Editorial

THE ‘GENERAL WINTER’ SYNDROME

PARTWAY through the sweeping epic that is War and Peace, Tolstoy inserts the first of several philosophical musings on the nature of history, leadership, and power. It takes, as its cue, Napoleon’s crossing of the Russian frontier at the head of a vast invasion army in June, 1812. What, Tolstoy wanted to know, lay behind the terrible tide of events that was to bring suffering and destruction on such an unimaginable scale – hundreds of thousands killed, towns and villages burned, and the fertile earth turned into a wasteland? He was unshakably clear about one thing: it was not, as many of his contemporaries believed, the decisive impact of ‘Great Men’.

“A king is History’s slave. History, that is, the unconscious, general, swarm-life of mankind, uses every moment of the life of kings as a tool for its own purposes,” Tolstoy wrote.

While it was true that some leaders were more able than others to walk the tightrope of events, all were conditioned by what had gone before, he argued. Real power didn’t lie in issuing orders, but in the co-operation – complicity, even – between those who gave orders and those who were expected to carry them out. If only enough was known about the countless opaque threads of objects, occurrences, and influences that comprise the web of life, the relative powerlessness of those in authority to shape events would become obvious.

Tolstoy’s aim, in foregrounding Napoleon’s Russian campaign, was to shift attention from the leader to the led. In this issue of the Business Review, Fiona Kennedy and Darl Kolb do something similar, as they glean leadership lessons from a different kind of campaign: the 2016 US presidential election. “If authenticity is the key to explaining this historic moment, then events on the campaign trail shed light on what authentic leadership is, and what it is not,” they write. Among their conclusions: authenticity emanates from a powerful alchemy between leader and followers; and focusing on one’s “inner self” risks producing leaders who encourage their followers’ fantasies rather than asking them to face complex realities.

Also in this issue, Tim Hazledine uses sophisticated modelling to investigate what underpins the remuneration of New Zealand CEOs. Puzzlingly, he finds no apparent systemic link between remuneration and productivity or firm profitability. Chellie Spiller touches on another Tolstoy theme – the wisdom that stems from a deep awareness of the ‘flow of life’. Writer Isaiah Berlin calls this sensitivity to the contours of circumstances, a “cosmic orientation”. Having studied Polynesian master navigators who harness such awareness through centuries-old wayfinding techniques, Spiller reports on a promising new approach to leadership. Monique Cikaliuk advances an argument for company boards to become the drivers of strategic transformation. Documenting the renewal process at Auckland International Airport she details how its board broke the status quo by creating a vision for change and instilling a capacity to adapt. Lastly, Barry Coates champions the need for companies to embrace sustainability in their governance practices. Doing so, he argues, would improve the country’s competitiveness in demanding supply chains and markets, reap social and environmental benefits, and help meet climate change obligations.

Which brings us back to Napoleon. When his military adventure failed so spectacularly in 1812, he put it down to “General Winter” – the brutal Russian climate. It was a deceit calculated to deflect criticism of his own ability. Today, as the contributors to this issue suggest, outdated ideas of leadership won’t be rescued by blaming the weather.

Vaughan Yarwood
EDITOR
Submission Guidelines

The University of Auckland Business Review encourages insights, reflection and debate on contemporary business theory and practice. It reports on new and notable research, focusing on the implications for business professionals. The journal is published twice a year, in spring and autumn, by The University of Auckland Business School.

The Business Review is a forum for diverse views from various disciplines and aims to bridge the gap between research and practice. The journal publishes editorially-reviewed and peer-refereed articles which, while based on research, should be clear and engaging.

Articles should be 2500–3500 words in length and supplied in electronic form. Endnotes, footnotes, and references must be integrated into the main text, rather than placed in brackets or indicated by numbering. Please see individual Business Review articles for examples of the journal’s preferred style.

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It would be easy to write off the 2016 US presidential election as a once-in-a-lifetime media circus, but we believe that it deserves some thoughtful reflection. Not just because it is a race for one of the most powerful leadership roles on the planet, but also because this time around "authentic" leadership has had a starring role at both ends of the political spectrum. If authenticity is the key to explaining this historic moment, then the events on the campaign trail shed light on what authentic leadership is, and what it is not. We consider why and how the notion of authenticity has become more than a leadership buzzword and ask: What is the role that followers play in co-creating authentic leaders?
The crucible of authentic leadership

In the late 1990s the notion of transformational leadership was seriously questioned as a result of growing cynicism about the integrity of business and community leaders. The *Harvard Business Review* carried articles with titles such as 'Managing the Dark Side of Charisma' and 'Narcissistic Leaders.' This growing disenchantment was exacerbated by events such as the Enron scandal in the early 2000s. Proponents of transformational leadership responded by positioning authentic leadership as a positive qualifier to transformational leadership. Researchers began speaking of “authentic transformational leadership” and contrasting this with what they termed “inauthentic or quasi-transformational leadership.” Authenticity became a litmus test that could reveal false prophets.

In a New Zealand study published in the *University of Auckland Business Review* in 2007, Lester Levy and Mark Benson drew on empirical evidence to describe managers who were "more right than real". Their data underscored the problems of authoritarian leadership, suggesting that New Zealand managers would rather be seen to be in the know ('right') than expose their vulnerabilities (be 'real'). Counter to our cultural myth of homespun honesty, the findings suggested that New Zealand managers felt it was risky to admit ignorance, though that would have been the authentic thing to do.

Sociologist Rebecca Erickson of the University of Akron connected the accelerating interest in authenticity with questions raised by postmodernism about what was and was not real. Erickson argued that authenticity became increasingly important as this quality came to be experienced as rare and at risk in a world that emphasised a multiplicity of values and perspectives, and the erosion of scientific certainty, identity, and 'truth'. In the emerging postmodernist environment social distinctions that maintained inequities of class, race, and gender began to weaken and space was created for new voices, including those who had been marginalised. The renewed interest in authenticity could be seen as a platform for those whose centrality and power was becoming less certain.

During the 1990s the ground had also shifted in other ways. Traditional images of leadership involving leading from the front and heroic leadership were challenged. The promise of authenticity was directly linked to "Leadership for a New Century" and framed as an antidote to cynicism and the culture of artifice. As a label, authenticity went well beyond referring to those who had a deep knowledge of themselves. It came to imply a range of attributes including being contextually aware, optimistic, resilient, and of high moral character.

Who could possibly object to such qualities? Researchers Bruce Avolio of the University of Nebraska-Lincoln and William Gardner of Texas Tech University drew on American literary critic Lionel Trilling to make a crucial distinction between authenticity and sincerity. While the latter focuses on being true to others, Avolio and Gardner argued that "recognition of the self referential nature of authenticity is essential to understanding the construct". An authentic self is seen as one "that exists wholly by the laws of its own being… one acts in accord with the true self". This self has a firm degree of autonomy and is not buffeted by the needs and expectations of others.

However, it is precisely this self-referential quality that we see as posing problems by vastly oversimplifying the relational dynamics between leaders and followers and the associated responsibilities of that relationship. As we discuss below, focusing on one’s inner self runs the risk of leading to contemplation, rather than experimental action; of producing self-obsessed leaders who are immune to doubt or to viewpoints that are disruptive to their own. More importantly, we suggest that framing authenticity as an enclosed quality promotes leaders who encourage their followers’ fantasies, rather than asking those followers to face complex realities.

In summary, authentic leadership entered the stage as a much needed corrective to leadership that was destructive and unethical, and as a wake-up call to those who relied on authority and self-protection to get things done. But, does it allow one to hover above the clamour of the social world? We suggest that the pursuit of detached self-actualisation ignores the fundamentally social and relational dynamic of leadership. We also see problems with the promise of authenticity as a corrective stabiliser in an uncertain world. We next consider these issues from the perspective of the campaign trail.
Lesson 1: Authenticity Matters

Authenticity is not just a "Trump" card. It is also associated with the other surprising radical on the campaign trail, Bernie Sanders. The University of Southern California's Professor of Entertainment, Media and Society, Martin Kaplan, goes so far as to argue that it is the defining issue of the 2016 campaign. In a blog post he wrote:

What Biden has, what nervous Democrats fear Clinton lacks, is authenticity, the new It factor. The old It was ideological (Do they hate big government or racism as much as I do?). Positional (Are they with me on guns or climate change?), demographic (Do they care about people like me?) and personal (Who I want to have a beer with?). The new It is ontological: Who's real? Biden is real. His personal tragedies testify to that. He's not a politician, he's our brother…

Two candidates in the race are running on It (authenticity). Bernie Sanders is drawing the biggest crowds of the campaign because he seems as honest as his hair. But his manifest authenticity ("Yeah, I'm a socialist") may make him unelectable—the same fate Clinton is feared to be facing, though for the opposite reason. Donald Trump has It, too, but, like his hair, there's artifice about it. Is Trump real? Or is he "real"? Trump works both sides of that aisle.

