New Zealand boards and frontier firms

August 2020

Jo Smith & Sally Garden

SUPPORTED BY

The New Zealand Productivity Commission
Te Kōmihana Whai Hua o Aotearoa[1]

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How to cite this document: Jo Smith and Sally Garden (2020) New Zealand boards and frontier firms. New Zealand Productivity Commission. Working Paper 2020/02. Available from **www.productivity.govt.nz**

Date: August 2020

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ISBN: 978-1-98-851952-4

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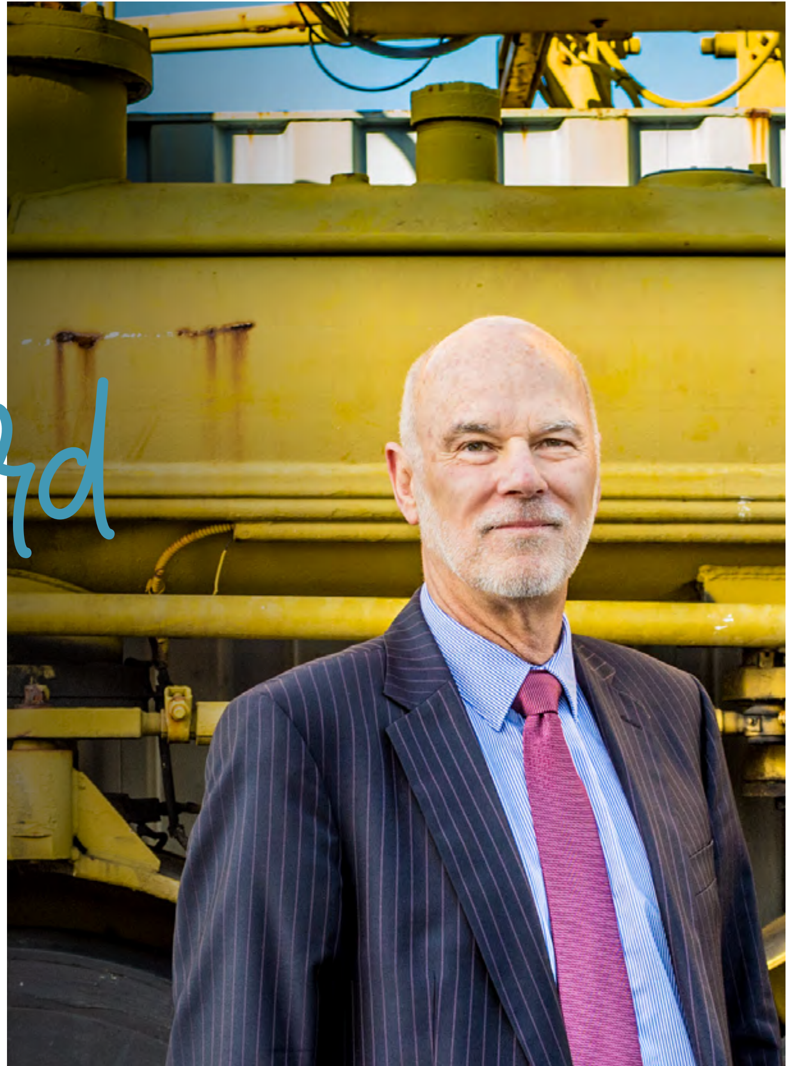
The images in this report are not from the firms that took part in this study. They represent the concepts of frontier firms and governance.

[1] The Commission that pursues abundance for New Zealand.

Foreword



The importance of firm governance is often under-played in discussions about productivity. But the way firms are governed and managed plays a critical role in their ability to achieve their own aspirations, as well as their contribution to New Zealand's wider economic performance.

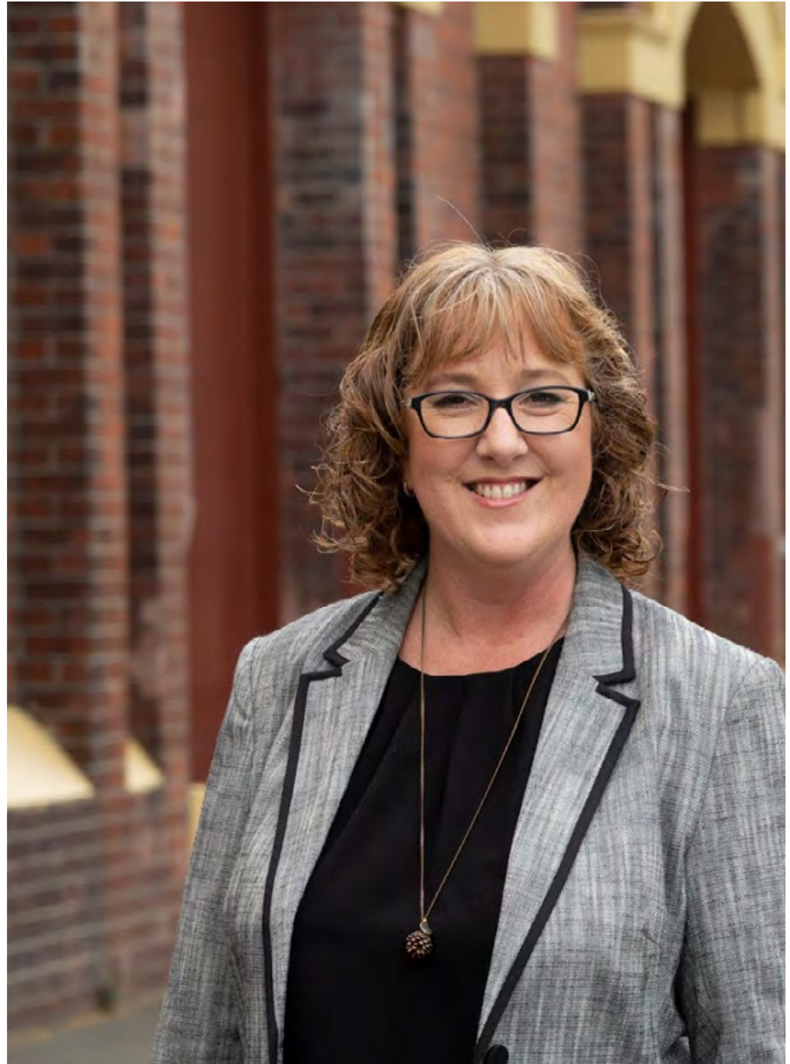
This Productivity Commission study sheds new light on the role of boards, the challenges they face, and ways that skilful boards can navigate through these to help their firms succeed. I invite company directors to consider these findings, and hopefully take away new ideas about how they can support Kiwi firms to be ambitious and innovative.

This work also represents a new approach to research by the Commission. Using qualitative methods has allowed us to "get behind the numbers" of New Zealand's productivity narrative.

I would like to thank all the directors who participated in the interviews, particularly at such a busy and challenging time for New Zealand firms. Their insights have added a rich evidence source to the Commission's frontier firms inquiry.

My thanks, also, to the Institute of Directors for inviting their members to participate, and for their helpful feedback and reference material provided.

Murray Sherwin
Chair, Productivity Commission
August 2020



Good governance has the power to transform our organisations, communities and country. Lifting the performance of New Zealand firms is vital for our future.

In a landscape where nothing is certain we can be sure that it is essential to look at how we can build and scale up innovation, how we drive productivity and how governance needs to support high performing New Zealand firms.

This report captures the wisdom of directors on how boards should, and must, operate effectively to help empower their organisations to succeed. Having an ambitious, long-term vision and strategy and understanding an organisation's true purpose were thought to be one of the key roles for the board. And the need for boards to evolve through a firm's lifecycle means that directors must always be "on", always curious, and ready themselves to adapt and move forward with fresh thinking.

Being a director is both a privilege and a challenge and should not be taken lightly. The Institute of Directors is proud to support directors and the governance community and to help them meet strong standards of governance. We are delighted to join forces with the Productivity Commission in producing and promoting this important report on the role of boards in lifting New Zealand's productivity frontier.

Kirsten Patterson
Chief Executive, Institute of Directors
August 2020

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Key points

This paper presents the findings from in-depth interviews with 22 executive and non-executive/ independent directors of New Zealand firms. Collectively, these directors have governance roles across many dozens of firms and experience across the spectrum of business performance.

