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Board Status

Director survey launched

What exactly is the state of organisational governance in New Zealand? The largest and most authoritative nationwide survey of its kind is about to try and find out.

Do New Zealand companies and other organisations have easy access to high-quality directors? Are our boards populated by directors with sufficient competence to do the job? And, do Kiwi directors believe they are effective?

These are three of the key questions an impartial and extensive study of directors, senior executives, investors, advisers and others involved in the increasingly important world of organisational governance hopes to answer over the next six months.

The survey, branded *Directions 2006: Understanding Governance*, is the brain-child of Jens Mueller, associate professor for entrepreneurship and strategy at Waikato Business School, and company director Sandy Maier. It is coordinated by Waikato University's Management School and backed by corporate and professional heavyweights including Simpson Grier-son, KPMG, Sheffield, the Bank of New Zealand, the New Zealand Shareholders Association, the Institute of Chartered Accountants, the Government's Crown Company Monitoring Advisory Unit (CC-MAU), the New Zealand Venture Capital Association, Brook Asset Management and *The Director*, the specialist governance supplement to *Management* magazine.

"If New Zealand enterprise wants to play a more effective and profitable role in world markets, its businesses need boards that are competent to meet global business standards," says Mueller.

Research conducted by Massey University in 2004 suggested that New Zealand directors need more coaching and education to be effective in giving strategic guidance to management; that director independence lags behind other countries; that fund managers would like to see more

independent directors and that New Zealand boards aren't drawing directors from all strata of society or from sufficiently diverse backgrounds.

"We simply don't know enough about whether the current process of director selection is working," says Mueller. "We know anecdotally and through prior research that there are questions about board balance, diversity, independence, training and performance. We wonder if that imbalance impacts corporate performance."

And, he says, the bulk of New Zealand corporate performance will, in future, be generated through the competitive productivity of the large number of small and medium-sized businesses (SMEs) rather than the small number of large publicly listed firms. This transition makes the job of finding competent directors even harder.

According to Mueller and Maier, competent directors "empower management" to create stakeholder value. "And sustainable organisations instil a profound sense of belonging among employees," says Mueller. "This culture of long-term outcome expectations is driven by the board. Firms can expect superior performance when their leaders are clear in the values they set for management and staff."

But where to find competent directors? The task of finding and attracting top level director talent is particularly difficult for unlisted companies. "New Zealand's pool of directors is small," says Mueller. "And it is not clear whether being a director in one firm is a suitable qualifier for becoming a director in another, different enterprise. I have seen many well intentioned and generally qualified directors who are unsuitable for a specific directorship. And the bar has now been raised through extensive compliance

and, more importantly, global competition, which means we must meet and exceed international performance standards to succeed in a worldwide market."

And shareholders are increasingly concerned about the effectiveness of the leadership and competence of directors serving on some boards. "We want to know whether investors care who represents their interests on boards and whether those interests are well articulated and advocated."

According to Mueller, board meetings too often resemble management discussions, a practice that usually precedes the decline of a business. The "how we do things" is discussed rather than the "why we do things". The survey is designed, therefore, to provide insights into the extent to which directors engage in robust discussions to develop strategies for the future and communicate the resulting vision to the organisation. "Directors who see themselves as compliance police waste opportunities to infuse enthusiasm and direction into an enterprise. And regulators who measure director performance based on meeting compliance waypoints do not fully understand the potential good directors can and should create," he adds.

The researchers expect the information gathered through the survey to become a foundation for decision-making by shareholders, professional investors, regulators, senior management and boards. "What we measure we know, and what we know we can build on," says Mueller. "Having access to competent directors is crucial, even for the smallest firms. All owners need to improve their governance structure."

Every participant in the survey receives a summary report of the results, either from the researchers or through the supporting organisations. The researchers hope the



Dr Jens Mueller: Avoid focusing on compliance waypoints.

process of completing the survey will raise awareness of certain issues in organisations which in turn will become a catalyst for change and “a call to action”. The survey should, says Mueller, help organisations understand how they compare to rivals in local and global markets and identify where their governance structures can be enhanced.

Mueller, who hails from Germany and has managed global companies in the United States, lectures at several overseas universities and believes the survey can go international. “This effort will probably set the scene for similar work in Australia, where the Adelaide Graduate School of Management will operate the survey, Singapore, Malaysia, Germany and the US. We will distribute the same survey in a ‘phase two’ effort in May to create global benchmarking opportunities.” The results of the New Zealand survey should be available by the end of March or early April, and the full survey will be released in May.

The survey is internet-driven from the website www.worldsurvey.info. The link is distributed through supporting organisations and government bodies to ensure a broad reach. Once completed, the data is sent to the survey engine at Waikato Management School and imported into a statistical application which drives the analysis. No commercially sensitive or financial information is collected.

Mueller is optimistic about a strong uptake and enthusiastic response. The questionnaire takes only about 10 minutes



Sandy Maier: Competent directors empower management.

“Having access to competent directors is crucial, even for the smallest firms. All owners need to improve their governance structure.” – Dr Jens Mueller.

to complete and that, he argues, will encourage participation – or at least minimise objection. He believes business leaders want to know how they compare against their peers and the business community generally. “Our efforts will highlight the extent to which firms effectively utilise their boards,” he says. “Hopefully we will then be able to suggest areas where firms, specific to type and industry, might improve their governance practices.”

And depending on the outcomes of the survey, Mueller and Maier want to offer other organisations, such as the New Zealand Institute of Management, information to develop “additional tools for owners, operators and boards to help position their firms for future global competitive performance”. They argue that economic organisations, whether for-profit or not-for-profit, are “driven toward value creation” by leaders who empower

others in the enterprise to create an environment where outcomes matter.

For New Zealand firms to be locally or internationally successful they must offer attractive employment opportunities, attract the best people and perform to the highest possible standards of management and governance. “We need successful firms, benchmarked to the best-performing firms worldwide. Everyone benefits if we can create dynamic firms locally with a global reach and reputation,” says Mueller.

The researchers hope the survey will point to viable ways for an effective match-making system between organisations and future directors. “Boards need the appropriate mix of skills and attitudes. This work may identify areas where directors can contribute more effectively in future and where shareholders feel their interests are well recognised and advanced by corporate boards,” Mueller adds.

The problem of matching directors to firms to optimise performance is not unique to New Zealand. But, says Mueller, New Zealand’s economy is well connected with those of its trading partners and “our reputation for undertaking practical and relevant academic research makes us welcome partners to important universities in other countries. We work well with schools like Fudan University in Shanghai, Singapore Management University and the European Business School in Germany for example.” And Waikato Management School has a strong international reputation for business research, with a particular emphasis on researching the essential elements of successful sustainable enterprise.

Mueller and Maier think the study will fit neatly with and complement other governance research currently being undertaken in New Zealand. “We hope to complement work done on director behaviour and compensation by companies like Sheffield,” says Mueller. “We believe this large nationwide effort will allow us to draw valid conclusions as to the kind of information which is meaningful for boards and their professional advisers.”

The researchers are likely to repeat the effort every couple of years to chart trends, changes and developments. **M**