

28 September 2018

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Hon Kris Faafoi
Minister of Commerce and Consumer Affairs
Parliament Building
WELLINGTON

Dear Minister

GOVERNANCE SELF-ASSESSMENT AND RESPONSE

1. On 13 April 2018, in your annual letter of expectations, you asked for advice on the findings of our Board's self-assessment of governance effectiveness. You also asked us to outline for you the steps we are taking in response to the findings from that self-assessment process. As we noted in our response dated 27 April 2018, the Commission shares your view of the importance of having a high-performing Board and had already embarked on a self-assessment process before your request arrived.
2. Last year, we engaged BoardWorks International to facilitate and support us in a comprehensive self-assessment process relating to Board effectiveness in our capacity as the governing body of a Crown Entity (rather than in relation to the effectiveness of our regulatory and quasi-judicial roles). The engagement of Boardworks International and the use of their well-established methodology ensured independent advice and assistance from experts in the field. It also meant the process was based on the best international thinking on board accountability. The assessment process focused on and revealed opportunities for governance and boardroom performance improvement.
3. Our approach to the self-assessment of governance effectiveness followed on from an earlier comprehensive review applying the Performance Improvement Framework (PIF) that was undertaken in 2015. It is important to mention this earlier work, as it was through that review and the application of the PIF approach that the Commission identified the need to develop an outcomes-based strategy and vision.

4. We have continued to use that strategy and vision as an organising framework to unify and direct the wider activities of the whole organisation.¹ For example, we have applied the organisation strategy to many of the subject areas in which the Commission exercises its powers, functions and duties in its Divisions as a regulator or decision maker (for example, to develop a Consumer Strategy). There have also been significant developments in relation to risk assessments for the relevant areas in which we exercise our statutory functions, powers and duties.
5. We see the more recent self-assessment with BoardWorks, and our response to it, as further building on this work. Given members of the Board have both wider governance and subject matter based decision making roles it is important that the approaches are interconnected and work effectively in parallel and to a complementary rhythm.

Findings of governance effectiveness review

6. Feedback from the governance effectiveness review included that:
 - 6.1 the Board dynamic and culture was considered to be consistent with the characteristics of a strong, high functioning group;
 - 6.2 there was division of labour within the Board without compromising collective governance responsibility;
 - 6.3 Board meetings were considered to be efficient and well run from a procedural perspective; and
 - 6.4 Board members had good working relationships with the Senior Leadership Team and placed a lot of reliance on (and confidence in) staff.
7. Overall, BoardWorks International concluded that the Commission as a governing body, had a better defined and more confidently executed governance function than it had in the past. The report noted that reporting of information to the Board for governance purposes has also been improving.

¹ In the employee survey that followed the development of the organisation-wide strategy and vision, the overwhelming majority of employees (82%) agreed or strongly agreed with the statement "This organisation has a clear vision of where it's going and how it's going to get there". This result was up 22 percentage points from 60% in the year prior to the strategy and vision being introduced.