However, watching the 2016 campaign trail we see there is more to authenticity than merely the 'genuine' leader. While some have pointed fingers at the media for building up these caricatures, it is the followers who have made Trump and Sanders 'real' contenders in this race. Social context is not just the wind in the candidates' sails; the crowds are part of the fabric of the sail itself.

Lesson 2: Authenticity is a Relationship

Manifest authenticity is not achieved when followers are spectators but rather when they are stirred to imagine a new reality for themselves. An authentic candidate on his or her own does not necessarily produce something beyond themselves. Trump and Sanders moved into the space between leader and followers where followers can taste a 'new real.'

Sanders does not have Clinton's problem when it comes to appearing down-to-earth. In fact, with his crumpled shirts and unruly white hair he comes across as everyman, which resonates authenticity as traditionally defined. He knows who he is and what he stands for. However, there is more. Sanders' followers are largely university-educated millennials who are still living at home, working part-time, and attended to by anxious middle-class parents. He offers the prospect of joining a movement and recasting the country. Being a revolutionary is an entirely different identity in the world than that of a large, educated baby, fuzzed over by mum and dad, and living in their furnished basement. Under these circumstances we can imagine that the call to revolution as an authentic experience is indeed sweet. Trump also offers followers the prospect of new identities. No longer powerless, voiceless, marginalised, and excluded from the wealth of America, they become scrappy fighters who are willing to do and say what it takes to make America great again. This, we believe, is the alchemy of authenticity. In short, leaders do not exist without followers, no matter how well they know themselves or how in touch they are with their own life stories.

From a leadership perspective, authenticity is connected to performing a reality-shaping function for others.

We also challenge the notion that we have one true self, to the exclusion of other selves. The truth is that we are a social species and the self is defined in relation to others. To freeze the self is to deny the possibility of new types of interactions as roles and circumstances change. Moreover, the self is context-dependent. Contingency models of leadership have long acknowledged the fact that effectiveness depends on responding to the circumstances and conditions in which the problem is situated. From a leadership perspective, authenticity is connected to performing a reality-shaping function for others. In this context, Trump and Sanders are connecting with, and igniting fears and possibilities for, identities on different sides of the political spectrum.

The authenticity of Trump and Sanders that has gained traction in the 2016 campaign has offered large proportions of the US population a glimpse of themselves, living a new part in
Without these troubled multitudes who project onto him their uncertainties, nightmares and desires, Trump would not exist."

We are not the first to draw attention to the social dimension of authenticity. After all, self and society are two sides of the same coin. Dr Helen Nicholson of Lund University and Associate Professor Brigid Carroll of the University of Auckland Business School reposition authenticity from something one has (or does not have) to something one and Carroll therefore pose the question about authenticity: Is it for me, authenticity that arises from looking inward can only be trivial. Nicholson and Carroll therefore pose the question about authenticity: Is it for me, or for something beyond me? The question is important because it shifts authenticity from something one has (or does not have) to something one does with, or for, others and for a purpose. This take us to lesson three...

Lesson 3: The relationship carries responsibility

Recognising the relational and social dimension of authenticity takes us to leaders' responsibility. We have suggested that the alchemy of authenticity taps into, and kindles, the often subconscious fears and desires of followers. Psychoanalytic perspectives help shed light on this dynamic. University of Bath sociologist Yiannis Gabriel, for example, notes that "relations between leaders and followers frequently stimulate powerful emotional experiences and are liable to unleash formidable fantasies."

From a psychoanalytic perspective the alchemy of authenticity is not unexpected. Gabriel refers to an emotional 'resonance' between leaders and followers that is "linked to unconscious wishes, desires and fantasies". Recognising this dynamic, he argues that leaders have a responsibility to focus and tame the emotional energy of followers. However, on the campaign trail, Trump actually intensified the outrage that underlay outbreaks of yelling, stomping and chanting "build the wall, build the wall" by shouting back. These occasions can be seen as the alchemy of authenticity run amok as a blunt instrument is used to stir a crowd seeking easy answers to complex social issues. This raises the question of what a leader can or should do when he or she is both inciting and rid ing a social stampede. Is it enough to be 'real' once the gates are opened? Probably not. Ironically, and unfortunately, a leader who suddenly wants to 'slow things down' or moderate social reaction may in fact be powerless to do so – as Sanders discovered when he attempted to align his followers with the Clinton camp after she gained the Democratic Party nomination. It is a point not lost on those who feared the possibility of Trump actually winning the Presidency.

Lesson 4: Trial by fire is not going away

The final lesson concerns authenticity as a metaphorical trial by fire. For would-be or developing leaders, becoming more authentic or 'real' is likely to proceed amid accusations of being disingenuous, or pretentious. Writing for the Guardian newspaper Dan Fox reflected on how such accusations are used as a weapon in power plays and moral judgements. He notes that the Latin root for pretend was 'praetendere' which meant "to stretch in front." Not until 1725 did the notion of 'pretend' come to be understood to be a direct and firm connection between true self and action, and therefore anything experimental or unfamiliar must be considered suspect and framed derogatively as 'fake'. Trump knows exactly who he is. He is wealthy and so he brazenly shows up at a country fair in his private helicopter.

There is an assumption that who we are is relatively fixed and that attempts to be different are signs of inauthenticity. Authenticity is understood to be a direct and firm connection between true self and action, and therefore anything experimental or unfamiliar must be considered suspect and framed derogatively as 'fake'. Trump knows exactly who he is. He is wealthy and so he brazenly shows up at a country fair in his private helicopter.

The danger here is that having one true self rules out the possibility of alternatives, suggesting that the rich braggart Trump can be right for all situations.

Clinton, by comparison, faces complaints that she appears aloof and difficult to connect with as a person. However, when observed putting on her Sunday show face, she is perceived as
inauthentic. Thus she is caught in the ‘authenticity doom loop’ – a term used by media critic Brendan Nyhan, who observes the impossibility of extending one’s repertoire for self while remaining the same.

In a 2015 Harvard Business Review article, ‘The Authenticity Paradox: Why feeling like a fake can be a sign of growth,’ Herminia Ibarra, an organisational behaviourist at INSEAD, considered the dilemma of needing to ‘fake’ a new leadership approach until it feels genuinely yours. Ibarra’s research suggests that, as our careers advance, we find ourselves in situations where we are torn between being true to who we are and the requirements of a new role. In order to be effective, we must act in ways that are not natural, and this can make us feel like we are faking it. Ibarra’s analysis urges managers not to turn weapons of authenticity against themselves. It is not platitude to say that stepping into the space between our old and new self takes considerable courage.

It is no platitude to say that stepping into the space between our old and new self takes considerable courage.

Ibarra’s contribution is to encourage leaders not to be cowed by weapons of authenticity. However, her perspective is less helpful for negotiating the alchemy of authenticity. She would probably point out that Clinton’s attempts to mingle with common people may be cowed by weapons of authenticity. However, her alchemy work at not appearing aloof, while maintaining his to-earth settings – much as Barack Obama has had to indeed look awkward, but is the only way for a formal leader.

We would like to end with a recent example from outside the campaign that reveals something of the alchemy of authenticity handled with a firm grasp of purpose and responsibility. In early 2016 the influential management writer Tom Peters visited one of the authors’ Business School classes. He chatted with students, shared some stories and ideas, and invited them to ask questions. Toward the end of the conversation, a student asked Peters to talk about one of the most challenging experiences in his career. Rather than recounting any of a number of challenging consulting and diplomatic situations, he offered several deeply personal examples, and did so with humility and a word of caution. Why did he do this, rather than present the heroic tales that had been anticipated and expected?

During the class, it had been obvious that something of the alchemy of authenticity was at play. Peters was ‘straight up’ and thoroughly engaging and the students responded by becoming more like a select group of people who were on their way to outstanding business careers. When he offered personal stories of caution, he interrupted rather than inflamed their imaginations. Thus, the alchemy was handled with great responsibility, cutting through flights of fancy to offer students an unexpected, yet valuable picture of a whole and complex life.

Repositioning authenticity as social and relational – as an alchemy between leaders and followers – disrupts the notion that it is possessed, or is discovered, through contemplation. At the beginning of this article we noted that the growing interest in authentic leadership responded to the conditions of postmodernism, offering certainty at a time of unprecedented flux. We believe it is important to acknowledge that longing, while recognising that certainty creates its own dangers.

Looking back at the presidential election of 2016, it may be difficult for anyone to understand Trump'smeteoric ascendancy and his disruption of a 100-year-old political party. The alchemy of authenticity may be one part of the answer. When life gets hard we sometimes say "things got real." The campaign lit fires under many Americans who were looking for solutions tough enough to tackle their problems – and they came from both ends of the political spectrum. The unprecedented and unanticipated rise of both Trump and Sanders tells us much about authentic leadership. Regardless of the political outcome, the lessons from the 2016 campaign are valuable because the demand for authenticity will be a leadership challenge for years to come.

