



METTLE

ISSUE TEN

METtle, a collection of stories and interviews with influential New Zealand business leaders, curated by MinterEllisonRuddWatts.



Welcome to the tenth issue of METtle.

As the Chair of MinterEllisonRuddWatts, I am very pleased to see our firm delivering new, relevant and penetrating insights from leaders at the absolute pinnacle of their organisations.

This issue also gives me the opportunity to welcome our new Chief Executive, Andrew Poole. Andrew exemplifies many of the characteristics we explore in METtle. He is a strong leader with a proven ability to help law firms thrive in dynamic environments, and he is already applying the confidence, strategy and momentum to MinterEllisonRuddWatts that will keep us stepping up in a sector going through significant change.

As a market-leading firm that prides itself in being innovative in delivering value to our clients, I look forward to the opportunity of partnering with your organisations to help achieve your goals. On behalf of everyone at MinterEllisonRuddWatts, I thank you all for your continued support.

LLOYD KAVANAGH, CHAIR, MinterEllisonRuddWatts



At a time when our Government has set New Zealand on the path to become net carbon zero by 2050, this issue of *MEttle* explores some of the major questions and themes of our time: the role of leadership and action, the need for clear purpose, strategy and bold targets, and how a long-term kaitiaki-oriented horizon is always going to turn challenges into opportunities.

As NZ Inc. faces formidable challenges, we ask some of New Zealand's leading business and financial lights – including Synlait Milk Chairman Graeme Milne, BNZ's Managing Director and CEO Angie Mentis, Mainfreight CEO Don Braid, Z Energy's Lindis Jones and the Governor of the Reserve Bank, Adrian Orr – if New Zealand is thinking hard enough and preparing well enough for sustainable growth. With the Australian Prudential Regulation Authority inquiry into Commonwealth Bank of Australia providing an opportunity for learning by all organisations we also interview Jillian Broadbent AO a member of the panel appointed by APRA to conduct the review into CBA.

One theme keeps emerging from our interviews: Get on with it, give it a go, if you're in a position to lead, then go out and lead. Use your guts, determination, perseverance and a clear strategy to aim high and get somewhere – as it is always better than not aiming and getting nowhere. Leave no stone unturned.

CATHY QUINN ONZM, MinterEllisonRuddWatts



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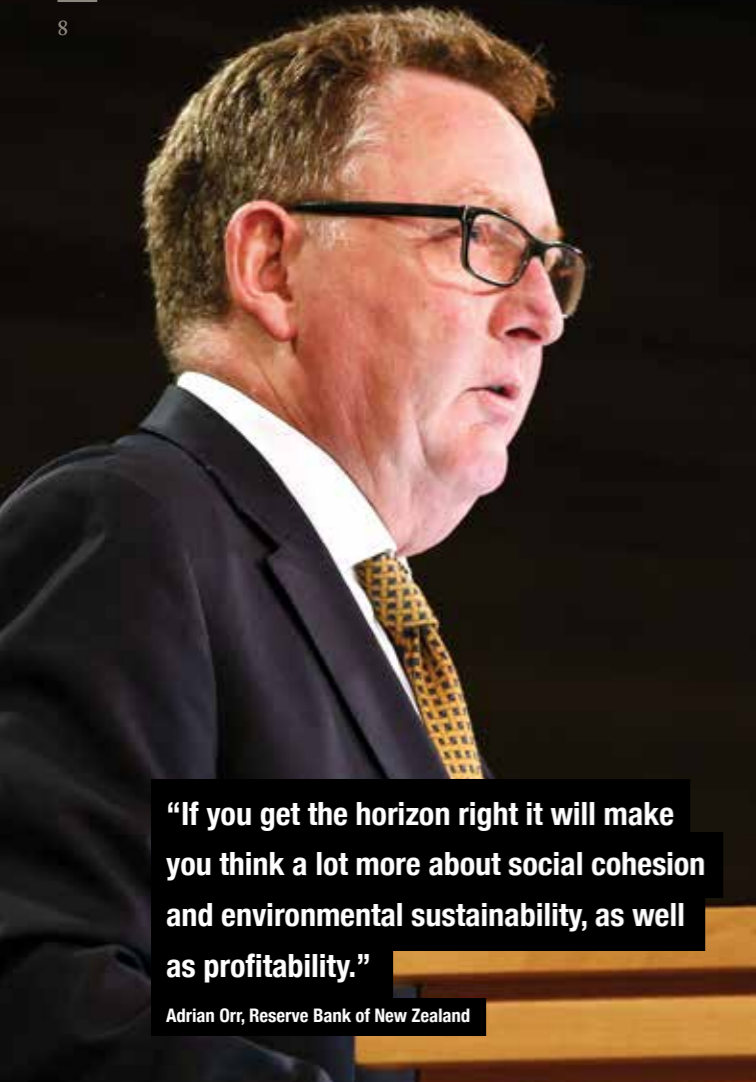


VIEW FROM TĀNE MAHUTA

ADRIAN ORR

Adrian Orr has been Governor of the Reserve Bank of New Zealand for six months.

Sitting as he sees it in the branches of Tāne Mahuta, looking out across the forest of the New Zealand financial and business world, Mēttle sought his views – always wide-ranging, often unexpected, and in places strong – on topics ranging from regulatory challenges to the role of the banks and the dangers of short-termism, plus the much broader role of the Reserve Bank and business as kaitiaki (guardians) of long-term capital investment in this country.



“If you get the horizon right it will make you think a lot more about social cohesion and environmental sustainability, as well as profitability.”

Adrian Orr, Reserve Bank of New Zealand

Saying first that it is exciting to be back at the Reserve Bank, Adrian Orr says that he has returned at a time when no stone is being left unturned in the bank's efforts to address the huge variety of challenges that sit ahead of it.

“This role is not about sitting and wondering what to do with the official cash rate,” he says. “I think about the Reserve Bank as the Tāne Mahuta of the New Zealand financial system. It's growing to let the sunshine in; the roots are our legislation, which is being revised and reviewed at the moment.

“Our very roots are being inspected, and that brings challenges around future structures. We're making monetary policy decisions, and decisions around how we resource and manage our prudential supervision role too.”

Orr says that the legislation is being challenged, particularly the payment and settlements trunk of the tree.

“The trunk allows money to flow, and we're upgrading and revising across the industry with regard to FinTech challenges, and upgrading and reinvesting in our own payments settlements systems.

DAY JOB BEING CHALLENGED

“The money itself, our day job of printing and circulating the money, is also being challenged, with the ecommerce and electronic options that are available,” he says. “We're doing a lot of work on the idea of paper or plastic currency, versus other forms of Central Bank exchange, so we're doing a lot of research and practical work on upgrading our own currency models to get banks involved in terms of how they distribute currency into the future.”

With all of that being wide open, Orr says the part that has made the headlines recently is the Reserve Bank's own prudential regulatory challenges and its perception by the regulated industries.

“We came under a lot of criticism for not being responsive enough to the big end of town, so we are working on our own service provision so that the bank upholds what has always been its strength, its operational independence.” he says. “It's also about how we work more closely with our APRA colleagues, while keeping the distinct New Zealand flavour.

“Not all banks are Australian, and all banks that operate here operate within New Zealand law. So, there is some big work going on here on capital adequacy, ability to be standalone capable if needed, and our lender of last resort and depositor protection roles. It's a full hand to play – it's exciting.”

SEPARATION AND INDEPENDENCE: THE BIG REGULATORY CHALLENGES

When considering the challenges involved in the interface between foreign banking systems and New Zealand's system, Orr says “It's like Papatūānuku and Ranginui who are always separate. We have to work hard on managing that parentage; so that banks can effectively recognise both their home and host regulators requirements.

He adds that the challenges around FinTech and just what that does or does not mean for the regulation of the financial system in the future are big, in particular the ability to retain monetary policy independence.

“If you sway or give in to the political whims of the day, it is a real challenge for a central bank. You've got to try to make sure that you have the independence to set policy.”

Adrian Orr, Reserve Bank of New Zealand

“It's a real challenge for a central bank not to give in to the political whims of the day. So when your legislation is open you've got to try to make sure, at the very least, certain things are staunchly preserved and that's the independence to set policy.”

BALANCING SOUNDNESS AND APPETITE FOR RISK

Furthering the Tāne Mahuta analogy, the way that Orr sees it is the banks – the big branches – have to be grafted onto the trunk because they want to use New Zealand money, and operate in this country.

“Some of the banks are so large that it is a disaster if they fail. They must be stand-alone capable, and we have to have the confidence we can keep the whole system going. This is a perennial challenge.

“We're always fighting the argument between what is sound and how can we ensure these branches are strong, versus efficiency: ‘why can't we use our systems offshore?’ or ‘why can't we run lighter?’ It's a continuous challenge.”

