefully being past the worst of COVID-19 impacts and starting a gradual ascent.

On a net basis* 39% expected the economy to decline over the next 12 months. Overall, that was less downbeat than last year's net 44%. In many respects, New Zealand appears past the worst of the pandemic impacts; however, the survey results do not signal that "the only way is up". In a pure activity sense, retail spending, exports and overall GDP are off the lows they reached during the peak global disruption in the first half of the year. The housing market is also roaring. Overall, job losses and organisational restructuring have probably not yet run their full course. Moreover, the domestic and global economic picture during the survey period remained murky. The New Zealand election occurred at the end of the survey period, the US presidential election was featuring prominently, and global COVID-19 cases were on the rise.

The majority of directors expected economic decline for the next year.

Sector snapshot:

- Directors of publicly-listed companies were the most pessimistic about the economy's prospects, with 84% anticipating a weaker performance.
- Directors of government organisations were also relatively downbeat at 70%.
- Directors of small companies (53%) and state-owned enterprises (56%) were the least pessimistic about the economic outlook.



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 3:

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

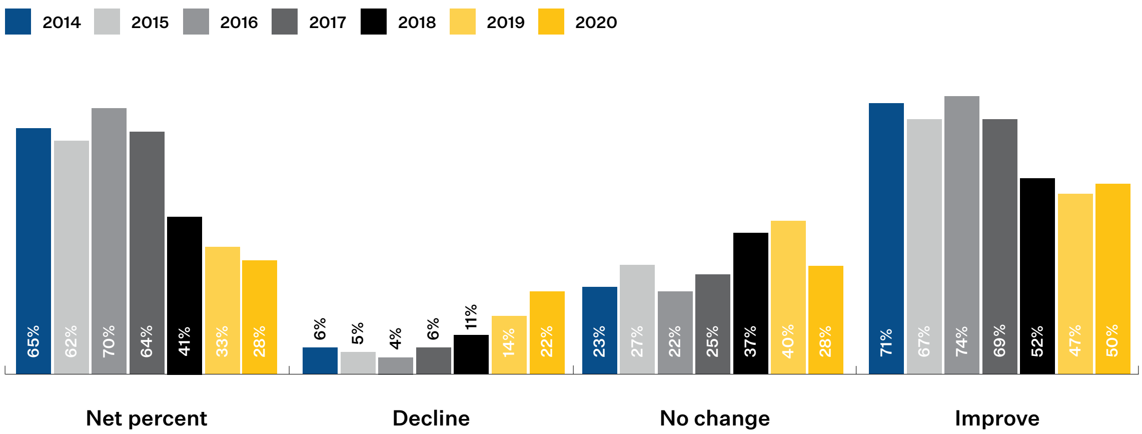
Directors' views about their organisations' future performance was firmly positive. Half of directors expected their organisations' performance to improve over the next year, with 22% anticipating decline. In last year's survey, 47% of directors anticipated improvement against 14% expecting decline. The net outlook* in the 2020 survey is net +28% against net +33% last year.

It is often the case that directors' expectations for their own organisations are more upbeat than for the wider economy. Similar to last year, the collective view of directors was that the economy would deteriorate over the next year, yet within that weaker environment organisations were expected to experience a lift in performance – to, in effect, outperform the economy. That might be possible for a portion of organisations, but on a nationwide scale, the sum of each organisation's performance is the economy at large.

How to reconcile the differing outlooks? There is currently a huge amount of uncertainty, which can cloud people's views of the general economic outlook. New Zealand organisations must contend with ambiguity around how long the global pandemic will rage; when New Zealand's borders will open; and whether the near-term improvement in the economy is sustainable or more of a dead-cat bounce. The election outcome has been resolved since many directors responded to the survey, addressing one area of uncertainty. In contrast to this big picture, directors will be very aware of how their respective organisations are tracking and the effectiveness of strategic responses.

Sector snapshot:

- Directors of state-owned enterprises were the most optimistic about their organisations' outlooks, with 67% expecting improved performance.
- Directors of publicly-listed companies were the most cautious, with 38% anticipating improved performance. Government organisations, not-for-profits and medium-to-large private companies all had close to 50% of directors optimistic about the outlook.



