19th Annual Global CEO Survey

Key findings for New Zealand

Redefining success in a changing world
A New Zealand perspective

72%

of CEOs say data and analytics will generate the best returns to engage stakeholders.

91%

of CEOs are very or somewhat confident about their growth prospects this year.

23%

of CEOs say the global economy will improve this year.

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Foreword

A well-defined purpose is becoming increasingly important for New Zealand companies and this reflects the fast-paced world we live in today. It's not only becoming more connected through the impact of technology and digital, but also because customers are demanding that organisations stay plugged into the world around them – their communities.

This increasingly complicated world brings both threats and opportunities. Given the wide-ranging uncertainties CEOs are facing – cyber security, over-regulation, geopolitical uncertainty – it's easy to see why they're divided about whether there are more threats or opportunities today. Fifty-five per cent of New Zealand respondents say there are more opportunities while 66 per cent say there are more threats than three years ago.

But it's not all doom and gloom. Kiwi organisations are remaining optimistic about their own growth prospects despite the possibility of a stagnant or declining global economy. More than half of New Zealand respondents expect the global economy to stay the same this year, but 40 per cent are very confident about revenue growth over the next 12 months and 47 per cent are very confident about the next three years.

However, in this year's report, we explore the definitions of success beyond revenue growth. Globally and in New Zealand about one-third of respondents strongly agree that business success in the 21st century will be defined by more than financial profit. In the pages of this report and throughout New Zealand, you will find businesses with supplier codes of conduct and environmental impact reports, among other metrics.

I'd like to express my sincere thanks to the New Zealand CEOs who took the time to participate in the survey, with particular thanks to those who took part in the in-depth interviews. Their thoughts and insights have been invaluable and I strongly believe we are lucky to have such high-calibre leaders helping to shape the future of our country.

This annual survey and report are designed to stimulate debate amongst government, business leaders and other stakeholders on the economy and future of doing business in New Zealand. I hope that you will find the insights useful and relevant for your organisation.

Bruce R Hassall

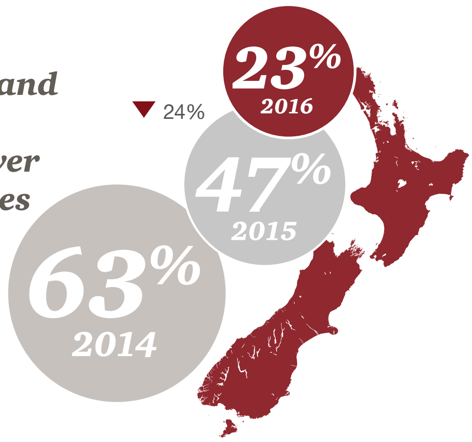
Bruce R Hassall
CEO and Senior Partner
PwC New Zealand

About the New Zealand report

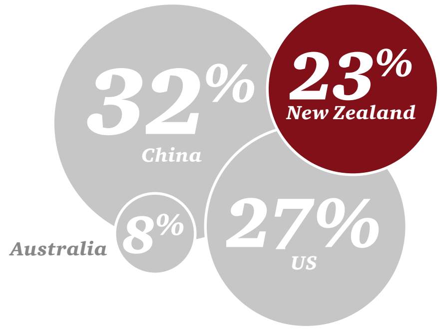
- The New Zealand supplement to the 19th Annual Global CEO Survey focuses on the challenges, opportunities, changing stakeholder expectations and market conditions specific to New Zealand.
- Forty-seven New Zealand CEOs contributed to this year's quantitative findings, completing an online survey between September and November 2015. An additional nine CEOs participated in in-depth interviews.

What New Zealand CEOs have to say

The per cent of New Zealand CEOs who say the global economy will improve over the coming year continues to decline.



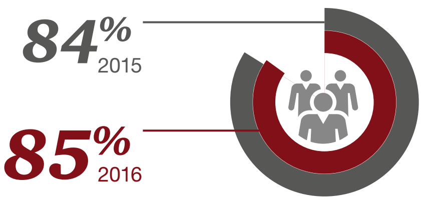
CEOs who think the global economy will decline this year



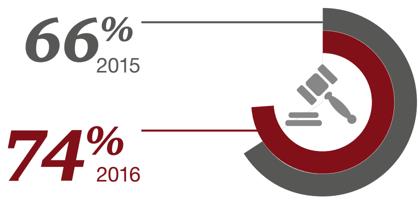
The majority of New Zealand CEOs (70%) identified Australia as a top-three destination they consider most important for overall growth prospects in the coming year, followed by China (60%) and the US (47%). Meanwhile, 12 per cent of Australia CEOs said New Zealand is a top-three destination for their company's growth.

Compared to 2015, New Zealand CEOs...

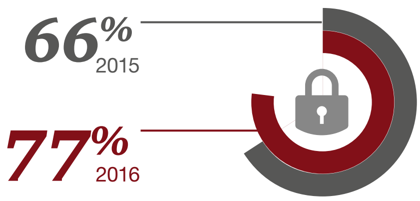
still say the availability of key skills is the top threat to business growth



are more concerned about the threat of over-regulation



are more concerned about cyber threats



Which connecting technologies will generate the greatest return in terms of engagement with wider stakeholders?

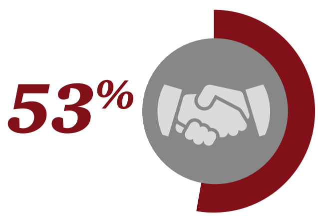
Data and analytics

72%

Social media communications and engagement

70%

Customer relationship management systems



As the world turns Developing capabilities amid uncertainty

> *"If you do not truly understand that you are surviving because you are the only option – you won't be. There will be nowhere left where you are the only option."*
>
> Chris Quin
> Foodstuffs North Island

With the speed of change and extremities in the marketplace, today's CEOs face a business environment that's becoming increasingly complicated to navigate. Globally, CEOs are experiencing a higher concern over political and social threats to business growth – geopolitical uncertainty, social instability and policy threats – than New Zealand CEOs, who are more concerned with micro business threats, such as their own cyber security and readiness to respond to a crisis.

This year concern about over-regulation is still highest globally, cited by 79 per cent of CEOs – making it the fourth year in a row that it's risen. Ranking second this year, geopolitical uncertainty is also on the minds of CEOs. This comes at a time when terror attacks are increasing and touching every part of the world, many linked to the heightened conflict in Iraq and Syria. Seventy-four per cent of respondents globally said geopolitical uncertainty is one of their top threats to business growth, compared to just 51 per cent in New Zealand.

Regardless of the root cause that's keeping CEOs awake at night in New Zealand and abroad, the daunting questions ahead are the same for each of them: Where does growth lie ahead and how do I get there? CEOs everywhere are understanding that despite the tremendous challenges they face today, they need to build a business that's ready for the more complex global marketplace of the future. To equip themselves for this challenge, chief

CEOs are less confident about global economic and business growth prospects in these uncertain times

Q: How confident are you about your company's prospects for revenue growth over the next 12 months?
Do you believe global economic growth will improve, stay the same or decline over the next 12 months?

Base: All respondents (2016=1,409; 2015=1,322; 2014=1,344; 2013=1,330; 2012=1,258; 2011=1,201; 2010=1,198; 2009=1,124; 2008=1,150; 2007=1,084; 2006 (not asked); 2005=1,324; 2004=1,386)
Note: In previous years, respondents were asked 'Do you believe the global economy will improve, stay the same or decline over the next 12 months?'

executives are focusing on three core capabilities: addressing greater stakeholder expectations; harnessing talent, innovation and technology; and defining new metrics for success beyond the bottom line.

When it comes to stakeholder expectations, businesses are looking much wider than shareholders these days. CEOs are acknowledging that their customers as well as other stakeholders increasingly want them to tackle important problems. Of course, there are regional variances. For example, 40 per cent of New Zealand CEOs say businesses need to do more to measure their environmental impact, while only 25 per cent of UK respondents and 31 per cent of Australian respondents agree.

CEOs are using technology to get closer to consumers but are finding hurdles from not only the speed of technological change but also changing consumer behaviours. There is a growing realisation that technology and digital platforms alone are not a silver bullet. CEOs globally are also looking at ways to build better innovation and workforce capabilities to complement technology in addressing growing customer expectations. In Australia, this is cause for CEOs to turn up the innovation dial with 74 per cent saying customers and clients are most influential in causing their businesses to communicate more on innovation (compared to 47% in New Zealand and 46% globally).

