NZ Ethical Employers
Cultivating Excellence in Employment to Support Primary Industries

Blog July 2025

**Systemic Failures in New Zealand Governance: Boards That Don't Govern**

Boards are supposed to govern: not manage, meddle, or disappear when it matters. But in New Zealand, governance failure is too often the rule, not the exception. From Fonterra's drift last decade to CBL Insurance's implosion, we see the same critical gaps: no clear strategy, weak oversight, and zero accountability.

Let's call this what it is: systemic failure.

<u>Strategy: Who Are You and Where Are You Going?</u>
Strategy means setting direction and sticking to it. It's not operational planning – it's answering the big questions: What business are we in? Where are we headed? What don't we do?
Fonterra Board last decade chased global scale, acquired a stake in Chinese infant formula company Beingmate, and pushed offshore ventures while struggling to reconcile its role as a farmer-owned co-op. The result? Billions written off and a major strategic retreat. As NZME summarised in 2019:
*"Fonterra lost sight of its core business and purpose. The board allowed strategic creep and failed to rein in management."*

<u>Oversight: Trust, But Verify</u>
Boards don't run companies. But they must make sure the company is being run properly. That means understanding the risks – financial, operational, reputational – and ensuring they're being managed.
CBL Insurance is a textbook case of board failure. The directors greenlit risky international operations and relied on overly optimistic financial assumptions. The Reserve Bank intervened. The company collapsed. Investors were wiped out. As the Financial Markets Authority bluntly put it:
*"The directors failed to understand the business they governed."*
Oversight isn't passive. It means asking tough questions and knowing enough to understand the answers.

<u>Accountability is where governance either lives or dies.</u> Boards must hold management to account. But they also need to challenge each other, and the chair must ensure that happens. In many NZ businesses, especially smaller ones, owners sit on the board often alongside other family members or long-time associates, the governance becomes a closed loop. Management and board roles blur. Decisions are made on instinct, not evidence. Governance becomes theatre. Adding "independent" directors doesn't solve this if they're disengaged. As Michael Stiassny, former Chair of the IoD, said:
*"Too many directors are passengers — not pilots. You're not there for the lunch."*

<u>"Development boards"</u> set up to launch new ventures or restructure old ones often struggle to transition from founding to governing. The same people who build the system stay too involved in operations. Governance is sidelined by legacy roles, personality politics, and execution risk. MBIE's 2020 Crown Entity Review observed:
*"Many boards struggle to distinguish governance from management, particularly in start-up or transformational phases."*
Letting go is hard. But if you can't, you're not governing – you're just running a committee.

<u>Industry Good Boards: Sector Leadership or Sector Capture?</u>
<u>Industry good boards</u> – often levy-funded and dominated by grower or farmer directors – are another weak spot in NZ's governance landscape. Even when independent directors are appointed, they are often sidelined by producers who see the board as a platform to push their own or sub-sector's business interests. Instead of setting strategic direction for the whole sector, too many of these boards become arenas for securing votes, levies, and influence.
*"It becomes a competition to speak out for farmer or grower support — not somewhere that provides genuine sector leadership."*

The core governance function – leading the sector, building public trust, delivering high-impact outcomes – gets drowned out by parochialism and internal politics. And because these organisations are levy-funded, they aren't held to account by market forces. They don't have to prove value or adapt. They survive by default not performance. As KPMG noted in 2023:
*"Levy-funded bodies are often sheltered from the need to demonstrate value... voluntary membership drives far stronger accountability."*

So What Needs to Change?
The Institute of Directors' *Four Pillars of Governance* – Purpose, Accountability, Compliance, Culture – still stand but they are only a start. Policy frameworks can't fix a culture of weak challenge, passive chairs, or ego-driven founders. We need boards that act.

Here's some suggestions for positive change:

- For founders and owners: If you sit on your own board, ask are you governing or just controlling? Can anyone actually challenge you?
- For independent directors: Step up or step off. If you're not engaged, you're just ballast.
- For investors and stakeholders: Don't be fooled by board titles. Look at conduct, outcome and competence.
- For industry good boards: You're not there to speak for your farm or region. You're there to lead a sector. If you want public money, earn it. Shift to voluntary models. Compete for trust.

New Zealand doesn't need more board charters or box-ticking. It needs boards that *govern*: Strategically; Accountably; Fearlessly. Because when boards don't govern: everything else falls apart.