- The discussions explored the role of boards in firms' decisions around growth, scale-up, innovation and internationalisation – all of which are associated with higher productivity and are characteristics of frontier firms.
- The findings offer insights into what the boards of frontier firms look like and how they operate. High-performing boards will have the right diversity of thinking, skills and experience around the table. Directors with commercial, industry/domain and international experience are important, but are thin on the ground in New Zealand. Soft skills are also vital.
- A good Chair is key to a successful board. An effective Chair can facilitate open and respectful dialogue and manage a diversity of voices to enable decisions to be made. They also ensure the board avoids getting into day-to-day matters that are best left to management, instead focusing on strategy and the long-term development of the company.
- The role of the board evolves through a firm's lifecycle. In early-stage firms, board members will be more hands-on, working alongside management and providing practical advice. In more mature firms, the board's role is more about providing constructive challenge to management – being a "critical friend". At every stage, it is important that the board and management share the same aspirations for the company.
- The most important decision the board makes is appointing the CEO. Many firms reach a point in their growth when the founder/owner needs to be moved out of the Managing Director role, and a professional CEO appointed. A common problem is leaving this too late, and this can inhibit a firm's growth and performance.
- There were mixed views on attitudes to risk-taking, and whether or not boards are becoming more risk averse. The composition of boards may be holding back firms' risk appetites – having a preponderance of people from accounting and legal backgrounds may foster a focus on preserving value and avoiding failure, rather than on growing value.
- Views on the compliance burden facing boards were divided. Most of those seeing a growing compliance burden were in industries subject to financial markets regulation, though general compliance duties can also crowd out more strategic matters from board agendas.
- This study corroborated many of the factors thought to underlie New Zealand's relatively weak productivity performance. The interviews highlighted the significance of the small scale of the New Zealand market, the lack of vigorous domestic competition, and weak international connections.
- Boards can play an important role in helping their firms overcome these challenges. Internationally experienced directors can help firms avoid common missteps when expanding into overseas markets. They can also connect firms with investors, to access they capital they need to grow.
- Boards can also spur innovation, through supporting greater (well-calculated) risk-taking, and bringing a long-term view to strategic investments.

Part 1

Introduction

About this study

The Productivity Commission is conducting an inquiry into New Zealand's "frontier firms". These are the most productive firms in the economy, and the Commission is examining how their economic contribution can be maximised, through their own performance and the way they diffuse new technologies and business practices to other domestic firms. As part of its inquiry process, the Commission is investigating the role of corporate governance in lifting the performance of New Zealand firms.

This paper presents the findings from in-depth interviews with 22 executive and non-executive/independent directors of New Zealand firms. Participants were recruited from the Institute of Directors' (IoD) membership. The study design was assessed and approved by the New Zealand Ethics Committee (NZEC20_12). More detail on the research design is provided in the Appendix.

The discussions focused on how boards make decisions that would foster growth, scale-up, innovation and internationalisation – all of which associated with higher productivity and are characteristics of frontier firms. The aim of the interviews was to generate new insights about how current corporate governance practices are supporting or impeding the productivity of New Zealand firms.

A companion paper to this report considers the management and governance capabilities required to foster the productivity and global competitiveness of New Zealand firms (Brown & Teece, 2020).

> **"The business environment has changed enormously. But our level of business model innovation has not been matched in the way we operate our boards. There has been little innovation in board practice and it is demonstrably falling short of being enough. Boards need to embrace risk-taking innovation in the board process accepting some ideas will fail. Innovation includes adjusting the levers of process to make the best use of time and resources."**

Michael Smith, Chair of 7-Eleven Australia, speaking at the New Zealand Institute of Directors 2019 Leadership Conference

Participating directors

Participants were very experienced directors, with a broad range of experience across different types of firms. Their collective current and past experience spanned many dozens of firms.

Of the 22 directors interviewed, 13 had experience working with start-up firms, 16 with publicly listed companies, and 14 with high-growth firms. Director experience also included co-operatives and State-owned Enterprises (SOEs), as well as not-for-profits and purpose-driven organisations. Twelve of the interviewees had experience as a CEO, and 19 as a board Chair. Several interviewees had experience on advisory boards, in addition to formal governance roles, and some owned/operated their own companies as well. Five of the participants were women.

The experience of the directors interviewed covered a wide diversity of industries and sectors, including agriculture, horticulture, forestry, seafood, manufacturing (including high-tech manufacturing), construction, utilities, transport, retail, healthcare, software, financial services, and other professional services. Fifteen of the directors interviewed had experience with exporting firms, 12 had experience setting up offshore activities, and half had themselves worked overseas at some point in their career. Participants' past and present experience included governance and advisory roles in highly successful, innovative companies (with characteristics of frontier firms) as well as with struggling firms and unsuccessful business ventures.

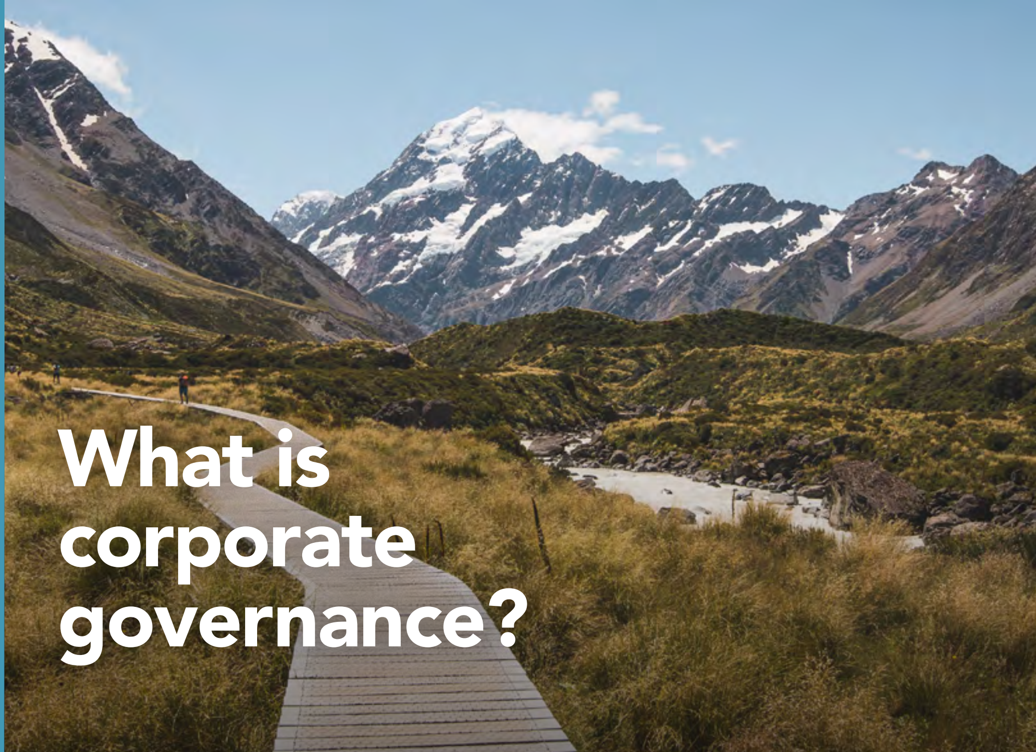
Two of the directors had governance experience with Māori business entities. Other work undertaken for the frontier firms inquiry will provide insights on Māori enterprises, including research by Professor Jarrod Haar (forthcoming).

Structure of this paper

The next part of this paper outlines the role of boards, and New Zealand's corporate governance framework. The following parts describe several themes that emerged from the interviews, covering participants' views on the role of the board, what makes an effective board, how strategic decisions are made and challenges facing New Zealand boards (parts 3-6). The final part considers the implications of these findings for lifting the productivity performance of New Zealand's firms.

Image supplied by: The Icehouse

Part 2



What is corporate governance?

The role of corporate governance

> *"The purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies."* (OECD, 2015, p. 7)

Corporate governance provides direction and control to help companies and organisations achieve their purpose. The current corporate governance model puts the board chiefly in a monitoring and oversight of compliance role. In this role, the board acts to guard shareholder interests against potentially self-interested managers. This focus on the monitoring role of boards emerged out of a desire to provide constraints on managerial malfeasance (a concern that was amplified by high-profile governance failures such as Enron and Lehman Brothers) (Barker & Chiu, 2018).

The board of directors therefore provides independent oversight of the organisation's performance, as well as compliance with legal obligations. The board is also responsible for setting company strategy and risk appetite, as well as monitoring risks.

There is an inherent tension between the roles of monitoring (control and accountability), and strategy-setting, entrepreneurial innovation and risk-taking (Taylor, 2003).

> **A board that is overly focused on its monitoring role, or on financial performance, may lean against entrepreneurial spirit, stifle investment in R&D and encourage managerial myopia.**

While a short-term focus might incentivise incremental innovation, it may inhibit radical innovation (that is riskier and requires a longer investment time horizon).

A recent New Zealand study concluded that "the key board objectives of strict adherence to regulation, control over management and the short-term welfare of shareholders, are to the potential detriment of strategy, innovation and performance, and the long-term goal of value creation" (Carroll et al., 2017, p. 616).

