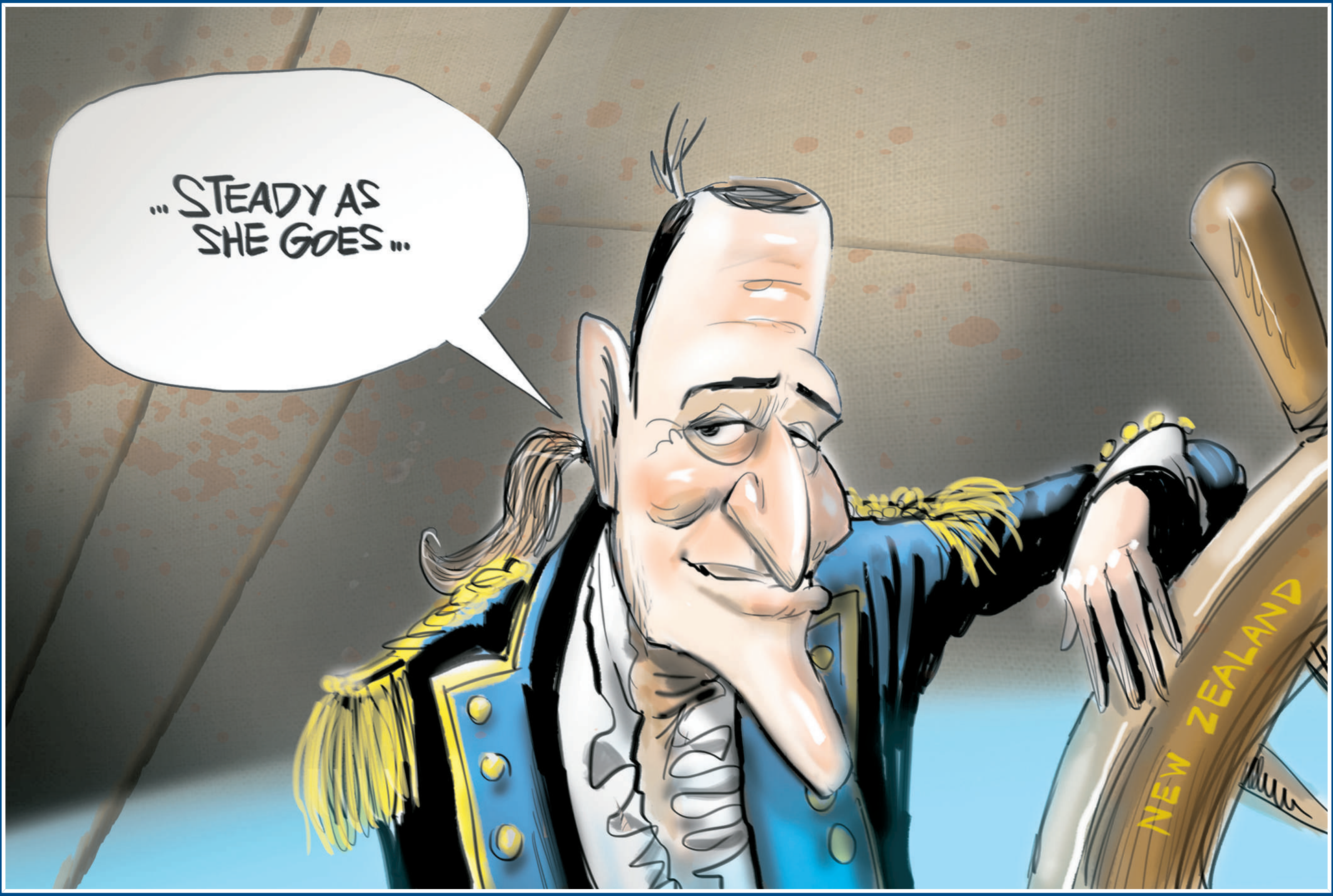
MOOD OF THE BOARDROOM

2012 Chief Executives' survey

Turn to starboard



Phil O'Reilly
BusinessNZ

Business doesn't want so much austerity that the NZ economy is pushed into recession.

— C2

Fran O'Sullivan
NZ Herald

CEOs say John Key has stepped up his game after a period marred by political sideshows.

— C3

Thomas Pippos
Deloitte

The Government needs to better communicate its economic growth agenda — it's not widely understood .

— C?

Jonathan Ling
Fletcher Building

We need affordable housing to meet Auckland's growth so the city can prosper.

— C5

Brian Fallow
NZ Herald

NZ is sailing a steady course but CEOs warn the waters are still treacherous.

— C9

Andrew Harmos
NZX

More women on boards will be a reality after the 25 Percent Group and NZX started a push.

— C10

Disruptive change forces pace

Big technological, financial and natural impacts are forcing business to reinvent themselves


The Christchurch earthquake has forced many firms to reassess the seismic soundness of their buildings.

Disruptive technologies are forcing New Zealand companies to rethink the way they do business.

Nearly two-thirds of CEO respondents to the 2012 *Herald* Mood of the Boardroom Survey say their companies have been impacted by major technological changes.

"Digital media is core to what we do," says Porter Novelli's Jane Sweeney. "Content is only partially king these days. The way you disseminate it and get noticed is critical and equally important."

APN — which publishes the *Herald* — is also making major changes (see adjoining story).

But it is not just the impact of disruptive technologies which are causing companies to reinvent or re-engineer their businesses.

Ninety-three per cent of chief executives have made contingency plans to deal with disruptive events like earthquakes, cyber-attacks and energy supply failures.

Jacki Johnson, chief executive of IAG and chair of the Insurance Council, said that as well as facing higher premiums after the Christchurch earthquakes, businesses were having to take more risk on to their own balance sheets, in the form of higher deductibles (akin to the excess on a homeowner's policy).

The earthquakes were likely to mean tougher building codes with respect to seismic risk. Thirty-seven per cent of CEOs said they were strengthening some of their properties to bring them up to the expected standards.

Chief executives face other pressures.

Deutsche Bank's Brett Shepherd says though the economic outlook for New Zealand looks more positive, the regional slowdown and the lack of sustained performance in the United States make the global outlook less optimistic."Within the global banking industry, regulatory changes and increased capital requirements will create further headwinds."


Cathy Quinn


Jacki Johnson

Another banking player said global funding costs would remain high and the Barclays Libor scandal had not helped this issue either.

The upshot is the potential for dislocation in global capital markets and resulting impacts on credit availability, the cost of wholesale funds and demand in the medium term.

Leading bankers like Westpac's David McLean report New Zealand companies are still relatively risk-adverse.

Minter Ellison chief executive Cathy Quinn said she had a feeling like New Zealand was back at the beginning of the Global Financial Crisis.

"People are being very cautious. Those that have survived so far are needing to dig deep to get through.

"We all now realise its going to be a long and slow recovery. We will spend less on capex and IT as we had big projects completing at the end of 2011 and in the first half of 2012."

Many chief executives believed New Zealand was in a relatively sweet spot compared to some OECD countries, and that the Government should leverage opportunities.

Kordia's Geoff Hunt said the Government needed to create the equivalent of a business 5-10 year plan to grow the economy.

"For example to ensure government ICT spend not only delivers the required outcomes but also enables more New Zealand ICT companies to gain scale to compete internationally".

NZX chairman Andrew Harmos believes New Zealand is extremely well placed given the nature, stability and quality of our prime export earning industries.

"The country is well placed both absolutely and comparatively. Mixed ownership model (MoM) and trading among farmers (TAF) passing recent hurdles are both potentially transformative for the country.

"With TAF having been approved by Fonterra's owners, the direct benefits for Fonterra and its shareholder farmers, and the secondary benefits for the country — including employment creation — are very material. Same for MoM: it will create hundreds of extra high quality jobs in coming years.

"Europe and the US have major issues — interestingly, having just returned from Europe, Fonterra and the New Zealand dairy sector generally are held in the highest regard by the dairy sectors there, which again reflects well on New Zealand — Australia also has a number of issues weighing on it — while all these factors impact on us to a degree (core markets for us) they also highlight our strengths and provide a real opportunity to focus on growth and catch up."

Auckland International Airport's chief executive, Simon Moutter, wants the leadership mandate strengthened for Government and industry.

"Government needs a longer term and a clearer mandate to lead than is enabled by the current MMP systems. Industries need the mandate and regulatory support to work better together to compete internationally rather than being overly focused on competing domestically."

Harmos adds that most of the larger multinationals doing business in New Zealand visit Government Ministers from time to time — and so they should — they are big contributors to employment and pay taxes here

"I'd like to see more of them encouraged by Government and officials to partially list their local operations — like Fairfax has so successfully with TradeMe. This would create a number of positive second order effects, including more head offices, jobs and people and systems infrastructure — and increase the tax base.

"I'm not an advocate of compulsion like some other countries — but interesting that a large number of bigger companies like 3M, Oracle, Gillette, Alfa Laval have local operations listed in India for example.

First Capital's Scott St John warned New Zealand must continue to transition the broader population away from an entitlement culture that has an unaffordable proportion of the population dependent on the state. "At some point this needs to change, or alternatively something will break."

Martin Simons APN NZ

Like most news media companies, APN faces a difficult battle to maintain revenue at a time of disruptive change when more content is shifting to alternative formats, and companies are seeking to build direct digital relationships with their customers.

APN's NZ CEO Martin Simons believes APN has coped well with the pressures. He says the company's best achievement over the past 12 months was "maintaining readership and circulation of our traditional products at a time we have been rapidly growing digital audiences." His biggest regret? "Not acting faster to build alternative, transactional digital models."

The top three items on his to-do list:

- Use APN's marketing clout and large customer base to develop new digital businesses.
- Find more efficient sales and content models for the publishing business.
- Acquire and develop the talent to achieve the first two targets.

On September 10, APN's flagship, The New Zealand Herald moves to a compact format. Simons is confident APN can make this transition. "Despite the fact we are holding and some cases building audience, traditional media, particularly print (newspapers and magazines), are facing ongoing challenge as major companies build their own direct digital relationships with their customers and rely less on above the line marketing. We are transitioning to a more digitally led company (helped by the acquisition of GrabOne, brandsExclusive) but it is difficult to do this fast enough.

"There are major questions in the medium term about how our major NZ media companies will continue to fund their present investment in quality journalism."

Look to business leaders to turn the economic tide

With Government spending tight, where will the circuit breakers come from, asks business editor **Liam Dann**

THE times they are a-changing . . . although not nearly fast enough it seems.

Four years into the post-GFC crisis malaise and there is still plenty to worry about. And it is clear from the 2012 Mood of the Boardroom survey that concerns are becoming more specific if no less pressing.

Nearly 60 per cent of chief executives and directors polled this year identified top line revenue — or the lack of it — as one of the issues most likely to keep them awake at night. That response reflects an economy where cash is still tight.

Despite record low interest rates people just aren't spending and the economy is flatlining. Growth is marginal and what isn't clear from the GDP figure is just how lumpy that growth is.

Some sectors are still recessionary. The longer this downturn lasts the more worrying revenue becomes for businesses that have already pulled the obvious levers on cost cutting and restructuring.

At macro-economic level the lack of consumer spending isn't all bad of course.

This is the "great deleveraging" we all expected. Unfortunately it is playing out at a snail's pace as New Zealanders' capacity to pay down debt and save remains marginal.

Regardless of speed, it is hardly good news for any company reliant on discretionary spending — be it consumer or "businesses to business".

If cost reduction and shrinking budgets seems less of a worry than they have done, this is probably a symptom of the fact that most of the obvious actions that could be taken have been.

Less than a quarter of business leaders rated cost reduction as a major worry.

Though the focus on costs remains crucial it has become a daily feature of most businesses.

After years of intense scrutiny there is little room for serious axe-swinging without doing long term damage. Retention of skilled staff remains a top worry for the more than 40 per cent of respondents in the survey.

So that leaves the revenue side of the equation. Most survey respondents retain some optimism. In fact about 70 per cent believe their revenue will grow in the next year.

That's encouraging although not surprising.

You have to believe that this economic cycle will release it recessionary grip at some point.

But there are some serious headwinds still to be faced. Uncertainty in Europe continues to undermine the global economy. The US is still sliding side-ways and now China is decelerating.

Global worries have weighed on commodity prices this year and it seems likely we've seen the last of the good times on the agricultural export front for some time.

If farmers are flush with cash after three years of strong prices and good growing seasons then it does not yet appear to be flowing through to the wider economy. There is likelihood that much of their additional earning will be focused on debt reduction and core spending around their farms. They'll be watching global prices and bracing themselves.

There is still the hope of some growth driven by the Christchurch rebuild. But it is becoming apparent that this will be spread over a long timeframe and won't necessarily feel like the short sharp boost that many had hoped for.

Elsewhere, and particularly in Wellington, there is the counterweight of the Government focus on costs as it strives to hit its target of balancing the books by 2014/2015.

Business leaders are still overwhelmingly supportive of the Government's efforts on this front.

But just 40 per cent want to see the Government cut spending more aggressively — that's quite remarkable for a crowd that usually has very strong feelings about Government spending.

In this kind of environment few would turn their nose up at the prospect of some government stimulus — particularly in areas which have some direct spin-off for business.

If the Government is going to spend, then there are two areas that come out top as the preferred place for investment — infrastructure and education (with an emphasis on skills needed for business growth).

Much of that infrastructure spending has already been deployed of course, or is tied to Christchurch.

In reality business knows that there is little point in looking to Government for any major new spending in the next few years.

So what next? Where does all this leave business in 2012? Where will the circuit breakers for this economic cycle come from?

We are going to need strong and innovative leadership from the business community to turn the tide. And we are going to have to see some of that dogged optimism translate into business spending.

Teasing the public out of its recessionary mindset will be a slow process but it is a chicken and egg scenario. Business can lead the way by being proactive and trying new things. It is never easy because there are many reasons why we can't afford to do something. But if the alternative is slowing sinking in the mire of a stagnant economy — can we afford not to?

SMEs share 'Big End' of town's concerns

Survey shows the loss of skilled workers from New Zealand is a major concern. **Adam Bennett** reports

Most big businesses want the Government to maintain its spending at current levels in order to avoid the economy slowing even further but medium-sized businesses are evenly split between those who want Crown spending cut or maintained.

The *Herald*'s CEO survey found 56 per cent were against more aggressive spending cuts to reduce the Crown's deficit faster while 40 per cent were in favour. But BusinessNZ's snapshot of medium-sized companies found 40.4 per cent of respondents were in favour of deeper spending cuts while the same proportion were against.

BusinessNZ chief executive Phil O'Reilly said the "standard response" that might otherwise be expected from business was that the Government should cut spending. But the results from his organisation's survey were consistent with what members were telling him.

"They are supportive of this kind of track the Government's taking. You don't want to get so much austerity that you push the economy into recession — at the same time you don't want them to just blast money everywhere in the hope of getting the economy moving faster because a lot of it will be low-quality spend."

Those views were represented in comments respondents submitted to BusinessNZ, with one saying: "There are plenty of Government departments that need to be trimmed. They would never exist as a private company, with far too much money wasted". But another said: "The social costs of aggressive spending cuts need to be considered. "I'd prefer an extra year or two of deficit versus cuts to education and health".

