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INSTITUTE OF DIRECTORS IN NEW ZEALAND INC

boardroom

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AN ANATOMY OF BOARD FAILURES

The following article is taken from a recent address to the Wellington Branch of the Institute by Kerry McDonald, Branch Chairman and professional Company Director.

IN THIS ISSUE

Company 'failures' are not uncommon in New Zealand and Australia.

'Failures' include very large value losses to shareholders, as well as the demise of companies.

This article considers whether systematic failures by boards of directors have been a significant factor in contributing to failures. It concludes that they have been and discusses the causes and other related issues.

Other forms of organisation, including those in the State Sector, are also exposed and also suffer from systematic weaknesses causing serious performance 'failures', but for different reasons. There have been many examples of these in the New Zealand State Sector in recent years.

I have previously emphasized the role of company directors and the board in adding value, concluding that it is their principal obligation and that 'good governance' is simply a means to this end - a ticket to the game.

What are the strategies?

Important elements of system and process that directors should be looking for, and putting into 'effective use' if the company is to achieve its value potential on a sustained basis include:

- strategic and operational plans, which
- devolve into individual employee tasks, at all levels;
- a good performance management system in which the performance of all employees is reviewed against agreed results, on an individual basis at least four times per year, and which identifies training and development needs and agrees rewards;
- a potential assessment and succession planning system, and
- good leadership - which includes interpersonal leadership, organisational leadership - improvement by working on systems, not in them, and sectoral leadership - improving the policy environment in which the business operates.

As we know:

- The board of a company is ultimately responsible for its performance, including in particular the performance of management.
- The chairman of the board has a particular responsibility for leading the board, making sure it is working effectively and dealing with the issues it needs to for the company to be successful.
- Effective boards need a range of capabilities and diversity of personal styles, values and attitudes.

Some key factors evident in recent corporate failures include:

- A lack of understanding of the role of the board in overseeing management and holding management accountable for its performance.
- A lack of knowledge about the real state of the business and its performance.
- A lack of skills, experience and capability necessary to make good and timely judgements and to hold management accountable.
- A lack of inclination or courage to act effectively and on a timely basis.
- A lack of leadership and/or teamwork to act effectively and on a timely basis.

Many factors, including externals, will impact adversely on company performance from time to time. A board must be able to form a sound view on whether management is performing satisfactorily in the circumstances and what, if anything, needs to be done by the board.

Kerry McDonald

What constitutes failure?

- A typical failure scenario sees several years of inadequate profitability, a weak share price and increasing market agitation about the poor performance.
- The board is typically supportive of management.
- The poor performance is sustained, until a trigger causes action, by shareholders or simply through a clear loss of credibility and confidence in the company.
- Typically, the CEO is removed, with a generous severance payment.
- If the board has not acted decisively the chairman and other directors are often removed.
- Meanwhile shareholders lose value.

It is all too easy for us to put a name to this scenario, in fact there are probably many.

Why?

So why does this happen, particularly with large listed companies with supposedly capable boards?

- A key issue is whether directors have the information, experience and skills to make a sound judgement about what is acceptable management performance.
- If external factors - currencies, interest rates, input prices, product prices, government policies, labour arrangements, etc, are adverse, what is a reasonable expectation of management?
- Does management have in place the necessary systems and processes, and have the skills to respond effectively?
- Is management well informed?
- Is it communicating effectively, with the board and stakeholders generally?

Non executive directors

Some of the recent momentum in corporate governance is helpful, emphasizing the separation between management and the board and the important role of non executive directors.

Here is some recent relevant advice to directors from a major US law firm:

- Boards often play too small a role in the life, direction and culture of the company.
- Although boards appear to satisfy many checklists, external directors often exhibit insufficient energy, judgement or leadership.
- Outside directors need to spend the time to understand the business.
- They must insist that serious issues and problems are brought to the board.
- They must maintain regular contact with officers below CEO and CFO level.

Some pertinent examples:

The National Australia Bank had difficulties, (1) triggered by unauthorised forex trading losses. Various published reports concluded that 'forex trading losses and policy breaches were routinely concealed.'

Causes:

- Lack of integrity.
- Risk and control framework.
- Governance and culture issues:
  - tick the box culture,
  - lack of understanding and responsibility,
  - arrogance,
  - limited or incorrect information to board.
- A 'probing of management' may have revealed the seriousness of control breakdowns.(3)
- Extensive internal controls failed at every level.
- Board was not sufficiently proactive.

In the case of James Hardie's problems (2) there was a Special Commission of Enquiry which found that:

- Management was fully informed but the board was not.
- Numerous expert reports were obtained.
- No 'expert reports' or 'experts' came before the board.
- Board focused on communications, not the substantive issues.
- Board approved 'seriously misleading' media releases.
- No director read the expert reports - surely at least one might have.
- No summaries were requested.
- Management 'abused trust', orchestrating 'experts' and information to the board.
- Problematic culture and morality.

Then, closer to home, was the case of Fletcher Challenge Limited, which was well covered in the book "Battle of the Titans' by Bruce Wallace. The performance of the Company was clearly below par for a substantial period, yet the board was not able to assert control and restore performance.

In Conclusion:

- It is in the nature of business that companies fail.
- However, it raises serious issues about board performance when a change in management returns a company to good performance, after a protracted period of poor performance.
- Boards, too often, are not effective in overseeing the performance of management.
- Too often they lack the knowledge, capability, experience or commitment to do so.
- Too often boards become divided and fail to act decisively taking a year or more when 3-6 months would be more appropriate.
- This experience is sufficiently common to give grounds for serious concern.

The contents of this article will be discussed in depth by Kerry McDonald at the Institute's upcoming Senior Directors' Workshop in October. For details see page 7.

POLICY DOCUMENTS

The following Best Practice paper is under review at the Institute's National Office:

Code of Practice for Directors

Members wishing to comment on the paper are invited to contact

The Manager, Research and Policy,

Richard Baker on (04) 499 0076 or richard.baker@iod.org.nz

By September 23, 2005

The paper is available on the Institute's website www.iod.org.nz/members only

"INDISPENSABLE FOR BUSINESS RESULTS" WHY DIRECTORS SHOULD BE ADVOCATES FOR PROJECT MANAGEMENT

History

Back in 1969, a small group of visionaries gathered over dinner at a restaurant in Philadelphia, USA and agreed to create an organisation to advocate for project management as a strategic competency in the business world, as well as to represent project managers and to address their educational and professional development needs.

At the time, project managers were a new breed and their numbers were meagre, to say the least. But these 'Founders' sensed a pressing need for a professional organisation to elevate project management in the eyes of business leaders and, at the same time, facilitate education, certification, knowledge-sharing and networking opportunities for project managers across disciplinary lines. From that dinner meeting, Project Management Institute (PMI) was launched, although I would be surprised if any of the Founders ever imagined that 35 years later PMI would have evolved into the world's leading advocacy association for the project management profession that it is today.

Today there are over 180,000 members in nearly 150 countries including New Zealand, and an annual growth rate approaching 25%.

Let's face it. We all function in a highly competitive global economy where yesterday's laggard is tomorrow's market leader. Boards of directors and senior business managers globally are looking for ways to compete more effectively in this highly volatile environment. Some organisations strategise well, but their execution leaves something to be desired. Others execute well, but haven't developed a strategic plan to drive the execution. I'm here to argue that project management is the very tool that bridges strategic planning and execution, resulting in better bottom line results on a far more predictable basis.

How?

The answer lies in the nine basic knowledge areas defined in *A Guide to the Project Management Body of Knowledge*. They include integration, scope, time, cost, quality, human resource, communications, risk and procurement. which apply universally to all projects in all disciplines. By sufficiently adhering to the requirements outlined in each of these knowledge components, organisations can go a long way toward ensuring that planning and execution are strategically aligned, significantly enhancing the prospect for more successful business results.

