

# **Board Leadership for Strategic Transformation: Aligning Diversity Initiatives at the Bank of New Zealand**

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This case was written with the cooperation of the Bank of New Zealand board solely for the purpose of stimulating class discussion. All data contained in the case are based on field research and public sources. The case is not intended to be used as illustration of either effective or ineffective handling of a managerial situation.

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## **Board leadership for strategic transformation: Aligning diversity initiatives at the Bank of New Zealand**

The board of directors for the oldest, continuously operating bank in New Zealand, the Bank of New Zealand, felt confident their strategic gender imperative would remain a key differentiating factor for years to come.

In less than a decade, the 150 year old bank had gained international accolades and prestigious awards for its leadership in gender equality initiative. While competitors emulated aspects of the strategic transformation, the bank's performance was buffered from competition except in the fastest growing economic region—Auckland. Faced with the region's intense rivalry, the bank found it much harder to capture segments of the market needed to sustain growth and profitability levels.

The board, armed with the latest performance metrics for this economic hub, brought their full creativity to strengthening the bank's business case for diversity. Translating the next phase of the diversity strategy into strong market share results for their consumers and parent company, the National Bank of Australia, would need board leadership.

### **Background: History of the Bank of New Zealand**

The Bank of New Zealand was incorporated on 29 July 1861 by a group of businessmen. The bank opened its first office in Auckland in October 1861. In December 1861, the bank opened a branch office in Dunedin, and became the country's first national bank. On 21 June 1915, the bank introduced Miss Ivy Lillian Waters to the Wellington office as the first woman to work as a Supernumerary (spare) Clerk on record.

Over the years the bank expanded its operations, opening branch offices across the country, and adapting to changes in economy and society including those brought about by the Second World War. Women took a variety of roles in the workforce, which included entry to higher skilled occupations. By the end of the War, the number of women employed by the bank rose from 74 to more than 700.

In 1944, the government decided that it would bring the formerly private assets of the bank's 8,500 shareholders under public ownership. The transformation of private assets was completed in 1945.

In the decades that followed, the bank continued to grow and expand its products and services. In 1958 the bank introduced the first bank services 'for women by women'. The acting-chairman of the board was 'sure the beautiful surroundings in the department would bring a tremendous increase in the number of women with bank accounts'<sup>1</sup>. This innovation was followed by the introduction of the first computer in 1966, Visa credit and debit cards, and electronic fund transfer at point-of-sale cards (EFTPOS) shortly after they originated in the United States.

In 1987, in terms of ownership, the government announced that it would partially privatise the Bank of New Zealand and listed the company on the New Zealand Exchange. By 1990, the efforts at privatisation had led the bank to brink of collapse. The government stepped in with a rescue package.

In 1992, the National Bank of Australia (NAB) purchased the shares and the Bank of New Zealand became a member of the NAB Group as a wholly owned subsidiary. With its 26 percent market share in New Zealand at that time, the acquisition by the Australian financial and insurance service company brought an end to this uncertainty of the bank's future. The Bank of New Zealand (BNZ) remained a registered bank under the Registered Bank of New Zealand Act.

### **Governance Framework: National Bank of Australia and its Subsidiary, Bank of New Zealand**

The NAB Group consisted of financial services which operated in Australia and New Zealand with other businesses in Asia, United Kingdom and United States. The NAB Group established a corporate governance framework by which they directed operations, business practices and culture. The NAB Group board's main responsibilities, at a high level, included overseeing and monitoring of strategic and operational planning, risk management and compliance, financial management and integrity of external reporting as well as succession planning and culture. NAB's typical 12 member board consisted of a majority of independent non-executive directors, with a separation of roles between the chairman and Group CEO. Board committees included Audit, Risk, Remuneration, Nomination, and Information Technology<sup>2</sup>. The NAB Group complied

with the Australian Stock Exchange (ASX) Corporate Governance Principles and Recommendations.

As a subsidiary, the Bank of New Zealand established its own independent board of directors, board charter and committees. Their responsibilities aligned with those of the NAB Group board. The board consisted of seven to nine directors, most of whom were New Zealand residents to conform to the New Zealand Exchange listing requirements. Two members were typically appointed from NAB.