Hoping that the challenge will be partially resolved by having a risk appetite statement from the government of the day, he says that in the absence of being able to say ‘what risks are you prepared to wear?’, the bank will “forever be accused of being either too tough, too prudentially concerned, too lax, or too efficiency concerned. Getting that balance right between soundness and efficiency really does need a wider risk appetite statement.”

ALLOWING NECESSARY SUNLIGHT INTO THE SYSTEM

The last bit of the analogy is that Tāne Mahuta must allow the wider garden to grow – it can't be overshadowed. At the moment the banks – the branches – are pretty big and thick, and there's not a lot growing underneath Tāne Mahuta.

“It's a real, perennial challenge. I was away from the bank for eleven years and I came back to see that little has changed in the wider New Zealand financial garden. There are still very thin listed capital markets, very thin domestic bond issuance, the non-bank deposit taking groups are tiny in comparison to the big four banks, and the smaller banks are struggling to compete against the big ones.

“Basically, the New Zealand system is dominated by debt provision and banking with a pretty thin wider capital market. We have to really challenge ourselves as to why that is the case. As long as the current situation remains, the New Zealand economy will be very capital shallow and low in productivity.”

“There are still very thin listed capital markets, very thin domestic bond issuance, the non-bank deposit taking groups are tiny, and the smaller banks are struggling to compete against the big ones.”

Adrian Orr, Reserve Bank of New Zealand

NEED TO LENGTHEN CAPITAL HORIZONS TO BE KAITIAKI

To tackle these challenges, Orr says that a fundamental change in perspective is required, and one underpinned by his own heritage and cultural outlook.

“I am heavily influenced by the kaitiaki, caretaker, concept rather than assuming we are an outright owner of activity. For me it's all about horizon and time perspective, which is very much a cultural thing.

“With the caretaker concept you tend to be more intergenerational and longer-term in thinking. For a lot of my career here and at the NZ Super Fund, it has been about focusing capital on the long term.”

The key, he says, is that if you can get to a long-term horizon and long-term mind set, a lot of the ongoing challenges disappear and become opportunities. The enemy of this track is short-termism.

“Globally we keep getting driven down more and more short-termism. It's one natural outcome of a capitalist system with short-term profit and reporting incentive structures, combined with market failures that lead to under investment. We end up being concerned about short-term profit targets, rather than long-term sustainable returns.

“When you think about pollution and carbon pricing, if you're looking far enough ahead they are all part of your role as kaitiaki or guardian of that capital. If you get that horizon right it will make you think more about social cohesion and environmental sustainability, as well as profitability.”

WE HAVE TO GET ON WITH IT

He says that in New Zealand we have most to gain and the least to lose compared to other countries by being more long-term.

“Our country isn’t dependent on fossil fuels. We are dependent though on foreign capital, we are dependent on having a great global reputation of being sustainable and inclusive. We have a small population, we are isolated, so we can do all of this stuff.

“We have a really good opportunity to do it, and it is starting to shine through in the conversations we’re prepared to have. Responsible investing was just this thing done by hairy-armed people 15 years ago, and now it’s just what the world is actually doing, so New Zealand has to hurry up and keep up with it.”

“New Zealand has to hurry up and keep up.”

Adrian Orr, Reserve Bank of New Zealand

Because of our history, he says, we can leapfrog other countries and maximise the future opportunities in front of us.

“We have gone through the period of coming to terms with our history. We can always do better in this area, but we are now in a position of getting on with it.

“If social cohesion can be part of what we do in the future, then what an amazing place we would be – if we had good economic growth, social cohesion and environmental sustainability, then I imagine a lot of people would want to come and live with us.”

WE HAVE TO KEEP PACE WITH THE REST OF THE WORLD

Saying that he has been challenging businesses in their view of themselves as ‘doing well’, Orr says that the rest of the world is moving on very, very quickly with concepts of investing in social cohesion and progress.

“They don’t have nice words for it like we do, but I have been working with them focusing capital – there are trillions of dollars of capital going into exactly thinking hard how to better focus capitalism on the longer term.

“Likewise, the UN Sustainable Development Goals, the Principles for Responsible Investing and Carbon Disclosure Projects. All of which will impact on our markets, production, labour movements and so on. In an ideal situation, firms have a sufficient horizon where they are cognisant of their impacts on their community, labour force, customers, and culture. If embraced in a positive fashion there is a sustainable business model that will see the region lead the world.

These are all very old and established now, and very few New Zealand firms seem to be aware of it. When I send companies to these websites, they get a hell of a fright at what their competitors are doing, so they are having to move rapidly in that space.”

A COMFORTABLE ECONOMY, ALBEIT IN TRANSITION AND RELUCTANT TO INVEST

Switching gears, conversation turns to the state of the New Zealand economy, which Orr describes as “comfortable and in transition”, and a necessary one that generally happens when an economy’s prices are working well.

Giving more detail, he adds that we have come through a period of population and consumption and asset price-driven growth, and we are transitioning into more of an earnings growth period ahead.

“New Zealand companies are getting a hell of a fright at what their competitors are doing, so they are having to move rapidly.”

Adrian Orr, Reserve Bank of New Zealand

“Earning is never as much fun as consumption, so it feels harder, but it is also a necessary part of ongoing consumption. The challenge I get nervous about is that economic growth has obviously slowed, which is not surprising given where it has come from, but we see plenty of reason for economic growth to pick up again from here.”

He says that both the terms of trade and the exchange rate are very supportive of growth, and the Government is investing and spending, but it’s the business sector that seems to have the question mark about whether they will or will not invest.

“That is the third and critical leg to sustainable growth. We seem to be incredibly reluctant investors. We like to pay dividends, we like to borrow, we don’t like to retain earnings and we don’t like to reinvest. That’s reflected right through our history of being a capital importer and very low capital per-person producers.

“Investment is needed in both the resources and capabilities of our people, and also in machinery and equipment. If you can’t find the labour, then you’re going to have to find the machines.”

A POSITIVE OUTLOOK – DESPITE THE DOOMSAYERS

Described by economists as a bit more dovish in outlook than his predecessor, what is Orr’s view of the current pessimism showing through in business confidence surveys?

“What lies beneath business confidence surveys remains a mystery to all,” he says. “What we find is that ‘own

investment’ intentions and ‘own activity’ outlooks are far better measures of what’s happening on the street at any given time. They are a bit more positive, if a little bit down from where they were.”

In saying that business sentiment in itself doesn’t give him great cause for concern, he does add that “all economic models are wrong, although some are useful”.

Why are they wrong? “Because they don’t capture fads, fashions, and business psyche. It’s humans that determine the business cycle: without doubt they get themselves into exuberance and overshoot, and they get into dark, miserable places and undershoot.”

NO BETTER TIME FOR LONG-TERM INVESTMENT

The real opportunity he says is this. “If you look over the medium term, back to the horizon, I just can’t see a better period for long term, sustainable investment in New Zealand. We have already missed great opportunities over the last 20 years or so, when we had a fixation on reducing debt and not investing in infrastructure. Now we’re in a position where it is critical, and we need to get on with it.

“We’re starting this from a position of very low unemployment, so that means capital equipment is needed, as well as longer-term strategies around attracting, retaining and motivating good people to work.

“There are pockets of unemployment where it shouldn’t be, particularly among Māori and Pasifika, and they happen to be unemployed exactly in the places where labour constraints are the most obvious. So you don’t have to be a rocket scientist to work out what you need. Go and train, go and employ, go and invest.”

IS NEW ZEALAND THINKING FAR ENOUGH AHEAD?

In terms of the near-term trade outlook, Orr is comfortable. “World economic growth is still very robust, just south of 4%, and forecasts are saying that at worst 3.5% over the next couple of years, so that’s positive.”

He says that we can get worried about headlines around trade wars, but they would have to get very bad to impact New Zealand directly. “Most of our exports are either directly consumed or timber products etc... for construction, and trade wars aren’t going to be hitting that too hard unless incomes fall. That’s a big step from here.”

His main concern is for the longer term. “You are seeing massive challenges for environmental sustainability going on, and that could lead to significant regulatory imposts and

businesses having to change incredibly rapidly. Is New Zealand thinking hard enough and prepared enough for that?

“The pressures driven by environmental challenges and urbanisation are rapidly happening. Domestically we aren’t investing enough for it and whether we are thinking hard enough longer term about how to position our offerings – our tourism, our exports – into a very different world economy. There’s a significant challenge for New Zealand if we don’t get invested and don’t get connected.

“Globally, economic power has rapidly shifted. The US will always remain a good market, but in terms of One Belt One Road [China’s development strategy] and how we are connected to that region of the world, we have to work very, very hard to ensure we understand what our role is in that space.”

BUSINESS NEEDS TO STEP UP

In closing, Orr describes the business sector as “the weakest link at the moment in the country”, and says that collective effort is needed to make necessary change.

“I’m really pleased to see collective effort happening now in the construction industry, where they are talking about how we keep getting ourselves in these positions. The lowest cost provider doesn’t mean the best long-term owner, so having proper conversations with Government is important.”