**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 4:

Biggest impediments to national economic performance

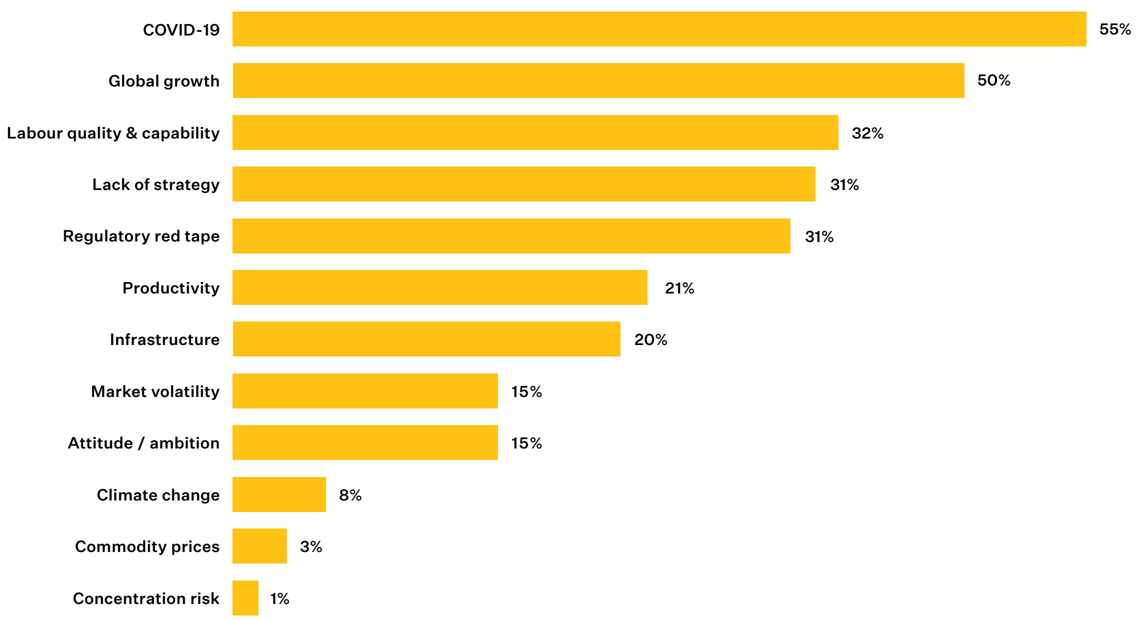
Directors taking the survey were asked to select up to three factors they saw as the biggest impediments to national economic performance. Understandably, the COVID-19 pandemic featured prominently, with 55% of directors selecting this. No doubt related to the pandemic's far reach, 50% of directors chose global growth/uncertainty. In last year's survey, 31% of directors choose global growth/uncertainty among the top three impediments, which in turn was up from 2018. It is hard to overstate the huge impact these combined influences have had on New Zealand this year, and they will continue to be the defining influences for some time.

The top concerns of 2019, labour quality/capability (32% of directors) and regulatory red tape (31%), still featured prominently this year. Labour supply challenges are more prevalent, as border closures and lack of quarantine capacity constrain the ability to bring in people to fill skill shortages. At the same time, there is a mismatch between the lift in unemployment and the challenges some businesses are having in recruiting workers. Horticulture is one example of being affected by border closures and also struggling to find suitable local workers.

Thirty-one percent of directors also cited a lack of strategy, slightly up from 29% last year. The months leading up to the election brought few policy details from the major political parties as to their intended direction for New Zealand and the roadmap to achieve it. With the election out of the way and an outright governing majority, there is an opportunity to clearly define and implement a plan for New Zealand's future.

Sector snapshot:

- Directors of government organisations (66%), not-for-profits (64%) and subsidiaries of publicly-listed companies (64%) were the most concerned about COVID-19 impacts.
- Directors of subsidiaries of publicly-listed companies and of state-owned enterprises (45% and 44% respectively) cited labour quality and capability more frequently than directors of other organisations.



**Consistent with last year respondents were asked to select up to 3 of 10 options or to select 'other'.*

QUESTION 5:

Single biggest risk facing organisations

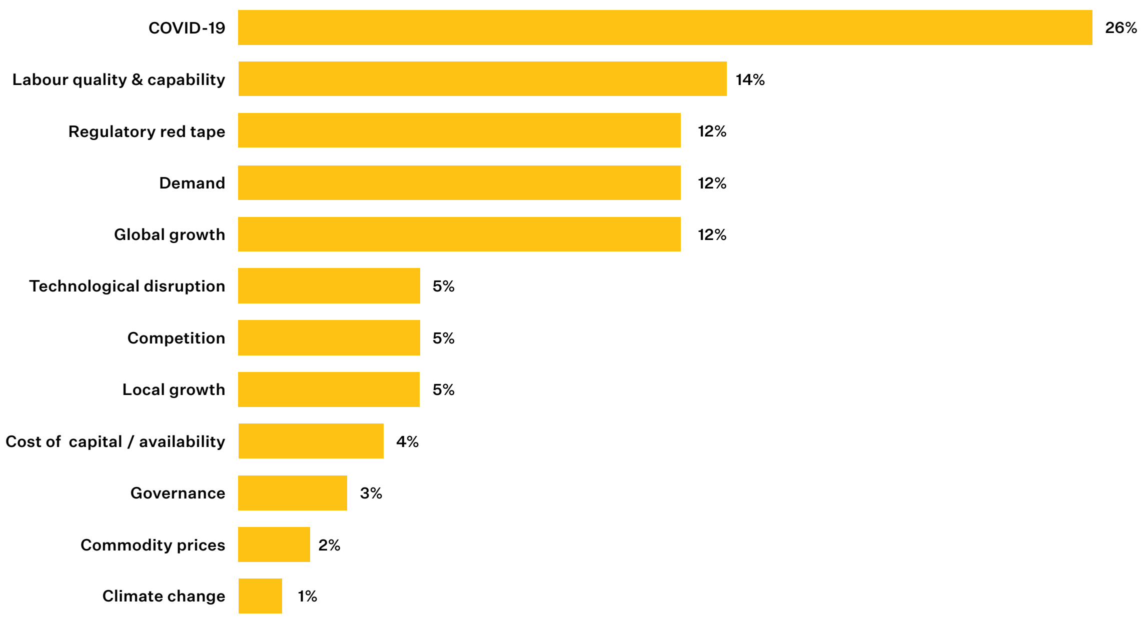
COVID-19 was cited by 26% of directors as their organisations' single biggest risk factor, almost twice the rate of the next-biggest concern (labour). While global growth/uncertainty is prominent, it ranked third equal, selected by 12% of respondents as a risk. However, this was still double the number compared to 2019. In another potential sign of COVID-related impacts, demand was chosen by 12% of directors, edging up again from 10% last year.