O'Reilly said the SME Snapshot results largely reflected what business people told him every day. That included the widely held view among members that they generally supported the direction of the Government's "relatively conservative economic reform programme".

Building business competitiveness, reducing Government spending as a proportion of GDP, improving New Zealand's international situation, and building innovation and skills were all regarded as important.

"There will be some in the business community that will have concerns about the pace and execution of government policy, but they broadly support it. For example the survey says the Government should explain SOE sales better."

Though more than 70 per cent of respondents to the *Herald* CEO survey thought the Government should do a better job in that regard, that view came through in more muted form in the BusinessNZ survey with just over 55 per cent of respondents agreeing.

One theme that came through strongly in BusinessNZ's snapshot was concern at the size of the Kiwi diaspora and loss of highly skilled New Zealanders offshore. Almost 74 per cent of respondents cited that as a worry.

O'Reilly said the diaspora's not just the country's young best and brightest, "it's a slice of New Zealand society, it's also old people going to retire".

His members were also concerned about the "talent pipeline" they saw in New Zealand.

"We are not doing a good enough job on making sure all of our talent, migrants, the mature age group and so on have the capacity to be successful."

The solution lay in "making sure our companies are more competitive so they can be more profitable and pay more money to these people".

"You take every opportunity to make sure New Zealand's wealthy, so you see a lot of support in the survey for mining for example."


Phil O'Reilly says BusinessNZ members are evenly divided over spending cuts.

MOOD OF THE BOARDROOM 2012

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Goodbye to Smiling John

Prime Minister now focused on getting the jobs done, writes **Fran O'Sullivan**

Bill English has slipped ahead of his leader John Key in the Cabinet ratings.

John Key is firmly in "Master and Commander" mode as he executes a "starboard turn tight" after a first term dogged by the Global Financial Crisis and Canterbury earthquakes.

Chief executives perceive the Prime Minister is finally much more focused than in the first months of 2012.

"This is Year One post the election. 'Smiling John' has by necessity turned to hard-nosed John to get the jobs done this year that need to be done — all of which were signalled well before the last election," said a professional services firm CEO.

"It's good they are ignoring the drivel around partial privatisation. They have their mandate from the last election. Voters obviously believed the National party package offering (including asset sales) was a better mix than the others."

The *Herald*'s 2012 Mood of the Boardroom Survey, presented in association with BusinessNZ, attracted responses from 113 participants; 106 were CEOs from major companies and professional firms. Not surprisingly, they have strong views on where New Zealand needs to go.

Behind the scenes, the Cabinet is preparing to roll out what Key pledges will be a comprehensive plan across the areas of innovation, skills, capital markets, natural resources, infrastructure and exports.

At last weekend's National Party conference he unveiled a loyalty scheme to entice smaller retail investors to buy shares in the upcoming IPO for Mighty River Power. And he is trying to face down a challenge from the Maori Council, which is seeking recognition of Maori interests and rights in water and geothermal energy. But the admiration is by no means unanimous.

"The post-election period has been disappointing from Key," says Navman's Andrew Blakey. "There have been numerous examples of poor political management, the complete 'head-in-the-sand' response to Superannuation and a nagging feeling that National has not done well at communicating a clear Economic Vision for New Zealand."

A professional advisory firm head said the PM had made a poor job of setting out a vision for New Zealand. "He has also done poorly leading the nation on some of the controversial reforms such as asset sales and class-room size, relying more on reflective opinion polls (telling him whether something will hurt him politically) rather than persuasion and leadership."

Another professional firm boss said Key was genuine in his belief that making change would improve New Zealand and be sustainable politically.

"It's his job to keep in power. The ball has been dropped on a few issues, such as education and ACC.

"Unfortunately the Opposition can talk big. If they get elected and implement expensive policies [they will] tax the few to hell who create jobs. It will be a tragedy.

"We all need to get real. We need to earn more as a nation to allow us to provide the services we want the Government to fund. If we can't earn more (by generating real dollars, not taxing a few), we need to accept less government services."

The CEOs are looking to the Key Government to stake out a bolder vision for New Zealand and tackle big issues like the age of eligibility for National Superannuation. Eighty-eight per cent of CEO respondents said the age should be raised to 67 from the present 65.

Finance Minister Bill English has jumped (very marginally) ahead of Key in this year's Cabinet ratings (a factor he is savouring). The CEOs felt English's "Zero Budget" still resulted in sufficient fiscal stimulus washing through the economy.

The Government's performance in retaining the confidence of credit rating agencies was top among a bunch of factors contributing to confidence (see Government Report Card).

But they are less impressed with progress on the Canterbury earthquake recovery. Says EMA's Kim Campbell, "initially they handled the quake superbly but inexplicably we have now settling into a planning miasma at a time when decisive leadership could kick-start our recovery."

"I'm not sure we can keep on blaming Europe for our situation," says South Pacific Picture's chief executive John Barnett. "And I am concerned that one of the biggest growth stimulants, if not the biggest, is the rebuilding of Christchurch.

"So, without the earthquake where would we be?"

The Government was also marked down for failing to stem the flow of Kiwis offshore. 'It's a ridiculous discussion,'' said a leading banker. "People want their cake and eat it too. The want a Green New Zealand but they don't want people to work in Australian mining."

The Cabinet's first six months back in office was dogged by political debacles: botched regime change at MFAT; the Bronwyn Pullar affair that claimed the scalps of top ACC players; the proposed sweetheart deal that the PM spearheaded with SkyCity which would fund a new national convention centre for more pokies and the fumbled shift to increase classroom sizes.

CEOs marked down Cabinet Ministers involved in the most high-profile debacles. The biggest casualty was ACC Minister Judith Collins, who dropped from 6th to 11th place this year.

Foreign Affairs Minister Murray McCully was at bottom place reflecting the ructions at his foreign ministry.

● **Political Management Fallout, C7**

Greens making strides but seen as needing credibility

The Green Party fights an uphill battle to win business' respect but, nearly one-third of chief executives believe it is providing a credible policy alternative.

Co-leader Russel Norman was said to run a "great PR machine" making great strides with the public.

Said one chief executive: "They are gaining a lot of traction and are going to be a force to be reckoned with in the 2014 election."

"They have articulated policies and plans which are accessible to voters," added an advisory firm boss. "And their message seems more inclusive to many, which creates the view that'they are not as bad as we thought'."

"But they are getting excessive media attention in the absence of any Labour profile," said Kathmandu's John Harvey.

Another chief executive felt the party was "a useful counterbalance", and noted that most of its comments, although "green" were "intelligent, useful comments to be considered."

But 60 per cent of chief executives did not find the Greens' policy stance credible. It is obvious from the more trenchant criticism that the party faces considerable scepticism:

- 'These guys need a few weeks actually in charge some time (hopefully not in my lifetime). Underneath it all they are unreconstructed socialists if not communists. They hide their true agenda behind a green banner. There is a huge space in the political market for conservative greens — most NZers are green at heart and if they are like me, they are infuriated when preached at on environmental issues by these self-appointed busy bodies." (Auckland-based chief executive)
- "Under the covers of the Green logo, the policy framework is borderline communism and hugely growth retarding. There is room for a credible Green party to play a lead role in Government, but it needs to be politically at the centre rather than heavily to the left." (transport sector chief)
- "The Green Party is branded green but it is in fact hard left and focused on social engineering and state control. It is very dangerous and misunderstood. How is 'Gimme my flag back' a core green issue?" (investment sector boss).

Zespri's Lain Jager, said the Greens "do pull to the Left. But to be effective they should be a centre-party and be prepared to support National or Labour for policy concessions. "

"There is room for a credible Green party to play a lead role in Government, but it needs to be politically at the centre rather than heavily to the left."

"He seizes on issues that the public might like but aren't good for New Zealand's well-being, such as anti-foreign investment stances."

Lack of experience main criticism for Shearer

Labour leader David Shearer needs more time on the political trainer wheels is the general verdict of top chief executives.

Nine out of 10 respondents to the *Herald* CEO's survey do not believe Shearer's performance has been sufficiently credible to date to challenge the Key Government.

Some put this down his lack of hardcore political experience.

A leading banker said the Labour leader was still finding his feet.

"He has leadership authenticity, which is so often lacking in politicians."

Others were cutting:

- "David Who?"
- "A nice guy surrounded by Zombies"
- "He has neither the ticker or guile for the job."

Business leaders will cut Shearer slack while he learns on the job.

But there is a strong perception that he whips up issues for political advantage contrary to his own personal judgment.

"I personally find it distasteful that he seizes on issues that the public might like but aren't good for New Zealand's well-being, such as anti-foreign investment stances," said a leading professional firm boss.

"I personally don't care how many lives he saved overseas. Good on him for doing what he did (no doubt for his own reasons).

"What I care about is can he be a good leader for New Zealand? Can he put what's in NZ's best interests ahead of political point-scoring ?"

Professional director Joanna Perry said she feared that a number of his comments had been to the detriment of New Zealand Inc

"I have not seen any clear thought or any credible alternative and there is a complete naivety about how to improve New Zealand's lot."

An energy sector chief believed many in the Labour Party drove Shearer to take positions that he did not really believe in.

"It will be interesting to see how he asserts his own view".

But despite the criticism there was a general concession Shearer's leadership style and stance would become clearer well before the next election.

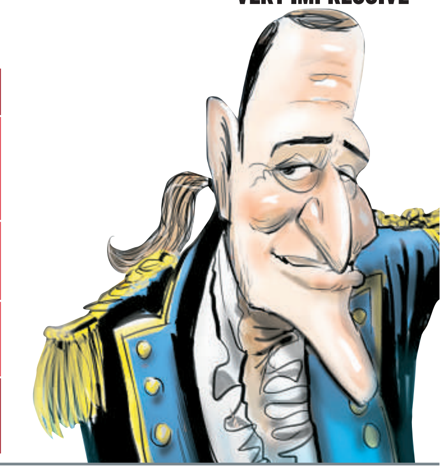
"He appears reasonable so he still could win,'' said a leading entrepreneur.

KEY GOVERNMENT REPORT CARD

How Key rates

0 — NOT IMPRESSIVE … VERY IMPRESSIVE — 5

Issue	Level of concern (0-5)
Leadership	4.2
Puts NZ's interests ahead of popular opinion	3.6
Political management	3.6
Vision and strategy for NZ	3.6
Economic management	4.0



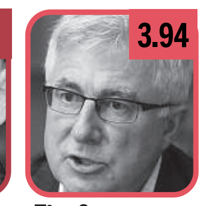
Cabinet ratings

CEOs rank the top eight Cabinet high-fliers. Rated on their performance over the last year.

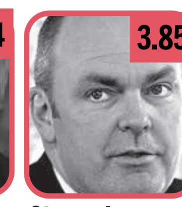
0 — NOT IMPRESSIVE … VERY IMPRESSIVE — 5

4.16 **Bill English** Finance

4.15 **John Key** Prime Minister

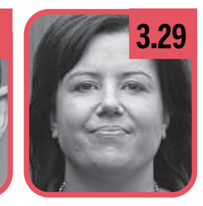


3.94 **Tim Groser** Trade

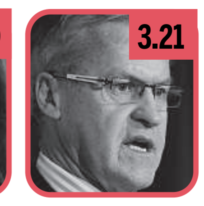


3.85 **Steven Joyce** Economic development

3.43 **Tony Ryall** Health



3.29 **Paula Bennett** Social development



3.21 **David Carter** Agriculture

3.14 **Gerry Brownlee** Earthquake recovery

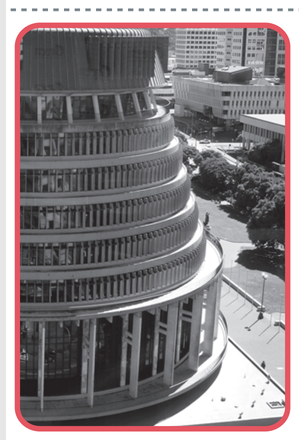
2.94

Big Loser is **Judith Collins** (6th last year, now 11th). Paid a price for the ACC debacle

0 — NOT IMPRESSIVE … VERY IMPRESSIVE — 5

Critical issues

How the Government is handling key confidence issues in difficult times.



Issue	Rating
Credit rating	3.88
Opening markets	3.65
Investor confidence	3.55
Fiscal stimulus	3.53
Business confidence	3.53
Canterbury earthquake response	3.27
Leadership jobs front	2.92
Stemming outwards flow of Kiwis	2.46

Source: New Zealand Herald 'Mood of the Boardroom' Survey July 2012 / HERALD GRAPHIC

Snapshot of CEOs' views

The *Herald*'s 2012 Mood of the Boardroom survey has attracted record participation from 113 respondents. These include 106 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.

Key questions were also sent to medium-sized enterprises from BusinessNZ's membership. The cut-down survey provoked plenty of lively comment from the 136 respondents.

Applause for the balancing act

But there are fears a lack of good communication may lead to public dissatisfaction

Bill English's fourth Budget was a Goldilocks affair as far as most CEOs were concerned. Most felt the May Budget struck a good balance between the priorities of reducing the deficit and creating a growth environment in which businesses can flourish.

But while English's determination to achieve a Budget surplus in 2014/2015 is supported by two-thirds of chief executive respondents, many want more emphasis on the Government's growth objectives and the overall Budget narrative better communicated.

"It's paper thin and needs everything to go right, which it won't," said an energy sector CEO. "It's unlikely the international situation will improve above expectations to save the day in this timeframe." But South Pacific Pictures' John Barnett noted, "Every 'surplus' announcement from Government is followed by scepticism or a different prognosis from parties who have access to the the same economic information."

English's fourth Budget was clearly written with one eye on the credit ratings agencies, which last year cut the country's sovereign rating by a notch. But an investment banker warned there appeared to be a broad-based lack of understanding as to how important it is to run the country for the balance sheet.

"The risks of not doing so are under-appreciated by the public."

Tellingly, while 47 per cent believe the Finance Minister will be able to achieve his surplus target, 31.5 per cent do not and 21.7 per cent are unsure.

But, says Deloitte's Thomas Pippos: "there are always a number of variables in play in these matters — the fact, however, that there is a target of surplus in the way that there is, materially increases the likelihood that the target will be achieved (albeit it may be slightly delayed) through constant management towards it."

There was general appreciation that the Government's ability to launch new growth programmes was limited by fiscal realities. But they did not want the deficit to "become an end — rather a means to an end". Less than half — 47 per cent — believe the Budget narrative painted a clear picture of the Government's growth strategy. Thirty-six percent said it did not and 17 per cent were unsure.

"Keep telling the same basic story — i.e. we have three priorities, here is what they are, we are going to deliver them," advised a leading banker. "This helps build credibility."

Professional director Alison Paterson was in the camp who thought the Government's direction was well-articulated, "not only within the Budget but in communications outside it".

"'Fiscal constraint is only part of the recipe for growth," said NZCID's Stephen Selwood. "Persistent focus on productivity across the public service and focus on export markets are of much greater significance to delivering economic growth."