One of the particular motivations for this study was to explore the concern voiced in other research about a growing compliance burden on boards. Various studies have suggested that increasing legislative obligations, including personal director liability, and new regulatory requirements, are placing undue primacy on the monitoring and compliance role of boards. This is reportedly crowding out the time boards spend on strategy and long-term performance, and contributing to a culture of risk-aversion (Australian Institute of Company Directors & The University of Sydney, 2019; Barker & Chiu, 2018; Bolger et al., 2019; Institute of Directors & ASB, 2019).

The challenge of balancing day-to-day monitoring and compliance activities, with sustainable long-term value creation, has been dubbed "the directors' dilemma".

The New Zealand corporate governance framework

The New Zealand corporate governance framework comprises a suite of legislation, codes and voluntary guidelines.

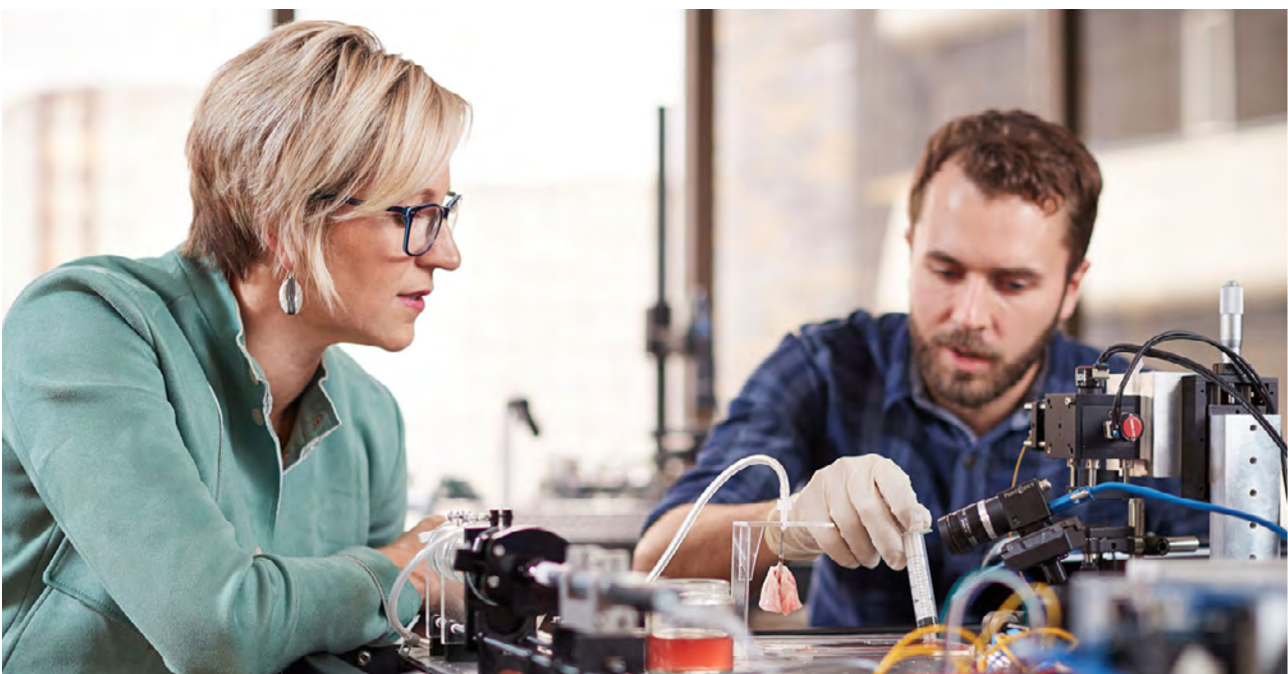
The main piece of legislation governing the operation of companies, and the responsibilities of their directors, is the Companies Act 1993. Other statutes apply depending on organisational form, such as the Incorporated Societies Act 1908, Te Ture Whenua Māori Act 1993, the Māori Trust Board Act 1955, the Trusts Act 2019, the Crown Entities Act 2004 and the Limited Partnerships Act 2008.

Under the Companies Act, the key duties of a director towards their companies include acting in good faith and in the best interests of the company, and a duty of care which requires directors to have an active interest in and understanding of the company. The consequences of directors failing to carry out their duties under the Act can be significant, including criminal sanctions, personal liability and disqualification.

Listed companies are subject to the NZX Listing Rules (supported by the NZX Corporate Governance Code) and the Financial Markets Conduct Act 2013.

Of particular importance for directors of listed companies are the continuous disclosure requirements of the NZX Listing Rules. These require that any material information about the issuer or its financial products must be disclosed promptly and without delay. Issuers who breach the continuous disclosure requirements are subject to civil sanctions. While directors do not face primary personal liability for breaches, they may be liable as accessories to a breach (Capital Markets 2029, 2019; NZX, 2019, 2020).

In addition, directors have legal duties and liabilities under various pieces of legislation with general application (eg, the Health and Safety at Work Act 2015, or the Fair Trading Act 1986). Some also have duties and liabilities under legislation relating to specific industries (eg, the Food Act 2014, the Financial Markets Conduct Act 2013). As well as these various pieces of legislation, directors can also be exposed to personal liability to third parties under common law, if they fail to carry out their duties (Institute of Directors, 2018).



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Part 3

The role of the board

We asked directors what they considered to be the essence of the board's role, and whether this changes over a firm's lifecycle.

The board's purpose is long-term value creation

Most directors interviewed were clear that the board exists to ensure long-term value creation and sustainability of the firm. To this end, most directors thought that boards should have an ambitious, long-term vision and strategy for the growth and development of the company. It is important that these aspirations are shared by both board and management.

Awareness is growing around the value of purpose-driven organisations – and the importance of understanding your firm's "why" (Simon Sinek was mentioned several times – see Box 1 on p.10). However, directors had mixed views on the extent to which the board is responsible for directly setting strategy, as opposed to helping management shape and adjust it.

Appointing the CEO is the most important decision

Participants said that the single most important decision a board makes is appointing the CEO.

> *"As Chairman of a board, the thing you need to get right is to have the right CEO. That makes all sorts of things possible. With the wrong CEO, most good things are impossible."*

On the flipside, is the need to exit the CEO if they are not performing or well-matched to the company.

> *"Getting the right CEO is absolutely critical. Exiting a CEO is not a pleasant position to be in… But if you don't have the right individual you need to move early… in New Zealand we tend to tarry too long with unproductive executives (and unproductive directors)."*

Other important roles of the board

Directors told us that a critical role of the board is providing access to capital – both through personal expertise and networks and being able to "have the right conversations" with investors.

Other important roles are succession planning and setting the culture of the organisation (eg, setting moral boundaries) and determining risk appetites (discussed further on p. 19). Directors have a responsibility to uphold and model the ethics and values of the organisation.

The board's role evolves with the firm

Participants described how the board's role evolves through a firm's life cycle.

- In early-stage/start-ups, board members will be more hands-on – working alongside management and providing practical advice. The boundary between governance and management can therefore be somewhat blurry in early-stage firms. Directors need to understand the systems and processes required, and how to "right-size" these for the firm.
- In larger, more mature companies, the board's role is more about providing constructive challenge to management – being a "critical friend" by "seeing what management doesn't see" and asking the difficult questions. Directors should be actively interested and engaged in the firm, without stepping into management – being "noses in, fingers out".

Box 1 What's your "why"?

A number of the directors noted the importance of an organisation or firm having "a why", with several explicitly referencing Simon Sinek's well-known book and viral TED talk "Start with Why".

Sinek focuses on the importance of organisations being clear about why they do what they do – what their purpose is. He argues that having a "why" should be the first and central focus for firms. Sinek contends that only when organisations or companies are clear about their purpose can they then articulate a compelling differentiating value proposition ("how") and create a truly succesful final offering ("what"). This progression is illustrated by what Sinek terms "The Golden Circle", and he emphasises that truly successful organisations (and business leaders) move from the inside of the circle out.

Sinek famously uses the example of Apple to illustrate this progression. He contends that Apple's "why" is clear, and clearly communicated – it believes in challenging the status quo and thinking differently. This flows to its "how" (making beautifully designed and user-friendly products), and its "what" (great computers). Apple's products consequently resonate with consumers, and the company's purpose also motivates its employees to innovate and continue to deliver on it.

> *"[The Golden Circle] can be used as a guide to vastly improving leadership, corporate culture, hiring, product development, sales, and marketing. It even explains loyalty and how to create enough momentum to turn an idea into a social movement" (Sinek, 2009a, pp. 38–39).*

Source: (Sinek, 2009a, 2009b).

Part 4

What makes an effective board?

Directors described the attributes of an effective board, including its composition and behaviours.