The top two concerns for 2019 featured highly. Labour quality/capability was picked by 14% of directors, and regulatory red tape by 12% of directors. These two risks consistently feature in the survey's results across time at an organisation and economy level.

The financial implications of the pandemic on the cost and availability of capital remained low on directors' lists of concerns, cited by 4% and down marginally from 5% in last year's survey. The financial support measures put in place by the government, Reserve Bank of New Zealand and the banking sector have played an important role in New Zealand's COVID response. Bank support packages, the government-underwritten Business Finance Guarantee Scheme and the IRD's Small Business Cashflow Scheme have collectively improved access to debt capital. The interest rate cuts this year have also made borrowing cheaper.

Sector snapshot:

- COVID-19 impacts were cited evenly by directors across the sectors, though directors of subsidiaries of publicly-listed companies (36%) and of not-for-profits (33%) were relatively more concerned.
- Directors of publicly-listed companies were also more concerned about regulatory red tape (22%), than the aggregate (12%).



**Respondents were asked to select the single biggest risk facing their organisation. This year two additional options, COVID-19 impact and climate change, were added to the list.*

QUESTIONS 6-8:

Director liability insurance

In recent years, the director liability insurance market, also known as D&O, has become more volatile and restrictive. Director liability insurance is an important part of ensuring strong and dynamic governance and it needs to be accessible.

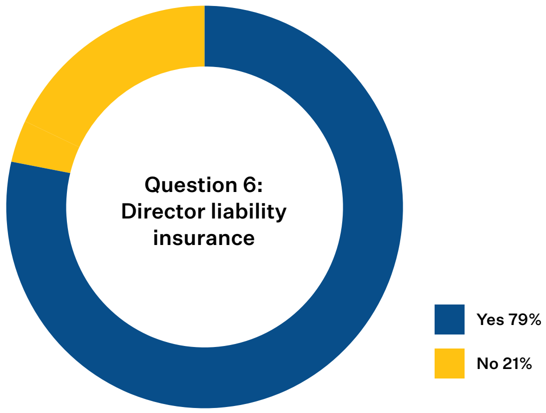
This year we asked a series of questions about director liability insurance to better understand whether directors are covered, if they are comfortable with the cover they have and if the cost of cover had increased within the last 12 months.

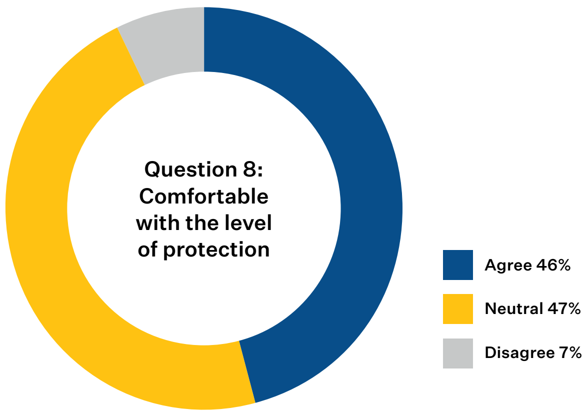
More than three quarters of directors (79%) said that they have director liability insurance; however, this was variable by sector.

While the majority of respondents had cover, less than half (46%) agreed that they were comfortable with the level of protection their director liability insurance provided.

Sector snapshot:

- While 96% of directors of publicly-listed companies said they have liability cover, just over half (56%) were comfortable with the protection it offered.
- 91% of medium-to-large private company directors had liability insurance, while less than half (48%) said they were comfortable with the level of protection it provides.
- While 77% of not-for-profit directors said they have liability cover, just 42% were comfortable with the level of protection their cover provided.
- Even fewer small company directors had cover (68%) and were less comfortable with the level of protection their liability insurance provides, at 44%.





Rising costs

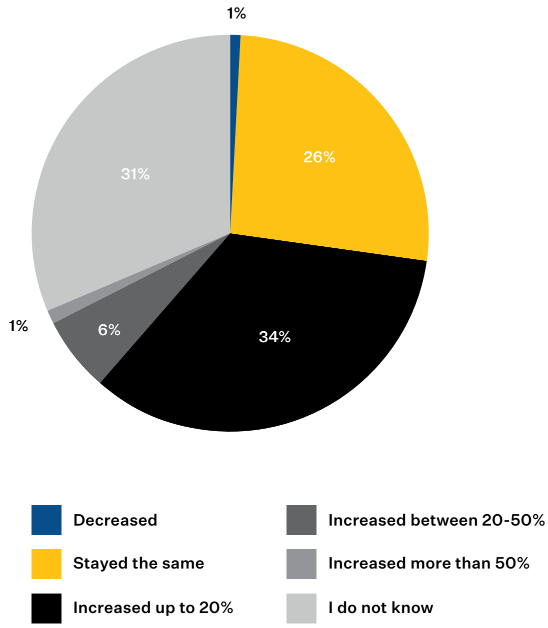
While satisfaction with insurance was low for the majority of directors surveyed, 41% said the cost had increased to some extent in the last 12 months.

Directors of publicly-listed companies were most likely to have increases in the cost of insurance with 78% seeing costs rise in the last year.

Although there was a similar proportion of publicly-listed company directors (36%) compared to all sectors (34%) that had increases of up to 20%, the proportion for listed company directors was much greater for increases of more than 20%:

- 34% of publicly-listed company directors said they had increases of between 20-50% (compared to all sectors, at 7%).
- While 8% had an increase of more than 50% (compared to all sectors at 1%).
- More than a quarter of directors (31%) didn't know whether the cost of their insurance had increased in the last 12 months. This was higher for not-for-profit directors (45%) and directors of government organisations (49%).

