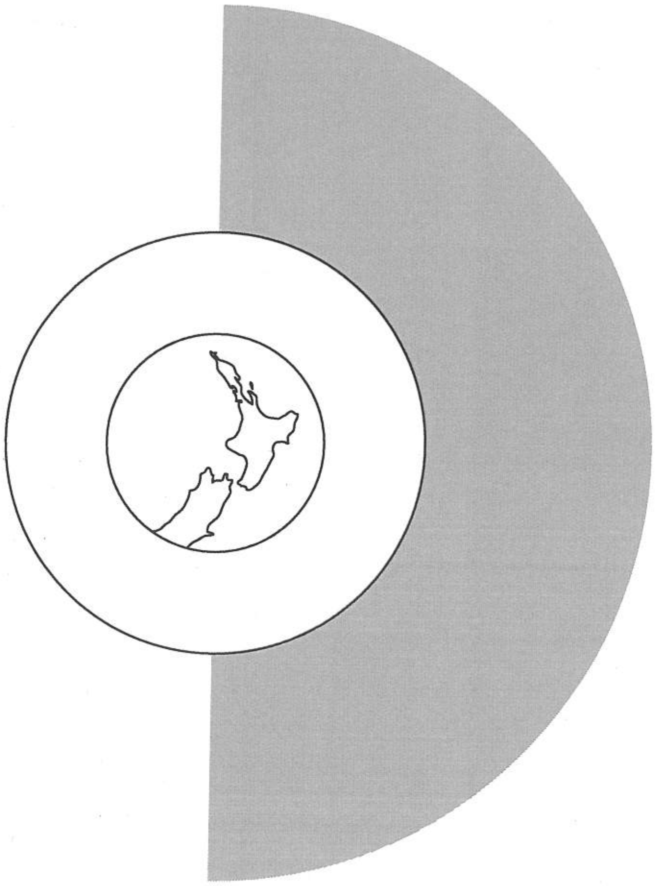
IoD & ASB, 2019



Director Sentiment Survey 2019

The Institute of Directors (IoD) with ASB has released its 2019 Director Sentiment Survey report. The survey takes the pulse of the director community in New Zealand.

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SURVEY INSIGHTS

The annual Director Sentiment Survey takes the pulse of the New Zealand governance community to identify issues and challenges that matter to members of the Institute of Directors (IoD). It provides high-level views sourced from a broad range of entities on economic, business and governance issues. This year we included a focus on board leadership and oversight of organisational culture.

From 16 September to 2 October 2019, the IoD conducted an online survey. Thank you to our members for their valuable contribution, we had our highest level of engagement to date with 955 responses. The survey is the sixth annual survey and the fourth in which the IoD has partnered with ASB. This report summarises the survey findings.

More pessimism about the broader economic environment, but positive about business prospects

Directors have become increasingly wary about the economic environment they face. For the second year in a row more directors expect the economic environment to deteriorate than those anticipating improvement. This year an outright majority (55%) of directors expect the economic environment to deteriorate over the coming year, a greater proportion than in 2018 and the highest record in six years of surveying. Over the past three years there has been a marked downturn in directors' views of the economic outlook, from a record net* 43% in 2016 expecting the economy to improve to a net 44% expecting its performance to decline.

However, directors are far more positive about the prospects for the businesses that they oversee with 47% of directors expecting their organisations' performance to improve over the next year. Although down from 52% in 2018, it shows some resilience given the extent to which views on the wider economy have deteriorated.

Questions digging into directors' views on economic impediments and threats to their individual businesses suggest many of the front-of-mind considerations are home-grown. Workforce challenges, red tape, infrastructure, and demand are the main considerations for directors. Having said that, global growth did move up to fourth from seventh in the rankings of impediments to New Zealand's economic performance.

Most boards are discussing their effectiveness

In a dynamic and increasingly complex operating environment it is positive to see that the majority of boards (77%) have discussed how they can operate more effectively. Further to this, 71% of directors agreed that their board regularly discusses composition/renewal and the skills/experience they need now and for the future. However less than half (47%) said that they have regular formal evaluations of their performance.

The IoD and MinterEllisonRuddWatts' discussion paper *Always on duty – the future board*, explores trends, challenges and opportunities that may impact how boards evolve and operate in the future. We encourage boards to ask how technology and innovative practices can transform how boards work to help ensure future effectiveness.

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

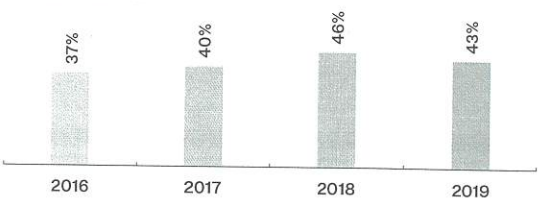
Directors deterred from taking up roles

We are seeing a concerning impact from the increasing trend of laws and regulations extending director responsibility and liability as this year more directors said that the scope of director responsibilities is more likely to deter them from taking on governance roles now than 12 months ago (40%, up from 33% in 2018). Further to this, there has been an increase in the proportion of directors (47%, up from 39% in 2018) who agree they are more cautious in business decision-making due to increased personal liability.

Time spent on risk oversight continues to increase

There are increasing expectations for directors to be across a broad range of issues, risks and a dynamic operating environment. The *IoD Directors' Fees Report 2019* highlights that hours worked by non-executive directors have increased by 10% since last year, and this year's Director Sentiment Survey found that time spent on risk oversight has increased for almost three quarters (71%) of directors (up from 64% in 2018). This is particularly the case for the majority of publicly-listed company directors (84%) and directors of government organisations (82%) who participated in the survey. Still, only 50% of directors (compared with 57% in 2018) said that their board has the right capabilities to deal with increased business complexity and risk. Similarly, time spent on compliance activities has continued to increase for the majority of directors (80% up from 71% in 2018). Although 88% of directors had discussed innovation and strategic opportunities, the risk of compliance overload is that it can impede boards from having sufficient time to focus on strategic and performance issues.

More comprehensive reporting on conduct needed



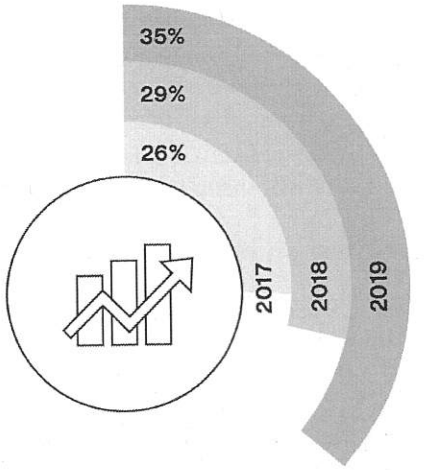
Ethical matters and conduct reporting

The board's role in overseeing culture has been in the spotlight following a number of recent governance reviews, including the *Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, the FMA/RBNZ banking and life insurer reviews, and investigations into bullying in the sport sector and sexual misconduct in the legal sector. Although the majority (77%) of directors said their board monitors and regularly discusses the culture of the organisation, only 43% said they receive comprehensive reporting from management about ethical matters, conduct incidents and follow-up actions. Given the number of high-profile bullying cases and the increased focus on sexual harassment in the workplace, it is surprising that only 35% (compared with 39% in 2018) discussed sexual harassment, 52% discussed workplace bullying, and 62% discussed workplace mental health.