Orr would also like to see the banking system and banks working together more proactively on things they could change, that they could be involved in.

“The New Zealand Bankers Association has spent too much time just trying to defend or avoid, rather than be proactive. It could be playing a much bigger role being proactive around conduct and culture, and working on areas that are capital poor, such as collective and cooperatively owned businesses, thinking how they could act differently.”

And he would like to see banks pick a couple of community challenges. “We’ve got these loan shark trucks driving around south Auckland. What are the roles the banks are playing in that? They say ‘it’s not us’, but they are the ones funding them, so how can you get in there with financial literacy and be game changers in these types of activities? I was so pleased to see business get together in the leadership coalition for carbon reduction, and I’d like to see more of that type of work and more long-term thinking.”

Be more long term, lift your horizons, look after your branches, invest in growth and stand strong. Just like Tāne Mahuta. 🍌

A hand is shown on the left side of the frame, with the index finger pointing towards a central point where a piece of green-tinted glass has cracked. The cracks radiate outwards from this point across the dark background. The lighting is dramatic, highlighting the texture of the skin and the sharp edges of the broken glass.

Q+A

JILLIAN BROADBENT AO

Jillian Broadbent AO was a member of the Panel of the Australian Prudential Regulation Authority that conducted an inquiry into the Commonwealth Bank of Australia. Jillian's had a long and successful career in finance with Bankers Trust in Australia. Today, Jillian serves as a non-executive director on a number of Australian entities including Woolworths Ltd and Swiss Reinsurance. Jillian is also Chancellor of the University of Wollongong. She was made an Officer of the Order of Australia in 2003 for services to economic and financial development in Australia.

METTLER: Given your long executive career in banking with Bankers Trust before taking up non-executive director roles you were a natural choice for Australian Prudential Regulation Authority (APRA) for its inquiry into Commonwealth Bank Australia (CBA). But did the request surprise you? How did you feel about it?

JILLIAN BROADBENT: I think the whole inquiry was a surprise. We've got a very strong banking system in Australia and APRA haven't had the need to delve into problems like this before. Appointing an expert panel to conduct the inquiry was, on the part of APRA, a means to understand "What's going on at CBA? They've got all these issues; how do these breaches happen?"

The reality is a review like this is very unusual and it was a new approach for APRA. In terms of who they chose to do it, they selected a diverse team from private and public sectors. It wasn't something people were saying "oh, I can't wait to do that".

I believe it's important we use private sector skills and experience for a public policy purpose, and I think it's a very dangerous view to fear people might be critical of anyone using their commercial acumen for a public benefit.

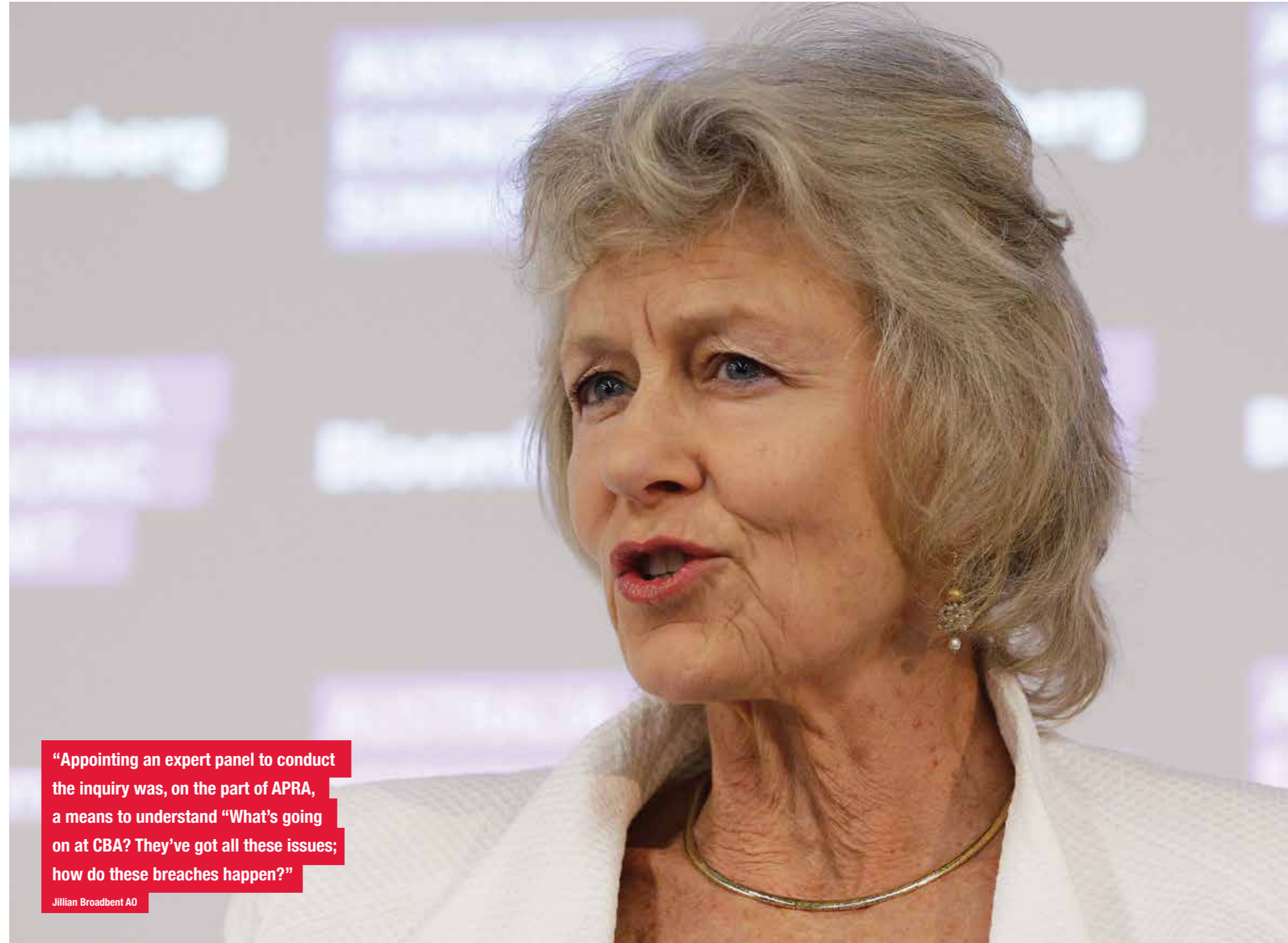
METTLER: In New Zealand, many are grateful for the role the big four Australian banks and their subsidiaries played in both Australia and New Zealand coming through the GFC. What do you think the impact of this report will be for the broader banking industry?

JILLIAN BROADBENT: It's been acknowledged that we're all very appreciative of the regulators and banking system here in Australia and New Zealand in getting us through the GFC. We were able to navigate that period in economic history pretty well. It also adds to the curiosity from APRA as to how CBA, one of the biggest, most successful banks in the market, was found to have these shortcomings.

It certainly provided a lot of motivation for APRA to work out why this was occurring. It wasn't an easy challenge, going into complex, dry topics such as governance, accountability and culture at a large institution but it was something they felt had to be done.

METTLER: To what extent do you think APRA's report has relevance for entities beyond CBA?

JILLIAN BROADBENT: I think the document is very accessible, and I personally gained significant learnings from participating in the panel. They are complicated and interrelated topics, but I hope most other non-executive directors and boards find the report useful.



"Appointing an expert panel to conduct the inquiry was, on the part of APRA, a means to understand "What's going on at CBA? They've got all these issues; how do these breaches happen?"

Jillian Broadbent AO

As a board director, it is hard to get the balance between not interfering in what are considered management matters and being involved enough to ensure outcomes that management are reporting as being achieved, actually are. You can have too much trust. You must be prepared to say: “Can we have a further look at this?”

It’s all about challenging and understanding that boards must test. It’s going beyond taking responses at face value to ensure a reassurance is genuine and be absolutely sure that management is on top of the facts.

METTLE: Would you say non-executive directors need to be more conservative than executive directors?

JILLIAN BROADBENT: It’s a tough gig being an effective non-executive director – not a lot of people put in the time and energy to challenge effectively. You have to do your homework and ask questions on topics that at times you don’t know a great deal about.

From my perspective, I think my closest friends are those who challenge me. If I am challenged, I usually think more deeply. Although it is uncomfortable, it helps me consolidate my thoughts.

METTLE: The Panel found there were times when CBA approached things from the “can we” perspective in selling products to customers rather than the “should we” approach. What do you say to business people who say: “But we are a business, we are here to maximise profit for our shareholders, so of course we try to maximise what our customers buy from us.”?

JILLIAN BROADBENT: The way we tried to express an appetite for risk and a consideration of the customer by using the “should we” versus “can we” proposition, I hope will endure.