A majority — 56 per cent — were against cutting Government spending more aggressively to reduce the deficit faster and reduce offshore borrowing.

"We have to trust that the Government has the pace right — there are downsides from cutting spending too quickly," said a communications company boss.

'The situation for most businesses remains very tight," said an energy sector CEO. "Another ratchet down of spending will further contract the economy and borrowing is not currently excessive if the Government delivers on what it has promised."

But Local Government funding agency head Craig Stobo said he was uncomfortable, "I think spending needs to be reprioritised." Peter Thompson of Barfoot & Thompson agreed: "as long as education, police and health are not affected in a major way."

"If New Zealand does not come into surplus as quickly as anticipated this may be an option that requires more serious consideration and support," added Pippos.

How the CEOs rate the Budget

68% felt it was balanced

68% agree surplus should be priority

47% confident surplus will be achieved

47% felt Budget narrative clear

3.4/5 Overall Budget rating

> "There appears to be a broad-based lack of understanding as to how important it is to run the country for the balance sheet. The risks of not doing so are under-appreciated by the public."
>
> — Investment banking CEO

There were notes of caution. A communications company chair said there were significant issues within Government departments around capability — especially strategic capability.

"This will take time to address, and reduce the ability to cut expenditure while maintaining capacity. Work seems to be under way across many fronts."

Those who wanted the Government to cut expenditure more aggressively nominated interest-free student loans, welfare, Working for Families and Superannuation as key targets.

"We should provide a true safety net for people/families but not in a way that it 'institutionalises' or creates long term reliance on welfare payments."

BusinessNZ respondents (medium-sized companies with a significant skew to manufacturing) generally believe English has the Budget settings right.

Two thirds believed the surplus target should be a priority. But they are divided on whether the Government should be more aggressive on cutting spending. Forty per cent want them to go faster; 40 per cent say no.

"The Government must show that they are moving to get the Budget into Surplus by 2014-2015, but it doesn't have to be in surplus by then," said one respondent." We don't need wholesale Government spending cuts as this will do other damage."

The BusinessNZ respondents mirror the sentiments from the Big End of town that the Government must communicate better."Although current government policies make good sense and are the right thing to do, they are doing a terrible job at communicating to the general public why they are setting those policies and what the ramifications are, of doing nothing," said one respondent.

The big change I would make

Chief Executives were asked, "If you had the ability to make one change to improve New Zealand, what would it be?" Here are some of their ideas:

"Increase the speed of implementation of Government initiatives. Engender self-confidence and belief. Deal with the 'Chicken Little' attitude and look at how we can realistically use our natural physical and demographic advantages. In particular, I would look at how natural resources can be utilised in a way that is environmentally sound and world-leading. The attitude should turned from one of 'No way ever' to 'Yes that is possible', even 'Good, if these protections are put in place and followed'.

Matthew Cockram, Cooper and Company

"We need to step up the search for natural resources that can be mined or harvested for the benefit of all New Zealand. What appears to be significant natural gas reserves in the Southern Basin will require Government assistance and potentially capital to attract industry participants and JV partners."

John Harvey, Kathmandu Holdings

"A higher priority on improved education and reduced welfare dependency for the so-called bottom 20 per cent of the population, which is looming as a social and economic timebomb."

John Williamson, Hellaby Holdings

"Put 80 per cent of NZ's young adults through the Untouched World Charitable Trust leadership programme (delivered in the context of sustainability and the inter-connectedness of all actions). We would have a different country. Though I was only invited to make one change, I would also like to see us to socially engineer the binge drinking culture to be what it is — totally uncool — and replace it with equal levels of challenge that young people are seeking, but challenges that grow capability and self worth."

Peri Drysdale, Snowy Peak and Untouched World.

Pleasing most of our business leaders, most of the time

Thomas Pippos looks at the figures thrown up by the Mood of the Boardroom survey

On reading the *Mood of the Boardroom* survey results I was reminded of the famous words from poet John Lydgate, adapted by President Lincoln, which appear in various permutations: "You can please some of the people all of the time, you can please all of the people some of the time, but you can't please all of the people all of the time" — including it seems the survey respondents.

Part of the reason for this is no doubt the difficulty in successfully communicating with an audience — exacerbated in a political context. Sometimes it's about the audience dismissing what is said as it doesn't resonate with what they want to hear, maybe because they want to hear there is a silver bullet when there isn't. In other cases it's because the audience struggles to distil the substance from the spin — it just all sounds the same.

The survey suggests that the Government is not immune to the communication challenge as its plan for economic growth seems to still not be that well understood. Over half of respondents (52 per cent) think that the Government has no plan to encourage economic growth beyond the predicted return to surplus. The large majority of respondents also do not believe that the Government's economic growth plans are well understood (79.6 per cent) or go far enough (79.4 per cent). Consistent with this, the answers varied widely to the question "what do you think are the four most substantive Government economic growth plans". Is this a surprise? Probably not. Is this a criticism? Probably not. This is just a reality, a perennial challenge probably exacerbated by a political backdrop.

Interestingly however, and fertile ground for the Government, is the relatively new theme around New Zealand's competitive advantage over Australia. Most respondents (68.7 per cent) agree that New Zealand is currently perceived as a comparatively easier place to do business than Australia. The response was mixed as to whether the current comparative difference is sufficient enough to encourage Australian corporates to New Zealand, with no clear consensus as between those that thought the difference was enough, wasn't enough or didn't know. In some respects this theme is part of the phenomenon of the ever-growing void that seems to exist in Australia as between business and Government, and the comparative attractiveness our Government seems to have with businesses in Australia.

It's probably no surprise respondents mostly agreed the current Government has an open door to business (7.84/10 rating average). A little damning however was that opinions were divided on whether Government officials have an open door and understand business (5.83/10 average).

Following the theme around New Zealand's actual or perceived competitive advantage over Australia, the response was also largely equally mixed when asked whether the Government is actively looking to capitalise on this benefit. However the vast majority (85.3 per cent) of respondents agreed the Government should be trying to capitalise on it. Over half (59.4 per cent) of respondents agreed the Government should consider regulatory reforms to facilitate Australian corporates partially basing some of their operations here.

Sticking again with Australia, most of the respondents (74.5 per cent) believe that mutual recognition of imputation and franking credits should continue to be pursued by New Zealand, however only 52 per cent believe it is viable in the medium term, and 49.5 per cent believe that the Government should consider unilateral actions. A seemingly benign set of responses that in my mind understate the enormity of the challenge and the imperative of considering whether other unilateral responses may be required to address some of the rough economic edges that now exist as between Australia and New Zealand that mutual recognition would soften.

The Government also has fertile ground to build support on exploiting our geographical position. Most respondents (69.7 per cent) agree that New Zealand's geographical position provides a solid platform for multinational businesses looking to enter the Asia-Pacific market, with a large majority (84.8 per cent) believing that the Government should do more to market New Zealand as an easy place to base business operations and enter Asia Pacific markets. A smaller percentage (68.4 per cent), but still a comfortable majority, believe the Government should consider tax and regulatory reforms to facilitate this.

When asked who should drive the necessary reforms should New Zealand be marketed as a gateway to the Asia Pacific region, 45.3 per cent chose the Minister for Economic Development, and 46.3 per cent chose the Prime Minister. When asked who should drive the necessary reforms should New Zealand be marketed as an investment destination for Australian corporates, 50.5 per cent chose the Minister for Economic Development, and 29.9 per cent chose the Prime Minister.

The large majority of respondents (82.8 per cent) also agreed that "Enabling New Zealand to be a more seamless destination for mobile capital and labour" is unfinished business in the medium term — really a journey rather than a destination.

When asked whether tax should play a greater part in New Zealand's economic growth plans more than what it currently is, there is no clear result, with the exception that 84.5 per cent don't support a reduction in GST — a positive validation as to the effectiveness and efficiency of GST. Only 45.5 per cent support reductions in personal tax and 55.1 per cent support reductions in corporate tax. Unsurprisingly 85.5 per cent of respondents do not believe increasing the highest individual marginal tax rate is unfinished business — really a political more than a tax policy matter.

Respondents were sympathetic on the issue of capital gains — 45.5 per cent yes, 35.4 per cent no, 19.1 per cent maybe.

Most respondents thought that if the tax base was to be broadened through a capital gains tax the money should be used to repay Government debt faster (50 per cent), closely followed by introducing greater equity in the tax system (33.3 per cent) and reducing other taxes (32.3 per cent) — 21.9 percent indicated that there should not be capital gains under any circumstance. The smart money is probably that a capital gains tax will be introduced at some time, possibly under the next Labour-led Government, and that same smart money would bet such a tax would not be repealed under a subsequent National-led Government.

What do we take from this? The Government seems to be able to please most of the respondents most of the time — a real achievement.

However, there are clear themes in relation to existing areas of reform that need to be further addressed, and some new themes around areas of reform that provide fertile ground to be developed.

■ *Thomas Pippos is the chief executive of Deloitte New Zealand.*

> The smart money is probably that a capital gains tax will be introduced at some time, possibly under the next Labour led Government, whenever that may be, and that same smart money would bet such a capital gains tax would not repealed under a subsequent National-led Government.

52% think that the Government has no plan to encourage economic growth beyond the predicted return to surplus.

79.6% do not believe that the Government's economic growth plans are well understood.

50% think that if the tax base was to be broadened through a capital gains tax the money should be used to repay Government debt faster.

84.5% don't support a reduction in GST.

68.7% think New Zealand is currently perceived as a comparatively easier place to do business than Australia.

59.4% think the Government should consider regulatory reforms to facilitate Australian corporates partially basing some of their operations in New Zealand.

WHAT BUSINESS LEADERS WANT

compiled by Alistair Birchall

Affordable housing is an urgent must

Fletcher Building's CEO says Auckland needs to develop infrastructure to increase productivity — but has doubts over the timing of the new rail link

The top items on Ling's "to do list" are: to maximise cash, match market demand and manufacturing capacity and position for growth
Best Achievement in the past 12 months: Market growth in Australian resources sector through Rocla and Iplex Pipes and the establishment of the Earthquake Rebuild Team in Christchurch.
The single biggest factor that would assist the business remain internationally competitive from New Zealand: Recovery in Christchurch.

Jonathan Ling is keen on central and local government working together to create a more intensively developed, built-up Auckland.

The Fletcher Building chief executive wants the recommendations of the Productivity Commission's housing affordability report implemented, particularly on land release and higher-rise housing in some areas.

"In the long term, there's no doubt Auckland will grow. Most Aucklanders want it to grow and it needs to grow to prosper.

"We're very supportive of what the Commission said with a balance of infrastructure and housing development between medium and high density in the inner suburbs and more land released to let the city grow. That's the right conclusion. Every city in the world has gone through this dilemma. Cities close by, like Melbourne and Sydney, that have more than Auckland's population, manage these issues reasonably well. There will always be an element of 'not in my back yard', yet when it does happen, it puts up property prices and people benefit and some areas increase in value — it gives homeowners lots of options," Ling says.

He says Auckland needs to develop infrastructure to increase productivity. But he has his doubts on the timing of the Auckland Council's $2.8 billion Central Rail Link.

"Whether the economics of it ... and whether the 1.2 or 1.5 million people can support it — I'm not quite sure. I would have my concerns," he says, indicating it could be planned too soon.

"If the economics are not good, either the ratepayer or the taxpayer has to subsidise it and it doesn't run at its optimum because it doesn't have a flow-through and it makes it difficult for the users to create an economic advantage."

Yet Fletcher stands to gain potentially, being the largest construction builder in New Zealand and having won and completed the New Lynn railway station and transport interchange upgrade in a consortium with others on the $190 million project.

Yes, Ling says, Fletcher might win a share of the CRL job — "you never know" — but that does not change his view about the wisdom or viability of its timing.

Overall, the number of big New Zealand building jobs is relatively scarce.

"It's a very tight market right now and the Government is slowing down as they pursue through to 2014/15 generating a surplus or breaking even.

Q: If you had the ability to make one change to improve New Zealand, what would it be?
A: Address housing affordability.

Residential construction is not really increasing and Christchurch is quite slow."

A division of Fletcher Construction is the project manager for the Canterbury Home Repair Programme. That work is carried out under contract to EQC. Ling says the EQC work is going well and is on target.

"On the infrastructure repairs, such as pipes — that's running at half the rate it needs to run at. In essence, the Government decided if they're going to spend $2.5 billion repairing it, they would need to replace the whole lot and that started a process of a year of planning and it's just coming to an end now.

So the work is starting to ramp up.

"And lastly on commercial rebuilding, it has not started really. It's about resolving a lot of insurance negotiations and about commercial landlowners wanting to rebuild in Christchurch and it's painfully slow," Ling says.

In September, Mark Adamson will take over as Fletcher Building CEO. Ling will return to Melbourne with no definite plans, other than to take a break.

His intention is to gradually sell some of the approximately 200,000 Fletcher shares he owns, "I probably need to diversify my portfolio but $6 is a lousy share price. I'll wait for appreciation."

— *Anne Gibson*

Giant gears up for future

Fonterra chief executive Theo Spierings is gearing up to deliver on strong targets to expand the company's footprint and build long-term profitability.

The New Zealand farmer-owned co-operative is one of the world's largest dairy companies.

The National Government wants Fonterra to step up its game so it plays a larger role in contributing to NZ's economic growth.

The board of the dairy giant meets in Auckland today.

Directors have some important strategic decisions on their plate including a discussion on who should

Spierings has three main items on his agenda in the next 12 months:
- To develop Fonterra's organisational structure to deliver on the 'strategy refresh' which he announced earlier this year;
- Implement Fonterra's new expansionist strategy;
- Finalise and implement the company's new capital structure.

The third reading of the Dairy Industry Restructuring Bill (DIRA) — which will enable the company's capital structure changes — was working its way through Parliament this week.
Once the new legislation and constitutional changes are in place, Fonterra can work up its prospectus.
Fonterra is already preparing to set up about 30 dairy farms in China (partnerships will be sought) to supply fresh milk for branded products.
It also wants an infant milk formula play.
In Europe, a deal is being worked up with Netherlands-based A-Ware Food Group to set-up a new European cheese and dairy ingredients factory.
This will be a useful springboard as EU quotas come off and the market gets more intense.
But Spierings says the single biggest factor that would assist Fonterra to remain internationally competitive from New Zealand is good trade access including a quality Trans Pacific Partnership Agreement.

step up to replace Sir Henry van der Heyden as chairman at the November AGM.

For Spierings' part he wants to see the board adopt a much more independent and commercially-focused governance approach.

At the AGM, Fonterra's farmer shareholders will vote on a resolution to amend the company's constitution.

Assuming it gets 75 per cent approval the trading among farmers scheme (TAF) will become a reality.

The board has four high-profile ''appointed'' commercial directors including former Commonwealth Bank CEO Ralph Norris, Fletcher Building chairman Ralph Waters, BNZ chairman John Waller and David Jackson.

The other nine are directly elected by Fonterra's farmer-shareholders.

Spierings contends that as Fonterra gears up to enter a much more expansive international phase after the new capital structure is bedded in, the board needs to move with the times.

"Directors must not act as farmer-shareholder representatives once they come to the Fonterra board ,'' he says, with typical directness.