Diversity of perspectives

A very strong theme from the interviews was that to be successful, boards must have diversity of thinking, skills and experience. This is not about quotas, but about having a broad range of expertise, experience, perspectives and mindsets, to avoid getting stuck in a particular way of thinking. However, boards often recruit who they know, so end up with more people like themselves.

> *"Often the reason businesses do not do well is a lack of diversity of thought around the boardroom table. That makes it hard to have a blue-sky thinker. People get entrenched in their views, in group think. They need to be open to challenge. Diversity is not just tokenism, it changes the culture of the board."*

It can take a "critical mass" of around three people with diverse views to achieve cut-through of traditional thinking. These findings are consistent with those from other research (see Box 2 on p.13). Board Chairs play an important role in managing diversity of views (discussed on p. 14).

The total number and mix of directors can change over a firm's lifecycle.

> *"Every board needs a diversity of relevant skills, and a diversity of mindsets and perspectives Often, with a start-up, it will have a more concentrated set of skills because you're just focused on getting it done, getting it going, and want to learn as you go along. So, you want a set of skills and perspectives that are particularly relevant to what you're doing – for example, horticulture experience in a horticulture business. But then as you get bigger, you want to draw in other sorts of governance skills as well."*

Commercial experience

Directors with business and general life experience (a few "scars on their back") are essential. This includes people who have been through challenges and even failed ventures, as they know what to do in difficult circumstances (such as supporting firms through Covid-19). Having people with prior executive experience is also valuable.

Having some younger or less experienced directors working alongside experienced directors can bring different skills and insights, and this is important for growing the next generation of leaders.

Other important skills and experience

Other important skills and experience on a board include: capital raising skills and networks; industry/domain expertise; and international experience.

> *"Having New Zealand-based directors with global experience – either because of their executive careers or their own businesses or directorships really does help."*

Having access to the full range of skills and experience is important, but an individual director's skills should not be "too niche" or their ability to make an effective contribution to other aspects of governance will be limited. And boards should not be compensating for skill gaps in the firm's senior management team. In many cases generic corporate experience can be more valuable than very specialist skills, some of which can be brought in via external advisors as needed.

The composition of the board should be structured around the company's strategy. The types of directors and particular skills and experience needed will therefore evolve through the firm's lifecycle, so the board needs to be periodically reviewed (and refreshed as necessary).

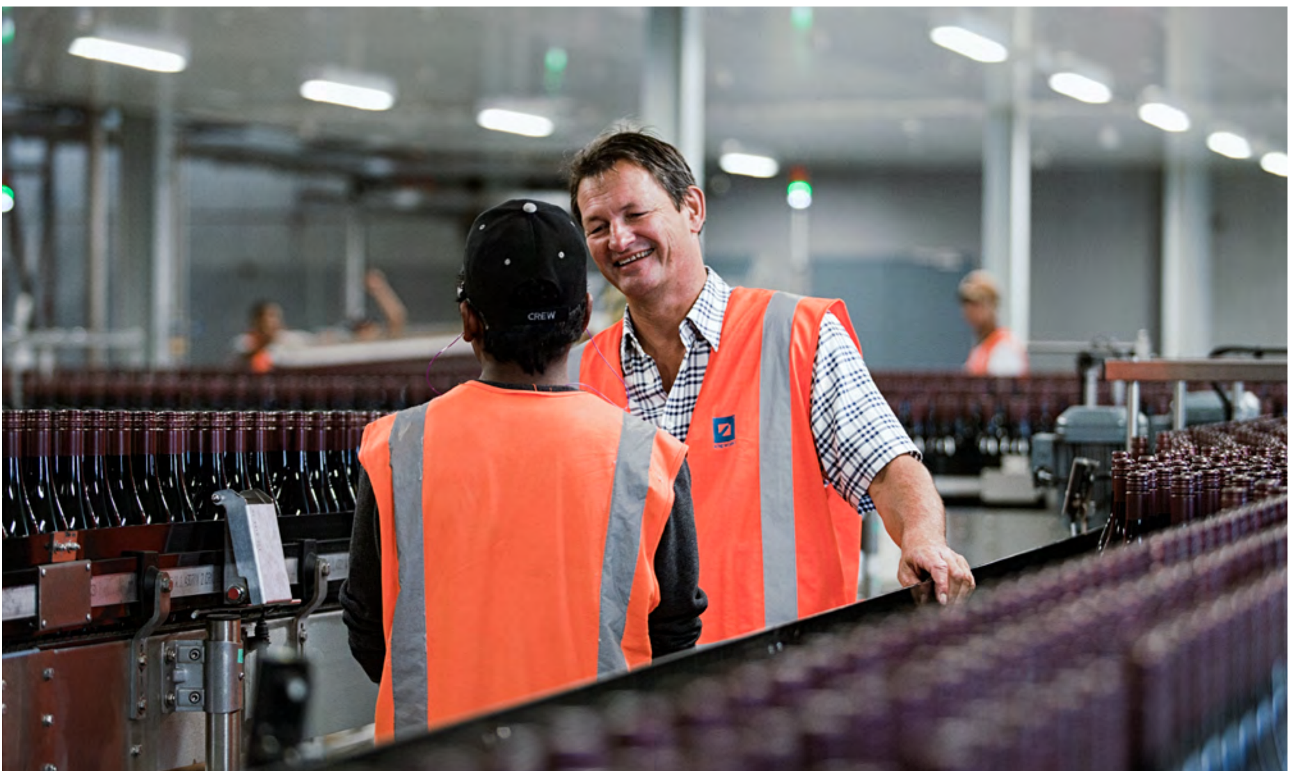


Image supplied by: The Icehouse

Box 2 What the literature says about diversity

Most academic research on board diversity focuses on "observable" characteristics, with most focusing on gender, and some on ethnicity, and to a lesser extent age.

A consistent theme in the international research is that board diversity can have both benefits and drawbacks. Heterogeneity in groups can impede fluid and frequent communication, and introduce divergence in opinions that can lead to more conflict. On the flip side, a key benefit is that diversity of opinion, perspectives, and experience adds richness to decision making, and can prompt boards to consider innovative solutions they may not otherwise have contemplated. This has sometimes been referred to as the "double-edged sword" of diversity (see, for example Horwitz & Horwitz (2007)).

Several studies have found that minorities are easily marginalised when their presence in a larger group is modest, and that there must be a "critical mass" of minority members before benefits to firm performance are achieved. For example, Joecks et. al (2013) found the initial impact of gender diverse German boards on firm financial performance to be negative, but once a board is made up of about 30% women the relationship becomes positive. These findings are supported by other studies that find that as minority directorship on the board increases, the effect on firm performance strengthens (Conyon & He, 2017; Liu et al., 2014).

When assessing which aspects of diversity offer the greatest benefits to boards, it appears that the less easily observable attributes may provide the greatest advantage. A "functionally diverse" board is one that contains members with a broad range of perspectives and characteristics, influenced by their respective backgrounds, experience, education, values and social connections.

Goyal et. al (2019) study of FTSE 350 boards found that functionally diverse boards are more effective because:

- They have a better-quality overall skillset and richer intellectual capital, which helps them to deal with a wider range of eventualities in a dynamic and often volatile commercial and political environment;
- Professional networks are improved, which helps boards to better manage external relationships and dependencies; and
- They are more willing to scrutinise and probe, and are better able to question the executive and challenge assumptions on strategic matters – leading to more effective monitoring.

These findings indicate that diversity can improve the effectiveness of boards, but that diversity should be defined broadly. Rather than pursuing gender, ethnic and other forms of "observable" diversity as ends in-and-of themselves (eg, via quotas), they should be seen as an important means of achieving the mix of perspectives, experience, skills and other characteristics needed for a board to perform effectively.

Soft skills are critical

Soft skills are critical: individual directors need to be intelligent, collaborative, good communicators and have high emotional intelligence, in order to navigate the difficult conversations.

> *"Governance is an incredibly human process and it requires a lot of understanding of what motivates people and subtlety of how you try and support them to look at other views."*

Directors also need to be bold and courageous – willing to probe, take risks, and initiate difficult conversations when necessary.

One of the difficult conversations a board may need to have is around the CEO. For example, directors told us that many firms reach a point in their growth when the founder/owner needs to be moved on (potentially to another role within the firm, such as non-executive director) and a professional CEO appointed. Some directors thought this point was around 70-80 employees or ~$15m revenue. A common problem is leaving this too late, and this inhibits the firm's growth and performance as founders can be both domineering and lack the necessary management skills.