There is a tendency whenever there’s an issue in a business that is a bit tricky, to flick it to the legal department to come up with a legal solution. In that situation, even if it is possible, there is insufficient consideration of is it suitable for everybody? If you have a customer dependent business, brand quality has to be sustained. Long term shareholder returns are maximized if you retain customer loyalty and support.

The share price reflects brand value. Good business is serving the customer well and to serve customers well is all about the value proposition. If a business is only focused on short term profits, there’s a risk of losing long term value of maintaining the brand. You can’t muck around with these things. CBA is

a brand to die for but these matters that led to the review and the recent, adverse publicity has damaged the brand and been reflected in a lower share price.

METTLE: The findings about CBA not being as focused on non-financial risks as it was financial risk presumably surprised the Panel and indeed CBA. This must be a wake-up call for many organisations around the need for “chronic unease” around non-financial risks. What comments do you have for business more generally?

JILLIAN BROADBENT: I do think banks have a broader responsibility in the national economy because of the nature of their operations and being highly leveraged institutions whose products or services many individuals and other companies depend on. It’s important for anyone working at a bank to understand that and the term “chronic unease” reflects the consistent sense of scrutiny that needs to be applied.

I think chronic unease is a bit rare in financially successful organisations because financial success tends to breed ease rather than unease. The challenge then is to constantly be on your toes and question the origins of success to ensure it is real and enduring.

We introduced the term in the report after observing how other industries deal with health and safety. The oil and gas industry for instance are very focused on safety and there needs to be a culture where people are constantly alert. The first instance people relax in such industries increases the likelihood of a fatality, so the stakes are extremely high – unease becomes essential to achieving a high standard and consequently a good safety outcome.

METTLE: The Panel found that CBA’s remuneration framework had little sting for senior managers when poor risk or customer outcomes materialized, but others down the chain felt the pain. From your broader business experience do you think this is more common than should be the case in business? Is there a “Do as I say, not as I do?” mentality?

JILLIAN BROADBENT: Boards tend to only be involved in remuneration of senior executives, but I do think they need to ask for aggregate information about bonus outcomes across an organisation, and probe for the deeper detail they need.

Getting accountability aligned with remuneration is critical but is extremely difficult. There’s a need to build up strong measures of risk outcomes and ensure executives know if they don’t meet a diverse range of targets, it’s going to impact on remuneration.

The finance sector is generously rewarded which is ok if those who benefit fulfil all responsibilities across both risk management and financial performance.

What we found was that there wasn’t enough stick when risk management failings were identified. In the case of CBA there were certain hurdles relating to risk management standards that individuals would have to comply with before the bonus gates opened. We found these checks were not being applied as effectively and consistently as they could have been.

METTLE: The mantra in business today is about working collaboratively. In New Zealand society (perhaps even more than in Australia) people place a premium on everyone getting along, and it’s quite easy to paint those that challenge the norm as being difficult. Would you comment on this?

JILLIAN BROADBENT: Collaboration is nice to have, but not everything is a birthday party. Working collaboratively should not eliminate challenging each other.

If we don’t challenge, our organisations are never going to be performing at their best. I can’t see how anyone challenging can be offensive and I don’t think challenging on the basis of knowledge can be anything but wholesome.

METTLE: Presumably there will be some saying the findings just make it all too hard to be a director and the report will make banks, business directors and executives even more risk adverse. What do you say to that?

JILLIAN BROADBENT: When we started out with CBA we didn’t know what we would discover. All we knew was to question why a financially successful organisation had found itself in this predicament. It certainly led to challenging some myths.

The first myth being that boards should not delve into management matters and need to understand the division of responsibility between the board and the executive. My observations from the review were that it isn’t that clear.

If there is too much respect for this separation of duties and not a willingness to delve and scrutinize, you can end up with a less than thorough coverage of the risks.

Better to have overlaps than gaps. This may lead to tension, but that should be healthy tension for the business. You must challenge to meet your obligations as a director.

There’s been a lot of pressure recently in New Zealand and Australia from major institutional shareholders to have strict quantitative KPIs for bonuses and remuneration, and there’s a dislike of qualitative judgement and unspecific measures. Consequently, the less quantifiable non-financial outcomes and risks, conduct risk and compliance risk and customer complaints get down played and this results in a less holistic assessment of performance.

If you don’t have a remuneration policy aligned with those measures, it becomes a very specific lens through which you view a business. While less quantifiable measures of performance are resisted, they do need to be recorded and considered in company and individual performance.

In the case of CBA, the focus on improving customer satisfaction disguised the extent and seriousness of customer complaints.

METTLE: Are there any final comments you wish to make to METtle readers?

JILLIAN BROADBENT: The CBA is a key institution that touches so many Australians. The new CBA Board and executive team have their own learnings which they’re already adopting and I’m sure they will emerge stronger following the APRA review and its recommendations. 🙏

➤ Challenge is a healthy activity and should be encouraged

➤ Always remember open dialogue is constructive and positive

➤ It’s important to look beyond positive KPIs and seek out possible failings

APRA REPORT

MUCH FOR BOARDS TO REFLECT ON

APRA's report into the Commonwealth Bank of Australia (CBA) issued in May 2018 caused quite a stir in corporate Australia, leading to an inquiry into other financial institutions by regulators on both sides of the Tasman.

The report gives boards of all shapes and sizes in New Zealand (and elsewhere) plenty of food for thought. It's not a report that only banks and bank boards need to read. On its release the Australian Treasurer (now its Prime Minister) was quoted as saying the report should be an agenda item on every board's agenda in Australia. The same could be said for New Zealand boards.

The report is lengthy, and there are many lessons to be drawn from it. Mettle has provided take-outs which boards in New Zealand should be reflecting on.

The Panel found that CBA's continued financial success dulled the sense of the institution to non-financial risks. There was a sense at all levels of the organisation that CBA was well run, it was an icon and that it was inherently conservative on risk. In the environment of continued financial success two voices became harder to hear – the “voice of risk” particularly for non-financial risks and the “voice of the customer” in particular customer complaints.

Questions for successful New Zealand entities: Is your organisation's financial success dulling your sense to non-financial risks? Do your people listen to the voice of the customer sufficiently? Do you focus predominantly on financial results? Are you meeting guidance, market expectations or budget? Is your focus on this so great that you don't stop to really assess the non-financial risks that the need to deliver financial metrics might create? Do you focus on net promoter scores rather than looking to see if there are systemic issues in customer complaints?

1

The panel found that CBA had a culture of complacency from the top down, and was reactive rather than proactive in dealing with risks. Operational risk and compliance issues tended to receive attention only once they had emerged clearly or reputational consequences began to show. When attention was given it was not always timely or effective. The panel said there was “a slow”, legalistic and reactive, at times dismissive, culture which characterised many of CBA's dealings with regulators. It said that “taken together, complacency and reactivity led to a sense of “chronic ease” in CBA, rather than “chronic unease” that has proven effective in driving safety cultures in other industries.

Questions for successful entities are: Has your financial or other success made your organisation and your board complacent? Do you have “chronic unease” about non-financial risks?

2

The Panel said that CBA had become insular, did not reflect on and learn from experiences and (its own and others) including at board and senior executive levels. It said lessons from previous incidents had not been readily captured or shared across CBA. It said that CBA had turned a tin ear to external voices and community expectations about fair treatment.

Question for all entities: Does your organisation learn from its own and others' mistakes and experiences? Does a non-blame culture (considered a positive attribute of good culture) mean lessons are not really identified and learnt? Does your organisation have a “tin” ear to external voices and community expectations?

3

The Panel noted that one of CBA's cultural traits was it's “collegial” and collaborative working environment... which places high levels of trust in peers, teams and leaders. Reinforcing this is the significant value placed on the “good intent” of staff. These are positive elements of a sound culture. However, they have a downside. Pursuit of consensus has lessened constructive criticism and led to slower decision making, lengthier and more complex processes and a slippage of focus on outcomes. It also impeded accountability and the individual ownership of risk issues. Trust has not been continually validated through strong metrics, healthy challenge and oversight. Good intent has been too readily used to excuse poor risk outcomes.”

Questions for all entities: Does your organisation deal with risks proactively or realistically? How constructive is your relationship with regulators? Are your decision making processes more complex than necessary because of a desire to be collaborative? Does good intent mean you take the eye off the ball from an accountability perspective? Do you excuse poor risk outcomes when good intent existed?

4

The Panel found that the former CEO sought to empower business unit leaders to run their own businesses. The Panel noted that “In and of itself, this can be a good thing. However, when combined with an atmosphere of collegiality and high levels of trust in peers, it resulted in a lack of healthy constructive challenge within the Executive Committee and an inclination for Group Executives not to raise concerns outside their own area, at least until those concerns had risen (above the water line) in terms of materiality.”

Questions for all entities: Does your organisation’s structure and culture – which undoubtedly includes empowering your leadership team – result in a lack of collective responsibility for the business’s overall risk?