At the same time as global competitveness, the need for corporate transparency has become far more demanding. As a result of corporate misdemeanors and subsequent collapses around the world and the ongoing investigations at other global organisations such as Volkswagen in Europe, regulatory oversight and corporate compliance have become more demanding as directors scramble for ways to comply with statutes such as the Sarbanes-Oxley Act.

Project management standards, such as PMI's *Organisational Project Management Maturity Model*, can be a crucial tool in better assuring adequate corporate control measures by assessing an organisation's project management maturity level against nearly 600 industry 'best practices'. This tool is not a panacea for preventing the next major corporate scandal, but it can be a very useful element in a comprehensive portfolio of oversight measures to better ensure compliance.

Current situation

The profession has made great strides, particularly in the last 5 to 8 years, and individual practitioners are receiving more visibility as change agents within organizations. However, project managers have not historically had a direct line of communication and responsibility to senior management. Additionally, project managers have traditionally been viewed and assigned on a functional basis instead of being strategically assigned to a project from a Project Management Office with a direct reporting relationship to the CEO. Career-pathing, while increasingly being implemented in organisations to better prepare project managers for the future, is still not being maximised as a professional development tool. The key for the profession and for PMI as its chief advocate is to continue to preach the gospel of project management as a means of more deliberately and effectively managing change to business, government and the media alike.

The past 35 years have seen the profession mature a great deal and PMI has experienced phenomenal growth since that 'Founders' dinner. As professional project managers we take great pride in these achievements, but our excitement is tempered knowing that current studies estimate the project management population to be in the neighbourhood of 16.5 million practitioners. This puts our growth in perspective. It also demonstrates to us that while we've come a long way since 1969, there are still many project managers who could benefit from PMI's programmes, products and services, but we have yet to reach them.

The future

That's our challenge going forward, only to be made more acute as organisations in emerging economies of Eastern Europe and Asia Pacific demand the knowledge and skills of professional project managers. But I take heart from the vision and determination of those original 'Founders' and am convinced that the project management profession will meet those challenges in the future, thus making project management indispensable for business results.

Ian Fraser

WHAT MADE IT

The Cawthron Institute is an independent, community-owned research organisation in Nelson, which began operations in 1919. It has an outstanding reputation as a leader in its field of environmental and aquaculture research. It is highly respected for its honesty and integrity, and acknowledged for its contributions to the regional and national economy.

In 1988/89 Cawthron returned a loss on a turnover of $1.4m with a staff of 35. For the 2003/04 year it returned a profit of $900k on a turnover of $11.5M with a staff in excess of 150. Its Chief Executive for the past 17 years, **Graeme Robertson**, looks back on some of the less obvious but critical factors behind its recent successes.

A tough environment

In spite of intense competition in all areas of its operations, Cawthron has managed to grow its business substantially. In 1988/89 it returned a loss on a turnover of $1.4m with a staff of 35 or so. For the 2003/04 year it returned a profit of $900K on a turnover of $11.5M with a staff in excess of 150.

Cawthron has often faced competition from much larger organisations with deeper pockets, sometimes strong near-monopoly positions and better locations. On the other hand, we have enjoyed the advantages of being different - a smaller, independent, NGO - free from some of the baggage of the education sector.

For the first 10 years or so of my tenure the emphasis was on increasing its size. The organisation had to reach critical mass in each of its key areas. More people meant more new science knowledge, which in turn attracted more funding and even more new people. A lean overhead structure and careful attention to costs of capital projects meant that this expansion could be funded internally. In recent years, as the pace of expansion quickened, more emphasis has been placed on financial returns and the demand for capital has increased.

Many of the reasons for Cawthron's success are fairly obvious and are no different from any other business. Some, however, are not at all obvious and, I think, are what makes Cawthron different from other science organisations and very different from many commercial operations.

Openness and listening

An *'open'* approach was a necessity in 1988. Those staff remaining after a period of downsizing were of excellent quality but endured a terrible working environment, full of fear and uncertainty about the future, as well as trying to deal with severely disrupted internal working relationships. Recovery depended on mending these relationships. There was no shortage of commitment; staff were desperate to keep their jobs. Instead, management effort had to be focused on uniting people, on developing a common sense of purpose and goals. The chief executive became counsellor for the first three months.

The results were gratifying. Research leader Dr. Henry Kaspar built up a science team to beyond critical mass, while the presence of a high volume, routine analytical testing laboratory provided a daily model of how to interact with the outside world. The constructive tensions which arose between these two quite different activities are still very important for Cawthron's balance today.

I came across an article in the Harvard Business Review presenting two quite polarising management models which they called 'heroic' and 'engaging'.

The *'heroic'* model, based on self, sees managers as important people. They become more important the higher they go. Clear, bold, strategic direction comes down from the top for everyone else to implement. Overcoming resistance to change is the issue. Management is about decision making based on facts and analysis. What matters is what is measured.

The *'engaging'* model, based on collaboration, also sees managers as vital, but to help others to do the important work. The organisation is a *network*, not a *hierarchy*. Strategies emerge from this network, as people solve small problems that grow into large initiatives. Management is about releasing the energy that exists naturally within people. Human values, many of which cannot be measured, matter.

My approach, and the whole way in which the Cawthron management team functions, is based heavily on this 'engaging' model.

Balance

"The task of the manager is to remove the barriers which prevent people from doing a good job." This according to W. Edward Demmer.[2]

One of these barriers is excessive management control. One of the critical factors in Cawthron's success has been finding and maintaining an appropriate balance between control and freedom.

Freedom

- Is very attractive to creative, innovative people.
  Example: A leading scientist was attracted to Cawthron because of its lack of bureaucracy and the freedom to set his own research goals and pursue them with the minimum of interference.
- The presence of such people draws in others.
  That person attracted another, who later became his manager, then several more - all real assets to Cawthron
- Provides strong self motivation
  There is an overwhelming positive, can-do spirit around Cawthron. A good example is the intensive larval rearing system, CUDLS. This came about because we were faced with the realisation that what we had promised FRST[3] was utterly impossible with our resources. So we simply invented a radical, much better way to do it. A world first at that time.
- Failure is welcomed as a learning experience.
  This applies even for large scale shellfish production at our Glenhaven Aquaculture Centre. While this approach can hamper production (when scientists experiment unsuccessfully during a run) it has led to real breakthroughs in hatchery technology.
- Is essential for a culture which fosters innovation.
  Example: In spite of constraints on capital expenditure, the challenge becomes 'how can we do it with what we've got?'
- A realisation that financial success in the medium to long term is more important than short term results.

There is a danger that, as one improves systems and controls, one ends up with an organisation which looks beautiful when viewed from above or outside, but inside, all the key, vital and innovative people have departed.

WORK?

Engage with customers

One feature of Cawthron is a strong desire to engage with customers to find practical solutions to problems. We have consistently scored at or near the top in surveys of the connectedness between research providers and research users. This was illustrated well in last year's NBR poll, which put Cawthron in the top five 'most exciting companies' in our sector, as assessed by stakeholders.

At ease with complexity and uncertainty

Cawthron works within a difficult, highly competitive environment in which the rules are continuously changing. FRST funding decisions can lead to large and sudden changes, both up and down, as well as delays in decision making which can have severe impacts on organisations with limited ability to carry key staff.

Cawthron's business is highly complex with a diversity that, according to one business consultant recently 'many companies would die for'. We do not have one core business, we have several. They are closely interrelated, but the links and common success factors are subtle and occur at the 'micro' level. It is not possible to find a simple phrase which adequately describes Cawthron's core business - it takes quite a few sentences.

1 J Gosling and H Mintzberg , HBR, November 2003
2 W. Edwards Deming is a business consultant. http://www.deming.org/
3 Foundation for Research Science and Technology

NEW BRANCH MANAGER IN AUCKLAND

Kathryn Dunn has joined the Institute as Auckland Branch Manager. She takes over the role recently vacated by long serving manager Alison Brown, who has left to run an art centre in Auckland.

