

## Newsletter – July 2011

### International Consultants Day

2011 was our third official celebration of International Consultants Day and at both the Auckland and Wellington locations it proved to be truly significant event.

#### Wellington

Our speaker for the Wellington event at the Spectrum Theatre was **Ron Stuart** (CMC and Fellow), who publicly launched the Consulting Skills Framework (CSF) on behalf of IMCNZ. For the past 12 months Ron Stuart and Lilian Lawrence (CMC/Fellow) have been working hard as the project leaders for the IMCNZ Council Taskforce for Training & Qualification. The result has been the ground breaking Consulting Skills Framework. The final fine tuning is taking place and the assessment website being developed.



Ron Stuart

We extend our congratulations to Ian Abrahams who was awarded his Certificate at the event, for promotion from CMC to Fellow (FIMCNZ).



Ian Abrahams (left) accepts his certificate from Phil Guerin (Vice President IMCNZ)

Thanks are extended to the following for their contribution towards the event:

Hague Consulting Ltd/Phil Guerin  
JLT  
Ron Stuart

Event Organiser / MC  
Administrative Assistance  
Speaker

### **Auckland Regional Meeting**

In Auckland we were honoured with **Mayor Len Brown** as our opening speaker. Mayor Brown spoke on his vision for the new Auckland Super City and how management consultants are assisting with this major consolidation project.

He was then followed by **Allison Dobbie**, Manager of Libraries and Information, Auckland Council who heads 55 libraries across Auckland. Allison discussed the challenges of integrating 55 sites and introducing new services to library user. The e-book was once envisaged as the possible harbinger of death for the local library, but Allison enlightened us in regard to this misconception - with libraries fulfilling a broader community based need, even noting that Auckland Library is the target destination for geneology research cruises.

JLT, who provide the IMCNZ ProPak liability insurance package were our hosts for the Auckland event and are thanked for their hospitality and exceptional catering (as always).



Left: Gordon Shaw (IMCNZ President) greets the attendees.  
 Top: Gordon Shaw introduces Mayor Len Brown (left).  
 Bottom: Deb Fisher, JLT (left) with Allison Dobbie

We extend our congratulations to Charlie Inggs (Affiliate) and Steve Phillips of Management Toolbox (Corporate Affiliate) who were awarded membership certificates at the event.



Steve McNeil (left) accepts the Corporate Affiliate membership certificate from Mayor Brown on behalf of Management Toolbox.



Charles Inggs (left) accepts the Affiliate membership certificate from Mayor Brown.



Deb Fisher of JLT accepts the Corporate Affiliate membership certificate from Mayor Brown on behalf of JLT.

Thanks are extended to the following for their contribution towards the event:

JLT

Gold Star Host / Sponsor

Mayor Len Brown

Speaker

Allison Dobbie

Speaker

Gordon Shaw

MC

## IMCNZ Training Session in Australia - BOOK NOW

We want to bring to your attention a fantastic training opportunity the IMCNZ and IMC Australia are holding in November this year in Melbourne.

On the weekend of **12 and 13 November** in Melbourne both our institutes are holding a consulting training weekend. The key note speaker for this event is **Alan Weiss**, consultant, guru, professional speaker, writer and humorist.

At this stage we have a date, venue and confirmed guest speaker. Please put these dates in your diary now. Make a commitment by booking airfares now to get the best deal possible! We want to have a good sized delegation of IMCNZ members attending this event. **Remember- PD Points apply for this!!** Pricing details are not too far away.

The broad plan is:

### Saturday 12th November (day) - The Athenaeum Club

IMC Forum - a full day event where guest speakers and some sponsors provide a major PD session / forum available for all members.

### Saturday 12th November (evening)

A major dinner at the Athenaeum Club in Melbourne in which we shall have Alan Weiss as a guest speaker.

### Sunday 13th November

A day of education from The Million Dollar Consultant - Alan Weiss. Our Victorian Chapter did a similar workshop 3 years ago that was an outstanding success. See link below.

<http://www.summitconsulting.com/>

## **IMCNZ/ JLT ProPak Insurance Package**

Our strategic alliance with JLT in relation to supply of liability insurance services is progressing well with a good uptake of the product within the last few months. This highlights the quality of the package which is very broad in terms of coverage.

Public Liability and Professional Indemnity insurance is a vital purchase for management consultants. It is now the norm for consultants to have to provide proof of insurance purchase in order to qualify for any supply contract. In days gone by the standard limit for Public Liability was \$1 million but in today's more litigious times the limits being demanded by councils and other major purchasers of consulting services are \$2 million, \$5 million and even as high as \$10 million.

For those dealing in Australia and with other overseas markets the limits demanded can be higher.

Our contact at JLT, Deb Fisher, has some interesting case studies (below) which emphasise how important liability insurance is to management consultants.