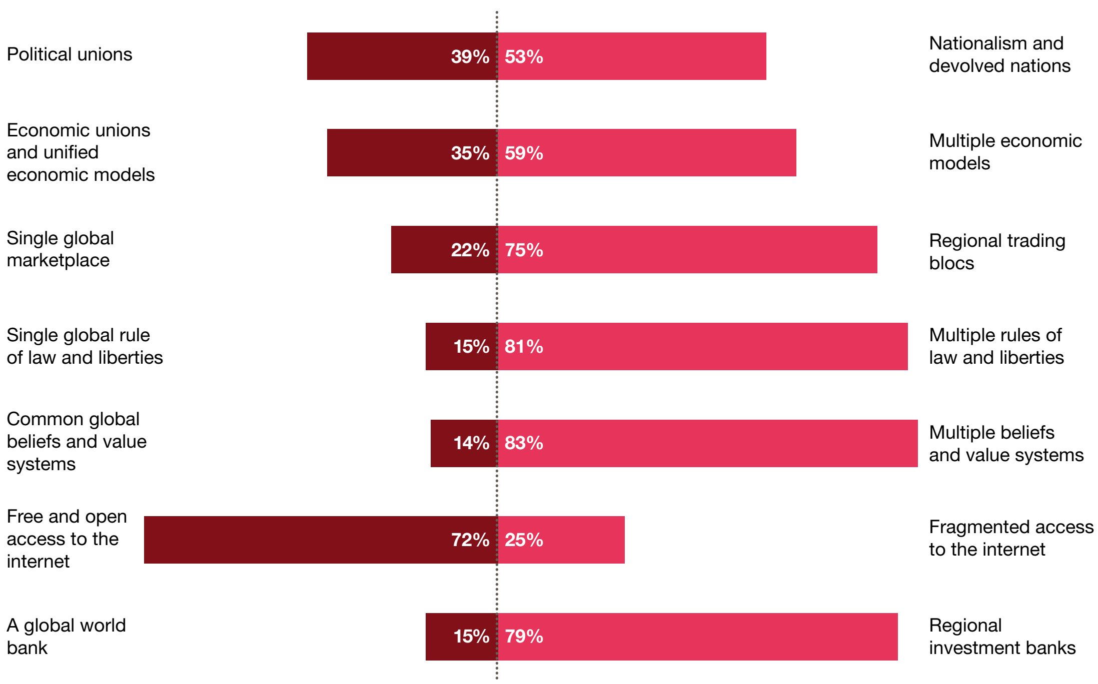
"I do tend to get less hung up on the macro environment because I think we use it as an excuse for poor performance and not converting in the marketplace. I refuse to do that."

Christopher Luxon
Air New Zealand

Finally, organisations are looking beyond profit and loss statements to measure their success, whether it's impact on their communities, the environment or the workforce. In addition to communicating these qualitative measures, companies are putting a greater focus on data and technology to gain better insight into business processes and to measure a broader range of variables than ever before. Globally, 37 per cent of respondents strongly agree that business success in the 21st century will be defined by more than financial profit.

CEOs globally must navigate an increasingly complicated world

Q: For each alternative, please select the one that you believe the world is moving more towards



Source: Global respondents

The currency situation
The ebbs and flows of an export economy

"Diverse regulatory requirements potentially raise barriers to entry into the market. Unfortunately, regulatory diversity may ultimately increase healthcare costs for everyone rather than reducing them."

Michael Daniell

Fisher & Paykel Healthcare

Volatile exchange rates, new trade agreements and a slowdown in growth markets are among the variables playing into today's increasingly complicated export market. And for an export economy, such as New Zealand's, access to markets and lowering barriers are needed for not only growth, but also sustainability.

It's become more difficult to pin down where growth will come from across the globe, but the United States and China, and to a lesser extent Germany and the UK, remain the markets that most CEOs globally cite among their top overseas growth markets. New Zealand respondents are, unsurprisingly, once again looking to Australia (70%), China (60%) and the US (47%) as the top three markets in the coming year.

China's economic rebalancing and the fragility of its debt-laden local government and private sector continue to concern investors and rattle entire industries – not least the commodities sector that rode the wave of China's rapid growth and now is bearing the brunt of the slowdown. Economists predict China's gross domestic product growth to ease to 6.5 per cent and once again for India to be the star performer among the E7 economies.[1] However, as China slows down overall, the composition of the growth is shifting from an infrastructure-driven economy to consumer spending of the rising middle class, which could bode well for New Zealand's dairy, meat and consumer products, and less so for iron ore, coal and others dominating Australian-Chinese trade.

Despite what some of the headlines might lead us to think, the world's economic outlook isn't solely dominated by China's slowdown. There is growing movement towards regional trading blocs, with the most significant being the Trans-Pacific Partnership (TPP) agreement reached between 12 nations last year. In fact, in this year's survey, only 23 per cent of New Zealand respondents said the world is moving towards a single global marketplace (as opposed to regional trading blocs at 77%). While everyone agrees the recently signed TPP will be significant for New Zealand, the unknown is how exactly it will play out. While free-trade agreements have existed with countries such as China, the TPP isn't a short-term or medium-term agreement – it's long term. The Ministry of Foreign Affairs and Trade predicts the TPP will add an estimated \$2.7 billion a year to New Zealand's gross domestic product by 2030.[2]

"You don't have to be an economist to understand that actually there is a lot of noise about how countries are trying to manage monetary policy but we are going into unchartered waters."

Craig Olsen
IAG

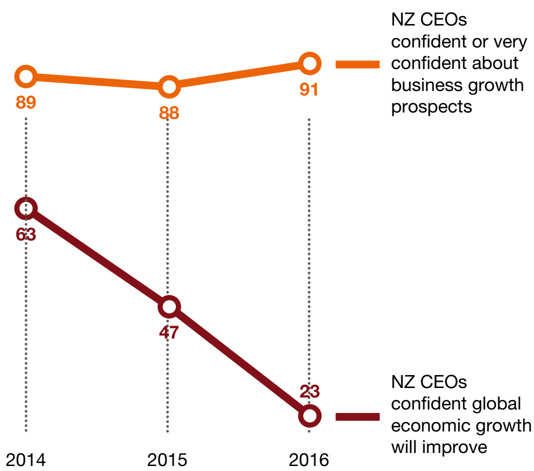
But trade agreements aren't happening in a bubble. The fluctuations in currencies and commodity prices are also a constantly moving variable. Last December the United States' Federal Reserve raised US interest rates for the first time since 2006. Economists predict the US to raise rates once again and, barring any new major global challenges, the Bank of England to follow suit at some point during 2016.[3] This, together with China's surprise devaluation of the yuan in August 2015, helps explain why exchange rate volatility, cited by 73 per cent of CEOs, is third among top concerns globally.

Here in New Zealand, exchange rate volatility was also the third-highest threat to business growth this year (tied with over-regulation at 74%). This volatility concern has jumped from 66 per cent in 2014, the last time it was measured by the survey. However, history suggests New Zealand's chief executives have different reasons than their global counterparts. The New Zealand dollar is the ninth most traded currency[4] but the 54th largest economy by gross domestic product[5]. This volume of New Zealand dollars traded in excess of the size of the economy has led to speculative capital flows, but this isn't new. Although it may not always be welcome, CEOs and their finance teams based in and operating in New Zealand have learned to proactively manage these risks.

Given all of these various uncertainties New Zealand CEOs are facing, it's little wonder that they're divided about whether there are more threats or opportunities today. Two-thirds of New Zealand CEOs (66%) believe that their business faces more threats today than three years ago, while slightly fewer (55%) see more opportunities.

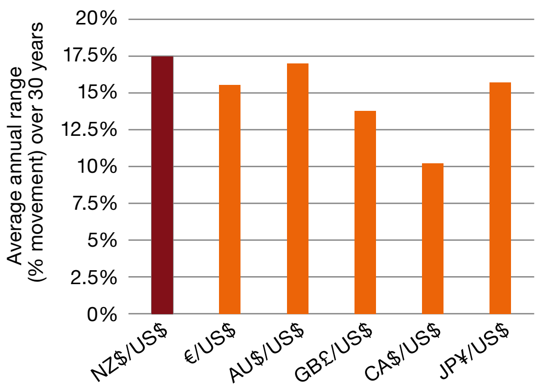
New Zealand CEOs are more confident of their business growth this year, while confidence in the global economy continues to decline

Q: How confident are you about your company's prospects for revenue growth over the next 12 months? Do you believe global economic growth will improve, stay the same or decline over the next 12 months?



The New Zealand dollar fluctuates more than other currencies across the globe

Average annual range of currencies against the US$ over 30 years



98%

of NZ CEOs are somewhat or very confident about their company's prospects for revenue growth over the next three years.