> *"You can get situations where the founder is still in the business and thinks that what they've always done is the key to success. Shifting the mindsets of these founders is difficult. You need succession planning – either the next generation of family or a professional CEO – to assure the founder that the company is in good hands."*

> *"Entrepreneurs tend to be very individualistic people, and at a larger scale you need to be able to work well with people inside and outside the organisation – therefore pig-headed individualism becomes a problem. The characteristics of a business changes as it scales up. You need to be able to deal with scale and volume – you need systems and processes."*

A good Chair is key

A very strong theme was that the Chair is key to a successful board. Attributes and behaviours of an effective Chair include:

- facilitating open and respectful dialogue where everyone has their say;
- navigating through a diversity of voices, to enable decisions to be made; and
- ensuring the board avoids getting into day-to-day matters that are best left to management, so they can focus on strategy and the long-term direction of the firm.

One director described the best Chair they had worked with as someone who was able to

> *"hear diversity of voices but be very clear on the way forward… letting conversation flow and then bring it together, making sure everyone is really clear on the way forward and not dealing in the trivia."*

The relationship between the Chair and the CEO is the most important relationship in the company. The two need to have a strong, open relationship, talk often, but not be "too matey" (so the Chair can still provide challenge).

Mixed views on the director talent pool

There were mixed views on the quality of the director talent pool in New Zealand. Some thought it has been improving (becoming less of an old boys' club, or an easy and comfortable retirement option). But while there is no shortage of lawyers and accountants and other people keen to be directors, directors with deep commercial and/or international experience are thin on the ground. Many boards use specialist recruiters to find potential directors, and some look overseas to find specialist skills (particularly to Australia).

> *"Getting people with legal and financial skills is easy. But there are not so many people in New Zealand (or in Australia for that matter) who have had experience through their life of being deeply involved in some kind of leadership role in a vertically integrated organisation (one that goes right from idea to sales and customer support – so it does R&D, maybe manufacturing, and also marketing and logistics etc.). Most businesses are just a slice of that. Whereas a big successful New Zealand-based company taking on the world is likely to do a bit, have responsibility, for all of those pieces."*

The current pipeline of CEOs is an important source of future directors, so diversity in that pipeline will flow through to the director talent pool.

> *"One issue is the limited nature of the pipeline of directors in New Zealand. We don't have enough CEs in the pipeline who are diverse – the issue is not to have a quota, but we do need to get serious about gender and ethnic diversity in the top two tiers of management in companies because they become the pipeline of directors…The pipeline issue sits at the CE and operations level."*

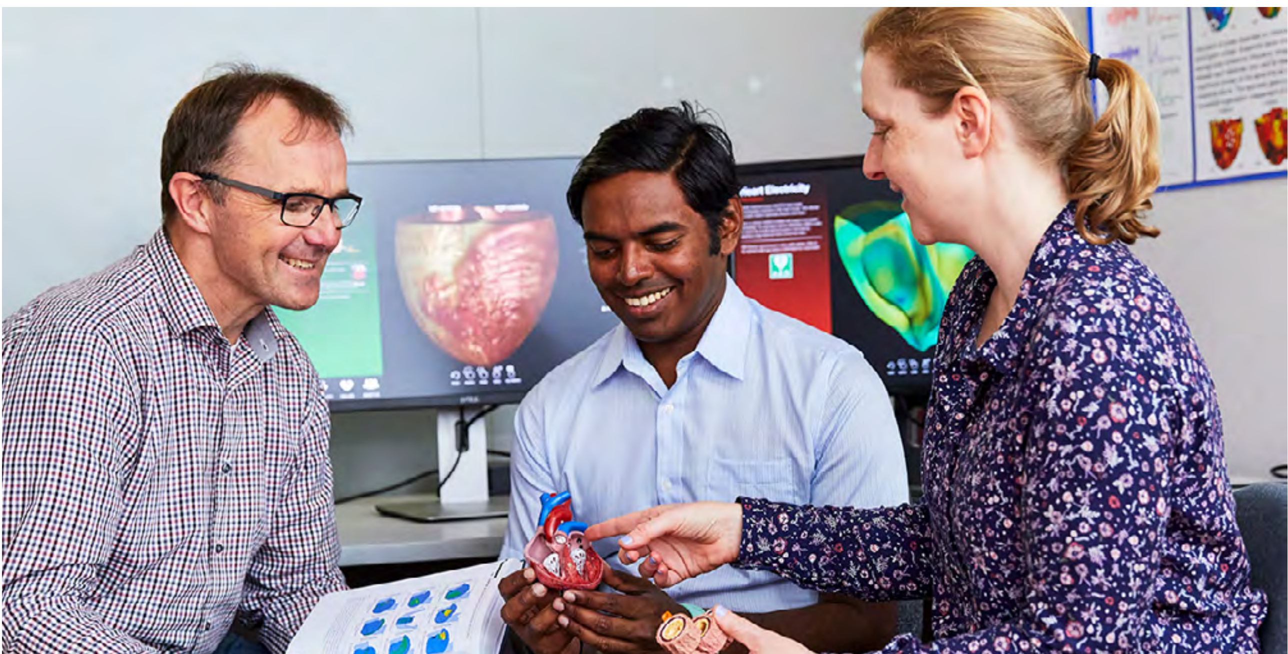


Image supplied by: Auckland Bioengineering Institute

Part 5

How strategic decisions are made

The interview questions about strategic decision making were structured around the dynamic management capabilities framework developed by David Teece (see for example, Teece (2019)). Teece distinguishes between "ordinary capabilities" and "dynamic capabilities". Ordinary capabilities are concerned with largely operational matters (such as HR systems, performance measurement and quality control processes). These capabilities are focused on cost efficiency/static optimisation ("doing things right"), and can be readily acquired (eg, via management consultants or imitating other firms).

Ordinary capabilities are necessary but not sufficient to ensure a firm's long-term survival and profitability – they can deliver incremental but not radical innovation.

Dynamic capabilities, on the other hand, are concerned with forward-looking, strategic decisions about why and what the firm does, as well as how it does it ("doing the right things"). They involve building and reconfiguring a firm's resources to respond to or drive changes in the market and wider business environment. They require entrepreneurial, risk-taking business leaders with the ability to identify (sense) and seize opportunities to innovate and transform their business, potentially pushing out the productivity frontier as they do so. Teece postulates that these strategic, dynamic management capabilities are necessary for radical innovation and sustained productivity growth.

Boards play an important part in nurturing a firm's dynamic capabilities. Key roles include appointing the CEO, supporting the development of the firm's long-term strategy, and enabling innovative investment decisions. Boards also need strong capabilities of their own (Brown & Teece, 2020).

The interviews sought to explore how these dynamic capabilities can be fostered by boards, including the relationship between management and their boards in making major strategic shifts.

Sensing

Management is a major source of information for boards (primarily board papers). This is unsurprising, and consistent with the findings of other studies (for example Corporate Board Member & EY (2019)).

However, directors were clear that their role entails a significant amount of other reading to keep abreast of the latest trends, developments and practices. Other information sources include international visits, including to trade shows/tech fairs and other firms, the major consulting firms (eg, webinars), expert advice, networking, social media/podcasts and the IoD. Overseas business courses (such as the Te Hono Stanford Boot Camp) were described as invaluable "eye-openers".

This emphasis on continuous learning and looking externally is consistent with Garratt's description of a high-performing board (see Box 3).

Customers are an important but often overlooked source of information about opportunities for new or different products/approaches. Sources can include other businesses in the supply chain as well as end-consumers.

Entrepreneurs were described as good at sensing their operating environment and identifying opportunities. However, as the firm grows, it needs to shift to developing up its second tier, "growing the rainmakers" to perform this role.

Box 3 The professional board in a learning organisation

Professor Bob Garratt (2020) describes four levels of board maturity.

- Level Zero: The Accidental Board – in which "most directors have signed the papers but have little idea what it means, or any inclination to find out".
- Level One: The Grudgingly Compliant Board – who acknowledge their legal responsibilities but regard them as a compliance burden and invest the minimum time and resource into them.
- Level Two: The Learning Board – when the board is acknowledged by the company as key to its survival and success. Here, directors dedicate significant board time on forward-looking strategy to ensure the company's sustainability in an evolving external context.
- Level Three: The Professional Board – where a learning board is situated within a learning organisation. "At this level directing needs a larger allocation of time as directors are always thinking about their company's future and need to become comfortable at linking risk with emerging opportunities."

Garratt cites Reg Revans' axiom, that "for an organisation to survive and develop its rate of learning must be equal to, or greater than, the rate of change in its external environment". Westlake (2020) explains that this requires boards to be constantly reviewing the changing external environment, identifying opportunities and spotting roadblocks ahead.

Source: (Garratt, 2020; Westlake, 2020).

Seizing

Setting the strategic direction

Directors feel it is important that boards carve out time for forward-looking strategic conversations about the company's purpose and future direction. Genuine strategy development is being done well in some firms, but others think they are "doing strategy" when what they are actually doing is business planning.