5

The Panel noted that banking at its most basic level is predicated on community trust and the fastest way to erode such trust is to “fail to do the right thing” by its customers. It noted that banks are increasingly judged not by reference to the sum total of customer interactions but rather by reference to the fairness of outcomes for their most exposed customers. The Panel noted two examples of trade-off decisions being made in which financial objectives were implicitly prioritised over the “customer voice”. The “can we” question won out over the “should we” question.

Questions for all entities: Most businesses rely on “trust” – trust from customers – without which there is no business. Does your organisation truly put the customer at the centre of decision making? In designing and selling products or services to customers, does your organisation approach sales from the perspective of “can we?” or “should we?”. Does the desire for strong financial performance result in your people’s judgement on sales being clouded?

7

The Panel made a number of critical observations of CBA’s risk management and compliance function. Amongst its recommendations to address the criticisms levelled, the Panel recommended that CBA strengthen its management of operational and compliance risk. It also recommended elevating the stature of the compliance function by making the function a member of the Executive Committee, making their appointment and removal subject to approval by the Board Risk Committee and ensuring they have direct access to the board.

Questions for all entities: Where does risk sit in your organisation? How do you signal through the existence or non-existence of a risk officer and that person’s status in the organisation the importance you place on identifying, controlling and mitigating risk? Not all organisations will be of sufficient size or scale to have internal legal or risk resource. Where this is the case how do you resource risk, identify risk, mitigate and control risk?

6

The Panel found that CBA’s application of its remuneration policies did little to reinforce accountability and effective risk management across the group. It noted that: “Until recently, the CBA Board had not held senior leaders to account for adverse risk and compliance outcomes that occurred under their watch. A willingness to excuse poor risk outcomes with limited consequence for executive remuneration has undermined the usefulness of variable remuneration schemes as a tool for promoting prudent risk-taking behaviours and fostered a culture of entitlement over one of genuine accountability.”

Questions for all entities: Does your remuneration system operate differently between senior management and lower level employees? Are there no real consequences for poor risk outcomes for senior executives but a sting in the tail for lower level employees?

8

THE PANEL MADE A NUMBER OF CRITICISMS ON THE WAY THE BOARD OPERATED PRIOR TO THE APPOINTMENT OF A NEW CHAIR IN 2017.

AMONG THE FINDINGS THE PANEL MADE WERE:

- ↗ gaps in communication between committees despite overlapping memberships;
- ↗ instances of a lack of candour from management in messaging to the board and its committees;
- ↗ overconfidence in the effectiveness of the board and its committees, and lack of genuine bench markings;
- ↗ immature oversight of CBA’s risk culture;
- ↗ prior to the appointment of the new Chair, the board’s agenda was relatively static and not tailored to the issues, risks or focus areas that demanded attention. Face to face meetings between the former CEO and Chair were not sufficiently frequent to develop a targeted agenda or to understand the most pressing items on which the next meeting needed to focus;
- ↗ reports to the board from its committees were the final item on the agenda, with this time allotted often being insufficient due to overruns in prior items.

One of the points the Panel made in its report was the opportunity to learn from others mistakes. CBA is a highly successful organisation and makes a significant contribution in Australia and New Zealand. If APRA found issues inside an organisation of CBA’s stature, how would your organisation stack up if it conducted a review?

THE QUESTION THIS RAISES FOR BOARDS ARE:

- ↗ is there good communication between committees on issues relevant to them?
- ↗ is your management team candid with the board about issues?
- ↗ are you over confident in the effectiveness of your board and subcommittees?
- ↗ is there sufficient engagement between the Chair and CEO so the Chair really understands the most pressing items which should be put on the board agenda?
- ↗ are your meetings conducted to allow subcommittees to properly perform their role?

Any board in New Zealand has an opportunity to learn from APRA’s report. MEttle recommends every board takes the time to reflect on the shortcomings the Panel found, the recommendations it made to CBA and ask itself how its organisation measures up. If changes should be made then seize the opportunity to create and protect shareholder value in your organisation.

CHALLENGE: ZERO

**“THIS IS MY GENERATION’S NUCLEAR FREE MOMENT,
AND I AM DETERMINED THAT WE WILL TACKLE IT HEAD ON.”**

JACINDA ARDERN, PRIME MINISTER OF NEW ZEALAND, 20 AUGUST 2017



In this day and age, it is pretty hard to find people who disagree with the science showing that human activities have led to an increase in some greenhouse gases, which in turn is leading to a steady and unsustainable increase in average global temperatures.

Whatever your personal view, one thing you cannot ignore is that the Government of New Zealand has set this country on the path to become net carbon zero by 2050 or sooner. The Zero Carbon Bill sets this target. Further, the Bill sets five yearly emissions budgets to help us reach it, to establish an Independent Climate Change Commission to offer advice and hold governments to account, and to plan for how New Zealand adapts to climate change.

The 2050 target will put New Zealand in the forefront of global action in this area. Some other countries are already on the move – Norway is ahead, aiming to be carbon neutral by 2030, and Sweden is going for net zero emissions by 2045 – but New Zealand would be in front of many major world economies such as the UK, US, EU, Canada, France and Germany, which have all committed to deep cuts by the middle of the century, but not net zero.

To find out how the Government’s commitment to moving to a zero carbon economy will affect New Zealand business, and to understand some of the challenges and opportunities that it presents, MEttle spoke to two leading business people who are intimately involved in the challenge: Lindis Jones, General Manager Corporate at Z Energy, and Graeme Milne ONZM, the Independent Chair of Synlait Milk.

Graeme Milne is unequivocal: business needs to take the lead towards zero carbon. Why? Because there's no doubt any longer that the Earth is warming.

"There's no debate on that any more. CO₂ in the atmosphere has rapidly increased since the industrial revolution, and virtually all of that has come from using oil and gas or coal. Further, we are flat-out using the Earth's non-renewable resources – or what remains of them.

"Therefore, there's no logical argument not to aim for a sustainable and environmentally-friendly economy. We need to leave the remaining non-renewable resource for those applications that can't be easily sustainably replaced in the foreseeable future, and take the lead in other directions."



"There's no logical argument not to aim for a sustainable and environmentally-friendly economy."

Graeme Milne ONZM, Synlait Milk

There have to be leaders, he says, and there's no excuse for leaders to duck their responsibilities.

"You have to start doing something. I am aware of the argument that if New Zealand did everything it would only have a less-than 1% of an effect globally, and that a company within New Zealand might have 0.001% of an effect. But, if everyone said that, nothing would happen.

"The fact is, if you're in a position to lead, then go out and lead, and you'll get followers. If you don't lead you won't have followers. After all, we did sign up to the Paris Accord. We have made a commitment, so we all need to get out there and do something about it."

But what does achieving 'zero carbon' actually mean? Essentially, net zero carbon emissions, or 'carbon neutrality'. And to get down to net zero carbon emissions, carbon emissions must reduce to a level that is balanced out by carbon stored in forests and other carbon sinks. More specifically, the Zero Carbon Act says that the 2050 target only applies to long-lived greenhouse gases – mainly carbon dioxide and nitrous oxide – the main global temperature criminals.

ECONOMIC AND ENVIRONMENTAL IMPETUS

Milne says that the agriculture sector is already working hard in this area, aided by emerging technologies.

"When we consider CO₂, it's not such a big issue in agriculture because we take it out of the atmosphere, but of course our products are sold, consumed and digested. If you're using ruminants in the process, then methane is created and lost to the system. Nitrogen is needed by plants and we encourage its production by promoting clover in healthy pastures and other methods, but we don't want it lost to the waterways. And there's nitrous oxide, which requires a careful scientific look.

"An economic driver exists to solve these problems, as well as an environmental one. The whole thing makes sense in multiple ways. And technology can help. Because we – agriculture worldwide – have started to look, pushing hard, there are now technologies that do look viable, whereas just a short time ago we were thinking 'this is not solvable'."

He says that this approach is not restricted to the agriculture sector. "Every business needs to look at how it can be more sustainable from both a greenhouse gas and non-renewable resources point of view. If you can't be more sustainable by stopping non-renewable resource consumption, you need to think about the circular economy after its first use – how to recycle, downcycle, or upcycle even. If you start creating targets and creating an urgency, you find that things are possible."

"If you start creating targets and urgency, you find that things are possible."

Graeme Milne ONZM, Synlait Milk

Which brings us round to Z Energy. Describing the 2050 target as a call to action, Lindis Jones says that Z is committed to being at the centre of the climate change solution, and is in favour of long-term policy certainty that provides clarity to New Zealanders and business.

STAFF AND STAKEHOLDER DEMAND

"The more we can plan for investing in carbon-reducing and mitigating activities, the more certain we will be to do so. We deliberately chose the Paris target of a 30% reduction by 2030 for our own organisation's operational emissions. We recognise that as a fuel company our role can be much bigger than managing our own direct emissions. However, this public commitment is important in sending the message that we see ourselves as being part of the solution."

This, he says, is in part because staff, customers and other stakeholders demand it.