"If you are operating in a digital business, then your marketplace is the world."

Bruce Hassall
PwC New Zealand

1 PwC, Global Economy Watch, January 2016
2 New Zealand Ministry of Foreign Affairs and Trade, Trans-Pacific Partnership Overview, October 2015
3 PwC, Global Economy Watch, January 2016
4 Bank for International Settlements, Triennial Central Bank Survey, September 2013
5 IMF, World Economic Outlook (WEO), October 2015

Advances in technology
The opportunities and threats of tomorrow

While CEOs are using technology to get closer to consumers, many have found hurdles in trying to align operating models behind changing customer behaviours. It's not surprising given that an overwhelming number of New Zealand respondents (85%) expect technological advances to be the biggest global trend to influence stakeholder expectations within their sector over the next five years.

This year's findings suggest that chief executives are still concerned about the speed of technological change, but are perhaps gaining confidence – except in the area of cyber security. While 70 per cent of New Zealand respondents still view the speed of technology change as a business threat, it has dropped from the second-highest threat last year to now rank fifth. In the meantime, cyber security is now the second-highest threat (up from third last year) with 77 per cent of respondents citing it as a concern.

In terms of opportunity, CEOs are finding more ways to use technology to engage with their stakeholders. New Zealand CEOs say that data and analytics (72%) generate the greatest return in terms of engagement with wider stakeholders, followed by social media communications and engagement (70%). There is some evidence, however, that suggests social media is viewed more as a threat to reputation than a growth opportunity in some New Zealand sectors, such as insurance.[6]

Last year appeared to reach a tipping point globally, when it comes to CEOs championing digital investments. In the PwC Annual Digital IQ Survey 73 per cent of executives globally said their CEO is a champion for digital (compared to just 57% in 2013). In New Zealand, executives are aligned with global colleagues with 74 per cent of respondents saying their CEO champions digital.[7]

While spending, partnering and other technology and digital activities appear to be ramping up for New Zealand organisations, there is still a big question mark around cyber security – a large difference in concern between global respondents (61%) and New Zealand (77%). The rise of cloud services, a mobile workforce and a growing interdependence on other organisations mean that the outdated approach of treating cyber security as a technical issue and focusing on protecting an organisation's digital perimeter has limited relevance in today's interconnected world.[8] In fact, 57 per cent of New Zealand CEOs say they plan to enter into a new strategic alliance or joint venture in the coming year. All of these factors break the historic model of keeping information in-house and stored within a single organisation and single security domain controllable by the organisation.

Unfortunately, there is no magic bullet for cyber threats. It's a journey towards a culture of security, not a solution in and of itself. The organisations that want to maintain trust and stay competitive are those using a targeted information security approach (such as classifying important data). It is a path that starts with the right mix of technologies, processes and people skills.

"The risk is that 50 people may come along and take a bite off the value chain – not that someone is going to come along and build a massive Westpac. Essentially we risk being eaten by 1,000 piranhas instead of one single shark."

David McLean
Westpac New Zealand

"One of the things that benefited us in the early days was New Zealand's geographic isolation, so it was at the bottom of the priority list of a lot of the global players. Fast forward to today, and I think those global players are able to span the world more quickly and with fewer impediments."

Jon Macdonald
Trade Me

"Our industry is being significantly disrupted, with one of our own reports predicting nearly one-hundred per cent of accounting tasks will be automated by 2035. Scary stuff if we sit back and do nothing."

Bruce Hassall
PwC New Zealand

Questions to consider

How are you using technology to engage – and listen to – stakeholders?

Do you have a multi-year digital enterprise roadmap? Does it include business capabilities and processes as well as digital and IT components?

Do you effectively utilise your captured data to drive business value?

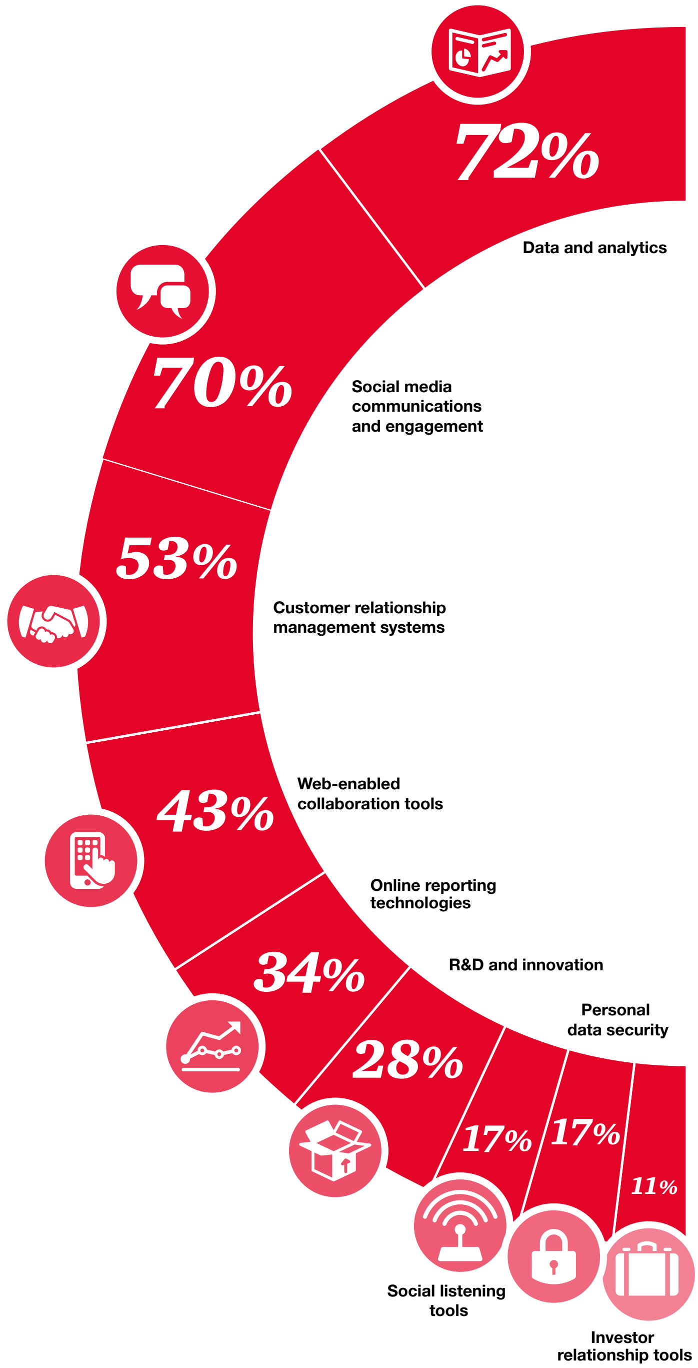
Does your cyber strategy focus on the perimeter method of keeping threats out, or do you focus attention on core assets?

If you are planning a strategic partnership or alliance, do you know who will have access to your data?

Do you have an incident response plan to cyber threats?

Most CEOs see data and analytics technologies as generating the greatest return for stakeholder engagement

Q: Please select the connecting technologies you think generate the greatest return in terms of engagement with wider stakeholders.



6 PwC, Exploring the insurance industry's top risks: A New Zealand perspective, August 2015
7 PwC, Maximising digital investments: The behaviours that drive top performers, November 2015
8 PwC, Exploring the big cyber questions: A New Zealand context, October 2015

Great expectations
The customer and beyond

34%
of New Zealand CEOs say customers' unwillingness to pay is a barrier to responding to wider stakeholder expectations, compared to

27%
in Australia, and

31%
of CEOs globally.

CEOs have set their radars on a wide range of stakeholders. Customers, in particular, have become more complex as their values and buying preferences evolve and employees, particularly millennial[9], are looking for more than a salary in an employer.

Customers are, of course, top of mind for New Zealand CEOs, with 96 per cent indicating they have a high or very high impact on their business strategy. Industry competitors and peers come in second (66%), followed by government and regulators (64%). The views of these and other stakeholders aren't just evolving, they are diverging. The three biggest trends New Zealand CEOs see as most influencing those views – technological advances, demographic changes and global economic shifts in power – are only going to continue to drive change.

Take, for example, ethical and sustainable products. It's long been assumed that only a small percentage of consumers seek out ethical and sustainable products and services. There's growing evidence, however, that this is changing globally and in New Zealand. In 2015 sales of consumer goods from brands with a demonstrated commitment to sustainability grew more than 4 per cent globally.[10] More than half of New Zealand CEOs say they are making significant or some change in how they are developing these products, compared to 73 per cent of global respondents. Part of this change is being amplified by demographics. In developed economies the millennial generation has growing purchasing power, and in emerging markets consumers face the challenges of forging a middle-class lifestyle amid rapid urbanisation and diminishing access to natural resources.