KEY TAKE-OUTS

• Authenticity has become a platform for those whose social and economic position is under threat.

• Focusing on one’s “inner sell” risks producing leaders who encourage their followers’ fantasies rather than asking them to face complex realities.

• For effective leadership, authenticity must be appreciated as both social and relational, and handled with a firm grasp of purpose and responsibility.
The search to discover what drives CEO remuneration has a long way to go.

WHAT UNDERPINS TOP PAY?

THE LIVES OF THE men and women who run our largest organisations – the Chief Executive Officers, or CEOs – are both public and mysterious. We know who they are, though few observers could name their immediate subordinates – the CFOs and COOs – in even the largest companies. In the case of publicly-listed and state-owned companies, we also know how much CEOs are paid, and we are periodically and very publicly reminded how large their remuneration is, and how much it has gone up – as it always seems to do – compared with that of other wage and salary earners.
To put it bluntly: are CEOs worth what they get paid? If the answer to that is yes, were they being exploited when paid so much less twenty years ago? If the answer is no, then how has the difficulty of the job or the value of the output increased so as to justify the higher pay?

One reasonably concise proposition about the actual job of a top executive is advanced by researchers Peter Demerjian, Baruch Lev, and Sarah McVay in a 2012 Management Science article. In it, they write that they:

- expect more able managers to better understand technology and industry trends,
- reliably predict product demand, invest in higher value projects, and manage their employees more efficiently than less able managers. In short, we expect more able managers to generate higher revenue for a given level of resources or, conversely, to minimize the resources used for a given level of revenue (i.e. to maximize the efficiency of the resources used).

This is certainly language any economist can understand, but can economic analysis reliably identify and measure the efficiency of managers’ use of resources, and empirically link this to their (generally increasing) levels of remuneration? The present article investigates the topic by drawing on research that uses novel – indeed, unique – data to identify the deep structure of managers’ pay in New Zealand.

Since the 1993 revision of the Companies Act, all firms listed on the New Zealand stock exchange that are substantially locally owned have been required to include in their annual reports information on all employees with remuneration packages worth more than $100,000 per year.

This data, presented in the form of salary bands, enables us to infer the size and shape of the managerial hierarchy within each firm. It can be added to more conventionally available information on the structure and performance of firms, such as sales, assets, number of employees, profitability, and growth, to give new insights into what CEOs are paid to do, and what might justify – or, at least, explain – why their pay has tended to increase over time.

In 2014, CEOs in the New Zealand listed companies sector received an average compensation of $840,000 – a figure that has increased since 1995 by 85 per cent in constant dollars, even when corrected for company size. Over the same period, real weekly wage and salary earnings have increased by just 13.5 per cent. As a result, CEO pay is now on average 12 times higher than that of the average shopfloor worker.

The “explosion” (as some have termed it) in top
In New Zealand, for example, the income share of the top 1 per cent of taxpayers almost doubled between 1985 and 1995.

Pay has been documented across the English-speaking corporate world, and indeed the process probably got underway well before 1995. In New Zealand, for example, the income share of the top 1 per cent of taxpayers almost doubled between 1985 and 1995.

So, how has this happened, and is it a problem for the firms themselves – that is, a governance or capital market issue – or indeed for the nation at large, through its effects on the overall income distribution and economic prosperity?

Here is where the mystery becomes evident. No one seems to know why CEOs are paid so much – if indeed it is a lot – because we do not know exactly what their jobs entail. That is, we do not know what tasks and responsibilities CEOs are being paid to shoulder, so we can hardly assess how effective they are, or how much that activity should be worth to the companies that employ them.

This may seem a surprising claim, because the pay and performance of CEOs – and sometimes of their most senior executives – has received considerable attention from researchers. These researchers have adopted one of two analytical perspectives: changes in what could be termed “horizontal” bargaining power of (especially English-speaking) CEOs with globalisation and the “vertical” relationship between CEOs and those to whom they report. So, if – for reasons yet to be explored – there has been a trend to larger managerial bureaucracies (for a given revenue size of firm), then this would naturally be reflected in increased pay for the person at the top of the pyramid. On the other hand, if the trend is to flatter organisational structures, or wider spans of control, then it is conceivable that the greater skill required to manage such structures might equally justify higher pay for the CEO.

Researchers agree that employees at higher levels in those bureaucracies should, and do, get paid more – even if there is disagreement about just what they are being paid more to do. That is, managers at each level get paid more than those to whom they supervise, and less than those to whom they report. So, if – for reasons yet to be explored – there has been a trend to larger managerial bureaucracies (for a given revenue size of firm), then this would naturally be reflected in increased pay for the person at the top of the pyramid. On the other hand, if the trend is to flatter organisational structures, or wider spans of control, then it is conceivable that the greater skill required to manage such structures might equally justify higher pay for the CEO.

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WHAT THE DATA LOOKS LIKE

Information was collected from the annual reports of locally-listed companies using the financial statements collected on the NZX database (companyresearch.nzx.com), often supplemented by the text of the reports – for example, to glean figures on employee numbers. For each company data were obtained for the latest available financial year (usually 2014, when these data were gathered), and the earliest year in which the newly required remuneration numbers were offered (usually 1997).

The highest-paid CEO (at telecoms company Spark) received a remuneration package in 2014 worth $3.8 million. The lowest paid, at start-up Windflow Technology in 2005, earned just $110,000. Any idea that there is a rigid relation between company size and CEO must be qualified by the fact that the total revenue of Spark in 2014, at just under $3.7 billion, was less than half that of the largest listed company by revenue, Fletcher Building ($8.4 billion) even though, at $1.9 million, Fletcher Building’s CEO was paid only one half of the Spark boss. Fletcher Building also had the most staff over the threshold of $150K annual remuneration, and the largest salary bill for those staff – 1078 people collectively earning almost $260 million.

Just over 5 per cent of our listed companies are in the “Fire” (Finance, Insurance, Real Estate) business – a proportion that is probably lower than in the United States, Britain, and elsewhere. One quarter of the companies earned a better than 15 per cent rate of return (profit/assets), but nearly one in five were in loss-making territory – including some recent start-ups.

Although there were 110 listed companies with two years of data, most of these entered the database too recently, or departed too early to yield valid before/after comparisons. Table 1 shows averages for the 41 companies for which we have two years of data, and for which the earliest data year preceded 2001 and the latest was after 2011, with a sample average gap of sixteen years. All monetary data are converted to 2014 values.

The first data column is the average before the early year, the second shows the latest year, and the third column divides the
second by the first, to tell us the average growth over time of each variable.

Here, “Size” is the larger of revenue from sales and total cost of sales. For these companies size increased on average by more than the growth in assets and total employment, which in turn grew more than real value added (sales minus cost of materials and purchased services), implying an overall drop in productivity. The average wages or salaries of both non-managerial and managerial employees barely increased, in sharp contrast to the more than doubling of CEO remuneration. However, the largest growth was in the number of managers, which supports the hypothesis that some CEO pay growth is due to an increase in the number of managerial subordinates reporting to them. Over the sixteen year average span between the first and second observations for these 41 companies, the ratio of managers to firm size increased, on average, by 122 per cent — a striking change in organisational structure.

### MODELLING TOP PAY

To dig deeper into the connections between pay, size, managers, and so on, econometric models were run on the full sample of 110 companies for which two years of data were available. These exercises can produce estimates of the magnitude and causation of linkages between variables, and they have striking implications:

- **Even controlling for changes and differences in firm size, there is an unexplained secular upward trend in CEO pay in New Zealand listed companies of about 3 per cent per year.**
- **Size itself is important, as expected. On average, a company that is twice as large as another in terms of sales will pay its CEO 30 per cent more. This matches the findings in overseas studies.**

### TABLE 1:

**AVERAGES, 41 NZ LISTED COMPANIES (CONSTANT $NZ2014)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Average Before 2001</th>
<th>Average After 2001</th>
<th>Ratio After/Before</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size $000s</td>
<td>470672</td>
<td>823627</td>
<td>1.75</td>
</tr>
<tr>
<td>Value Added $000s</td>
<td>118372</td>
<td>142108</td>
<td>1.20</td>
</tr>
<tr>
<td>Assets $000s</td>
<td>690263</td>
<td>1053602</td>
<td>1.53</td>
</tr>
<tr>
<td>Total Numbers Employed</td>
<td>1320</td>
<td>1858</td>
<td>1.41</td>
</tr>
<tr>
<td>Non Managerial Wage $000s</td>
<td>62</td>
<td>67</td>
<td>1.07</td>
</tr>
<tr>
<td>CEO Pay $000s</td>
<td>474</td>
<td>1092</td>
<td>2.30</td>
</tr>
<tr>
<td>Number of Managers</td>
<td>30</td>
<td>85</td>
<td>2.84</td>
</tr>
<tr>
<td>Managerial Pay $000s</td>
<td>208</td>
<td>231</td>
<td>1.11</td>
</tr>
<tr>
<td>Total Pay Managers $000s</td>
<td>7169</td>
<td>20166</td>
<td>2.81</td>
</tr>
<tr>
<td>Ratio Managers/ Size x1000</td>
<td>0.077</td>
<td>0.171</td>
<td>2.221</td>
</tr>
</tbody>
</table>
About one third of both size effect and time trend can be accounted for by expansion in the numbers of managers – that is, employees paid more than $150,000 per year, most of whom are likely to be managers or to have substantial managerial responsibilities. However, it is not known why, or to what good, the managerial ranks have been inflated.