Kathryn has a background in customer service, sales, event management and corporate training. She previously worked for Bellsouth in customer service and sales roles and as National Training Manager at Email Appliances. She has been self-employed for the past 4 years in the café business. Kathryn has a natural passion for the hospitality industry and has enjoyed the challenges of interacting and meeting customer needs, thus establishing a loyal clientele. She says she will balance her time between her new part-time role with the Institute and some of her own projects which include creative writing and training. Outside working hours Kathryn enjoys writing, painting, cooking and scuba diving.

Kathryn is looking forward to coordinating Institute functions and meeting Auckland members. She welcomes your calls and emails and can be contacted anytime on: phone/fax: 09 520 0462, mobile: 021 324 340 or email: Auckland.branch@iod.org.nz

And in Canterbury, Sharynn Beaven has returned from maternity leave and has resumed her position as Branch Manager. Her contact numbers remain the same (see page 16).

Benefits of Membership

Insurance

Marsh Ltd is New Zealand's leading risk and insurance specialist, with particular expertise in arranging Directors' and Officers' Cover. Marsh offers members a complimentary benchmarking and risk review service. This includes a review of any existing Directors' and Officers' cover already in place. They can also tailor liability programmes to best suit members' individual needs. Contact Clive Davidson (04) 474 1107 or clive.j.davidson@marsh.com

Accommodation

Heritage Hotels offers discounted accommodation rates in **Auckland, Rotorua, Wellington, Nelson, Hanmer Springs, Christchurch and Queenstown** to Institute of Directors' members. These rates are valid to 30 September 2006. Please check the Institute's website, www.iod.org.nz/members/membersonly for the discounted room rates and reservation details.

The George Hotel, overlooking Hagley Park in **Christchurch** offers discounted accommodation rates to Institute of Directors' members. Please check the Institute's website, www.iod.org.nz/members/membersonly for the discounted room rates and reservation details.

The **Auckland** Club, on Shortland Street in Auckland, offers their accommodation suites at a rate of $112.50 GST inclusive, a discount of 25% to Institute of Directors' members. For reservations, contact the Auckland Club on (09) 303-1526.

The Mercure Hotel, situated at the top of the Terrace in **Wellington** offers a special rate of $130.00 excl. GST including a full buffet breakfast each morning to Institute of Directors' members. This rate is valid until 31 December 2005. For reservations, contact The Mercure Hotel on (04) 385-9829.

The London Waterloo Novotel, situated opposite Parliament Buildings in **London** offers Institute of Directors' members special rates from GBP135 inclusive (Monday-Thursday) and GBP89 inclusive (Friday-Sunday). For reservations please email H1785@accor-hotels.com.

The IoD Pall Mall, **London** offers access to their reading room, work stations, meeting rooms and restaurant. If you wish to utilise these facilities please contact Ann den Boer at the National Office prior to your departure to make the necessary arrangements on your behalf.

Rental Cars

Hertz is the preferred rental vehicle supplier to the Institute and offers discounted rates to members. For special rates call 0800 654 321 and quote CDP 497595.

Please contact Ann den Boer, Branch Services Manager for more information (04) 499 0076 or ann.denboer@iod.org.nz

Members can download the latest *Boardroom* from our website www.iod.org.nz/members/membersonly/publications

MINISTRY OF FOREIGN AFFAIRS BUSINESS ISSUES

WTO negotiations in trouble

There are just 13 weeks to go before world trade ministers meet in Hong Kong for what will be a make-or-break session to agree to further liberalise global trade. Right now the World Trade Organisation's Doha Development Round negotiations are at a standstill - August's European summer break has come at the end of an intense but unsuccessful bid to develop draft texts of an agreement.

Some trade ministers meeting in July in China did tentatively agree to use a compromise proposed by a group of developing countries led by Brazil and India but it was insufficient for country representatives to leave the meeting feeling in any way optimistic.

It was clear that most developing countries would not soften their position on a formula to reduce tariffs on industrial goods (wanted by developed countries). They want the United States to further reduce its domestic subsidies on agriculture and the European Union to consider what they describe as 'a more realistic outcome on market access' in agriculture.

This month, the pressure for progress will fire up again with the resumption of negotiations and the Hong Kong ministerial deadline of 13 December fast approaching. Progress on all elements of the negotiation is interlinked. While this adds to the complexity of the negotiation, it is compounded by the fact that negotiations are stalled on agriculture, industrial tariffs and services.

For agriculture, a breakthrough made in May on conversion of agricultural tariff data has not been translated into real movement on core issues around market access. Agreement still needs to be reached on the exact shape of a formula to cut industrial tariffs, although there is a broad agreement that high tariffs will be cut more than low tariffs.

And in services the offers on the table are not considered of sufficient quality to provide the basis for an agreement. The rules negotiation, which includes anti-dumping and subsidies, is making slow progress while negotiations on environmental goods and fish subsidies are not positive.

All these 'threads' need to progress forward and be sewn together to form an agreement. Leading that process will be Frenchman Pascal Lamy who, from this month, will take over the role of WTO Director-General. The WTO's agriculture negotiation will be lead by New Zealand's recently appointed WTO Ambassador Crawford Falconer.

OECD 2005 Economic Survey of New Zealand

The recently released OECD 2005 Economic Survey of New Zealand forecasts a bright medium-term outlook for the economy, despite an expected period of slower growth. The survey focused on how to build on the country's recent strong performance to lift living standards at a faster rate than projected. It identified three broad challenges to deliver on this objective.

- To raise productivity growth further. Policy improvements could be made in the areas of product market competition, business taxation, infrastructure provision, labour markets, innovation and human capital formation.
- To boost participation among under-represented groups in the labour market, specifically non-beneficiary mothers and working age beneficiaries.
- To continue managing public finances prudently and effectively in order to maintain the gains from fiscal consolidation that have been achieved over the past decade.

The OECD argues that a cautious approach to major new spending or tax incentives is warranted given the country's aging population and other future pressures on government spending. This would ensure the long term fiscal position was not weakened. The Paris-based organisation also advised that spending needs to be more effectively channeled towards the highest priority areas.

Trans-Pacific SEP signed and study released

All four countries have now signed the Trans-Pacific Strategic Economic Partnership (SEP) and accompanying agreements on labour and environment with Brunei's High Commissioner putting his signature to the documents last month. Two weeks earlier, representatives of New Zealand, Chile and Singapore signed the documents at a ceremony presided over by Prime Minister Helen Clark.

At the same time a National Interest Analysis, which assesses the impact of the Trans-Pacific SEP, was submitted to Parliament along with the three agreements, marking the start of the parliamentary process to examine the negotiated outcome. The Trans-Pacific SEP is a high-quality four-way trade agreement that has significant strategic and economic benefits for New Zealand.

Together the four countries, which are all member economies of APEC, have a combined Gross Domestic Product of NZ$400 billion and trade flows among the four countries are worth more than NZ$2.5 billion. This is the second free trade agreement signed this year by New Zealand. In April, New Zealand signed a Closer Economic Partnership with Thailand that entered into force on 1 July. The Trans-Pacific SEP is expected to enter into force on 1 January 2006.

For further information visit the website: www.mfat.govt.nz

1 http://www.mercerhr.com/knowledgecenter/reportsummary.jhtml/dynamic/idContent/1180620
2 Adapted from http://www.wib.org/wb_articles/dir_oct00/eval_oct00.htm

BOARD EVALUATION FOR THE SPORT AND RECREATION SECTOR

Sport and Recreation New Zealand (SPARC) approached the Institute of Directors earlier this year to develop a board evaluation system which would accommodate the needs of the many directors working in the sport and recreation sector and the variety of issues they face.

The Institute, along with Iain McCormick and Graham Nahkies, has produced a system which can be used online, providing comprehensive reports and recommendations on how each board can operate more effectively. It is already proving to be effective amongst various national sports organisations.