"They are there to direct Fonterra.''

The CEO won't be in the room when directors discuss the chairmanship.

A number of names are in play including John Wilson — who worked alongside van der Heyden and Spierings during the final roadshows to convince shareholders to vote for trading among farmers.

Others mentioned include Colin Armer and Malcolm Bailey.

It is clearly important that the new chairman and the CEO get on.

Sir Henry has often been Fonterra's public face. But Spierings has already carved out a niche.

The organisational changes to underpin the new strategy have been massive. Spierings has already unveiled 12 direct reports in his new senior management team.

The board will get a look at the next phase today.

Spierings has insisted his own senior management team (where appropriate) also have about 12 other senior players reporting to him.

"I want to take out layers and have a much flatter structure,'' Spierings says.

"That will help us be swift and nimble and move at velocity.''

Green shoots herald recovery

Sky Television chief executive John Fellet (above) is optimistic the New Zealand economy is starting a recovery. The recession had been obscured by Rugby World Cup euphoria and kicked in at the end of last year, but things are picking up, he says.

"Unlike other countries that had bounced between the need for austerity and stimulus, the New Zealand Government had not panicked.

''We are (also) navigating well between the two,'' he says.

"My opinion and that of the board has been that it is been better to be too conservative than to be too liberal with debt,'' he says.

The company has been able to expand in tough times with new ventures like the premium drama channel SoHo that launched soon after the World Cup,

Two weeks after the All Blacks walked away with the Cup, the public euphoria had evaporated.

"Sky's phones stopped ringing and advertising sales fell off,'' Fellet says.

But he believes the consumer mood is starting to pick up. He sees the latest property price rises in Auckland in a positive light — green shoots of recovery rather than being due to failing capital markets.

Last year, Sky TV faced the first demands for regulation of its markets linked to the development of internet television. Fellet insists these — and revived calls for regulation of markets — lack substance.

''Before we head off looking to regulating we need to say what is the the problem and what needs to be fixed. That is seldom the case,'' he says.

Media companies like Sky TV are in the midst of a revolution from digitisation and globalisation.

Fellet says slowed growth in China suggests a slowing resources boom in Australia. New Zealand is also still benefiting from the strength of Australian banks, which learned from upheavals 20 years ago, so were prepared for the impact of the Global Financial Crisis.

Government's job to create climate for business to flourish

Top three items on Binns' to do list:
Preparedness for Mixed Ownership Model process.
Company efficiency.
Enhanced profitability of retail operations.
Best achievement in the past 12 months: Addressing poorly thought-through capital projects.
Three issues that keep him awake at night: Competitive pressures; improving operational efficiencies and regulatory challenges.

Meridian Energy — the country's biggest power generator — says sluggish demand for electricity reflects the sluggish wider economy.

Chief executive Mark Binns says most of his big customers are cautious about growth and still concentrating on cost-containment, as is Meridian.

''With any business you're only going to see them invest when you see demand improve.

"The perception is that most businesses are very focused on their costs and making sure they are efficient,'' says Binns, who has been in the job since the beginning of the year.

"Most have got ideas about where they want to grow but they're waiting for those signs of demand coming through before they invest.''

During the next 10 years Meridian was forecasting modest 1.3 per cent compound growth but is even more cautious about prospects in the next three to five years given significant new geothermal generation that was coming on.

Though flat, the wider economy was doing better than others, he says.

"If you compare our performance to a lot of European states and the US it is relatively good.

"Being such a small country with such a small economy you can't expect us to be doing well when our major trading partners are facing significant difficulties.

Binns says the Government is not going to solve all problems faced by business. ''The Government is expected to solve all problems. I don't believe governments can pick winners, their job is to create an environment where business can flourish.

"I don't think it's the role of government to put up big visions for the future. It's for them to create an environment where businesspeople can create a future. Although people can be critical I think they're doing a fair job of it at the moment.''

He will not be drawn on the Maori Council's claims which have clouded the partial sale of fellow state owned enterprise, Mighty River Power, but says water is an emotive issue.

"We have a very good relationship with Ngai Tahu in the South Island where all our hydro assets are and we consult and contribute to all the the Land and Water Forum work that has being going on,'' he says.

"I think we're in a good position to ensure that all the outcomes around water are fair and equitable.

Binns, whose last job was Fletcher Building's infrastructure chief, says the business environment in New Zealand is friendly compared to overseas.

"Doing business in New Zealand is a lot easier than doing business in a lot of our trading partners.

"The Government cops a lot of criticism for red tape but relative to Australia or the United States it's an easier place to do business.''

Layers of state government make it more difficult to operate in those countries. ''The inefficiency that causes in an Australian environment is significant.

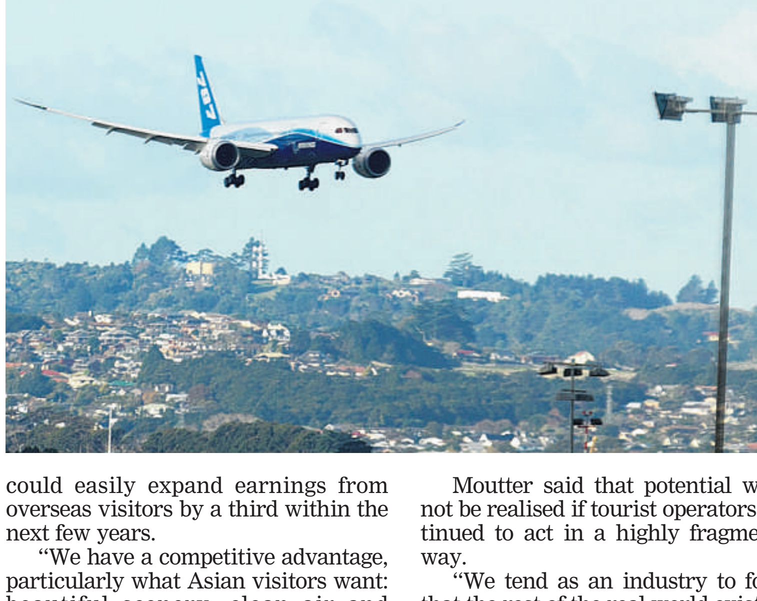
Meridian warned earlier this year that its full year profit would not match last year's, due to low South Island hydro lake levels.

Traditionally the biggest earner among the state-owned enterprises, its first half profit slid 20 per cent to $99 million.

"By hedging we were able to ensure that our risk position was acceptable but that did come at a price so our annual profit that will be reported in August won't be as good as last year but it will be better than our previous dry year in 2008.''

— *Grant Bradley*

Pack mentality is the key to global success



Top three items on Auckland International Airport's to do list:
Solve the structural problems marketing NZ tourism into Asian markets.
Set up a new strategy for the next evolution of travel retailing.
Solve the transition path to construction of a new domestic terminal and second runway.
Best achievement past 12 months: Growing Chinese visitor numbers to New Zealand by over 30 per cent.
Biggest regret: Losing the new airlink to Houston with United as the carrier.

Outgoing Auckland International Airport chief executive Simon Moutter wants the Government to help industries "hunt as a pack''.

"I think the opportunities are there — the issue is a willingness to be a bit more ambitious for New Zealand businesses and particularly the owners of New Zealand businesses to be more supportive of global ambition and for government to work with industries,'' Moutter said. "We're an absolute bit player in the global market. Examples like Fonterra and Zespri have proven the benefit of when industries work cohesively there's a much bigger-value prize.

"I guess one of my stronger themes would be to see the government working with industry — not directing — and industries trying to set up their own leadership agenda and hunt as a pack.''

Moutter is frustrated about negativity within the tourism sector, speaking out about operators bemoaning the latest blow to their particular tourism business or seeking Government-led fixes. He believes there are enormous opportunities for the sector which could easily expand earnings from overseas visitors by a third within the next few years.

"We have a competitive advantage, particularly what Asian visitors want: beautiful scenery, clean air and friendly people.

"The great thing about tourism is if you can get them here the money just falls to the bottom line.''

Moutter said that potential would not be realised if tourist operators continued to act in a highly fragmented way.

"We tend as an industry to forget that the rest of the real world exists. In an industry where you've got a lot of players you're much more interested in local competition than we are with our ability to compete globally.''

In some cases the entire sector was smaller than a big company from another country and this made it extremely hard to position in markets.

''You've got the Government positioning the brand and you've got us and Air NZ working on air links but practically nobody positioning our product offering into market.''

Moutter maintains all that businesses wants from the Government is certainty.

"What I know from having run big businesses for a long time is what big businesses want is a sense that the rules aren't going to keep changing and you're not going to get policy flip-flops which is a real issue because we do have a tendency in New Zealand for one government to undo half of what the last one did — and it's almost less what the policy is it's just that it doesn't change all the time for business.''

He says the Government's pragmatic approach in a "scary world'' is the right way to go.

"They do operate the cabinet like a board of directors — you've got a very fact-based and commercial orientation.

"Given the uncertain world we live in at the moment incremental steps will get a better outcome,'' he said.

"Most corporations are talking a very similar approach today — you don't see businesses around the world doing wild, crazy and ambitious things. It's a very careful investment in growth and innovation.''

Moutter has been at the airport for the past four years but in September moves to be Telecom's chief executive. He has previously held senior roles in that company, including chief operating officer.

He said the ability of the government to influence economic activity was misunderstood and overstated.

"They can change tack in the short term but what really shifts the balance in the near-term is what businesses are doing to invest in growth.

"Government policies and agendas are part of that process but businesses mostly seek certainty.'' he said.

"I'm a bit of a sceptic when it comes to the perpetual call that the Government solves the economic problems of a country — it's actually the business community.''

— *Grant Bradley*

Chief executives have expressed concern as more and more New Zealanders head for the departure gates..

Will we be able to fill the baby-boom generation gap?

The Kiwi diaspora is one of the key challenges facing businesses as they look to the future, writes **Fran O'Sullivan**

New Zealand has one of the world's largest diaspora with nearly 20 per cent of people born here now living offshore.

It's an issue that concerns two-thirds of the chief executives responding to the *Herald*'s CEO Survey.

Half of them believe things will get better here, but New Zealand won't meet its full potential.

Most don't believe the inflow of immigrants compensates for the outflow of skilled and unskilled New Zealanders. They are also concerned there won't be sufficient talent to replace the baby boom generation as it retires.

"The Kiwi diaspora is one of the key challenges for business considering we will increasingly need world class Kiwi talent in order to compete and grow living standards," says BusinessNZ chief executive Phil O'Reilly. "Immigration can help stem the losses but is never going to be a 'perfect fit' replacement. World class diversity policies and actions will also help and we don't have enough of that yet."

Deloitte chief executive Thomas Pippos agrees it "is a critical issue. Economies are often a function of their intellectual property and their physical resources which in both cases that they can commercialise and exploit. Highly skilled New Zealanders are critical to this, particularly in relation to the former."

But one-third of CEOs are not concerned at the growing diaspora.

LGFA chairman Craig Stobo describes Kiwis going offshore to work as "a safety valve for New Zealand unemployment.

"New Zealanders get specialist skills and it provides locals with overseas contacts," says Stobo. "The flip side is acknowledging the contribution of skilled migrants to New Zealand."

Others point out there is an economic and social cost to the increasing diaspora.

The market is international and skills are portable.

Despite this many chief executives are taking action to develop younger Kiwis (particularly Gen Y-ers) to incentivise them to build a future in New Zealand.

Mainfreight's Don Braid says his company continues to employ young Kiwi graduates for its business in New Zealand and "are discouraging the migration of them to our businesses offshore in an effort to retain good New Zealand talent".

"At the same time we are encouraging our offshore operations to employ 'locals' in an effort to build their own talent base."

A technology firm said it provided interns and employees with exposure to global experiences from New Zealand through conferences, and multi-country online team work.

Peter Thompson says his real estate firm is looking at cadetships for younger salespeople where they will work in conjunction with experienced salespeople.

"They can learn the techniques and then they can go out on their own from there."

But there is broad acceptance that many will go offshore for greater opportunity and experience.

Simpson Grierson's Kevin Jaffe says his legal firm experiences "high attrition" among the junior ranks.

"They typically go to London — or elsewhere — but many return back to New Zealand when they have gained more experience."

"We train them well, give them quality work experiences and better quality work life balance than is available in major financial centres," said a petro-chemical firm head.

"We accept they will go and work overseas — we just want to get them to return."

Sixty per cent of chief executives do not believe the outflow of both skilled and unskilled New Zealanders is compensated by the inward flow of migrants.

"There's cultural ignorance on both sides therefore immigrants aren't leveraged to the max," said one respondent.

A company chairman pointed out that New Zealand has not yet learned how to embrace cultural diversity.

But South Pacific's John Barnett says New Zealand "fails to capitalise on the educated migrants we bring in, discriminating against colour, and language issues. We set very high barriers for them to leap in order to utilise the skills they have, but we also bring in people with few skills, no language and little interest in assimilating into the community."

Other views included:

"Many new migrants, while on paper they might be skilled, find themselves regarded as unskilled in New Zealand due to poor English, misaligned values or the mode of thinking which is needed to drive innovation and productivity."

"Sorry, but the level of migrants seems poor by comparison — we have an Pacific Island population who aren't interested or don't know how to access the 21st century and I'd like to see us work much harder at integrating our Asian population."

The upshot is there are rapidly developing gaps for skilled people emerging in New Zealand.

Companies are mapping out shortages and exploring a range of alternatives including off-shoring.

Kiwi diaspora

65% concerned at size of Kiwi diaspora

60% do not believe immigrants compensate for the outflow of Kiwis

49 % concerned won't be sufficient talent to replace baby boomers

Where will the kids go?

37.7% expect their children will make their future from NZ

19.8% say they will stay in New Zealand

In the next decade

52.4% Things will get better but NZ won't reach its full potential

6.7% NZ will slide a long way

29.5% NZ is doing most things right and will progress

Housing affordability

63.8 % say urban limits should be expanded

Superannuation

88% say age of eligibility should be 67

50% want age of eligibility raised by 2107

50% say it should be means tested

Ruth Richardson Jade and Synlait

The top three items on Richardson's "to do" list for the next 12 months are:

- Secure competitiveness in the milk pricing mechanism;
- Allow Canterbury to break the rules in its quest for recovery;
- Unleash the forces of innovation.

Richardson said if she had the ability to make one change to improve New Zealand it would be to "reduce the size and reach of the State."

Best achievement in the past 12 months? Great CEO hires.

Biggest regret? NZ flunks the Super debate.

The single biggest factor that would assist businesses that Richardson is involved with to remain internationally competitive from New Zealand would be: to "lift productivity and the talent base ."

Richard Jones Poutama

The top three things on Richard Jones' "to-do" list are:

- Moving business collaboration among Maori from talk to action;
- Helping Maori business capitalise on opportunities with the Chinese;
- Fostering co-operation and joint-venture activity among Maori economic service providers.

Jones nominates a "focus on a return on well-being rather than return on investment," as the one single change he would make to improve New Zealand

Best achievement in the past 12 months? Taking a month off work to spend with my kids.