All boards need to ensure robust monitoring of organisational culture and conduct, and that the right processes are in place for potential issues to be raised. This includes ensuring there are effective Speak Up provisions and whistleblowing systems in place. Given the potential impacts from inappropriate conduct it is concerning to see a drop in the number of boards (from 44% in 2018 to 35% this year) that have discussed whistleblowing and how their organisation makes Speak Up provisions effective in the last 12 months.

Climate change action is on the rise

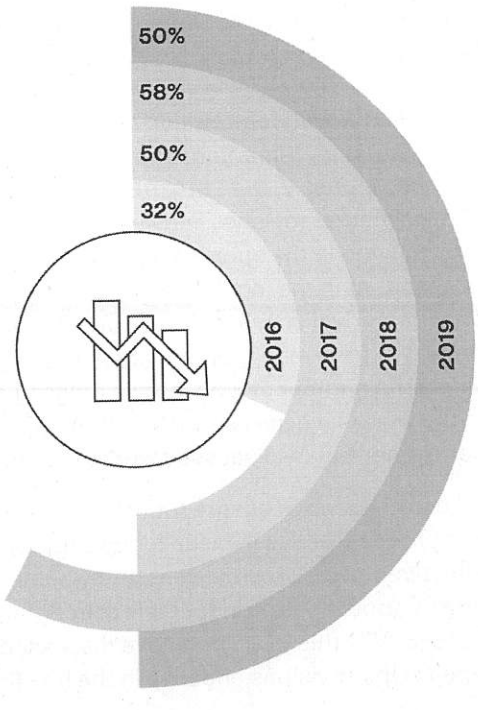
Climate change is the biggest issue and risk of our times and requires action now to ensure the future of the generations to come. Boards have a critical role in confronting and responding to climate related issues and risks to ensure the long term sustainability of their organisations and to understand and mitigate their impact on the environment. We have seen an upward trend in board engagement on climate change related matters over the past 3 years. However, still only 35% of directors said their boards were engaged and proactive on climate change. While the majority of directors (70%, up from 66% in 2018) agreed that their board considers environmental and social issues are very important to their business, all boards should ensure they are aware of potential impact that climate change could have on their organisations. A legal opinion (commissioned by the Aotearoa Circle and released in October 2019) on climate change and director duties highlights the importance for boards to take action to mitigate climate risks, including physical, transition and liability risks.



Board engaged and proactive on climate risks

Drop in boards discussing cyber-risk

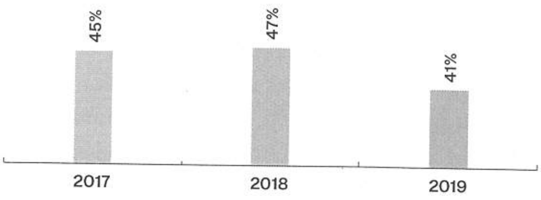
Cyber-attacks feature regularly in media headlines and have been ranked as one of the top global risks to doing business[1]. However we have seen a drop (50%, down from 58% in 2018) in the proportion of boards who regularly discuss cyber-risk and are confident their company has the capacity to respond to a cyber-attack or incident. The drop may well reflect the lack of confidence in being able to respond rather than that fewer boards are discussing cyber-risk. But still, only 32% (up from 27% in 2016) of directors responded that their board has a clear picture of their organisation's overall cybersecurity strategy and how it relates to industry best practice. In a world of data and digital dependency it's critical that boards understand their organisation's cyber risks and prioritise response capacity and capability.



Discussed cyber-risk and confident able to respond

[1] *World Economic Forum, Regional Risks for Doing Business 2019, October 2019.*

Data breach reporting needs more attention



Data breach risks and incidents reporting

Despite an increased focus on the importance of data governance and data breach reporting globally, less than half of directors (41%) were sure that their board received comprehensive reporting from management about data risks and incidents (down from 47% in 2018 and 45% in 2017). Further to this, only 43% of directors agreed that their board regularly discusses their organisation's privacy practices and risk. With upcoming changes to privacy legislation in New Zealand that will make privacy breach reporting mandatory (expected in 2020), it is critical that boards ensure that they receive comprehensive information from management about data breach risks and incidents.

CEO succession planning should be a priority

One of the most important roles of the board is managing and appointing the CEO. Yet, only 52% of directors (down from 63% in 2018) agreed that their board regularly discusses succession planning in relation to the CEO. Succession planning for the CEO is a critical component of risk management, and it is essential to organisational performance and sustainability. For boards that aren't already ensuring that they have succession plans in place for their CEO, it is important they prioritise this in 2020. This includes having an emergency management plan in the event of a sudden departure of the incumbent CEO.

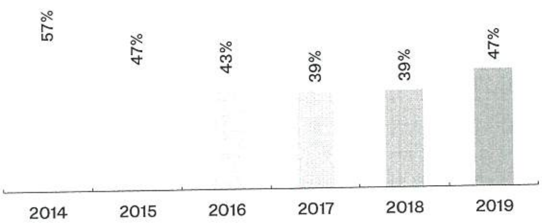
Executive remuneration receives significant stakeholder (including investor) scrutiny, and expectations are increasing for remuneration to be demonstrably fair and justifiable. Alignment between CEO remuneration and company performance is integral to this and we asked directors for the first time this year whether they supported long-term and short-term incentives for CEOs. The results indicate a strong alignment to long-term thinking and performance with the majority of directors (82%) surveyed supporting long-term incentives; compared to just over half (54%) supporting short-term incentives.

SPOTLIGHT ON INCREASED RISK AND DIRECTOR LIABILITY

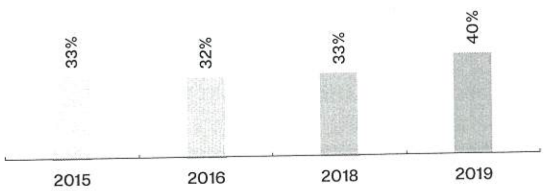
As the regulatory and legal landscape continues to change, we are seeing this affecting directors more. This year we saw an increase in the proportion of directors (47%, up from 39% in 2018) agreeing they are more cautious in business decision-making due to increased personal liability.

The results are particularly high for directors of small companies with 60% agreeing that they are more cautious.

Directors are also increasingly wary about the broadening scope of responsibilities they face and the associated personal and reputational risks. This year 40% of directors (up from 33% in 2018) agreed that the scope of director responsibilities is more likely to deter them from taking on a governance role now than 12 months ago. This was even higher for directors of publicly-listed companies (47%). Increasing disclosure obligations, regulatory scrutiny and the rise of class actions and litigation funders are potential factors for these directors.