Question 7: Cost of Insurance



Australia and New Zealand are in the midst of the most volatile and restrictive Directors & Officers Liability (D&O) insurance market in its history–commonly known as a 'hard' market in the industry. This is not only affecting listed companies, but is flowing through to private companies and not-for-profit organisations. And there are no signs of things getting better anytime soon. *D&O insurance–Trends and issues in turbulent times* highlights key D&O insurance issues and trends.

QUESTION 9:

Governance issues

Insights from the survey about key governance matters facing directors, including notable sector variations.

Crisis management, disruption and long-term sustainability

- Given the pandemic situation it wasn't surprising to see the increase in the proportion of boards discussing crisis management plans in 2020 at 78% (up from 65% in 2019). However, it was surprising that 22% had not actively done so. Fewer small company boards (69%) had discussed crisis management plans, perhaps owing to the operational nature of smaller boards who may be focused more on doing than discussing.
- In 2020 a higher proportion of directors (60%) expect to see their industry affected by major/disruptive change, compared to 51% in 2018. This is higher for directors of government organisations and publicly-listed companies (both 69%).
- Almost three quarters (74%) of boards regularly consider the long-term sustainability of their business model. This is higher for medium-to-large private companies (79%) and publicly-listed companies (78%), but lower for small companies (67%).

Environmental and social issues

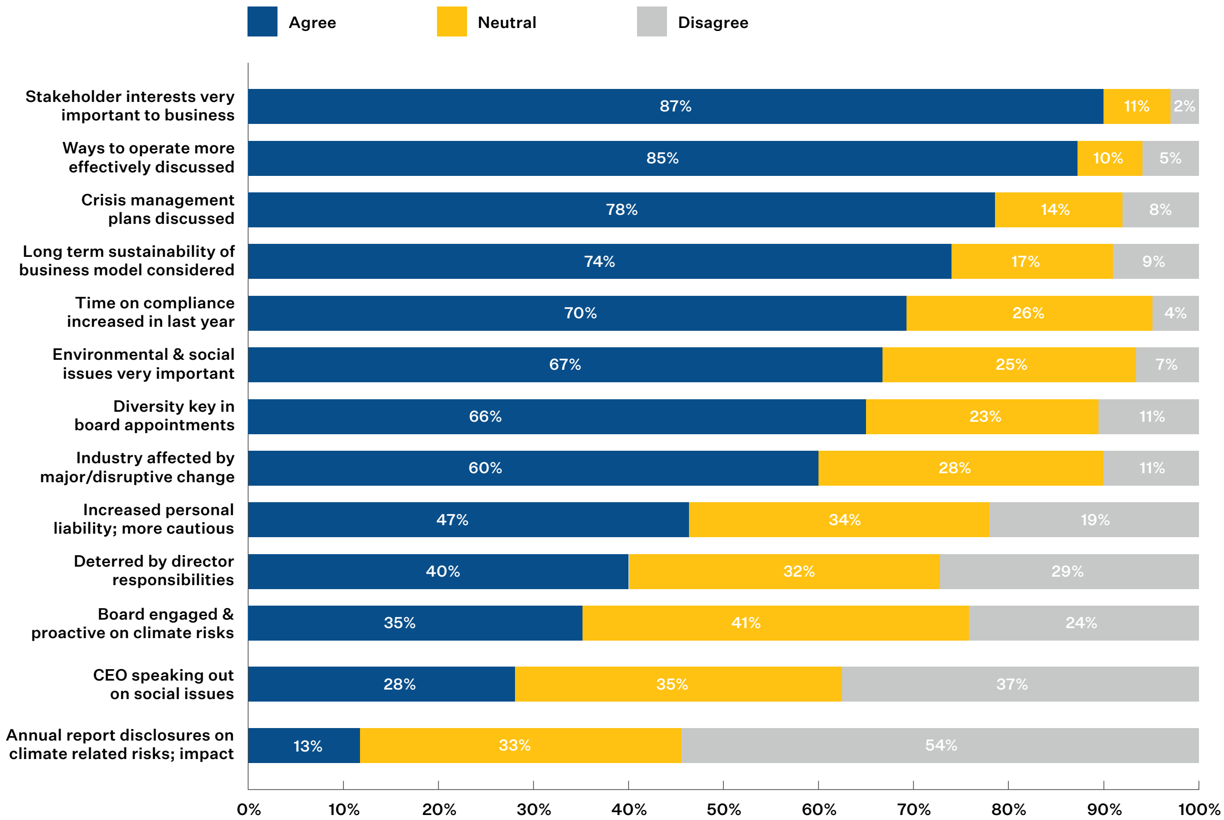
- Most directors (87%) said their board considers stakeholder interests are very important to their business.
- 67% of directors agree that environmental and social issues are very important to their business (this has ranged between 66% and 70% since 2017). This was higher for not-for-profit organisations (78%) and government organisations (74%), but lower for small companies and publicly-listed companies – both at 60%.
- Climate change is one of the key issues of our time, however just 35% of directors agreed their board is engaged and proactive on climate change risks and practices in their business. This is significantly higher for publicly-listed companies (52%), but lower for not-for-profits (30%).
- Thirteen percent of directors said that their latest annual report included disclosures on climate-related risks and/or the impact of climate change on their organisation. Again, this was significantly higher for directors of publicly-listed companies (42%), but lower for not-for-profits (7%).
- Just over a quarter (28%) of directors felt their CEO should speak out on social issues. This was much higher for not-for-profits (41%), but lower for publicly-listed companies (16%).