"Sport in New Zealand is finally realising, partly through the leadership of SPARC, the extraordinary importance of good governance," said Don Mackinnon, Chair of Netball New Zealand. "This system has a very well formed set of evaluation questions which address the important issues of governance".

The content and 'look and feel' of the system is consistent with SPARC's Nine Steps to Good Governance manual, which provides a clear overview of the requirements for a sound board role, structure and operation. However, SPARC recognised that a manual was not enough to bring about change and that boards required clear feedback on their performance to enhance their role.

SPARC recognises that good governance within the sector will help achieve its mission - to win in sports that matter to New Zealand, to be the most active nation, and to have in place the most effective sport and physical recreation systems.

The successful launch of the sport and recreation version of the Institute's Director Evaluation System has stimulated interest from other sector groups for tailored versions of the system which meet their particular needs. The Institute is happy to consider these requests.

Please contact either Wray Wilson of the Institute of Directors on 04 499 0076 or wray.wilson@iiod.org.nz or John Page john.page@sparc.org.nz

SENIOR DIRECTORS WORKSHOP

In response to demand from senior directors and past participants of the Company Directors' Course the Institute is conducting a Senior Directors' Workshop in Wellington over the period 13 - 14 October 2005.Held over a day and a half, the workshop features an impressive line up of speakers covering a diverse range of contemporary issues. They include:

Revived on the Table, A Governance Case Study of Air NZ
Mr. John Palmer, Chairman, Air New Zealand

Legislative and Regulatory Creep, the Effect on the Economy and Markets
Dr Brent Layton, Director, New Zealand Institute for Economic Research

The Anatomy of Failures in Corporate Governance
Mr. Kerry McDonald, Professional Director

When a Board/CEO Relationship Sours - Legal, Political and Personal Consequences
Mr. Michael Quigg, Partner, Quigg Partners

Crossing the Ditch, Why and How NZ Companies can Work Overseas
Mr. Rod Oram, Commentator and Journalist

The Tensions of Ownership - Directing in Different Organisational Structures and Ownership Models
Mr. Denham Shale, Professional Director

INTEGRITY AND ENTERPRISE

The course is open to all members but is aimed at directors with some experience. For further information on the workshop and registration details, please contact Margaret Stevenson-Wright on (04) 499-0076 or email margaret.stevenson-wright@iod.org.nz

Business Facilities for Members

Wellington

National Office offers members a spacious area on the second floor of the Wellington Club building at 88 The Terrace. In the middle of the CBD and a short walk from Parliament, these premises include two private offices, a six seater meeting room, a workspace and library with email and internet access and refreshment facilities. In addition there is a 12 seat boardroom which is available on request.

Contact Marion Porteous
(04) 499 0076
marion.porteous@iod.org.nz

Auckland

A complimentary room is available for members for up to two hours, subject to availability, at the Auckland Club in the central city. Computer equipment is complimentary, as is tea and coffee, and other facilities are available on a user pays basis.

Contact Reception with your membership number
(09) 303 1526
reception@aucklandclub.co.nz.

Christchurch

The George Hotel is situated opposite Hagley Park near the heart of the city, and offers specific facilities. Members can book an accommodation room for a small group for up to two hours at no cost, twice a month. This includes bathroom and refreshment facilities. Members can also book a function room for over 40 people for a party or dinner, and the room charge and non-electrical equipment is complimentary.

Contact Robyn Bishell, Conference Manager with your membership number (03) 371 0255
conferences@thegeorge.com

DIRECTORS' AND OFFICERS' COVER- IMPORTANT ASPECTS

Clive Davidson

Today's directors and officers face increased challenges and the potential for significant personal liability as a result of the changing corporate legal environment. With increased scrutiny from Government regulators, and increased 'duty of care' provisions in the New Zealand Companies Act 1993, directors and officers must be more diligent in protecting the interests of the company, its shareholders and themselves.

Recently, plaintiffs in the WorldCom Securities Litigation reached what has been described as a landmark settlement in which 12 former WorldCom directors and officers agreed to pay $24.75 million of their own money to resolve claims filed by the company's securities holders. In today's environment, the ability of companies to attract highly qualified directors and officers depends on the strength of their indemnification rights and their D&O insurance policies.

D&O policies provide three types of coverage.

- Side A covers directors and officers who are not being indemnified by the company, either because indemnification is not permitted or the company is bankrupt.
- Side B provides coverage to the company to the extent that it pays settlements, judgments, damages and/or defence costs for its directors and officers.
- Side C, or entity coverage, is often purchased for specific capital raising events, and provides coverage to the company for 'securities claims' filed against the company.

Typically, Side A coverage requires the directors and officers to pay a small or no 'retention amount,' or deductible, while Side B coverage and entity coverage are more expensive.

D&O insurance provides indemnity coverage and therefore, the insurer's duty to pay a claim is typically not triggered until the insured has paid a settlement or judgement. As mentioned in an earlier article in Boardroom, the insurers generally do not have a duty to defend under a D&O policy. Many D&O policies provide for insurer's defence costs. A frequent issue that arises is whether the insurer remains obligated to advance defence costs where it has raised significant coverage issues or is seeking to rescind the policy based on a material misrepresentation. Although there is some mixed case law on this issue, a number of recent decisions have held that the insurer must continue to advance defence costs until the coverage issues are resolved. (Refer July's *Boardroom* for more detail.)

Exclusions may be included in the D&O policy or added by endorsement. The insurer has the burden of proving that an otherwise covered claim is excluded by the terms of the policy. D&O insurers typically exclude coverage for non-fortuitous losses, such as claims for which notice was provided under a prior policy, insider trading, deliberate fraudulent acts or dishonest conduct of the insured, and the gaining in fact of a personal profit or advantage to which the insured was not legally entitled. A D&O insurer may also seek to rescind a policy where it believes that the insured made a material misrepresentation in its application for coverage.

A severability clause in a D&O insurance policy may, however, preserve coverage for certain insureds even if other insureds were guilty of fraudulently inducing the insurer to issue the policy. This prohibits the insurer from rescinding the D&O policy based on a misrepresentation in the proposal form, as against those insureds who had not participated in the preparation of the proposal.

Directors and officers are strongly advised to comprehensively review their D&O policy terms and their coverage implications with respect to their own unique circumstances and negotiate for coverage that best addresses their needs. Negotiating terms at the inception of the policy is infinitely better than discovering policy deficiencies after a claim is made. That is why it is important to utilise an insurance broker with specialist expertise in providing advice in the areas of personal liability for directors.

Clive Davidson is Managing Principal, Marsh

Mind your own business: The government has dropped a recommendation for enforced account filing by large private entities (MED press release 8 August). "Any public interest in full disclosure was outweighed by the loss of commercial confidentiality and/or shareholder privacy." As noted here (June 2005) commentators saw negative unintended consequences if enacted. If you have not lent to, or invested funds in, a company and you cannot demonstrate any other direct relationship with your interests at stake, why should you be able to lean over the fence at your leisure and inspect its finances. Why indeed? Chalk one up for applied common sense, the basis of all good law.

Nothing Mickey Mouse here: Disney hired Michael Ovitz as number 2 to Michael Eisner in 1995 and 14 months later paid him USD140 million to go away. He had not been up to the job. Disney shareholders were a tad displeased and brought suit against several of Disney's directors for breach of their fiduciary duties to shareholders. While this was a sorry story of incredible cronyism, indolence and poor management, Delaware's Court of Chancery found no liability on the part of the directors. The directors may have been dumb and exercised poor judgment, they may even have been guilty of "ordinary negligence", but they had followed correct procedure and they had acted in good faith. While Delaware is a business friendly state of the union, this decision is still a refreshing restatement that failure is to business what sin is to religion; a vital component. Shareholders should expect the very best endeavours and commitment from their directors, personal disinterest, due compliance and proper purpose too, but they cannot expect, or demand, infallibility. Directors can be honest, well intentioned, procedurally compliant, diligent and wrong. This is not a breach of duty; it is a mark of humanity. Chalk another one up for applied common sense.