Increased personal liability has made me cautious



Deterred by director responsibilities

There are a number of director accountability proposals/reforms which will impact and impose obligations on directors across a number of sectors and care is needed to ensure that honest and diligent directors are not unfairly prejudiced.

Balance of responsibility

"Accountability is absolutely critical to corporate governance and directors' personal liability has its place. There is no shortage of statutes in New Zealand imposing obligations on directors, accompanied by civil or criminal liability. However, in the past 12 months we have seen numerous director accountability proposals/reforms."[2] These include:

- the introduction of criminal liability for the decision makers of cartels
- the introduction of a due diligence duty and personal liability under the Credit Contracts Legislation Amendment Bill
- a proposal to make directors personally liable for company PAYE and GST debt (recommended by the Tax Working Group)
- the Ministry of Business, Innovation and Employment is considering introducing an accountability regime for financial institutions with personal liability for directors. This is also considered in the second phase of the Reserve Bank Act Review.

[2] *Institute of Directors, Boardroom Magazine "Balance of Responsibilities", August/September 2019.*

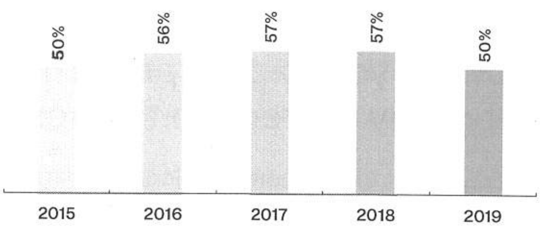
TRENDS IN BOARD CAPABILITY

Board capability and composition are major considerations for board effectiveness and performance. The majority of directors (71%) agreed that their board regularly discusses composition/renewal and the skills/experience they need now and for the future. But, for boards that didn't, these conversations should be a priority in 2020. Although less than half (47%) of boards had formal evaluations, 77% of directors discussed how their boards can operate more effectively.

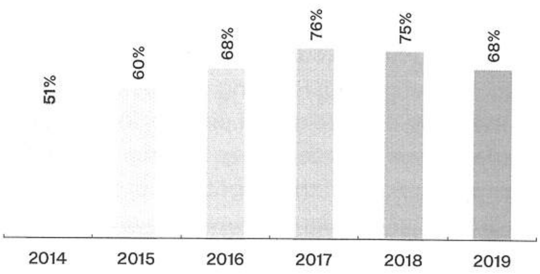
This year's results highlight capability gaps for some boards to focus on:

- Just 50% of directors (down from 57% in 2018) agreed that their board has the right capabilities to deal with increasing business risk and complexity;
- Only 68% of directors (down from 75% in 2018) agreed that their board has the right capabilities to meet their health and safety obligations; and
- Only 33% of directors agreed that their board has the right capability to lead their digital future. This has remained consistently low over the past four years, hovering between 30-35%.

The operating environment continues to become increasingly complex with businesses and society facing a broad array of new issues simultaneously. It is critical that boards take the time to understand what capability they need so that they can attract the best possible talent for their boards to help them navigate the future.

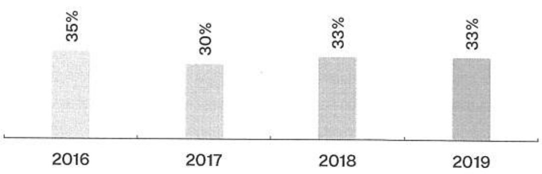


Right capabilities to deal with increasing business complexity and risk



Right capabilities to meet health and safety obligations

**In 2014 we asked a slightly different question while the health and safety bill was yet to come into legislation.*

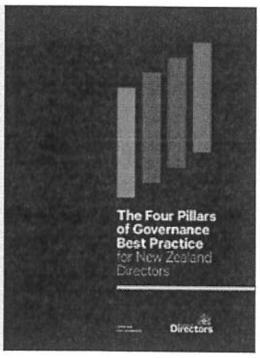


Right capability for digital future

Ways that boards can improve capability include getting more diverse talent on their boards and using board and director evaluation processes and a board skills matrix to understand their current capability and identify potential gaps and opportunities.

Board composition and succession planning

All boards should regularly consider succession planning to ensure a balanced mix of skills, experience and diversity to meet the needs of the organisation and underpin board quality, continuity and future success. *The Four Pillars of Governance Best Practice for New Zealand Directors* provides further guidance on board composition and succession planning in section 2.4



SURVEY KEY FINDINGS

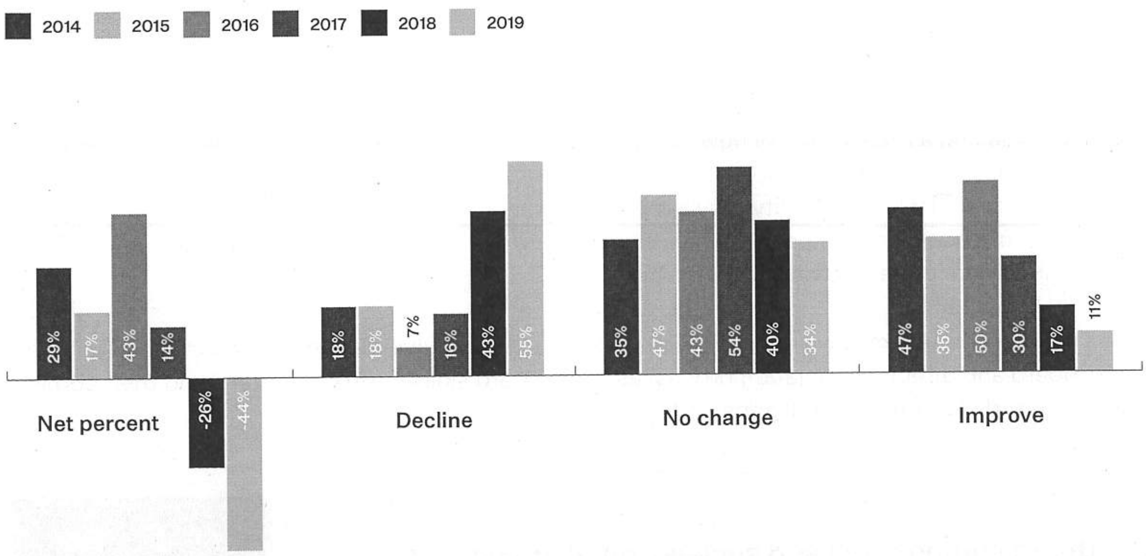
QUESTION 1:

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

It is clear that the economic outlook has darkened over the past year. Only 11% of directors expect the economic outlook will improve, while 55% expect deterioration. On a net* basis 44% of respondents expect the economy to decline over the next year, a marked weakening from a net 26% on the pessimistic side last year. Directors of publicly-listed companies and state-owned enterprises were the most downbeat by enterprise type (both net 65%).

