



Take on Board

Transcript – Take on Board Breakfast

Helga Svendsen 0:13

So today we are recording at special live take on board event with the fabulous Jo Smith, about her research report, New Zealand boards and frontier firms. She's going to share with us some lessons from the research around board composition and strategic decision making. So first, let me introduce Jo. Jo is an economist by training. She specializes in Applied Research and Analysis, particularly qualitative and mixed method studies. She spent much of her career as a consultant, first at the New Zealand Institute of economic research. And then with Sapere, a research group. She has considerable experience in program evaluation for clients in the government, private and community based sectors and across the Pacific. Jo is now a principal advisor at the New Zealand Productivity Commission, where she works on major inquiries into productivity related issues. Welcome to the Take On Board Podcast, Jo.

Jo Smith 1:12

Thank you. Good morning.

Helga Svendsen 1:13

Good morning. And this is also part of the joy of doing these events, virtually not only do we have people from all over the place that we saw before, but Jo was, of course in New Zealand. So this is a fabulous way of us getting some international speakers. So thanks, Jo. In fact, Jo, I think you are our first international speaker at one of these events. So thank you, thank you for being here. I'm going to ask you briefly before we delve into the report, and learning those lessons about strategic decision making. As always, I would love to hear your first experience of governance or your earliest experience of governance. Can you tell us about that?

Jo Smith 1:50

Yeah, I can tell you about that. I should say at the outset, I'm, I'm not a director. So I don't have the expertise that all you everyone on the call has and I'm not pretending to I'm just relaying the wisdom from directors we spoke to. But I have been involved in a couple of boards. As my daughter was growing up. My first involvement was on New Zealand Parent Center, I was on the National Executive back in the late 90s. That was the sort of governance body that predated its current board. So my first experience of a board was a board comprised entirely of women. And we had, I think four sort of quarterly meetings off site down in Wellington, and I didn't live here then. So that was very

exciting for me to have a weekend away and not do any cooking. And just see what a really slick the round board operation look like.

Helga Svendsen 2:42

Board work. Hey, interesting in so many ways, not the least because it gets you out of cooking. That's also a good thing. My first board was YWCA Victoria, which was also an all women board. And I remember then my second board, which was as the CEO of an organisation reporting to it and walking in and going, Oh, god, this man here. It's like, of course, they can be men in the boardroom, my experience was always all women. So Jo, we're going to have a great chat about your research and your report today, New Zealand boards and frontier firms, can you just tell us what is a frontier firm?

Jo Smith 3:19

Sure. So a frontier firm as one of the most productive firms in the economy, they're at the frontier of productivity. And I'm talking about productivity there in the sense of the value added output that's able to be produced for a given set of inputs, just in very rough terms. And frontier firms are really important for the performance of the whole economy in two ways, one through their own performance. So as they innovate. And as they grow and expand and scale up, they can push out the frontier and the productivity in that way. But they also because they're at the leading edge themselves, other firms in the economy can learn from them. So learning about the latest technologies, best practices, that sort of thing, the fuses from what you call the frontier through the economy and lift, lift, overall productivity. And just one other thing I'll say on that, too, in the economics lesson for the morning, is that the directors we spoke to, they were on sort of listed and unlisted companies, but also not for profits and community based and purpose driven organisations as well. So the perspectives that I'm going to be relaying today, I know a number of you work in the not for profit sector. So hopefully there's some relevance for those types of organisations as well.

Helga Svendsen 4:36

Fantastic, to be honest, having run you know, some of the groups that I run and getting directors together from a range of sectors, I am always amazed at the similarity across the sectors of whether it's private, whether it's listed, whether or not for profit, government, whatever it may be, often the issues and the challenges are very similar. So it's great to hear that too. that you did the research across all of the different sectors. So, you know, as you've just mentioned, in your research, you interviewed a range of directors from a range of different sectors, what did you find out about what's needed in the boardroom for strategic decision making?

Jo Smith 5:17

Well, it's interesting. One of the probably the strongest theme that came through across the interviews and we spoke to we didn't the interviews with 22 directors, was the need for diversity in the boardroom. And what they meant by that was diversity of thinking and skills and perspectives to avoid groupthink, but also to be able to spot opportunities, risks, roadblocks, that you might not get when you have homogeneous thinkers in the room.

Helga Svendsen 5:49

So to get those different thinking styles, the different skills, the different perspectives, the different experience, what did you hear from boards? Or what's your advice around getting those different skills in the boardroom? What did you learn in that regard?