- **Breach of Contract** - A small management consultancy found itself in dispute with a major client. The client sought to put pressure on the consultant by bringing a damages claim for breach of contract based on negligence. Under the consultant's Professional Indemnity insurance the insurer provided an expert team to defend the claim, giving the consultant time to settle the original dispute to their advantage.
- **Professional Negligence**

In Example 1 the consultant was acting as an interim finance director for a customer. The customer subsequently sued when their company suffered a downturn. They claimed the consultant's strategic advice was the cause of their financial difficulties. The consultant's policy paid to defend these allegations and protect his professional reputation.

In Example 2 consultants were advising on a large restructure in the UK and found themselves in trouble when their redundancy advice was not completely correct. The tax office found the redundancies could not be classified as such as the company re-advertised the positions shortly after. This meant the company had underpaid their tax. The consultant's insurance allowed them to settle the claim amicably.

- **Loss of Documents**

A consultancy was undertaking a management survey of a large company. For four months they had been collecting data. Disaster struck when the computer server that held this data failed and the data was lost. Unfortunately the back-up server was also corrupted (this happens more often than most people realise). Their liability cover paid for a computer specialist to investigate the fault and retrieve as much of the data as possible. The policy also covered the extra time staff spent re-collecting the remaining data.

It's not just about covering us for when we do make an error, but also paying for the defence costs when we haven't - and the defence costs can be crippling.

**If you have any questions at all or wish to obtain a quote for insurance just contact Deb Fisher at JLT on (09) 300-3763.**

## **Website Upgrade**

For some time a primary aim for the IMCNZ has been to upgrade our window to the public - our website. Our Website Taskforce of Phil Guerin and Malcolm Billington are currently working on the practicalities of this project.

When first created, the site was cutting edge using the Cold Fusion platform. Today it is outdated and functionality is affected. We will be looking not only to smarten up the image but also to make it more user friendly, whilst adding in new tools. Watch this space.

We are in the process of awaiting responses to the RFP that we recently issued to make a start on the new web site. Watch this space.

## **Web Advertising Spot Available**

Our website is geared to only provide a small number of web banner advertisements to ensure that our advertisers receive the best possible exposure. A single banner space has just become available.

- \$450 + GST per annum per banner advertisement.

**As there is only one banner advertising space available the successful purchaser will be allocated on a first come first served basis so if you wish to purchase the space please respond immediately.**

You will note that the home page positioning is designed to provide advertisers with the highest possible profile and value for the advertising dollar. In addition, the rotating format ensures that the site remains uncluttered whilst giving all advertisers equal exposure.

Should you wish to advertise a non-static product (ie training courses which change each month) we have the ability to alter text as required at no additional cost.

If you are interested in advertising please contact the Suzanne Barley [info@imcnz.org](mailto:info@imcnz.org).

## Invitation from Sustainable 60

We have a strategic alliance with Sustainable 60 and as a member you are invited to their events.

The latest round includes **free Business Plan Workshops** to be held in July.

- Auckland 13 July Stamford Plaza, 22-26 Albert Street
- Wellington 14 July BNZ, Harbour Quays
- Christchurch 15 July Copthorne Hotel Commodore - Airport

If you are interested in attending please advise Suzanne on 09 827 7266 or [info@imcnz.org](mailto:info@imcnz.org) so that she can forward you the registration information.

## Member Contributions / Articles

We have detailed below a recent article by **Mark Thomas** (CMC - and recent Fellow), noting that the article was first published in the CSNZ section of the 11 March 2011 issue of NZ Lawyer, Reprinted in the June 2011 edition of ICSA International.

see next page

# The need for better governance practices, not better (and more) legislation



By Mark Thomas FCIS, Chartered Secretaries New Zealand Inc

**Witness the failure of Enron and WorldCom in the early 2000s, with the resultant enactment of the Sarbanes-Oxley Act (SOx) in 2002. This spawned a compliance industry but did not prevent the biggest meltdown since the Great Depression, now dubbed the Global Financial Crisis (GFC).**

The GFC has given rise to yet more governance legislation, one of the better pieces being *The UK Corporate Governance Code, June 2010* (The Code), produced under the auspices of the *Financial Reporting Council*. The Code came into effect for all UK listed companies with an accounting period beginning on, or after 29 June 2010 and it recommends a principle based approach rather than the prescriptive approach promulgated by SOx.

As worthy and well intentioned as The Code is, the brilliant documentary film *Inside Job* will leave you in no doubt it is not more legislation that is required but rather a *real review of board practices and competence*. (It will also leave you appalled and shocked at the state of governance in the United States, and with the realisation of the need for the current US administration to develop a backbone and truly reform the financial system — as Obama promised to do when he gained office — rather than reappoint all the ‘masterminds’ behind the GFC, as has actually occurred.)

The enactment of SOx seemed promising: it required the majority of the board to be independent; executives were to conduct an assessment of internal controls; and this was to be reviewed by the external auditors, who in turn would have oversight. In 2008 most (US and UK) large financial firms were more than compliant with SOx: all had conducted an assessment of their internal controls, the external

auditors found no material weaknesses and 80 per cent of board members were independent — some of these leading luminaries in business and academia. Yet this did not prevent the collapse or bail out of Merrill Lynch, Bear Stearns, AIG, Goldman Sachs and the Citigroup, nor avoid the GFC.