Why is there such a strong feeling of pessimism? Observations from New Zealand at large suggest the reasons are multi-faceted. Some are in the category of business as usual being challenging, such as labour difficulties and red tape, which are covered in greater depth in Questions three and four. Global growth is losing momentum. And global headlines are providing a steady diet of a skewed and chaotic global picture, in which American leadership and Brexit have loomed large as prime causes of uncertainty. Having said that, New Zealand's export sectors are generally riding high and are one of the brighter spots in the economy, though that performance cannot be taken for granted in the current environment.

Other likely considerations for directors will be the government's policy direction, as well as its ability to deliver in a timely manner. A number of government policies are yet to be finalised, leaving some uncertainty about the finer details. Environmental policies are now taking shape. And, although there is growing recognition of the need for environmental sustainability and to combat climate change, the necessary shifts still place a burden on those sectors needing to change the most.



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

QUESTION 2:

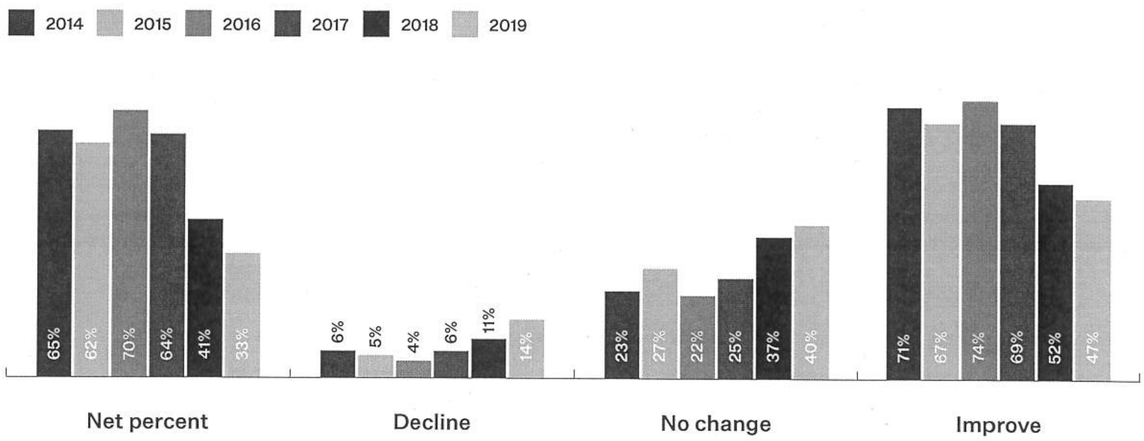
How do you expect performance of your organisation to trend in the next 12 months?

More positively, directors see the organisations they are involved in as building on last year's performance. Forty-seven percent of respondents expect their organisation's performance to improve over the next year, down slightly from last year's 52%. Only 14% of directors expect business performance to decline (11% last year), making a net balance ('improve' minus 'decline') of 33% expecting an improved business performance over the next year. Last year's net balance was 41%, meaning this year's result is down surprisingly little given the substantial gloom about the broader economic environment.

The contrast between worry about the broader economic environment but greater confidence in respondents' own sphere of influence is quite common in business surveys conducted during periods of heightened uncertainty. And, importantly, strategic planning and high-level decision-making will tend to be influenced more by the better-grounded assessment of the coal-face.

Sector snapshot:

- Directors of state-owned enterprises were the only enterprise category for where there were more respondents expecting their organisation's performance to decline (35%) relative to those expecting an improved (29%) performance.
- In contrast, directors of not-for-profit organisations were the most upbeat about the outlook for their organisation's performance (52% expected improvement).



QUESTION 3:

Biggest impediments to national economic performance

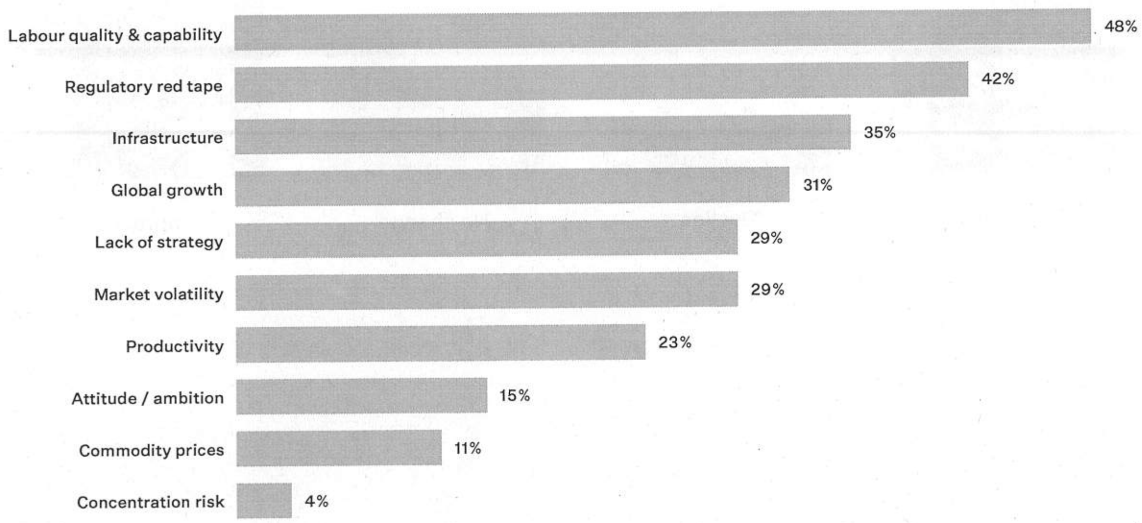
As with last year, directors were asked to choose up to three factors they saw as the biggest impediments to national economic performance. Once again, labour quality and capability came out on top. This is a common refrain from businesses in many fora, although the moderate pace of wage increases over the last year suggests that there has been little overall pulling of financial levers to attract talent. What was notable this year, though, is that the proportion of directors picking this impediment dropped to 48%, compared with 61% last year. Not far behind in second place was regulatory red tape (42%), with infrastructure in third spot (35%). Neither of these response rates shifted much from 2018.

The most significant change in the survey was the importance of global growth, moving to fourth place in the rankings from seventh last year. Thirty-one percent of directors cited this influence, up from 18% last year. That result is similar to 2016's, in the wake of the Brexit referendum: although concern about global growth has jumped, it is not (yet) into unknown territory. Market volatility (29%) was chosen only slightly more than in last year's survey and commodity prices (11%) were brought up slightly less frequently (14% last year).

All up the survey results point to some heightened concern around the global backdrop, though directors seem to be keeping the influence in perspective. Big-picture domestic structural issues (labour, red tape, infrastructure) remain as directors' primary views of the roadblocks to New Zealand's economic prosperity.

Sector snapshot:

- State-owned enterprise directors were the most concerned about labour impediments (65% of directors), followed by directors of medium-to-large private companies (53%) and not-for-profits (51%).
- Directors of subsidiaries of publicly-listed companies were most concerned about global growth (46%), followed by government organisations (44%) and publicly-listed companies (43%).