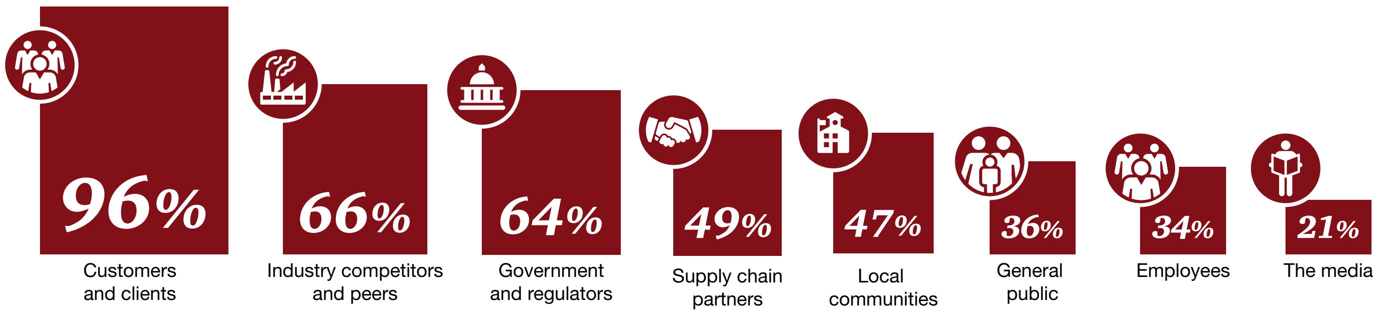
When it comes to what customers will value in five years' time, New Zealand CEOs are more likely than their global counterparts to believe that customers will seek relationships with organisations that address wider stakeholder needs (64%), rather than cost, convenience and functionality of products (36%). New Zealand CEOs (17%) are also far less likely than Australian respondents (33%) to believe that an organisation's purpose will be centred on creating value for shareholders in the future.

This acknowledgement of organisational purpose and the changing needs of customers – as well as other stakeholders – is also reflected in the way that New Zealand CEOs view employees. Seventy-seven per cent of New Zealand CEOs say in five years' time top talent will prefer to work for organisations with societal values which are aligned to their own, as opposed to only considering competitive compensation (23%). Still, only 13 per cent of New Zealand CEOs say they are adjusting talent strategies to reflect their reputation as ethical and socially responsible employers.

CEOs everywhere are not only responding to stakeholder needs, but also paying attention to competitors and peers who are preparing for the future. In New Zealand, chief executives say that industry competitors and peers are likely to have the biggest influence on how much they communicate about innovation (18%) and employee practices (12%) in the marketplace.

Customers and clients are top priority for New Zealand CEOs

Q: What impact do the following wider stakeholder groups have on your organisation's strategy?



Note: New Zealand respondents who indicated high or very high impact

"In the end, all stakeholders exist because of customers and to serve the needs of customers."

Chris Quin

Foodstuffs North Island

"The art of stakeholder engagement is to listen carefully, weave things together and don't resist what you are being told – just take it on board."

Mike Bennetts

Z Energy

"A lot of New Zealanders are quite happy to pay if they get something better but what New Zealanders resent is an increasing cost for no change or improvement in service."

Carolyn Tremain

New Zealand Customs Service

Five years from now, CEOs believe that the most successful organisations in their sector will have shifted their views and priorities in terms of recognising changing expectations and the value in addressing them, embedding corporate responsibility into their business, reporting on non-financial matters and taking the long-term view. Some New Zealand chief executives have some work to do to meet these goals in the next five years, with nearly one-quarter saying their organisations currently prioritise short-term over long-term profitability.

"The tourism industry is a very broad and fragmented church, ranging from large companies to small tourism operators. However, we're all equally important and play our roles in the industry to support a quality and valuable visitor experience."

Christopher Luxon

Air New Zealand

9 PwC, NextGen, a global generational study: Evolving talent strategy to match the new workforce reality, 2013

10 Nielsen, Consumer-goods' brands that demonstrate commitment to sustainability outperform those that don't, 12 October 2015

Workforce strategy Concerns continue over the availability of key skills

As companies across the globe look to meet the complicated expectations of stakeholders and society, they will need a new generation of people with an entrepreneurial mindset who can harness technology and drive innovation. Here in New Zealand, there is the additional challenge of an ageing population. In fact, New Zealand ranks second among OECD countries, behind Iceland, in harnessing the talent of workers aged 55 and over.[11]

Perhaps the most alarming trend in this year's findings is that, once again, the availability of key skills tops the list of concerns keeping New Zealand CEOs awake at night. Eighty-five per cent of New Zealand respondents cite it as a top threat to business growth, while 51 per cent are planning to increase headcount over the next 12 months.

So what are CEOs doing to develop the workforce they need for today and tomorrow? Nearly three-quarters are changing workplace culture and behaviours to remain relevant and competitive and 43 per cent are focused on building their pipeline of leaders. It's not hard to understand why. This new generation of leaders has grown up in a different world and may be better equipped to tackle thorny societal issues.

The ability to align the entire workforce behind business and growth goals, however, is also critical to execution – and proving challenging for New Zealand organisations. Despite the importance of getting the right talent, just 34 per cent of New Zealand CEOs are making changes to their focus on skills and adaptability in their people. And despite their embrace of technology in all things customer-related, companies are doing little to change either how they use technology to improve productivity or their use of workforce analytics, with only 4 per cent of CEOs seeking change in that area.

People are critical to delivering business goals for the organisation and innovation to the marketplace. New Zealand CEOs are well aware of this, putting a skilled, educated and adaptable workforce as the most important outcome to society today (91%) and at the top of their wish list for government priorities (68%). This is such a vital issue in New Zealand that CEOs see it as a top priority for business and government – together.

In terms of the importance of tying workplace culture to behaviour, 72 per cent of CEOs in New Zealand are making changes to this aspect of their talent strategies. Indeed, companies that are highly coherent – those with strong alignment between their value proposition, capabilities, and products and services – view their culture as their greatest asset.[12] Further to this, 72 per cent of New Zealand CEOs say they are making changes to values, ethics and codes of conduct to reflect changing stakeholder expectations.

When it comes to a focus on diversity and inclusion, New Zealand organisations once again lag behind their global counterparts. In the 2015 New Zealand CEO Survey, 35 per cent of CEOs said they do not have a plan for diversity and inclusion nor do they plan to adopt one, compared to 17 per cent of global respondents. This year, only 17 per cent of New Zealand CEOs say they are focused on diversity and inclusion to retain and engage the people they need to remain relevant and competitive. This is compared to 39 per cent in Australia, 27 per cent in the US and 22 per cent globally. New Zealand organisations could be missing out on a talent pool with 90 per cent of female millennials saying an employer's policy on diversity, equality and workforce inclusion is important when deciding whether or not to work for them.[13]

"We do believe that if we have a diverse workforce, we'll better interact with the community and with travellers and traders."