Jo Smith 6:05

So what Directors just told us is, first of all the types of experience or skills that you're looking for. So what they said was important was commercial experience. And this is for, you know, commercial companies, industry and domain experience. And if you're looking at expanding overseas, particularly international experience, and those types of experience in New Zealand, they're all quite thin on the ground, we've got a very small domestic market, and we don't have a lot of big companies to be sort of recruiting those people from. So that was the types of some of the skill sets. Another important thing that they see it as in terms of the types of people you're going out to look for, is matching the board to the organisation, and its aspirations and its strategic vision, so that you get people who are going to be able to assist the company achieve its ambitions. So getting that match, if you you've got really high gross, ambitious aspirations, you know, you need people with that growth DNA and the risk appetite, to be able to make those big strategic decisions that will take the organisation forward. And then in terms of where you look for people, they sort of told us looking in different places. And so not necessarily doing the shoulder tapping, people talked about, you know, there's a tendency to sort of reach for the big names, for instance, partners and law firms. And you know, those people can be great, but looking, taking risks, and being a little more adventurous and the sorts of people that you might approach or take on, on your board, perhaps people who haven't had a board role before, perhaps some younger people to get a different perspective in that regard. But also people who've been talking about people who've been through the fire people with scars on their back, you know, again, not necessarily in a board role, but then sort of commercial industry roles or whatever, including people who've been through difficult times, and, and business failures. So they, they sort of saying it now through guiding companies through COVID-19, having people who've been through the GFC, and come out the other side is actually really important. But they said, but we don't kind of necessarily get considered for board roles, because we've been through unsuccessful times, but they can help you then through other difficult times, because they know what to do.

Helga Svendsen 8:28

Well, I'm guessing if you're looking for people who have got a risk profile at the riskier end, then if you don't have a couple of failures in your back pocket, you've probably not been risky enough. Um, oh, there's a couple of things I want to dig into there. So you've just mentioned COVID, just in case, this turns into a podcast, we are recording this on the fourth of November. I'm wondering with COVID. And therefore board meetings, I'm not sure if you've touched on this with the people you spoke to. But with board meetings more now happening virtually, we can do this event today with you in New Zealand, and most of us here in Australia, no problem at all, which, of course, for this sort of event opens up the pool of speakers that we can have. So I'm wondering if you touched on that within any of the interviews around COVID, leading to more virtual meetings, and therefore that opening up the pool, and whether there was any lessons there for people?

Jo Smith 9:25

That certainly came up. And so for the New Zealand context, we have an extraordinary large diaspora of Kiwis around the world. It's one of the largest in the OECD. And so people were talking about the opportunity to be able to connect with either New Zealanders who are returning home and bringing that international experience and different perspectives, but also people who are still overseas. That is just now we're all we're all used to zoom it's become quite normalized, that it might be a little easier to connect with people overseas and be using them in governance roles.

Helga Svendsen 10:00

And even from regional areas as well, again, Lisa and I were reflecting while people were in the breakout rooms introducing themselves that, you know, there's people here from Yarrawonga, from Bendigo, from Mornington, Peninsula, that range of different regional areas. So it might also just not be the city centric and just getting beyond that as well.

Jo Smith 10:17

And relatedly they talked about is the working with the firm's through the crisis, and with the use of digital technologies, being able to have more frequent interactions. And that being necessary, you know, when you're working through a crisis, as that things like zoom can facilitate much more real time conversations, and they quite value add, and some were reflecting actually, maybe we could have more sort of real time communications anyway, because they were quite valuable.

Helga Svendsen 10:48

Drawing on that thread was there other I mean, zoom, which is what we are using today, other forms of video conferences now pretty common, was there other real time forms of communication

that they talked about, like a director is now setting up WhatsApp groups or signal groups is there other forms of real time communication that they talked about?

Jo Smith 11:05

We didn't hear about that. But you know, there, it does open up avenues for reporting, you know, in terms of your board packs, and your board papers, you know, being able to connect to your document management systems, your data and being able to provide things more readily access, rather than the sort of formal board pick

Helga Svendsen 11:27

To hark back to what you were talking about earlier around those diverse skills in the boardroom, or the diverse experience, we talked about experience and about skills, it sounds like, there was, you know, some of that is things like, you want the different skill set, you want lawyers and accountants and all of the different kind of technical skills. And you touched on some of it around some of the experiences, so maybe some of the more kind of inherent diversity skills around age or gender, or whatever it may be, again, did director's touch on both sides of that coin, that is the technical skills versus the more inherent experiences or attributes that people have and how to draw out on both sides of that coin?

Jo Smith 12:15

Yes, they did. And so on the on the technical skills, particularly on you know, the sort of the financial management, you sort of lawyers accounting background, that's really important for preserving value and your do your due diligence and your compliance requirements. But you also need a balance with people who can drive the strategy. And that's strategic vision and the risk taking of of the organisation. And one person described that subgroup of the board as the inner board. And so if you have too many people looking after the compliance side of things that can crowd out the more strategic conversations.

