MOOD OF THE BOARDROOM

Election 2014 Chief Executives' Survey

Down to the wire

Liam Dann

Fran O'Sullivan

Brian Fallow

Thomas Pippos

Our experts analyse the responses from 112 CEOs

Mood of the Boardroom: Comment

Mood of the Boardroom

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The *Herald*'s Mood of the Boardroom Election 2014 survey has attracted participation from 112 respondents. These include 102 chief executives, a handful of company chairmen and the heads of some influential business organisations.
The *Herald* survey is conducted in association with BusinessNZ. Chief executives are drawn from the Deloitte Top 200 list, which spans private and public sector companies; BusinessNZ's major companies group, and major professional advisory firms. Highlights from BusinessNZ's election survey of its fuller membership are on D22.

● **Watch the Live Debate** Finance Minister Bill English and Labour's shadow finance spokesman David Parker will debate the results of the Herald's Mood of the Boardroom 2014 Election Survey at the Langham hotel this morning. The debate will be chaired by *Herald* editor-in-chief Tim Murphy. The live webcast will begin at 7.45am when Mood of the Boardroom executive editor Fran O'Sullivan will present the survey's findings. www.nzherald.co.nz/business

● **Take a look** at the Herald's online business pages which feature an improved focus on business; more depth on New Zealand companies: more CEO video interviews, data and analysis, and a focus on working life.

The mood has been changed

Mood of the Boardroom
Fran O'Sullivan

The "Mood of the Boardroom" changed markedly during the three weeks the *Herald* has been surveying chief executives and interviewing them about election issues, their company's prospects and what will "make the boat go faster".

Confidence remains relatively high.

Major businesses expect to make more profits and employ more New Zealanders.

But there has been a change in the political air.

That change was prompted by the *Dirty Politics* revelations which many CEOs believe have damaged "Brand Key" and with it the prime minister's standing — and raised probity issues that go right to the Beehive.

It hasn't caused them to lose confidence in the prime minister.

They still overwhelmingly prefer Key to be the political leader to form the next government rather than his challenger David Cunliffe.

But he is no longer seen as Teflon John.

His political capital has been eroded by this episode.

CEOs have been frank about how they want Key to lift his game if he returns to the Beehive after the September 20 election.

Kiwi businesses will not be knocked off their stride by revelations that the Beehive operated a two-tier communications strategy: outwardly benign but underpinned by hardball US-style political machinations.

Many chief executives have operated in the US during their business careers.

Some say that's why business doesn't like being "infected with politics".

But they feel it has distracted from the mature election debate New Zealand should be having about our economic direction.

Major issues like taxation — personal tax cuts and capital gains taxes — have not been fully discussed; nor has there been any concerted focus on the fundamental challenge to the status quo which Labour has presented.

There's a growing realisation that the "elephants in the room" — like the superannuation age — need to be addressed; policies that address some issues that many chief executives believe have merit and have commented on in this year's report.

Others want a greater focus on business' own responsibility to step up and provide their employees with a living wage and to take steps to address poverty.

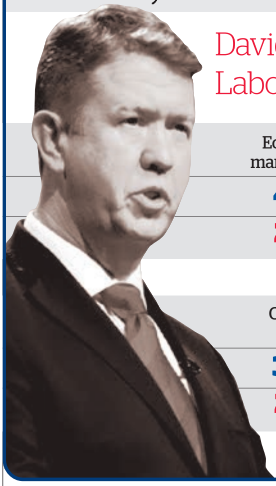
There is a fundamental shift under way this year.

WHAT'S INSIDE

Mood of the Boardroom: Leadership

John Key outranks David Cunliffe — CEOS

Scale: 1 = No confidence to **5** = High confidence



David Cunliffe • Average **2.45**
Labour Party leader

John Key • Average **4.03**
Prime Minister

	Economic management	Leadership	Integrity	Trustworthiness	Puts NZ's interests ahead of party
John Key	4.59	4.44	3.98	3.97	3.96
David Cunliffe	2.34	2.09	2.65	2.36	2.53

	Courage	Ability to form a coalition	Vision and strategy for NZ	Political management
John Key	3.90	3.88	3.87	3.71
David Cunliffe	2.76	2.68	2.53	2.09

Source: New Zealand Herald Mood of the Boardroom Survey 2014/Herald Graphic

CEOs overwhelmingly back Key

But the Dirty Politics scandal has tarnished his brand, writes **Fran O'Sullivan**

National's John Key would be a shoo-in for Prime Minister if that decision was up to the nation's executive suites and boardrooms alone.

Some 97 per cent of chief executives who responded to the *Herald*'s Mood of the Boardroom Election 2014 Survey prefer Key to be prime minister again after the September 20 election. Just two per cent want to see Labour challenger David Cunliffe knock Key off his perch.

In every metric ranging from leadership, through to trust and courage, the CEOs rated Key above Cunliffe — even while they acknowledged the impact during the election campaign of the Dirty Politics revelations had tarnished "Brand Key".

Overwhelmingly, the 112 chief executives who responded to the 2014 survey want National back in business, ideally with the same bunch of political support partners: the Maori Party, United Future and Act.

They like the united front that Key as the nation's cheerleader and Bill English as finance minister have presented for the past six years in government.

"The PM is a proven performer who is recognised as a world-class political leader," says Deloitte chief executive Thomas Pippos.

"The consistent opinion polls are no fluke," adds Forsyth Barr's Neil Paviour-Smith. "The political leadership has been superb at a difficult time for the country post-GFC and earthquakes."

Confidence is overwhelmingly positive in this year's survey taken in association with BusinessNZ, whose chief executive Phil O'Reilly said Key's biggest challenge if re-elected as prime minister was to ensure New Zealand was set on a path where 4 per cent growth "is the new normal."

In this environment it might seem difficult for Labour leader David Cunliffe and his able finance spokesman David Parker to make headway in the final 10 days to the election. But this is MMP politics.

Having the most party votes on the night may yet prove not to be enough when it comes to cobbling enough seats in parliament to form a government.

As the third Labour leader in three years, Cunliffe has struggled to make an impact with the business community. "I sometimes find it difficult to reconcile David's Pleasant Point background, his career at Foreign Affairs and a global consultancy firm, contrasted with the apparent union support within the Labour Party," says O'Reilly. "Nevertheless I think he has the capacity to become a prime minister."

Others like Z Energy's Mike Bennett said Cunliffe had credibly filled the role of Opposition leader in what has been a challenging environment. Another CEO praised him as a "courageous, high integrity individual — very engaging on a one-to-one basis but struggling to persuade the electorate with a vision and very vulnerable to coalition demands of minor partners."

● **Cunliffe fails to inppire — D3**
● **Gloss comes of John Key's Teflon image — D4-5**

Key issues for the PM to address

"If elected for a third term, John Key needs to address some of the tougher issues which would improve NZ's "long tail" of liabilities — such as domestic purposes benefits and superannuation.

"I think he has balanced extremely well the requirement to manage the economy post-GFC with ensuring social welfare protection is still in place for those in need. Bill English has been outstanding in the Minister of Finance role and you would want to see that partnership maintained.

"The performance of the health sector has been exemplary under Tony Ryall and Key will need to make sure that momentum is maintained under a new minister.

"Although education outcomes have generally been good, the current model is failing many Maori and Pacific Island children. That needs to be addressed and performance-based pay for teachers needs to be monstered through.

"There is growing disquiet about the rising inequality of wealth and income and ensuring our education system provides the greatest opportunity for all our young people.

"I think if National is successful, Key will have to think carefully about the leadership of his cabinet.

In my executive and governance experience, arrogance almost always leads to very bad outcomes. Key is the antithesis of arrogance, but some other ministers have failed to follow his lead on that front. He has also lost quite a lot of talent — Simon Power, Katherine Rich, Ryall, Chris Tremain. It will be interesting to see the performance of the rest of the team in the next three years."

— Energy sector chairman.

Opposing factors

It's hard for David Cunliffe to stand out against a formidable opponent but aspects of policy around savings, retirement, tax policy, investment and infrastructure are encouraging although offset by less appealing micro-policy such as energy policy.

— David McLean, Westpac.

It's beginning to feel like a weight is lifting

Mood of the Boardroom
Liam Dann
Business editor

New Zealand business leaders are relishing the prospect of operating in a benign, stable and growing economy for the first time this decade.

This recovery has only just begun. Yes, we're already talking about a dip in the rate of growth as dairy prices fall, but forecasts for an extended period of moderate growth remain.

After running lean for about five years in the wake of the financial crisis, many businesses are now pushing forward with the kind of growth and transformation strategies they need to meet a rapidly changing market.

Take a look at some of the big results in this year's Mood of the Boardroom survey. They all point to a more optimistic, more exciting outlook from the top of the business world. More than three quarters of respondents expect revenue to grow in the next 12 months. Nearly 60 per cent expect to increase staffing levels. Just 13 per cent expect to contract. And more than half expect to authorise more spending on capital expenditure.

Most businesses face more than enough challenges thanks to the disruptive influence of technology.

Which is why the global financial crisis, and defensive stance businesses were forced to take in response to it, was such a drag — not just for workers but for managers, executives and all the way to the boardroom.

When it comes to structural challenges media get all the attention, but from retailing to manufacturing there aren't many parts of the economy untouched by the internet revolution.

Companies have to evolve constantly and position themselves to respond to cultural trends that move at a breakneck speed. Business leadership needs to be dynamic and bold — now more than ever.

That shouldn't be something to fear. It is exciting and challenging, without the grim weight of economic doom hanging over the world.

Take a look at the big strategic challenges business leaders are highlighting this year. Managing talent gets the most focus, followed by optimising digital structure and then addressing organisational structure third.

Addressing capital structure is highlighted as a major strategic challenge by just 30 per cent of respondents and dealing with risk management by less than half. That is a very good sign. Suddenly it is starting to feel like a weight is lifting.

Of course, this does not signal a return to the rampant borrow and spend days of the pre-GFC boom.

After several years of stagnation, there is still caution and risk aversion. We're going to need a steady and sustained period of growth to make the corporate changes New Zealand needs.

And that is one of the reasons that business leaders are reluctant to see political change right now.

Stability feels good to business at the moment, and the incumbent political party naturally has that on its side. In this kind of environment the onus is on the Opposition to convince voters it will not derail the recovery.

It is clear from this survey that, despite some policies many in the business world have some sympathy for, David Cunliffe and the Labour Party have not got business on side.

This year the Opposition parties are up against a compelling economic narrative. One that even the allegations and controversy of the past few weeks has not blunted.

At the other end of the political spectrum even the Act Party seems to face this problem, with the appetite for free-market reform far from what it was through the 1980s and 1990s.

New Zealand business has just been through the toughest cyclical downturn in generation.

It is running lean and fitter for the experience.

Our corporate leaders aren't looking for radical polices. They are backing themselves to perform in benign conditions. They are looking for a Government that doesn't get in their way. But they are open to a Government which has a vested interest in developing industry for New Zealand's benefit.

Those on the right have attacked National for veering into the realms of corporate welfare. This is not a Government that is shy of picking winners and supporting business sectors New Zealanders want to see grow.

It is, in the end, a more pragmatic and centrist formula than many expected from a party that is led by a global currency trader.

But it is one that seems to sit well with those in our leading corporate boardrooms.

Mood of the Boardroom: Report card

Revelations damage Brand Key

Report card: Out of 5

CEO rankings: Government

Bill English **4.75**
Finance

John Key **4.49**
Prime Minister

Paula Bennett **4.21**
Social Development

Steven Joyce **4.06**
Business

Tim Groser **3.87**
Trade

Chris Finlayson **3.84**
Attorney-General

Nikki Kaye **3.40**
Youth

Simon Bridges **3.18**
Energy

Judith Collins **1.80**
Former Justice
50% rated her **1**

Scale: 1 = Not impressive to **5** = Very impressive

Key areas

Government performance

4.47 Budget surplus
English's single-minded focus has been to get back to surplus after the GFC. The next Government will face headwinds from falling dairy prices which could impact on revenues.

4.42 Strengthening China relationship
Key's good personal chemistry with Xi Jinping paid dividends for NZ particularly during the Fonterra false botulism crisis when the relationship could have been badly damaged.

4.23 International trad
Tim Groser — like his colleague Murray McCully — is more out of NZ than in the country leading NZ trade missions offshore and working to ensure NZ is included in the major regional plays.

3.87 Partial Privatisation Programme
The Government's Mixed Ownership Model (MOM) programme netted $4.6 billion from three energy company IPOs and a selldown of its Air New Zealand programme. Former Minister Tony Ryall can take credit here.

3.77 Social Welfare reforms
It's Paula Bennett's baby and the Social Welfare Reforms - like with Ryall's innovations in Health - have largely been accepted without too much fuss. That success has has catapulted her to Number 3 on the Cabinet rankings.

3.66 Infrastructure investment
Infrastructure sits under Bill English's portfolio. He's sold assets to help pay for social infrastructure; introduced innovative PPP reforms, and opened the funding tap for housing as well as the major roads investment. KiwiRail is a headache.

3.28 Youth employment
Concerns about a "lost generation" began after the GFC impacted on employment worldwide. Jobs for young people are on the up again but it remains a big issue for the next Government.

3.24 Christchurch Earthquake rebuild
The jury is out on just how well the Key Government has performed. Anchor projects are underway, but insurance problems persist, the council needs more money and CERA has now been kicked upstairs into the PM's Department.

3.21 Partnership with Auckland
Auckland Business had to "force the partnership" when Mayor Len Brown and Transport Minister Gerry Brownlee were at loggerheads. The PM intervened and commitments were made at Government level to Brown's pet projects.

3.06 Tackling housing
The Government was slow off the mark in realising that housing would prove to be a major issue when the Auckland market took off again after the GFC slowed things. Auckland Council also needs to step up and force the land issue so that more houses can be built at an affordable price.

Source: New Zealand Herald Mood of the Boardroom Survey 2014/Herald Graphic

Unhealthy relationships exposed, reports **Fran O'Sullivan**

The National Party's prime selling point – "Brand Key" – has been damaged by the *Dirty Politics* revelations.

That's the view of nearly two-thirds of CEO respondents to the *Herald*'s Mood of the Boardroom survey.

They believe the revelations have exposed an unhealthy relationship between politicians and bloggers and raised issues of political probity concerning former Justice Minister Judith Collins.

"The Whale Oil saga has damaged his reputation," said a communications boss. "He has managed the political environment so well up to now then it's hard not to conclude that he is implicated in this unhappy tale of dirty politics."

A transport sector chief said Key had lost some credibility in the past month with a series of revelations about staff and ministers.

"He seems to be too opportunistic, poll-driven and lacking courage to stand up for integrity and a vision of shaping the country.

"Bill English does more behind the scenes, while John Key just polishes his brand."

Another said the prime minister needed to manage his staff and party better. "This Slater debacle happened because of slack management – just like the 'cup of tea'.

"He needs to try to be less cool and be more CEO that is when he is impressive and sensible."

There is plenty more in this refrain from chief executives who are concerned that the Hager revelations and subsequent journalistic investigations have exposed an indelible link between the Beehive and Whale Oil blogger Cameron Slater.

The Prime Minister has since ordered a government inquiry to probe into whether Collins had undermined former SFO boss Adam Feeley via Slater's blog.

In the *Herald* CEOs survey, chief executives talked frankly about the changes they would like to see if Key is re-elected as prime minister after the September 20 election.

They want him to learn the lessons from the *Dirty Politics* scandal. Move more quickly on Cabinet Ministers or MPs who are "clearly not on the same page as the caucus" and have "integrity issues"; select less error-prone ministers and "demand high standards of integrity from all" and "stop mucking about with bloggers and get on with leading New Zealand to a better future".

Even before the prime minister pushed Collins to resign her Justice portfolio, chief executives were saying she should be demoted as a liability.

"It was time to raise up the next generation of leaders in the National Party" and not "get side-tracked by trivial issues."

Many think it is time for Key to change his Cabinet.

Simpson Grierson's Kevin Jaffe said he needed to "refresh his team"; "Develop leadership for the future," added Mainfreight's Don Braid.

Still others said the Prime Minister himself needs to take a "more disciplined approach "be politically brave and look less smug".

Beyond asserting moral leadership they expect him to get on with taking some bold moves on the economic front to address thorny issues.

"What National is doing is good," related one business leader.

"It's what National is not doing that is disappointing, such as a capital gains tax, focus on savings and raising the age for superannuation."

"With the single exception of the partial privatisation of the gentailers, it's hard to think of anything that John Key has done which might even

continued on D5

What CEOs are saying about Dirty Politics

62%
"Brand Key" has been damaged by the Nicky Hager revelations

66%
has exposed an unhealthy relationship between politicians and bloggers

76%
raised issues of political probity concerning Judith Collins

One respondent said Key should avoid looking smug.

High regard for Bennett

Paula Bennett is National's rising star pole-vaulting over senior ranked Ministers to third place on the CEOs' rankings of who has impressed them most in John Key's Cabinet over the last three years.

"Bennett's strategy, execution and presentation has excelled and she has propelled beyond Judith Collins and Hekia Parata in the succession stakes," said one capital markets chairman prior to Collins' resignation.

Overall, the chief executives rated the Social Development Minister's reforms at 3.77/5.

"I think Paula Bennett seems to be doing an awesome job," says Xero chief executive Rod Drury. "Watching her the last couple of performances she's had on TV, she's turning for me to be this better star, she's looking really good. And in a portfolio that's incredibly hard."

Asked if she was future leadership material, Drury replied.