Rumbling on: As noted previously in this column (Boardroom June 2005), the issue of whether NZX listing rule changes can be adopted by reference into a company's constitution is indeed rumbling on. *The Independent* 3 August 2005 reports that Bruce Sheppard is preparing to sue CDL Hotels. He voted against the special resolution adopting the change and, relying on minority buy out provisions of the Companies Act (s. 110), asked CDL to buy out his shares at fair value. They refused.

Ignoring minority buy outs but looking rather at the simple requirement that changing a constitution needs a special resolution approved by shareholders; this issue could be a lovely example of two competing and compelling arguments.

A lawyer might say that a change to a company's constitution which incorporates the NZX listing rules by reference and which defines the listing rules as "*the NZX listing rules as they may be amended from time to time by NZX*" [emphasis added] is future proofed. If the NZX Listing Rules later change there has been no change to the company's constitution because the rules are defined both as they are and as they might be. The logic is clear and powerful.

"What about reality?" might respond a pragmatic shareholder. If you print out a copy of the constitution on the day of adoption of the listing rule reference and include the full text of the listing rules, you will have a specific form of the constitution. If you later print out the constitution including the full text of subsequently changed listing rules, you will have a different form of the constitution without an accompanying special resolution of shareholders. Surely there will be a clear change. Did Parliament really intend two different forms of words to be the same constitution? The argument can certainly be considered.

Not so might rejoin the lawyer. The issue is not that the constitution has changed, it is that the change has been approved by shareholders in a special resolution. On adoption of the special resolution changing the constitution, did not the shareholders specifically contemplate and approve both present and any future forms affected by listing rule changes? A later form of the constitution therefore had been approved by shareholders pursuant to a special resolution.

We'll keep you updated, whenever possible, on this little question.

Governance matters: Some interesting snippets from a recent article on Governance Ratings ("Looking beyond the numbers - Governance Concerns in Scoring process" 20 June 2005 AFP Exchange). Corporate governance scores within credit ratings could soon see companies with poor governance practices experiencing higher cost of funds and changes to access to credit. Moodys, Standard & Poors, Fitch Ratings and Dominion have all now introduced or renewed a focus on corporate governance in the scoring process for public companies. New Zealand companies looking at overseas expansion and funding should file that away for future reference. While not free from criticism (subjective assessments, transparency of process) governance scores as part of a corporate rating look set to feature more and more in the future. All agencies interviewed for the article agreed that the single most important building block for good corporate governance was board oversight. One can drill down on that quite a bit. What makes effective board oversight? How about an effective board. The major driver of an effective board is its culture. Governance Notes looks forward to the day when a functional board culture can be accurately measured as opposed to being clearly observed. The upcoming Best Practice Statement, "The Role of the Board in Adding Value", will have more to say on an effective board culture.

DISCLOSURE OF EXECUTIVE PAY
NO PLACE TO HIDE?

Are the current norms regarding disclosure of executive remuneration in New Zealand sustainable in a global marketplace, where the trend is towards increasing levels of disclosure and transparency?

The current 'state of play' in New Zealand is based on the Securities Commission guidelines which require minimal information on executive pay. Businesses are required to provide data on the numbers of individuals paid above $100,000 annually, falling into bands of $10,000. Typically, the notes to annual reports will provide a single table outlining the salary bands in existence and the absolute number of executives whose total packages sit within these bands. There is no detail presented on the elements of the package; base salary, benefits and performance pay received or the design behind any performance pay plans. There is no discussion of what, if any, targets are included in performance pay, or how those targets are measured. As a result, shareholders are unable to assess the alignment of executive pay with overall company performance and investors are unable to make fully informed investment decisions.

In Australia, publicly listed companies are required to fully disclose remuneration details for each of the five highest paid executives within the company. In fact, there is an initiative gaining momentum which would require extensive disclosure of the ten highest paid and/or highest impact individuals within a single business. This disclosure results from the ASX's adoption in 2003 of the Corporate Governance Council's new set of Principles of Good Corporate Governance.

Therefore, the typical Australian annual report may devote up to 20 pages in its notes to a comprehensive discussion of base pay levels, cash and non-cash benefits, and performance pay scheme design and actual payouts. Targets within both short-term and long-term incentive plans, both of which are prevalent in Australian businesses, are disclosed and tracked and compared with company performance and shareholder returns. The single most popular goal in performance pay plans in Australia is TSR - Total Shareholder Return. Often there is considerable historical analysis presented which tracks how executive payouts have aligned with overall company performance. Share plans and share option plans are also discussed in exquisite detail in terms of plan design and payouts. This level of transparency allows shareholders and potential investors to adequately assess the reward structure of those executives in a company and evaluate its alignment with company strategy and performance.

New Zealand companies to date have not willingly supplied this level of information in their annual reports. Aversion to the comprehensive disclosure of an individual's remuneration package is understandable in a cultural climate where the Tall Poppy Syndrome is a common affliction. In our view, it is inevitable that New Zealand's reporting requirements in this and other areas of corporate governance will eventually be more closely aligned with the regulations currently applied in Australia. The tendency is to follow corporate governance norms developed overseas, and in order to remain competitive in an increasingly global market place, this means New Zealand can expect to undergo further changes in this arena.

In our view, current levels of transparency do not inspire investor confidence in directors' abilities to make decisions regarding the extent to which top executives will be held accountable for their actions and subsequent company performance. Many financial commentators are perplexed at the occasional contradictions between executive pay and company performance. In some cases, Chief Executives have left organisations with huge payouts while the company has reported major profit downgrades. Investors are increasingly intolerant of seeing rewards paid to top executives that are at odds with company performance and thus the performance of their investments.

The responsibility of the board to remunerate fairly and responsibly has always been an important consideration for directors. In future, the effective design of executive remuneration packages and the extent to which they are adequately linked to company performance will be under increasing public scrutiny. Directors will be expected to be knowledgeable about the best practices in executive remuneration and be prepared to make all the relevant information available to shareholders allowing them to judge for themselves. This is yet another area where boards will be held accountable for the design and implementation of effective and fully aligned remuneration practice. With added disclosure, there will be no place to hide.

Veronica Hopkins and Peter Ross are Principalsat Sheffield.

"PRODUCT STEWARDSHIP" AND THE ILLUSION OF "BACK-STOP" REGULATION

The Government is calling for submissions on a discussion paper produced by the Ministry for the Environment that proposes radical changes to waste management in New Zealand. Essentially, the proposal is to shift the burden of waste management from taxpayers and ratepayers to producers, importers, retailers and consumers of products. This is referred to as 'product stewardship'.

Product stewardship can be implemented in a number of ways - the common theme is for producers, importers, retailers and consumers to face the cost of waste (and so face incentives to minimise waste). Schemes can involve changes to product design, consumer information on products, addition of 'advance disposal fees' onto the price of products, and product 'take back' schemes, where producers or retailers must accept the products back at the end of their useful life.

A number of voluntary product stewardship schemes already operate in New Zealand. By agreement, those involved have taken some responsibility for the disposal of products such as tyres, mobile phones and used oil.

Similar developments are occurring in other countries. Europe, Canada, and some Australian States have developed product stewardship schemes. A discussion document similar to that released by the Ministry is being considered in Australia.

The Ministry is proposing an approach to product stewardship that, at least in theory, gives primacy to voluntary industry agreements. However, legislation will be introduced to enable regulation in three instances. First, the regulator will be able to compel any 'free riders' to join an otherwise viable product stewardship scheme. Experience to date has been that some firms have attempted to stand outside industry arrangements, thus avoiding the associated costs of product stewardship and attempting to gain a competitive advantage. Second, the regulator will be able to nominate sectors that must have a product stewardship scheme and, if a scheme is not agreed within a timeframe acceptable to the regulator, a regulated scheme will be imposed. Third, even where a voluntary scheme is agreed, if it does not meet the standards set by the regulator a regulated solution can be imposed over the top of it.