Carolyn Tremain

New Zealand Customs Service

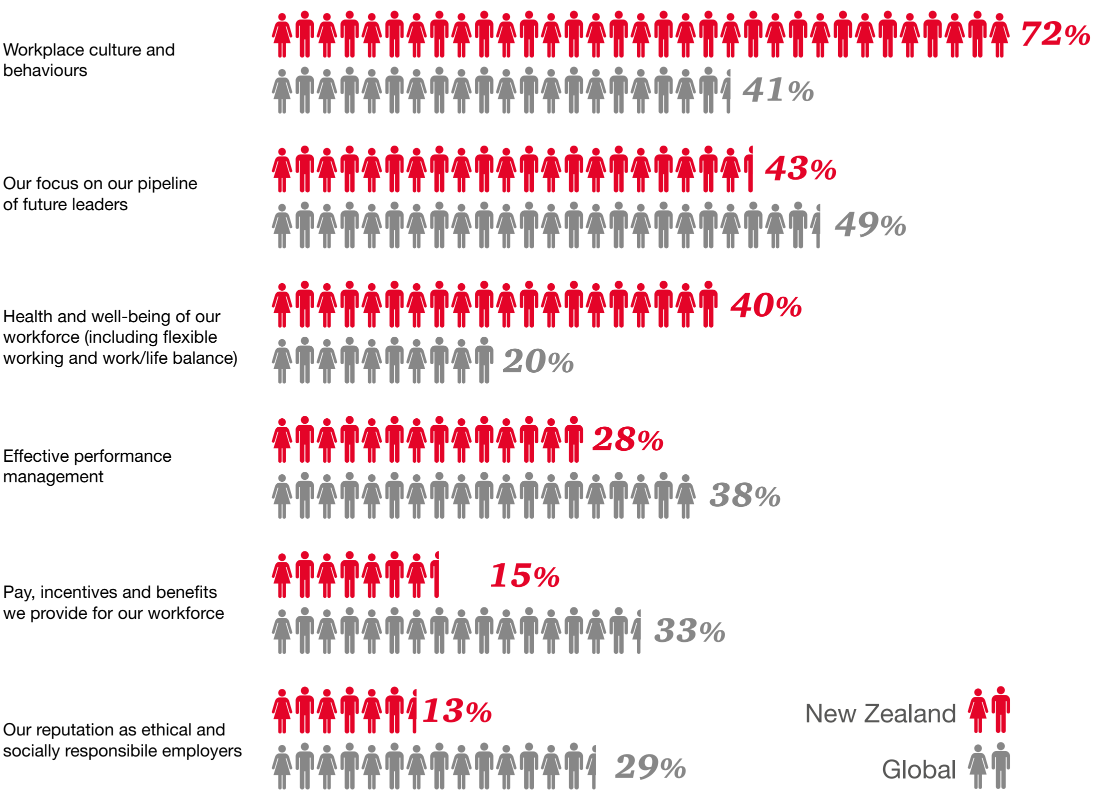
"We look offshore to some degree, but I am a believer of the talent in this country."

Jon Macdonald

Trade Me

New Zealand CEOs are changing talent strategies because of workplace culture and behaviours

Q: What aspects of your talent strategy are you changing to make the greatest impact on attracting, retaining and engaging the people you need to remain relevant and competitive?



89%

of NZ CEOs say they are making changes to workforce rights and well-being in response to changing stakeholder expectations.

"The purpose, and how we engage our people, is that you are not here to sell insurance; you are here to help make the world a safer place."

Craig Olsen
IAG

11 PwC, Golden Age Index: How well are OECD economies adapting to an older workforce?, July 2015

12 Harvard Business Review Press, Strategy that works: How winning companies close the strategy-to-execution gap, January 2016

13 PwC, The female millennial: A new era of talent – New Zealand findings, March 2015

New metrics for success
Defined by more than financial profit

While technology has enabled organisations to measure a wide range of impacts, ultimately, it's the goals of the organisation that should drive this measurement and communication to stakeholders.

In New Zealand, chief executives say businesses should be doing more to measure and value key risks (43%) and environmental impact (40%) for wider stakeholders. However, when it comes to communication, they say that businesses need to do a better job at communicating organisational purpose and values (60%) and business strategy (57%).

Existing frameworks for reporting on environmental, social and governance (ESG) standards are an important starting point to improve the visibility of corporate actions for customers and other stakeholders. The Global Reporting Initiative (GRI), for example, provides sustainability reporting guidelines, while the International Integrated Reporting Council (IIRC) supports integrated reporting for annual reports, and the Sustainability Accounting Standards Board (SASB) is aimed at sustainability content for regulatory financial filings for US-listed companies.

> *"The introduction of the Global Reporting Initiative means our accountants have something more to do than just bang out the financial statements."*
>
> Mike Bennetts
> Z Energy

> *"We are in the early stages of measuring and bringing forward factors like environmental, social, financial education, responsible lending, and having a workforce that matches our customer base."*
>
> David McLean
> Westpac New Zealand

> *"An important measure for us is the estimated number of patients treated using our medical devices each year."*
>
> Michael Daniell
> Fisher & Paykel Healthcare

When it comes to innovation, 36 per cent of New Zealand CEOs say businesses should be doing more to measure and communicate impact. With most companies not yet having cracked the code on measuring innovation, it's little surprise that this is an area where many CEOs want better visibility. And it could help explain why New Zealand CEOs struggle with how to optimise the societal value of innovation. Only 55 per cent of New Zealand CEOs say they are making changes to optimise societal value of research and development and innovation in response to changing stakeholder expectations (compared to 76% globally).

A large part of the challenge lies in the adoption and use of technology. And it's not simply about going digital and moving everything online, but continuously generating, collecting, analysing and reporting information, with coverage that's both deep and meaningful. More New Zealand organisations (82%) agree that they consistently measure outcomes from digital enterprise investments than their Australian counterparts (57%)[14] so a variety of frameworks for metrics are already being deployed within these organisations.

It's clear that CEOs recognise the importance of data and analytics, with most citing this as the technology that they think provides the highest return for stakeholder engagement (see page 9). The thirst for better speed and accuracy in this more dynamic environment is growing and new competitors who start with a fresh, faster measurement system are driving entire industries forward at a quicker pace.

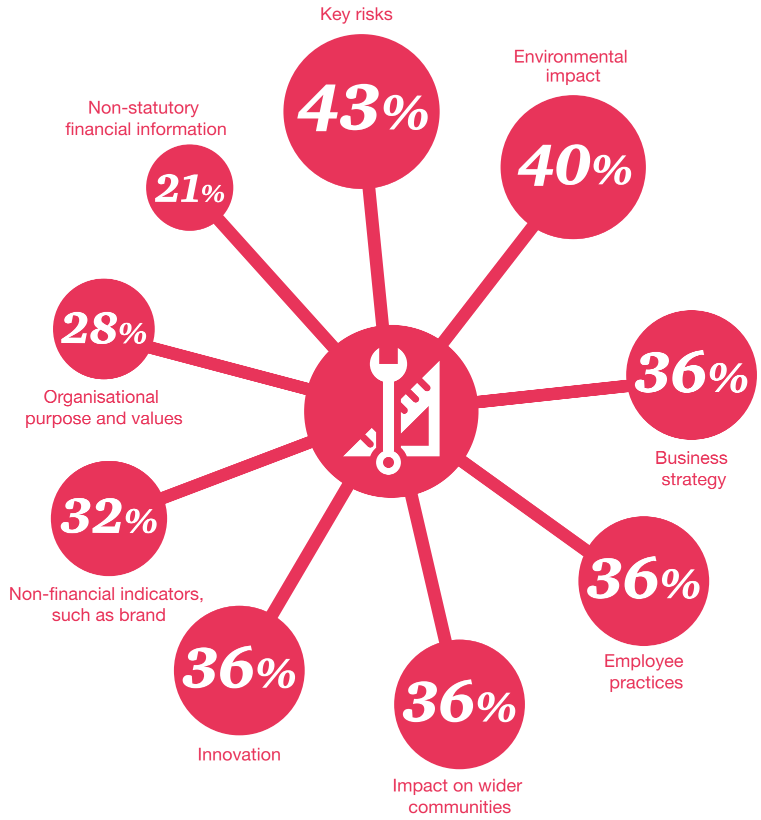
Of course, it is not easy to apply robust methodologies to measure indirect value. Take, for example, the New Zealand Customs Service which uses a harm model – developed in conjunction with the New Zealand Institute of Economic Research – to measure effectiveness of some of the organisation's work at the border (see page 19).

The ability of companies to consider non-financial indicators of success is testament to how dramatically the field of sustainability reporting and measurement has grown globally in the past 15 years. Going forward, the adoption of the United Nations' Sustainable Development Goals will help drive the measurement of a wider range of impacts, particularly in the public sector. Technology and data again are key: digitising and instrumenting business processes can improve efficiencies, recognise and account for hidden costs, and create greater transparency around areas like resource consumption and waste generation.

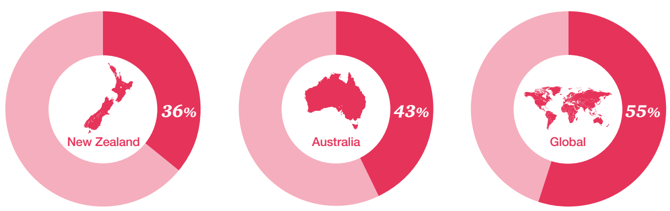
The fact that 40 per cent of New Zealand CEOs are making major changes (and 55% are making some changes) to how they manage brand, marketing and communications is a testament to the increasing awareness organisations have of these challenges. There are of course limits to what can and should be communicated and these vary from listed companies to public entities. But that line is shifting ever outward at a time when more stakeholders are asking more informed questions than ever before. Organisations must find the right balance if they are to improve transparency – and ultimately trust.

New Zealand CEOs say they should be doing more to measure the impact and value of key risk decisions

Q: Within the context of wider stakeholders, in which of the following areas do you think your business should be doing more to measure impact and value?