The biggest single factor that would assist Poutama remain internationally competitive from New Zealand is "more human resources".

The right time to raise the superannuation age

The country's leading chief executives believe it's time to set about generational fairness.

Nearly 90 per cent of CEO respondents to the *Herald* survey say the age of eligibility for National Superannuation must be moved to 67 years from its current 65.

"By adjusting the retirement age future superannuation costs would be controllable," says professional director John Harvey.

The Prime Minister has backed himself into a corner on the issue, saying it would be a breach of trust with voters if his Government moved.

"His only negative is the unwillingness to move on the superannuation debate, when the public clearly gets it that something needs to change to maintain affordability," said a transport chief.

Another boss said New Zealand should introduce a voluntary "opt out" of National Super.

"If the Government doesn't have the balls let's see if the people do."

Others wanted compulsory super imposed.

Twenty per cent expect their children will make their futures outside of New Zealand.

Housing affordability is also an issue.

Auckland real estate firm head Peter Thompson wants urban limits relaxed and new mechanisms to assist first home buyers.

The survey shows 63.8 per cent agree urban limits should be expanded to help bring the cost of housing down and make it more affordable for younger generations to own a home.

A majority (53 per cent) are against mandatory loan-to-value ratios for housing mortgages.

> **"If the Government doesn't have the balls let's see if the people do."**

Suggestions for the Government

The Government has set 10 "To do" targets for the Public Service; 82 CEOs have added some more "To Dos" — for the Government. Here's just some:

LGFA chairman Craig Stobo: "The 10 fall into three broad groups — education boosts,crime fighting,and a digital public service. I haven't seen any costings for these aspirational targets. Why can't we tackle the really tough issues? Super at 65, Working for Families, student loans.

Zespri chief executive Lain Jager wants the Government to front-up to structural issues confronting the economy, particularly the age of entitlement for Superannuation. Jager says NZ land values are also an issue."Farmers capitalise cashflow chasing land appreciation and this has the impact of making our exports less competitive from a rate of return perspective, and we export the profits through debt to foreign banks. The same issue affects residential housing. The resultant debt makes us less competitive, and drives down the standard of living."

An Infrastructure boss set precise "To Do" targets:
1. Implement performance standards for teachers.
2. Develop proactive immigration policies.
3. Develop sustainable parameters for future mining and resource industries.
4. Clear obstacles for implementation of large-scale irrigation schemes.
5. Clarify the rules on foreign ownership of agricultural land (develop long-term leasehold structures).
6. Address the superannuation age and means testing.
7. Review working for families and interest-free student loans.
8. Initiate a debate on future political systems for NZ (we can't afford the polarisation in a small economy).

Rangitira's Ian Frame: "Because of MMP, John Key probably won't be in power beyond 2014, so the target needs to be 2014 not 2017 — or change MMP. He can only blame himself about MMP because he had the opportunity at the last election to encourage a change to the electoral system and he completely wasted that opportunity by failing to make it a serious electoral issue."

Director Alison Paterson: "Be more strict on public service actions which impact negatively on people. For example the 16-year-old who contracted Aids while left in the care of a rapist. An apology is insufficient. This action ruined a young girl's life. For less reason, people are asked to resign their positions."

Technology company chairman: "For goodness sake, rabbiting on about targets in the public sector is no substitute for executing the kind of policy settings that will rev up this country's economic motor. The United Kingdom tried all this target stuff to spectacular failure. But then there is the glorious era of Soviet targeting ..."

Survey shows support for step-up in mining

Chief executives showed strong support for increased investment in resource extraction, with 74.3 per cent of respondents supporting stepping up mining on the conservation estate, 75 per cent supporting the development of iron sands resources and 71.4 per cent supporting the development of rare earth deposits.

Said one chief executive "Our priorities are in the wrong place, we need to get real and make a start on our natural resources, we can do it in a sensitive NZ way — look at Norway."

There was muted support (48 per cent) for a fund to manage government revenues from oil and gas. Zespri's Lain Jager said "I am not convinced the Government should be investing in oil and gas. But setting up funds that ACC, Maori, private investors, and the Superfund could invest in with the associated businesses run under a private model may have merit."

CEOs felt resource extraction was a neglected area of the economy that could serve as a springboard to achieving economic and social goals. A well respected chairman believed we should "start to invest in these areas — it will help us have the services New Zealanders want but can't afford."

They largely believed it was possible to balance economic goals with New Zealand's green image, although this would need to done with a degree of care.

An infrastructure boss observed "I have no doubt that mining can be done using modern methods that are sensitive to the environment."

Amongst those opposed to increased investment in resource extraction, most were awaiting further detail as to how the process would be undertaken. "I have ticked 'No' regarding mining on the conservation estate but I support surveying it to see what is there — then informed decisions can be made."

Another noted that mining on conservation land needs "caveats around it to minimise disruption and ensure the land is restored afterwards."

Chief executives were in favour of the government assisting the development "as long as it restricts its role to establishing the framework". One said "the Government's role should be permissive, not as an investor."

An energy sector boss said "the only caveat is that these activities have to be managed efficiently possibly through commercial arrangement struck in a transparent manner and environmentally sound."

Changing ideas for our changing times

Like many parents, acting Telecom chief executive Chris Quin says he worries his two children won't have the same opportunities he had.

"I hope they do," Quin said.

Asked if he is concerned about his son and daughter — aged 16 and 12 — being excluded from the property market, Quin says it may not be a pressing issue for them.

"I think our society's pressure to own what you live in will change over time . . . It's not a question of do I think they'll have the opportunities, I hope they have the choices to go 'it's not necessarily what you have to do'," he said.

Although affordability in the housing market "was a key issue", Quin said that isn't necessarily because property was too expensive.

" One of the ways of addressing affordability is lifting incomes, he said.

"I think the key in that will be in our ability to grow successful organisations that stay owned here rather than becoming branches of global businesses," Quin said.

Quin says too many local companies get to a size where they are attractive to overseas buyers and are sold rather than taken through the next stage of growth in New Zealand.

"We've seen a reasonable amount of success in technology start-ups but that complete exit occurs too early at times.

"I am sure some very very successful clever and amazing people have done those start-ups and I think the issue for them always is 'I can't see how to go to the next stage of growth without the exit'," Quin said.

He said mobile marketing company Hyperfactory — which the Handley brothers sold to American media giant Meredith Corporation in 2010 — was an example of such a firm.

"I'm not critical at all, but wouldn't it be great if we have ways to fund growth and get those returns and still have them as New Zealand organisations that would generate employment and expertise from here?" he said.

To allow these mid-size businesses to grow and get the capital they need, New Zealand needs to strengthen its equity markets but also "resolve its slight indecisiveness about foreign investment", he said.

"In the long term, partnership with foreign investors is going to be very important to us, but these have to be partnerships and not complete exits," he said.

These partnerships would see joint ventures between local firms and larger companies in key export markets that would grow business "but leave a substantial amount of benefit here".

Another element critical in growing the economy will be leveraging the talents of skilled migrants, he said.

"They create industry, bring expertise, bring depth from other markets and we've got to be much more open to that."

Quin said there did seem to be some aversion in New Zealand to skilled migrants moving into upper echelons of management.

This fear of certain type of migrants could be seen in our tourism industry.

"I'm sure that the average New Zealander is not as welcoming to an Asian or Indian or Arabic tourist as we would like to think we are when we think about ourselves as a society yet they are out future," he said.

Quin has been acting Telecom chief executive since June, following the departure of Paul Reynolds.

Auckland International Airport chief executive Simon Moutter will step into the role next month and Quin will return to heading Gen-i, Telecom's information technology arm.

— Hamish Fletcher

Wouldn't it be great if we have ways to fund growth and get those returns and still have them as New Zealand organisations that would generate employment and expertise from here?
— Chris Quin, Telecom

Time to refresh the New Zealand brand

Air NZ says we need a NZ Inc approach to drive up the tourism sector, writes **Fran O'Sullivan**

Air New Zealand chief executive Rob Fyfe questions why the Government doesn't talk up the airline's role as a big value driver for NZ Inc.

"The Australian Government is more interested in the fortunes of Qantas than our Government here in Air New Zealand.

"It very rare here to get the Government making comments about Air NZ's relevance to the economy."

Fyfe concedes the airline may have to do a better job to help Government understand how it adds value to the New Zealand economy.

The National Government plans to sell down its majority stake in Air NZ to 51 per cent through the upcoming partial privatisation programme.

Air NZ chairman John Palmer joined Fyfe in candidly telling Parliament this month that New Zealand's appeal had diminished as a destination for long-haul tourists.

Air NZ's financial performance was not where it should be. Improvements were yet to be reflected in its currently "disappointing" share price.

They wanted an NZ Inc approach to driving up the tourism sector.

Something which will be important if an Air NZ IPO is to be successful.

But John Key — who holds the tourism portfolio as well as his day job — downplayed the situation as "not too bad".

Key had faith that casino operator SkyCity's proposed national convention centre and Sir Peter Jackson's new *Hobbit* films would lure visitors.

The problem is says Fyfe, that there are big structural issues in the international markets.

Europe is still in the doldrums and the British market which provides three times more inbound tourist passengers than Germany was strongly affected.

The New Zealand brand also needs to be refreshed and retargeted.

Rob Fyfe with Trelise Cooper, who designed the Air New Zealand uniforms.

"I do feel a genuine anxiety that my business explicitly and implicitly leverages New Zealand as a global brand and we take far too much for granted."

Fyfe points out Paris has its Eiffel Tower and the Grand Canyon is strongly identified with the United States, but New Zealand needs to work on its brand positioning.

That said, Fyfe says, "we're not sitting on our hands hoping for things to be rosy again.

"We're looking closely at the capacity on all routes. and may have to adjust and look at how markets are served more efficiently."

A big issue is that Air NZ faces a "real challenge" in servicing Europe from New Zealand.

"People do not want to pay twice as much to travel twice as far."

Other international airlines leverage the high-value sector routes and top up capacity with through traffic. But Air NZ's main market is through traffic.

"There is no silver bullet," says Fyfe.

Air NZ is also focusing more on sector traffic and has put on 50 per cent more traffic between Los Angeles and London than 10 months ago.

"It's an interesting philosophical change to have a market which does not have NZ at the end of it."

Fyfe says the US market is now much stronger which is generally seen as a precursor to the country's economic direction.

Japan slowed down after last year's earthquake but Air NZ has posted positive year-on-year growth in the past three months.

Australia with its two-tier economy was harder to read.

"In China we're seeing slowing growth in the economy as it comes off stellar growth rates. says Fyfe.

"The biggest nervousness would be the impact on NZ and Australia in relation to exports to these markets."

"It has the potential to put a speed wobble across markets generally, particularly the United States."

From Air NZ's perspective there is also greater anxiety about the Chinese slowdown than problems dogging European market.

Domestic demand has softened in New Zealand as the result of the anticipated impact of government restraints. "Not just the Government spend on travel but the numbers in and out of Wellington to do business."

Fyfe says there was a "false recovery" after the Christchurch earthquake. "It was very flat for six to nine months and is now getting more stable again."

But the provincial routes were slow.

"We're working hard to keep adaptable and profitable. But the high oil prices and high NZ dollar could be here with us permanently."

What next for Fyfe?

Rob Fyfe (pictured above in bodypaint for an Air NZ campaign) says it's going to be hard to "let go of my baby" when he hands over to Christopher Luxon. Fyfe's rockstar image has become intwined with AirNZ's brand during his near seven years as CEO. He wants to make way so Luxon can establish himself ("maybe a sabbatical").

Earlier this month he joined Jeremy Moon's Icebreaker as a director, and has a stake in Ecoya. Fyfe doesn't want to do a "startup" but is interested in lifting the performance of medium-sized NZ companies.

Government loses points on the political hot potatoes

Chief executives ran their rulers over four political hot potatoes which dominated headlines in the first half of 2012: The mixed-owner model ("asset sales"); the SkyCity "pokies' deal; the ACC privacy debacle and the fracas over Budget changes to classroom sizes. Their verdict is the Government's political management has been found seriously wanting.

EMA's Kim Campbell is blunt. "ACC on all fronts is a trainwreck and now damaged goods in terms of attracting the talent to run it. "The electorate is not as cynical as Key seems to think when it comes to social issues — so trading pokies for money is a very bad idea. The classrooms saga was simply very poor management."

Michael Barnett, chief executive of the Auckland Regional Chamber of Commerce, said "they try to go it alone and yet there are so many third parties who will believe in what they are doing but they do not engage them as champions".

Issue 1) Promotion of mixed-ownership model. 3/5

Seventy-four per cent of chief executives believe the Government needs to do more to promote the mixed-ownership model — partial privatisation — of SOEs.

"This is such a game-changer for New Zealand and it is appalling how the communication has been mishandled," said an investment sector chief. "This needs to be rolled out across the local authority sector. Governments are bad owners. They always lack the capital to support the growth of their businesses."

An energy sector chief executive explained the Government's story about why it should partially float SOE's has constantly changed, hence there was no clear rationale for why it was a good initiative."This leaves voters with a perception of no clear confidence in rationale and cynicism over capital market relationships".

The Government has announced a $1000 minimum share parcel for the upcoming Mighty River Power float, and a loyalty bonus for individuals who keep shares for three years. The *Herald* survey (taken before the Government announcement) showed the $1000 minimum was favoured by 47.6 per cent of chief executives. Forty-six per cent were against issuing loyalty bonuses to retail investors; 39 per cent were in favour.

"The mixed-ownership model could bite them yet," said Zespri's Lain Jager. "What are they going to do when the referendum happens and 60 per cent of New Zealanders oppose asset sales?

"Bank those they have already done and put the others off, I guess. Key can't push ahead with asset sales in the face of a majority opposing in a referendum."

Port of Tauranga chief executive Mark Cairns said more needed to be made of how SOEs would become efficient through the listing process.

Cairns is confident the Government's 51 per cent majority stakes (post-privatisation) are likely to be worth as much, if not more, 10 years after listing than 100 per cent of the status quo.

He cites Port of Tauranga which was valued at &78.8 million on IPO in 1992 but now has a current market capitalisation of $1.5 billion.

Issue 2: SkyCity convention centre for pokies swap 2.6/5

Chief executives are not totally on song with proposals to legislate special benefits to attract new investment here.

Controversy erupted over Government negotiations with SkyCity over its plan to fund a national convention centre in return for special legislation for more pokies at its downtown Auckland casino.

74% of chief executives believe the Government needs to do more to promote the mixed-ownership model

48% favour minimum $1000 share parcel for Mighty River float

55% say the Government should legislate for special benefits (like the SkyCity pokies) to attract new investment

14% believe ACC needs to be rebalanced towards claimants' needs

A majority (55.1 per cent) of CEOs canvassed said the Government should legislate for special benefits (like the SkyCity pokies) to attract new investment. Thirty-five per cent said No; 11.4 per cent were Unsure.

Deloitte's Thomas Pippos says: "there needs to be a degree of commercial pragmatism at times to conclude matters in a favourable way.

"Everyone makes mistakes but the Government just needs to form a well-reasoned view, explain it and get on with it and not go into hiding because of misleading Opposition claims or poor headlines," said an investment sector boss.