The discussion paper outlines the proposed regulatory framework at a high level, and underestimates the difficulty of regulating to encourage voluntary industry agreements. The potential for a regulated scheme to be imposed if industry-wide agreement is not reached, or an industry scheme does not measure up to the regulator's standards, will make reaching an industry agreement even more challenging than it otherwise would be.

Practical experience in recent years is that the so-called 'backstop' regulatory model is illusory. The experience in electricity market regulation and telecommunications access regulation is that regulation as a backstop to industry agreements quickly becomes a regulated status quo. Similarly in electricity lines regulation, the setting of performance 'thresholds' by the regulator has become regulation of outcomes and defacto price control. The practical experience, in New Zealand, has been that the potential for regulation undermines the possibility of voluntary industry agreement, and behaviour quickly re-aligns around the regulated solution.

This is not to deny a role for central government in this area. However, a better long term strategy should perhaps take as its starting point an acknowledgement that New Zealand businesses have shown themselves willing to consider environmental and social issues, and responsible self-governance. New Zealand businesses participate in a wide variety of environmental and energy efficiency schemes, charities and effective industry self governance arrangements. This provides the context for any new policy initiative such as product stewardship.

There is clearly a role for government in introducing the concepts of product stewardship, making available research on international developments and best practice, and facilitating industry (and consumer) discussion and agreement. While some sectors have been engaged in this area for some time, for others this will be the first time the concept has been raised. There are likely to be easy gains to this proactive but non-coercive approach, and the regulated solution should be put on hold until these are pursued. In the long run such a partnering approach is more likely to foster deeper commitment to the objectives underpinning product stewardship, as opposed to the adversarial and minimum compliance culture of regulation, which will result in more effective outcomes.

At the very least, the next step should be a high level cost-benefit analysis of the regulatory approach (this is not included in the discussion document). In conducting the analysis, the likely regulatory outcome should be assessed against the gains from a long term commitment to a partnering approach.

The Ministry's proposal requires careful consideration by businesses at each step of the value chain. The potential long term costs of the proposed regulatory solution are significant.

Andy Nicholls is Partner, Chapman Tripp

REGIONAL DEVELOPMENT FROM A BOARDROOM PERSPECTIVE

From the perspective of a company director, regional development can be a little bit like Forrest Gump's chocolate box - you never know what you're going to get or whether it will be of any benefit. Sometimes, money is allocated to projects or companies in a way that appears to defy all logic.

Regional development is a bit like motherhood and apple pie. Nobody dares knock it, but often the reality does not live up to the ideal. This is particularly so at a time when 'the regions' are booming and it's difficult to see why the Government should need to provide seeding finance.

In this climate, it's not surprising there was a skeptical reception to the recent announcement by Economic Development Minister Jim Anderton that the Government will spend $40 million during the next five years to help small companies get off the ground. He was launching the Seed Co-investment Fund which will match dollar for dollar private investment in small companies up to a maximum of $250,000 on any one proposal. The seed funding is aimed at small to medium sized businesses with strong growth potential, particularly in the technology area.

Three years ago, the Government committed $100 million to more established companies through the New Zealand Venture Investment Fund. So far, $56 million of private and Government money has been invested in 24 companies. The grant, made at a time of economic buoyancy, raises the inevitable questions about the value of regional development and role of governments in its implementation.

Who should fund?

Consider the fact that earlier in the year, the Government made a $90,000 grant to help fund a study of housing pressures in the Nelson/Marlborough/Tasman area and a $65,000 grant to help develop a horticulture-viticulture industry strategy to alleviate seasonal labour shortages. On the surface, these initiatives seem like worthy causes, but the public has the right to ask, should taxpayers or regional ratepayers be funding them? Will these particular initiatives make a real difference to regional development in these areas? Do they represent enduring solutions or merely a form of stop-gap?

Regional Development has been around for a long time but it's a sobering thought that in all of those years, there have been few serious attempts to quantify its value or worth.

Global experience

It's a question that Treasury Secretary John Whitehead has been asking as well. In a speech recently to the Local Government Chief Executives' Forum he confided that the subject had been occupying the minds of Treasury and the Ministry of Economic Development. He put regional development into context by saying that almost all OECD governments today were pursuing active regional development policies. These had not only an economic objective but also sought to achieve social cohesion and fairness. He added that international experience was to discard former approaches of providing direct assistance to struggling enterprises, support for industries in decline and 'think big' type projects.

Infrastructure needed

The emphasis today was on promoting efficiency and providing the supportive infrastructure for growth in a sustainable and balanced way. This included making the most of regional advantages rather than imposing a 'one-size fits all' approach and ensuring that economic development is locally driven rather than being imposed in a top-down manner. John Whitehead's comments are instructive. In a time of economic buoyancy, where the major barriers to growth have been identified as infrastructural inadequacies, it would make greatest sense to stimulate regional development by spending money developing the local infrastructure - be it on increasing the capacity of road and rail, developing new electricity generating capacity or nurturing the local talent pool.

Research tells us that up to 70 percent of new regional investment comes from existing local enterprises. This reinforces the need to provide strong supporting infrastructure. Along with physical infrastructure, it's important to provide social, cultural and educational infrastructure than can hold not only young people but also the entrepreneurs who are critical to generating new enterprise and the wise heads who can provide the appropriate governance.

If we applied Mr. Whitehead's test to some Government grants, the taxpayer is left with a clear impression that regional development has a third function - winning or maintaining electoral favour. That may be one of the prices we pay for democracy, but it isn't necessarily good public administration.

More grants for further research

In these circumstances, one of Mr. Anderton's latest grants is timely and welcome. The Economic Development Association of New Zealand (EDANZ) has been granted $62,000 to investigate the potential benefits of a Centre for Regional and Local Economic Development. The grant comes from the Ministry of Economic Development's Regional Initiatives Fund and, according to the Minister, among other things it will identify the activities a centre for regional and local economic development could undertake. Mr. Anderton says that research and expertise in the field is currently spread throughout New Zealand - across a range of public and private organizations. The study will review the work that's going on and consider how the centre could build on it without duplicating that work.

Conclusion

Mr. Anderton has been an outspoken advocate for regional development. In his view, a well-researched regional development strategy is critical. He aims to identify a region's potential, its priorities for development, what the market wants and the barriers needed to be overcome to access markets. If we take John Whitehead at his word, we have to accept that we may never know definitively whether the money invested in regional development is money well spent - but if the grant to EDANZ pays off, we may have a better general idea. And if the centre builds on Mr. Whitehead's test, governments may be more inclined to allocate money to regional development for the very best reasons.

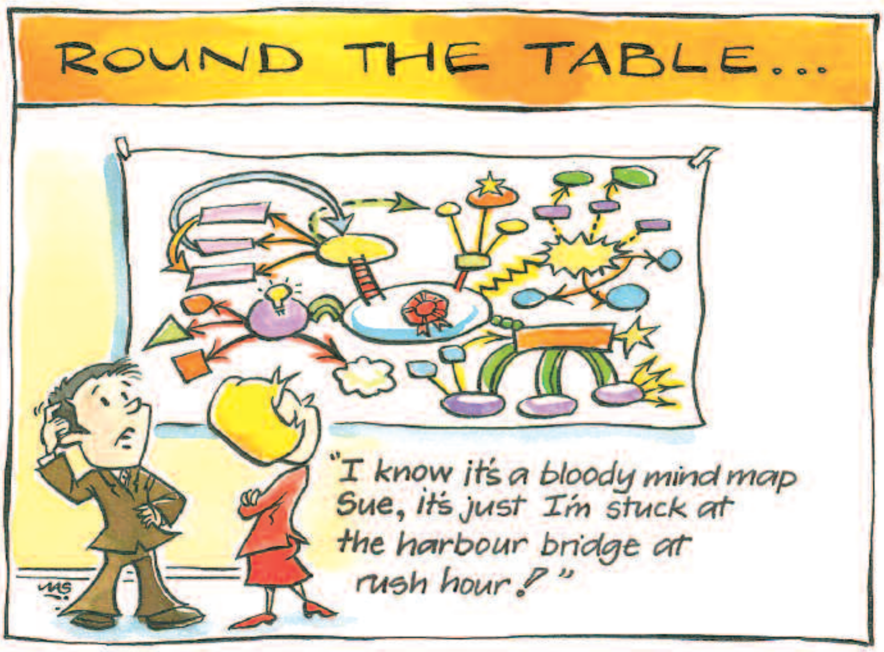
Glenn Keaney is Managing Partner, KPMG Tauranga