"I think so. You think, who else is there, and I've watched her the last couple of times, you know how she's changed her dress and I think she's got the right back story. She seems to have the personality, has the fire in the belly, and I don't know if anyone else has mentioned that, but I've certainly noticed it."

For the second year in a row Bill English has out-performed Key in chief executives' eyes on the *Herald*'s Mood of the Boardroom survey.

This time he scored a 4.75/5 rating compared to the PM's 4.49 rating.

In 2013, their ratings were 4.38/5 and 4.32/5 respectively.

The pair are seen by business as a "very effective and complementary team".

The Big Three – Key, Bill English and Steven Joyce – were seen as the dominant players in Cabinet.

Veda's John Roberts said " all in all they have been an impressive team."

But EMA's Kim Campbell said "It's been more a team of champions than a champion team.

> I think Paula Bennett seems to be doing an awesome job. Watching her the last couple of performances she's had on TV, she's turning for me to be this better star, she's looking really good. And in a portfolio that's incredibly hard
>
> Rod Drury, Xero

"Given another chance we need to see greater team work out of Cabinet if the gains made so far are to be consolidated."

Another chairman was pointed: "The cabinet suffers from a personality cult and debate is stifled.

"Outliers like Tim Groser commendably get on with the free trade job. But too many are toadies. The Nats have to think about succession planning – they don't want to suffer the Kohl syndrome, where a giant leaves the scene and all the green shoots were suppressed."

There was some pointed criticism for the Minister in charge of the Christchurch Recovery Gerry Brownlee who has slipped out of the Cabinet top eight on the *Herald* survey.

His "command and control" mode was said to have slowed Christchurch," said one.

"It's the older guard that have been disappointing mainly."

This was countered by an insurance boss who noted that the "depopulation risk that was feared in 2011 had not eventuated and instead Christchurch has contributed to the economic strength of the country."

So what about the future?

Forsyth Barr's Neil Paviour-Smith acknowledged "there appears to be some emerging succession candidate for leadership in coming years."

Among the "new generation" to be favourably mentioned were : Energy Minister Simon Bridges – also in the top eight; Immigration Minister Michael Woodhouse and Communications Minister Amy Adams.

Mood of the Boardroom: Leadership

Find a vision for the future

CEOs' advice if David Cunliffe should become prime minister

Chief executives weren't short of suggestions on how David Cunliffe should run New Zealand if he becomes prime minister at the September 20 election.

Forsyth Barr's Neil Paviour-Smith said Labour had a history of being prepared to make social and economic reforms with a vision in mind. "Whether or not the policy is popular, leading with a future vision as opposed to a sense of correcting past issues would be popular."

"Face up to the elephants in the room and engage the country in a debate around the things that matter – compulsory KiwiSaver, the retirement age and mineral extraction," said a professional services firm boss.

Z Energy's Mike Bennetts said Cunliffe would have to build an effective coalition of seeming disparate groups on the left.

"Abandon his left wing cant and govern in a modern market fashion," snorted an agriculture chief. "Fat chance with the Greens in tow!"

CEOs urged him not to allow minor support parties to dominate. "He will need to be able to bring cohesion to what appears a disparate group of parties needed to form a government," said Deloitte's Thomas Pippos.

"Current polling suggests Labour will need several partners which makes final policy outcomes difficult to assess," cautioned LGFA's Craig Stobo."Nevertheless it would be wise to ensure the driver of employment in New Zealand – business – feels confident about the future."

This viewpoint was shared by Auckland Chamber of Commerce chief executive Michael Barnett: "He is smart enough to understand we need to have a successful NZ. He should not try and send other messages for the sake of a few votes. Having a Government operating in a shared model would be a positive objective."

There were a few barbs for Cunliffe: One CEO suggested he should run NZ with less oratory, more fact and numbers-based. "I would expect him to have an understanding of business; our challenges and a basic balance sheet." Another said: "From far away."

Cunliffe has been urged to govern in a modern market fashion, if elected prime minister.

Dirty Politics revelations tarnish Brand Key

continued from D4

slightly offend public opinion," said a financial sector chief.

"As a result, there has been no material increase in our sustainable growth rate or in our balance of payments position over the last six years.

"Yes, we are now growing a bit faster than previously, and a bit faster than most other developed countries, but that is largely because of very strong export prices ('Thank you, China') and the strength of our banking sector ('Thank you, Australia').

Others urged the prime minister to really focus on the economy and try to inform the public how important jobs and industry are to New Zealand.

Auckland Chamber of Commerce chief Michael Barnett suggested Key's Cabinet Ministers should participate in a better partnership model.

There was strong recognition of the role senior ministers had played in supporting Key's leadership.

"Key's greatest strengths are Bill English and Steven Joyce – both strong, politically astute wingmen making a great team of three."

Some of the comment was trenchant: "John Key has massively squandered his political capital with his incremental do no harm style," said an agriculture chief.

"I salute his ability to engage as a political charmer but to govern is of the essence and he continues to flunk the test of advancing high quality public policy."

Others questioned whether Key still enjoyed the same authority within the political realm as he had before the Hager book was dropped. South Pacific Pictures boss John Barnett was one who cautioned that "events of the past month have eroded much of the high ground Key previously held".

Many chief executives believed the Hager book was a political sting operation. If John Key thought it couldn't get any worse for him a month out from the election he was wrong," said a manufacturing chief. "Hindsight is a wonderful thing and to sit on the sidelines and suggest how a situation could be managed better without having to put your neck on the block, is easy.

"The Left have finally put a dent in his armour since the #dirtypolitics campaign, which all seems fairly orchestrated – but will it be enough to change the Government?

"The left block will be devastated if this, their best attempt so far, fails."

> John Key has massively squandered his political capital with his incremental do no harm style.

The choice: David v Bill

English a clear winner but some CEOs have respect for Labour's Finance spokesman, writes **Bill Bennett**

If the government changes later this month there will be a radical shift in economic policy. Although New Zealand's business leaders have a favourable view of some individual Labour policies, they see the party's overall plan as unco-ordinated.

Labour wins praise for its policy of co-investing in significant infrastructure projects with the private sector and local authorities. There's also widespread support from business leaders for universal KiwiSaver, Labour wants greater savings too, among other things, to help bring the exchange rate down.

Plans to accelerate depreciation to encourage new technology investments in the forestry industry get a nod and Kiwibuild, which aims to build up to 10,000 entry level homes each year also has support. CEOs even express interest in the idea of free GP visits for people over 65.

On the other hand Labour's plan to establish a single electricity buyer to bring down prices is unpopular with business. So is the idea of a state-owned insurance company. There's a general dislike of increasing the State's reach into business. One CEO comments: "State-owned entities don't just lack the ability to compete . . . they often end up as instruments of social policy. More often they destroy rather than create value."

While Labour's plan for a baby bonus for parents earning under $150,000 gets little general support, one business leader says it's "a good idea but the combined income amount is too high". Another would like the threshold set at $80,000.

Labour gets criticism for a lack of focus. LGFA's Craig Stobo says: "Many Labour policies don't define the problem they set out to solve. Is the Reserve Bank doing a bad job of fighting inflation? Other solutions have an unwieldy state-ownership model rather than working with markets to encourage competition and innovation."

CEOs make no secret they like what they get from Treasurer Bill English and want more of the same. An overwhelming majority — 93 per cent — say the National Party has the best policy mix for business. Many — 82 per cent — say the Government has a co-ordinated plan focused on raising economic performance.

Air New Zealand CEO Christopher Luxon says: "Bill English is the best Treasurer we've ever had." He says English's strategy is integrated, sound and wise. "It's not always politically easy but National have found ways to manage the politics as well as do the right thing economically." Another CEO describes English as "a safe pair of hands", while a number regard him as a key contributor in National's economic success. English gets recognition for keeping the New Zealand economy afloat through the GFC and devastating earthquakes.

Labour's policy ratings:

1.99
Giving Reserve Bank the ability to increase KiwiSaver contribution rates to curb inflation

2.42
KiwiBuild — 10 year programme to build up to 10,000 entry level homes each year

1.40
NZ Power: New agency to act as a single buyer and price setter for of wholesale electricity prices.

3.20
Universal KiwiSaver

2.84
Accelerated depreciation to encourage the forest industry to invest in new technology.

3.24
Fund to co-invest in significant infrastructure projects with the private sector and local authorities

1.69
State-owned insurer alongside KiwiBank to offer home, contents and vehicle insurance

2.31
Free GP visits for those over 65

1.63
"Baby bonus" — $60 a week to parents (earning a combined $150,000 or less for the first year of a baby's life)

On English:

"I think Bill English is the best Treasurer we've ever had. It's very very integrated, it's very very sound and it's very very wise. It's not always politically easy but they've found ways to manage the politics as well as do the right thing economically.

"I think the fact that he has been not just an idealogue — as he would say 'crash or crash through' — the reality is it's a much more sensible integrated economic setting where the understanding is we want better social outcomes and if we secure those outcomes we'll have better economic outcomes.

"When I look at a state house which has turned from what it used to be — with a gap where a tenant would come out and there'd be a period of refurbishment, renovation, trying to find a new tenant to go in, but the house is empty — an unproductive asset, it's no different from how you turn around an aircraft. You want it in the sky flying as much as possible every 24 hours, not sitting on the ground, on the tarmac. What he's understood is, it's not slash and burn the cost base, which is what businesses do at times as well — but is not very enlightened. That's great for running a private equity firm but not to build something sustainable and long term."

— Christopher Luxon, Air NZ

Not everyone is starry-eyed about the treasurer. When English is criticised, it's often for not pushing harder or leaving matters in the too-hard basket. A commenter pulls him up for not getting government spending under control more quickly.

One CEO compares his performance unfavourably with Labour, saying National "has set its face against dealing with one of the most obvious looming fiscal issues, namely the low age of entitlement for NZ Super despite Labour on the left and Act on the right both favouring an increase in age". This theme is picked up elsewhere: "Tackling superannuation is number one. How irresponsible is it of a government that credits itself as an economic wizard and prides itself on its ability to deal with crisis, to simultaneously refuse to deal with the biggest problem the future holds?"

Elsewhere there's unhappiness over the last government's privatisation programme: "What a waste of political capital on a half-baked idea".

In contrast with National, just 1 per cent of CEOs prefer Labour's policy mix and only one in five regard the party's overall plan as co-ordinated. However, the bigger fear in business circles is not Labour, but what the party might need to do with partners in order to form government.

One CEO says: "With Labour we don't really know what we are voting for," and another worries: "What concessions will Labour need to make to the Greens... and Winston?"

Labour Finance spokesperson David Parker gets a good deal of respect, even sympathy, from CEOs. A number describe him as "impressive". Not everyone though. One writes: "David Parker...has some fairly ideological views. He doesn't appear to be someone who would easily change his mind once he has a position. He has the ability to argue his case well, even to a sceptical business audience.

"He has put some serious thought into policy development. However, the last six years have been terribly difficult from an international perspective with the GFC, countries on the verge of bankruptcy, banks failing and New Zealand has come through it relatively unscathed — it can't be an accident."

National's promised tax cut, now set down for late in the next government gets two cheers from CEOs. Those who want to see cuts would like a more ambitious approach.

"English could benefit from taking making more courageous decisions around tax."

No ticks for leaders of the minor parties

CEOs give the current crop of minor party leaders a clear no-confidence vote.

None of the leaders manage a pass mark in the 2014 Mood of the Boardroom survey. Even those in charge of business-friendly centre-right parties fail to get an encouraging nod.

Perhaps that's not surprising at a time when National and John Key enjoy overwhelming support.

The Green Party's Russel Norman is a nose in front of the minor party pack. He is also a shade ahead of Labour's David Cunliffe, which says much about how the Green Party has softened its approach to business.

BusinessNZ chief executive Phil O'Reilly sums up the mood of many when he comments: "Say what you like about Russel Norman; his willingness to engage with the business community is strong even if it is occasionally a difficult conversation to have."

One CEO describes the Green Party as very smart, the best Opposition party and says she would like to see the Green Party work with National. Another says the Greens "know how to make excellent use of sound bites".

A handful of CEOs commented along the lines that minor party leaders like Norman don't have responsibility and are therefore able to promise anything.

Just behind Norman are Green Party co-leader Metiria Turei and Maori Party leader Te Ururoa Flavell. Given the Maori Party's role as a partner in the National Government, CEOs expressed some respect for Flavell and his party. Vector director Alison Paterson comments: "The Maori Party has been effective for its people and a reliable coalition partner."

CEOs rank Winston Peters and Peter Dunne as the next most impressive minor party leaders. One comments that Peters' rating depends on his role as a kingmaker. Without it, he is insignificant. Another describes Peters as the "consummate politician"; "Unfortunately the last of a dying breed among a Parliament of career wannabes". Another says Peters "has been consistent over the years, at least we know what we're getting even if he won't tell us".

Potential National Party partners Jamie Whyte of Act and Colin Craig of the Conservatives fail to impress CEOs, the pair rank only fractionally ahead of the more radical Laila Harre and Hone Harawira from Internet-Mana. One CEO comments that: "National's natural coalition partners are all non-events."

There are widely differing views on the Act leader. One CEO asks "Jamie who?" while another says "I strongly favour most of what Jamie Whyte is advocating: a radically lower corporate tax rate; a radical RMA overhaul; the removal of Maori electorates." Craig has at least one advocate who says: "He has a reasonable grasp on some of the issues and articulates well but he does not have a feel for, or receives poor advice on, how best to portray himself."

An overwhelming majority of CEOs rate Harre and Harawira as not impressive. One said there was no substance to Harawira and that he and Harre were "dangerous radicals".

● Bill Bennett rounds up the CEOs views on minor party policies — D21

Mood of the Boardroom: Labour

Cunliffe fails to inspire

Labour leader hasn't managed to win over the CEOs, writes **Bill Bennett**

CEOs rank David Cunliffe the eighth-best performing senior Labour MP. They put clear blue sky between their assessment of the current leader and both his immediate predecessors: Phil Goff and David Shearer.

Younger Labour front-benchers Jacinda Ardern and Grant Robertson top their list. Even the relatively low-profile housing spokesperson Phil Twyford carries more weight in boardroom circles than Cunliffe.

New Zealand's business leaders have yet to warm to a Labour Party leader whose background includes the Boston Consulting Group and Harvard Business School.

Some admit they don't know Cunliffe that well – or the rest of his party for that matter. CEOs note a problem with visibility across Labour MPs. One says: "It's hard to comment because their poll ratings have been so low that politicians have not been visible."

LGFA's Craig Stobo comments: "There has been so much change in the Labour shadow Cabinet that it is difficult to remember who does what". Dame Alison Paterson says: "Unfortunately, they have not had the chance to shine". This also applies directly to Cunliffe with a CEO saying: "He has hardly been visible and has no track record."

Elsewhere, some CEOs are dismissive of the entire Opposition front bench: "Just an appalling list of performers." One CEO suggests Labour suffers from a lack of renewal saying:

"The old guard needs to move on."

Cunliffe's background may make him capable of speaking the language of business, but he has yet to impress the nation's CEOs. Taking the Labour Party into an election against a formidable opponent was never going to be easy. It doesn't help that Cunliffe is the third leader in three years.

Some CEOs express concern about the leadership selection process that brought Cunliffe to the fore. EMA's Kim Campbell: "The Labour leadership struggles leave one unsure of how they may perform in Government." Another CEO worries that Cunliffe is too close to the forces that supported him in the leadership contest, in particular the unions: "How out of step with modern political imperatives."

There have been questions about Cunliffe's personality since before he became leader.

Comments from CEOs echo questions raised by his opponents both inside and outside the Labour Party: Cunliffe "lacks authenticity"; "is able to communicate what he believes constituents want to hear but that seems to change too often"; and "apologising for being a man was one of the most ridiculous things". That last refers to a widely reported comment Cunliffe made at a at a Women's Refuge symposium.

One CEO sees both the good and bad in Cunliffe's personality: "I suspect we will never see how good he could be as he lacks appeal as a leader. His obsession with using 'I', 'me' and 'mine' wherever possible are clear indications he is not a team player." Another prefers Cunliffe to those who went before: "David Shearer not in leadership is brilliant."

Some see positives in the man: "Nice guy but seems to blunder on lots of things. Given more time and less pandering to groups he could emerge into something good, but not yet."

That may never happen. Most CEOs are unwilling to give Cunliffe a second chance if he fails at the ballot box this year.

When asked who would make the best leader if Labour loses the election, 32 per cent of CEOs named Robertson while only 13 per cent named Cunliffe.

One CEO sums up the problem: "Cunliffe is a bright person. Unfortunately he is another sacrificial lamb to the Labour Party slaughter. The next Labour prime minister is not in caucus. They are advised to send out a search party – pronto."

Report card: Out of 5

CEO rankings: Labour

CEOs rank the performance of Labour MPs since the 2011 election.

Scale: **1** = Not impressive to **5** = Very impressive

Jacinda Ardern **3.18**

Grant Robertson **3.11**

David Shearer **3.11**

Annette King **3.08**

David Parker **3.06**
Finance

Phil Goff **3.04**

Phil Twyford **2.53**

David Cunliffe Learder **2.45**

If Labour loses the election

Asked who they felt would make the best leader:

32% said **Grant Robertson**

Just **13%** said **David Cunliffe**

Source: New Zealand Herald Mood of the Boardroom Survey 2014/Herald Graphic

Mood of the Boardroom: Dirty Politics

Campaign mired in Dirty Politics

Alexander Speirs looks at what effect chief executives think the Nicky Hager book has had

Nicky Hager's expose *Dirty Politics* has undoubtedly been the focal point of the impending election. New Zealand's own Watergate has continued to dominate headlines through the campaign, while the public – willingly or otherwise – appear largely oblivious to the details.