## **Beyond legislation and qualifying requirements**

What SOx fails to address, which The Code is groping towards, is not the legal compliance and processes and controls adequacy, but rather the behavioural traits and dynamics of those governing these organisations.

It would be great to be able to develop a professional qualification to certify a director's skill set, but the range of skills is just too large to make it practical. Furthermore, it has to be said, probably some of the most capable directors are without formal qualifications, for example Gates, Branson and Sugar (albeit honours have been conferred in the light of their achievements). Sometimes the more enlightened boards will either conduct a peer review or have a review facilitated or conducted by an external party. Moreover, there certainly have been and still are allegations board selection is often based on the ‘old boys’ network’. And, having been selected, you are more likely to be offered other board appointments.

Accordingly, it is now time to consider the professionalisation of boards with fewer more specifically trained directors — at least for the larger corporates and those with the capability to inflict national and international harm if they fail or struggle (such as national and international banks and multinationals).

Each economic and financial crisis seems to herald some introspection and navel gazing by governments and regulators, followed by a plethora of new legislation on governance and good governance practices.

***Social dynamics suggest a group size of around seven people to enable fast but efficient decision-making. This will allow participation by all members in a timely manner, the group size is more personal and decision-making more visible, and it difficult to evade responsibility. A board of seven members may be made up of six independent directors and the CEO to represent management — bearing in mind some meeting time is set aside without the latter's presence.***



Boards often tend to be large and unwieldy. This can lead to 'social loafing'; that is, in a large group it is easier to abrogate responsibility for decision-making and assume others are responsible. This in turn can lead to a more lackadaisical approach to preparation for, and participation in, board meetings and other board duties. In effect, a directorship may become a sinecure rather than a responsibility. Large boards can also be cumbersome, making it more difficult to reach well-considered and well-debated decisions.

#### **Finding the right balance**

Pre-GFC, the Citigroup's board consisted of 18 members, of whom 16 were independent directors — and Citigroup complied with SOx. All good then? Although filled with the leading lights from business and academia, only one of the 18 had an in-depth background in financial services. Given the size of the board, surely there was some social loafing and a sense of 'oh well, it's not my responsibility'. This sentiment certainly comes across strongly in *Inside Job* — to the point you wonder how and why directors are appointed. A cynic might believe well-intentioned directors suit the needs of a voraciously greedy management.

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evade responsibility. A board of seven members may be made up of six independent directors and the CEO to represent management — bearing in mind some meeting time is set aside without the latter's presence.

With boards of a smaller size, it becomes even more important to ensure those present have the requisite skills to add value. Whilst most boards would have a finance and accounting specialist (who should chair the Audit Committee and must be able to grill the auditors about any unusual accounting practices) and a generalist with a broad strategic and business sense, the remainder would have a considerable knowledge of the industry, or facet or specialisation within that industry. It is a given that board members need to be able to ask the hard questions and rigorously examine and interpret the information on hand, but what is rarely considered is the members' ability to pose the questions around vital information that is not being presented — either by omission or commission.

#### **Time is of the essence**

How much time should a director commit to each organisation on which they sit? Typically, an organisation will have around seven board meetings per annum, supplemented by some phone meetings. Assuming directors spend a couple of days reading board papers — and many organisations produce weighty board packs, which realistically need several days to digest — then it is not unreasonable to conservatively estimate 24 days a year on board business. Is it possible to understand the workings of a complex business with two days' work a month — where even members of management (and auditors) struggle to comprehend the workings of complex financial derivatives? Clearly not for many of the US and UK financial institutions!

This would suggest the need for a more professional approach with a realistic time commitment. The board is responsible for setting the strategic direction of the organisation and then measuring management's progress against the goals and objectives. To do this effectively, the board would have to spend time in the business, asking probing questions of it. This is not to suggest intervention in day-to-day management, but rather questioning to determine whether there are any material weaknesses — or not.

### Taking it seriously

Should board members do this properly, it would take at least a couple of days a month of probing, in addition to the 24 days committed annually to board meetings and papers. This means a time commitment of around 50 days per annum and, with around 220 working days in each year, would naturally limit a professional director to no more than four full-time directorships — but perhaps fewer would be better.

Given the extent and magnitude of the effect of the GFC, it is time to call for a more rigorous level

of professionalism and commitment to board memberships. The level of oversight required by doctors is huge because peoples' lives can be impacted by poor medical practice. Haven't the actions of the board members and senior management of the globe's largest financial institutions had an even more pervasive — and in some instances, just as lethal — consequence?

This article was first published in the CSNZ section of the 11 March 2011 issue of *NZ Lawyer*. Reprinted here with the kind permission of the publisher, LexisNexis. ■

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### *Current Council Members*

President, Gordon Shaw

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