COMPANY DIRECTORS' COURSE JULY, AUCKLAND

Back Row: John Saunders, Warwick Tuck, Rea Wikaira, Craig Sims, David Ware, James Beale, John Nicholson

Middle Row: Jo Bransgrove, Tina Symmans, Peter Cottier, Richard Williams, Rob Whitney, Andrew Little, Graeme Boyd, Murray Hobson, Karen Van Rooyen

Front Row: Margaret Stevenson-Wright, Janette Duff, Allan Williamson, Wray Wilson, Joy Tracey, Debbie Bellamy, Ross Beal



THE INSTITUTE OF DIRECTORS IN NEW ZEALAND (INC.)

Board Appointment Service

BAS specialises in finding non-executive directors and chairmen for companies and organisations of all types and sizes from the Institute's independent and specialised database of candidates, using a broad, robust and cost effective process. Contact wray.wilson@iod.org.nz

Website

www.iod.org.nz contains a list of all benefits to members, as well as updated and relevant information on courses, branch activities, publications, conferences, Best Practice Statements and other related information of interest to members.

Director Evaluation System

DES is a user friendly web-based system which removes the administrative burden from director evaluation. Evaluations are available for the following: The Board as a Whole, Individual Directors, Chairman, CEO, and Evaluation of Board by Management. Contact wray.wilson@iod.org.nz

Best Practice Statements

Best Practice Statements on specific issues for directors are regularly written and reviewed. There are 40 to date, available in a bound cover.

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Please contact Ann den Boer, Branch Services Manager, (04) 499 0076, or ann.denboer@iod.org.nz.

PROFESSIONAL DEVELOPMENT COURSES

THE COMPANY DIRECTORS' COURSE

This residential five-day course covers all aspects of directing. It is the Institute of Directors' premier course and is specifically designed to meet the need for a course of study in the efficient, lawful and prudent direction of companies. Internationally renowned, the Company Directors' Course provides directors with an intensive study of the duties, responsibilities and personal liabilities that arise from the diverse day to day activities of a company.

Christchurch **8 - 12 September 2005** *Course full, wait list operating*
Auckland **6 - 10 October 2005** *Course full, wait list operating*
Wellington **3 - 7 November 2005** *Course full, wait list operating*
Member fee: $4,550 (GST Incl.) Non member fee: $5,300 (GST Incl.)

INTRODUCTION TO DIRECTORSHIP IN NEW ZEALAND

This course provides essential information on directing companies and entities of all types for directors and aspiring directors. It gives a general overview of directorship, the strategic planning process, directors' legal and financial reporting responsibilities and serves as a lead in for the Company Directors' Course. The course is highly interactive and, where possible, uses case studies to illustrate teachings.

Auckland **4-5 October 2005** *Course full, wait list operating*
Wellington **1-2 November 2005**
Member fee: $1350 (GST Incl.) Non member fee: $1550 (GST Incl.)

FINANCIAL REPORTING AND ANALYSIS FOR DIRECTORS

All directors need sound knowledge of financial reporting to and by the board. The Financial Reporting Act (1993) emphasises this aspect of directing. This course gives directors who do not have an accounting background the knowledge and skills they need to participate in and understand the financial aspects of company direction, from the basics of budgeting for business to the auditing process.

Wellington **6 September 2005** *Course full, wait list operating*
Auckland **9 November 2005**
Member fee: $545 (GST Incl.) Non member fee: $595 (GST Incl.)

AUDIT COMMITTEES

The increasing workload of an Audit Committee has resulted in a comprehensive course providing practical knowledge which board members can apply to their own situations as members of the Audit Committee. Specifically, the course provides an overview of emerging trends in relation to Audit Committees, provides an understanding of the fundamental requirements of establishing such a committee, its role and responsibilities, and what contributions it can make to the governance of an organisation.

Christchurch **29 September 2005**
Member fee: $545 (GST Incl.) Non member fee: $600 (GST Incl.)

DIRECTING IN NOT FOR PROFITS

Charitable trusts, community trusts, school boards and sporting entities are driven primarily by a philanthropic group of impassioned people who are mostly not paid for the stewardship of their entity. Many don't realise until they are board members, quite how onerous the governance requirements on them are and often don't have the commercial experience of company directors. The Institute presents a national programme of one day seminars addressing this specialist area of governance. It covers the primary statutory duties of NFP board members and provides an overview of the practical aspects of governance.

Dunedin **12 September 2005**
Auckland **20 September 2005**
Christchurch **21 November 2005***
**Please note this date has changed from the one originally advertised*
Member fee: $545 (GST Incl.) Non member fee: $600 (GST Incl.)

GOVERNANCE FOR SENIOR MANAGEMENT

This course provides sound practical governance principles and practices which give considerable assistance to an organisation wishing to achieve success. It gives senior management a clear understanding of their roles and obligations to the board from a director's perspective. The course covers the principles of governance, defines the roles of governance versus management, examines the importance of successful relationships between senior management and board, and addresses providing services to the board, including how to write better board papers.

Wellington **23 November 2005**
Member fee: $545 (GST Incl.) Non member fee: $600 (GST Incl.)

DIRECTING IN SMES

It is said that 80% of NZ companies have fewer than 17 employees, and it is an area in which governance has largely been 'self created', simply because of lack of training options in New Zealand. The Institute runs a national programme of courses specifically targeted at smaller companies with all their particular needs. It will cover the primary statutory requirements of a small company, but will also cover aspects of practical governance, primarily for smaller limited liability companies.

Christchurch **16 September 2005**
Auckland **18 October 2005**
Dunedin **28 October 2005**
Hamilton **10 November 2005**
Nelson **15 November 2005**
Member fee: $545 (GST Incl.) Non member fee: $595 (GST Incl.)

PACIFIC GOVERNANCE

The Pacific Governance Course is a two-day course that covers all aspects of directing. It is offered in partnership between the Institute of Directors and Niu Vision Group Limited and is specifically designed to meet the need for a course of study and qualification in the efficient, lawful and prudent direction of companies and organisations. The course is intended for Pacific people who require professional training in governance, using relevant case studies and applications that will facilitate and engage discussion and learning.

Wellington **15-16 November 2005**
Fee (Members and Non members): $1,150 (GST incl)

SENIOR DIRECTORS' WORKSHOP

To meet the particular needs of experienced senior directors, this one and a half day course covers legislation and regulation, board failures, board/CEO relationships and directing in different organisational structures and ownership models. It also offers discussion on case studies with experienced directors and is only open to members.

Wellington **13-14 October 2005**
Member Fee $1,995 (GST Incl.)