Sentiment among the CEOs however has taken a strong line against the *Dirty Politics* saga, disparaging what they say has been an untimely diversion from the real issues in a crucial election for New Zealand.

"I think the whole saga is actually quite sad to be honest," said Peter Reidie, CEO at Goodman Field.

"It's been a total distraction for people who are looking to make positive decisions for the good of the country and what the right policies are. Instead we're all focused on who's who in the zoo."

Seventy two per cent of CEOs said *Dirty Politics* was not a justifiable exercise in the public interest. "We have discovered nothing we didn't already either know or suspect of the probity of the cast of characters," said Kim Campbell, CEO of the EMA.

"Whatever the public interest Hager thought he was serving, using stolen information sends a corrupting message that you can receive stolen property and make money from its sale, as long as you embarrass enough important people."

> Judith is the casualty of a proxy war. Politics abhors a vacuum and in the absence of a serious Opposition glove on Key the voters are scattering to the four winds and the chattering and journalistic classes are looking for another angle of attack – well they now have it in dirty spades.
>
> Technology chairman.

The majority of CEOs felt Hager had been given a free pass of sorts and should have been taken to task over the use of stolen material. Many compared the situation to the scandalous *News of the World* phone hacking saga which saw journalists imprisoned for theft of material.

Seventy eight per cent of respondents said the exercise was tantamount to a political sting operation to derail the Key government.

Veda Chief Executive John Roberts going as far to call *Dirty Politics* a "clearly planned conspiracy to derail the National Party's election campaign. The bigger question is: who planned it?!"

One Capital Markets chief said "The faux outrage by the opposition politicians is laughable. This is a well-planned exercise staged so Labour has plausible deniability, but it will have done no different. The litany of attacks on the Prime Minister is not for this democracy and shows how desperate the left are and how they would conduct themselves if in power."

Source and motivation aside, Hager's book has failed to make a material impact on the polls for Labour or any of the left – the unintended consequence of largely shutting out media electioneering to focus attention on *Dirty Politics*.

Xero Chief Executive Rod Drury said "it all looks pretty co-ordinated" and called for "leaders on both sides of the benches to clean up their acts".

John Barnett, CEO of South Pacific Pictures offered perhaps the most reasoned response, saying "Hager is a gadfly who often causes us to examine our society. He has attacked both the right and the left before. It's too easy to dismiss it as a left wing loony conspiracy. We tend to shoot the messengers rather than examine the messages."

Clear signals from CEOs on FDI issue

Conservative Party leader Colin Craig touched a nerve with voters when he revealed Crafar farms' buyer Shanghai Pengxin was about to add the Lochinver Station near Taupo to its portfolio.

Foreign direct investment, particularly when land is involved, is a political hot potato. This issue is likely to influence the way many people vote. Polls show a huge majority are concerned about land sales to foreign buyers. Politicians on both the left and right have been quick to capitalise on fears New Zealanders could end up as tenants in their own country.

Despite popular concerns, there's a clear message from CEOs that government needs to stay open to foreign investment, with many underlining its importance to the wider economy.

Four out of five business leaders responding to the *Herald* survey are against a government ban on foreign investors purchasing farms of more than five hectares unless they become New Zealand residents.

Mainfreight group managing director Don Braid sums up the prevailing option: "We don't understand how much foreign investment has come to NZ or not, but we do need the capital. We don't generate enough of our own, I do think we do need to manage it and it needs to be for the benefit of the economy. I'm sure as hell not about selling NZ off to everybody offshore but I do think that some of that foreign investment is important for the country."

A high proportion of CEOs – 79 per cent – say the Government should not stop the Lochinver Station sale. An even greater number – 86 per cent – want the Government to do a better job of selling the benefits of foreign direct investment. More than 70 per cent of CEOs reject plans to ban foreign investors from vertical integration in the dairy industry.

CEOs are saying:

79%
say Government should NOT stop the Lochinver station sale

80%
say foreign investors should NOT be banned from buying farms

86%
says the benefits of FDI need to be sold to New Zealanders

Westpac acting CEO David McLean goes into bat for foreign investment. He writes: "NZ has always had a lot of FDI. We've just got to work through what the issues are. We're pretty open in that. A lot of the debate around it seems very emotive, and you know xenophobic. Not rational. It would be better to have a rational discussion about it. Farming in New Zealand is moving from an owner-operator model to a more corporate model, particular dairy farming, and capital is needed. Again, if we're not saving enough capital ourselves as a country then we have to import capital."

The importance of foreign investment to the overall health of the economy worries Tim Bennett from NZX. "Suppose the first comment is we absolutely need it. We're quite happy to have indirect foreign investment through our banking sector to fund our property, our obsession with property as a country. But the reality is that we have a high cost-to-capital in NZ, what that means is that when you look at Lochinver Station, we've got some Chinese investors, got a lower cost-to-capital, it makes the economics work."

There's a clear majority – 69 per cent – in favour of setting up a foreign investment review board to take responsibility for dealing with offshore bids out of the hands of Cabinet ministers. And 62 per cent are in favour of rewriting the Overseas Investment Act to clarify the law. Roughly the same number are against proposals to renegotiate investment provisions in free trade agreements to exclude farmland.

Just over half would be happy if foreign investors were required to form joint-ventures with local companies when dealing with strategic assets.

Many CEOs point out foreign owners are not able to pick up land and take it away. Peter Reidie at Goodman Fielder says: "If they [foreign investors] value something within our country more than we do, we need to take a look at ourselves."

Veda managing director John Roberts says New Zealand needs to attract foreign capital, particularly in the commodities sectors. Another CEO warns that the "phobia of foreign investment in farms is just that – the land cannot be taken anywhere".

Franceska Banga from NZ Venture Investment Fund is measured.

"Foreign investors can't take the land away, so New Zealand isn't going to lose it, but losing significant land holdings for all time may be an issue. We need to think about long-term lease options and ensure foreign-controlled land doesn't breach a certain threshold."

A number of CEOs are happy with foreign direct investment so long as reciprocal rules apply.

Traci Houpapa of the Federation of Maori Authorities says: "We need a model of domestic ownership and foreign investment." Another CEO says: "I believe only New Zealand residents or citizens should be allowed to buy local land. Foreign investment should be focused on building businesses."

An expat CEO now living in New Zealand complains of difficulty buying a family home "when investors from India and China snap up properties purely as investments".

Little love for Dotcom and Internet Party

The presence of Kim Dotcom in New Zealand has not gone over well with our senior business leaders. Not a single CEO thought the Internet Party's founder and visionary was a healthy influence on New Zealand politics, with a sole vote for "unsure" preventing a clean sweep.

John Barnett, CEO of South Pacific Pictures called Dotcom's Internet party "an absolute low point in New Zealand politics". He said Dotcom was "a man with a criminal record who pays little or no tax in New Zealand and uses ill gotten gains to promote a personal agenda designed to influence legal outcomes. Compare the outcry when Chinese or US billionaires with suspect backgrounds try to achieve New Zealand citizenship."

Dotcom has thrown weight behind the Internet party, bankrolling it to the tune of $3 million and putting former Alliance Cabinet Minister Laila Harre on the payroll. One CEO said the party stitching together an alliance with Mana was "the biggest rort on our electoral system I've seen."

Erica Crawford, CEO of Loveblock Wines said "Kim Dotcom plays fast and loose with democracy for his own self satisfaction, revenge or whatever it is the fool is trying to achieve."

Ninety-seven per cent of CEO respondents believed Dotcom has bankrolled the political party to advance policies that are in his private interest, with a mere five CEOs buying the altruistic rhetoric of how Dotcom's party will advance New Zealand into the digital age.

One finance sector boss claimed, "Dotcom is laughing at the New Zealand public ... he is saying you people are so dumb with your MMP, watch me use it to achieve my objectives at your cost.

"No other country in the world would put up with this."

Xero CEO Rod Drury took umbrage with Dotcom earlier in the year, calling his presence in New Zealand and the election "a big sideshow". The quote drew a vitriolic response from Dotcom in a series of tweets. Drury told the *Herald* survey "By mentioning him he's gone and bagged myself and New Zealand's most successful internet company that's creating jobs. It demonstrates it's not about building successful internet companies from New Zealand, it's all about Kim Dotcom."

Mood of the Boardroom: Business outlook

Business confidence high

Most CEOs surveyed for Mood of the Boardroom are expecting revenue growth and bottom line profit increases

Mood of the Boardroom
Alexander Speirs

Over the next months, CEOs expect:

Increased profit	Revenue growth	Authorise capital expenditure	Authorise IT expenditure	Hiring intentions
73% yes	75% yes	53% more	61% more	58% more
7% no	8% no	12% less	6% less	14% less
19% same	16% same	33% same	32% same	28% same

Three-quarters of CEO respondents to this year's Mood of the Boardroom survey are anticipating revenue growth in the next year, with all but four of those CEOs predicting an improvement to bottom line profits.

The confidence from business leaders is evident in their commitment to investing in themselves — 57 per cent said they were likely to increase staff numbers in the next 12 months and 61 per cent expected to authorise further expenditure in IT.

Only 12 per cent of CEOs said that they expected to authorise less capital expenditure. It's a strong message from our business leaders — the platform for national economic success has been laid — now it's about capitalising on it.

PWC Chief Executive Bruce Hassall said that "now is the time for the business community to back themselves and go hard for growth. If ever there was a foot-to-the-floor moment, then this is it."

Chief executives have been busy optimising their organisations and making strategic adjustments to best position themselves to benefit from growth; 69 per cent of respondents said that changes to how they manage talent within their organisations were planned in the next 12 months.

That's not surprising considering that labour productivity and skills shortages ranked among the highest of all domestic factors concerning the CEOs.

One CEO from the hospitality industry said that "Lower unemployment will intensify the competition for talent which will probably drive up labour costs."

He added that innovation will be key to adding value to what organisations can offer prospective employees, saying "otherwise you are left competing purely on price."

Other strategic changes common amongst CEOs were optimising digital infrastructure at 65 per cent, changes to organisational structure at 57 per cent and driving engagement through social media at 50 per cent.

Overall, 51 per cent of respondents are feeling more optimistic about the New Zealand economy than they were last year, and 54 per cent are more positive about the prospects for their own industry.

That served as a contrast to the global economy where the CEOs are not quite as positive, with concerns around Europe, Russia and further instability in the Middle East all cited as reasons to anticipate headwind globally.

John Roberts, Managing Director at Veda, said "New Zealand seems to be in a positive growth zone at present, very much driven by the Christchurch rebuild and the global demand for commodities that we are great at producing."

While the path ahead for the economy holds significant promise, business leaders remained cautious not to get ahead of themselves, with the potential for speed bumps on the road to prosperity.

The Canterbury rebuild and high export prices, particularly in the dairy sector, have delivered short-term boosts to the economy — but sustaining strong growth rates will take a concerted effort from the next government.

BusinessNZ Chief Executive Phil O'Reilly said that "John Key's big challenge if he is re-elected is to ensure that New Zealand is set on a path where 4 per cent plus growth per annum is the new normal. We are getting better at having the underlying micro and macro plan to achieve that but there is still some way to go."

One CEO from the legal sector opined that while New Zealand is progressing well, that success isn't necessarily extending across all sectors. He cautioned against a one-eyed approach to growth, saying that "over-reliance on the dairy sector and a small set of large customers is a big risk for the economy. We need to stimulate and invest in scalable growth."

Political uncertainty ranked highly for CEOs when assessing threats to the present positive business environment. Director of Ngapuhi Asset holding company, John Rae said that he was slightly less optimistic about the prospects for the New Zealand economy, explaining that "the political risk overlay is driving this dichotomy."

One property sector CEO said that ambiguity in the political realm was already impacting upon his business, saying "a change of government could affect the real estate industry as a capital gains tax would have an impact upon the market".

Despite voicing strong concern about the existing regulatory environment in New Zealand, business leaders from the property sector were some of the most optimistic to participate. They cited strategic acquisitions, diversified income streams and improving cash flows as their biggest achievements of the last year and are preparing for further progression in the coming year.

All respondents bar one were anticipating revenue and profit growth within their businesses and planned to take on more staff to help facilitate that process.

Despite that optimism, regulatory issues continue to cause headaches with business leaders taking umbrage with the Resource Management Act in particular.

Not a single respondent supported the act in its current form — however they remained divided on whether adjustments could be made to make the act work or if legislators needed to go back to the drawing board.

● CEOs talk RMA — D22

Business leaders from the property sector are optimistic about the economy.

Asia ties our saving grace

"European and American economic growth prospects remain weak. Fortunately New Zealand's prospects are increasingly tied directly to the fastest growing region in the world: Asia — and not just indirectly through Australia.

"Weaker Western world growth with the associated weak inflation and the lingering effects of quantitative easing has meant global interest rates have remained low for longer. The resulting excess liquidity is finding its way into higher yielding assets like New Zealand bonds and property assets.

"The domestic factor which are most concerning for me has been the poor fiscal response to rising house prices (the solution is to increase supply, not fuel ability to buy which only raises house prices further) and progress on the Christchurch rebuild.

"The medium-term prospects for New Zealand's economy are driven by the Christchurch rebuild, strong net immigration with associated pressure on housing stock and out positive terms of trade.

"Long-term we have to continue to find ways to raise our productivity and encourage more contribution to, and participation in the benefits of economic growth."

— Craig Stobo, Chairman New Zealand Local Government Funding Agency

More effort needed to attract top-tier business talent

For BusinessNZ CEO Phil O'Reilly, New Zealand's economic prospects are looking positive — but a sustained shortage of top-tier talent is jeopardising our chances of long-term prosperity.

"We really need to up our game as business leaders about the way in which we think about global talent — attracting it, retaining it and then utilising it when it knocks on our door," he said.

"What we are finding is increasingly the case is that talent is borderless.

"We are finding that if you want really good company leaders, if you want those key people inside business — and I'm not talking about people here who do good work, but there are lots of them — I'm thinking about the world-class CFO, the ICT visionary — they're global people."

O'Reilly says that more work needs to be done to ensure New Zealand is providing a world-class business environment, with the career advancement opportunities and pay-grade top-tier talent expects.

"We can't just rely on the idea that New Zealand is clean and green, a long way away and a pleasant place to live," he said. "That's not enough to attract them.

"We need to offer world-class careers and a world class income — too often we try to get away with paying less because we're a nice place to live — but a lot of other places have those same advantages.

"We need to focus that we're at the top of our game when it comes to attracting top talent and not just rely on the snow-covered mountains and babbling brooks to pull us through.

"If we're going to get truly sophisticated on the global stage, we need some truly sophisticated global business people coming to New Zealand more often to assist, lead and play their part in taking us to the next level."

One source which New Zealand businesses are failing to effectively capitalise on is expat Kiwis returning home. O'Reilly says that for many, their lack of recent experience in the domestic business environment can actually be a positive.

"Far too many New Zealand businesses have 'not invented here' syndrome where they overlook people without New Zealand business experience.

"We need to make sure that we have really smart global business people running smart global businesses from here in New Zealand."

> We need to focus that we're at the top of our game when it comes to attracting top talent and not just rely on the snow-covered mountains and babbling brooks to pull us through.
>
> Phil O'Reilly

Mood of the Boardroom: Economic confidence

Too many rules, too few skills

New regulation and hard-to-fill vacancies are the main concerns

Mood of the Boardroom
Brian Fallow
economics editor

Only 51 per cent of firms surveyed said they had enough skilled staff; for tradespeople the proportion was 44 per cent.

Not for the first time, regulation is bugbear No 1 when business leaders are asked about about domestic factors affecting confidence in their industry.

One respondent to the Mood of the Boardroom survey said changes to the Health and Safety Act were likely to be the largest single source of cost pressure in his business in the years to come. "It's not that the changes aren't good, but they will carry a high cost."

And Geoff Hunt of Hawkins Group said the Government's approach of transferring risk to contractors was unnecessarily driving up the cost of new buildings.

Shortages of skilled labour runs regulation a close second as a concern.

The New Zealand Institute of Economic Research's quarterly surveys of business opinion have been recording a steadily rising number of firms saying it is getting harder to find skilled labour, albeit not at the levels prevailing in the mid-2000s.

And Statistics New Zealand's annual business operations survey of 36,000 businesses, published in April, found 31 per cent were reporting vacancies that were hard to fill, particularly for tradespeople. The trend has been rising since 2009.

Only 51 per cent of the firms considered all their staff to have all the skills required to do their jobs, and for tradespeople the proportion falls to 44 per cent.

When the statisticians asked what actions they had taken as a result, 39 per cent of the businesses reporting hard-to-fill vacancies said they increased salaries, 35 per cent trained less-qualified recruits, 26 per cent brought in contractors, 23 per cent recruited overseas and 29 per cent stepped up training.

Business leaders' third most pressing concern — labour productivity — is also an issue they can do something about.

The Treasury, in its pre-election economic and fiscal update, expects labour productivity to improve by 1.1 per cent a year over the next four years, compared with an average 1.6 per cent per annum since 1996. It is no coincidence that 1.1 per cent is also its forecast for real wage growth.

New Zealand's labour productivity runs around 20 per cent below OECD average levels.