Boards want genuine options

Boards want to see genuine options presented by management with proposals supported by research and evidence. Key considerations in weighing up options include whether there is a strong link to the firm's strategy, and a clear return on investment. Firms and their boards need to be well-prepared for major investments – doing due diligence on investment propositions and understanding where the residual risk lies.

> *"In the past, as a CEO, I was told by my Chair that 'you're not putting enough in front of us to give us trouble making our decisions'. I'd been through optionality myself with my team... Rationally, that is an effective way of getting things done. But it wasn't challenging the board to think about the optionality that is available. We were engaging them in generative discussion too far into the curve, where the framing was taken away from the board. My role today [as a director] is thinking about how the board can get involved in framing and thinking and positioning, and then engage with leadership to think about optionality… I would like to see boards presented with more longer-term optionality so that they really are challenged to think about best way forward. It shouldn't be easy."*

Big decisions take time

Big decisions take time, and "never get decided in one meeting". Major investment proposals can evolve over time, and the final decision might look quite different from the original idea. The time taken for decision-making is partly a function of board meeting schedules; in this regard boards can slow down the business, which can frustrate management. This is more of an issue for mature companies. Boards of early-stage companies tend to have more real-time discussions, with shorter, more regular meetings and more informal conversations that have a "faster cadence and a different focus".

Considering stakeholders

Stakeholder reactions also need to be considered. Larger companies have a greater range of stakeholders, whose views need to be factored into decision-making. Boards of bigger companies need to be more stakeholder-aware (compared to early-stage firms which might be more shareholder-aware). There are also growing expectations on companies to be thinking more broadly than shareholder returns – such as environmental and social/community concerns. However, shareholders should not get lost in this process – they should be "first among equals" in terms of stakeholder priority.

Building up trust with shareholders through a proven track record can help garner support for riskier ventures (dipping into the "capital of trust"). This involves being transparent, "under-promising and over-delivering", and a no-surprises approach.

Mixed views on risk appetites

There were mixed views on attitudes to risk-taking, and whether or not boards are becoming more risk-averse. Start-ups are inherently riskier – and investors in early-stage companies understand and are comfortable with risk (though this may not translate to easy access to capital, see p. 21). Other research has found that firms with more failure-tolerant investors are significantly more innovative, because they prevent the premature termination of projects and allow entrepreneurial firms to realise their innovation potential (Tian & Wang, 2014).

However, founder/owners themselves may be more cautious. This is consistent with other research that suggests entrepreneurs are likely to be more risk-averse than investors, because they have invested their own capital in the firm and this is their primary source of wealth, compared to investors who have diversified portfolios (Markman et al., 2001).

More mature companies are often looking for steadier growth and take a relatively cautious approach to investment. Unlisted companies are more open to risk than listed companies. Risk appetites may vary across divisions of the company, for example the R&D arm may be more risk tolerant.

> *"Risk appetite will evolve. But any company involved in innovation will need to take risks, and of course you'll take a lot of that risk where it can't do harm – R&D. You'll be pleased with failure within reason, because you'll learn what doesn't work. You want a culture where you can try things."*

> **The composition of boards may be holding back firms' risk appetites – having a preponderance of people from accounting and legal backgrounds may foster a focus on preserving value and avoiding failure at all costs ("keeping off the front page") rather than growing value. It's important to include people with the appetite and the "DNA" to deliver growth for the company, rather than just reaching for "big names" such as partners from law firms.**

Lack of experience with failure

There was a strong theme that New Zealand directors lack experience with failure – in terms of calculated business risks that don't go as planned. Prior experience with failed overseas expansions has made boards a little gun-shy. Directors described a New Zealand cultural aversion to risk-taking and failure, whereby shareholders (and the public) are not sympathetic to failed ventures, and fear of being "beaten up in the media" doesn't help. There was a general sentiment that boards in other countries better understand the nature of risk-taking and failure:

> *"…maybe in the rest of the world, especially in bigger countries, they seem to be bolder and less risk averse. That's a sweeping generalisation. But other places seem a bit less risk-averse and more willing to invest to grow, acquire other companies and merge, to raise capital… Maybe New Zealand companies are too worried about shareholder reactions. Maybe they should back themselves a bit more, do the work to convince themselves so that they can then go ahead and convince the market."*

Transforming

Shared aspirations are important

Successfully implementing a strategy requires alignment between the board and management, and with shareholders, in terms of shared aspirations for the company.

> *"If you want to be a low-growth steady business, you need a board around you that reflects that. If you want to be rapid growth, you need people around you that are comfortable with growth and risk-taking. It can be a white-knuckle ride, but if you've got the right team it will be a lot easier. Shared aspiration is really important the whole way through, board and management team."*

Supporting management to deliver

Boards need to have confidence in management's capability to deliver. Boards have a role in mentoring and coaching management, but must also be prepared to replace CEOs who are not performing.

Directors must be ready to "lean in" when necessary to support management (ie, be available at short notice outside of the standard meeting cycle). This can be very time-consuming, as many directors have found during the Covid-19 crisis.

> *"The board has a role in crisis management – they might need to step in at any time. The situation right now with Covid is an example."*

Radical innovation not high on the agenda

Perhaps tellingly, we heard little about radical innovation in the context of larger, more mature firms. Yet, directors were conscious that the "steady-as-she-goes" attitude of many of New Zealand's older firms is not conducive to long-term value creation.

Differences by organisational form

Some directors spoke of variations according to organisational form. For example, iwi-owned enterprises were described as taking a long-term view, and looking for reliable returns that will preserve the business.

> *"One of the competitive advantages of Māoridom is they are investing heavily in equity investments in a specialised area that they know a lot about, and they are in it for 100 years."*

Directors of co-operatives discussed the challenges of having a mixture of elected and appointed board members. One of the challenges is that elected members may be selected for characteristics other than their governance skills. Another challenge is the potential for misunderstanding about the role of elected members – leading to confusion around shareholder representation vs governance.

A couple of directors commented favourably on the Mixed Ownership Model for public entities[2], compared to traditional SOEs. The changes to the director appointment process and performance management, including more market-facing selection, have yielded positive results. The model is "really good evidence that you can quite rapidly improve productivity and sustainable value creation with high performing governance".

[2] The Mixed Ownership Model (MOM) involved the Government selling down its ownership in some major SOEs (while maintaining majority control). Unlike SOEs, directors of MOM companies are not appointed by shareholding ministers. However, the Chair position (while elected by the board) must be approved by the Minister of Finance.

Part 6 Challenges facing New Zealand boards and their companies

According to interviewees, two of the main challenges facing New Zealand firms and their boards are accessing sufficient capital and the small scale of the New Zealand market.

Insufficient scale

Insufficient scale is a major challenge. Even the largest New Zealand firms are tiny by international standards, and the small size of the domestic market does not support productive efficiency. Expanding offshore is therefore essential for growth for many types of firms. However, investors can be reluctant to support the sheer size of investment (eg, in manufacturing plant) required to operate at an efficient scale, and it may not make sense to scale-up production incrementally.

> *"If you want a business that has sustainable margins to enable investment, and to grow value, then sitting in New Zealand only is a tough gig. There are not many product categories where that is possible. So internationalising is at the top for many start-ups."*

> *"I've always considered it to be an advantage – you think international from day one because you know it needs to be."*

Accessing sufficient capital

Difficulty accessing capital is another common problem, particularly for early-stage firms. Directors said that while there is now plenty of venture capital in the New Zealand market, it's hard to aggregate and obtain the scale of funding firms require.

> *"Capital formation – think of it a bit like the element mercury, it's like that – it won't stay in one place, it's very difficult to formulate one area into one big blob so you can harvest it. It's exceptionally hard."*

> *"It's not that New Zealand doesn't have the money, the money is there. It's just that everyone who has influence over the money doesn't have your drivers. Everyone there is risk-averse… I really believe that the formation of capital needs to align with the aspirations of creating a good New Zealand market, creating great corporates with scope and scale, to improve wealth and lives of New Zealanders. We are nowhere near that at the moment."*

In addition, early-stage investors tend to provide "little and often", giving "as little as possible to get you to the next stage". This means start-ups can be quite capital constrained through their early stages, while they have little or no revenue.

> *"The smaller the company, the higher the risk, the more difficult it is. We find formation of capital for larger companies in the NZX50 it is relatively easy – re-capitalisation is relatively easy. … But the formation of capital right at the start is really, really difficult. And a lot of that is because some things have been designed to take the risk out of [the provider's] system."*

> *"If you're in the business of getting formation of capital to young entrepreneurial start-up companies to get them going, it is really hard to get to them. The whole issue of giving them a go, but also owning the fact that I know that this is a punt, knowing the level of risk – it might work, but might go to zero – it is quite tricky in New Zealand."*

Social enterprises also struggle to raise capital as it can be hard to explain their purpose-driven mission to investors, and this can be exacerbated by the limited options around legal structure (ie, registered charity or traditional for-profit company). For example, legal requirements on charities can make it difficult to access equity funding (these are detailed in Horan et al., n.d.).