New Zealand CEOs lag behind in the view that innovation's impact and value needs more measurement by business



14 PwC, Maximising digital investments: The behaviours that drive top performers, November 2015

Want more data?

New Zealand CEOs are less concerned than their global counterparts about threats in the macro-environment

Over-regulation

74% NEW ZEALAND

79% GLOBAL

Climate change and environmental change

38% NEW ZEALAND

50% GLOBAL

Unemployment

23% NEW ZEALAND

46% GLOBAL

Government response to fiscal deficit and debt burden

43% NEW ZEALAND

71% GLOBAL

Social instability

40% NEW ZEALAND

65% GLOBAL

New Zealand CEOs say the workforce should be the top priority for the government

A skilled, educated and adaptable workforce 68%

Adequate physical and digital infrastructure 64%

High levels of employment 40%

A clearly understood, stable and effective tax system 36%

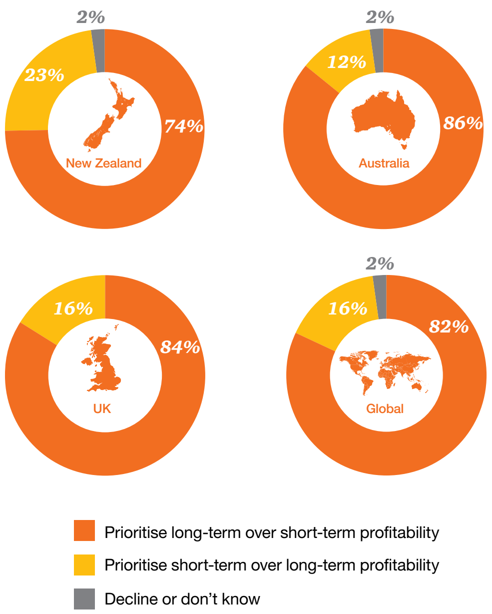
Good health and well-being of the workforce 26%

Only **15%** of New Zealand CEOs plan to decrease their headcount this year, compared to **41%** of Australian CEOs who say they plan to decrease their company's headcount.

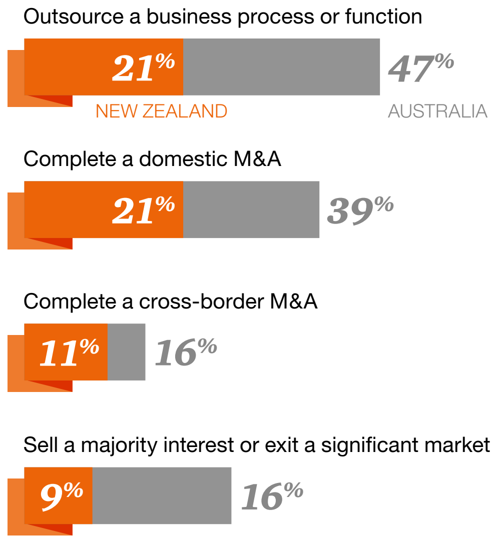
55% of New Zealand CEOs say they are making changes to how they develop new ethical products and services in response to changing stakeholder expectations, compared to **73%** globally.

NEW ZEALAND GLOBAL

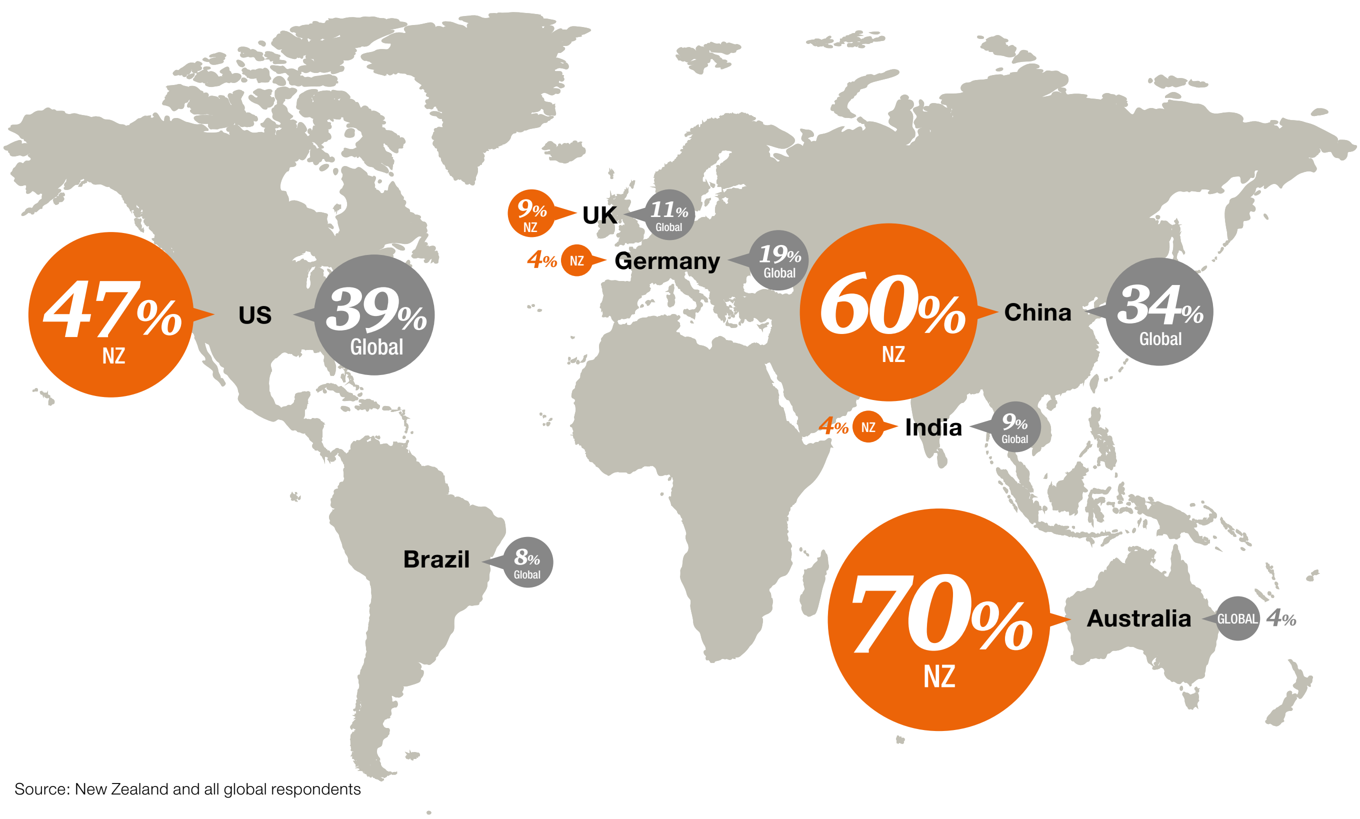
New Zealand CEOs are more likely than their global peers to prioritise short-term profits over long-term profits



New Zealand CEOs are planning fewer restructuring activities than their Australian counterparts over the next 12 months



Countries that CEOs in New Zealand and across the globe consider the most important for overall growth prospects over the next 12 months



Source: New Zealand and all global respondents

A dialogue with New Zealand's CEOs

Bruce Hassall
PwC New Zealand

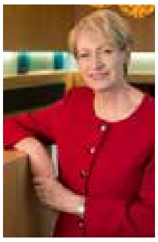
Purpose is becoming much more important for organisations and I think that reflects the world we live in today, which is changing very fast. It's not only becoming more connected through the impact of technology and digital, but also because organisations need to be plugged in to the world around them – their communities. A lot of this is driven by employees wanting to work for an organisation that is connected to the community and contributing to the positive wellbeing of their surroundings. If you have strong, vibrant communities you are much more likely to create an environment where you can have a vibrant and buoyant business environment.

PwC's purpose is around building trust and solving the important problems. What we need to do at PwC is make that relevant to our people, to New Zealand and the communities that we live in. For example, if I think around Auckland, how can we play a role in helping the city solve its problems around housing, transport and infrastructure. For me, it is about making it tangible for people so that they can see it and touch it.

Prioritising stakeholder needs is a challenge, and it is becoming an even greater challenge with the speed of change. A key question businesses are asking is: How do you keep all stakeholders in balance? We don't live in a status-quo world any more. Increasingly, I believe profitable growth and success are one and the same in terms of meeting wider stakeholder expectations. If you can get the balance right between meeting wider stakeholder aspirations, that in itself will drive a successful business and outcomes.