When three OECD economists tried to figure out why, they could

> New Zealand's labour productivity runs around 20 per cent below OECD average levels.

not explain it in terms of policy settings (which they generally approve of) or our record for investment in physical capital (plant and equipment, infrastructure and the like) and human capital (education).

Instead they pointed to "knowledge-based capital" which includes such things as investment in software, research and development, design, market research and brand equity, worker training and organisational change.

Those are all things the inhabitants of boardrooms can affect.

Many of the respondents to the survey do not share the OECD's sanguine view of the adequacy of our infrastructure, however.

Franceska Banga of the New Zealand Venture Investment Fund points to broadband and the need for a second trans-Pacific cable, while Stephen Selwood of the New Zealand Council for Infrastructure Development expects traffic congestion to be a serious constraint on productivity in Auckland beyond 2020 when the capacity provided by the current construction programme is used up.

The high New Zealand dollar also makes the top five business concerns.

The kiwi has fallen about 4 per cent from its record highs in July, but they were dizzy heights indeed, representing the steepest appreciation since 2010 in real effective exchange rate terms of any of the 67 currencies the Bank for International Settlements monitors.

Whether the recent decline represents broader US dollar appreciation or the markets recognising a 45 per cent drop in export dairy prices, or the impact of Reserve Bank warnings, exporters will take it — and more of the same please.

Progress on the post-earthquake rebuild of Christchurch — and construction cost pressures arising from it — are another area of concern.

The $40 billion task is a major claim on the country's resources at a time when there is no shortage of construction demand elsewhere. So far, though, there has not been much sign of the spillover to broader inflation which the Reserve Bank is wary of, and inflation generally does not rate as much of a concern among the survey's respondents.

Interest rates rises, however, do. Although the Reserve Bank is now on hold as it assesses the impact of the flurry of rate rises it has imposed since March, the only question is how long it spends on that landing, not whether the next steps will be up or down.

It was starting, after all, from an official cash rate at all-time lows, delivering the lowest retail interest rates for 50 years, and the OCR is still a full percentage point below where the bank estimates a neutral rate lies.

On taxation, the business leaders are more concerned about personal than corporate tax rates.

Both Labour and the Greens say they would raise the top marginal tax rate for the income bracket into which chief executives are likely to fall.

Act, and to a much more modest extent the Greens, both advocate a lower company tax rate, the former as an economic panacea, the latter as a way of recycling the proceeds of its proposed carbon tax.

But the levels of government spending and borrowing both rank well down the list of business concerns.

Relative to the size of the economy government spending has returned to the levels, around 30 per cent of GDP, that prevailed in the years before the recession, and the Treasury forecasts expect it to stay there for the next four years.

Both major parties are committed to hauling down the curve for government debt, relative to GDP, from what are already low levels in developed country standards.

Economy

Confidence pegs back

Scale 1 = Low to 5 = High

Business situation (in your industry)	3.51
NZ economy	3.37
Global Economy	3.13

Domestic concerns

Scale 1 = Low to 10 = High

Regulation	6.76
Skills & labour shortages	6.33
Labour productivity	6.02
Infrastructure adequacy	5.76
High NZ dollar	5.73
Christchurch Rebuild progress	5.27
Construction costs post-earthquakes	4.83
Interest rate increases	4.69
Wage increases	4.68
Personal tax rates competitiveness	4.66

International concerns

Scale 1 = Low to 10 = High

Australian economy	6.25
Cyber attacks	6.12
Chinese economy	6.01
Competition for global talent	6.05
US recovery	5.72
Global tensions with Russia	5.59
US dollar value	5.53
Middle East instability	5.45
Global capital markets	5.50
Protectionism	5.53

Source: New Zealand Herald Mood of the Boardroom Survey 2014/Herald Graphic

CEOs losing sleep over regulation

Greg Hall

Nearly 36 per cent of the business chiefs surveyed by the *Herald* listed regulatory challenges among factors most likely to keep them awake at night. On average, they also ranked regulation as the domestic factor most likely to affect business confidence.

For many, it is an area of uncertainty. This is particularly so in the energy sector. "Regulated monopoly businesses face a price reset from April 1, 2015," said one sector chief. "The draft decisions from the regulator are projected to have a negative impact on business.

"The constant changing of regulatory requirements without any analysis of impact on business is damaging to revenue and wasteful of productive business focus."

Dame Alison Paterson, a Vector director and company chairman said: "The credit rating of Vector was adjusted from BBB plus to BBB on the basis of regulatory uncertainty. That just about says it all."

When the CEOs were asked what they considered the single biggest factor that would assist their business to remain internationally competitive, "regulatory stability" was a recurring response. A chief in the finance sector said less regulatory complexity and demands would help. An unstable regulatory environment is detrimental to business certainty and a barrier for potential investors. It should be no surprise then that 80 per cent of CEOs are in support of a Regulatory Standards Act aimed at improving the quality of regulation in New Zealand. Just five CEOs (5.8 per cent) were not.

Should there be a Regulatory Standards Act?

81% for

5% against

14% unsure

Dame Alison Paterson of Vector is concerned about regulatory uncertainty.

The proposed act, currently before Parliament, would encapsulate a set of regulatory principles that must be followed when legislating, against which the finished product can be measured. Its intended effect would be to heighten regulatory scrutiny throughout the process, which should lead to more coherent regulation by its end. Progress through Parliament has stalled as Treasury has undertaken further investigation into regulatory improvement, and the Productivity Commission embarked upon an inquiry into the design and operation of regulation in New Zealand.

The commission's report, published in July, found New Zealand's regulatory environment plagued by "systemwide deficiencies", including a tendency toward over-regulation and failings with the monitoring of regulators.

The report went to Cabinet Ministers. The future of the Regulatory Standards Bill will depend on the response of the next Government.

Mood of the Boardroom: International outlook

Keeping a wary eye on Australia

Brian Fallow

The state of the Australian economy is front of mind among business leaders' international concerns.

On the face of it, it is odd to be concerned about an economy that grew 3.1 per cent in the year ending in June, and has not experienced recession for 23 years.

But the composition of that growth has changed in a way that generates fewer jobs — mineral exports up but mining investment down — and the unemployment rate has hit a 12-year high of 6.4 per cent.

As on this side of the Tasman, the central bank considers the Aussie dollar over-valued, particularly in light of declines in world prices for key export commodities.

Although Australia's loss of momentum has an "it's an ill wind" effect in terms of net migration flows, for a country that takes 17.5 per cent of New Zealand's exports, and an even higher proportion of manufactured exports, the better it is doing, the better for us.

Business leaders are also concerned about the strength of the Chinese economy, now our largest trading partner in both directions.

The slowdown in Chinese output earlier in the year looks more and more like a temporary thing.

But China's larger economic challenge remains a daunting one: rebalancing the economy (in the opposite direction to what New Zealand needs to do) from one top-heavy in investment spending and exports, to one driven by domestic consumption, and at the same time to reform its financial sector, the more unregulated parts of which have grown very rapidly in recent years.

Less predictably, the risk of cyber attack now features in the top three of businesses' international concerns.

"Many New Zealand businesses are incredibly naive around cyber attacks and more broadly cyber security," one respondent said.

"New Zealand is unfortunately considered virgin territory for sourcing world-leading intellectual property which in many cases are largely unprotected."

People are less concerned about the strength of the recovery in the United States than about Australia and China. But even though improving economic data out of the US has taken some pressure off the exchange rate of late, the level of the US dollar remains a concern.

One respondent pointed to the weakness of growth in the Western world as a whole and the associated weak inflation and continuing quantitative easing as factors keeping global interest rates low. "The resulting excess liquidity is finding its way into higher-yielding assets like New Zealand bonds and property assets."

Another sees a risk of Europe sliding into a Japanese-style deflationary bog.

Global competition for talent is another pressing issue.

The size of the Kiwi diaspora and the challenges of offshore recruiting testify to increasing specialisation across many occupations and to the size of the income gap that has opened up between New Zealand and the countries we like to think of as our peers.

If the mobility of skilled labour is an upside of globalisation, exposure to geopolitical risks is definitely a downside.

Russian adventurism in the Ukraine and the heightened level of conflict in the Middle East are reminders of the continual risk that the other 99.8 per cent of the world economy will sideswipe us.

The better Australia is doing, the better for NZ business

Australian Treasurer Joe Hockey

> If the mobility of skilled labour is an upside of globalisation, exposure to geopolitical risks is definitely a downside.

Mood of the Boardroom: Living wage

A fair go and a fair wage needed

Mainfreight chief executive Don Braid identifies home-grown leadership as one of the big challenges facing New Zealand politics and business, including within the rapidly growing international logistics company he heads. Braid suggested in the *Herald*'s CEO survey that if re-elected as prime minister, John Key should set about trying to develop new leadership within the party. "Look who's in the wings, who will actually be the next prime minister and be good enough at it. I think it's a bit of a problem we've got in the country, that lack of leadership."

He also believes in paying a "living wage" for employees and wants to see more trade training.

Mainfreight's Don Braid believes it is important to grow new leadership.

Q: What is the most critical factor for Mainfreight to remain internationally competitive from NZ?
It's not the Government, the reality is it's ourselves. I don't know there is anything that we need from the Government that's going to help us in Europe or America or Asia. It's really up to us. But we do feel confident, we've got a little bit of momentum under way, and we were reasonably happy with our last result. We've got some of that momentum in those off-shore markets, and we've seen that continue – so we're positive about the future.

Q: You've given the National-led Government a big tick for the work it has done in China and on the international front. Why is that?
From Mainfreight's perspective, the energy and enthusiasm to open up those offshore markets for NZ business can't go unnoticed. John Key's ability to get on those trade missions and to open doors is a new sequence in international trading for New Zealand. What other country could you come from where the Head of State will stand there and be photographed for an hour and a half with your customer? It's all for the right reasons. It's not a political junket. It's all about opening doors for business and I think that's been commendable. There is a greater positivity and ambition to actually make it on the world stage in New Zealand business versus maybe five years ago, when people were looking at us and going "How do you do that?" Now they can actually see they can do it themselves because of the way the Government has taken on that foreign trade.

Q: When listing your own business priorities in the CEOs Survey, you focused on developing Mainfreight's leadership. Tell us more.

> It's not about capital, it's not about finding sales growth, or being able to compete on the world stage – it's the people who are going to do that for us, and that's where the biggest worry is.
>
> Don Braid

Talent, skills, and leadership skills are one of our biggest problems at the moment and as we grow larger, having that talent to help us develop other operations around the world is probably our biggest concern. Just as we've said about John Key's leadership, where's the next generation of Mainfreight leaders going to come from? That's our biggest concern and we're putting a lot of effort into training our people and getting those structures right.

Q: Does the talent shortage put a brake on growth for companies like yours?
We had 20 of our young emerging branch leaders on a course a month or so ago, and one of the questions was, "What keeps you awake at night?" Honestly, it's not about capital, it's not about finding sales growth, or being able to compete on the world stage. It's the people who are going to do that for us, that's where the biggest worry is.

Q: Do you seek out global immigrant talent or does Mainfreight prefer home-grown talent?
We would like to perhaps to have more New Zealanders in some of those overseas roles to grow the business more aggressively – a bit more like Mainfreight. That will be a drain on our business in New Zealand. But this is the home of Mainfreight and we are developing good young people here. It's just how quickly we can do that. I do worry that here in New Zealand maybe we are developing too many young graduates and not enough trade skills for youth employment. Thinking about immigrant labour, I heard a statistic the other day (I don't know whether it's true or not) that we are the third-largest employer of Filipinos in NZ by head of population. Where is that immigrant labour? I'd suggest it's probably in dairy farms in Southland, in the building sector, or in orchards. I'm not sure that's good for New Zealand. I think particularly with the labour needed for the rebuild in Christchurch, there is a shortage in trade skills among our youth, and I think we need to work harder at trying to get those.
The worst thing the country could have is growing youth unemployment. You can see what that's doing to other countries – the Spains and the Portugals. I think their youth unemployment rates are as high as 50-60 per cent and we should take that as a warning sign and make sure that doesn't occur here.

Q: You also advocate for a living wage.
I think that we need to think seriously about that; Mainfreight has adopted that as a minimum wage in New Zealand. We've taken exactly the same approach in Australia with new recruits over there. I wonder why there's a hesitancy both in Labour and National to get that living wage. First we've got to make sure the $18.80/hr or whatever it is, is correct. But if it is correct we should unite behind it and try to get that into the economy, I feel. These minimum wage rates aren't healthy for the economy.

Q: Would paying the living wage take more pressure off New Zealanders?
The debate around the housing issue and so forth – if people were actually at $18.80 on a 40-50 hour week that is a $47,000-$48,000 salary. That's starting to become respectable. I don't know if respectable is the right word, but it starts to give someone a good start anyway.
I think we've certainly initiated that here at Mainfreight. It would be good to see other companies do the same.

Mood of the Boardroom: Priorities

How to make NZ a better place

Alexander Speirs

As part of this year's Mood of the Boardroom survey, we asked our business leaders what one change they would make to improve New Zealand.

With competition for world-class talent a topical issue for New Zealand businesses and child poverty dominating election rhetoric, reforms to the education sector in particular dominated responses — with many CEOs wanting to see greater opportunities afforded to children in order to break the cycle.

Glenys Coughlan, CEO of Positively Wellington Venues captured the mood of many, saying "I struggle with the fact that we are doing so well on so many counts but the gap between rich and poor isn't closing. The social consequences of this are dire."

One CEO from the commercial property sector said "creating an education system that provides our children with clear career paths across our main and emerging industries in a planned and co-ordinated manner would result in homegrown business leaders of tomorrow who stand proudly Kiwi in the global village we now live in."

Bruce Hassall, chief executive at PWC said he would "make Chinese a compulsory subject for all students," enabling more New Zealanders to be able to take advantage of the unique relationships and opportunities we are able to derive from China as a nation.

New Zealand's MMP electoral system was also a common target for criticism among CEOs, a number of whom would instate a new system given the chance to make a single change to improve the country. Many felt MMP was not conducive to big-picture decision making and too much time and resources were being focused on negligible issues.

One CEO said of MMP, "We must get rid of it. It confuses the hell out of me and allows minor parties to focus the nation's attention on issues that are largely insignificant. Shouldn't this election campaign be about health, education and the economy?"

Larry Bilodeau, CEO at Balance Agri Nutrients echoed that sentiment, saying New Zealand should "drop MMP and elect a Government with its own agenda, not one set by a minority."

Chief Executive of the New Zealand Venture Investment Fund, Franceska Banga would adjust national attitudes towards investment in high-productive sectors, particularly technology.

She would "shift the view of politicians, investors and commentators that investing in technology companies is a 'nice to have' best left to wealthy individuals and successful tech geeks. Globally, technology is disrupting all sectors and industries, and New Zealand is well positioned to be a technology start-up hub in the Asia-Pacific region."

Banga said "there needs to be a much greater focus and commitment from Government and private sector interests to drive significant growth in companies that are leading with technology."

Getting our health sector on track also ranked highly for a number of CEOs, particularly with our ageing national population.

Peter Tynan, Chief Executive of Southern Cross Health Society said his one change would be "achieving public and private consensus in the healthcare sector as to an affordable, long-term cost model."

> New Zealand is well positioned to be a technology start-up hub in the Asia-Pacific region.
>
> Franceska Banga, NZ Venture Investment Fund (right)

Peter Reidie's policy prescription

Peter Reidie thinks we should stick to doing one thing well — roads.

If Goodman Fielder CEO Peter Reidie had the opportunity to make one change to New Zealand, he would refocus the Government's mandate to work on achieving high quality solutions, rather than spreading themselves too thinly.

"I would refocus Government on what it should be focused on: education, law and order, infrastructure, health and welfare. Then within those, doing fewer, simpler, bigger things which recognise we are 4.5 million people in a very remote part of the world. We have a wonderful set of advantages but the compromise for those advantages is that we can't have everything.

"A great example to me is transport and infrastructure: every town wants an international airport, container port, railway station, motorway, urban rail system — the list could go on and on. I believe we have the developed world's worst road system, and a government-owned railway business that is sucking $4-$6 billion of investment out of us over the next 10 years.

"The proposed Auckland underground railway on the agenda, replicated investment and territorial jealousy on container ports, all moving along while we continue to fight where we should be putting our roads.

"I believe we should determine one mode of transport for the country and that has to be roads. All the money we would spend on rail could then go into roads. We could tear up the railway tracks, build an additional two lanes of road from one end of the country to the other. This could all be done without impacting State Highway 1 today and this way we could wake up at some point in the future and have a dual carriageway separated as a transport spine from Bluff to Kaitaia.

We could even make room for cyclists.

As a small country, doing one thing well — roads — rather than several things not so well is a great example of what we could do so much better. We could get councils focused on buying the right buses, planning parks, roadways and car parks. It would save money on their ridiculous rail investments and get everyone focused on making roads work as they have no other choice, because the country is committed to building a world class road infrastructure.

Doing one thing really well rather than many things piecemeal is what a country of 4.5 million people must do.

Mike Bayley
Bayleys

For Bayleys managing director Mike Bayley, child poverty tops the agenda for changes he would like to see made in New Zealand. "I am passionate about eradicating child poverty and neglect in New Zealand and would commit increased government resources to tackle this issue, not only through directly funding initiatives, but also through greater education of parents and families.

"It is ironic that we continue to fund a range of international crises around poverty when they continue to occur unaddressed in our own backyard.

"At a basic but highly visible level kids are turning up to school every day without having had breakfast and with nothing for lunch. Assessed on a needs basis by individual schools, we should provide every hungry child in the country with the option of breakfast and lunch at school.