The number of employees in a firm earning less than $150,000 per year has no discernible effect on remuneration of that firm’s CEO. Whatever CEOs are paid to do apparently does not include taking responsibility for their blue- and pink-collar workforces.

Controlling for other factors, CEOs in the ‘FIRE’ (Finance, Insurance and Real Estate) sector are about 30 per cent better rewarded than their peers in other sectors.

A company’s profitability correlates with top pay only at the extremes: compared with everyone else, CEOs in the highest rate-of-return companies, and CEOs in companies making losses are the best paid, other things being equal.

**IMPLICATIONS AND FURTHER RESEARCH**

The striking secular upwards trend in the pay of people running New Zealand’s publicly listed companies lacks any obvious empirical justification in terms of general improvements in marketing, productivity, and profitability.

Indeed, if anything, the mystery is deepened. We can attribute – or at least link – about one third of CEO pay growth to a fattening of the hierarchy of managers reporting to the CEO, directly or indirectly. But what is the cause of this apparent sharp decline in managerial productivity?

Future research will focus on these issues. Financial and remuneration data have been collected from annual reports for every year, and personal characteristics and work histories compiled for each CEO. Industry-level data will enable the benchmarking of each firm’s sales, productivity, and profitability performance to its peers, and the investigating of links (or the absence of links) between performance and top pay.

Possible ancillary factors such as changes in the regulatory burden facing listed companies will also be investigated. The extent to which New Zealand has become a “price-taker” in an increasingly globalised market for high-level executive talent will be explored, for example by checking for changes in the nationality of our CEOs over the past two decades.

A final note on context. In or around 2014, the companies in our database paid out $91 million in total annual remuneration to their chief executives. That is just 1/700th of total sales revenues of those companies, which totalled $65.5 billion. It is just 1/50th of the increase last year in the net wealth of New Zealand’s 180 or so richest individuals and families, as assessed by the National Business Review in its annual Rich Lists – up from $55 billion to more than $59 billion over the past twelve months. So why worry? Why even be interested in what our CEOs get paid?

Well, it may be that such rhetorical questions do occur to company boards and their compensation committees when they make their annual upward adjustments to top pay. But we have here also found a link between CEO remuneration and the size of the much larger managerial pay-bill, which totalled $653 million – around 25 per cent of total sales, and 20 per cent of total profits. Those numbers are beginning to get interesting.

From a different perspective, we have noted that the near-doubling of CEO pay since 1995 contrasts with increases in real wages and salaries just one sixth as large, on average. That could be a legitimate source of concern, from the point of view of fairness and social stability. Evidence on the actual productivity of top management should therefore be high on the agenda for future research.

**KEY TAKE-OUTS**

- The pay of CEOs of New Zealand companies has almost doubled over the past two decades.
- Managerial bureaucracy has expanded noticeably over the same period.
- There is no apparent systemic link between remuneration and productivity or firm profitability.

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About one third of both size effect and time trend can be accounted for by expansion in the numbers of managers – that is, employees paid more than $150,000 per year, most of whom are likely to be managers or to have substantial managerial responsibilities. However, it is not known why, or to what good, the managerial ranks have been inflated.
Without magnetic compasses, sextants, or maps, and long before European ships had entered the Pacific, Polynesian voyagers were finding their way across 25 million square kilometres of ocean. Over time they discovered and settled a vast number of widely scattered islands, including Aotearoa New Zealand, using navigation techniques, such as reading star paths, swell frequencies, and cloud formations, that were handed down through generations. The feats of the Polynesian navigators have been likened, relative to the technology and knowledge of the times, to the modern moon missions.
The double-hulled sailing waka that were built to survive rough, ocean-going expeditions have been the inspiration for America’s Cup racing catamarans. And today’s GPS systems echo the methods employed by wayfinders to judge position in relation to place markers. Modern day voyagers regularly sail waka around the Pacific and on longer journeys, such as from Auckland to San Francisco. One group is even sailing a waka around the world using traditional navigation techniques, to raise awareness of the plight of the world’s oceans.

The great wayfinding tradition of the Polynesian navigators offer a powerful approach to leading people in an uncertain, complex, and rapidly changing world. Wayfinding leaders are able to more effectively release the potential in others and in situations. The practice of wayfinding deepens discernment about what is really going on, while at the same time enabling leaders to be more responsive to subtle shifts and nuances. It develops integrative thinking and perceptiveness — the ability to see connections between things that others do not see and to make sense of complexity. Wayfinding leaders adapt more naturally to change and harness the potential of uncertainty, ambiguity, and the unknown. And they experience greater relaxation, presence and calm — especially in the face of adversity.

Learning to be a wayfinding leader meets the desire of people such as Unilever CEO Paul Polman to enable everyone in the organisation to understand and use their “inner compass”. It also resonates with the recent interest in mindfulness training as part of leadership development, as evidenced by the popularity of programmes such as Search Inside Yourself developed by Google.

In writing Wayfinding Leadership I worked with master navigator Hoturoa Barclay Kerr and his Waka Quest business partner John Panoho. Subtitled ‘Ground-breaking Wisdom for Developing Leaders’, the book is a home-grown leadership development programme that draws on the distinctive experiences of island people in the South Pacific. It builds bridges to contemporary leadership ideas from around the world while challenging many imported ideas.

To guide the leadership development path we created a framework which we call “The Five Waypoints”. Waypoints are reference points for the purpose of navigation and have long been used for journeying. Each of the waypoints connects metaphorically to one part of a double-hulled oceangoing waka. The five waypoints are:

• Orientation on how to lead: relates to the whole waka as a needle and introduces key principles of orientation in wayfinding and leading.
• Implementing values: relates to the hulls of the waka and presents guiding values to orient the leader.
• Human dynamics: relates to the rudder, mast, sails, and mauri stones of the waka and covers identity and self-knowledge, alignment, collective will, and wellbeing.
• Deepening practices: relates to the cross beams on the waka and is about the planks that connect values with practices, supporting a holistic view that secures interpersonal relationships.
• Exploring and discovering destinations: speaks to the island where the end is a new beginning. It uncovers new worlds of possibilities for leaders.

Wayfinding Leadership covers many practices, three of which are introduced below.

FOSTERING A PURPOSE OF BECOMING

For the wayfinding leader, 'Purpose' is not a static slogan for the boardroom wall or annual report; it is something people are willing to share in and become. A key role of leaders is to foster this shared sense of becoming. From a Māori perspective this concept of becoming is known as tupu, which means “to unfold one’s nature”. In an organisational context, this means developing people so they are able to express their true nature and fulfil their potential, personally and collectively. It is an integral part of the “Five Wellbeings” approach, in which organisations seek to create economic, social, environmental, cultural, and spiritual wellbeing.

Such a strategy has been shown to support more conventionally defined views of purpose, including achieving financial goals. Without it, functional purpose statements miss the fundamental truth...
that it is the nature of the people that primarily
determines the quality of an organisation’s
journey and what is produced. Our approach
aligns with that of Dee Hock, the founder of Visa
International, who said: “A purpose is not an
objective, it’s not a mission statement—a purpose
is an unambiguous expression of that which
people jointly wish to become”.

Wayfinding requires that
we become explorers of our
world, seeking to discover
and shine light upon that
which is not seen.

According to philosopher Māori Marsden, the
achievement of authentic being is an unfolding
process of living an authentic life. In unfolding
true nature, wayfinding leaders are drawing from
the realm of potential, known as Te Kore. The
intention is to transform potential into mauri
– wellbeing. Viewed from this perspective,
the leadership challenge we all face, and our
individual and collective purpose, is to be
awake to the potential of ourselves, others, and
situations, and to then consciously manifest that
potential.

Wayfinding requires that we become explorers
of our world, seeking to discover and shine light
upon that which is not seen. To do this is to sail
beyond the compass of our existing knowledge
and to traverse uncharted waters in ourselves and
the world.

Native American scholar and philosopher Gregory
Cajete also captures the ethos of becoming,
which he describes as a movement toward
completeness: “… emergence into the world is an
 evolutionary tale of gradual development towards
this concept of being complete as a man or as
a woman … humans are questing for or on the
path towards becoming … it might even be said
that we’re pre-human, we’re questing towards
becoming truly human…”

In Wayfinding Leadership we symbolise the
journey to one’s true nature as the rudder or hoe
– the long-handled steering oar at the stern of
the waka. The hoe is very influential; it steers the
waka, and helps prevent it from being pushed
sideways by prevailing winds and swells.