Compliance, risk and scope of director responsibilities

- Time spent on compliance activities continues to increase for the majority (70%) of directors (down from 80% in 2019). This was significantly higher for directors of publicly-listed companies (88%), but lower for not-for-profit board members (60%).
- For the second year in a row, nearly half of directors (47%) agreed that increased personal liability has made them more cautious in business decision-making. This was higher for directors of not-for-profits (51%), small companies (58%) and state-owned enterprises (56%). While lower for directors of government organisations (36%) and publicly-listed companies (38%).
- Consistent with last year, 40% of directors said that the scope of director responsibilities is more likely to deter them from taking on governance roles. This was higher for directors of publicly-listed companies (46%), but much lower for board members of not-for-profits (32%).

Board diversity and ways of operating

- Diversity of thought is critical for robust decision making in the boardroom, yet only two thirds of directors (66% up from 64% in 2019) were confident that consideration of diversity featured when making appointments to their board. This is higher for not-for-profits (75%) and government organisations (74%), but lower for medium-to-large private companies (61%) and small companies (63%).
- It is not surprising to see that a strong majority (85% up from 77% in 2019) of boards had discussed how to operate more effectively, for example using online meeting platforms. There was little variability across sector groups, except for small companies (79%).



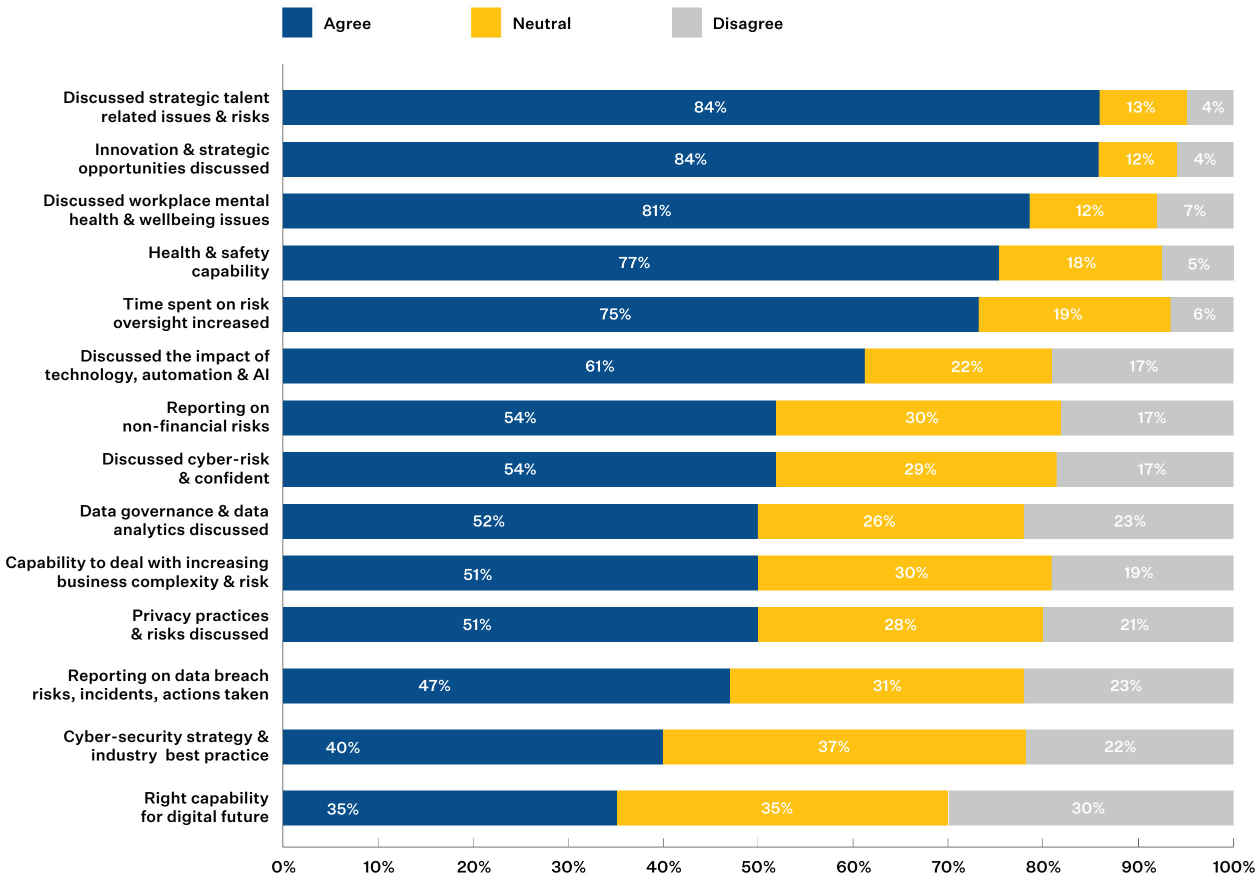
QUESTION 10:
Strategy and risk

Risk oversight

- A greater proportion (75% up from 71% in 2019) of directors said the time spent on risk oversight had increased in the last 12 months. This was higher for directors of state-owned enterprises (89%), and lower for directors of government organisations (67%).
- Board oversight of non-financial risks has been in the spotlight in recent years and it is critical that boards get the right information to properly monitor these risks. Yet, just 54% (down from 60% in 2019) of directors said their board had received comprehensive reporting from management on non-financial risks and had discussed actions to address them in the last 12 months. This was higher for directors of government organisations (72%) and state-owned enterprises (78%), but lower for directors of small companies (38%).
- In this year's survey 54% of boards reported regularly discussing cyber-risk and being confident of their ability to respond to a cyber-attack or incident. This is up only slightly from 50% in 2019. This was higher for medium-to-large private companies (65%) and publicly-listed companies (68%), while much lower for not-for-profits (35%).
