SPEECH PRESENTED TO ROTARY OCTOBER 2006

Governance and Leadership from a Personal Perspective

Thank you Alistair for this opportunity to address Rotary.

As a New Zealander, I am familiar with Rotary, my father was a member for many years and I am pleased to have the opportunity to speak to, what is one of the longer serving Rotary clubs in New Zealand with the largest club membership.

I'd also like to thank both Don and Richard for considering that the topic Leadership and Governance from a Personal Perspective would be of interest to your members.
It has stimulated me to reflect on my 25 years in corporate life in both management and as a director.
It has also caused me to reflect on the definition of leadership.

So for this lunchtime I plan to briefly overview my background and share with you some experiences which has led me to make the observations that I will.

The Question - What do you want to do when you grow up?

The Answer – I want to be a Director

Sounds a bit odd, but not so when the question was asked in a similar context less than 10 years into my career in the late 1980's when I had to soul search to complete an application form to go to London Business School.

And this was what I realised I did want to do – Why?

Because I had grown up in business, my parents had always owned stocks and shares and so there was always healthy debate about companies and business decisions.

And I felt, corny and hackneyed an expression it is, that I could add value.

The reason - I had an interest in a wide range of industries.
My early life saw me casting around wondering what to do- I studied civil engineering, I went into banking and I studied accounting, and after the standard Kiwi OE trip, returned to complete a Bachelor of Commerce Degree at Auckland University.

This all led me to realise that whilst I could look at numbers, from the finance side of my degree, I also had the ability to look at the wider market in context - the strategy and marketing side of my degree-and it appeared to me that this combination was important in the full context of business and provided the basis to add value at a Board level.

But being a contributing Director does require knowledge and accumulated wisdom, acquired only by the experience and exposure to diverse situations in business and in life.
Acquired also by observing businesses and people in a broad range of situations.

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So I will now briefly outline these experiences over the last three decades, reflect on my personal observations, and give you examples of changes that has impacted on the role of Governance and leadership in today's world.

Over the past 25 years I have been lucky enough to work in a diverse range of companies in the manufacturing, food, service, media, technology and telecommunications sectors, in a variety of roles from sales and marketing through to operations, as CEO and Executive Director.

The companies have always had strong brand names and many of you will know them, such as Nivea, Tip Top, Healtheries, Yellow Pages, Telecom, Xtra and Arnotts.
With Telecom Directories and Arnotts I also started developing my experience as a Director, albeit in an Executive Director capacity

The companies have varied in size and corporate structure ranging from $12m to over $100m, from New Zealand owned companies to multinationals listed on the NYSE and NZSX.

That was before any of the directorships that I have been involved in.

My Directorships involved an even more diverse range of companies with different ownerships, including the Government as a shareholder through the SOE's.

Industries include
Air traffic control- Airways Corporation, the arts with The Auckland Philharmonia,
Universities with The Tertiary Education Advisory Board,
TMT - telecommunications, media and technology with Transmission Holdings,
The service sector and banking with the BNZ, retail merchandising with the Warehouse, car fleet leasing with Custom Fleet, regional economic development with Venture Taranaki and insurance and loss adjusting with McLarens Young.

It's a bit like being a kid in a candy shop-so much variety and so much choice-it is very rewarding and stimulating and I am learning all the time.

During these times, I have had the opportunity to observe and be involved in a variety of different structures, situations, ownership, and significant change management.

I've certainly had the diversity of experience that I believe is of value to be an effective director.
And I have the diversity of being female!!!

In terms of leadership I have seen styles of leadership from a management perspective looking at other managers and from a board director and chair perspective, and from observing the working of boards and the relationship of boards and management.

I believe you can identify a consistency in approach of what works most effectively in leadership and governance.

Throughout all these different companies and their diversity, the basis principles of business are the same.

The variables are the ability to adapt the roles within governance, for the time, environment, people around the table, size of company and sector.

So reviewing the last three decades.

Starting with the 1980s.

My observation is that the core strength of companies in this decade, certainly the early part, was the structure and processes of the companies. There was strong competition but within boundaries. Brands were heros, being marketing driven had taken over from being production driven and the words customer service and quality started to become a fundamental part of the business lexicon.

While strategic planning and leadership was important, it could be adequate or even mediocre at times - there was still the opportunity for success for the organisation due to a company's dominant market position and lesser competition, strong processes and overall critical mass, and in the early 80s, the impact of technology had yet to be realised.

However, change was starting to happen at an increasingly rapid pace with technology starting to impact on the companies.

I recall in 1980 or 1981 the introduction of the barcode on packaging. I was at Smith and Nephew at the time and we were the second company in New Zealand to introduce this on our packaging.