"Keep reminding the electorate about how many jobs would have been lost if the same Helen Kelly who argued against the *Hobbit* and is now running the waterfront dispute had her and her Australian union cronies' way."

CEOs were split three ways on whether the Government's dealings with selected commercial companies — like SkyCity and Sir Peter Jackson for the *Hobbit* films — left it open to allegations of cronyism: (35.per cent Yes; 30.8 per cent No; 33.6 per cent Maybe).

Says Barfoot and Thompson's Peter Thompson: "if it is bringing business to New Zealand and giving people the opportunity to work and other businesses to gain from it, then that outweighs the cronyism."

A transport sector chief executive cautioned: "Obviously Governments have to work with commercial businesses to ensure the environment is appropriate for investment we are competing in that kind of a world. But they need to be careful not to get seduced by businesses that are fundamentally bad — gambling pretty much fits there.

"However, movie-making (that is in the creative / IT space which is something that has been promoted on both sides of the House) is generally considered a good thing and it is an area in which the Government should be encouraging investment.

"The allegations of cronyism can be overcome by more transparency and putting things in the context of a bigger vision and plan. How do we want New Zealand to look like? Does this fit? Then it is not a crony backroom deal but rather part of a national (small "n") consensus."

Issue 3: ACC debacle (aka Bronwyn Pullar affair) 2.1/5

The ACC privacy affair claimed the scalps of the corporation's chairman, chief executive and two board members in such a brutal fashion it has left a sour taste in senior business circles.

"My concern over ACC is not the privacy breach, it's the way the Government effectively undermined chairman John Judge," said a professional firm boss. "He deserved a knighthood for turning ACC round, not a roasting. If the Government kicks good people who agree to help it they will find many say, 'no thanks'. They will be left with wannabes and people past-their-use-by-date."

Last month ACC Minister Judith Collins issued new priorities for ACC to "ensure it meets the highest standards of best practice and service for its clients, and achieves outcomes that are consistent with the spirit of ACC's pioneering objectives."

Just 14 per cent of chief executives responding to the *Herald* survey believe ACC does need to be rebalanced towards claimants' needs. Forty-one percent say it doesn't; 26 per cent "maybe'; and 18 per cent are "unsure".

Professional director Joanna Perry says she is making a generalisation but from her own personal experience of accidents and injuries, ACC is offered up far too readily. "New Zealanders have to realise how lucky we are to have a scheme like ACC and learn that it will only be there if we don't abuse it. Unfortunately, I'm not sure it will ever be able to operate "fairly" while it is able to be the subject of political point-scoring."

The issues at ACC have been administrative errors not policy errors, keep it in perspective," said a transport sector chief executive. "ACC is a target for abuse by the less honest citizens and medical professionals and it needs a balance between claimant and insurance provider requirements just as any commercial insurer would need."

Another transport chief said there was a need to sort out the books because there was "too much unfunded liability.

"However, there is also a need to ensure we care for accident victims as a society; balancing these demands requires common sense and good communication. It would be tragic if we sacrificed the good things of ACC on the altar of expediency and reverted to a fault-based system with its abuses and legal costs."

Issue 4 — Classroom sizes 1.7/5

Education Minister Hekia Parata executed an about-face before outright war erupted between parents and the Government on Budget proposals to increase classroom sizes.

"The class size issue took attention completely away from what should have been a centre-piece Budget," said BusinessNZ's Phil O'Reilly. "They will learn from that no doubt."

Chief executives who are also parents of school-children were not immune to the angst. "As a parent and school board of trustees member, in addition to being a business person, the school class size issue was a complete fiasco, causing needless upset and distraction," said a financial services firm chief.

"Given the savings that were to be achieved it was ridiculous," said another.

Professional director John Harvey said the Government "now needs to capitalise on the public mood for greater quality and school ratings".

Settling with shares

A majority of chief executives say Iwi should be eligible for share allocations in the forthcoming IPOs of state-owned enterprises.

But they want provisos.

"Iwi are natural long term holders of assets that the SOE's own, "said an energy sector CEO. "The allocations should not be "free", but should be priced according to market."

Director John Harvey said iwi should be able to seek an allocation from the public pool.

"In certain circumstances they may be able to be used as currency in settlement of claims but this would need to be totally transparent and not be seen as another handout."

South Pacific Pictures John Barnett said the Government has lost control of the argument and the critics are now setting the agenda.

Iwi ownership will ensure that the assets stay in New Zealand control but there should be no reduction in share purchase price to any sector"

Fifty-three per cent of chief executive respondents favoured iwi allocations; 35 per cent are "against" and 12 per cent are' unsure."

Railing against an industry of 'indoctrinated idealists'

Substantial dissatisfaction with the Resource Management Act is bubbling below the surface, writes **Alistair Birchall**

Many chief executives believe the Resource Management Act is holding back ''NZ Inc'' and needs to be improved.

Mainfreight chief executive Don Braid says "the RMA causes incredible delay and cost.

"It is very bureaucratic in its application. Achieving its intentions with less bureaucracy would be the best outcome for all.''

The RMA rates 5.78/10 on a scale where chief executives were asked to rank domestic issues that affect business confidence.

It does not have the same pressing intensity as the European debt crisis, but it is clear substantial dissatisfaction is bubbling below the surface.

Two key themes emerged in the responses.

First, the CEOs found the RMA process excessively complex and participatory, resulting in a long and expensive process even for seemingly simple consents.

Matthew Cockram, CEO of Cooper and Company, says the RMA is "plagued by the transition of New Zealand society where there is an expectation of consultation (interpreted as personally agreeing with the topic) on every issue.

"The RMA gives a daily perspective of the quagmire which is our consultative democracy.''

The broad standing provided by the RMA was also seen as rife for misuse, with one chief executive within the energy sector noting the process was often used "as a de facto negotiating tool by parties seeking to gain a financial/commercial advantage''.

Ports of Tauranga chief executive Mark Cairns can well attest to costs associated with the Act.

The port remains involved in a legal battle with local iwi over a dredging consent — now before the High Court — that has taken four years and cost the firm more than $2 million in legal and expert witness costs.

Cairns believes the delay is evidence the process does not sufficiently weight the benefits of development: he cites an independent report which suggests $338 million of benefits will accrue as a result of the dredging.

The failure to properly weigh these benefits reflects the second theme: surveyed CEOs believed the Act provided insufficient flexibility, resulting in the micro-management of environmental concerns even when inappropriate, such as within the urban environment or in the presence of natural hazards.

Cockram puts the problem down to "plannerism''.

"The universities produce squads of indoctrinated idealists who believe they can plan their way through and across every issue and problem — defined and yet to be defined.

"The industry is now too large and self-interested.''

In the view of many CEOs, a greater willingness to engage with the trade-off between economic and environmental concerns was required. Hellaby Holdings' John Williamson believes the discourse is dominated by "paranoia about growing the mining and resource extraction sector with little sensible economic and environmental debate beyond the standard political slogans''.

Williamson says "the Government now needs the courage and vision to restart, shape and drive this initiative in the context of the creating national wealth within appropriate environmental parameters.''

New Zealand Council for Infrastructure Development CEO Stephen Selwood says the reshaping requires the harmonisation of the Act with the rest of the legislative framework.

He argues that "the Act conflicts with the objectives of the other key planning legislation including the Local Government Act and the Land Transport Management Act.

"These three key pieces of planning legislation need fundamental reform to ensure alignment across national, regional and local planning processes.''

The opening of the Pak'n Save supermarket in Glenfield was placed on hold while a court battle raged.

> **The RMA gives a daily perspective of the quagmire which is our consultative democracy.**
>
> — Matthew Cockram, Cooper and Company

The Government has already made some moves to address this balance, and move more toward the environmental bottom-line envisioned by the RMA's drafters.

These include introducing an Environmental Protection Agency to manage the impact of nationally significant projects and introducing punitive clauses in an attempt to reduce the type of vexatious and anti-competitive litigation epitomised by the Wairau Park Pak'n Save saga.

More recently, a Technical Advisory Group report has recommended reducing the burden on applicants seeking to make use of resources in the urban environment or addressing natural hazard issues.

The Government says it intends to further simplify the RMA to reduce costs, uncertainties and delays while "ensuring there is sensible management of the country's resources''.

It says the Phase 2 reforms will reduce delays around medium-sized projects, improve fresh-water management and better manage natural hazard risks.

The RMA's planning processes will also be better aligned with transport and local government planning.

Instability over regulation has negative effect

The perception of New Zealand from overseas is being hit by regulatory uncertainty, says Vector chief executive Simon Mackenzie.

The electricity and gas distribution company boss said there needed to be clarity around the regulatory environment or fund managers and rating agencies would continue to view this country negatively and this could spill over to partial asset sales.

"There isn't a lot of clarity around how the regulatory situation is going to play out.

''Quite often there's changes in direction from the regulator's perspective.

''In more stable regulatory environments most of these guys say they can pretty accurately predict what is going to occur,'' he said.

"We get comments like 'continual flipflops' or 'regulatory uncertainty prevails' and this is despite taking a lot of time to sit down with agencies or capital markets they say 'things keep changing on us.''

Vector's prices are regulated but it was the threat of changing rules that could impact on any appetite offshore for the partially listed SOEs.

"That's certainly the feedback I get from everyone from the rating agencies to people in the debt and capital markets.

"In New Zealand it's easy for us to sit here because we understand the industry structure but if you're sitting in London or New York and all you see is an energy sector,'' said Mackenzie.

"The stability of policy is really critical and I just think that has not had the attention you'd expect.''

On asset sales, Mackenzie said the process was proving more challenging than the Government anticipated.

"A lot of these issues such as water rights have been around for a long time — I guess it's a bit surprising it wasn't locked down.''

The Government's conservative economic stewardship had helped New Zealand avoid the harsh austerity measures seen in Europe.

"That's exactly what we need at this point in time. I think the government is doing the right thing by focusing on that.''

However, the Government needed to spell out more clearly what the growth plan was.

"There's been talk about SOE sales but I would suggest the fully developed mineral, aquaculture and agriculture — we're talking about orders of magnitude more than from SOE sales but all the focus has been on the sale of assets,'' said Mackenzie.

> **"We've done the numbers and there's something like 90,000 jobs to be filled in Australia that very much draw on the skill set that we have in our sector.''**
>
> — Simon Mackenzie, Vector

There was too much hope being placed on the economic boost from rebuilding Christchurch.

''Everyone seems to be hanging their hat too much on the Christchurch rebuild and I think we've got to focus on what is the long term sustainable growth.''

There also needed to be more clarity around the potential value of diversifying in areas such as aquaculture.

"There's a real opportunity for us to be the Fonterra of the sea as well as the the land.''

The Government also needed to more specific about what it was targeting in science and innovation.

Businesses such as Vector were also working under the threat of Australia's mining and energy sector boom poaching staff and this was causing retention and salary tension. "We've done the numbers and there's something like 90,000 jobs to be filled in Australia that very much draw on the skill set that we have in our sector.''

Vector's own business was relatively flat so far this year although the building season — where there would be new connections — did not start until late spring.

"It would be fair to say that it's still pretty tough. In our volumes, residential and the larger side of industrial-commercial are tracking OK but the small-to-medium enterprise space is really struggling.''

— *Grant Bradley*

Support for limiting council functions

Chief executives overwhelmingly favour requiring councils to limit their activities to their core functions.

Eighty-four per cent of CEO respondents to the *Herald* survey believed this should be done to reduce local body debt and rates; but just 39 per cent thought legislation should be imposed to remove councils' ability to operate businesses in competition with the private sector.

Last week, 78 councils collectively agreed to pressure the Government to keep four ''community well-beings'' enshrined in legislation.

These relate to social, financial, cultural and environmental outcomes.

The Government wants to axe these from the Local Government Act to make the councils focus on "core responsibilities'' and reduce the rates burden.

Responding to the CEOs' survey, one prominent chairman said local body governance (outside Auckland) was a problem.

"Improving competence of councillors would mean the development of strategy and its execution would improve materially.''

Others believed that the lack of clarity limited the responsiveness of councils to ratepayers.

South Pacific Pictures' John Barnett said there needed to be more accountability at staff levels.

"Local body politicians come and go on a three-year cycle.

"Staff who implement policy, and determine what gets done, when, how and by whom should be more accountable and the processes more transparent.''

But rationalisation — and potentially amalgamation — were also cited by some chief executives as necessary in order to improve council performance.

NZCID's Stephen Selwood said the Auckland Super City model, which combined seven district councils and one regional council into a single entity, could serve as a rationalisation template.

He lists four restrictions which could be placed on council activities:

● Require local government to develop long-term spatial plans like Auckland with the proviso that nothing could be included in the plan unless it can be realistically funded.

● Require local plans to be directed by national policies and conform to national standards of performance.

● Require standardised reporting and benchmarking of performance across local government.

● Require proposals for large new assets to be supported by the "Better Business Case'' model that has been developed by Treasury.''

Auckland's Super City model (presided over by mayor Len Brown) has been suggested as a template for councils.

Chief executives believe the absence of such restrictions has placed significant pressure on rates.

One financial sector chief executive said far more problematic than the level of council debt was the manner in which councils were funding their activities. He stressed that ''councils need to cease short-term (rates) funding of long-term assets and manage balance sheets better''.

One option was the use of a mixed ownership model for local authority assets like ports.

BusinessNZ respondents also support rationalisation, with just over two thirds of those surveyed (68.4 per cent) wanting councils to restrict their activities to core functions. A sample of their comments:

● "Jolt them out of their cost plus environment and practices, putting up rates by the rate of inflation plus , regardless.''

● "Government should set direction of local body amalgamation — not leave it to vested interests have one environment body per region as there is now and in that same region have one (separate) council body.''

● "Don't want to inhibit council's ability to manage the issues within their communities but their does need to be limitations placed on their ability to increase rates at will.''

— *Alistair Birchall*

Stephen Selwood NZCID

Selwood says the top three items on his "to do" list for the next 12 month are:

● Increase in investment in transport infrastructure through combination of debt funding supported by road tolling '

● Advance the proposal for local government reform'

● Propose legislative reform of New Zealand's planning legislation including the Local Government Act, the RMA and the Land Transport Management Act.

Selwood singles out lifting the performance of the public sector as the one change he would make to improve New Zealand.

Best achievement in the past 12 months: Advancing public acceptance on news means to fund transport infrastructure investment in Auckland.

Biggest regret: Failure to convince transport officials that the proposed Auckland Central Rail Link and Additional Waitemata Harbour Crossing alignments are seriously flawed.

Europe's woes shake confidence at home

New Zealand is sailing a steady course but CEOs warn the waters are still treacherous, as economics editor **Brian Fallow** reports

Europe's debt crisis is the biggest international concern weighing on business confidence, the Mood of the Boardroom survey found, followed by the associated risks of a renewed global recession and instability in global financial markets.

Overall there was a flavour of "we're not doing too badly but the rest of the world does not inspire confidence" to respondents' comments..

"New Zealand is doing reasonably well compared to many but the downside risk internationally is still high," said Business NZ chief executive Phil O'Reilly.