- Forty-seven percent of directors (up from 41% in 2019) were confident that their board receives comprehensive reporting from management about data breach risks and incidents, and the actions taken to address them. This was higher for government organisations (55%), state-owned enterprises (56%), and publicly-listed companies (66%), while lower for not-for-profits (33%).
- Just over half (51% up from 43% in 2019) of directors agreed their board regularly discusses their organisation's privacy practices and risk. This was higher for not-for-profits (59%), while lower for small companies (45%).

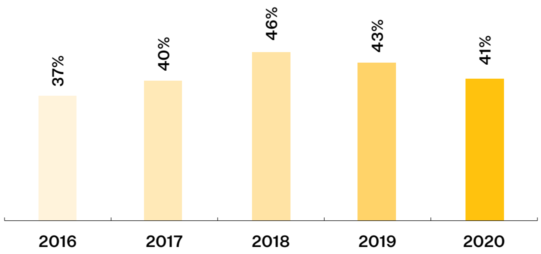
Board capability

- Similar to last year, half (51% and 50% in 2019) of boards said they had the right capability to deal with increasing business complexity and risk. This was slightly higher for publicly-listed companies (58%) and much higher for state-owned enterprises (78%).
- Although up slightly (35% compared to 33% in 2019) still only a third of directors said their boards had the right capability to lead their organisations' digital future. This is higher for small companies (45%) and state-owned enterprises (44%), while much lower for not-for-profits (25%).
- Health and safety continues to be a key priority for boards. There was a lift in the proportion of directors (77% up from 68% in 2019) who said their boards have the right capability to comply with director obligations under the Health and Safety at Work Act. This was higher for medium-to-large private companies (83%), state-owned enterprises (83%), and publicly-listed companies (80%), but lower for not-for-profits (67%).


Agree
Neutral
Disagree
Discussed strategic talent related issues & risks
84%
13%
4%
Innovation & strategic opportunities discussed
84%
12%
4%
Discussed workplace mental health & wellbeing issues
81%
12%
7%
Health & safety capability
77%
18%
5%
Time spent on risk oversight increased
75%
19%
6%
Discussed the impact of technology, automation & AI
61%
22%
17%
Reporting on non-financial risks
54%
30%
17%
Discussed cyber-risk & confident
54%
29%
17%
Data governance & data analytics discussed
52%
26%
23%
Capability to deal with increasing business complexity & risk
51%
30%
19%
Privacy practices & risks discussed
51%
28%
21%
Reporting on data breach risks, incidents, actions taken
47%
31%
23%
Cyber-security strategy & industry best practice
40%
37%
22%
Right capability for digital future
35%
35%
30%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

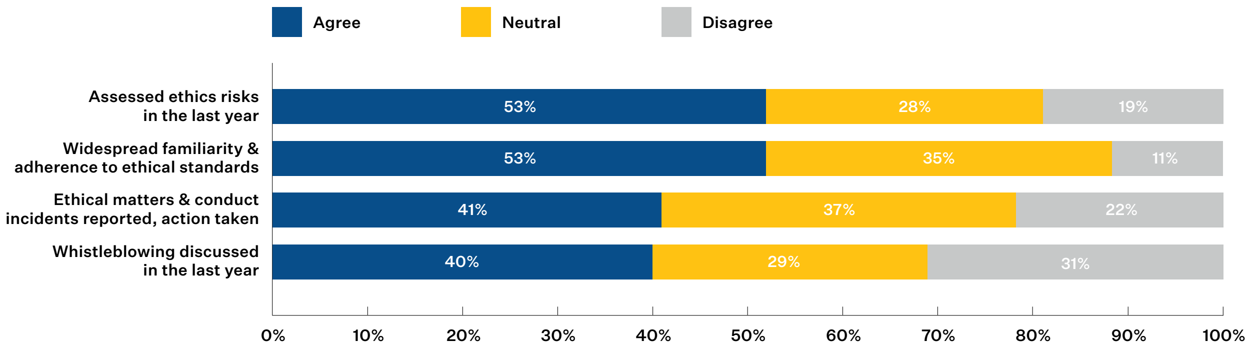
QUESTION 11:

Ethics, culture and conduct



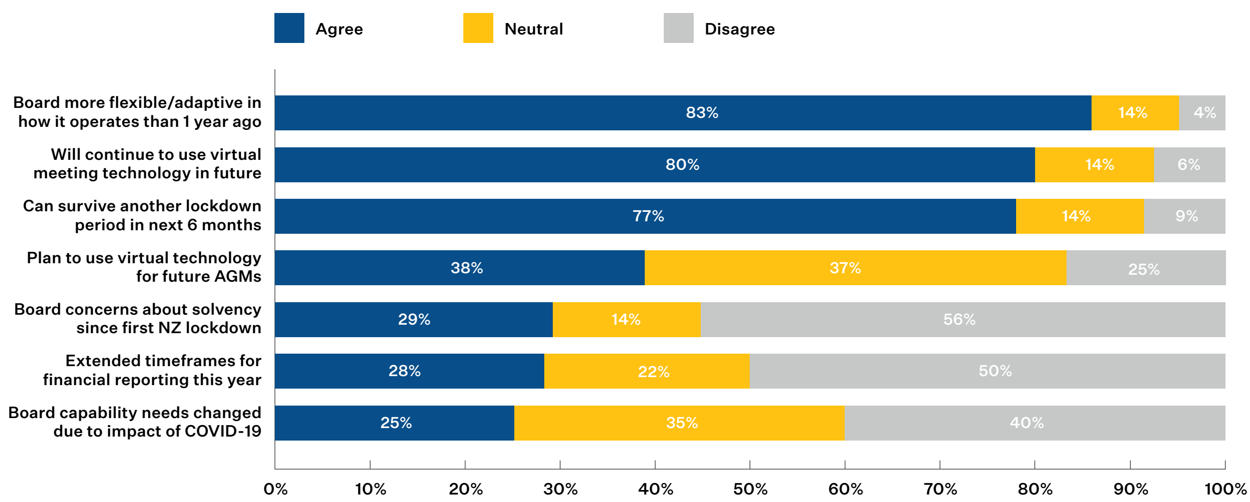
Ethical matters and conduct incidents reported, action taken

- It is critical that all boards have the information they need to assess and monitor ethical matters and conduct risk on a regular basis. However, only just over half of directors (53% similar to 54% in 2019) agreed their board has assessed ethics risks.
- While less than half (41%) agreed that they receive comprehensive reporting from management about ethical matters, conduct incidents, and the actions taken to address them. This is down from 43% in 2019 and 46% in 2018 - a concerning trend. In 2020 a higher proportion of boards of government organisations (52%) and publicly-listed companies (46%) received comprehensive reporting. However, this was lower for small companies (33%).
- For the second time in five years there has been a slight lift in the proportion of directors who are confident that their board, staff, business partners and supply chains are familiar with and adhere to the organisation's ethical standards (53% up from 51% in 2019 and 48% from 2016 to 2018).
- This year, 40% of boards (35% in 2019) reported discussing the effectiveness of whistleblowing and 'speak up' provisions. This was higher for government organisations (64%), state-owned enterprises (61%) and the highest group was publicly-listed companies (74%). While results were significantly lower for not-for-profit organisations (29%) and small companies (25%).
- Just over half (53%) of boards had assessed ethics risks (similar to 54% in 2019). This was higher for not-for-profit organisations (57%), government organisations (59%) and publicly-listed companies (58%), but lower for medium-to-large companies (48%).



QUESTION 12:
Impact of COVID-19 global pandemic

- The majority of boards (83%) said they were more flexible/adaptive in how they operate now than 12 months ago. This was even higher for not-for-profit organisations at 91%, but lower for small companies at 76%.
- Following the shift to virtual meetings due to lockdown and social distancing requirements, the majority of boards (80%) reported that they will continue to use virtual meeting technology in the future.
- Just over a third (38%) said that they plan to use virtual technology for future AGMs (including hybrid AGMs). However, this was significantly higher for publicly-listed companies at 68%.
- Twenty-eight percent of directors said their board utilised or will utilise extended periods for financial reporting this year. This was higher for the public sector at 43% for government organisations and state-owned enterprises, (44%).
- A quarter of directors (25%) said that the capability needs of their board had changed due to the impact of COVID-19 on their operating environment.
- More than three quarters of directors (77%) are confident that their organisation can survive another Alert Level 3 or 4 lockdown period (eg of two to four weeks) in the next six months. This was marginally lower for not-for-profit organisations (75%), and still lower for small companies (70%).
- Over a quarter (29%) of boards have had concerns about the solvency of their organisation since the first national lockdown. This was higher for small companies (36%).



SURVEY QUESTIONS AND RESULTS

The online survey was conducted from 1 October to 20 October 2020. Results are summarised from 914 responses. Not all questions were answered by all respondents (the average skip rate per question for the 2020 survey was 4.6%. Percentages may not add to 100% due to rounding.

Q1. In what way has COVID-19 affected the performance of your organisation this year?

Improve	22%
No Effect	18%
Decline	60%

Q2. How do you expect the performance of the New Zealand economy to trend in the next 12 months?

Improve	24%
No Change	13%
Decline	63%

Q3. How do you expect the performance of your organisation to trend in the next 12 months?

Improve	50%
No Change	28%
Decline	22%

Q4. What, in your view, are the biggest impediments to national economic performance? (you can choose up to three)

Labour quality and capability	32%
Productivity	21%
Infrastructure	20%
Regulatory red tape	31%
Lack of strategy	31%
Market volatility	15%
Global growth / uncertainty	50%
Attitude / ambition	15%
Commodity prices	3%
Concentration risk	1%
COVID-19 impact	55%
Climate change	8%

Q5. What, in your view, is the single biggest risk facing your organisation?

Labour quality and capability	14%
Technological disruption	5%
Competition	5%
Regulatory red tape	12%
Demand	12%
Local growth	5%
Global growth / uncertainty	12%
Cost of capital / availability	4%
Governance	3%
Commodity prices	2%
COVID-19 impact	26%
Climate change	1%

Q6. Do you have director liability insurance?

Yes	79%
No	21%

Q7. In the past 12 months has the cost of your insurance?