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

QUESTION 4:
Single biggest risk facing organisations

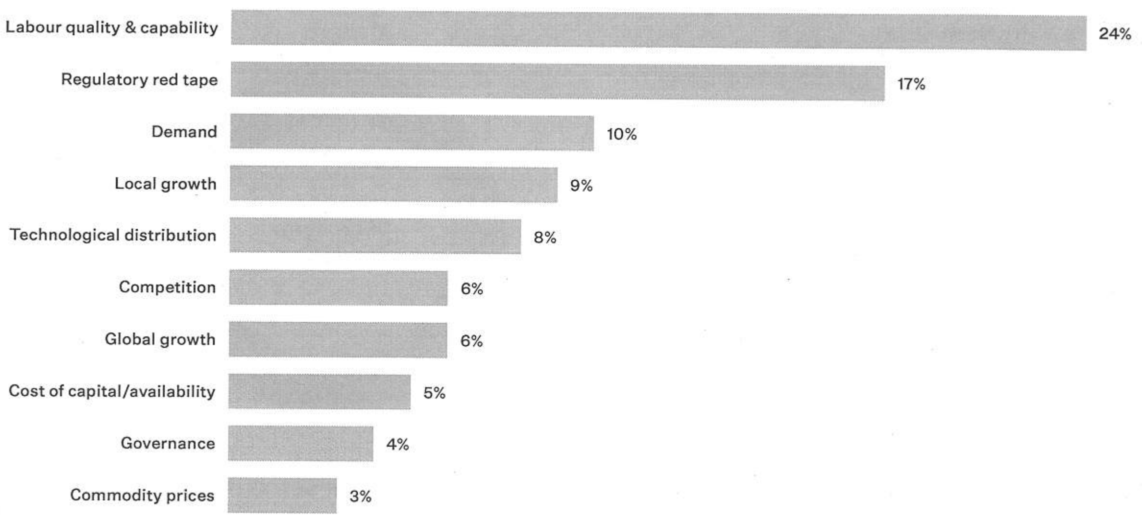
When asked to identify the single biggest risk to their organisations, the top results were similar to last year's results. Labour quality and capability topped the list, flagged by 24% of directors, though this was down slightly from 28% in 2018. Regulatory red tape followed again in second, at 17%.

Beyond the top two, the range of directors' top concerns was slightly more dispersed than in 2018. Demand (at 10%) supplanted technological disruption as the third most selected biggest risk, and was the main upward mover from a still-low 7% of directors in 2018. It was most commonly cited by directors at state-owned enterprises (19%), subsidiaries of publicly-listed companies (15%), small companies (15%), and not-for-profits (14%). Local growth (barely up at 9%) and technological disruption (8%) rounded out the top five.

In contrast to the question around broader economic performance, global growth (6%) was only seventh on the list of the single-biggest organisational risk, and it barely moved from last year's response of 5% of directors. It rated as a higher concern amongst directors of government organisations (11%) and publicly-listed companies (10%). At an enterprise level, it would appear that global growth is less of a concern as a direct threat to organisations than as an impediment to national economic performance (31%).

Sector snapshot:

- Labour quality and capability was cited as the biggest risk by directors of government organisations (30% of directors) and medium-to-large private companies (30%). It was a lesser concern for directors of subsidiaries of publicly-listed companies (15%).
- Regulatory red tape was a big issue for publicly-listed companies (28%), small companies (25%) and state-owned enterprises (25%), but of little concern for directors of government organisations (7%).



** Consistent with last year, respondents were asked to select the single biggest risk facing their organisation.*

QUESTION 5:

Should CEO remuneration packages include short-term incentives and long-term incentives?

Executive pay continues to receive intense scrutiny and the spotlight on board decision-making is unlikely to dim. Rewards from incentive schemes are one of the common components to receive close scrutiny when alignment between executive pay and company performance cannot be shown.

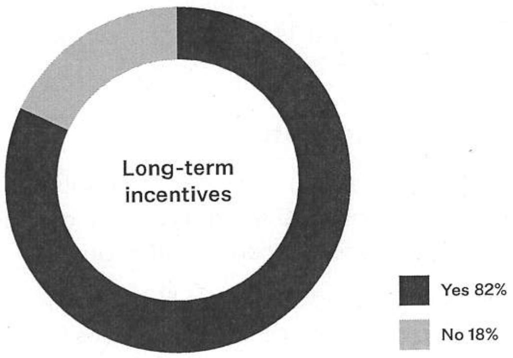
This year we asked directors their views on whether CEO remuneration packages should include short-term incentives and long-term incentives. While the majority (82%) of directors said that long-term incentives should be included, just over half (54%) thought that short-term incentives should be.

Support for each incentive type varied across sectors and we highlight some of the differences below.

Sector snapshot:

Publicly-listed companies

Directors of publicly-listed companies were more supportive of incentives (compared to all sectors) with 90% supporting long-term incentives and 76% supporting short-term incentives. Results were even higher for directors of subsidiaries of a publicly-listed company with 100% supporting long-term incentives and 85% supporting short-term incentives.

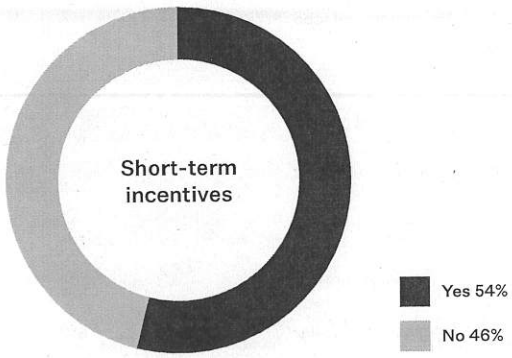


Small companies

For directors of small companies support was higher than all sectors for long-term incentives (at 87%) but lower for short-term incentives (at 47%).

Not-for-profit entities

In the not-for-profit sector there was lower support for both incentives with 76% supporting the inclusion of long-term incentives and 44% supporting short-term incentives.



Government organisations

Support for long-term incentives by directors from government organisations was the lowest of the sectors (at 62%) but support for short-term incentives was closer to other sectors (at 50%).