EMA (northern) chief executive Kim Campbell was less diplomatic: "Europe and the United States are in the toilet. Asia is continuing to grow, while Australia is going sideways. For New Zealand, it's quite OK."

Joanna Perry, deputy chairman of Genesis Energy, sees it as more a case of uncertainty than outright pessimism or optimism.

And few would quarrel with Port of Tauranga chief executive Mark Cairns's view that "We have not seen the end of the eurozone's woes."

The word "crisis" is wearing thin for what is already a long-running drama as European leaders struggle with a stack of issues, each daunting in its own right and reacting with the others in unhelpful ways. The euro and its associated one-size-fits-all monetary policy delivered the weaker members of the eurozone a currency too strong and interest rates too low for their national circumstances.

Addressing the underlying structural weaknesses and competitiveness issues exposed when the good times ceased to roll will take years and is liable to make public debt-to-GDP ratios worse before they get better.

Meanwhile, undercapitalised banks are left exposed to burst property bubbles and to sovereigns up to their nostrils in debt. And overlaying all of that is the work-in-progress nature of the broader European project. How much sovereignty are member states prepared to surrender to pan-European or pan-eurozone institutions in the cause of making the single currency workable?

These are issues which defy swift or easy resolution, implying that Europe will be more a carriage than a locomotive of global trade and economic growth for years to come.

The European Union is New Zealand's third largest export market and level-pegs with Australia as a source of imports. Survey respondents are also nervous about the knock-on effect of recession in Europe on New Zealand via our key trading partners.

It is China's largest trading partner, while trade between the EU and the United States accounts for about a third of world trade. International Monetary Fund forecasts updated last week have global growth slowing to 3.5 per cent this year before picking up to 3.9 per cent. It is not a global recession, such as occurred in 2009, though it is the weakest growth since then.

Respondents' level of concern about the risk of renewed global recession is therefore likely to be related to the risk that one of the repeated waves of eurocentric angst roiling financial markets will turn into something worse.

New Zealand banks remain substantially reliant — though less so than in 2008 — on funding from offshore wholesale markets which froze during the global financial crisis, requiring the Government guarantee to issue an open-ended guarantee and the Reserve Bank to open its equivalent of a pawnbroker's window to support liquidity in the local banking system.

Snapshot

Europe and the United States are in the toilet. Asia is continuing to grow, while Australia is going sideways. For New Zealand, it's quite OK."
Kim Campbell EMA

The United States is also a potential source of turmoil in global financial markets.

Respondents are wary of the level of US Government debt — 107 per cent of GDP by the IMF's count — and the "fiscal cliff" built into current US law.

There is a narrow window after November's general election for whoever Americans send to the White House and Capitol Hill to strike a deal to avert deep automatic spending cuts and the expiry of tax cuts, which together could trigger fiscal contraction next year equivalent to 4 per cent of its GDP and tip the US back into recession.

As the episode of brinkmanship over the debt ceiling last year made clear, the financial markets do not enjoy the sight of American politicians laying mines in what is supposed to be the safest of safe havens.

Not much separates respondents' level of concern about the Chinese, US and Australian economies. China has just reported its weakest economic growth for three years.

New Zealand has already been feeling the effects of its slowdown via a decline in export commodity prices — around 17 per cent over the past year in New Zealand dollar terms. Prices reman high by historical standards, however, and their level did not make the top 10 of respondents' concerns — though only just.

The Reserve Bank, in forecasts it published last month, expects China's growth to stabilise about now, with additional stimulus measures, including spending on infrastructure, likely to offset recent softness in private and export demand. In the US a modest recovery, at around a 2 per cent annual pace, is only nibbling at unemployment.

Australia has very much a two-speed economy, with massive mining investment in Western Australia and Queensland, while a high Aussie dollar takes its toll on manufacturers elsewhere. Australia's central bank is expected to ease. Markets are pricing in a full percentage point of cuts in its policy rate to 2.5 per cent in a year's time, at which point it may be slightly lower than New Zealand's.

That prospect is unlikely to cheer respondents concerned about the level strength and volatility of New Zealand's exchange rate.

The kiwi dollar has averaged US80.5c over the past year, 6 per cent higher than the year before, and has ranged between 74c and an eye-watering 88c.

Cost of Christchurch disaster hits hard

by Brian Fallow

Higher insurance costs following Canterbury's earthquakes top the list of chief executives' domestic economic concerns.

The cost of that calamity, including nearly $16 billion in reinsurance claims alone, was always going to have an effect on premiums. An indication of the magnitude is the 37 per cent increase in the cost of dwelling insurance over the year ended June recorded in last week's consumers price index.

Overall, respondents' level of concern about domestic factors was lower than about international ones.

Two of the highest-ranking worries, labour productivity and skill shortages, are at least factors that they can in principle do something about, through investment and training.

Between 2006 and 2011 labour productivity rose 0.5 per cent a year, Statistics New Zealand says, compared with productivity growth rates in the 2.5 to 3 per cent range between the mid-1980s and 2000.

The Reserve Bank currently estimates labour productivity growth at just 0.1 per cent, citing a dearth of business investment since the global financial crisis.

The New Zealand Institute of Economic Research's quarterly surveys of business opinion have been recording a growing proportion of firms reporting it is getting harder to find skilled staff.

The Canterbury rebuild is one factor. Job vacancies for skilled construction and engineering workers in Canterbury have risen 46 per cent over the past year.

That looks likely to get worse before it gets better. Respondents to the Mood of the Boardroom survey recorded a significant level of concern about delays to the rebuild, which the Treasury has estimated will provide around 40 per cent of the country's economic growth over the next four years.

Level-pegging with labour market concerns is the high New Zealand dollar and its effect on exports.

Bank of New Zealand currency strategist Mike Jones has recently had a go at estimating a long-run equilibrium or fair value for the New Zealand dollar, based on purchasing power parity adjusted for the terms of trade.

On that basis the kiwi dollar is overvalued by about 11 per cent against the US dollar.

But in times when major central banks are prone to engage in quantitative easing, part of whose purpose is to reduce the international value of their currencies, and when financial markets are gripped by a kind of bipolar disorder, during the "risk on" phases of which they buy New Zealand dollars, overvaluation is no guarantee the exchange rate will fall. In the year ended May, New Zealand recorded a trade deficit of $800 million — a turnaround from a surplus of $1 billion the year before.

The exchange rate was not the only driver, however; world prices for New Zealand's export commodities fell 21 per cent over the past year.

Snapshot

New Zealand sovereign borrowing levels, net of asset sales, will continue to rise, which in the context of a deteriorating current account deficit puts our relatively strong credit rating at risk.
Craig Stobo, LGFA

Bumper exports of people are also of concern to survey respondents.

The year to May saw a net outflow of 37,000 migrants, compared with an average net inflow of 16,600 over the previous 10 years. It was driven by record levels of net emigration to Australia, running at an annual rate of just under 40,000, equivalent to nearly 1 per cent of the population.

Statistics New Zealand's demographers expect a net inflow of migrants to resume and to average 12,000 a year in their central scenario, providing just over a quarter of the projected population growth in the decade ahead.

Regulation and the level of Government spending rank about equally as concerns.The Government regularly reaffirms its commitment to reducing both, including an overhaul of the Resource Management Act.

Port of Tauranga chief executive Mark Cairns said under the current RMA a relatively simply dredging consent had taken four years and more than $2 million in legal and expert witness costs, and was still subject to a High Court appeal.

Budget 2012 forecasts Government spending to fall from 33.8 per cent of gross domestic product over the year ahead to 30.2 per cent by 2015/16.

That would bring it back in line with its average level under the last Labour Government (30.1 per cent of GDP) or, to be fair, to its average level before global financial crisis and recession hammered the Crown accounts. It may be that some respondents' concern about the level of Government spending is that it is too low, for cyclical reasons, rather than too high for structural ones.

Two zero Budgets have turned fiscal policy contractionary. The Treasury estimates it will subtract from economic growth over the next four years to the tune of around 4 per cent of GDP. The widening current account deficit is also of concern.

It peaked at 8.9 per cent of GDP in December 2008 before the recession's toll on demand for imports and the profitability of foreign-owned firms shrank it to 1.9 per cent by March 2010. But since then it has been widening again, reaching 4.8 per cent of GDP or $9.7 billion by March this year. That pushed the country's international liabilities, net of New Zealand assets abroad, to $143 billion or 71 per cent of GDP.

The Treasury forecasts the deficit to keep widening, to 6.7 per cent of GDP in four years' time, pushing net foreign liabilities to $200 billion or a globally conspicuous 81 per cent of GDP.

Though the lion's share of the country's external debt has been run up by the private sector, with around 60 per cent of Government debt held offshore, its policy of returning to surplus would reduce the vulnerability such high levels of external debt imply.

Or so the Finance Minister argues. But Local Government Funding Agency chief executive Craig Stobo said that because structural pressures on Government spending were not being addressed, and GDP growth remained soft, the goal of a balanced Budget by 2014/15 was not credible.

"New Zealand sovereign borrowing levels, net of asset sales, will continue to rise, which in the context of a deteriorating current account deficit puts our relatively strong credit rating at risk," he said.

NZ CONFIDENCE HOLDS

Confidence level:

0 — 10
LOW — HIGH

Business situation (in your industry)	3.20
NZ economy	3.00
Global economy	2.23

Domestic concerns:

	Level of concern (0-10)
Insurance costs (post-earthquake)	6.48
High NZ dollar effect on exports	6.08
Labour productivity	6.07
Skill and labour shortages	6.06
Level of NZ government spending	5.88
Canterbury earthquake rebuild delays	5.83
Regulation (RMA)	5.79
Outward migration (NZ nationals)	5.58
Current account deficit	5.56
Adequacy of infrastructure (transport, electricity, water)	5.36

International concerns:

	Level of concern (0-10)
European debt crisis	8.37
Renewed global recession	8.07
Instability in global capital markets	7.10
Level of US government debt	6.54
Strength of the Chinese economy	6.50
Strength of the US recovery	6.40
Australia's two speed economy	6.32
Strength of the exchange rate	6.26
Exchange rate volatility	6.09
Competition for global talent	5.86

Source: New Zealand Herald 'Mood of the Boardroom' Survey July 2012 / HERALD GRAPHIC

WHAT THE CHIEFS SAY

Sir Graeme Harrison
Anzco Foods

The top items on Harrison's 'to do' list for the next 12 months are:

- Remove excess processing capacity from the NZ meat industry.
- Concentrate investment on food solutions and ingredients business activities.
- Continue to press for the removal of beyond the border trade barriers for NZ exports of manufactured foods and related products.

If Harrison had the ability to make one change to improve New Zealand it would be to devote all possible resources to invest in a public private partnership to develop New Zealand's huge water resources for irrigation, renewable energy, tourism and sport and recretation. "This requires intergenerational commitment beyond the current private sector but offers the most ongoing economic benefits to New Zealanders".

His best achievement for the past 12 months? Focus on food solutions and ingredients business opportunities.

Biggest regret? Destructive livestock procurement competitition and the consequent trading losses that will be reported by the NZ meat industry.

The single biggest factor that would assist his business remain internationally competitive is a lower NZ dollar.

Joanna Perry
Genesis Energy

The top three items on Perry's to-do list for the next 12 months are:

- Learn Te Reo Maori.
- Work out what she can do "to help those in my local community escape the "poverty trap".
- Get better as a director.

If she had the ability to make one change to improve New Zealand, it would be to "ensure all New Zealand children had the opportunities to, and role models to make them want to, achieve an educational system that worked for them — to get them ready to be passionate about taking our country forward."

Her best achievement in the past 12 months?

Mentoring a number of future women leaders in various programmes — Institute of Directors, Global Women and the YWCA.

Biggest Regret? Not competing in more sports events!

The single biggest factor that would help her businesses remain internationally competitive from New Zealand would be: For more NZ companies and organisations to work together to promote NZ Inc!

> "We have to earn our living in a global economy and Government spending at current levels is not sustainable."
> Joan Withers, Chairman Auckland International Airport

Joan Withers
Auckland Int. Airport

The top three items on Wither's "to do" list for the next 12 months are:

- Find a new CEO for Auckland Airport to replace Simon Moutter.
- Further increase direct airlinks into Asia and other markets with growth potential.
- Finalise the timing on the second runway and the new domestic terminal.

If she had the ability to make one change to improve New Zealand it would be to improve the comprehension that "we have to earn our living in a global economy and that the increases in Government spending that have occurred in the past decade are not sustainable."

Her best achievement in the past 12 months? Being part of a team that has continued to profitably grow the business while making journeys better for the travelling public.

The biggest single factor that would assist her business to remain internationally competitive: "having all the NZ tourism sector working cohesively on a strategy to capture our share of the travel and trade potential from the Asian markets ."

Sue Sheldon
Chorus and Freightways

The top items on Sheldon's 'to do' list for the next 12 months are:-

- Continue to cement in recovery from GFC
- Support the rebuilding of Christchurch
- Continue towards overall expansion in business size.

If Sheldon had the ability to make one change to improve New Zealand she would speed up the Christchurch rebuild as the short to medium term impact would be felt throughout New Zealand. "This requires some major roadblocks to be removed, largely caused by the insurance industry."

Best achievement in the past 12 months? Demerger of Chorus from Telecom.

Biggest regret? Not having more time to put into Christchurch recovery at the macro level.

She says the single biggest factor that would make NZ small-to-medium sized business (in the manufacturing space) internationally competitive would be "the lowering of the exchange rate".

Survey split on merits of women on boards

Porter Novelli's managing director Jane Sweeney proclaims diversity is "the new black" in New Zealand boardrooms where companies face pressure to ensure at least 25 per cent of directors are women.

"New Zealand gets the business case and is over the endless chat about whether or not it has merit," says Sweeney. "The penny has finally dropped, there's a mood to collaborate and I think we will see some real traction this year, which will flow through to improved company performance in the mid-term."

Sweeney — like many female respondents to the *Herald*'s CEO survey — is a member of Global Women which spearheaded the drive to ensure more women in top roles.

In June, the push to ensure greater representation of women on boards and senior management stepped up with the formation of the 25 Percent Group. This group — which sports among its founding members Mighty River Power and Auckland Airport chairman Joan Withers, Progressive Enterprises' managing director Dave Chambers, ASB chief executive Barbara Chapman and Fletcher Building's chief executive Jonathan Ling — aims to lift the proportion of women on NZ boards from over 9 per cent today to to 25 per cent by 2015.

At the launch, Goldman Sachs New Zealand chief executive Andrew Barclay, who convenes the group, said though the economic benefits of gender diversity at board level were well proven, effective action to break down barriers had been slow.

"We can point to at least four recent international studies that prove companies governed by boards with a higher percentage of women members perform better.

"To achieve better results, the business community must move decisively to remove the barriers that preclude women from participating in the highest levels of leadership," he said.

The *Herald*'s CEO survey indicates the push for 25 per cent female participation is supported by nearly half (49.5 per cent) of respondents who are (not surprisingly) mostly male; 43 per cent were against the move and nearly eight per cent were unsure.

Mainfreight managing director Don Braid says his company finds the suggested move an "insult to women".