As I reflect on this innovation, I realise that this was the start of the impact of technology which led to a fundamental shift in power – in this industry,

The power shift from the manufacturer to the retailer as the information base changed and the retailers gained the power of information.

Why?

Take Tip Top icecream for example - no longer could employees of Tip Top Icecream, talk to the retailer and guarantee that they would get the dominant space allocation –so important in retail - that they felt they obviously deserved-a position of right - had by being the brand leader.

Instead, the retailer challenged the manufacturer stating, based on the information they had available for their store this was not the case

" May be that is what is happening elsewhere in New Zealand, but this is not what is happening in **my** store".

So the 1980s saw traditional food and goods manufacturing start to decline in New Zealand.

Larger company mergers started to occur in the food and manufacturing sector, for example Tip Top Icecream, a 50 year old brand and company in the mid 1980s, merged with Goodman Fielder to become Goodman Fielder Wattie.

De-regulation had started, traditional markets were changing and CER and Australasian started to move into the lexicon and become a reality as many manufacturing companies started to close their factories in New Zealand and utilise the capacity from Australia.

And then of course in the late 80's there was the stock market crash which shook out a lot of operators eventually.

At this time many directors around the board table had strong, regulatory type knowledge, for example legal and finance or were frequently ex bankers. In general, Directors who had run companies were not much in evidence.

Management tended to be the drivers of the companies.

Boards tended to focus and ensure monitoring and compliance, as opposed to the value-add growth component of being involved in strategy and people.

Board decisions were taken more from a numbers perspective as opposed to a market perspective. Acquisitions, were always on the agenda but more from a financial business case perspective rather than a strategic marketing argument.

Leadership at this time, as a catch cry, was only starting to be discovered and appreciated as a business tool to improve performance.

So on to the next decade.

The 1990's was the decade of focussing on costs and governing and managing companies through the share price as the investor base ownership changed and Institutional investors grew to hold over 50% of company shares.

Change was occurring at a fast rate, there was increased competition, a blurring of markets and boundaries, there was downsizing and resizing and service companies, as a sector were in a high growth curve and starting to become visible to the wider market and consumers.

The New Zealand Government introduced the SOE model and the term Australasian –a state of Australia - became even further embedded as a standard business concept, particularly in the manufacturing sector as more companies started to consolidate capacity due to increased pressure on cutting costs and delivering the right profit figure demanded to grow the share price, further reinforced by a change in incentives for senior management.

Significantly, at this time, the management and Board who controlled the destinies of the typical corporation only owned a small fraction of the companies stock –if at all -and were therefore not driven as the shareholders were for profit.

Which led to the focus on share options and share schemes being introduced as a means of aligning the interests of management with shareholders

Which then resulted in management being driven by the share price performance and decisions being taken –often short term – that led to artificially inflating reported earnings in order to keep stock prices high and rising.

The comment made in a recent article 'The History of US Corporate Governance" was that 'stock options emerged as the equivalent of a lit match in the hands of a pyromaniac'.

A phenomena I was a part of when at Arnotts-owned by Campbell Soup Coy US where the focus was on the short term profitability and
where the company reduced its investment in research and new product development –the cornerstone of long term profitability and sustainability,
where the company bought companies to vertically integrate and reduce costs of supply, only to realise after the event that these company's were more profitable without the overhead structures of a large organisation
And eventually only to learn that the investment analysts started to downgrade the company's potential earnings due to its lack of investment in new products.

Also during the 1990's Companies in the service sector grew and as this sector developed it was also impacted with the focus on costs and major layers of management were taken out of these companies.

Businesses continued to merge and move outside their core business as a further means of growth as a means to increase the share price.
Acquisition was , once again, firmly on the agenda but in a much wider context than in the 1980s.

In these changing times 'leadership' was becoming increasingly important for steering and managing through the difficult times of downsizing or the new more politically correct term of 'rightsizing'.

Books on leadership, reinventing leadership, analysing leadership were bestsellers.
Managing change became the prerequisite of effective leaders, and future thinking and anticipating change and vision became a focus for all companies.

Flexibility and fleet of foot versus rigidity was more important, strategic resilience, and adaptability as opposed to having a fixed strategy was starting to become an important differentiator.

Customer service and quality were a given for organisations to be successful moving forward.

The costs had already been taken out of the business. Companies were looking to reinvent themselves.

And once again towards the end of the decade there was another world crisis, this time in Asia.

A great learning for me during this period was my time at Telecom Directories. It taught me the value of strategic flexibility and leadership that was dynamic and forward thinking.
At Directories, we were a new company after the creation of Telecom as an SOE. We spent a lot of time communicating with and engaging all our staff-then about 500 or more – in aligning our people to the vision of the company and focusing and structuring the company around the needs of the customer.
We used incentives as a key lever in influencing the behaviour of our staff, particularly our sales people (about 30% of the company) and then later most of the company in a combination of team and personal incentives.