"The cost to Government is minuscule in comparison to the overall budget. Perhaps we reduce the benefit payout by $5 to $10 a week to parents who are receiving government assistance but aren't feeding their kids. The cost of feeding a child a balanced school lunch is about $1.80."

Kevin Jaffe, Simpson Grierson

Simpson Grierson chairman Kevin Jaffe says as a country we've been ticking along well for a number of years, and now we're starting to see the proof of that in practice — not just on paper.

"In overall terms, New Zealand's economy is doing well, particularly compared with many other developed countries, and the Government has managed it well over a difficult period."

Jaffe gives John Key high marks for his performance, but would like to see him refresh his team and pay greater attention to ensuring New Zealand is successful across the board.

"We know from the work we do around New Zealand that many regions are not booming, even in these good times. I would like to see the Government focus on regional development.

"Everyone recognises that we can't just have Auckland and Christchurch going, that's not going to sustain the country. We don't want to become a two-speed economy, but there has to be a reason for economic activity, we can't just snap our fingers and wait for it to happen."

As well as a greater focus on the economic development of greater New Zealand, Jaffe would like to see closer co-operation between central and local government, particularly where Auckland is concerned.

"Auckland is the powerhouse of the New Zealand economy and does need a special focus," he says.

"Progress in Auckland, particularly around infrastructure investment, is still an issue. Projects such as the Central Rail Link are essential and we need to come up with funding solutions for them.

"We need to see a more consistent approach to both Auckland and the regions. We have different ministers, different local governments and then there's overlap between the three-year election cycles.

"It seems with Auckland in particular, we're changing the game too often instead of putting together a 10-year plan and getting everyone around the table to buy in instead of becoming a political football. The intent is there, it's whether it can be pulled off."

Kevin Jaffe's top three business priorities for the next 12 months:

- Managing our talent.
- Differentiating service delivery.
- Identifying growth areas.

His biggest success from the last year was achieving growth for Simpson Grierson in a highly competitive market.

Jaffe notes regulation as his top domestic concern alongside house prices and the high Kiwi dollar, and says if he could make one change to improve the country it would be to streamline regulatory processes.

David McLean, Westpac

Westpac's David McLean reckons New Zealander's "don't know how lucky we are" when it comes to comparing New Zealand's position to the rest of the world.

He returned to Auckland earlier this year from New York where had been managing director of of the Westpac Group's New York branch to head up the bank while chief executive Peter Clare took leave for a heart operation. Clare has since resigned and McLean is continuing to run the bank as acting CEO.

"We tend to beat ourselves up and be a bit sort of Presbyterian about it," says McLean. " In some ways we should celebrate the things we get right more. Particularly with the election campaign, people tend to focus on the problems and what needs to be fixed. If you go to the rest of the world, as you'll know, we're in a pretty good space. " He admits business at times feels some frustrations interacting with Government. In the financial sector there is a lot of new regulation. But though it's difficult to adjust to, and costs money, most of it is necessary. "It's a case of having to adapt to the change and then having a sort of process after it's implemented. Continuous improvement: is it working, can we make it more efficient?

"The Reserve Bank is doing this review of prudential supervision which will take over a year. But then it's, let's take a look and say, 'Is it streamlined enough for our small economy?' It's that type of thing that's very productive and, given our size, we've got to be as lean and efficient as possible."

Westpac's view is the economy is still strong. In the year to March 2014, GDP was up 3.3 per cent. It's since softened, but "we don't think it's a turning point. We think it's a loss of altitude; we're at cruise mode rather than falling."

McLean reckons the economy will not reach tipping point until after the Christchurch rebuild is pretty much finished — which it's still nowhere near. On the election front, he says businesses just want certainty. The bank hasn't seen any real signs of a slowdown in investment activity or hiring leading up to the election. "That's quite interesting because if you go back a few elections that would have been, things would have gone on hold for a few weeks, months beforehand."

Getting a focus on retirement savings must be a priority says McLean. "This is one of the things coming back from the US, where a large number of large segments of the population are not going to have enough savings for their retirement.

"You can see that that is going to create huge pressures on society in subsequent generations. We don't have anywhere near the same problem here, but the demographic changes coming mean that we've got to adapt and respond.

"I'd like to see the debate around superannuation becoming less political."

Mood of the Boardroom: CEO profiles

Government could help level the field

Spark CEO Simon Moutter talks about rebranding and what he thinks are the big issues

Q: You've just completed a very high-profile rebranding exercise as Telecom has become Spark. Are you pleased with how that was carried out?
We're very positive about the shift in branding, our team executed it very very well and I'm very proud of their work. Not just on the technology and sign changes, but actually on delivering some new messages in and around the event that helped position Spark as being different from Telecom.

Q: How will Spark be a different business from its predecessor?
It's been a massive change internally too and has brought new energy. We've had a tough time internally over the past 10 years, it's hard to build a great culture when you're always going backwards. That's been the case for the best part of the last decade, particularly in the last two where we've had to do a lot of heavy intervention to turn around performance and reduce costs.

Q: Will we see Spark look to expand their footprint offshore?
Not now, we've decided to come home. We think there's so much repositioning to do here and very little obvious strategy for us to try to operate offshore.
Old logic used to dictate that the scale of multiples would matter, but in our industry it's turned back in the other direction. Our singular focus is New Zealand, and strategically our success and New Zealand's success have been interlinked. We're the biggest investor in this critical infrastructure that links New Zealand to the world and all the services that operate that.

Q: What do you see as the biggest challenge facing the development of a world-class digital economy in New Zealand?
In a world where services become very global, which is particularly true in the weightless economy in the world of internet delivered or networked businesses, there's a whole sweep of things which start to push against the current legislation. As an example, we've just invested a pile of money building Lightbox. We legitimately purchased the rights to content, but they are then being challenged by someone who has paid nothing, who is really tricking the system using technology. Either this will be resolved so our rights are worth something, or we shouldn't bother.
If the answer is we shouldn't bother, then you end up with an outcome where the only players we'll ever deal with are global. That has a price for a small country like New Zealand.

Q: As national borders become less relevant for business in the 21st century, do we need to reconsider our approach to setting the rules of the game?
I think with regulation, you can adapt a business to deal with most regulation, what you can't do is change every five minutes because you're making long-day decisions. Stability and predictability is the most important thing.
It's a little like exchange rates. I find it surprising how little noise there is any more from businesses with our exchange rate with the US dollar still in the 80c range. But because it's been there for a long time, New Zealand businesses have learned to deal with it and adapt.

Q: A big issue with an increasingly global economy has been tax and how to assess this fairly – where do you stand on this issue?
With international tax and profit shifting, I just think the world is staring at the problem – we've got all of these committees and various working groups but the truth is nothing is happening and we should be bothered about it.
I'm not, at this point, convinced that the New Zealand Government couldn't actually do some things, at least interim measures, to level up the playing field for New Zealand businesses.
Whether that be charging GST for online purchases or requiring big global companies to declare more of their revenue earned here in their statutory returns, which they seem to be able to manipulate out.

Q: With the election on the horizon, what would you like to see the next government focus on?
I don't have a whole lot of things I'd ask a new Government to do. I think we have a reasonably stable, pragmatic approach to leadership and New Zealand companies are in reasonable shape.
Whichever Government gets in, pragmatically attacking these issues around poverty and inequality is essential.
I don't know what we see versus what is real, I don't have a good enough fact base, but poverty and inequality, I'm sure they're one in the same, and I would like to see us make more progress on those. I support our company working in this area too. [We need to look at] what can we all do to make sure that all young New Zealanders get a chance to participate, the opportunity to be well educated if they choose to be. That's not an easy thing to do, but I'd like to see focus there. I think we can have a better New Zealand.

The threat of cyber attacks

The Dirty Politics saga has put cyber attacks and hacking under the spotlight in New Zealand and that's extended to our business leaders. CEOs ranked cyber attacks as the second most concerning of all international issues for New Zealand.

A professional services CEO said "many New Zealand businesses are incredibly naive around cyber attacks and, more broadly, cyber security".

We've seen recently evidence of just how damaging cyber attacks can be – and it's not just the players in the small end of town who are susceptible. Spark's network remained unavailable for much of the weekend after a vulnerability in individual customers' hardware was exploited by hackers, overloading Spark's DNS servers and knocking out the internet for a substantial portion of the country.

One CEO from the property sector said we need to use this as a learning experience, saying "cyber attacks are the biggest threat, but as with other international concerns in the past we will hopefully see New Zealand come out better off for it all".

Xero CEO Rod Drury: In his own words

"The most exciting thing in our economy over the last three to five years has been the emergence of the tech sector. We're showing that we can create new jobs and we're empowering small businesses. Technology is now really starting to move the needle and I think it's gone from 'hey, that's kind of interesting' to a point where we are actually using it to drive progress. Imagine if we actually got that co-ordinated as a country."

"I had John Key in the office two weeks ago and we were showing him what we're starting to do with Google Hangouts and how we work and I think now he's starting to get it. We'll utilise as much as there is and small businesses and schools can be connected with high-definition video conferencing and multi-party video, we can do so much more."

"New Zealand is a very desirable place to live and if you have good internet connectivity, companies like ourselves can be based here. I've got no desire to live in San Francisco and lots of Americans that we're meeting come down here and say 'man, I wish I could live here' but then you go into a hotel and it's 24 bucks a night for the internet and it's pretty crappy."

"International connectivity really needs to take a step up. Xero has 18 offices now, and we can connect four or five of our offices on a pretty low-def video conferencing connection. If I can get all of those offices on, in high definition, it will completely change the way we work here and we'll be clamouring for more."

"Currently we have to hire staff and put them in the US doing webinars and selling to that part of the world because the communication just isn't good enough. We'd be able to create more jobs here, we'd be able to hire more and we'd see people around the world wanting the lifestyle, the food culture, the relaxed living they can get in New Zealand while earning globally. "

"With the election, maintaining the status quo and getting some stability is important, but can we have some vision? Can we have some exciting stuff that's going to help us grow? Technology is hugely exciting so that seems like the obvious one."

"We're all pretty socialist, we all tend to agree that we want the best for New Zealand. The philosophical differences are whether you think business is a force for good to create jobs, have social responsibility and grow the pie."

Jane Hastings APN NZ

APN New Zealand chief executive Jane Hastings says the current economic environment is an extremely positive one for New Zealand businesses, and believes that increased digital capability is at the core of this.

Hastings said the growth of the digital space was a major focus for APN, and was now critical on a global scale for any company looking to succeed.

"It is a priority worldwide and New Zealand companies are no exception. This is about preparing your business for current and future generations," Hastings said. "We are clear that you need to be nimble and ready to continually evolve how we deliver content and how we connect advertisers to audiences," she said.

In the coming year, Hastings said a major focus for the company would be on improving collaboration between the APN portfolio which included New Zealand media, The Radio Network and GrabOne.

The recent establishment of APN "Collaborative Media Solutions" which provided clients with access to advertising packages across all media platforms, had been an initial success and Hastings said this would continue to be a company focus.

"We are seeing a positive response from big advertisers, and the Group sees this as a key future strategy," Hastings said.

APN had also appointed a new senior group executive team with experience in a number of successful marketing and digital companies to help the company connect with a wider audience across all media platforms.

"The total APN portfolio connects with close to 3.3 million people, that's 85 per cent of the total New Zealand population," Hastings said. "The focus on the Group executive team is to leverage the power of the Group audience and ecommerce capabilities.

APN announced recently that it was looking at listing its New Zealand assets on the NZX. Aside from the possible IPO, Hastings said the focus over the coming year was on increasing the company's ecommerce abilities, with recent examples including the True Commercial and Shop Viva offerings. She noted the company was continuing to build on a solid positive base.

"We are building on the strong content foundation of each of our businesses and offering the market new ways to connect with our audiences," Hastings said. "You know the strategy is right when your customers are saying 'this is exactly what we want'."

She said the economic outlook in New Zealand, as well as business confidence, was positive, creating a strong environment for company growth in the coming year.

– Holly Ryan

Mood of the Boardroom: CEO profile

A touch more vision needed

Air New Zealand chief executive Christopher Luxon reckons New Zealand could do with some "vision casting". A fan of the Singaporean Government model with its long-range plans, Luxon questions why if Auckland Council can have a master-plan, why the NZ Government can't have one too. The Herald talked to Luxon for the CEOs Survey.

I don't know if it's the GFC or the earthquakes or the actual crises that have actually driven a series of incremental thinking and executing within New Zealand. There's no doubt the actual execution is great, is getting much better, the themes are the right themes, the direction is the right direction. But I think the New Zealand public would benefit from more vision casting.

I was watching interviews with Paul Keating in Australia. Keating and even John Howard had quite an expansive view on where Australia's place in the world was going to be, what its role in the Asia-Pacific region was going to be. Keating opened up Indonesia in a big way, and found a way through that, despite all the difficulties with those regimes. I think we need broader strokes painted on the canvas.

John Key has been talking during the election campaign about how New Zealand is on the cusp of an exciting future …

I think we genuinely are, but let's fill that in and put some definition to it and paint that picture a little bit, because I think we're all saying we're on the cusp of something and we know there's some real opportunity there. It's a positive future for New Zealand. I think just putting some broad brush strokes in place to give people a sense of the bigger picture would be very helpful. And that's getting the balance of pragmatism, principle and vision-casting right.

If we get a change of Government at the election what would you like to see?

I'm concerned we'd become much more isolated and inward-looking. I think we need to be a really open outward expanding economy. The way the Prime Minister has positioned New Zealand is absolutely world-class and outstanding. That's a place New Zealand has never been before, we're very fortunate with the opportunity that has been created. I believe he deserves immense credit for that. But it does worry me: do we have political leadership beyond him? You have to understand people and build relationships then you start to talk about the possibilities of what you can do together. Then you start to talk about an agenda, and then action plans, and then you get results. And I fundamentally start from that premise, I suspect Helen Clark had really good relationships.

> I've got to position the business with a mission and a purpose bigger than just making money, that's one of the really exciting things about the job to be honest. A few people can make quite a big difference, across the business community and across the political community.

You've talked about how New Zealand could be a big petri dish for big economic powers to learn from. What do you mean by that?

I do think NZ is a petri dish if you are sitting on the other side of those relationships. You've got all this sophistication in the fully developed market not putting everything at risk and if you think about the Chinese training up ambassadors for bigger jobs, what they learn about engaging with Western businesses through the New Zealand experience, I think that's incredibly valuable from their end, and I think there's a nice quid pro quo.

I think there's lots to learn in New Zealand. It is a great petri dish. I think if you can crack something here you can rapidly apply it when you get to larger scale markets. In my old life (Unilever) you would look at markets like New Zealand, Australia or Canada and you would test things before you would roll it globally, because all the factors were here.

So that to me, bipartisanship, consistency on the big international settings, and leaders who understand relationships and the importance of relationships and the foundation that that creates for everyone. It's been really important. That may seem a bit soft, might not seem pure hard policy or economics. But that soft stuff creates conditions that enable everyone to step into that space.

You're also a fan of the Singapore model of developing young talent. Tell us more about that.

From a business point of view the question in real New Zealand corporations – not the offshoots – is how do we develop the next generation of world class talent. So I think about how Singapore goes about identifying young leaders and smart people, often at 14 and 15 years old, and the way education systems and other countries around the world really produce some real grunty intellectual people but also some real good emerging leaders.

At the Business Hall of Fame there were all these young 16, 17, 18-year-old kids and the highlight was seeing these young people stand up and they were presenting a polished image of New Zealand. They were very positive about their future and they had the same ambition and aspiration mode that I see in America, going off to the University of Michigan and on to Harvard or Yale.

We've got the same raw stock of ambition and professionalism and they would stack up against the best in the world anywhere. I was pumped about that. It was the whole highlight of the night.

My question is, what do we do with those people? Because they finish high school, they go to university here in New Zealand or Australia, they come back, and how do we get them orientated around the Pacific Rim?

I feel very grateful for the experience I had working for a very large multinational with lots of business.

How do we get that next generation with that quality of experience – I don't think the multinationals, whether they be the Unilevers or the GEs, McKenzies, are coming to New Zealand to recruit now.

Mood of the Boardroom: Tax

Aversion to tax hikes

Most respondents see our present rates as competitive, writes **Thomas Pippos**

Our tax system is seen as internationally competitive, although it could be made more so.

There is no real support for lifting tax rates to make it less competitive, but taxing more capital gains in the right context could be accepted. More surprising is the material lack of understanding of what is happening around avoidance, evasion and BEPS, which undermines the perceived integrity of our tax system.

It is possibly unsurprising, but the desire of the centre-left parties to treat the highest marginal tax rate as a political football is seen as a bridge too far. (Leaving well enough alone on marginal tax rates could have been a better bet to place for the centre-left.) It is viewed as totally inequitable and potentially the beginning of a journey down a slippery slope where taxing the few is seen as politically acceptable.

The marginal tax rate debate has probably also limited political capital Labour may have been able to gain from its avoidance and evasion proposals. Though in many respects these are not too different from the status quo, Labour could have been seen as offering something different given the now being undertaken — thereby garnering some further support at the expense of the centre right.

The results of the Mood of the Boardroom 2014 survey show a considerable disconnect between the business community and the centre-left political parties as to the optimal shape of any future tax policy reforms; a Page One initiative for the upcoming election.