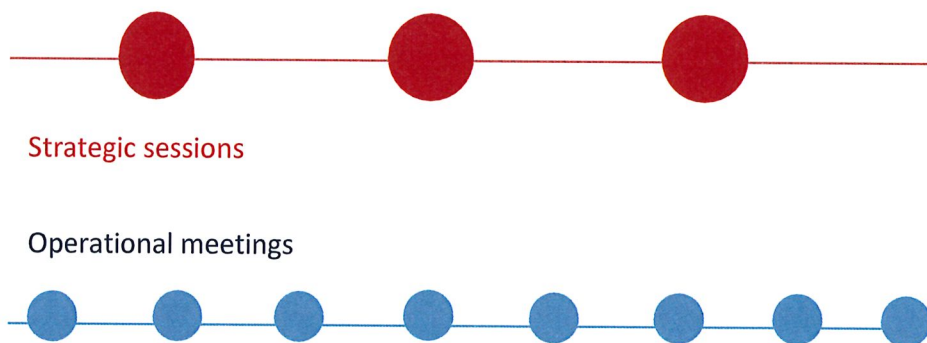
8. The Board also identified a number of areas for improvement, including work needing to be done in the following two areas:
 - 8.1 Board meetings tending to be quite mechanical; and
 - 8.2 Too much reliance being placed on staff for strategic risk assessments.
9. The areas identified for improvement reflect a widespread sense from within the Board itself that it needs to commit more time to organisation-wide strategic dialogue and contextualising strategic risks (and opportunities) that impact on the organisation as a whole. BoardWorks International observed that there was undoubted commitment amongst Board members to continue performance improvement into the future in terms of the governance of the Commission as a Crown entity.
10. BoardWorks International suggested that to achieve its ambition, and to strengthen its governance function generally, the Board needed to adopt a more deliberate approach to planning and prioritising the focus of its strategic dialogue and other aspects of its role that may justify greater engagement or closer attention. In direct response to that feedback, the Board has taken deliberate steps to ensure it is best placed to respond to those areas that require our increased focus.

Steps we are taking in response to the review of governance effectiveness

11. In order to make the necessary changes, the Board recently held a strategy day that focused on continuous improvement in our strategic dialogue, including consideration of risks and opportunities that impact on the entire Commission.
12. The strategy day was facilitated by Stephen Cummings Professor of Strategy and Innovation at Victoria University, and author of the book *Strategy Builder: How to Create and Communicate More Effective Strategies*. With the assistance of Stephen's methodologies, the Board:
 - 12.1 focused on the key themes identified by the Board through its self-assessment;
 - 12.2 undertook environmental risk and opportunity scanning and identified strategic risk and opportunities which will now form the basis of an ongoing strategic risk and opportunity assessment and analysis; and
 - 12.3 identified areas for, and committed to, deep dive analysis into matters that are important across the Commission (for example, the impact of technology and data changes on our work and labour market changes and impacts).

13. We have also committed to, and locked in, a more formalised cycle of strategic discussions to support existing processes. The new cycle of strategic discussions will effectively formalise a 'dual cadence' to our Board meetings, ensuring we dedicate time to both our important governance roles in relation to:
- 13.1 accountability and performance, with a regular 6 weekly focus on current and backward looking matters that go to our accountability and responsibilities as a Board; and
 - 13.2 strategic direction, through the introduction of three dedicated forward looking strategic sessions focused on the wider environment and the impact on our context and operations over a longer horizon.
14. This "dual cadence" approach also mirrors the steps to build specific strategic sessions in subject matter based Division meetings and will enable a parallel strategic reporting and engagement between Board and Divisions.

'Dual cadence' approach for Board meetings



15. Our expectation is that the creation of dedicated strategy sessions will drive increased future forecasting, risk and opportunity spotting and ensure we are well placed to respond to the changing context in which we operate. Amongst other things, we will be able to focus on: continued improvements to the information that is being reported to the Board, commissioning of work by the Board, and building a longer-term horizon for our organisation-wide forecasting and decision-making.

Opportunities created through outcomes-based strategy

16. The agreed change in emphasis is the obvious next step in effectively implementing our outcomes-based strategy. As you know, our strategy is designed to achieve our vision that New Zealanders are better off because markets work well and consumers and businesses are confident market participants.



17. We recognise that continued good governance of our organisation is an important part of continuing to deliver against our vision, given the emphasis we have placed on the confidence of market participants. With this in mind, we look forward to sharing with you our annual report for 2017/18, which will be the first time we have reported against the outcomes articulated in our vision.

18. We expect to provide our annual report to you in November.

Yours faithfully



Sue Begg
Deputy Chair

Copy to: James Hartley
General Manager, Commerce, Consumers, and Communications Branch, MBIE

Jennie Kerr
Manager, Competition and Consumer Policy, MBIE