State-owned enterprises

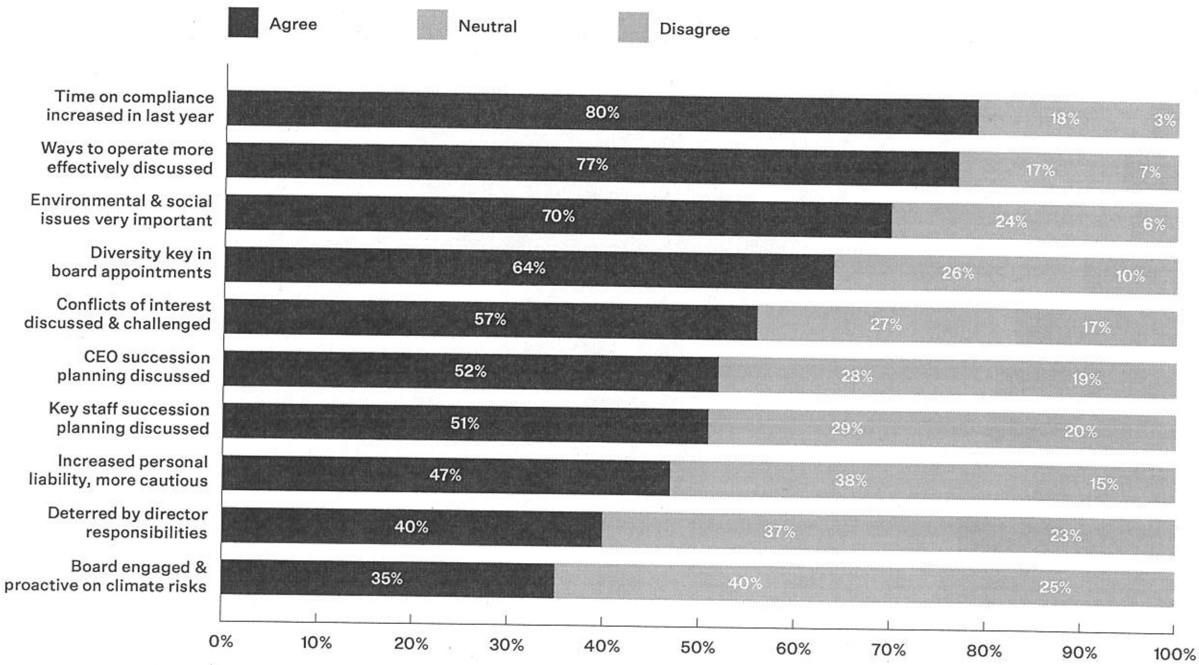
Directors of state-owned enterprises differed from other sectors in that as a group they were equally supportive of both types of incentives with 76% of directors agreeing that they should be included in CEO remuneration packages.

QUESTION 6:

Governance issues

Insights from the survey about key governance matters facing directors.

- Diversity of thought and perspective is critical to success in today's operating environment and boards need to ensure that they have the right skills and experience around the table. However, this year there was a slight drop (64%, down from 68% in 2018) in the proportion of directors who said that diversity is a key consideration in making appointments to their board.
- Despite managing and appointing the CEO being one of the most critical responsibilities of the board, only 52% (compared with 63% in 2018) of directors agreed that their board regularly discusses succession planning in relation to the CEO. Similarly, fewer boards are engaging in succession planning for key staff other than the CEO (51%, down from 67% in 2018).
- The majority (70%) of directors agreed that environmental and social issues are very important to their business. This is up from 66% in 2018 and shows boards are responding to increasing expectations to focus on wider environmental and social issues.
- However only 35% of directors agreed their board is engaged and proactive on climate change risks and practices in their business. Although this is up from 29% it is important that all boards consider the impacts of climate change and the associated risks (physical, transition and liability) to their organisation.
- Just over half (57%) of boards discussed and challenged board member conflicts of interest in the last 12 months. Directors need to be vigilant about managing conflicts of interest (perceived as well as actual) and ensure that they have procedures in place.
- Given the increasingly complex operating environment, including a broadening scope of risks, we were not surprised to see more directors (40%, up from 33% in 2018) saying that the scope of director responsibilities is more likely to deter them from taking on governance roles. Similarly, more directors (47%, up from 39% in 2018) agreed that increased personal liability has made them more cautious in business decision-making.
- Time spent on compliance activities continues to increase for the majority (80%) of directors (up from 71% in 2018), and can exacerbate the challenge for boards to spend sufficient time on strategic and performance issues.

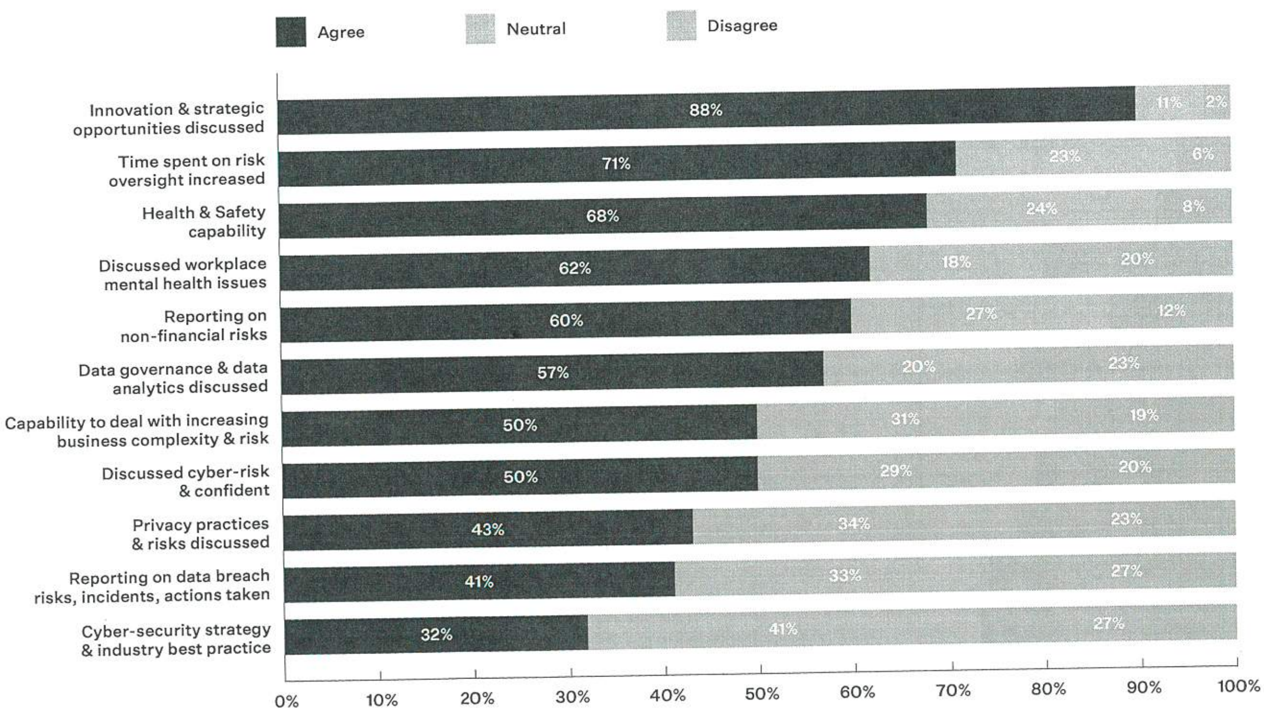


QUESTION 7:

Strategy and risk

Insights from the survey about strategy, risk and board capability in key areas.