"When we talk to our customers and stakeholders, one of their key expectations is that you have to look after your own backyard, minimise the impact of your own operations, and reduce them."

Lindis Jones, Z Energy

"I believe Kiwis have embraced the science of climate change and the need to minimise our environmental footprint more generally. When we talk to our customers and our people, one of their key expectations is that you have to look after your own backyard, minimise the impact of your own operations, and reduce them.

"Resisting it doesn't do anything for our shareholders. And our staff expect we do something around this. Our commitment to environmental sustainability is one of the top drivers of engagement for our people."

Jones says that where Z can't reduce or eliminate carbon, the company will offset it.

"We made a choice that we would buy into permanent forest initiatives – forests that exist now, certified as meeting the standards for domestic voluntary carbon credits – locked up in perpetuity, small plots with high conservation value."

Z has so far invested in 10 forests, and believes it is the right thing to do. "We invested \$1.5 million in the initiative this year, and we have a similar commitment going forward," says Jones.

BUT ISN'T CARBON ZERO 2050 FUNDAMENTALLY A BAD THING FOR Z?

Jones says that the demand away from core hydrocarbon products will happen anyway, and Z is exploring many other alternatives.

"While the opportunity for New Zealand to move away from hydrocarbons fuelling small cars and replace them with electrons from renewables is critical to New Zealand meeting its commitment, there are other opportunities to reduce carbon in our customers' businesses without destroying value for Z shareholders.

"The way we look at it is that we are a company that exists to provide energy and mobility solutions for customers and we are not wedded to fossil fuels. After all, Z invested in New Zealand's first commercial-scale biodiesel plant."

Jones says that from a capital markets perspective, there is also a growing enquiry about the investment in carbon-intensive businesses. "However, if you have a business showing good governance and seen to be part of the solution, then you're still in play with investors."

Which brings into play the concepts of value, cost and pricing.

"Carbon is a mis-priced asset," is his view. "It will be re-priced, and there is an opportunity for clear policy and regulation to provide greater certainty of how this re-pricing will occur. In the face of growing global ambition for reducing emissions it is important that uncertainty is resolved by a regulatory environment that supports action in New Zealand. Getting left behind would be bad for New Zealand, environmentally and economically.

“We do recognise, however, that for our industry, passing through the cost of a higher price on carbon will likely impact our customers disparately. This is one example of potential for uneven impacts of a higher price on carbon across different sectors, geographies and households. Managing this change in a just and inclusive manner is important and should be taken into account when defining policy responses.”

MORE SCIENCE AND CERTAINTY

Where it starts getting complicated and needs real leadership, he says, is that so much is still unknown.

“When you have a target of net zero carbon, when it comes to policy which gases are to be included, and what are the costs of the different abatement options? We worry that this could cause inter-sector disputes, which could reduce the ambition of the collective New Zealand effort.

“Meaningful policy certainty will aid us in informing business decisions that would make commercial and environmental sense. For instance, business would have greater confidence when making investment decisions on new carbon abatement solutions. Specifically, a binding and ambitious New Zealand target would provide a signal to business that investments will be supported and provide confidence for further possible investment decisions, such as to scale up biodiesel production and invest in new bio-jet opportunities.”

“Meaningful policy certainty will aid in informing business decisions that would make commercial and environmental sense.”

Lindis Jones, Z Energy

AN OPPORTUNITY FOR LEADERSHIP AND TARGETS

Ultimately, Jones sees an opportunity for company boards and leadership to define what they stand for, what outcome they want to see and how they support it. “I think of the role of a board or executive and how this challenge enables them to use the tools they are good at – like risk management or strategy. Every executive and board member needs to understand more about the carbon economy, and the science around it. Don’t get caught up and stuck where we are, or we’ll go nowhere. There is a real opportunity here from a governance level.”

Echoing this theme of leadership, Graeme Milne sees the key for each business being to analyse its situation and set its own bold targets, and the need is there to solve this faster than 30 years.

“Companies need to go out there, be bold and make commitments, even if they don’t quite know how they’ll do it. Involve suppliers, look upstream, look downstream, involve your staff. You’ll get lots of support from people who want to play their part. Everybody wants to do their part.”

“Companies need to go out there, be bold and make commitments, even if they don’t quite know how they’ll do it.”

Graeme Milne ONZM, Synlait Milk

FACE THE SCIENCE

Don’t just greenwash your company; be fact-based, he adds.

“We need to look at the actual impacts on the environment, not what people might think is a great initiative. If you sit down and work out the energy and resources utilised in making a glass bottle vs a plastic one for example it might not calculate out as you first thought, as sand is not an inexhaustible resource either.

“I read a statistic recently about plastic bags in supermarkets. You’d have to use a cotton bag 143 times to be equal to the energy consumed in making 143 single use bags. We need to get to the correct solution. To do that we need to be genuine, and science-based about it, not just thinking it will be popular with our customers, a knee-jerk, that’s not the solution.”

TAKE THE LEAD, MAKE COMMITMENTS

To do this, businesses need to set steady, bold, long-term targets, because they really do make a difference. Synlait Milk is already doing that, revealing a lengthy series of targets to reduce its environmental impact significantly at its annual conference in Christchurch in June. Among them, reducing greenhouse gas emissions by 35% per kilogram of milk solids on-farm (consisting of -50% nitrous oxide, -30% methane and -30% carbon dioxide) and 50% per kilogram of milk solids off-farm by 2028.

Other targets include reducing water consumption by 20% per kgMS both on-farm and off-farm by 2028, and reducing nitrogen loss on-farm by 45% per kgMS by 2028.

Two more that catch the eye are ‘Never building another coal-fired boiler’ and the goal to commission New Zealand’s first large-scale electrode boiler in January 2019.

“We did the analysis and then made commitments,” says Milne. “There’s no reticulated gas in the South Island,

so we can’t use a gas-fired boiler, and diesel is no better, so we came across a new technology, an electrode boiler, like an arc welder inside a boiler.”

Another new technology being investigated by Synlait Milk aims to substantially reduce methane produced on the farms the company collects milk from.

“Developed by a Dutch company, a very small dosage of a very simple and safe compound is fed to a cow. It reduces the bacteria that produces methane in a cow’s gut, leading on the one hand to less methane generated and, on the other, to more energy for the cow.”

Milne says it is surprising just how much momentum and support new technologies have from farmers. “It is their businesses we are talking about, and they have come on board surprisingly quickly.”

However, he says a balance does need to be struck: aiming high, with pace-setting leadership, but not going too fast in the rush to achieve targets.

“New Zealand could trip over if we go too fast, for example with policy settings that can’t be achieved without social disruption, not good. But if you are bold and you do get out there, if you aim high and get somewhere, it is always better than not aiming and getting nowhere.

“Do it right, aim properly, and create opportunities. Look at the commercial value in other countries and sectors. Companies in all sectors should take guidance from the UN’s 17 Sustainable Development Goals – a broad programme companies should consider carefully. Tick some off: there are some tough ones you might not be able to tackle, but many you will.”

To do so, he says, first we have to take action.

“If New Zealand is serious about becoming more sustainable and hitting our carbon zero 2050 target, we need to be grown up about what that means in reality. Technology has reached a point where most of the uses for oil and gas or coal can be replaced with sustainable technologies. It is time to be getting on with it.”



“If you have a business showing good governance and seen to be part of the solution, then you’re still in play with investors.”

Lindis Jones, Z Energy

A network diagram is created on a white surface using several silver pushpins and a thin black string. The pins are arranged in a grid-like pattern, with some additional diagonal connections. The string is stretched between the pins, forming a complex web of interconnected lines. The background is a plain, light-colored surface.

SHOWING THE GLOBAL WAY

GLOBALISATION.

It's a topic we keep coming back to at MEttle. Ever since our first issue five years ago we have been asking 'what do Kiwi companies need to succeed around the world, and why aren't more of them doing so?'

As the world becomes an increasingly connected place, the need for clarity on this topic only becomes more urgent. So, to find a truly knowledgeable source on the subject, MEttle turned to Don Braid, CEO of Mainfreight, one of the few Kiwi global growth exemplars, to lift the lid on how the global logistics provider has driven its remarkable growth.



“There is an acceptance of New Zealand business people. We’re not at war with anyone, we’re not overly aggressive, we just like to get on and do business in our style.”

Don Braid, Mainfreight

FIRST, THE STATISTICS

Mainfreight began in Auckland in 1978, growing quickly to become New Zealand’s most extensive freight network. Six years later the first Mainfreight International branch opened, followed by the opening of the first branches in Australia in 1989, and a further acquisition of a poorly-performing Australian business in 1998. In 1999 the company became global with the acquisition of businesses in Asia and the United States.

In the 2000s further expansion continued in America with the purchase of Target Logistics Services, and in 2011 Mainfreight grew its European branch network by acquiring the business of Wim Bosman Group.