**CALLING THE ISLAND TO YOU**

Central to fulfilling the wayfinding purpose of
becoming is learning and applying the practice of
‘calling the island to you’.

Some eight years ago, I was sitting at a
dinner table with Professor Charles Royal of
the University of Auckland, whose field was
indigenous development. He enraptured
guests with a story about Polynesian
navigators. For the purposes of
navigation, Professor Royal
explained, the wayfinder
would conceive of the
waka as stationary,
whilst the world slid
past, much as a
train passenger
looking through a carriage window sees the world
moving.

By staying ‘still’ wayfinders align to the star
path at night, and adjust to the ocean swell
by day. Steering is done through sensation as
well as sight. They gain important information
from observing the tell-tale cloud formations
that develop over high islands and over coral
atolls and note their colour – islands with heavy
vegetation produce a dark tinge and those with
white sand give a brighter sheen. They also
observe the frequencies of ocean swells that
can help identify land as far as 90 kilometres
away, and the flight paths of homing birds that
return to land at night. Such navigation is not
just about the stars, sun, clouds, swells, or the
wind – it is based on a deep understanding of the
relationships between them.

As the world continues to move past, the waka’s
destination island eventually appears on the
horizon. The wayfinder continues to adjust to
signs, possibly even changing direction in a dog-
leg fashion. The task of the wayfinder
is to remain in communion with
the unfolding processes of the
surrounding world and by
moving from stillness, bringing the island
to them through “be-coming”.

Conversely the

Western navigator typically involves taking the
most direct route possible, relying heavily on
maps, sextant, and compass to make landfall.

Not long after that dinner with Professor Royal,
I was discussing the idea of “calling the island
to you” with Professor David Williams of the
University of Auckland’s Faculty of Law. He told
me the contrasting story of the steam corvette
**HMS Orpheus** which, amongst other lessons,
highlighted the folly of being too focused
on a particular plan or chart. The captain of
the **Orpheus** had access to two charts of the
treacherous entrance to New Zealand’s Manukau
Harbour; one from 1856, which was ratified but
out-of-date, and the other, a revised pilotage guide
from 1861, which showed that a sandbar had
altered considerably.

**Such navigation is not
just about the stars, sun,
clouds, swells, or the
wind – it is based on a
deep understanding of the
relationships between them.**

As the vessel approached the harbour under clear
skies on 7 February 1863, it needed to navigate
the series of dangerous sand bars. Edward Wing,
the 21-year-old signalman who was on shore
guiding ships into the harbour that day, signalled
the corvette to keep to northward. However, the
captain insisted on being guided by his ratified
– but outdated – chart. Even the warnings of
the former quartermaster, Frederick Butler, who
knew the harbour and tried to alert senior officers
to their peril, was ignored. **HMS Orpheus** hit the
sandbar and swung around, exposing the port side to the pounding surf. The vessel sank, becoming the worst maritime disaster in New Zealand waters. Of the 259 people on board, 189 died.

All cultures have their tales of such disasters. The story of HMS Orpheus highlights the terrible consequences of a leader not reading the signs and instead being fixated on an outdated “map”.

**MOVING FROM STILLNESS**

To acquire the wise perspective of the wayfinder, including mental resilience, courage, and resolve, is to operate from a relaxed state in all circumstances – whether in the midst of a raging storm, or caught up in the unpredictable and dangerous winds of the doldrums. Master wayfinders have the ability to move from stillness; they possess a steadfast calm clarity.

**Master wayfinders have the ability to move from stillness; they possess a steadfast calm clarity.**

Paradoxically, when the going gets tough the tough get relaxed. When we relax, we are more likely to find a creative solution. Leaders who operate from a base of stillness and presence that is very grounded and clear can better see what is going on and respond appropriately. On board the waka it is essential that everyone acts from a grounded stillness, not from reactivity, agitation, distraction, or being fixated. Therefore, the invitation for leaders is to aim to cultivate this purposeful and active stillness in themselves and others.

A story by master Hawaiian wayfinder Nainoa Thompson illustrates the power of moving from stillness. He was nervous about entering the doldrums where, due to frequent cloud cover, all visual clues are often removed, and where winds can change direction without warning. When he did so, at night and in heavy rain, there was 100 per cent cloud cover and the wind was variable and blowing at 25 knots. Thompson explains how he was struggling to see in the darkness and became so exhausted by the effort that he gave up the fight. It was then that a feeling of relaxation washed over him, and “there was something, a mechanism, that allowed me to understand where the direction was, without seeing it.” In that moment, which he describes as a kind of “warmth”, he knew where the moon was even though he couldn’t see it and he was able to lead the turning of the waka with all the confidence that he had lacked moments before. As the vessel turned there was a break in the clouds and a shimmer of moonlight confirmed that they were now heading in the right direction. Thompson says that he now focuses more on being in touch with this internal relaxation in order to access what he describes as a “special realm”. His story points to a state of deep knowing built through experience and discipline that we can all benefit from.

Hawaiian academic Manulani Meyer speaks of ike pāpālua, or “second sight”, which brings forth a different dimension of knowledge. Her thoughts align with those of Māori Marsden, who observed that in deeply comprehending the natural world it is possible to develop the extra-sensory faculties and techniques that traditionally were used to test an environment and understand new phenomena. Marsden applied and taught these techniques in whare wānanga – traditional houses of learning – to teach...
people how to become more aware of reality and to dynamically discern better ways of doing things.

The vigilance of the wayfinder is not an intense, uptight, and exhaustive state of staring out; rather, it is a condition of relaxed nohopuku – “sitting in the belly”. Rather than seeking to be detached from a distracting world, it is about being engaged, integrating information and allowing an intermingling with deep knowledge to form creative pathways.

Numerous philosophical and spiritual traditions include mindfulness as a fundamental practice. Mindfulness is generally understood as the act of being present in experience and can be difficult for people to achieve. The busy nature of modern life, combined with an almost constant bombardment of information, has left many people with a consciousness that is extremely noisy and prone to distraction.

The practice of nohopuku helps develop the ability to move from stillness. The wayfinding leader must do this in order to truly read the signs, make clear decisions, act with purposefulness, and build steady mental toughness, even in the most trying of circumstances. In doing so she or he models the way for others.

**RELEASING POTENTIAL**

Wayfinding leaders are kaitiaki – experts in the practice of taking care of people and of place. They create mauri ora – “wellbeing” – and they not only liberate themselves and others, they create a space where all people liberate each other in communion to fulfil their potential. This message of liberation was dear to the heart of one of my mentors, matua Pereme Porter, who would often say that Te Ao Mārama – “the world of light” – is that which has been learned and released into māramatanga – “enlightenment”. Te Ao Mārama requires iterative engagement with Te Kore – “the world of potential”. He believed that Te Kore is all around us, and that our task as leaders is to release that potential into the world.

I will leave you with one final story.

Matua Pereme is sitting beside me at the University of Auckland Business School. Our chairs are facing toward a tree-covered hill called in Māori, Pukekawa, and also known as “the Domain”. Pereme has a rich, deep voice and is widely regarded as a fine orator. As we gaze to the horizon he is sharing a story given to him by his elders. The story is of Kupe, the great East Polynesian navigator-explorer. Kupe, in his mighty seafaring waka, was crossing Spirits Bay off the coast of northern Aotearoa when he sighted land. As the waka plied the waters, Kupe turned to greet the land. He reached up, clenched his hand, called out “kapowairua”, and grasped the spirit of the land. Pereme reaches up, calls “kapowairua”, and his fist holds that energy. It is an electrifying moment. To hold the spirit is to belong.

We are invited to acknowledge exploration as a defining part of who we are, and to fully develop potential, by applying practices such as “fostering a purpose of becoming”, “calling the island to you”, and “moving from stillness”. If we accept this challenge, we position ourselves and our organisations as wayfinding leaders able to reap the benefits from the world of Te Kore that is released into Te Ao Mārama, the world of light.

**KEY TAKE-OUTS**

- By moving from stillness, the island comes to you, in a “be-coming” approach.
- Tupu – the idea of “becoming” – requires releasing the potential in others and in situations.
- The wayfinding leader is fully present, deeply grounded, aware, and open to being guided.
Board-led transformation

AN AIRPORT CASE STUDY

Monique Cikaliuk

Strategic renewal requires a board ready to drive a vision for change.

Almost all boards confront a number of common obstacles to continued success. One of the biggest challenges is to develop a robust and enduring process of adding value to organisational growth. For some boards, it can be tempting to ratify and monitor strategic renewal initiatives generated by senior management with an eye to fine-tuning efficiencies. For others, a lack of clarity about the need to formulate and implement new growth stalls strategic decision making. In either scenario, the board puts long-term organisational survival at risk.
GIVEN THAT strategic transformation is often disruptive, risky, and costly, it is not surprising that directors of boards often find themselves governing companies that are chained to the status quo.