The majority of respondents see reducing the corporate (58 per cent), trust (38 per cent) and individual (54 per cent) tax rates as desirable. A similar number would like our tax settings to more overtly attract foreign direct investment into and out of New Zealand (55 per cent and 48 per cent respectively), and to attract more migrants (41 per cent). But the vast majority (80 per cent) believe our current tax settings are competitive, which no doubt helps create a positive business sentiment.

Somewhat unsurprisingly, the vast majority, generally over 90 per cent, believe our corporate, trust and individual tax rates should not be increased. Even more critical is the sentiment around lifting the highest marginal tax rate to 36 per cent as proposed by Labour (or 40 per cent by the Greens). Nearly all (98 per cent) of the respondents feel this policy is politically motivated; only 19 per cent feel there is a fiscal aspect to it and 83 per cent feel it is inequitable. Potentially exacerbating the negative sentiment, 57 per cent feel the rate proposed by Labour could be increased further under MMP coalition pressure.

The position on capital gains is more forgiving. Nearly 80 per cent of respondents start the debate aware that our tax settings already capture certain capital gains made on property, equities and financial instruments. Recognising this informed context, respondents are more divided on the merits of a Labour-style capital gains tax proposal. Thirty-three per cent would support it to broaden the tax base.

That rises to 48 per cent if the introduction of a capital gains tax enables other tax rate reductions; 39 per cent also see some merit in it taking the edge off the property market. Interestingly, nearly 54 per cent see merit in a capital gains tax increasing the equity and fairness of the tax system by ensuring everyone is taxed in some way on their economic gains. The relative support across these areas is considerably greater given the material number of respondents who were unsure on these questions.

Probably even more interesting is that, assuming a capital gains tax is introduced, the broad policy direction suggested by the Labour Party for such a tax resonates with respondents. This includes that it should only apply on a realisation basis (76 per cent), that the family home should be excluded (73 per cent) and that it should apply at a lower rate (55 per cent).

Had the centre-left parties therefore curbed their enthusiasm for lifting the highest marginal tax rate, the tax policy debate would have been considerably less controversial — potentially materially broadening the market capture of voters in and around the centre of politics, noting that the majority of respondents (53 per cent) are still attracted to the Labour Party policy of reintroducing R&D tax credits.

Moving on from tax policy to evasion, avoidance and the global tax debate faced by multinationals known by the acronym BEPS (Base Erosion and Profit Shifting), there is a mixed bag of outcomes and in cases more work to be done.

Just on 59 per cent of respondents feel there is material tax revenue lost through tax evasion (i.e. taxpayers' deliberately under-reporting income to reduce their tax charge). Only 36 per cent feel that the Government is sufficiently focused on this, with around the same number (33 per cent) feeling a greater focus is required, and the balance of 31 per cent being unsure. This is a clear signal more could be done to communicate the material work already being undertaken in this area.

Consistent with the evasion position, a significant number of respondents believe tax avoidance (i.e. bending the rules too far rather than just ignoring them) by both multinational companies (46 per cent) and a wide spectrum of taxpayers (41 per cent) also contributes to a material loss of tax revenue. The implication again is that considerably more could be done to communicate what the Inland Revenue is doing in this space, as only 42 per cent of the respondents feel that the Government is sufficiently focused in this area, 33 per cent feel that they are not sufficiently focused, and 24 per cent are unsure.

The related BEPS debate isn't about to fall away any time soon given 57 per cent of the respondents feel multinational companies are artificially reducing their tax obligations globally, with 46 per cent believing this also occurs in New Zealand. This is a third area where more could be done to highlight the work already being undertaken, as only 18 per cent of the respondents feel the issues are being suitably addressed here and only 26 per cent are aware of the work being undertaken here on this topic. By contrast, around double (51 per cent) are aware of the work being undertaken by the OECD.

● *Thomas Pippos is chief executive of Deloitte New Zealand*

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Where the government should be headed

98% of CEOS are against an increase in corporate tax

58% support a reduction in the corporate tax rate

0 CEOs supported raising the corporate tax rate

54% of CEOs are in favour of a reduction in personal income tax

80% are against reducing the GST rate

82% are against removing GST from certain food groups

13% would support it

Labour proposes to increase the highest marginal tax rate to 36%

18% believe the proposal is fiscally motivated

98% see it as politically motivated

Source: NZ Herald Mood of the Boardroom Survey September 2014

Mood of the Boardroom: Minor parties

How do the minor parties rate?

Bill Bennett rounds up the CEOs' views on the smaller players in this year's election

From left, Brendan Horan (NZ Independent Coalition), Hone Harawira (Internet-Mana), Winston Peters (NZ First), Russel Norman (Greens), Te Ururoa Flavell (Maori Party), Peter Dunne (United Future), Jamie Whyte (Act) and Colin Craig (Conservatives) take part in TVNZ's Multi -Party Leaders' Debate last week. Picture Jason Oxenham

> CEOs are keener on United Future's flexible superannuation policy that will allow people to take a small allowance at 60 or a larger one at 70. It is one of the most popular minor party policy ideas canvassed in the survey.

Green Party

Expect hand-wringing in the nation's boardrooms if the Green Party forms part of the next government. Little in the Greens' policies get the CEO stamp of approval. Overall, Green Party policies are the most unpopular, ranking below Internet-Mana and New Zealand First.

Not surprisingly, the Greens' plan to increase the top personal tax rate from 33 per cent to 40 per cent for those earning more than $140,000 get the biggest thumbs-down of any policy surveyed. The Green Party says the change would generate an additional $1 billion in revenue, money that can be used to lift families out of poverty. It's unlikely to happen, potential coalition partner Labour has already ruled out higher marginal tax rates. So have CEOs with 78 per cent rating the idea as "not impressive". A comment underlines boardroom fears: "Increasing marginal rates will mean we start losing good people again."

Only one CEO in the survey rates the Greens' tax policy as impressive. However, comments suggest there is some sympathy with higher marginal tax rates under certain conditions. One CEO says: "I'd support increasing the top personal tax rate if it meant that the true marginal tax rate for $40k to $80k earners wasn't close to 100 per cent, which I suspect it is today with all of the various policies overlapped". Another says higher taxes could work if the starting point was on incomes over $200,000.

The Greens' plan to create a government-owned bank attracting private capital to invest in eco-friendly projects is almost as unpopular. Seventy per cent of CEOs rate the idea as not impressive. None of the respondents are impressed and the average rating on a scale of one, not impressive, to five, very impressive, is a low 1.3.

A Greens' proposal to replace the emissions trading scheme with a carbon tax of $25 per tonne and half for farmers scores a average rating of 1.7. Although just over half of all CEOs rank the idea as not impressive, the idea resonates in some quarters with one CEO writing: "I do think the Greens' policies on pollution pricing are encouraging".

The Greens' plan to create a $1 billion poverty-boosting fund has a little more sympathy, but only just, with an average rank of 1.9 out of five. Its least unpopular policy would see tertiary students and apprentices able to travel free on public transport outside of peak hours. One CEO comments that it would make more sense to provide free public transport during university hours so students could get to lectures.

A number of CEOs question the economic thinking behind Green Party policy. There are a number of comments along the lines of: "Where will the money for these policies come from?" and "Populist ideas, with no commentary on how these will be implemented or impact on tax payers". Another CEO says: "Greens' economic policy lacks detail and analysis." One CEO asks: "What is Green about these policies?"

Act

Act's plan to lift the National Super age from 65 to 67 then link future increases to changes in the CPI, not wages, resonates in the nation's boardrooms. Almost 30 per cent of CEOs rate the policy as very impressive — less than 10 per cent of CEOs are unimpressed by the idea. One CEO wants Act to qualify its plans, writing: "Act needs to give long term warning for changing the Super age". To be fair to Act, party leader Jamie Whyte said at the campaign launch the change will take years to implement.

An Act proposal to kill off government-funded corporate welfare is less popular. CEOs are split over the idea. Just 7 per cent rate it as very impressive. Meanwhile, CEOs are largely supportive of Act plans to drop the marginal rate of personal income tax to 24 per cent. That idea scores an average rating of 3.2 out of five.

One CEO notes there's a link between these two policies, writing: "A government-funded corporate welfare was proposed by Jamie Whyte as a way of achieving a reduction in the corporate tax rate to 12.5 per cent. Without that corollary, you will certainly get a distorted answer to the question".

General comments express doubt about the party's importance in the bigger picture. One CEO comments: "This party is irrelevant in my view". Another says though Act comes up with some great ideas, there's no discussion of how to deal with the social fallout from the policies. A third writes: "A challenge for Act is to come closer to the centre where the majority of voters sit".

NZ First

CEOs are split on the value of New Zealand First's plan to open KiwiSaver accounts for all newborn babies with a $1000 Government kick-start and the ability to use the fund for tertiary education fees. Though a third regard the idea as not impressive, almost one-in-five CEOs thinks the idea is impressive or very impressive. The policy scores a below par 2.3 on a scale of one to five.

There's less support for NZ First plans to set-up a Government-guaranteed KiwiFund investing in New Zealand companies, offering lower fees than existing funds along with guaranteed rates of return. More than half of the surveyed CEOs say the idea is not impressive. One says: "A guaranteed return of capital means low chance of higher return — NZ First would be best to mandate the lifecycle-adjusting investment approach".

NZ First's idea of removing GST from food and residential rates is also unpopular with almost 70 per cent of CEOs rating it as not impressive. This idea attracted a number of negative comments. One CEO describes the plan as "economic lunacy" while another asks: "Compliance costs would be high in removing GST from food. What would the net gain be?"

Another expands on this idea writing: "Removing GST from food and rates is a proposal which, to people who are not in business, sounds eminently sensible. But it would of course add enormously to compliance costs. It would generate huge political pressure for more exemptions and is a very inefficient way of helping low income families because most of the money spent on food is actually spent by people on middle and higher incomes. So a huge amount of revenue is foregone, with only a small part of that going to the target demographic."

Conservative Party

A Conservative Party proposal to set an income tax-free band for the first $20,000 of a person's earnings gets a mixed reception from CEOs. As many are unimpressed by the idea as those who like it.

One CEO criticises the economics underpinning the plan: "The trouble with the Conservative Party's proposal to make the first $20,000 of personal income tax-free is that it would involve a massive loss of tax revenue, with the result that the flat tax which the Conservatives have proposed above that figure would need to be very high. This means an increase in the marginal tax rate faced by a high proportion of New Zealand workers. Moreover, those who would gain the biggest dollar gain from waiving tax on the first $20,000 of income would, ironically, be those on high incomes".

There's little support for the Conservative's policy of introducing national binding referendums. Party leader Colin Craig sees this as a way of getting politicians to follow voters' instructions. Almost half of CEOs say they are not impressed with this idea.

The Conservatives' policy of repealing all special laws for Maori including separate parliamentary seats gets equally short shrift, with the idea scoring just 2 on the scale from one to five. One CEO writes: "While some of the laws claimed to favour Maori are explicit, there are many laws which implicitly bias against Maori. So this needs careful consideration. Law should aim to be colourblind, both implicitly and explicitly."

Maori Party

The Maori Party's policy of introducing a living wage of $18.80 an hour is not popular in the boardroom. One third of all CEOs say the idea is not impressive. One CEO comments: "A sharp increase in the minimum wage to $18.80 would have a devastating effect on the employment of relatively unskilled New Zealanders, many of whom, unfortunately, happen to be Maori."

There's more sympathy for the idea of protecting Maori seats in Parliament, although almost 30 per cent of CEOs regard the idea as not impressive. One says: "They [Maori seats] have no place in the New Zealand of 2014."

The plan to double Maori and Pasifika trade training placements from 3000 to 6000 resonates in some quarters. It scores an average rating of 2.9 — that's roughly halfway on the scale of one, not impressive, to five, very impressive. One commenter worries: "Double training, so long as this is merit-based and doesn't cause discrimination issues."

United Future

CEOs have little time for United Future's policy of providing free tertiary education. Almost half regard the idea as not impressive. The topic attracted a large number of negative comments with two making the point that: "Zero fees have been proven to subsidise the rich."

Another says: "Zero fees will not assist quality and relevance of courses offered. This matter needs to be addressed and then assist the best and brightest to undertake tertiary education." A similar thought is expressed elsewhere: "Tertiary subsidies should only apply to sectors where we need skills shortages to be addressed: Engineering, science, biotech, information technology and quality education."

A more critical CEO says: "The government subsidy for tertiary education is already very large, and too much of it is going directly to students, with the result that too little of it is going to tertiary institutions. The consequence? Our universities are already drifting down the international league tables and in time that will cost us dearly as more and more of our brightest students decide to go offshore for their tertiary education."

CEOs are keener on United Future's flexible superannuation policy that will allow people to take a small allowance at 60 or a larger one at 70. It is one of the most popular minor party policy ideas canvassed in the survey. One CEO comments: "FlexiSuper sounds ideal. The problem is that people would be tempted to take it before 65 and find themselves unable to live adequately on the reduced pension — so in no time, there would be political pressure to increase the payment for those who had chosen to take NZ Super early."

There's also traction for United Future's income-sharing policy that would reduce income tax for couples with children.

Internet-Mana

CEOs are wary of Internet-Mana plans to introduce free tertiary education and progressively write off student debt. Close to two thirds rate the idea as not impressive. A number of CEOs comment on the economics of the idea, wanting to know where the money will come from. Another suggests the plan would work better by reducing the cost of education and re-introducing interest on student loans. One CEO writes: "Free tertiary education is actually back to the future and unless the student loan scheme collects more of its debt in the future the cost is nearly the same."

There's also some disquiet about treating all tertiary education as equal.

One CEO writes: "The issue is quality rather than quantity and money is wasted on courses of dubious value to the economy and the individual." Another suggests: "Perhaps make it free in vocations where the skills are needed and make it bonded as we used to do for teachers."

The Internet-Mana policy of cheaper universal internet gets a clear thumbs down from CEOs, so does a plan to build 30,000 new state rental homes.

In both cases almost half of CEOs rate the idea as not impressive. There's somewhat more interest in the proposal to offer te reo Maori lessons as part of the core curriculum in schools.

Russell Stanners, Vodafone

Russell Stanners says the economy is tracking well with plenty of activity especially in Christchurch and in the dairy industry, yet this doesn't directly translate into greater profits for telecommunications companies.

"There's a global trend towards telecommunications becoming a mature market. Where that happens, the industry's growth is generally in line with GDP growth. That's not what we're seeing in New Zealand for a couple of reasons.

"First, once you strip the Christchurch rebuild out of the numbers, the rest of the economy isn't growing as fast as the headline number suggests. Second, our telecommunications industry is going through a period of intense competition following structural change. We're not seeing revenue growth at the transactional level."

Stanners is the first to admit this looks counterintuitive to most observers. He says they see an explosion in people buying smartphones, tablets and other mobile devices and an explosion in people using increasing amounts of data and high speed connections. But customers are not paying more for the extra data — they expect to get more data for the same spend. As a consequence: "Overall, our New Zealand industry is in the second year of declining top line revenue."

Vodafone is the only major telecommunications company in NZ with a global footprint. This gives the company early insight into international trends. Stanners says Vodafone is seeing continued growth in Asian markets and is optimistic about Europe.

The parent company remains supportive of investments in New Zealand: "It has a positive view of our market. We're bullish". Two years ago Vodafone acquired TelstraClear, a huge deal that helped reshape New Zealand's industry. It was also the first in a wave of consolidation. In recent months

CallPlus acquired Orcon and Australia's Vocus paid more than $100 million for FX Networks. Stanners sees acquisitions and mergers continuing. He says his priority for the past year or so has been bringing Vodafone and TelstraClear together. With that job done the task ahead is back to business as usual, which means bringing new products and services to market. "With the fibre network coming online and our continuing roll out of 4G mobile we're working hard to drive new business".

On one level New Zealand's telecommunications companies face the same challenges as their overseas counterparts, albeit with more competitive intensity. However, recent structural separation, which saw Chorus demerged from Telecom (now Spark) is unique. Chorus runs the UFB — Ultra-Fast Broadband — fibre network. The company cannot deal direct with customers. Instead it sells fibre services wholesale to retail telecommunications companies. Stanners says there's nothing like this model anywhere else. And that brings its own challenges, not least for Chorus and industry regulator the Commerce Commission.

Vodafone has had its share of regulatory interference in the past. Stanners says those days are now largely gone. "There's still work to do in the fibre area, the market is still in its infancy. Separation addresses much of this, but there's need for fine-tuning and attention to what would be better for consumers and retailers".

Mark Adamson Fletcher Building

Fletcher Building chief executive Mark Adamson says the passion New Zealand business leaders have for their businesses, products and customers is "what determines whether our companies are the All Blacks or the Wallabies".

He said the business world had changed rapidly over the past few decades and this had posed a range of new issues for companies to overcome, not least the need to be globally focused.

"To win in today's market you increasingly have to succeed against international players as well as traditional local competitors," Adamson said. "New Zealand companies must think globally but act locally. We need to remain competitive against global supply chains on product performance and cost, and win through superior customer

knowledge and service."

A major focus for Adamson had been what he described as a "whole company focus" — valuing the contribution of all employees.

"It is the company's employees that will differentiate businesses going forward. The digital age means the playing field is more level than in the past," Adamson said. "Digitalisation has massively reduced the cost of traditional sources of competitive advantage and reduced barriers to entry substantially." He noted that having a point of difference was increasingly important as customers often possessed information on competing products and services, and often global supply chains were able to fulfil customer requirements.

"This involves companies, even small ones, thinking big, lifting their horizons and looking globally for what good looks like.

"For small companies this could be as simple as online research of global trends in your industry."