Helga Svendsen 12:58

Yeah, absolutely, I do. And I say this as a lawyer myself, I think it's important to have finance on the board. But can you imagine if everybody in the boardroom was a bean counter, and the sorts of decisions that would be made, or if everyone in the boardroom was a lawyer, or everybody was an engineer, or whatever it may be?

Jo Smith 13:14

Exactly. So you clearly need a balance and a mix. And then in terms of other sort of specialist skills, I guess, people told us that what's more important as just people with that sort of broad commercial acumen, who can just generally make good decisions and provide good input, rather than being too specialized and too niche. And sort of a sense of, you know, if you've got a really good management team, then you shouldn't be trying to compensate for sort of niche skills at the board level. And indeed, you might be able to just pull in sort of external experts, when you need some really specialist skills, but you're not going to, to niche within the board.

Helga Svendsen 13:56

And one of the boards I'm on we've had a similar conversation recently around one of those skills that we need, and then where do we need to get those skills? Is it at the committee level? Is it bringing in specialists? Is it in the boardroom? Is it through the board, getting their own professional development, whatever it may be? And it's interesting that you've just touched on, you know, management has a lot of deep skills around this. In the interviews, what did you hear much around keeping that divide between operational versus governance and what that meant for frontier firms?

Jo Smith 14:27

The way we asked that, as we asked directors, whether the board's role changes through a firm's lifecycle? And they said yes, that does, you know, in the sort of startup phase, if it has a formal board, and are more likely to be sort of hands on and really helping to support management and really quite highly involved in sort of day to day, but then as the company matures, you get you know, a full management sort of suite in there. Then the board shifts to one person described as a critical friend you need to be provided. Challenge, sort of helping lift the eyes of management. So management sort of can be a little bit down in the weeds and the operational business, and that's fine. But the board needs to be seeing around corners and seeing what management doesn't see, and sort of seeing what's not in the board papers and providing that that challenge to get really rigorous decision making.

Helga Svendsen 15:22

Mm hmm. I love that phrase seeing around corners. Yeah. sounds so simple. Anyway, part of the practice of us all to do it. Yep. And as Cindy said, over in the chat, a critical friend. Absolutely. So I'm wondering if you spoke to so many directors, were there any stories in particular that stood out for you?

Jo Smith 15:43

And there was one that I just found quite intriguing. So we asked them, you know, what's the role of the board and a quite strong theme was the most important decision as appointing the CEO, you've got to get that right. You know, you get the right person, and everything's possible, the wrong person, and even good things are impossible. And then, by the same token, if you don't have the right person in that role, then it's the job of the board to move them out. And it's really difficult conversation, how do you how do you have that conversation? And one woman we spoke to, she said, Well, this is where the soft skills come in, how do you do it? And she said, Well, I set them down with the CEO who just who just wasn't right for the company, right? It was just just the wrong fit. And she said, so I just laid out. Here's the skill set we need. Here's your strengths. And they saw the gap. And they realized, yeah, so she said it was a difficult conversation, but it had to be done. And if you're not, you're not prepared to have those conversations, she said, You should pick your bags and go.

Helga Svendsen 16:48

I think that is absolutely a great story to share, and is a key role for boards is getting that right CEO to lead the organisation. And if you haven't, then that you need to make sure that whether it's professional development or moving them on that you can get that right, right leadership within the organisation. Is there a question I should have asked you that I haven't?

Jo Smith 17:10

I guess just the one other thing. And that were we the commission was really interested in us doing the research is around how boards can help us the strategic decision making process. And so a couple of things came up on that is how boards can really add value to that. One is taking a long term horizon. So particularly if you're supporting experimentation and innovation, those are endeavors that have a really long runway, and the patience. And along with that as tolerance of failure. And that's a delicate balance, because you need to be sufficiently tolerant that you don't curtail projects that are that are going to get there in the end. But you also need to shut down clearly unsuccessful projects. So there's that balance, but the long term investment horizon and the appetite for risk, appropriately matched to the organisation.

Helga Svendsen 18:07

So I think what we will do now, folks is we're going to leave it there, which is not leaving the conversation there. But this is where you get to help out. You are going to have a chat about what you've just heard. And then we're going to come back and ask some of those questions.

Welcome back, everybody. I can see I love watching slideshow as you're doing that. So Jo and I were keeping an eye on things there. It is fantastic to see. So the question about the diversity dividend, go for it.

Speaker 1 18:36

I found that the argument that company would be more effective, or as Jo called it, like make better decisions, which they call the diversity given and was a stronger argument from the Human Rights argument. So I just like to hear that meaning that it's just absolutely right, a board should be 50% women, for example, apart from other things, because we're not really that diverse, or not, not a feature of diversity, just to put women on seems a very strange concept. To me. The Human Rights argument doesn't seem to wash with lots of board members, it was my experience, but the diversity dividend caught the eye of some people, particularly I have an MBA background.