We spend millions as a firm in the pro bono area, and increasingly we are asking ourselves whether it's making a difference. Our skilled volunteering programme, which is the financial literacy programme for low-decile schools, aims to achieve two objectives. Firstly, we think it is important to be engaged with our communities and that is what our people want us to do. But at the same time, how can we do that and be meaningful and make a real difference? We have a lot of financially literate people at PwC, so it is about leveraging that financial skill capability for the benefit of our communities.

I am comfortable at this point that these activities aren't formally measured, because if you are trying to encourage new ways of doing things and have the mind-set you have to measure everything from day one, I think it has a danger of sending the wrong messages and can sometimes kill things off. I think we have to try things and encourage new ways of engaging, new ways of doing things. Everything doesn't need a quantitative measurement linked to it; qualitative assessments are increasingly as relevant and should drive the right long-term quantitative outcomes you are seeking.



Carolyn Tremain
New Zealand Customs Service

Around the globe citizens are more demanding of governments in terms of the quality of the interaction that they have with government, but equally on the trade side. New Zealand has been very active in negotiating free-trade agreements, so New Zealand traders have an expectation that we are as good as the biggest economies in the world and perhaps more nimble than most. Those expectations place pressure on us in terms of service standards, in terms of access to markets and assistance with New Zealand trade crossing borders of other countries.

Technology is hugely important to an organisation like ours. We have four major functions: facilitating trade and travellers, security and protection and revenue. Technology is affecting every one of those functions. Risk assessment at the border in an increasingly riskier world and having really good data analytics and technology is critical. We've had Smartgates in New Zealand since 2009. We're introducing the next generation gates and have installed nine at Auckland Departures. That's leading technology. We'll be increasing the amount of technology but, frankly, I'd be surprised if in five years if there's actually a gate there. Our gates already use the latest facial recognition algorithm technology, but whether that's Iris in the future or smartphone enabled – I don't think we know at this point. That technology is moving so quickly.

We use a harm model to measure the effectiveness of some of our work. The problem is putting a dollar value on something. If we intercept child exploitive material then what is the societal harm that's been avoided by us doing that? We use that as one of our key indicators as well. We've developed the model in conjunction with the New Zealand Institute of Economic Research. The harm model is well developed with respect to drugs and harm avoided, but it's been broadened over the last 12 months to all other activities that we do. We use it more as a measure of what harm has been avoided by having an effective Customs Service and we use it as a proxy for how effective we are at the border. But it still doesn't measure what I was talking about earlier – what you don't know about, the black market or the hidden economy.

There's certainly truth in the fact that if you have a television programme (Border Patrol) that pushes your brand further into the community, people understand what the work is. It's a mixed blessing. On the one hand it does give you a really attractive employment brand; on the other hand it makes the job look a little bit more exciting than it actually is. There are longer periods of very compliant passengers coming through an airport than you would see on a television programme where they are routinely finding things every half an hour. On balance I think it's really good because I think it does help with compliance. The compliance message that goes out to the community is quite strong and I think that helps in the carrying out of our work.

Christopher Luxon

Air New Zealand

Our purpose is to supercharge New Zealand's success economically, environmentally and socially, and that is not going to change. Our past and our future is inextricably linked to the success of New Zealand. You can't have a strong Air New Zealand without having a prosperous New Zealand. And likewise, New Zealand needs a strong, growing and thriving Air New Zealand to connect it to the world and bring the world to us. Fundamentally, business needs a strong society and society needs strong business.

Some of our infrastructure in New Zealand is now struggling to keep pace with the recent and rapid growth in tourism (meaning hotels and quality hotels). This is a challenge as we don't want the customer experience to be frustrated. So we are now pushing our customers into the shoulders of the peak tourism season and also promoting New Zealand heavily in the off-peak period, too. It means we're dispersing visitors better throughout the year and across more of regional New Zealand.

Business growth is not bad. We need to grow if we are to have the money, people and technology to invest in better communities, more skilled people, alternative energies to replace carbon, greater biodiversity, and product innovation. As a business, we do not have the luxury of choice – we cannot choose between growth and sustainability; we have to have both. Thus we need to build new business models that will enable responsible and sustainable growth.

Business inextricably plays a role in strengthening civil society. So when you think about it, I make no apologies for being a 'business person' because it is business that has lifted billions of people out of poverty. We should have liberty and freedom to run our businesses as we see fit, but equally there is a counter-posing and a responsibility to make sure our business strengthens civil society.

I've had investors tell me they are buying our shares because they believe companies that embrace sustainability are better run companies and will get better than average returns and industry averages by virtue of this. For us it is very clear – our customers are ultimately demanding it, employees really want it, and vendors and partners need it, too.

We have also worked really hard at only having New Zealand products on board where we can. For example, we're the biggest pourer of New Zealand wines in the country. Yet there is much more we can do. Improving the sustainability of our supply chain will be a key focus and last year we launched a new supplier code of conduct. It outlines more specific expectations of our suppliers when it comes to sustainability than what we have previously had.

Chris Quin

Foodstuffs North Island

I am a massive fan of companies thinking global from day one – when you have something that has global appeal, and when you have something that you can carry competitive advantage into another market with. I think you just have to be really, really clear about the competitive advantage you carry into another market. So, saying it was really big in New Zealand is not a competitive advantage.

Urbanisation is massively impacting our organisation. If you look at the traditional view of a supermarket, it is a large piece of land with a large carpark with a large single-level big store. Urbanisation is going to change all of that. We have three metro stores now, in this market. There are no carparks and they are in the bottom of commercial buildings in the middle of the city – that is an urbanisation trend.

In almost every industry, people take comparatives from elsewhere in the world and put them into New Zealand and they don't quite work. One of the fundamental differences is that we drive our cars places, we don't often take public transport. The reason our technology take-ups are different is we don't spend half an hour on a train, on a tablet, because we are sitting driving a car. Our take-up in online food purchasing is also different because of these things. It doesn't mean you should ignore the trends, just make sure you get the context right for New Zealand.

One of the beautiful things about being a co-op and not a listed company is you can achieve both profitable growth and success in meeting wider stakeholder expectations. We don't need to report every quarter to anyone, and I don't have to meet the needs of a share market who are essentially only on one part of cash return. It is a 94-year-old organisation and I am the seventh leader and the first external, which tells you a bit about the dynamic of the place. Customer focus is an interesting thing for this place. Clearly the grocers are extremely customer focused. The difference for me, in a corporate, is the managers are looking up the chain at their career, and in our model they are only looking down into their store asking how do I get more customers?

The future of everything we do will be built off a technology platform. Our future will be much more about shared data across multiple industries and extracting insights from that. Winning by deeper knowledge of your customer than anyone else drives a lot of things right across the business. When I get to a point when every person can say 'this is how my job affects customers shopping in the store' then I think we will do a lot of things right. We are at the beginning of this goal – it starts with us being clear on purpose.

Craig Olsen

IAG

We wanted a purpose that could resonate with any stakeholder, not only a customer. We do very practical things around how we make your world a safer place. If you take cyber risk for example, that isn't just about having a cyber product for communities. If you are really extending 'we help make your world a safer place', it's not just about having an insurance product for them. We might be able to help them think about litigation and partnering as an example with the likes of Vodafone to educate parents around how to keep their kids safe online. So it isn't just the risks of corporates having their data manipulated or stolen.

There are a few threats to growth prospects for us, starting with how people buy the product and also what they are insuring. If we take driver-less cars for example: the technology is emerging quite quickly. When you are looking at what will be reality in five years' time – the assets we usually would ensure – the products are going to have to change into liability-style cover for someone hacking into your car, rather than the driver. For example, at the moment we would base the assessment and the underwriting on the moral value of the driver. How well do they drive? What is their history? Where is the car located? These questions will become quite irrelevant – one, if the driver doesn't drive the car and things like automatic parking, lane detection technology – they are changing the risk quite dramatically.

A current challenge is that you have low inflation and low interest rates – we are in an environment that hasn't played out before historically in that kind of condition. We want a stable capital market and I'm not sure we are in that environment. You don't have to be an economist to understand that actually there is a lot of noise about how countries are trying to manage monetary policy but we are going into unchartered waters.

If you think about reputation, ultimately that is 'published' within the goodwill of your brand. I think we have to be very careful in business that we don't get so many metrics that it makes things more confusing because you are measuring lead indicators other than outcomes.

So when we think about our purpose, it is about making the world a safer place. We are trying to protect the community and yes there is an interest to us in terms of exposure, penetration and the appropriate coverage, but importantly it is about working with communities to understand collective accountability.