Government funding (such as R&D grants) is seen as too hard to access, with application processes that can "make you lose the will to live".

Other challenges

Directors identified other constraints to growth and internationalisation, faced by boards and their companies.

Insularity

Kiwi firms tend to suffer from both naïvety and arrogance about their ability to compete in overseas markets. Markets such as Australia and the US are highly competitive, with much larger and more sophisticated firms. There are local nuances in consumer markets that may necessitate tailoring of products, packaging, branding and marketing. There are also cultural differences that mean an organisational structure and culture that works for New Zealand employees cannot simply be dropped into another country.

> *"New Zealand companies are naïve about the risks they don't know… there's this belief that you can apply a lens out of a low competitive market in New Zealand where you're semi-dominant to being a start-up, new player in a more competitive market. It's just a recipe for failure."*

> *"You can use the New Zealand market as a testbed, but you often get companies who don't appreciate just how different the offshore markets are. And we know what it's like when someone from overseas tries to enter the New Zealand market with no idea of the nuances here."*

Management structure and capability

As mentioned earlier, a common theme was that having founder/owners remain in control of a company can choke its growth potential. This includes family owned businesses and partnerships, who can struggle when they come up against more sophisticated international competition, as they are still being run like "Mum & Dad firms".

A boat, bach, BMW (BBB) mentality?

There was a strong theme that entrepreneurs' ambitions cap out once they reach a comfortable level of achievement. Combined with the above, this suggests that companies can stagnate when they reach a certain size.

> *"These companies are stuck in the twilight zone of being comfortable and successful but lacking some of the energy and drive and ambition to grow. It takes a long time, 10+ years to grow a successful company to a certain size, and at that stage the owners are pretty tired. And at that stage is where a board can help."*

> *"… there's a real lack of ambition in the CEOs and a real reluctance to embrace the level of change required from them to be successful. It's the boat, bach and BMW – that's success for them. They don't want to move out of New Zealand, they don't want to lose control of the company, they don't want big shareholders. They don't have the ambition to maximise the growth of that company."*

Box 4 Are Kiwis ambitious?

It is a common stereotype that New Zealanders lack ambition, and that Kiwi entrepreneurs are content to settle for the BBB lifestyle. One explanation is that this is a rational response to the scale of the hurdles New Zealand firms face if they want to significantly grow their company. With the small size of the domestic market, achieving economic scale typically means expanding overseas. This can be a difficult, lengthy and expensive process, particularly given New Zealand's distance from international markets, and with no guarantee of success.

Other studies have explored New Zealanders' attitudes to ambition in more depth.

Fry and Glass (2019) surveyed almost 1 300 New Zealanders and interviewed over 150 people to explore attitudes to ambition. They found that New Zealanders are ambitious, about a wide range of things. Three-quarters of those surveyed defined themselves as ambitious and 80% said they admire ambitious people.

However, Kiwis are uncomfortable with talking about or demonstrating ambition. Fewer than 20% of survey respondents said they would openly share their ambition with others. This is because they don't like to stand out or be considered boastful. Nearly two-thirds said they would take care to talk about their achievements in a way that demonstrated appropriate humility.

This finding chimes with other New Zealand research, which has found that Kiwi entrepreneurs may deliberately curtail their business ambitions or efforts to avoid attracting attention (Kirkwood, 2007).

A lack of comfort with demonstrable ambition or overt success could mean that entrepreneurs with aspirations to grow and develop their firm may not reach out for needed help and support.

> *"Some New Zealanders don't dream of starting global companies, they dream of having a good life… And if we think about our objective being maximising our wellbeing, that's not necessarily problematic. What we do see as problematic… is where we see people holding themselves back because of a concern of what others will think of them"* (Fry, 2019).

Source: Fry & Glass (2019); Fry (2019); Kirkwood (2007, 2020).

Mixed views on the compliance burden

One of the motivations for this study was to explore concerns about a growing compliance burden on boards.

The 2019 Director sentiment survey found that time spent on compliance activities has continued to increase for the majority of New Zealand directors (80% of respondents, up from 71% in 2018). More directors said that the scope of director responsibilities is more likely to deter them from taking on governance roles compared to 12 months ago (40% up from 33% in 2018). And the proportion of directors who agree they are more cautious in business decision-making due to increased personal liability rose from 39% in 2018 to 47% in 2019 (Institute of Directors & ASB, 2019).

And a 2019 survey of a small sample of New Zealand directors found that 65% of respondents considered that balancing time spent on performance and conformance was the greatest challenge to board effectiveness (Institute of Directors & MinterEllisonRuddWatts, 2019).

We asked participants an open-ended question about the challenges facing boards. The directors we interviewed were divided on the extent to which compliance duties are crowding out more strategic discussion. Views were polarised. Eight of the interviewees raised it as a concern, with one lamenting the "compliance cesspit"; others didn't see it as a problem.

Of the directors who did raise concerns about increased regulation and compliance, several had roles in heavily regulated sectors – including forestry, and electricity and gas distribution. However, most of the directors who noted concern about the compliance burden hold (or have held) roles in firms that are subject to financial markets legislation. The major concern these directors expressed is that compliance is occupying a considerable amount of board time, meaning that "forward looking conversations around strategy and what's happening in the business is sometimes fighting for space on the agenda".

> *"The world is becoming a more and more regulated and prescribed place. So, a growing portion of boards' time is spent reviewing compliance with whatever it happens to be. And a relatively small proportion is actually spent on reviewing strategy. And, if you're international, you're dealing with other kinds of compliance too."*

Part of the challenge is that there is limited board meeting time – just eight to ten meetings a year, and a lot of things that have to be covered in this time. It's not just regulatory and NZX compliance that absorbs time, but other approvals and so on, that directors feel would be better delegated to management. This burden increases as the company grows, and it crowds out time and resource that could be spent on growth.

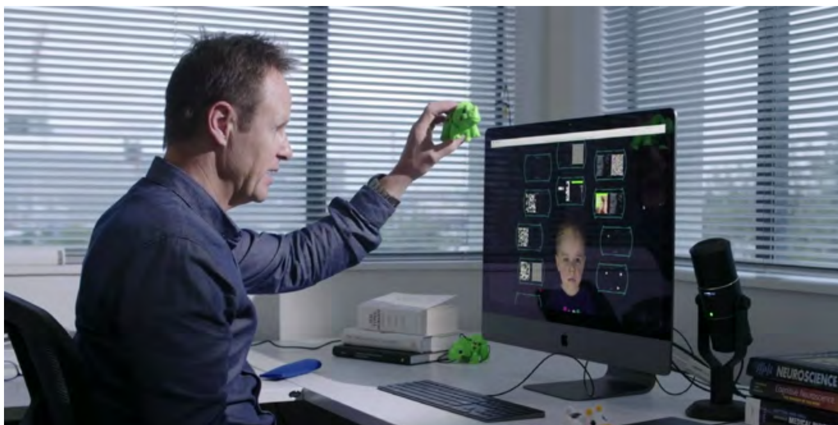
Boards also spend too much time looking in the rear-view mirror (last month's results), and not enough time having forward-looking conversations about long-term strategy and "how to make the boat go faster".

Part 7 Directors' suggestions for change

Participants made a number of suggestions for improving the performance of boards and their companies.

For directors and boards

- Spend more time on fewer boards. Directors should be highly engaged and passionate about the company.
- Carve out time for unstructured, forward-looking conversations that advance long-term value creation. Bringing in an external facilitator for a strategy session can help draw out the collective wisdom of the board.
- Be more courageous in going outside to appoint people – including those who haven't been directors before.
- The risk appetite statement is a key document. But it's not enough just to have one, it must be lived out in decision-making.
- Alongside calculated risk-taking, is a need to be more accepting of failure – embrace it and learn from it.
- Consider encouraging CEOs to take up a (paid) board position in another company. This would help them to understand what a board needs from its management, and improve the pipeline of directors.
- Re-consider recruitment approaches and director skills descriptions – focus more on commercial, industry and international experience (including Kiwis returning home) and less on specific skills.



"World leading digital technology will be critical to the future of the New Zealand economy."

Mark Sagar CEO Soul Machines

How to successfully expand overseas

Directors offered a number of tips for Kiwi firms seeking to expand into international markets.