Jo Smith 19:20

The people we spoke with didn't call it the diversity dividend per se, it was just such a strong thing, that it was just the right thing to do. Because it's what's needed for the organisation to make the best decisions. And in fact, a number of people pointed out it's not about having quotas and that sort of approach to it. It's you need the diversity to get to get those right conversations happening and, and the robustness of the decision making.

Helga Svendsen 19:49

Yeah there's some comments coming over. There's a stack of research about this

Jo Smith 19:52

Yes, and we dove into the literature a little bit and so there's a bit on that in our report as that they distinguish between observable characteristics such as gender and culture and ethnicity, and age versus the unobservable characteristics, which is the diversity of perspectives and thinking and experience, and sort of what the conclusion is that you can use those observable characteristics such as gender, as a way of getting the diversity of thinking, which is what you're really after.

Speaker 2 20:25

I'm an aspiring board member, so I'm not currently on a board. So my question is, speaking as someone who comes from a bank that crashed in the GFC, not in Australia, how do you positively sell those scars? Because to be honest, when I moved to Australia, it was seen as more of a negative

than a positive. Whereas I actually think there are some positives you can take from it, but I'm not sure other people see that.

Jo Smith 20:46

Yeah, sure, I can understand that. It's partly about match to the organisation or the company and what they're looking for in terms of, you know, experience and skills. But also, and this relates to some of the other questions around how do you see round corners. And that's about developing dynamic capabilities and the Productivity Commission, we commissioned as a companion report to the study I did around dynamic capabilities in boards, and the value that brings to companies because if you've been through something before you can you have the experience to see and to look for, and to answer somebody else's question as well, what's missing from the board papers, because you've been through it before, and you know, what to be looking out for.

Speaker 3 21:36

I am an aspiring board member, I don't sit on the board at the moment. But my work is all around helping people have strategic conversations about climate change, and develop long term strategy. So I think in that long term space, and how to have strategic conversations, so I really like the idea of creating diversity in the boardroom through backgrounds and representation. And skills had in frontier firms, did you talk at all about how to actually create that culture of high quality strategic conversations in the boardroom, that then lead to high quality decision making?

Jo Smith 22:09

Yes, I just talked about a number of things, they talked about how critically important getting the right person in the chair. And the role of the chair is in being able to facilitate the discussions, keep the discussions at the right level, and manage diversity of thought to come to a decision. So that was one thing, they was carving out time to have the strategic conversations, potentially getting in a facilitator to run those sessions. And someone talked about the halo effect of having one good session like that can sort of create a halo effect to show the value of that and you keep getting the dividend of that ongoing. And then a couple of more practical things that they suggested that management can do in terms of improving the quality of information that goes to the board to help them have the good conversations. One was around structuring the board papers around the key issues rather than the structure of the organisation, which might be a sort of a typical sort of fallback way of doing things. And also giving genuine options. So putting stuff up at the option stage to the board rather than here's the decision, can you sign it off? So that they have they're really sort of knocking around genuine options through that process?

Helga Svendsen 23:24

Fabulous. Thanks, Jo. I think it probably leads beautifully into the next question.

Speaker 4 23:31

As management, how do you facilitate your board having better strategic conversations? And, Jo, I know you gave some good examples there. I mean, clearly, it's not the role of management to guide the strategy, but how do you help your board guide you?

Jo Smith 23:48

Yeah, I mean, those were a couple of the ideas that audit had suggested. They also talked about the relationship between the chair and the CEO being really critical. And they described it as being close, you know, and having quite much more regular conversations, then the board meetings, but also not to matey because the board still needs to be able to provide challenge to management. And that's that concept of critical fringe, you know, being you're there to help but also to challenge. And then one other sort of idea that directors had was having the CEO take on a paid board role in another organisation, just to get that experience and their understanding of dynamics and what boards need. So that was just another idea.

Helga Svendsen 24:34

Okay, I think that's it, folks, thank you so much for being here today. If you've got suggestions about who we might be able to have at an event or on the podcast, please feel free to get in touch. That's exactly how this event came together today. And indeed, can we just close out what's one word that sums up the conversation that we've had today, if you can pop that over in the chat? That would be awesome. diverse, hopeful, inspiring. Inspiring, excellent inspiring. Again, thought provoking. I've gotten it's gotten to come through insightful awesome. Thank you, Nicole. Generous, stimulating, empowering, mindful, and so on. So again, thank you, Jo, magnificent to have you here today. Now allow you to get on with your days and hope to see you at the next one. Thanks, folks. See ya.

Jo Smith 25:23

Bye. Thanks Helga.