2006 COMPANY DIRECTORS' COURSE DATES

Registrations are now being taken for the 2006 Company Directors' course. Please see the dates and locations below:

Wellington **9 – 13 February 2006**
Auckland **9 – 13 March 2006**
Wellington **6 – 10 April 2006**
Auckland **9 – 13 May 2006**
Christchurch **8 – 12 June 2006**
Auckland **13 – 17 July 2006**
Wellington **8 – 12 August 2006**
Christchurch **7 – 11 September 2006**
Auckland **12 – 16 October 2006**
Wellington **9 – 13 November 2006**

Member fee: $5,625 (GST Incl) Non member fee: $6,750 (GST Incl)
Please contact Margaret Stevenson-Wright on 499-0076 for more information or email Margaret.stevenson-wright@iod.org.nz

The IoD can tailor courses in house for your company or board.
The IoD occasionally has additional spaces in its premier Company Directors' Course at short notice.
Please phone Margaret Stevenson-Wright, or Kim Vercoe on (04) 499 0076 for more information

EVENTS DIARY 2005

6 September, Course, Wellington
Financial Reporting and Analysis for Directors Course full but wait list operating

8-12 September, Course, Christchurch
Company Directors' Course Course full but wait list operating

12 September, Course, Dunedin
Directing in Not for Profits

15 September, Wellington Function
7.30am Breakfast at the Wellington Club
Speaker: Ms. Tania Simpson, Founding Director, Kowhai Consulting Ltd
Topic: Maori Involvement in Corporate Governance

16 September, Course, Christchurch
Directing in Small and Medium Enterprises

20 September, Course, Auckland
Directing in Not For Profits

21 September, Auckland Function
7.15am for 7.30am, Breakfast at The Northern Club, Princes St, City
Speaker: Mr. Richard Prebble
Topic: To be confirmed

23-25 September, Queenstown
Company Chairman's Workshop

28 September, Hamilton Function
5.30pm - 7.00pm Evening function, venue to be confirmed.
Speakers: Mr. Tim Saunders, Chairman IoD Accreditation Board and Dr Nicki Crauford, CEO, IoD
Topic: Why Accreditation is Relevant and to Whom?

29 September, Tauranga Function
7.15am for 7.30am Breakfast at the Tauranga Club, Devonport Road, Tauranga
Speakers: Mr. Tim Saunders, Chairman IoD Accreditation Board and Dr Nicki Crauford, CEO IoD
Topic: Why Accreditation is Relevant and to Whom?

29 September, Auckland Aspiring Directors Function
11.45am for noon, Lunch at The Auckland Club, Shortland Street, City
Speaker and guest directors: TBA
(Available only to IoD members and numbers restricted)

29 September, Course, Christchurch
Audit Committees

30 September, Dunedin Function
12.30pm Lunch at Bell Pepper Blues, 474 Princes Street, Dunedin
Speaker: Mr. Olaf O'Duill, Chairman, Tower Limited
Topic: To be confirmed

4-5 October, Course, Auckland
Introduction to Directorship in New Zealand Course full but wait list operating

6-10 October, Course, Auckland
Company Directors' Course Course full but wait list operating

12 October, Nelson Function
Branch Annual Dinner at Trailways Motor Inn
Speaker: Mr. Rick Bettle, President, IoD
Topic: To be confirmed

13-14 October, Course, Wellington
Senior Directors' Workshop

18 October, Napier Function
7.30am Breakfast at the Napier War Memorial Conference Centre
Speaker: Sir Selwyn Cushing
Topic: Changing Dynamics of Directorships - Today's Expectations of a Company Director

18 October, Course, Auckland
Directing in Small and Medium Enterprises

19 October, Auckland Function
7.15am for 7.30am Breakfast at The Northern Club, Princes St, City
Speaker: Mr. Michael Stiassny, Chairman, Vector Limited
Topic: To be confirmed

28 October, Course, Dunedin
Directing in Small and Medium Enterprises

1-2 November, Course, Wellington
Introduction to Directorship in New Zealand

3-7 November, Course, Wellington
Company Directors' Course Course full but wait list operating

9 November, Course, Auckland
Financial Reporting and Analysis for Directors

10 November, Course, Hamilton
Directing in Small and Medium Enterprises

15 November, Course, Nelson
Directing in Small and Medium Enterprises

15-16 November, Course, Wellington
Pacific Governance

16 November, Course, Greymouth
Directing in Small and Medium Enterprises

21 November, Course, Christchurch
Directing in Not for Profits
Please note this date has changed from the one originally advertised

23 November, Course, Wellington
Governance for Senior Management

6 December, Nelson Function
7.15am Breakfast function at Trailways Motor Inn
Speaker: Mr. Graeme Robertson, former CEO of Cawthron Institute
Topic: Some Thoughts on Management in the Knowledge Economy - The Cawthron Experience
AGM to follow

2006

9 - 13 February, Course, Wellington
Company Directors' Course

9 - 13 March, Course, Auckland
Company Directors' Course

6 - 10 April, Course Wellington
Company Directors' Course

9 - 13 May, Course, Auckland
Company Directors' Course

8 - 12 June, Course, Christchurch
Company Directors' Course

13 - 17 July, Course, Auckland
Company Directors' Course

8 - 12 August, Course Wellington
Company Directors' Course

7 - 11 September, Course, Christchurch
Company Directors' Course

12 - 16 October, Course, Auckland
Company Directors' Course

9 - 13 November, Course Wellington
Company Directors' Course

Please contact Branch Managers (see page 16) for further details on branch events, or Margaret Stevenson-Wright, Professional Development Manager, or Kim Vercoe, Professional Development Executive on (04) 499-0076 to discuss our courses further. All our programmes can be tailored for in house training for individual boards and groups, and you can register online at www.iod.org.nz/training

boardroom

Boardroom is published by the Institute of Directors in New Zealand (Inc), eleven times a year and is free to all members of the Institute. Subscription for non-members: $150 per year.

Articles in **Boardroom** are designed to inform members about issues which are important to directors. Articles are also intended to stimulate readers in areas of interest. From time to time we include policy statements in **Boardroom** but articles do not reflect Institute policy unless specifically stated.

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New members

Fiona Abbott	WELLINGTON
Angela Abernethy	WELLINGTON
Stephen Abley	CHRISTCHURCH
Arjan Bartlema	CHRISTCHURCH
Philip Beal	INVERCARGILL
Christoffel Beukman	CHRISTCHURCH
Margaret Blackburn	AUCKLAND
Terry Braggins	HAMILTON
Stephen Brown	RANGIORA
Russell Burton	ROTORUA
Paul Clark	PAPAMOA
Meliss Clark	CHRISTCHURCH
Peter Cottier	MASTERTON
Peter Crossan	AUCKLAND
Debbie Dawson-Renahan	NORTHCOTE
Graham Dun	AUCKLAND
Donald Gray	HELENSVILLE
Murray Greer	NORTH SHORE CITY
Patrick Harnett	WELLINGTON
Paul Harrison	AUCKLAND
Ian Hayden-Smart	NAPIER
Murray Hobson	AUCKLAND
Christopher Hopman	CHRISTCHURCH
Peter Johnston	WELLINGTON
Nicholas Lewis	WELLINGTON
Peter Lucas	AUCKLAND
Robert Mackie	AUCKLAND
Stewart McCulloch	WELLINGTON
Tony Mossman	HASTINGS
Graeme Muller	AUCKLAND
Patrick Ng	HAMILTON
Bentham Ohia	TE AWAMUTU
Patrick O'Reilly	HAVELOCK NORTH
Alastair Patrick	WELLINGTON
Andrew Read	CHRISTCHURCH
William Ritchie	WAIPUKURAU
Brent Schumacher	NEW PLYMOUTH
Janice Shiner	WELLINGTON
Ross Stanway	TAURANGA
Bevan Wallace	WHANGAPARAOA
Richard Williams	WELLINGTON

Publications

An extensive range of books, periodicals and pamphlets to keep directors informed on overseas trends are available from National Office.

The Economist

IOD (UK) Director

IOD (UK) News

The Independent Director (UK)

The Company Director (AICD)

Boardroom (Canada)

Directorship (IOD Southern Africa)

Director's Monthly (NACD, USA)

MG Business

Trans Tasman

The Capital Letter

Boardroom (NZ)

Best Practice Statements

Listed companies' annual reports

Government agencies' newssheets

Publications for sale:

PwC Directors' Responsibilities – A Working Guide for New Zealand