The result –double digit growth year on year off the same customer base, increased customer satisfaction and increased staff loyalty to the company.

Incentives to change behaviour- An obvious learning you may think -but one that is not fully understood at times and one that I have taken through to my Boards as a Director where from a governance perspective the focus is on management developing the right incentives, and the Board endorsing these, that then drive the right behaviour to deliver shareholder wealth to the company.

This is so important.

For example one of the Board's I am involved in, a company with high Capital Expenditure had EBIT as the only driver for the MD's incentives.

You don't have to be great at maths to know that a small underspend in Capex-or alternatively a high Capex spend agreed in the budget by the Board –but not achieved, can have a huge impact on EBIT.

The result - senior people being paid large bonuses as if they had performed outstandingly when instead the company had performed averagely and the shareholder missed on profits, but the managers, wrongly, gained greatly.
And ultimately the staff do not take out the right message and have an effective focus on building company wealth.

On the other hand one of my Board company's introduced a SIP –sharing in performance- that involved all the company and covered all the key business drivers and over the years has performed well above expectations and delivered increasing shareholder value through this balanced and aligned approach.

In fact a significant amount of the work I undertake in Fiji is focused on and specialises in ensuring that the strategy and performance objectives and incentives are fully aligned and transparent. And the results over the last 3 years of work there has demonstrated the increase in shareholder value through this approach.

Essentially this is Board and Management working together and ensuring an organisation is firmly focused on the right business drivers to deliver shareholder wealth

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The 1990's was also a time when Boards were starting to become more diverse. There was recognition that a board needed more than the traditional finance and legal persons around the table, which was acknowledged, and diversity was starting to appear within a board.

The influence of the SOE model and the creation of Government Boards in this environment, where there was a focus on diversity, fuelled this trend. Statistics show these Boards have achieved greater than most in this area, became a learning ground for some of the new Directors of today.

Leadership around the boardroom table became even more important as one started to build this diversity.
In the SOE model in particular, where the shareholder, Government, appoints the Chair, and the rotation of Directors is on a 3 or 6 year cycle meant that Chair leadership was essential in not only managing the changes in team (director membership) but also the relations with the CEO and management.

This was evidenced by one of my SOE Boards where during my tenure I had 3 different Chairs, 2 CEO's and effectively 5 different Board teams.

I observed how the various Chairs applied themselves and recall times when the Chair CEO relationship was not as it should be, and the impact this had on the company. It did not destroy the shareholder wealth, but there was a time when it did 'pause' the wealth creation.

I also observed the difference a Chair can make in ensuring contribution around the Board table, where there are sometimes members who do not naturally project themselves but who have an enormous contribution to make if they can be drawn out. I watched a Board and the company grow significantly when the Chair used his skills to achieve this.

Leadership of the Chair in maximising the contribution from all the Board team (and management) is an essential quality.

And now to the current decade.

In the 2000s, the internet (now in modern times 15 years old) had proved to be known as the disruptive technology and changed the nature of core structures of business.

Some of the large companies, industries and brand names have disappeared from the landscape and new companies are starting to fill this space.

New names are appearing as technology companies became very much part of the new business world. Nokia, Motorola, Windows, Apple are now the household names.

We've probably never lived in such a dynamic changing time with opportunity for success and failure.
The series of large high profile company failures that impacted on society (the name we all know Enron) has led to inevitably, increased liability and regulations imposed on company's and boards.
SOX was introduced into law in 2002 and has an impact around the boardroom table.

You will all have heard and probably participated in the discussions regarding the high cost of compliance with regulations like SOX and other changes that have been introduced partly as a result of the corporate failures and as a means to improve corporate governance.

The discussions continue in that whilst it is important to achieve sound corporate governance, it is still no guarantee that a business will operate ethically and honestly.

The discussions also reflect the importance of ensuring regulation is not all consuming to a Board and the focus on value creation is lost.

Which leads me to one of the key points of learning both as a CEO and a Director.

One of the fundamental requirements of a leader is not only the ability to
'see what may be and communicate this well', but to have integrity and ethics,
and to walk the talk, and to ensure that all the company is focused on delivering against a core set of values that delineates right from wrong
and that this is embedded in the workplace and understood by everyone and any other behaviour is not condoned.

It is acknowledged, that regulations cannot deliver good corporate governance, - they can set a minimum of behaviour requirements -but is the corporate leaders who have an obligation to create an ethical moral culture.

The changes driven by the corporate failures and the increase in regulation is leading to Boards individually and collectively having increasingly greater accountability. Behaviour has changed, with expectations that directors would become more involved and understand and direct management at a greater level – on behalf of the shareholders.