Strategic renewal requires the board to break the status quo and lead change by establishing a vision, and advocating new directions among directors, and with senior management, and stakeholders. The recent experience of Auckland International Airport illustrates what can be achieved.

With growth stalled by the constraints of relying on local passenger demand and airline carriers served, Auckland International Airport (AIA) sought to reposition itself as a lead partner in the tourism industry as ‘the gateway to New Zealand’. Not content to remain an infrastructure provider, AIA set out to rewrite the playbook for airports. It spurred creativity and innovation, boosted the wealth of shareholders, and re-established competition among carriers. It diversified and positioned itself among the top dozen airports in the world, as recognised by the Skytrax World Airport Awards. By December 2015, AIA earned top spot on the New Zealand Exchange as the largest listed company, with a market capitalisation of $6.85 billion.

The success of AIA is not easily explained if one uses conventional thinking about corporate governance. Its rise cannot be attributed to the usual suspects – board composition, size, the separation between chair and CEO. These structural features simply cannot account for how the board became a competitive advantage for AIA. The company’s transformation raises a critical question: How is board leadership exercised to enable strategic transformation?

The research team investigated the transformation of AIA between 2007 and 2015 as part of a larger leadership and governance research project (see sidebar). To deepen our understanding of the board’s contribution to strategic decision making, we engaged in a longitudinal study exploring governance and leadership processes aimed at embedding sustained value creation. Given the board’s potential to help shape strategic transformation, we looked in particular at its relationships with senior management, shareholders, and stakeholders, and among directors.

Recent local and global corporate failures have propelled board leadership to the forefront of the research agenda and they carry practical lessons for current and aspiring directors. While corporate decision-making responsibility lies with the board, governance theory has tended to assign it an oversight role in constraining managerial misbehaviour and misconduct and maximising shareholder wealth. The preoccupation with reducing agency cost has overshadowed the comprehensive role the board plays in initiating and implementing strategy – despite the legal duties of directors suggesting that a purely passive approach to governing is untenable.

Boards that do not critically reflected on the longevity of their strategies and their current relevance for growth may find their capacity to adapt eroded as circumstances change. New markets rarely start out at full scale, or with clearly identified needs. Like most new initiatives, they start out messy and uncertain. Nevertheless, they are not the exclusive territory of small new firms; there are ways in which large, established companies – such as AIA – can create the type of transformation that secures competitive advantage.

Faced with the need to mitigate risk, it is understandable why a board might decide not to pursue transformation, even though the long-term potential for reward is attractive. But left unchecked, a penchant for risk avoidance can foster a sluggish, relatively stagnant organisation that is vulnerable to the market actions of agile competitors.

Boards committed to strategic renewal, adaptation, and growth may benefit from three leadership-in-governance process insights: opportunity exploration, strategic selection, and mobilisation. Much like a triangle, all three enablers affect each other’s development iteratively. With each of the processes taking centre stage at different times in the transformation, board leadership determines which one exerts strong influence while the others act as support.

LEADERSHIP INSIGHT: ENGAGE IN OPPORTUNITY EXPLORATION

In this process, board leadership creates the relationship among directors, with senior management, and between shareholders and stakeholders to continually pose and consider options for positioning the company where
opportunities are most promising. The conventional approach – firmly etched in the practice of many boards – in which the CEO devises strategy and the board approves or holds out for changes, is eclipsed by these processes. For the approach to succeed, it is essential for the board to learn quickly, stay alert to industry trends, and scrutinise the competition. These processes also involve cultivating creativity and openness, encouraging exploration, and fostering cooperation. This means that the board dynamic and the board-CEO relationship for strategy formation shifts from an orderly, predictable, and sequential (hierarchical) process to a dynamic, collaborative, and iterative one.

For the approach to succeed, it is essential for the board to learn quickly, stay alert to industry trends, and scrutinise the competition. These processes also involve cultivating creativity and openness, encouraging exploration, and fostering cooperation. AIA adopted opportunity exploration approaches in 2008 and 2012. In 2008 with the world-wide downturn in passenger travel, precipitated in part by the Global Financial Crisis, the earnings per share dropped by 63 per cent in one year, while total earnings before interest, taxation and depreciation shrank from $280 million in 2008 to $216 million in 2009. A first step in opportunity exploration came when the board recognised that its most promising future earnings and growth lay in re-imaging its core business. To initiate transformation, the board chose a CEO from outside the industry who had a track record in building effective management teams. Unencumbered by a conventional conception of what an airport company should do, the board and CEO took steps to envisage what this company could do. They quickly assessed AIA’s strengths – managing the efficient large scale movement of people and goods between land and airside. They took into account changes in the wider industry and unprecedented global economic uncertainty.

A second step in opportunity exploration was to refuse to be deterred by ingrained assumptions about AIA’s procedures, which had grown rigid through repetition over the 10 years since it listed on the New Zealand Exchange. Instead, they invited stakeholders to participate in shaping a new vision for AIA and were able to successfully reset the company’s growth trajectory.

In 2012, with the planned succession of the incumbent CEO, and with four new directors and a different Chair, the board selected a CEO who forged relationships inside AIA, with the board, and among the tourism industry. These actions enabled AIA to capture the lion’s share of the value accrued by having a flexible and responsive growth strategy. In both instances the board and the CEO collectively created a space for new ideas to emerge, encouraged open communication and constructive dissent, and promoted lively involvement.

A third step in which board leadership shaped opportunity exploration processes featured dedicated strategy sessions. Annually, the board and CEO jointly selected which facets of the business – property, retail, technology, and so on – to investigate as a potential growth initiative. In this way, both the board and senior management shared responsibility for the strategic trajectory of AIA in both the short and longer term. For each of these sessions, directors and senior management were invited to suspend predetermined solutions and engage in discussion to explore strategic opportunities. Background papers, sent out in advance, added substance to discussions.

The fourth step was to ensure the diverse composition of the board itself, which evolved as the strategies and practices of AIA changed. The persistent focus on transformation and value creation led to a board that showcased a diversity of experiences, knowledge, skills, ideas, and perspectives along with remarkable networks.

LEADERSHIP INSIGHT:
ENABLE STRATEGIC SELECTION

The second board leadership process is strategic selection, which involves aligning a distinct combination of value creating opportunities and reallocating resources to transform the business. The generation and acceptance of ideas for reallocation involve refocusing organisational energies and commitment to a shared desirable future state.

Because the outcome of strategic transformation cannot be fully predicted, it follows that short-term investor demands for immediate profit must be reconciled with a long-term strategic growth orientation. To deal with these contradictions, the AIA board pursued a mix of game-changing initiatives and incremental improvements anchored in a long-term strategic framework, to make the most of its existing assets and to build
new capabilities. First, passenger and retail services were overhauled, creating differentiation for travellers, and AIA also committed to improving efficiencies through real-time data collection shared among airlines, service providers and border agencies. The second initiative looked to capture growth opportunities from closely related businesses outside of the aeronautical industry, including accommodation, freight and logistics. The third featured more organic or opportunistic possibilities beyond the conventional airport business, and included overcoming the conventional limitations of the physical location.

The strategic framework provided enough flexibility for the board to examine, explore, challenge, and ultimately choose which options to pursue without being prescriptive. It also accelerated decision making as emergent opportunities became known, such as the prospect of acquiring a stake in two North Queensland airports (MacKay and Cairns) and the airport at Queenstown.

Coupled with the large-scale opportunities, the board also opted for small-scale trials to assess the potential for larger-scale adoption. One result was the development of the Novotel and Ibis hotels on the AIA’s 607ha site. Following the success of this business venture, a third hotel was slotted into the design phase. The small trial approach was also extended to the creation of a business park on non-aeronautical land that tapped an unmet demand from a range of businesses, including Coca-Cola, Amatil, and Fuji Xerox. This proactive experimentation lowered the perceived barrier to both conventional and unconventional initiatives, with success attracting additional support and investment for wider roll out.

**LEADERSHIP INSIGHT: ENABLE MOBILISATION**

The third process is to enable mobilisation. Successful board leadership in this area favours continuous engagement by building new relationships and maintaining existing ones. Expressing a sincere interest in the opinions of others, and seeking similarities, fosters a shared purpose and a supportive climate. All too often boards do the opposite, taking a sporadic interest in perfunctory assessments of strategic performance, and signaling to shareholders and senior management when corrective action is needed.

Among the AIA board of directors, the challenge was as much about understanding and strengthening the relationships that shape its assets and processes as it was of jettisoning outmoded processes and policies that impeded growth. In its aviation business, the board redefined its stakeholders to include new airlines and new routes. At a time of flat growth in passenger numbers, the board redefined its role, and where to recruit talent for a dedicated route development team. The initiative paid off.