- Thoroughly research the local market, culture, competition and supply chain/logistics.
- Pick a niche, and ensure you have a genuine competitive advantage, so that you can grow to be a big player within a well-defined market fairly quickly.
- Don't take a cookie-cutter approach – tailor your offering and approach for each market.
- Move slowly – plan for incremental expansion rather than a big bang approach.
- Make sure you have the right people (it's important to have a "hustler", as well as logistics and supply chain expertise).
- Boots on the ground are essential – build local partnerships, and draw on the local Kiwi diaspora.
- Several directors also referred to the value NZTE can provide to firms wanting to expand overseas, as a source of expertise, advice and networks.

One participant described their experience in successfully expanding into Australia:

> *"In our case we picked a small team, but shoulder tapped the right people – not ones who understood traditional models, but people who were keen to understand what a new model might look like. Right people are critical. We also put one of our own founders in-country for a time, full-time. That was important, shared the vision and purpose of the organisation in a way that is difficult to do otherwise."*

Another talked about entering the US market:

> *"We've conquered the tyranny of distance but not the importance of a physical presence – despite having US nationals on the ground there. The US companies prefer to transact with other local companies, who are familiar with local law, use local contract lawyers and understand local practices – don't have the to-ing and fro-ing that is required when dealing with cross-jurisdictional legal issues. This is a hurdle to overcome in order to internationalise."*

For management

- Advisory boards can be a good "halfway house" option for early-stage firms, as a way of bringing in experience without moving to a formal board.
- Investigate ways to get more real-time reporting and information flows to the board – consider digital options, as well as more frequent, but shorter and more informal conversations. The Netflix governance model provides an example (see Box 5).
- Structure board agendas around key topics rather than the structure of the organisation.
- Give boards the "options" information they need to provide genuine challenge – don't present them with fait accompli.

For the Institute of Directors

- Help support more entrepreneurial risk-taking, for example by encouraging experienced directors to take on a growth company.
- Consider ways to support more networking with peers in key trading markets (such as Australia and the US).
- Raise awareness of the risks over-boarding (where directors sit on too many boards and so lack the time to adequately fulfil their duties to each company). This would need to acknowledge the incentives posed by directors' fees structures – ie, modest fees may encourage over-boarding.

For government

- Policy makers should be aware that any increase in regulatory compliance burden can compromise these objectives by crowding out time and resource that could be spent on growing and developing the company. This is particularly the case for director liability, which should be used sparingly. While directors generally accept that liability for organisational health and safety appropriately rests with boards, some responsibilities would be better be placed with management, who are more likely to have the knowledge and levers to manage the risks.

> *"For example, when I was with [electricity and gas distributor]. The board signs off gas disclosures, directors are personally liable, and because they have made the board liable you end up having to force it to the board table – along with another report saying it's accurate so that we can sign it off – when it really should have been done somewhere else (head of the gas department or something). There is no value in a board looking at it at all. It just takes up time."*

- Provide policy leadership from the top – set the tone by telling businesses what Government wants from New Zealand companies (eg, greater focus on growth and internationalisation). Consistency is important (policy flip-flops are unhelpful).
- Decide what New Zealand is good at and then make that attractive by providing concentrated support (eg, funding or tax breaks of significant enough scale to make a difference).
- Greater coordination is needed across the research community – CRIs and universities are not well-connected to industry needs. Firms need them to be better aligned, and more responsive and timely.

Box 5 How Netflix engages with its board

Netflix employs two unique practices for engaging with its board:

- board members periodically attend (in an observing capacity only) monthly and quarterly senior management meetings; and
- board communications are structured as approximately 30-page online memos in narrative form that not only include links to supporting analysis but also allow open access to all data and information on the company's internal shared systems, including the ability to ask clarifying questions of the subject authors.

This highly transparent approach is credited with assisting board members to have a deep understanding of the company and its market, giving them confidence in their strategic decision-making. Strategic decisions have included two radical and transformative "chasm crossing" decisions: to shift from DVD to streaming; and to move from streaming licensed to original content. Netflix directors say they would have been much slower to invest in content without this completely open perspective on the company. The transparent approach and level of comfort between fellow board members and executives, also supported the company in learning from its significant mistake of deciding to separate its DVD subscription business from its streaming service in a standalone company (Qwikster).

Source: Larcker and Tayan (2018).

Part 8

Reflections

This study has corroborated many of the factors thought to underlie New Zealand's relatively weak productivity performance. In particular, the interviews highlighted the significance of the small scale of New Zealand's domestic market, the lack of vigorous domestic competition, and weak international connections. They also suggest that New Zealand firms can get stuck at a certain (comfortable) size, facing a significant step-change in cost, effort and risk if they want to go global. Kiwi firms have to work hard to overcome these challenges.

> **This study has illustrated the important role boards can play in helping firms realise their ambitions. They can do so through supporting greater strategic risk-taking – including productivity-enhancing decisions about growth, scale-up, innovation and internationalisation.**

For example, expanding into overseas markets is a complex undertaking, which requires years of work behind the scenes to lay the groundwork – doing research, establishing relationships and tailoring products and systems. There are some common missteps made by firms seeking to establish a foothold in a new market, and drawing on directors with international commercial experience can help avoid them.

Experienced directors can also play a vital role in helping firms, particularly start-ups, access the capital they need. They can do this through their connections, and their ability to "have the right conversations" with investors. This is particularly important for firms investing in "intangible" assets such as software, cutting edge R&D, branding and design, who can struggle to communicate and sell their value proposition to investors.

This research offers insights into what the boards of frontier firms look like and how they operate. High-performing boards have the right diversity of thinking, skills and experience around the table.

> **Directors with commercial, industry/domain and international experience are particularly valuable, but are thin on the ground in New Zealand.**

The current Covid-19 situation may present an opportunity for boards to connect with experienced Kiwis returning home from overseas. The big lift in and normalisation of digital communications also provides an opportunity to connect with those who remain overseas.

Investment time horizons matter. Directors emphasised the need for and value of a long-term view in supporting experimentation and innovation, and long-term value creation. This is particularly relevant for investment in intangibles, which can have long lead-times before results materialise. And hand-in-hand with greater ambition, goes the need for greater tolerance of failure.

A learning environment is also important. Directors with strong "dynamic capabilities" invest considerable time reading widely and monitoring the external environment, rather than relying solely on management for information about their firms and sectors. Scanning widely for knowledge and opportunities, and making efforts to connect with international peers and experts, can help raise the ambition and sophistication of their firms.

Appendix: Study design

Sampling approach

The study took a purposive approach to sampling, targeting seasoned New Zealand company directors who could speak to a broad range of experience. As the focus of the Commission's inquiry is New Zealand's frontier firms, we recruited directors from firms that exhibit some characteristics of frontier firms (given that we could not observe their actual productivity).

The IoD sent an email to their membership, inviting people with the desired governance experience to participate in a confidential interview with Commission staff. The invitation sought people with experience in the following types of businesses:

- exporting
- setting up an offshore branch or subsidiary
- fast-growing
- Māori (by any definition eg, Māori-owned or kaupapa Māori)
- listed company
- start-up
- invests in R&D
- innovative (eg, novel products/services, production methods or business models)
- primary sector/resource-based
- manufacturing or goods-producing
- high-tech or digital
- services.

It also sought people who are or have held the following roles:

- executive director
- non-executive/independent director
- CEO
- Board Chair
- director in another jurisdiction (ie, have international governance experience).

We interviewed all those who opted into the study.

Interview format

Participants' written informed consent was obtained prior to the interviews. Interviews were conducted via Zoom, during the period 5 June – 8 July 2020. Interviews were semi-structured, covering the four main questions below, with follow-up prompts as indicated.

1. **What do you see as the key roles of the board?**
    - What are the challenges facing the board, in its strategic decision-making? How are these challenges being managed?
2. **What does the company need from its board, through the different stages of its lifecycle?**
    - What governance capabilities are required to support these needs?
    - What about complementary organisational capabilities, such as management capabilities?
3. **What makes an effective board?**
    - How would you describe the board's approach to risk-taking and innovation? What influences this?
    - If you are (or have been) a member of more than one board, how does this organisation compare with others in terms of:
        - Ownership structure and board composition
        - How strategic decisions are made
        - The board's attitude to growth, risk-taking, innovation and experimentation
        - The influence of these factors on the company's overall performance and productivity.
4. **How are major strategic decisions made?**
    - Who are the key decision-makers?
    - What information do they need?
    - What are the major factors driving or influencing strategic decision-making? How do these affect the incentives on decision-makers (eg, risk appetite)?

- How are short-term vs long-term risks and rewards considered – is there a trade-off?
- What happens when major investments/ projects don't pay off as expected? How is failure treated and what is the impact on subsequent risk appetite?
- How does the company monitor trends in the external operating environment (eg, emerging threats and opportunities)?
- How does the company keep abreast of the latest developments (eg, knowledge, technologies, and processes)? How are these ideas shared and considered?

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