Decreased	1%
Stayed the same	26%
Increased by up to 20%	34%
Increased by between 20% to 50%	6%
Increased more than 50%	1%
I don’t know	31%

Q8. Please indicate whether you agree or disagree with the following statement:

	Agree	Neutral	Disagree
I am comfortable with the level of protection my director liability insurance provides.	46%	47%	7%

Q9. 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.	70%	26%	4%
The scope of director responsibilities is more likely to deter me from taking on governance roles now than 12 months ago.	40%	32%	29%
Increased personal liability has made me more cautious (risk adverse) in business decision making in the last 12 months.	47%	34%	19%
Diversity is a key consideration in making board appointments.	66%	23%	11%
I think my industry will be affected by major/ disruptive change in the next 2 years.	60%	28%	11%
My board regularly (at least every two years) considers the long term sustainability of our business model.	74%	17%	9%
My board considers environmental and social issues are very important to our business.	67%	25%	7%
My board considers stakeholder interests are very important to our business.	87%	11%	2%
In my view the CEO should speak out on social issues beyond the business of the organisation (e.g. income inequality, housing, trust and racism).	28%	35%	37%
My board has discussed crisis management plans (e.g. in the case of natural disaster, emergency CEO, viral social media incident) in our organisation in the last 12 months.	78%	14%	8%
My board is engaged and proactive on climate change risks and practices in our business.	35%	41%	24%
Our latest annual report included disclosures on climate related risks and/or the impact of climate change on our organisation (eg using the TCFD or other frameworks).	13%	33%	54%
My board has discussed how it can operate more effectively (e.g. by using technology or adjusting board processes) in the last 12 months.	85%	10%	5%

Q10. Please indicate whether you agree or disagree with the following statements about strategy and risk oversight in your organisation:

	Agree	Neutral	Disagree
The time my board spends on risk oversight has increased in the last 12 months.	75%	19%	6%
My board receives comprehensive reporting from management about non-financial risks (e.g. culture, reputation, social media), and has discussed actions to address them in the last 12 months.	54%	30%	17%
My board has the right capabilities (skills and experience) to deal with increasing business complexity and risk.	51%	30%	19%
My board has the right capability (skills and experience) to lead our organisation's digital future.	35%	35%	30%
My board has the right capabilities (skills and experience) to comply with director obligations under the Health and Safety at Work Act.	77%	18%	5%
In the last 12 months my board has discussed workplace mental health issues.	81%	12%	7%
My board regularly discusses cyber-risk, and is confident our company has the capacity to respond to a cyber-attack or incident.	54%	29%	17%
My board has a clear picture of our organisation's overall cyber-security strategy and how it relates to industry best practice.	40%	37%	22%
In the last 12 months my board has discussed data governance and the use of data analytics to drive performance and strategic opportunities.	52%	26%	23%
My board regularly (at least annually) discusses the organisation's privacy practices and risks.	51%	28%	21%
My board receives comprehensive reporting from management about data breach risks and incidents, and the actions taken to address them.	47%	31%	23%
My board regularly (at least annually) discusses innovation and strategic opportunities.	84%	12%	4%
In the last 12 months my board has discussed the impact of technology, automation and/or artificial intelligence (AI) on our organisation, our workforce and our future skills needs.	61%	22%	17%
In the last 12 months my board has discussed strategic talent related issues and risks, such as employee engagement, performance and retention.	84%	13%	4%

Q11. Please indicate whether you agree or disagree with the following statements about ethics, culture and conduct in your organisation:

	Agree	Neutral	Disagree
My board has assessed ethics risks in our organisation in the last 12 months.	53%	28%	19%
My board receives comprehensive reporting from management about ethical matters and conduct incidents, and the actions taken to address them.	41%	37%	22%
I am confident that our board, staff, business partners and supply chains are familiar with and adhere to our organisation's ethical standards.	53%	35%	11%
My board has discussed whistleblowing, and how the organisation makes speak-up provisions effective in the last 12 months.	40%	29%	31%

Q12. Please indicate whether you agree or disagree with the following statements about the impact of the COVID-19 global pandemic on your board:

	Agree	Neutral	Disagree
My board is more flexible/adaptive in how it operates (eg how and when it meets) now than it was 12 months ago.	83%	14%	4%
My board (and/or committees) will continue to use virtual meeting technology in the future due to our experiences this year.	80%	14%	6%
My board has utilised (or will utilise) extended time frames for financial reporting this year.	28%	22%	50%
My board plans to use virtual technology for future AGMs (including for hybrid AGMs).	38%	37%	25%
Since the first national lockdown my board has had concerns (at some point) about solvency of the organisation.	29%	14%	56%
My board is confident our organisation can survive another Level 3 or 4 lockdown period (eg of 2-4 weeks) in the next six months.	77%	14%	9%
The capability needs (skills and experience) of my board have changed due to the impact of COVID-19 on our operating environment.	25%	35%	40%

Q13. 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):

Medium-to-large private company (>$10 million turnover or 20+ employees)	41%
Not-for-profit organisation (NFPs)	22%
Small company (<20 employees)	19%
Government organisation	7%
Publicly-listed company	6%
State-owned enterprise (SOE)	2%
Subsidiary of a publicly-listed company	1%

CONTACTS

About the Institute of Directors

The IoD is New Zealand's pre-eminent organisation for directors and at the heart of the governance community. We believe in the power of governance to create a strong, fair and sustainable future powered by best practice governance.

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.

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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ISSN 2624-2699

December 2020

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