Perhaps one of the most profound challenges of board leadership involves enabling mobilisation among and between directors. For AIA this challenge emerged during the election results at the 2007 annual general meeting. Three new directors, chosen by block shareholders rather than the board, were appointed to the board. At that time, the prospect of refusing to cooperate with new directors could have fractured the board, impeding decision making as analysts speculated.

However, things turned out rather differently. With a 50 per cent change in board membership, incumbent and freshly elected directors began a long, steady process to build trust within the board anew. Any lingering doubts about the appointments were shed as the board found common ground in individual and collective commitment to AIA’s goals. Confronted with the new reality of overseeing the operation of a Crown-declared “sensitive asset” in which foreign block ownership was prohibited, they focused on putting in place the systems and processes needed for AIA to adapt to its new found status.

**AN EYE ON THE FUTURE**

For organisations to thrive and evolve, board leadership is needed to install a capacity for adaptation. When it comes to strategic renewal, such leadership plays a critical role in both what is done and how it is achieved. The creation and adjustment of strategies to position a company for long-term value creation appears to be a collective endeavour; one that benefits from engagement with individual directors, management, shareholders and stakeholders.

Positioned at the intersection of different, sometimes conflicting perspectives, the board mediates among these relationships to create an integrated strategic direction for long-term growth, employing the interactive processes of opportunity exploration, strategic selection, and mobilisation to bring about transformation.
IMPLICATIONS FOR DIRECTORS

The research reveals that strategy needs to continuously evolve as the competitive landscape changes with technological innovation, new entrants, and different services and products. Boards must be able to foster a team approach which supports and questions proposals when they are made, inspires new ideas and direction when obstacles are encountered, exemplifies valued behaviour, and adapts individual coaching and mentoring.

Achieving ideal board dynamics requires moving from an individualised notion of leadership to a collective approach that involves a contested and negotiated set of relationships. The impact of board leadership for strategic transformation goes well beyond the motivating effect of an inspirational leader. It bridges conflicting perspectives to reposition the company so that significant growth and wealth creation can occur. Fostering such a transformation requires board leadership that guides decisions and actions to help build a shared vision as well as influence organisational design and allocation of resources. The payoff is an active and engaged board committed to successfully formulating and implementing strategy.

ABOUT THE RESEARCH

For the Auckland International Airport board study, the researchers interviewed all three board chairs appointed between 2007 and 2015, six current and former directors and a CEO. They also reviewed a range of business publications, internet sources, and publicly available corporate material. The study is part of a larger leadership and governance research project led by Associate Professor Ljiljana Eraković. The researchers are working on a book, Corporate Governance and Leadership: The Board as the Nexus of Leadership-in-Governance, which is scheduled for publication in 2017.

RESEARCH TEAM

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Key take-outs

- Board leadership affects strategic decision-making for long-term value creation through enablers such as opportunity exploration, strategic selection, and mobilisation.

- Board leadership creates the governance relationships necessary to lift stock market performance.

- Board leadership fosters a dynamic balance between risk oversight and future growth and value creation.
A PIONEER OF BUSINESS sustainability, John Elkington, reminds us that corporate governance is about how, and in whose interests, companies should be run. In ground-breaking work that introduced the term ‘Triple Bottom Line’, Elkington described how social expectations have gradually transformed the governance of leading global companies.
**Aligning Governance with Accountability**

Governance structures have been designed to ensure that managers pursue shareholders’ interests, reflecting a concern that the interests of managers are not always aligned with those of owners. Therefore, the corporate governance agenda has been dominated by formal mechanisms for annual meetings and appointments of directors, pay and incentives, audit and oversight, and financial reporting.

In recent decades, the agenda shifted to a focus on transparency in the wake of corporate fraud, scandals involving Enron, Arthur Anderson, and WorldCom in the US, Parmalat in Italy, HIH and OneTel in Australia, and systemic governance failings exposed by the Global Financial Crisis. New Zealand has had more than its share of high-profile failures in corporate governance over the period, most notably including the failure of 67 finance companies in 2006-12 that cost $3 billion and affected 150-200,000 savers. Ethical failings have been at the heart of most of these corporate failures, along with a narrow focus on maximising short-term profit and associated short-term key performance indicators for employees and managers. The governance response has concentrated on strengthening mechanisms for audit, control, risk management, and transparency, but it remains firmly rooted in the principal/agent model through legislative reforms such as Sarbanes-Oxley in the US, the Corporate Law Economic Reform Programme in Australia, and the Higgs Report in the UK. Reform in New Zealand has focused narrowly on the financial industry, through the Financial Market Authority (FMA) Guidelines of 2015. However, recent scandals such as the deception practiced by Volkswagen and others on vehicle emissions show the limitations of these reforms, as does the lack of progress in restraining executive pay increases. The ratio of pay between chief executives and median salaries has increased from 30:1 to 300:1 over the past four decades, and shows little sign of abating.

**Stepping up to the Challenges**

The case for action on sustainability by business reflects the mounting challenges posed by issues such as climate change. The Paris Agreement of December, 2015 underscored the urgency of reducing emissions, and the importance of an integrated approach. Climate change cannot be left to governments to solve – all sectors within society must step up to their responsibilities to reduce emissions, and business has a crucial role to play.

For most enterprises, the term ‘sustainability’ provides a framework for business interactions with society. It has been used in business circles since the Earth Summit in 1992, to describe an integrated approach that includes the social, economic, and cultural well-being of people and communities, providing for future generations’ needs, and safeguarding the life-supporting capacity of air, water, soil, and ecosystems.

The World Business Council for Sustainable Development (WBCSD) advises that sustainability should not be viewed through a compliance lens, but should be a framework for boards to think positively and creatively.

WBCSD noted that: “Power has already shifted from the corporate boardroom to company-stakeholder interactions as businesses have become networked organisations subject to multiple forces, rather than monolithic entities largely in command of their own destinies.”
CONNECTING SUSTAINABILITY TO GOVERNANCE

Despite growing pressures for action on sustainability, these issues are not always high on the agenda for boards. One reason is that the drivers for action on sustainability are not felt uniformly. Shareholder activism is not relevant for privately-owned companies, and some businesses’ suppliers are neither visible to consumers nor part of consumer-facing supply chains. Others operate in highly price-sensitive, low-margin markets. Even where there are reasons for companies to act, some boards do not see sustainability as strategic. For example, a recent international study found that the majority of firms with climate change policies have never discussed climate change at board level.

Action on sustainability requires long-term thinking and a broad perspective. For most boards, there remains a tension between sustainability and investors’ demands for short-term profits and increased share prices. Mark Wilson, the New Zealand CEO of insurance giant Aviva, recently spoke at the University of Auckland Business School about his decision to stop reporting quarterly results to investors on the grounds that this was driving a short-term perspective, rather than a longer-term commitment to investment and sustainability. He described the challenge of convincing Aviva’s board that this change was necessary. Other business leaders, notably Paul Polman of Unilever, have also gained support from their boards for discontinuing quarterly reporting and setting ambitious goals for creating social benefit.

As well as having a long-term perspective, it is also important for boards to adopt a deeper understanding of shareholder value. In this context, investments in intangible assets need to be taken into account, as well as financial returns. For example, investments to promote sustainability can often be justified through less waste, higher efficiencies, or improved productivity, but for other companies the costs of action outweigh the direct benefits. These financial costs need to be balanced against a broader analysis of the value of the company’s intangible assets.

Research by the US National Academy of Sciences shows that the value of intangible assets as a proportion of corporate net worth of the S&P 500 increased from 23 per cent in 1975 to 85 per cent in 2015. A significant proportion of intangible value is represented by corporate reputation, brand value, and stakeholder relationships. This is striking. For many businesses, corporate reputation represents a huge investment. It is enhanced by meeting goals for creating social benefit.

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DIVERS OF BUSINESS SUSTAINABILITY

A number of developments are encouraging companies to embrace sustainability. The pull comes from new opportunities. Consumers committed to lifestyles of health and sustainability (LOHAS), comprise about 20 per cent of European consumers, an even higher proportion in New Zealand and Australia, and a rapidly growing segment in Asia. LOHAS, typically, are willing to pay more for products that are eco- and socially-friendly, provided the claims are supported by credible certification. The growth of such consumers is fueled by a generational change. Within a decade, millennials will amount to 75 per cent of the global workforce, and surveys suggest they will buy from and invest in enterprises that they feel an affinity with.

The push comes primarily from the threat to reputation and brand. A large global survey in 2013 revealed that nine out of ten consumers want companies to go beyond minimum legal standards, and to operate responsibly on social and environmental issues. In New Zealand, the 2013 Business and Consumer Behaviour survey found that 68 per cent of adults would switch brands if they felt a product or service was having a negative effect on people, the environment or society, or if a company behaved unethically.