For larger companies recruiting staff with world-class skills in specific areas was a good way to improve company competitiveness.

Despite the competition and the changing nature of the business world, Adamson said what had not changed was New Zealand companies' focus on the experience of their customers.

Gary Langford Eagle Technology

Gary Langford is bullish about business prospects over the next 12 months. He says though there are less positive patches, the general economy is showing good growth, with Eagle Technology picking up extra work on the back of increased spending on infrastructure projects.

Two areas stand out for Langford: GIS (geographic information systems) and cloud computing. Eagle's GIS business is flourishing as the technology makes its way into new areas connected to infrastructure investment.

Among others, fibre network companies like Chorus use Eagle's digital

mapping as a network planning tool. Eagle is selling the technology to businesses like banks wanting to optimise branch location. Langford says NZ has good expertise in this area and his local customers are using GIS to design projects for overseas clients.

He says unlike other cloud computing specialists, Eagle decided against investing in its own data centres choosing instead to take more of a consultancy role. This has paid off as cloud prices are in free-fall, while demand for expertise remains strong and Eagle can wrap valuable services around a customer's cloud investments.

If Langford could change one thing it would be to drag more people at the bottom of the heap into the education system. He says the top of the education system is world-class, but people at the bottom are missing out. Eagle is working on a project with NZ Tech and MIT to help South Auckland school students.

Mood of the Boardroom: Faultlines

Capital gains tax no silver bullet

Move would not help with housing affordability, says real estate CEO

Introducing a capital gains tax isn't the silver bullet solution for lowering house prices says Barfoot and Thompson director Peter Thompson.

"If a capital gains tax comes in, it's not going to have an impact on affordability and that's been evidenced by all of the countries that have introduced it," he said.

"If they're looking at a capital gains tax as a way of raising more money to offset other sectors in the country, that's different.

"But to say that it's for affordability is the wrong move."

Thompson said a capital gains tax may end up having the complete opposite effect intended, with the most vulnerable people being hit in the pocket by property investors looking to recoup lost profits.

"I think the upshot is that investors are likely to hit the renters and put rents up, which affects the wrong type of person — the ones who we are actually trying to protect," he said.

Thompson was critical of the lack of clarity from the capital gains tax proposal mooted, saying that voters need to be making an educated decision on election day — not filling in the policy blanks.

"The big question I have and I feel they should state it before the election, is how far back will capital gains be backdated?

"The facts need to clearly be stated before people are supposed to vote on it."

Labour's policy to build 100,000 affordable homes to alleviate the pressure on the housing market was met with scepticism from Thompson, who called it an "unfeasible" solution to the woes of the housing market.

"I just don't know how they're going to be able to afford to do it. I have to query whether the company looking at doing this is getting a backhander somewhere along the way," he said.

"Where are they going to base these houses? Labour haven't said that yet and the cost of land in Auckland to build these houses is going to be at least $100k alone, unless they're planning to build on existing Housing NZ properties where they already own the land. It sounds great and I'd love to get people into homes at that sort of level, but I'm not sure if it's practical."

Thompson says that to cool off the housing market, the only realistic solution is to deal with supply — a factor which could be materially improved through changes to the Resource Management Act.

"If there was a freeing up of the consents process and a reduction in the fees paid to council, it would help make it more affordable," he said. "The real issue is with the timing at present. We've been in the situation where we've had to get quotes completely redone because of the length of time the consents through council have taken."

Thompson advocated for a cautious approach to be taken to evaluating the RMA however, saying that while he thinks the Government needs to take the legislation "back to square one" — ensuring the quality of any new property is essential.

"We need to make sure that the standard of the property doesn't deteriorate so we don't end up with another leaky building scenario. It's got to be balanced up."

> I think the upshot is that investors are likely to hit the renters and put rents up, which affects the wrong type of person — the ones who we are actually trying to protect.
>
> Peter Thompson

A rethink over superannuation

CEOs are overwhelmingly in agreement that the New Zealand Superannuation scheme needs a rethink. Ninety-four per cent of respondents to the *Herald*'s Mood of the Boardroom survey want the next government to clearly signal options and timeframes for changing eligibility for superannuation payments.

"New Zealand has to take the bull by the horns," said a multi-sector CEO.

"Our wimpishness is not just out of step with global and demographic trends, but is embarrassing and fiscally irresponsible."

Currently, New Zealand citizens aged 65 and over are entitled to payments under the scheme.

However, projections from the Ministry of Social Development has the percentage of the population aged 65 and over set to boom to 21 per cent by 2035, compared to 2009, when just 13 per cent of the population fell into this demographic.

This rapid change is expected to squeeze the capabilities of the present superannuation scheme beyond its limit, and many are calling for change.

EMA's Kim Campbell said: "Our entire plan for retirement benefits needs a rethink given the change in demographics which we are undergoing."

One option would be to put in place a FlexiSuper plan.

The model would see eligibility for payments under the scheme begin at a lower age of 60, but would give the option of deferring payment until later in life in exchange for increased pay-outs.

This is an approach that has found support among the CEOs surveyed — 62 per cent believe that the next government should take this approach, with only 12 per cent in opposition.

Then there's KiwiSaver.

The scheme was introduced by Labour in 2006 and has remained relatively unchanged since. As it stands, participation in the scheme is voluntary.

A National-led Government would mostly maintain the status quo, while Labour would make the scheme compulsory — a move which has support from 67 per cent of CEO respondents.

Some disagree with a move to make KiwiSaver payments compulsory.

"There is no evidence that compulsory superannuation of the Australian type would increase aggregate household sector saving," said one finance-sector CEO.

"The Australian scheme has made fund managers very wealthy, but it has not made a material difference to Australian household sector savings.

"Moreover, it is unfair to require young adults to invest in a managed fund when they could earn a much higher rate of return on their savings by paying off their mortgage."

Regardless of what road is taken the general consensus seems to be that a change is necessary.

Concern over Christchurch

More than four years on since the first earthquake, CEOs remain concerned about the progress being made in Canterbury. Jacki Johnson, Chief Executive at IAG New Zealand, is in the thick of the Christchurch rebuild.

She says the complexity of sequencing the different activities and resources required of the rebuild is one of the biggest challenges that still remains for Christchurch.

"The competition that could arise for resources between the commercial CBD build and the tail end of the residential rebuild could be complicated," she said.

"The longer it takes to get some of the complex issues sorted, the further timeframes get pushed out and then we could end up butting heads with a whole other host of resource contentions.

"At the same time there are some parts that can't be built until the infrastructure to support that is built."

Johnson says one of the hardest parts of operating in Christchurch is balancing "a sustainable rebuild versus getting stuff done really fast".

She says that "we can't afford a situation where people are put into a worse position than they might have been if we didn't take the time to understand."

Johnson's top three business priorities for the next 12 months:

- Contribute to a safe and sustainable rebuild of Christchurch.
- Secure staff and customers after Lumley purchase.
- Build and implement new IT systems across all business units
- Her biggest achievement in the past year has been growing IAG's direct insurance business organically through their digital strategy.

If she could make one change to New Zealand, it would be to focus on long-term community resilience through improved urban planning, taking into account natural perils risk — full risk management rather than simply transfer of financial risk.

Environmental balance

New Zealand is currently grappling with the tension between economic development and environmental sustainability with CEOs having mixed views on where the balance should be tipped.

Eighty-seven per cent of CEO respondents are against banning deep sea oil exploration, but 71 per cent are in favour of the next government putting further constraints on dairy farmers to control effluent.

They are concerned about the effect that over-zealous industry can have on New Zealand's international reputation.

"As a country we need to be world-leading in managing the impact of dairying on our countryside and waterways," said one transport CEO. "Long term, it will mean we can continue to grass-feed animals and will mean the perception of New Zealand's product quality will be maintained."

Veda's John Roberts thinks the same: "We are seen as a 'clean, green' country. This is our global unique selling point. Play with it at our peril."

Forty-eight per cent would support an increase in royalties on mineral extractors, whereas 29 per cent would not. The rest are unsure.

Deloitte's Thomas Pippos is happy with the status quo. "I feel that on average, the balance is about right and would prefer if it continued."

On the topic of mining and offshore drilling, not everyone is convinced of their environmental impacts.

"There is very little evidence of any long-term damage, even where there have been large spills," said one retail trade CEO. "The economic benefit is something New Zealand really needs."

"Deep sea oil exploration, mining and dairying are presently valid industry contributing to our economic growth," one business services CEO said, adding: "Simultaneously, we need to investigate other sustainable options for energy and industry."

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>
> John Roberts, Veda

A platform for expansion

NZX boss Tim Bennett reckons the New Zealand capital markets are in a good space providing a strong platform for the listed stock exchange business to continue to expand.

He points to three factors which will drive the NZX's business forward: Expansion in the fund management sector; infrastructure the NZX can provide, like registry services, and increased research coverage of New Zealand businesses.

On the fund management front, Bennett expects to see more funds emerge with different sectoral focuses, more hiring in the brokerage sector and increasing numbers of investors looking for different types of investment opportunities as they build up savings in KiwiSaver relative to their income.

"They'll want to start to be more active managing that portfolio. I think we'll start to see a side of KiwiSaver investing directly again in equities – I'm talking people in their 20s and 30s. Most of the direct equity investors are in their 40s and 50s and above. What we need to provide is the opportunities for them to invest."

He points to the new market called NXT ("Next") which the NZX has launched to give investors an opportunity to invest in smaller higher growth companies with a different risk profile.

The second growth focus is looking at ways to provide registry and other services to Unit Trust and KiwiSaver providers.

"That's a part of the business where you typically outsource to the fund manager, or a KiwiSaver provider, but there's more opportunities here to do it in ways that are more innovative than has been done in the past in New Zealand."

The third focus is on raising the research profile of NZ companies and the level of understanding on why it's good to have success for New Zealand companies and "why that's good for the country".

"There is still a significant demand for good quality data and analytics particularly around soft commodities. As a country we're getting there

– in dairy we have a good understanding of that industry," Bennett says. "But in other sectors like red meat there is still just not good understanding of the dynamics going on in that market place. We've said before if we can find businesses there that have data then we're interested.

"Big data can completely transform businesses – including with farms and agribusiness. People talk a lot about the connected home where every device is connected to the internet but in a lot of ways it'll happen on farm too," says Bennett. "So lots of businesses at the moment are looking at small slivers of the agricultural economy, like for example measuring animal weight.

"But no one has really started to collect all that and put it in a usable form – so we're sort of looking at ways we can aggregate that data and provide better information to farmers, but also to processors and offshore buyers and processors. That's where our products go."

Tim Bennett, NZX

NZX boss Tim Bennett says it's time for politicians to form a bipartisan agreement on the age of eligibility for National Superannuation which is currently set at a qualifying age of 65 years.

"At some point that 65 needs to change," says Bennett.

"It either needs to increase, or there needs to be flexibility or means testing, the only way that's going to work is if there is bi-partisan agreement on that, and we need to give people 15, 20, 25 years' notice that those things are going to change."

"The Prime Minister has said that's not going to happen on his watch. It's going to happen afterwards, and we need that to happen."

Bennett is not so sure about proposals for compulsory superannuation.

"I think we've got 2.8 million KiwiSaver members now – some of them don't contribute or aren't active.

"I think more active encouragement and education of the benefits of saving for your retirement is going to be better than forcing people who are at a stage of life or income level that means even if you put them in KiwiSaver, they'll just save in different ways that will actually be beneficial to them or the economy.

"I'm a bit in Bill English's camp on that.

"What I do think we need to do on KiwiSaver is start to have a more appropriate asset allocation for people's life stages.

"We do it in an automated fashion at the moment.

"But we've got people investing in low risk, conservative assets, when they should be invested in equities because of the default settings."

> We've got people investing in low risk, conservative assets, when they should be invested in equities .
>
> Tim Bennett

Craig Stobo NZ LGFA

Craig Stobo is bullish on the state of the finance sector and the overall economy. He says the economy's medium-term prospects are driven by the Christchurch rebuild, strong net immigration and the terms of trade. In the longer term there's a need to raise productivity and encourage wider participation in economic growth. He says while European and American growth prospects remain weak, New Zealand is increasingly tied to the fast-growing Asian economy and the link is no longer indirectly through Australia.

Stobo is concerned about the poor fiscal policy response to rising house prices. He says the solution is to increase supply, not fuel the ability to buy, which will only raise prices further. He is also concerned about progress on the Christchurch rebuild and would like to see further tax simplification.

He welcomes foreign investors who are picking up higher yielding assets like NZ bonds and property at time when global interest rates are low and likely to stay low. He says this keeps downward pressure on local interest rates. Stobo regards the increasing of the number of LGFA bonds sold to foreign investors from almost zero to around 20 per cent of the portfolio as the best achievement in the last 12 months.

If Stobo had the opportunity, he would like to see New Zealand find a mechanism to allow the Crown to recycle its asset mix. He asks why taxpayers own assets like coal mines where the value is linked to global energy prices when the costs of taxpayer-funded services are linked to wage and healthcare costs.

With the LGFA's credit rating set at the same level as the Crown, he would like to see fresh thinking on getting the Crown credit rating to AAA.

Stobo's priorities are:

- Servicing the needs of council borrowers.
- Growing LGFA's range of products and services
- Further increasing the percentage of NZ LGFA bonds held by international investors.

Neil Paviour-Smith, Forsyth Barr

Forsyth Barr Financial regulation is top of mind for Neil Paviour-Smith. He lists regulation as the issue having the most impact on finance sector business confidence, confessing regulatory challenges, along with meeting customer expectations, keep him awake at nights. Paviour-Smith says Forsyth Barr's international competitiveness could be helped if New Zealand regulators could develop a more relevant regulatory regime.

"Continue adapting to regulatory changes" is Paviour-Smith's top goal for the coming year with industry consolidation and the growth in funds under management also on his priority list.

He anticipates facing changes in his business's risk management and optimising the company's digital infrastructure. He says last year's top achievement was supporting growing and successful New Zealand companies rising capital or holding IPOs.

Paviour-Smith is concerned about the level of tax evasion in the black economy and calls on the incoming Government to address the relative tax rates paid by international businesses operating in New Zealand compared to the rates paid by local companies.

While Paviour-Smith admires John Key's political leadership through difficult times following the GFC, he also finds some positives in David Cunliffe and the Labour Party's policy. He says: "Aspects of policy around savings, retirement, tax policy, investment and infrastructure are encouraging although offset by less appealing micro-policy such as energy".

Scott St John First NZ Capital

Scott St John's best achievement in the past 12 months was establishing an Australian beachhead for his business. That's something he says he plans to build on over the next year: it's his top priority. He also lists investing in productivity tools and systems as a priority, saying improving operational efficiencies is something that keeps him awake at night. He is also concerned about digital disruption and regulatory challenges.

Michael Lorimer Grant Samuel

If Michael Lorimer could make one change to improve New Zealand it would be to change the Reserve Bank Act. Lorimer says a lower exchange rate would help keep his business internationally competitive. He names the high value of the New Zealand dollar as a brake on business confidence, along with interest rate increases.

Lorimer is also concerned with talent. He says finding and retaining skilled staff is his biggest worry.

Dealing with this is a priority for the coming year and he expects to make changes in this area.

> Aspects of policy around savings, retirement, tax policy, investment and infrastructure are encouraging.
>
> Neil Paviour-Smith

Mood of the Boardroom: CEO profiles

Global deal starts in China

Fonterra's expansion into China is moving at pace. Two years ago the company had 200 people working in Shanghai, and, an import business of $1 billion. Chief executive Theo Spierings says now Fonterra has all seven elements of its strategy applied in China, turnover has risen to $5.5 billion and the company has 1500 employed there, going up to 5000. Says Spierings: "if you want to show commitment to a market like China, you want to go into serious partnerships but if you have nothing to offer — there's no discussion. We have to build up." As the country's number one exporter, it is critical that Fonterra remains a success.

The *Herald* asked Spierings about Fonterra's big move back into China.

Theo Spiering (on the big screen) at Fonterra's Beingmate launch.

If Theo Spierings could make one change to improve New Zealand it would be to ensure a "concerted effort by all major companies to keep growing the reputation of NZ Inc.".

The Fonterra chief executive expects to post an increased profit in the next 12 months and to hire more staff (the current level is 18,597).

His best achievement in the past year was the announcement of strategic partnerships in China with Abbott and Beingmate. His top three business priorities for the next 12 months are:

- Growing and strengthening Fontera's consumer businesses in its strategic markets.
- Extending the company's positions in global milk pools to maintain it global relevance and reach;
- Growing employee engagement and further strengthening Fonterra's corporate reputation.

He points to the strength of the Chinese economy, protectionism and supply chain security as important factors for Fonterra when it comes to executing business strategy.

Q: What does Fonterra's big move back into China with its new joint-venture partner Beingmate mean?
The Chinese understand very well that this is not a China deal. It's a global deal and this is exactly what the Chinese Government wants. It's about connecting upstream with multiple reliable sources into fast-growing demand and then teaming up downstream between international and local players — using the strengths of both and making sure of the security of supply, especially food safety and quality.
I think we moved in the right way, and there's nothing in China at this point in time in dairy yet which has a footprint of what we announced.

Q: Will Fonterra still make infant formula under contract for other players like Abbott Nutrition after the Beingmate deal is passed by Chinese authorities?
What we have said is that the joint-venture (Beingmate 51 per cent and Fonterra 49 per cent) will buy Darnum (Fonterra's Australian infant formula plant). Darnum is still able to supply key customers from Fonterra, but obviously also customers from Beingmate. We have a plan ready to upgrade Darnum from 50,000 tonnes to 100,000 tonnes. That will really go for a good period of time, and there's no reason Darnum should be exclusive for Beingmate in China.