David McLean

Westpac New Zealand

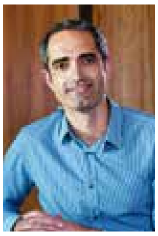
A big organisation with legacy systems needs to think like a startup, and we are going to be a 200-year-old startup. We have to, to survive, because otherwise a startup will eat our lunch. There is a real risk to banking now that never existed before. The risk is that 50 people may come along and take a bite off the value chain – not that someone is going to come along and build a massive Westpac. Essentially we risk being eaten by 1,000 piranhas instead of one single shark.

One of the things we need to do is change the mindset from thinking that we know everything and can do everything internally. We need to accept the fact that a better outcome might result from partnering. For example, we have partnered with Moven – a New York startup that offers a budget tool. We have licensing rights in New Zealand – a perfect example of why we shouldn't be afraid to partner with people who have better ideas. I think the previous model wasn't really partnering; it was supplying. Partnerships are quite different now, which I think is quite challenging for organisations. There is a huge imbalance between us and the people we are likely to partner with – a dozen people versus a mighty great bank for example.

There is no doubt that we need to take into account wider stakeholder expectations and our impact on society in the banking sector. This has come from the Global Financial Crisis, the behaviour of banks around the world and society's reaction. This implies we have a social licence to operate. If you lose that trust within society, especially within a sector such as banking, then life can become very difficult, if not impossible for you. Our purpose is really helping New Zealanders prosper and grow with our financial services.

Technology increasingly is going to transfer more and more power to the consumer. Not just for banking, but banking has had to shift a lot more than other industries. There will be better artificial intelligence (AI), better use of data, people will have a clearer understanding of what they are getting and they will know whether it is the best deal in the market or not. Customer loyalty will be harder to earn – I wouldn't say this is the end of it because people still put faith in brands. You are going to have to earn your loyalty with genuinely providing people with better service.

You must have the financial measures which, for us, used to be everything. Diversity is very important for us, as well as things like environmental, health and safety, etc. We announced at the end of last year, at a group level, that we are committed to a 2 degree economy. We have committed to try and align our lending to contribute to no more than a 2 degree increase in global warming. We also decided last year that we won't bank people who are payday lenders. Many of them are exploiters of the poorest people in society. We have aligned it to our obligations to the responsible lending code.



Jon Macdonald
Trade Me

Short to medium term, our focus is very much on New Zealand. Coupled with this, a lot of our competitive advantage (our brand, audience) is domestic and we need to be clear in what we have to offer beyond New Zealand. From my point of view, the world is becoming increasingly connected. This means in a sense, that it is becoming a smaller place. I see both threats and opportunities within this. If you go back through Trade Me's history, one of the things that benefited us in the early days was New Zealand's geographic isolation, so it was at the bottom of the priority list of a lot of the global players. Fast forward to today, and I think those global players are able to span the world more quickly and with fewer impediments.

Our purpose is to make things better for kiwis through online experiences they love. Within New Zealand, financial services is an area where there are traditional models that often support old-school businesses with big margins and big profits and we are interested as to where we can see an online model that is more consumer friendly and usually more transparent and immediate.

Prioritising stakeholders is a balance but we have a bias towards the consumer. For us, the consumer is not necessarily our customer. In Trade Me Motors we help car dealers sell cars to the public. In that equation, the car dealer is our customer but the car buyer is the consumer. We will often focus on meeting the needs of that consumer and occasionally that will mean we are not wholly aligned with the interests of our customer. We hold the customer in high regard but if we are as useful as possible to you, the consumer, then we will be used as much as possible by other consumers. If you then apply that same pattern of thinking to our shareholders – then in the long term we should get the results that benefit our shareholders.

What I hope happens over the next 10 years is that New Zealand businesses have a better reputation with the New Zealand public and are held in higher regard. This way, the public is more inclined to celebrate business success, which leads to employment, economic prosperity for the country and overall better quality of life. At the moment I think it is a bit troubling because there is still an inclination at times to beat up business. It is incumbent on the business community to work on that exceptionally hard, because I think it has been driven from behaviours and ways that business has presented itself.

Organisations should be reporting on other metrics alongside their financials. For example, around data protection, we publish a transparency report. Trade Me has a lot of activity and a lot of data, so we are subject to requests of information from government agencies, everyone from the police, to the Commerce Commission, to Inland Revenue and others. Every year we provide a comprehensive breakdown of the information requests we received and our response to those, and the intent is to give the public and Trade Me members confidence about data protection.

Michael Daniell
Fisher & Paykel Healthcare

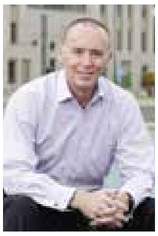
Ninety-nine per cent of our revenues come from offshore. There is a growing opportunity, as two-thirds of healthcare expenditure is spent on people over the age of 65, so therefore as populations age, health spending grows. This is both an opportunity and a threat, in the sense that there is more and more healthcare required – that's the opportunity – while the threat is that countries around the world are starting to buckle under the weight of healthcare costs. Healthcare expenditure has grown over the last 20 to 30 years from one- or two-thousand US dollars per person, per year, to six- to nine-thousand US dollars, per person, per year. This is partly due to improving technology, but also largely due to the ageing demographic. So this creates big opportunity, but also creates a threat of having a very strong desire to control the growth in healthcare costs. Our focus has been on developing technology that improves the effectiveness and efficiency of care, reducing labour costs and ultimately the cost to healthcare systems.

We typically double in size every five or six years. So over the last decade or so we have gone from being quite a small business to, in global terms, a small to medium-sized business and in New Zealand terms, a fairly large business. As our scale has increased, we have moved closer to our customers (these customers being the buyers: hospitals and homecare providers) by going more direct (as opposed to selling through distributors). We currently have people in 35 countries and are directly selling in about 25 countries. Increased scale has also allowed us to think of more sophisticated set-ups for supply chain and distribution around the world.

Fundamentally, shareholders do mainly care about financial metrics. When you are a public company, long-term for some shareholders might only be three months. However, sustainability of the business is obviously very important. For a business to be sustainable it requires many factors: attracting people, retaining people, having the right business model and competitive advantage. To me it is the long-term picture that is important.

We have always operated with a relatively low environmental footprint operation. But nevertheless we put more resources now into activities such as recycling, and we are a full participant in the Carbon Disclosure Project – essentially an investor-driven questionnaire on your carbon footprint. We put more focus on this than we did ten years ago.

We haven't traditionally provided much detailed environmental and social reporting, but we will from this year on because there is a growing expectation that we should. Specific requests have come mainly from international investor groups (such as the Carbon Disclosure Project) but not so much from individual investors.



Mike Bennetts

Z Energy

Strategically, we have decided that New Zealand is the only market we are interested in. We have had opportunities to invest in Australia and even further afield in the last five years. Beyond a cursory glance, we haven't gone much further. Personally I am a product of the global system, and you have to be really good as a New Zealand firm to be able to go overseas – there is a certain lack of sophistication and basically competitive intensity in New Zealand (not even in a market structure sense) but in the quality of the competition. I think Z is better off being a really good company in New Zealand with an expanded footprint in our current core business, than taking our current core business and applying it to another geography. If 'Z' is for New Zealand, then how can you come up with 'A' is for Australia, or 'S' is for Singapore?

Increasingly, employees will choose to work for companies because they have a decent purpose to them, rather than they want to make some money, pay off their student loan or advance their careers. You see that a lot in the US particularly when you go into the tech sector – everyone is there to solve the world's problems. As opposed to making the next widget or app, they are out to change the world. I think that is really prevalent in the minds of employees these days. There is pressure inside companies that I like to think we listen to and embrace. Other companies might resist this, but essentially your employees are just another version of your consumer.

I think the consumer is the new regulator. Consumers can respond to good and bad things companies do, which will force companies to change – much quicker than a parliamentary process or even a regulatory process. For example, they could start a Facebook page and completely obliterate a company.

We have recently come up with a supplier code of conduct so that we can get after some of our commitments around sustainability. We have three tiers of suppliers and our tier-one suppliers are the ones we have the deepest relationship with. We will work with the likes of Coca-Cola to bring lower sugar products to market as an example, or we will work with some of the contractors to be more sustainable in their practises around waste management.

Our sustainability commitment is all around economic, social and environmental. We need to be profitable – if we are not profitable then we cannot do good things socially. We cannot be exclusively economically sustainable because I think that might be a version of bad profits. If we make a return we can take additional risk on things like bio fuels, we can invest in paying people more than minimum wage, and we can contribute to things that contribute to the betterment of NZ Inc.

Notes and sources

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