NGOs and consumer movements play a crucial role in informing consumers and influencing companies, and in the absence of government regulation, retailers have responded by driving standards through their supply chains – not always in response to specific consumer concerns, but as a reflection of perceived responsibility. For example, UK retailer Marks & Spencer explains that its adoption of the Forest Stewardship Council (FSC) standard for timber products is not in response to consumer demands, but was part of its responsibility as a retailer to deliver products that do not destroy forests and harm local communities and wildlife. It is as much a part of the company’s bond of trust with consumers as selling safe food.

Most New Zealand export-oriented agricultural producers are embedded in international supply chains. Farmers and processors increasingly are obliged to meet retailer-mandated standards, and to use tracing, verification, and labelling systems to contribute to credible supply chain assurance. As always, the challenge of complying with onerous standards can also provide an opportunity. Innovative New Zealand companies are able to gain access to highly competitive supply chains and attract a higher value through products differentiated on the basis of their social or environmental benefits, supported by credible social and environmental labels, including organic, fair trade, grass-fed and GMO-free.

Expectations of institutional investors have also motivated companies to take action on sustainability, especially in the US and EU. Verity Chegar, Vice-President of BlackRock, the world’s largest asset manager, explains: “We are committed to measuring company performance against the key governance, environmental and social factors that we find support long-term, sustainable, financial performance.”. Its expectations of corporate performance include a long-term perspective, responsibility for sustainability at a senior executive level, strategies for managing risks, and transparent reporting. Partly as a result, reporting on sustainability increased from 35 per cent of Global Fortune 250 firms in 1985 to 93 per cent last year, according to Ethical Corporation. There is growing evidence to support the rationale for responsible investing. A recent review of more than 200 research studies by Oxford University’s Smith School shows a positive correlation between sustainability performance and a lower cost of capital, improved operational performance, and higher share price.
NEW ZEALAND CORPORATE GOVERNANCE FOR SUSTAINABILITY

Change in corporate governance is accelerating in leading international companies, and New Zealand risks being left behind. There are few reliable surveys of corporate performance on sustainability performance, but New Zealand companies score low on key indicators. KPMG surveys show that our top 100 companies are amongst the bottom quartile in the international ranking of corporate responsibility reporting. In 2006, New Zealand topped the Yale Environmental Performance Index. By 2016 we were ranked 11th.

The expectations that society has of business are often encapsulated in the term ‘social licence to operate’ – the permission that society confers on business to operate, basing their legitimacy on social, environmental and accountability performance. A review of the concept for New Zealand business by the Sustainable Business Council found that “most New Zealanders want economic growth, but at the same time they want to protect the environment even at the cost of slower economic growth and jobs) as this upholds their quality of life.”

Public concern is regularly expressed over issues such as palm oil in chocolate, animal welfare of chickens and pigs, pollution of freshwater rivers and lakes, mining in wild areas, unsafe workplaces – most notably Pike River Coal, and food labelling for GMOS and sugar content. Brand reputations that have taken years and costly investment to build have been destroyed overnight through poor performance in these areas, while as companies that get it right are rewarded through a halo effect and strong brand loyalty.

There are now signs of change. When Air New Zealand announced its sustainability strategy to 450 business leaders in Shed 10 on Auckland’s waterfront in November, 2015, it felt like a turning point. Not only was the strategy ambitious and comprehensive, but it stemmed from an innovation in the airline’s governance system, through the creation of a highly visible Advisory Panel with independent members and specialist expertise. The Panel is chaired by sustainability leader, Sir Jonathan Porritt, and includes New Zealanders with strong sustainability credentials including Dame Anne Salmond, Rob Fenwick, and Derek Handley.

Other companies, including Vector and Villa Maria, are positioning themselves for a future of technology and market disruption. The message of opportunity amidst change is being highlighted by Pure Advantage, a group of business leaders who have identified seven areas of advantage for New Zealand business through action on climate change. In addition, worthwhile initiatives are being undertaken by support networks, notably the Sustainable Business Council and Sustainable Business Network.

The importance of sustainability to investors is also shown in the policies of New Zealand’s largest investor, NZ Super Fund. It has a mandate to invest in ways that uphold New Zealand’s international reputation, and is a signatory to the UN Principles of Responsible Investment. The Fund engages with fund managers and companies to improve sustainability performance, recognising that responsible investors must apply ESG principles to their portfolios because they are material to long-term returns.

New Zealand has few large New Zealand-owned companies, and a large number of small and medium-sized Enterprises (SMEs) and non-corporate entities – including co-operatives, state-owned enterprises, and social enterprises registered as charities. Some of the most exciting change on sustainability is coming from nimble and innovative SMEs. The annual Sustainable Business Network awards provide a snapshot of the dynamism and energy of rapidly growing businesses meeting customer needs and the demands of international supply chains.

...while there are examples of leading practice in New Zealand, evidence suggests that the majority of companies are falling behind.

However, the adoption of good practice is uneven, and while there are examples of leading practice in New Zealand, evidence suggests that the majority of companies are falling behind. Outdated notions of good governance, which fail to reflect changes in societal expectations of business, contribute to a narrow view of directors’ responsibilities.

STRENGTHENING GOVERNANCE GUIDELINES AND SUPPORT

Directors’ organisations generally focus on shareholder interests, and do not give priority to the broader role of business. For example, the Institute of Directors’ Code of Practice advises: “Accountability means, through independent oversight, making management answerable, and as directors being answerable to shareholders for the performance of the company” and “Fairness means the protection of shareholder rights.”

The Code of Practice briefly acknowledges the need to “recognise and respect the legitimate interests of stakeholders”, but this falls well short of leading governance practice that recognises multiple accountabilities and the obligation of business towards society and sustainability.

The Financial Markets Authority’s handbook for directors, executives, and advisers, Corporate Governance in New Zealand, (2014), is virtually silent on the role of corporate governance in relation to the environment and society. In the 42-page document the only reference to social and environmental issues is “relevant social, ethical, and environmental factors need to be taken into account when considering the interests of stakeholders”.

Without a stronger direction on governance for sustainability from support bodies, there is a risk that New Zealand companies will fall further behind international good governance for responsible business and that our international standing and business prospects will suffer as a result.
DUTY OF CARE

Currently, directors do not have a duty of care toward the environment or stakeholders in society, with the notable exception of the recently enacted Health and Safety at Work Act 2015. This Act creates an obligation on directors to provide a safe workplace, with penalties if they fail to do so. The legislation and its sanctions have sharply focused the attention of directors on health and safety issues, with early indications of a significant improvement in safety at work. The Health and Safety Act offers a model for extending a duty of care to the environment and other stakeholder interests.

DUTIES TOWARD STAKEHOLDERS AND SOCIETY

Legal clarification of directors’ responsibilities may also be needed where there is a divergence between shareholders’ interests and the public interest. Section 131 (1) of the Companies Act provides that directors must “act in good faith and in what the director believes to be the best interests of the company”. This is generally interpreted to mean in the financial interests of the company. An ethical company might choose to “do the right thing” and act in the public interest even when it is not in the company’s financial interest, particularly where the company is tangibly adversely affecting others and not bearing the full cost of its actions. But there is a problem. A narrow legal interpretation suggests that directors have a duty under New Zealand law to pursue sustainability only where it can be shown to be in the interests of the business.

A divergence between private and social costs occurs where business activity creates costs that are borne elsewhere – by the environment, individuals, communities, other companies, or the public sector. Climate change has been called “the world’s greatest externality” by leading economist Lord Nicholas Stern, in recognition that the costs of greenhouse gas emissions are not paid for by those who pollute. Such externalities become more common under ‘light-handed’ regulatory systems or voluntary codes of conduct which reduce the compliance burden and transfer decision-making to individual businesses. Under the OECD’s Polluter Pays Principle, government regulation is guided to ensuring that polluters bear the costs of their externalities. At the very least, company law should recognise such obligations, and encourage the internalisation of costs, as part of the fiduciary duty of directors.

Unlike legal systems in many other countries, there is no explicit right in New Zealand for directors to pursue sustainability where it is not in the direct interests of the company. Germany’s Corporate Governance Code recognises “the interests of the shareholders, its employees and other stakeholders, with the objective of sustainable creation of value.” Under South Africa’s King Code of Corporate Governance it is unethical for a company to rely on society and future generations to bear the environmental costs of its operations because companies should ensure their impact on the economy, society and the natural environment is sustainable.

A change to company law in New Zealand could encourage companies to address externalities or risks through actions that do not create financial benefits for themselves. This would enable a more responsible approach, and would reflect the public desire for companies to act responsibly, beyond mere compliance with regulations. It would also make clear that companies could undertake activities for the benefit of society, even where there is no direct benefit to the company.

KEY TAKE-OUTS

- New Zealand risks being left behind in the drive toward sustainability and the adoption of responsible governance practices.
- A multi-stakeholder approach is needed to restore the country’s reputation for sustainability.
- Improving the sustainability focus of New Zealand companies would improve the country’s international competitiveness in demanding supply chains and markets, as well as creating social and environmental benefits.
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