Today, Mainfreight is a truly global logistics provider with over 250 branches around the world offering extensive services and sophisticated solutions throughout the supply chain. With teams and branches across Australia, Asia, Europe, New Zealand and the Americas, and listed on the New Zealand Stock Exchange, the company continues to expand its global footprint.

SO, HOW DID MAINFREIGHT ACHIEVE THIS SUCCESS?

“I wouldn’t say we have succeeded offshore yet,” Don Braid starts. “We’re in offshore markets, but there’s so much more potential for us. It will take additional time for some of that potential to be realised.”

Important point made, he then explains the key factor behind everything Mainfreight has done: strategic imperative.

“We had a strategic reason to go offshore,” he says. “We needed to create a network, not necessarily to attract freight to and from New Zealand, but to create a global network for our customers.

“Our growth was not necessarily about freight growing to and from New Zealand, but freight and logistics that became available from say China to the US and vice versa. Our customers in those areas were multinational and were exposed to our multinational competitors. So, if we didn’t go and play in the same geographical regions, then quite quickly we could have had our business eroded here in New Zealand.”

This strategic impetus prompted the growth path that followed, but it wasn’t easy.

“It takes guts, determination, perseverance and a clear strategy for what you’re going to do. Once you’ve got those things in place then it comes down to how you operate successfully in each of those countries.”

EARLY LESSON: LOCAL NATIONAL LEADS THE NATIONAL BUSINESS

Braid says that Mainfreight learned many valuable lessons in its first move overseas: Australia – so often the proving ground for Kiwi companies.

“Companies often go there thinking ‘they play rugby, they eat meat pies, they have beaches and a similar culture to us, therefore it is the same’. It’s not. It’s very, very different. And we learned valuable lessons there.”

What’s so different? First, there are no handshake allegiances. “They’ll take you to the edge of the cliff and drop you off,” rues Braid. “You need to be tougher, and the environment is different in terms of people. Australians prefer to deal with Australians, for example. We had to understand that there was a different culture and style about Australian business.

“We would like nationals leading national businesses in each of our countries”

Don Braid, Mainfreight

“Mainfreight therefore has an Australian leading its Australian business. We would like nationals leading national businesses in each of the countries we are in.”

BLEND COUNTRY AND COMPANY CULTURES

Mainfreight now has a number of Kiwis in its global businesses, with some leading them, which Braid says is almost an interim step towards blending in nationals into Mainfreight’s style of doing business.

“We have a set of disciplines that are non-negotiable,” he says. “Weekly reporting, open plan offices, profit and loss details being shared with the full team. And then there is the softer side of the country’s culture. We learned this in Australia, we have an enormous respect for it, and we allow local culture to permeate into the way the business is run in that country.”

If Mainfreight’s early Australian learning experience was difficult for the company – and Braid admits that it was, taking a long time for the lesson to sink in – then he says that dealing in Western Europe is even more so.

“The Dutch, the Belgians, the French and the Germans; they are all so different yet within three or four hours’ drive of each other. They act and do business differently, and we must be conscious of these differences as we go about day-to-day business.”

KIWIS ARE ACCEPTED, BUT NEED TO EXPLAIN THEMSELVES

One big factor in Kiwi business people's favour when dealing with all of these cultures, says Braid, is the fact that we are more widely accepted by business people across the world than those from some other countries.

"Once you get outside of Australasia," he says, "there is an acceptance of New Zealand business people, versus for example Americans doing business in China or Europe. It's almost a dislike, whereas New Zealanders are seen as neutral. We're not at war with anyone, we're not overly aggressive in terms of trade, we just like to get on and do business in our style. So, we are seen as being easy to do business with."

However, we do have a job to do to explain ourselves.

"Where we do battle sometimes, and particularly in America, is around the question of 'how can anyone come from a country of four million people and own a business in America?' So there's an ignorance that you have to understand, and work hard to prove them wrong. It makes you very focused and clear about your strategy."

SPEND TIME IN-MARKET

On the topic of working hard, Braid spends a lot of time travelling. "I try to be in-market as often as I can be, which means a lot of travel for me as it does for the board of directors and our management and sales teams worldwide.

"Because we are growth-oriented, that means making sales calls on customers where we can assist, and bringing key people from our businesses in other regions to New Zealand to understand our culture; a blue injection if you like. They see it operating here, and how successful it can be, and then take the recipe back to their respective countries."

WHAT'S 'THE BLUE INJECTION'?

Braid says that it is relatively easy to build offices, warehouses and cross-docks, and set them up, but it is an altogether different task to get them functioning well with a cohesive structure. This is where Mainfreight's culture counts.

"The Blue Injection is the reasoning behind why we do things," he says. "It's about a flat management structure, and getting decisions made as close to the customer as possible.

"In some countries, in Asia for example, hierarchy is very important to the culture, so typically the boss always makes the decisions. In Mainfreight, the person closest to the customer makes the decision, not the boss, so it's really important for our Asian team to understand why we are doing it like this."

"Our customers want to do business with Mainfreight because the person they talk to on the phone says yes or no, 'I'll make that happen', not 'I'll have to ask permission'."

Don Braid, Mainfreight

He says that if you think about it from a commercial point of view, that's a big part of Mainfreight's 'why', and why customers want to do business with the company. "The person they talk to on the phone says yes or no; 'I'll make that happen', not 'I'll have to ask permission'."

To give an example of this in action, Braid tells a story about a recent trip to America. "I was making a sales call with a person who had worked for a large competitor. I asked her why she was enjoying working for us, and she said 'I can make decisions for the customer, and the customer knows it is my decision. I don't have to push it upstairs three floors to know the rate I have to quote, which gives me an enormous amount of responsibility, and it is satisfying'."

Ultimately, he says the approach is about creating a motivated salesforce and team of operational people who know they have the ability to make decisions. "They will create far more growth than by kicking decisions upstairs. That's the depth of culture we wish to have understood and accepted in our operations around the world."

ALWAYS A WORK IN PROGRESS

Emphasising still that Mainfreight has not got it right in every country, Braid says that sometimes people see the aesthetic – the open plan, the white walls, blue carpets and notice boards – but they don't necessarily understand the depth of meaning about the culture: why an open plan office works, or why the P&L needs to go on the wall in the cafeteria, so that everybody is involved.

He cites a new facility in Belgium. "It's a great facility. It looks just like a branch here in New Zealand: newly built, clean and tidy, everything we stand for, but the guys in the cafeteria had no kitchen, just a room to bring their lunch. They had plastic plates and cups, while upstairs we had the fancy crockery. They hadn't got the 'everyone is equal' culture, so the depth of the culture is still not yet understood.

"The success of our business is to have all of us together with fewer hierarchical layers, to be closer to the customer and to have our people given the responsibility to make decisions."

This does take a lot of effort. "If you were to speak to a lot of companies with aspirations to be offshore, I'm not sure they'd understand the depth and perseverance you need to go and be successful. It's different to thinking about an export market: you're thinking about building a large business within a country that has a lot more people to work with, and an economy that screams opportunity.

"Honestly we do not kid ourselves: it's a work in progress. But we know that getting the culture, quality and service right in each of these countries will generate far more business for us."

"Getting the culture, quality and service right in each of the countries we operate will generate far more business for us."

Don Braid, Mainfreight

SO WHY IS MAINFREIGHT SUCCESSFUL OVERSEAS AND OTHERS NOT?

One thing Braid wonders is whether New Zealand businesses have the strategy and/or desire to be a bigger business and operate in markets offshore.

"Some Kiwi businesses are just export-driven," he says. "Their product or service is unique to New Zealand and it can be exported, but the company itself won't grow in an offshore market. Then there are those businesses who have done a very good job in our very competitive market in New Zealand. And let's not underestimate how competitive this small market is. You have to fight tooth and nail to hone your business to be very good. However, they seem to lack the confidence, strategy, determination and longevity to want to get offshore, when they could be doubly successful if they did."

The bigger question he says is why don't more New Zealand companies get themselves offshore – why don't they access these bigger markets? The few that do have done a really good job, he says, but there's not enough of them.


"Some smaller businesses are highly successful here, and could well expand offshore, but then decide to sell rather than expand. It's the old 'bach, BMW and boat' theory: 'let's take the \$10 million now, rather than \$1 billion in twenty years' time."

Ultimately, Braid is clear that Mainfreight's success is really about having clear strategy and purpose. "The strategy has to be right as to why you want to expand globally. Is it an export-focused philosophy, or is it a network philosophy? Do you have a profit sanctuary at home to help fund the growth required?

"We have been successful so far because we're linking the 22 countries that we're in with trade and customers. Air New Zealand, for example, has also been very successful in terms of understanding that they are a link to and from New Zealand. By using that link they have built profitable offshore routes, rather than thinking that they could be profitable in running offshore airlines.

"So, it's about getting that strategy correct. For us it is about being able to intensify our global network and helping the network to help itself."