Q: Presumably you won't be making infant formula for other Chinese players?
That's very unlikely.

Q: Outside of infant formula — such as UHT milk for instance — are you still looking for partnerships with other dairy players in China?
We have not connected all the dots yet because we need to connect our Yutian farm hub which is going to produce 150-175 million litres of milk in this financial year. We need to connect it to UHT demand and that means a factory around Beijing. If we can do the integrated model together with a strong partner and access to distribution, we will do it. The same criteria apply for partnerships there.

Q: Will Fonterra invest in farms and create milk pools elsewhere in the world? Is this the sort of thing you could look at with Beingmate or some other player in UHT?
You would have to make fresh milk somewhere else in the world to make powder and recombine it again — so for UHT it would be difficult. For this partnership we have four milk pools connected to Chinese demand now. I think that is going to be sufficient for the next five to 10 years. We have sufficient capacity in Darnum if we step up to 100,000 tonnes to cover demand in China for now.

Q: Will the joint-venture develop new products for the Chinese market?
When we talk about the new products into China, they're really talking about the whole development here from infant nutrition to grown-ups' milk; moving away from powder form to UHT form. That could be a step. With other advanced nutrition, we talk about healthy ageing. That's what we could do together. It's a very specific marketing approach and if the Australian milk pool can supply ingredients to support that then we will do that.

Q: What about BeingMate themselves, how credible do you feel the company is?
The results of the due diligence really show that this company is international standards if not better. The founder Wang Zhentai is a very visionary man — a long-term thinker who is not focused on the short-term cash inflows and losing the long-term picture. He's extremely focused on the long-term, his heritage, the brand, his and the company's track record is outstanding. They themselves did a very deep due diligence into Darnum and into our NZ operations. And we did a very extensive due diligence into the Chinese company, That took quite some time, but it was going in good spirits, very deep but quite impressive from what we have seen.

Q: When did you start the opening discussions on the joint-venture?
The long-term visionary thoughts on this whole construct started between Wang Zhentai and myself exactly a year ago, back in China when I was visiting customers and giving them a level of comfort about where we were and what we're doing. He spoke with me about 25 per cent of the time about the issue [the false botulism scare] and 75 per cent of the time about the future. That's where we started to form some ideas.

Q: Finally, it must be a relief to have this underway and launched?
The infant formula launch should have been done two to three years before. But it was not the case and when I saw what we had in China, first of all we had to write a strategy and make clear to the people of China that this is the strategy we'd implement. We had to really get the Shanghai office going to become a commercial representation office, we had to get the basics in place — I'm still happy we did that, and yes, we were late with many things but we're catching up pretty fast.

Super way to finance infrastructure

Vector Chief Executive Simon Mackenzie says New Zealand punches above its weight in the global energy space, but technological advancements are providing new opportunities, and we need to capitalise. "There's a huge untapped technology potential."

He has observed the move into cloud computing, and as a part of that, sees traditional networks being merged together with technology solutions.

This, he says, is bringing to the surface a new breed of talent, providing a big opportunity to think about how we display and build the expertise this phenomenon is bringing to the table.

"There's got to be a real strategy about how we leverage that, and

that's got to go into the education, science and technology spaces."

He wants to see a more forward-looking perspective on huge telecoms projects — such as the rollout of fibre throughout New Zealand.

"Much of the debate there has been about regulation. But where's the perspective about how you leverage the asset once it's there?"

This needs to be done in conjunction with businesses, but he looks to government to lead the way. "It has to link into tax, R&D, education, and then into business."

He's also concerned about our focus on agriculture: "all-the-eggs-in-one-basket", as he puts it. He sees a need to broaden and diversify New Zealand's production mix.

On top of that, Mackenzie looks to more financial opportunities to be exploited.

"Big super funds are looking for homes for their money."

That home, Mackenzie says, can be the infrastructure space: he looks to Australia for a close-to-home example of this. With literally billions of dollars to find a home for, they're looking to the infrastructure space. "They're prepared to pay for assets and they're prepared to accept slightly lower returns." Ignoring the existence of these big-money funds is a risk.

"It would mean you're almost non-competitive in the space."

If he could make one change to improve New Zealand, it would be to place "much greater emphasis on education, especially the science and technology fields".

He sees his best achievement over the past 12 months as being growth in technology investments.

For the next 12 months, his top three business priorities are:

- Driving much greater customer focus.
- Technology-change impacts.
- Innovation.

Geoff Hunt
Hawkins Construction

Geoff Hunt says there is an unprecedented growth in building and construction, with the industry facing a "wall of work". He says there's "still some slippage with the projects coming to market, but the rate of slippage has slowed. Between now and Christmas there is about $1.7 billion of work to bid for in Auckland alone."

This is reflected at Hawkins Construction where revenues are up 15 per cent year-on-year.

Fast growth brings its own challenges. Hunt quotes a report prepared by Market Economics Ltd saying the construction industry needs to create an additional 32,000 jobs over the next decade just to meet the demand for Auckland. He says the growth also means Hawkins needs to put more effort into recruitment.

Hawkins is working with the Auckland Business School to provide management training for 18 staff this year and the same number next year.

Tackling the problem from a different angle, there are industry efforts to win a 20 per cent improvement in productivity by 2020. Hunt says to get there is about more than just working harder: "We're going to have to change the way we do things. Technical tools like three-dimensional building modelling are essential to improving efficiency. We're usually a lead contractor. We work with sub-contractors. We also need to look at sub-contractor productivity; they need to be larger and more capable. Sub-contractors will invest if they can see market certainty."

Hunt also says procurement processes need to evolve. Part of this is the emergence of PPPs (public-private partnerships) that can be applied to public building projects.

"Few government office buildings are still owned by the Government, so why does government need to own schools? PPPs are about the total cost of ownership. They need to deliver a specified set of outputs at a fixed price over a number of years. The PPP model produces better overall designs: the private partners have incentives for low-maintenance costs and to keep energy use down. PPPs also deliver private sector financing."

If Hunt could change one thing it would be to improve the primary education system so the lowest-performing children can enter secondary school with basic skills and the right attitudes established. He says while our education system produces great results, we often fail some children and that feels like a problem that could be solved.

Mood of the Boardroom: PPPs

Public-private projects get nod

A large majority of CEOs believe in the value and efficiency of the PPP model, writes **Greg Hall**

Under the National-led Government, the use of public-private partnerships (PPPs) has increased and transformed the infrastructure sector. Labour and the Greens want to cut back on using PPPs, but CEOs don't agree.

Eighty three per cent of business chiefs responding to the *Herald*'s 2014 Mood of the Boardroom survey think the use of public-private partnerships (PPPs) will deliver infrastructure that is better value for money and will be able to do so within a shorter timeframe. Only one CEO disagree. Results from BusinessNZ's survey of small-medium businesses is more equivocal, but still largely positive — 61.8 per cent agree with the efficacy of PPPs.

"Without PPPs, we will never break out of our traditional incremental, 'least cost' mentality," says John Rae, chairman of the New Zealand Council for Infrastructure Development (NZCID), which represents the sector.

Under National, the scope of the PPP model has broadened. Traditionally, it had only been applied to large transport infrastructure projects. However, in recent years, it has been used by National for the construction and operation of assets in the corrections and education sectors. Mt Eden Prison is now the only privately operated prison in the country, although Wiri Prison is set join the ranks next year — and is unique in that it is being entirely designed, constructed and operated by the private sector, from start to finish. Two PPP schools opened their doors at Hobsonville Pt in 2013, and National has plans to open four more in the future. Education Minister Hekia Parata expects the projects to be between 2 and 8 per cent cheaper than if they were run under a public model.

This new brand of PPPs has been characterised by a novel approach to operational assessment. The amount paid by the Government is often proportional to the performance of the asset. It is an outcome-driven approach which offloads the operational and financial risk to whatever private company (or group of companies) tenders the winning bid. If the private operator doesn't perform, the Government doesn't pay.

Opposition to National's PPP-friendly approach has been vocal from Labour, who have promised to cut back on the use of PPPs should they win the September 20 election, particularly within regard to education and corrections.

Labour MP Phil Twyford says a Labour-led Government would be "absolutely committed" to terminating the current prison contracts, and would review the two PPP school contracts. "We are fundamentally opposed to privatising the prison system and the power to incarcerate one's fellow citizens," he says.

"We think schools and public ownership has worked for over a century and we don't see any real advantage in rolling out PPPs in the education sector.

"Labour believes in development and in principle we're open to PPPs except for prisons and schools. In transport, it's on a case-by-case basis."

The Greens would also be hesitant to engage a PPPs model. "There would have to be very compelling evidence of value for money for us to consider using a PPP to procure new infrastructure," says Julie Anne Genter, Green Party MP and transport spokeswoman for the party.

But it is clear CEOs take a different view. Where Labour sees National's use of the model as "inefficient", the *Herald*'s survey returned "innovative". One healthcare sector CEO said: "They're an improved innovation in a much shorter time frame for less cost."

CEOs on PPPs

87%
Will deliver infrastructure that is better value for money and within a shorter timeframe

1
CEO disagreed, and

12%
were unsure.

In BusinessNZ's Survey

62%
agreed with the proposition;

16%
did not, and

22%
per cent were unsure.

Aecom's John Bridgman says Auckland's horizontal building projects — roads, railway and water — are being held up by the council. Picture / APN

Infrastructure sector easing off after strong growth

John Bridgman, of Aecom NZ, says the infrastructure sector is seeing an easing off after a period of strong growth: "It's not going backwards, but it is no longer operating at the high level we saw earlier."

He says vertical building continues to go well in Auckland and Christchurch, with major projects like hotels, conference centres and office blocks: "Christchurch is moving to the next stage of its rejuvenation and we're seeing a positive interest in housing in the major centres."

Things are less certain when it comes to Auckland's horizontal infrastructure — the roads, railway and water projects. "These are being held up by Auckland Council and the well-publicised issues the mayor is facing," says Bridgman.

Australia's economic downturn is having an impact on local construction companies, however Bridgman says there are early signs of a recovery on the East Coast. Uncertainty over Russia and a lack of confidence in Europe and the US could be problems, but for now there's enough opportunity in New Zealand with infrastructure projects like highways and water projects.

Bridgman says one barrier is that New Zealand remains an expensive place to win work compared with Aecom's other markets. He says dealing with the infrastructure procurement process is his top priority over the next year: "Procurement is longer and more complex that elsewhere. Often the procurement stage is used as a mechanism to improve and refine projects. This slows processes and adds to project costs".

Also on Bridgman's to-do list is attracting and retaining talent. He says there's a challenge finding the right people to work on the Christchurch rebuild, in particular a shortage of structural engineers and quantity surveyors.

Elsewhere in the country, Aecom has less difficulty finding key people — something that's helped by New Zealanders returning from Australia. The company is looking to increase its intake of high quality graduates over the next year.

— Bill Bennett

Survey shows smaller businesses believe Govt has a plan

In its second term in office the National-led Government has managed to convince nearly double the number of more small-to-medium businesses that it has a co-ordinated plan of action to raise New Zealand's economic performance.

That's according to BusinessNZ's 2014 election survey.

Almost two-thirds of respondents said they think that the Government has such a plan — almost twice the 2011 level which sparked headlines just weeks before the election saying "Business doesn't believe the Government has a plan".

This time around, 1147 small-medium businesses — the majority from across the SME sector — responded to BusinessNZ's survey on a variety of issues facing business in New Zealand, producing several key takeaways.

Nearly 63 per cent do not support a capital gains tax, as opposed to 27 per cent that do; and nearly three-quarters do not support increasing the highest personal marginal tax rate above 33 per cent.

When asked where the Government should increase investment into research and development, over half said it should go into "better connections between science and business" — similar numbers would like to see more "practical development and assistance" on this score.

Still, only 35 per cent of BusinessNZ member respondents said they intended to invest more in research and development in the near future.

There's a feeling of looming pressures on business chiefs on the sustainability front. When asked if consumer demands for evidence of sustainable business practices impacted on how their business operates, half of them said they were not currently seeing an impact but most likely would in the future.

Twenty-seven per cent reported that the demands were having an impact now; nearly 22 per cent did not report any impact and did not foresee any in the future.

Concerns relating to customer expectations and their reputation were the most-cited reasons for sustainability issues being important to their businesses.

When asked how Government should support sustainable business practice, just over half of the respondents felt that the Government should provide incentives for cleaner production and resource efficiency, along with the building of stronger links between New Zealand's regional economies, services and products.

Business priorities have changed on infrastructure.

In this year's election survey, "telecommunications and broadband" was the highest ranked category with regard to which infrastructure type has the most potential to contribute to New Zealand's future economic prosperity, compared to 2011 where transport led the rankings.

Support for a Trans-Pacific Partnership seems abundant: Nearly three-quarters of respondents felt the Government should work towards concluding a Trans-Pacific Partnership.

About 69 per cent felt New Zealand should pursue a free trade agreement with the United States. Support for such a partnership with Japan, South Korea and India varied between 53 and 58 per cent, with Russia being the most unpopular option garnering just 27 per cent support.

Of the broad topics covered by the survey, the business chiefs considered "investment, innovation and sustainability" the most important to achieve sustained economic growth. In 2011, "skills and human capital" took the top spot.

Mood of the Boardroom: RMA

RMA must be sorted out: CEOs

Some business leaders see the RMA as a growth inhibitor — and some want it scrapped, writes **Greg Hall**

Can the Resource Management Act (RMA) be made to work under its current framework, should it be fine-tuned or scrapped altogether?

CEOs responding to the *Herald*'s survey are evenly split on the prime questions. One-third say the RMA is fundamentally broken and want the legislators to go back to first principles and redraw the act.

Another third believe it can be made to work if constraints are placed on what local councils can regulate in its name.

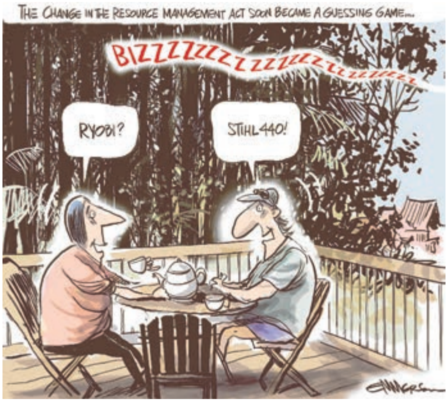
Others say the problems business is experiencing come down to planning processes which need to be shortened.

BusinessNZ chief executive Phil O'Reilly says the Government has still not sorted out the RMA — "this is a key growth inhibitor".

Concerns around the leeway the present RMA regime allows local council regulators weigh heavy on the minds of business leaders. The key bugbear is there is little uniformity among local councils in the issuing of resource consents.

"Sixty-seven local councils making decisions on how infrastructure can be built is costing New Zealand companies time and money," says one technology sector chief. He explains that the effect of this is to inflate the costs paid by consumers.

Barfoot and Thompson director Peter Thompson says lengthy and costly planning approval processes at Auckland City are impacting on plans to increase housing supply in the city.



> Auckland Council planning costs are being passed on to the eventual housing buyers. Until we get stock on the books I don't think prices will go up much more, but they'll certainly hold their own.
>
> Peter Thompson

"They're relaxing a little," says Thompson. " I think the Government has worked with them to make it a little bit quicker, but for the Joe Bloggs who are putting in for permits, it's still taking so long to go through the processes.

"The costs of doing that are then being passed on to the eventual buyers. Until we get stock on the books I don't think prices will go up much more, but they'll certainly hold their own."

Another property sector CEO echoed the sentiment.

"The current processes are unrealistically time and resource-consuming, with an unacceptable imbalance in power resting with naysayers and local government politicians that do not have the requisite competence."

Adding to the uncertainty is disagreement on whether the ultimate emphasis of the RMA should be on economic or environmental criteria or both, an argument which has shaped the discourse surrounding any proposed reformation.

Government legislation introduced in 2013 sought to rebalance the focus of the act away from environmental concerns to more closely align it with economic priorities.

The reforms were stalled.

Both National's current support partners — United Future and the Maori Party — remain uncompromising in their insistence that the balance should remain tipped firmly in favour of environmental protection.

Streamlining and efficiency were recurring themes throughout new legislation which purported to be aimed at the fostering of business confidence by encouraging greater certainty with regard to planning processes. Kim Campbell, Chief Executive of the Employers and Manufacturers Association, sees the proposed reforms as a positive step. "Throwing the RMA out will create as many problems as it will solve," he says.

"The reforms currently in the plan for legislation, together with scrutiny and streamlining of council procedures will improve things."

Campbell adds that even without touching the RMA, all they need to do is just manage it better.

"A lot of people say, 'blah RMA'. But yeah, actually it's people who are in the way. They use it as an excuse. And the RMA did produce these processes, but it's not impossible to make them more streamlined."

CEOs say the RMA is:

33% Fundamentally broken

35% Can work if councils are constrained

30% Fine if planning processes are shortened

2% Fine as it is

Smaller businesses agree

BusinessNZ's election survey of 1147 small-to-medium businesses on this issue shows broad uniformity with the big end of town.

In the BusinessNZ survey, 36 per cent said the RMA was fundamentally broken; 30 per cent felt it could be made to work if it constraints were placed on what local councils can regulate in its name, 27 per cent said that it would be fine if only planning processes were shortened, and only 7 per cent felt the act did not require any further changes.