- The majority (88%) of directors had discussed innovation and strategic opportunities in the last 12 months.
- Although 71% of directors said the time spent on risk oversight had increased in the last 12 months, directors are less confident their board has the right capabilities to deal with increased business complexity and risk (at 50%, down from 57% in 2018). There was also a drop in the proportion of directors who said their boards have the right capabilities to comply with director obligations under the Health and Safety at Work Act (at 68%, down from 75% in 2018).
- Board oversight of non-financial risks has been in the spotlight following a range of governance reviews recently, including the Australian Royal Commission inquiry. However, just 60% 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. It's critical that all boards prioritise oversight of non-financial risks and take proactive steps to mitigate them.
- Cybersecurity is a real and constant risk facing organisations globally. However, fewer boards (50% compared with 58% in 2018) are regularly discussing cyber-risk and are confident their company has the capacity to respond to a cyber-attack or incident. Further to this, only 32% of directors responded that their board has a clear picture of their organisation's overall cybersecurity strategy and how it relates to industry best practice.
- Fewer directors (41%, down from 47% in 2018) are confident that their board receives comprehensive reporting from management about data breach risks and incidents, and the actions taken to address them. It is also concerning that only 43% of directors agreed their board regularly discuss their organisation's privacy practices and risk. This should be a priority for all boards, not only because breaches can do considerable harm including reputational damage, but to prepare for the introduction of new privacy legislation in 2020.



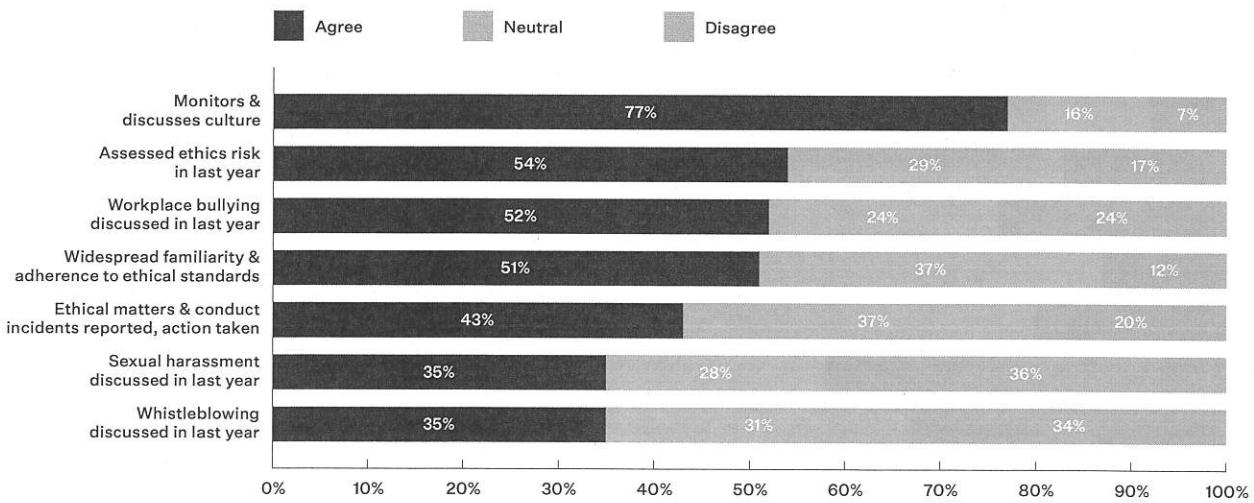
QUESTION 8:

Culture and conduct

Boards are tasked with ultimate responsibility for organisational culture and have a key role in leading and overseeing ethics and conduct risk. The board's role in relation to culture has been an area of significant focus following a number of governance reviews over the last 12 months and all boards should be taking the time to assess and monitor the culture of the organisation. Insights from the survey about culture and conduct include:

- The majority of boards (77%) monitor and regularly discuss the culture of the organisation, but close to a quarter still need to focus on this.
- It's critical that all boards have the information they need to assess and monitor ethical matters and conduct risk on a regular basis. However, just 54% (down from 55% in 2018) of directors agreed their board has assessed ethics risks, while only 43% (down from 46% in 2018) agreed they receive comprehensive reporting from management about ethical matters, conduct incidents, and the actions taken to address them.
- However, for the first time in four 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 (51%, up from 48% in 2016, 2017 and 2018).
- Given the number of high-profile bullying cases and the increased focus on sexual harassment in the workplace, including the #MeToo movement, it is surprising that only just over half (52%) of boards discussed workplace bullying in the last 12 months and only 35% (compared with 39% in 2018) discussed sexual harassment. The effects of conduct risk can be devastating for victims and also severe for organisations and should be on the risk radar of all boards.
- Whistleblowing systems and Speak Up provisions help promote and support an ethical workplace culture, yet only 35% of boards (down from 44% in 2018) have discussed whistle-blowing and how the organisation makes Speak Up provisions effective in the last 12 months. Boards play a critical role in holding management to account on transparency and accountability in relation to ethical behaviour within the workplace, and all boards need to ensure that there is appropriate processes in place for issues to be raised.

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

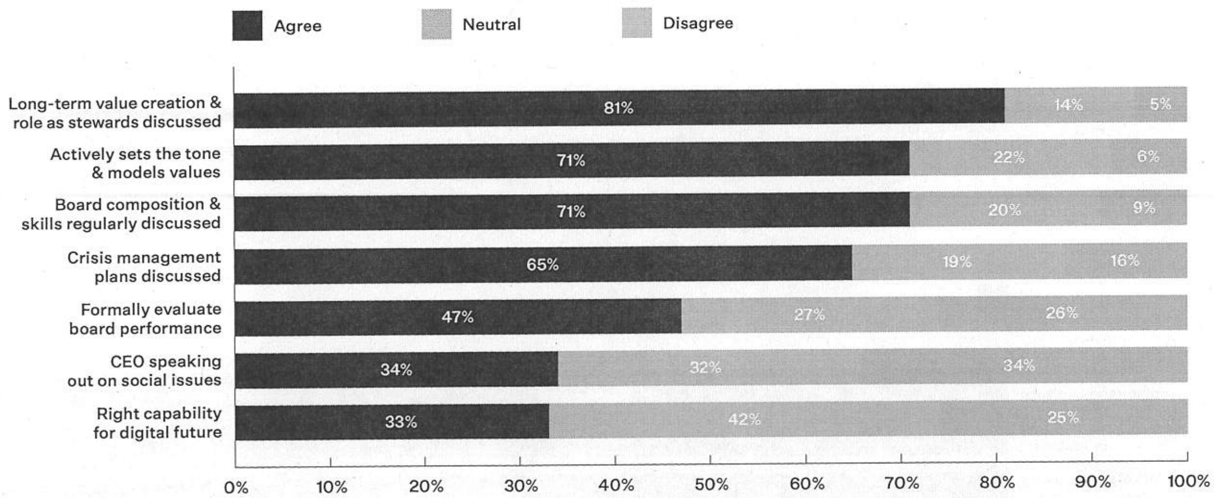


QUESTION 9:

Board leadership

Insights from the survey about board leadership include:

- The majority of boards showed they were focused on core governance and stewardship with 81% discussing long-term value creation and their role as stewards of the organisation in the last 12 months.
- With less than half (47%) of boards regularly (at least every two years) making a formal evaluation of their performance, there is clearly a learning and improvement opportunity for many boards to gain greater insight about board strengths and areas for development.
- Board composition discussions are on the agenda for the majority of boards, with 71% regularly discussing board composition/renewal and the skills/experience they need now and for the future. In a dynamic and ever-changing operating environment it's important that boards regularly discuss their capability needs, and this should be a priority in 2020 especially for the 9% that hadn't discussed this in the last year.
- Digital capability on the board needs to be elevated in board composition and capability discussions as only 33% of directors are confident that their board has the right capability to lead their organisation's digital future (which is unchanged from last year's result).
- There have been some high-profile instances of CEOs speaking out on social issues and this year we asked directors their views on this. Interestingly the results were relatively evenly split with 34% of directors agreeing that the CEO should speak out on social issues beyond the business of the organisation, 32% neutral and 34% disagreeing.
- Natural disasters and other crises are when board leadership can be most needed and valuable. Being prepared is critical and while 65% of boards discussed crisis management plans in their organisations in the last 12 months, boards that didn't should put this in the plan for 2020.



SURVEY QUESTIONS AND RESULTS

The online survey was conducted between 16 September and 2 October 2019. Results are summarised from 955 responses. Not all questions were answered by all respondents (the average skip rate per question for the 2019 survey was 4.9%). Percentages may not add to 100% due to rounding.

Q1. How do you expect the performance of the New Zealand economy to trend in the next 12 months?

Improve	11%
No Change	34%
Decline	55%

Q2. How do you expect the performance of your organisation to trend in the next 12 months?

Improve	47%
No Change	40%
Decline	14%

Q3. What, in your view, are the biggest impediments to national economic performance? (you can choose up to three)

Labour quality and capability	48%
Productivity	23%
Infrastructure	35%
Regulatory red tape	42%
Lack of strategy	29%
Market volatility	29%
Global growth	31%
Attitude / ambition	15%
Commodity prices	11%
Concentration risk	4%
Other	16%

Q4. What, in your view, is the single biggest risk facing your organisation?

Labour quality and capability	24%
Technological disruption	8%
Competition	6%
Regulatory red tape	17%
Demand	10%
Local growth	9%
Global growth	6%
Cost of capital / availability	5%
Governance	4%
Commodity prices	3%
Other	8%

Q5. In your view, should CEO remuneration packages include:

	Yes	No
Short-term incentives	54%	46%
Long-term incentives	82%	18%

Q6. Please indicate whether you agree or disagree with the following statements about governance in your organisation and issues facing boards:

	Agree	Neutral	Disagree
Compliance related activities have increased in the last 12 months.	80%	18%	3%
The scope of director responsibilities is more likely to deter me from taking on governance roles now than 12 months ago.	40%	37%	23%
Diversity is a key consideration in making board appointments	64%	26%	10%
Increased personal liability has made me more cautious (risk adverse) in business decision making in the last 12 months	47%	38%	15%
My board regularly (at least annually) discusses succession planning in relation to the CEO.	52%	28%	19%
My board regularly (at least annually) discusses succession planning in relation to key staff other than the CEO.	51%	29%	20%
My board considers environmental and social issues are very important to our business.	70%	24%	6%
My board is engaged and proactive on climate change risks and practices in our business.	35%	40%	25%
My board has discussed and challenged board member conflicts of interest in the last 12 months.	57%	27%	17%
My board has discussed how it can operate more effectively (e.g. by using technology or adjusting board processes) in the last 12 months.	77%	17%	7%

Q7. Please indicate whether you agree or disagree with the following statements about strategy and risk in your organisation:

	Agree	Neutral	Disagree
The time my board spends on risk oversight has increased in the last 12 months.	71%	23%	6%
My board has the right capabilities (skills and experience) to deal with increasing business complexity and risk.	50%	31%	19%
My board has the right capabilities (skills and experience) to comply with director obligations under the Health and Safety at Work Act.	68%	24%	8%
My board regularly (at least annually) discusses cyber-risk, and is confident our company has the capacity to respond to a cyber-attack or incident.	50%	29%	20%
In the last 12 months my board has discussed workplace mental health issues.	62%	18%	20%
In the last 12 months my board has discussed data governance and the use of data analytics to drive performance and strategic opportunities.	57%	20%	23%
My board receives comprehensive reporting from management about data breach risks and incidents, and the actions taken to address them.	41%	33%	27%
My board regularly (at least annually) discusses innovation and strategic opportunities.	88%	11%	2%
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.	60%	27%	12%
My board regularly (at least annually) discusses the organisation's privacy practices and risks.	43%	34%	23%
My board has a clear picture of our organisation's overall cyber-security strategy and how it relates to industry best practice.	32%	41%	27%

Q8. Please indicate whether you agree or disagree with the following statements about culture and conduct in your organisation (continues on page 22):

	Agree	Neutral	Disagree
My board regularly discusses and monitors the culture of the organisation.	77%	16%	7%
My board has assessed ethics risks in our organisation in the last 12 months.	54%	29%	17%
My board receives comprehensive reporting from management about ethical matters and conduct incidents, and the actions taken to address them.	43%	37%	20%

Q8 continued from page 21	Agree	Neutral	Disagree
I am confident that our board, staff, business partners and supply chains are familiar with and adhere to our organisation's ethical standards.	51%	37%	12%
My board has discussed whistle-blowing, and how the organisation makes speak-up provisions effective in the last 12 months.	35%	31%	34%
My board has discussed sexual harassment in the last 12 months.	35%	28%	36%
My board has discussed workplace bullying in the last 12 months.	52%	24%	24%

Q9. Please indicate whether you agree or disagree with the following statements about board leadership:

	Agree	Neutral	Disagree
My board has discussed long-term value creation and our role as stewards of the organisation in the last 12 months.	81%	14%	5%
My board regularly (at least annually) discusses board composition/renewal and the skills/experience we need now and for the future.	71%	20%	9%
My board regularly (at least every two years) makes a formal evaluation of its performance.	47%	27%	26%
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).	34%	32%	34%
My board has the right capability (skills and experience) to lead our organisation's digital future.	33%	42%	25%
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.	65%	19%	16%
My board consciously and actively sets the tone and models our values for organisational behaviour, e.g. in the boardroom and when dealing with management.	71%	22%	6%

Q10. Please indicate the organisational category to which your most substantial directorship belongs (this is the organisation in respect of which you have answered the questions above):

Medium to large private company (>$10 million turnover or 20+ employees)	39%
Not-for-profit organisation	23%
Small company (<20 employees)	19%
Government organisation	6%
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

November 2019