"We will consider people of any ethnicity or gender to be on our board at the appropriate time, providing they have the right skills and passion for our business."

Others agreed with the push for diversity but did not support arbitrary numerical targets "as it would lead to the potential for tokenism and devalue the achievement perceptions of women who are performing".

Says Rangitira's Ian Frame, "I don't support discrimination in any form and having such a policy is discriminatory in itself." Others said the issue was generational. The "Old Boys' Club" was still too entrenched and did not want to make way for women.

Just over half (51 per cent) of those responding said companies they were associated with were likely to action the 25 per cent goal; 28 per cent were not and 21 per cent were unsure.

Progressive Enterprises managing director Dave Chambers believes the only way to tackle the diversity issue is head on. "We have already set targets that are reported against in our monthly executive meeting. We're well on the way to achieving 25 per cent female representation in most parts of our business but we want it in all areas by 2015. This is not about tokenism; it's an important reminder to consider how we go about selecting the best person for the job." he told the 25 Percent Group launch.

The *Herald* survey has thrown up diverse views on implementation.

A motoring sector chief executive said promotion and appointments should be on talent rather than on quota, despite that more than 50 per cent of recent management appointments in our business have been women — "not before time!"

South Pacific Pictures' John Barnett says he would like to see more women on boards and in prominent roles. "My successor will be female, but I think merit should be the driver, and I would look to remove the institutional thinking that prevents their promotion rather than legislate for a number."

But a FMCG chief executive said the pipeline was weak. "I agree with targets and equality without reservation but this method will potentially result in weaker boards."

The National Government has stepped up female appointments to SOE boards, including power companies like Genesis Energy (chaired by Dame Jenny Shipley) and Mighty River Power (chaired by Withers) which have traditionally been seen as male preserves.

Withers emphasised she joined the 25 Percent Group to spark acceleration of women on to significant boards in New Zealand.

"I am looking to have a minimum of 25 per cent women representatives on on the boards I chair and am introducing clear diversity policies.

"I aspirationally support more diversity in the boardroom and all companies with which I am involved are considering the appropriate strategies to achieve increased diversity," adds professional director Joanna Perry, deputy chairman of Genesis Energy.

The NZX has also issued a diversity rule requiring listed companies to publish the gender composition of their boards and senior management in their annual reports. Companies that have a formal diversity programme will have to report annual progress.

Similar requirements introduced by the Australian Stock Exchange resulted in a big jump in the level of female representation on listed company boards.

Chairman Andrew Harmos, whose NZX has issued a diversity rule requiring listed companies to publish the gender composition of their boards and senior management

> "Best person for the position — male or female — not a percentage target."
> — Peter Thompson, Barfoot & Thompson

> "The penny has finally dropped and I think we will see some real traction this year."
> — Jane Sweeney, Porter Novelli

Local bounceback, Asian market, biggest spurs for growth

New Zealand companies are determined to leverage the fast-growing Asian region to foster future business success.

Just over 90 CEO respondents say their companies already have active trading relationships or investments with China. Singapore is next (68 per cent), then Japan (63.8 per cent).

It doesn't stop there. New Zealand companies' ties are rapidly expanding with India, South Korea, Indonesia, Vietnam, Thailand, Malaysia, Philippines and Cambodia. "We are in a sweet spot," enthuses EMA boss Kim Campbell.

The major growth opportunity for companies over a five-year horizon is still a New Zealand domestic economic rebound rated at 4/5 on a 1-5 scale where 1 equals no opportunity and 5 equals great opportunity. Growing consumer demand in Asian markets was next (3.5/5) followed by China's demand for commodities and resources (3.24/5) and the Christchurch rebuild (3.9/5). The US recovery and Australian consumer market followed, then greentech opportunities and free trade deals which open new markets.

Take two examples: Fast-growing global logistics player Mainfreight and Auckland International Airport have strategies in place to leverage the burgeoning Asian markets — Mainfreight by trading from these markets to around the world as well as maintaining links to New Zealand; Auckland Airport by marketing New Zealand as a destination into the huge but fragmented tourism markets.

Others like Canterbury-based Synlait, which is in a joint-venture with Shanghai's Bright Dairy, are making strides. "Synlait is a bright star in leveraging Chinese investment to power up the dairy value chain and dominate in Asian ingredients supply," says Synlait director Ruth Richardson.

Local Government Funding Agency boss Craig Stobo says we should also expect to see more Asian investment.

But 71 per cent of CEOs want the Government to review the Overseas Investment Act to ensure a more transparent regime for foreign investors.

At issue is widespread confusion in the wake of the High Court's decision to overturn Cabinet approval for Shanghai Pengxin to buy 16 Crafar dairy farms from the receivers.

An FMCG boss said the farms debacle was a nonsense. "This should never have happened and it should be depoliticised as soon as possible."

Legal firm chief executives were critical. "The recent issues have led to a degree of uncertainty which is unhelpful," said Simpson Grierson's Kevin Jaffe. Another countered, "It's transparent enough — it's just Sir Michael (Fay) trying to create mayhem for his own benefit."

But another law firm boss said, the Act was "a shambles and needs to be rewritten from the ground up".

Other respondents felt it was important for business to play a role to inform the public ("we need foreign investment if we are to grow"). Some suggested that there needed to be more "co-investment" between foreign investors and New Zealand firms.

On the trading front, 56 per cent were confident the Trans-Pacific Partnership agreement currently being negotiated among 11 countries — including Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, the United States, Mexico and Canada — would result in a net benefit to New Zealand. But 37 per cent were unsure and 6.7 per cent said there would be nil benefit. "The expanded number of partners and blatant lack of transparency of what is at stake for New Zealanders had to be one or the worst episodes in our recent trade diplomacy," said Stobo.

A motoring sector boss was also disturbed. "I am a little unsettled by recent publicity around the commercial implications of offshore lawyers/firms controlling or influencing our domestic legislation — but that may just be fear-mongering. In general I think a clean TPP deal is good. But it is only a start, once you have a trade deal you have to leverage it into incomes."

Green growth opportunities are clearly on the business agenda with many already employing environmentally friendly processes and sustainability policies.

And nearly 30 CEOs are actively looking at funding and developing clean technologies. "The green circular economy is presents one of the greatest opportunities for New Zealand," says Campbell. But an energy sector boss warned the reasons for low investment in clean technologies to date were recent failures in this area.

The Canterbury earthquakes and legal judgments relating to the finance company collapses have resulted in 79 per cent saying CEOs and company chairmen are now spending more time on risk assessment and financial disclosure. A chief executive said it was getting quite ridiculous in his sector. Workload for our Audit and Risk commitment has increased substantially without any obvious reciprocal benefit for customers or investors."

Just over 93 per cent of respondents have now made contingency plans to deal with disruptive events like earthquakes, cyber-attacks and energy supply disruptions. And 37 per cent face the need to strengthen their company's properties to bring them up to new earthquake standards.

71% of CEOs want the Government to review the Overseas Investment Act.

56% were confident the Trans-Pacific Partnership would result in a net benefit to New Zealand.

79% say CEOs and chairmen are now spending more time on risk assessment and financial disclosure.

93% of respondents have now made contingency plans to deal with disruptive events like earthquakes.

WHAT THE CHIEFS SAY

compiled by Alistair Birchall

Andrew Blakey
Navman

After being sold to MiTAC in 2007, Navman — which makes in-car navigation units — has only retained a limited presence in New Zealand.

Though those jobs that have remained are primarily high-value development positions, there remains uncertainty as to whether these roles will remain in New Zealand over the longer term. Given this uncertainty, General Manager Andrew Blakey has highlighted the maintenance of the New Zealand arm's development role in a cost-cutting environment as his best achievement of the past 12 months. Over the next 12 months, he faces two key challenges:

- Not getting closed down as a development centre by the multinational parent company; and
- Finding skilled software engineers to fill vacancies.

Disruptive technology changes are impacting Navman — like most other companies, particularly, with the use of increased use smartphones and The Cloud.

Like many exporters, Blakey fingers a depreciation of the New Zealand exchange rate as the single biggest factor that would assist his firm's international competitiveness.

When considering New Zealand's situation more broadly, he cites increasing realism about the cost of superannuation as the one change he would make to improve the country.

Ken Rivers
Refining NZ

The past several years have not been kind to Refining New Zealand, as the global financial crisis and an increase in Asian refining capacity has squeezed the company's processing margin, and consequently its revenue. To arrest this slide Ken Rivers, Refining New Zealand's CEO, has outlined an ambitious strategy for growth based around the construction of an ambitious $365 million investment in a Continuous Catalyst Regeneration Platform at the company's Marsden Point facility.

Though the investment will suppress short-term returns, it will increase capacity and bolster flagging margins over the longer-term. For Rivers, gaining shareholder approval for the project was his best achievement of 2012.

Over the next 12 months, the top three items on his to do-list are:

- The execution of this new investment;
- Raising the game in risk management; and
- Growing capability.

From Rivers' perspective, one of the key difficulties for his business is the continued strength of the NZ dollar relative to the US dollar, which harms the company's competitiveness. Beyond the exchange rate, Rivers believes New Zealand needs to end its "culture of entitlement and grievance" in order to generate positive change.

John Barnett
South Pacific Pictures

South Pacific Pictures' John Barnett believes in order to improve New Zealand's prospects, educators need to ensure they encourage "the concept that success is good and that success is more than just winning a sporting match."

Barnett remains concerned that the current National-led Government has "been hobbled by allowing public opinion to shape policy".

At South Pacific Pictures — s New Zealand's biggest film production company — he expects growth to continue, forecasting increased revenue and profitability as well as increased staff numbers.

Barnett, who has publically stated he will step down in 2014, has put these items top of his to-do list:

- Consolidate a succession plan;
- Expand our Australian activities;
- Grow all exports.

Though he is strongly confident in South Pacific Pictures growth prospects, Barnett accepts that the broader global picture is bleak.

Best achievement: Growing our domestic and international markets.

Biggest regret: Je ne regrette rien.

Mark Gilbert
BMW

Despite difficult economic conditions, BMW Group has experienced a buoyant 2012 with robust sales figures across all their major brands: BMW, Mini and Rolls Royce.

Managing Director Mark Gilbert cites the company's increased sales volume and profitability as their biggest success of the past 12 months. Reflecting this success, Gilbert has kept his to-do list for the next year relatively simple:

- Grow the business;
- Make money; and
- Develop staff.

However, though they may have avoided the worst of the fallout from the financial crisis, BMW Group could not escape the consequences of the Canterbury earthquakes, and Gilbert's biggest regret over the past 12 months was "having a Christchurch business partner in the red zone."

Gilbert's prescription for improving New Zealand: "grow income per capita, and do it through also growing the population of the country."

He would also like to see more focus on what business can to to improve the skills base and education in New Zealand.

> **Reduce RMA bureaucracy and the gravy train.**
> Mark Cairns

> **NZ needs to end its culture of entitlement and grievance.**
> Ken Rivers

> **Allow us to get on with developing ourselves around the world.**
> Don Braid

> **Grow income per capita, and do it through growing the population.**
> Mark Gilbert

Mark Cairns
Port of Tauranga

In light of the turmoil in world markets over the past several years, Port of Tauranga CEO Mark Cairns is justifiably proud of his company's performance.

In 2012 Port of Tauranga saw a rise in both net profit and container volumes.

Moreover, the company was able to win a number of key clients off its rival to the north, Ports of Auckland, which struggled with industrial unrest.

Cairns anticipates this revenue growth continuing over the next year, and predicts the firm will both hire additional staff and increase capital expenditure. Over the next 12 months, the three key goals for Cairns are:

- To secure a dredging consent currently before the High Court;
- The completion of a $180 million infrastructure investment to facilitate supply chain security; and
- The development of a succession plan for 2 out of the 5 executives on the Port's leadership team.

For Cairns, the key hindrance to the Port's continued growth is the RMA process.

At present the company's application for a dredging resource consent has been appealed to the High Court on cultural grounds. Failure to gain consent would limit the Port's ability to handle the next generation of container ships.

Cairns sees this as an issue that extends beyond his industry, and the one change he would make to improve New Zealand would be to "reduce RMA bureaucracy and the gravy train."

Lain Jager
Zespri

For Zespri CEO Lain Jager, the past two years have thrown up a new challenge: the Psa virus, which spread through the North Island in 2010 and had a substantial negative impact on revenue.

The virus has forced the Kiwifruit industry, which was experiencing considerable growth, to reassess its short term priorities.

Though the 2012 crop is expected to be down considerably from 2011, Jager is confident that new developments will allow the company to return to growth in the longer term.

While Jager expects both profit and revenue to fall, Jager anticipates an increase in both staff numbers and capital expenditure, as the company works toward implementing the top three items on Jager's to-do list:

- The implementation of Psa recovery paths;
- The establishment of the Psa-resistant Sun Gold brand in Zespri's markets; and
- Strong growth in rapidly developing economies.

Jager is generally satisfied with the performance of the present Government, but retains concerns over the more difficult big-picture issues, such as the long-term affordability of superannuation and the high cost of land.

For Zespri, New Zealand's high exchange rate is an ongoing issue affecting competitiveness, but Jager accepts this is a matter which requires a broader debate over savings and investment.

Don Braid
Mainfreight

Don Braid has rapidly expanded Mainfreight's global logistics business since he moved into the top job.

The company has strategies in place to leverage growth opportunities in Asian markets like China and India, the US, Australia. "By getting ourselves established in each of these markets we are well placed to to take advantage of the recoveries in each of these economies — not only for trade to and from New Zealand but also trade to these markets from around the world."

The top three items on Braid's "to do" list for the next 12 months are:

- Growth
- Profitability
- Expansion into more countries

If the Mainfreight boss had the ability to make one change to improve New Zealand it would be "to improve education standards for our children, particularly the poor and to have more people aspire to a higher level of education. "

Best achievement in the past 12 months: " Getting ourselves into Europe

Biggest regret?: "Not getting our people to employ the very best people who are looking for a career."

The single biggest factor that would assist Brain's business to remain internationally competitive from New Zealand would be to ensure business has a level playing field and "allow us to get on with developing ourselves around the world".

Peter Thompson
Barfoot & Thompson

If Barfoot director Peter Thompson could make one change to improve New Zealand it would be to help first home buyers get a property.

His own "to do" list for the next 12 months reflects his wish to have a better work-life balance.

- Complete renovations on our new head office and move in later this year.
- Improve the sales output from each of our salespeople by improving customer service.
- Start having more fun — .there's more to life that just work..

Thompson's best achievement in the past 12 months? "Seeing continued growth in the company and retaining our excellent salespeople after going through some tough trading conditions."

Biggest regret? "Not making some of the hard decisions we had to make during the last 12 months earlier on.

"We accepted poor performance hoping for change which didn't eventuate."

Asked what is the single biggest factor that would help his business remain internationally competitive from New Zealand, Thompson says "Although we only operate in Auckland, the biggest factor would be not to listen to what is happening in other parts of the world as far as real estate is concerned as firstly, we don't have the population of those countries (UK, USA, and even Australia), and secondly we have a different philosophy on home ownership in New Zealand."