The shareholders have also increased their presence as a result of these failures, which resulted in their being even a greater focus on directors performance.

The leadership required here is for even greater adaptability and a strategic resilience in order for the company to move forward and be successful, and also communicate well to the shareholders.

Boards are playing a greater role in not just the conformance but in performance.
Boards are becoming more involved in the company with less rubber stamping, asking the searching questions, greater involvement in strategy, ensuring strong succession planning and being accountable for adding shareholder value in a far more significant, high profile way.

The boundaries between management and governance are becoming slightly more blurred. There is a greater alignment between board and management and the emphasis upon a more balanced board and diversity has further hastened this process.

However, despite all of the changes through these decades there was still a consistent theme that I observed – and that was leadership and a strategic focus – both at management and at Board level.

Leadership became increasingly more important as more change occurred.

And Strategy as a differentiator and strategic resilience has become more important, and alignment throughout an organisation had become more important in order to deliver against strategy and deliver value to the company.

Leaders now have to in the full context of the term, as epitomised by Napoleon or Churchill, identify and drive a winning strategy.

A major analysis report in 2004 on shareholder value destruction supports this.
The study showed that analysing the failures of firms, and the destroying of shareholder wealth,
13% was from compliance failure, 27% from operational mistakes
Overall less than 50%
Whereas 60% of the failures were strategic mistakes

In practical terms from a personal perspective, from sitting on various Boards, I believe that the greatest value can be created through both the Board Management working together are when:

- both the Chair and CEO recognise the contribution of the Board members around the table
- that management knows how to use the board's skills to the advantage of the company and when and where to involve board members
- that management uses the board in a real way in terms of strategic development
- that the CEO is confident in using the board
- and that the Board know also when they are becoming too involved with management

From a leadership perspective the key principals I have observed are the following:

- Integrity and ethics
- ensuring the right people are in place in the right roles
- the ability to get the best out of people
- establishing trust and being open and honest
- commitment and perseverance
- walking the talk
- good consistent communication
- someone who can see what is possible vs what exists
- the courage to change what isn't working

For a Board

- The CEO is the company's greatest asset and the company's greatest vulnerability – hence the importance of appointing the CEO as a key Board requirement
- a sense of trust between the Board and CEO is essential as is a good balanced relationship between the Chair and CEO
- a Board with the appropriate skill balance that work well as a team

For Chair leadership

- a chair that has the ability to get the best out of board members for the total benefit of the company
- a chair that ensures the board focuses on the correct balance between performance and conformance as is required by that company or industry sector
- a chair that is adaptable in their style dependant on the company's needs
- a chair that challenges in a constructive way
- a chair that leads

Finally from a personal perspective,

What do you want to do when you grow up

Well does one ever grow up?

Certainly learning never stops, and I am grateful for my parents and father in particular who taught me this.

One does gain from experience and one hopes this becomes wisdom over time

And as the familiar old Chinese saying, -It's a blessing really –

'May you live in interesting times'

Well I am very fortunate because I personally do live in interesting times

Because of the diversity of the Boards I am involved in

From the leading edge TMT –technology, media, telecommunications sector to a Regional Development agency where one of the stakeholder KPI's is GDP growth.

From the banking sector where there is significant regulation and highly competitive, to an equally competitive retailing sector

As Chair of a traditional NZ company in the insurance loss adjusting sector where the shareholders are the owners in a co-operative franchise type structure, a company that has grown from $12-$20million in 4 years and at times feeling the growing pains and has only just reduced its Board from 17 to 7 and appointed an independent Director.

Through to governance work with TBPL and the chance to see inside other organisations and local government and to actually have the time to think about governance and what it means.

Through to helping build organisations and teaching them to embrace change, and introducing the concept of alignment from strategy through to implementation in my work, mainly in the Fiji Islands.

Each has its own set of challenges

My good fortune is to be involved

In one sense it's a bit of a roller coaster ride where one has to have the discipline to switch ones mind set and refocus on 'today's meeting' and learn to read and consume volumes of paper.

But the real value is that so much learnt from one involvement is transferable to the other, across the different sectors-as the basics for good business and adding value are the same

The value I'd like to share with you is that diversity of experience, of opinion, of style, of thinking acknowledged, encouraged and tapped is the most powerful creator of 'better things' for an organisation –whatever its field of endeavour.

Those with leadership have the ability to achieve this through their Board or through their management and company.

For myself,

the 1980's review of - what I want to do when I grow up

has allowed me to be intellectually stimulated, constantly learning, being challenged and thoroughly enjoying being involved with a great number of people and teams in diverse environments.

The kid in a candy shop.

Thank you for giving me the opportunity to share these thoughts with you.

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