He says that having a strong business at home provides opportunity and reasoning to explore exciting markets and further opportunities offshore. "What I think we learn here in New Zealand is very good customer service. In our competitive market we should not underestimate what that could do for a business in a bigger market with lazy operators; nice niches for a well-tuned New Zealand business to explore.

"Give it a go." 

Q+A

ANGIE MENTIS A ROAD LESS TRAVELLED

Enjoying a stellar career in banking and wealth management in Australia, Angie Mentis was appointed as Managing Director and CEO of the BNZ in January 2018 – the first female in the top job for the bank.

Since then, Angie has relished the opportunity to apply her extensive business experience to deliver more for the BNZ's customers, staff and shareholders through her authentic leadership style – leadership that centres on encouraging diversity, building trust and having pride in the work you do.

MEttle met up with Angie to reflect on her career to date, the importance of challenging the status quo and navigating business in New Zealand and around the globe in a time of unrelenting and unprecedented disruption.

MEttle: How would you describe your pathway to becoming a CEO? Was this sort of role always your goal?

ANGIE MENTIS: While I have always been a focused person who listens both up and down an organisation, reads a lot, and has a desire to deliver great results and make a difference to the customers I serve, I never aspired or planned to be a CEO. I was on the board of BNZ for the preceding 12 months and had undertaken all the traditional leadership assessments before the opportunity here developed. At that time, after a year on the Board, I could see how I could deliver more for BNZ customers, staff and our shareholder and meaningfully shift the dial for BNZ.

MEttle: Has anyone stood out to you as a role model?

ANGIE MENTIS: My father has been my role model. He lived his life and ran the family businesses according to a unique Greek principle called *philotimo*. This is a word with no equivalent in any other language. It's based on two words meaning 'friend' and 'honour' and it describes a way of life that's based on people, on compassion, honour, humility and pride in your work. It's about living for something larger and doing the right things – even if that sometimes means losing out yourself.

MEttle: You must have had your fair share of challenges as a senior business leader. Is there a story you would like to share, what you learnt from it, and your advice for others?

ANGIE MENTIS: I was part of an executive team some years ago where there was little diversity and the executives had worked together for a very long time. I found early on that when I expressed my point of view, or offered ideas in a meeting it went unnoticed or unacknowledged until one of my male colleagues would say the same thing. I now work hard to ensure the diversity challenge does not permeate my own team. It is always important to check on yourself as a leader that you haven't fallen into the same trap as you bring new people into your team, especially in the face of an ever-changing environment. Building trust with your team is essential but it shouldn't come at the expense of listening and being open to challenge.

MEttle: What do you wish you had been told at the start of your career?

ANGIE MENTIS: Don't be afraid to ask lots of questions. I used to be very self-conscious of this early in my career — anytime I wanted to ask a colleague something, I'd preface it with "Sorry to bother you". Now when we have new recruits if they are not asking loads of questions, it might signal that they are not

curious, open to learning or listening to other people's point of view, or just too headstrong to admit when they need help.

Take ultimate responsibility to guide your career path. Be ambitious, plan it, work at it and get the support (mentors, training, sponsors) and experience to move towards your ultimate goal.

METTLE: What are the challenges ahead of the New Zealand and global banking sectors at the moment?

ANGIE MENTIS: Maintaining and continuing to build the trust we have with New Zealanders is the key to any future success. Without that, providing the personal and seamless customer experiences shaped by the likes of Apple, Amazon and Alibaba, won't add up to much. Continuing to do the right thing by customers big and small will remain central to any direction we take.

Automation will reimagine and transform the work of banks. Automation of all the basic activities will mean our workforce will be able to deliver more meaningful outcomes for our customers. It will require collaborative and inclusive skills to work more effectively in a digital environment, but ultimately the outcome will be better for our customers and our staff. At BNZ we are currently working on a refreshed employee experience journey where we are redesigning our employee value proposition to accommodate, as a minimum, a purpose driven career, digitally enabled skills and flexible work life balance. Automation shouldn't be viewed as a negative but as a way we can deliver meaningful purpose and job satisfaction.

Disruptive business models and technology from FinTechs and non-traditional service providers (Amazon; Alibaba) are now the norm. This is more than just a continual evolution of providing innovation and unique customer experiences. Banks will need to adapt quickly to the changes in technology and focus operations and cultures on customer experience. Just being a fast follower won't get us ahead of the pack – we will have to offer something different.

METTLE: What in your mind are the biggest opportunities for New Zealand businesses at this time? What one message would you send the CEOs of New Zealand companies about grasping the opportunities in front of them?

ANGIE MENTIS: New Zealand is an amazing country to live, work, start and grow a business. The Government has an ambitious agenda for New Zealand and we have the economic conditions conducive to growth. My core message to New Zealand business leaders is be ambitious for their business and for New Zealand. Actively seek out opportunities to invest

and grow and be ready to grab the next opportunity when it comes along.

METTLE: What are your impressions of doing business in New Zealand so far, and how different is it to doing business in Australia?

ANGIE MENTIS: New Zealanders style is more informal and that is reflected in the workplace. Coming in, it does take time to adjust and to understand that informality does not mean "less professional", and in fact if it is harnessed it can be a real global differentiator. Another New Zealand factor that stands out is that people work closer and more constructively with the senior people who make decisions – whether it's government, industry bodies or regulators. This is a real advantage as we have a greater opportunity to contribute, influence and be part of the solutions that will drive great outcomes for New Zealand.

One thing that has struck me is the influence in everyday discussions of New Zealand's strong indigenous culture where respect, pride and identity and Mana play a central role. I think having a strong Māori voice that resonates does set New Zealand apart.

PHILOTIMO

(n.) lit. "friend of honour"; complex array of virtues that encompasses honour, dignity and pride – the ideal actions and behaviours, hospitality, bonds and responsibilities between each other.

METTLE: You are the BNZ's first female CEO, and the third female CEO of a bank appointed in New Zealand this year – does it feel like New Zealand is turning a corner with regard to diversity?

ANGIE MENTIS: Whilst this is pleasing progress it is essential that these appointments are not just aberrations. Women hold only 29% of management roles in New Zealand despite making up 47% of New Zealand's workforce. Less than 1 in 5 board members of New Zealand listed companies are women. We know having more women in leadership will create dividends for business and the New Zealand economy – we need to continue to be vigilant until diverse and inclusive leadership teams and boards are the norm.



METTLE: How can companies improve the pipeline of talent coming up through large organisations within New Zealand?

ANGIE MENTIS: People are critical to ensuring sustainability of your organisation and companies need to think about the needs of the future and how they can create meaning for people. Some of the strategies I have seen work well include considering what are the future needs and competencies of your business strategy as a starting point, and then work actively to either upskill your people or create a pipeline of talent that will meet your future needs. It can be a balancing act as your own company transitions, but having great, creative things happening in your business will provide context and meaning for people.

Prioritising the development of your existing talent is too often overlooked. Companies can have great talent internally but in their hurry to meet the future, look to change personnel out rather than take advantage of the great talent they already have. Developing internal training to target specific levels and competencies is a must. For example, leadership skills required for the highest layer of leaders will differ for first time leaders. Ensuring a variety of development options including executive coaching, bringing leaders together to discuss learnings and frameworks, cross functional experience and job rotations, will play different roles for different leaders.

I also believe that leaders must review, monitor and discuss their talent bench-strength regularly, ensure they understand and provide the feedback to talent and have metrics in place to evaluate progress and effectiveness.

METTLE: How might those aspire to being CEO emulate your success?

ANGIE MENTIS: Self-awareness and staying true to your identity. Knowing who you are and being authentic is foundational. I didn't waste my energy trying to tell people how smart or how capable I was, I showed it through results. I stayed under the radar and out of the politics. I took on many stretch assignments and moved into new roles so I was continuously growing and learning – in fact much of my career I have felt out of my comfort zone. By seeking out the opportunities and taking them when they presented with open arms, even if I didn't have all the experience required, is part of a growth mindset. Combine that with common sense and you can work even the most complicated situation out quickly.

It is also important to remember that even as a CEO you are part of a team. When building your leadership team ensure you recruit people who will challenge you to grow and be a better leader. Be humble, humble people listen to and learn from others. Surround yourself with people who have diverse and complementary skills and experience. This is a key ingredient to success.

Combining your own personal self-awareness with the ability to both lead and serve people, while being able to articulate succinctly a purpose and vision for the company that inspires people to live it and use it as a guiding light, is a skill that takes time to hone. I have been fortunate at BNZ, we have an inspiring Purpose: *Enabling a high achieving New Zealand* – and Mission: *Helping New Zealanders be good with money* so they can do great things with it.

METTLE: Do you have anything else to say to business leaders?

ANGIE MENTIS: Leadership is a privilege and comes with enormous responsibility. The unrelenting and unprecedented changes in today's world and businesses present problems and opportunities like never before. Doing what has worked before and applying old solutions to new and adaptive problems will not be successful. Creativity, curiosity and collaboration are some of the key leadership skills required to innovate, make better decisions and be competitive. 🍷

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