The BNZ board's committees, Audit, Risk and People and Remuneration, operated similarly to the parent company with the exception of the appointment of new directors. The responsibility to identify and recommend prospective directors for the BNZ board had been delegated to its People and Remuneration Committee. Once vetted, the approval (or not) of potential BNZ directors resided with the NAB Group Chairman or designate. In 2008, the Group Chairman exercised his authority with the appointments of a new Chairman for the Bank of New Zealand, a new Managing Director and two new directors.

### **Bank of New Zealand: New Chairman, New Managing Director and New Directors Appointed (2008)**

In 2008, in the midst of the global financial crisis (GFC), Andrew Thorburn accepted a promotion to Managing Director and CEO. As a life-long banker Thorburn explained his philosophy that he brought to inform his tenure as CEO in relation to NAB, 'New Zealand is best run with a high degree of autonomy and a very competent CEO and board who are encouraged to make the right decisions'<sup>3</sup>.

John Waller, board chairman, championed this approach. Six months before Thorburn joined the board, Waller became a non-executive director and then chairman in November that year. Waller brought his experience of business restructuring, corporate mergers and acquisitions, and corporate advisory services gained as a partner and practice leader at PwC to setting direction with the board. In 2008, they recruited new directors with banking and general management expertise to join them. The board's recommendation of two independent non-executive directors, Dr Andrew Pearce and Stephen Moir, following the retirement of two directors, was approved.

The Bank of New Zealand had managed the GFC reasonably well in part to its strong balance sheet, low exposure to the risky subprime instruments, and a diversified revenue base. Emboldened by BNZ's strong performance, the refreshed board of directors and Thorburn embarked on a strategic transformation to build the bank's performance, improve market share through strong customer satisfaction and develop a strong leadership culture<sup>4</sup>.

While discussing this strategy with the directors of NAB, Thorburn learned that the Group had made some initial progress in targeting a diversity initiative. NAB had engaged in background research, conducted an audit and set targets for October 2010. NAB recognized a long term approach to diversity, talent development and capability building required an unwavering commitment across the Group. NAB confirmed that these issues would remain a core part of the broader business strategy. With the commitment that 'identifying and developing employees who are both high-performing and have the potential to take on greater responsibility in the future' was a pillar for NAB, Thorburn and the board were keen to adapt the Group's commitment to the context of BNZ.

### **Board of Directors' New Strategic Initiative (2010)**

In early 2010, the board and executive leadership team (ELT) participated in an annual strategy session. The dedicated day-long session was Thorburn's opportunity to fully engage with the board and management and gain their strategic insights and contributions. One of the scheduled activities involved individual directors paired with a member of the executive leadership team to present on strategic topic facing the bank. At the session, Pearce, a member of the board and Chair of the People and Remuneration Committee and Louise Harvey-Wills, director of Human Resources, were matched and given the topic of diversity. For their 30 minute presentation, they focused on the changing demographics for New Zealand. They addressed implications for staff recruitment and retention which they encapsulated in the phrase, 'It is not a diversity strategy; it is a business strategy'.

The presentation landed well. It resonated with the board and senior management team, sparking a recognition of an emerging disconnect between the bank's employee profile and its client base. The bank's equal opportunity programme had plateaued with 20 percent participation of women in senior management roles. With the bank 'treading water' on gender diversity no solution was on the horizon. As the presentation warned, an organisation that does not adapt will eventually become irrelevant.

In April 2010, with the board-senior management strategy session still fresh in the minds of Thorburn and Harvey-Wills, they commissioned a review of the bank's systems, policies and processes. The findings of the consultant's report pointed to poor behaviour and systemic issues throughout the bank, with pockets of particularly boorish behaviour. Having reviewed the report, Thorburn was even more strongly committed to effecting change. His interest extended from rooting out undesired behaviour wherever it resided to leading an organisation-wide transformation that would encompass all facets of the business operations. With Harvey-Wills, Thorburn was keen to lead the charge.

In November 2010, the bank introduced its top 200 leaders to the changing demographics impacting New Zealand. In a session designed as an 'awareness scene setter' the senior leaders were invited to identify target client segments for business opportunities. With the external client changes outlined, they began to consider internal aspects of the workforce.

Between February and August 2011, the bank conducted further research on gender at BNZ. Debbie Teale, the consultant who produced the initial 2010 report, returned with a focus on identifying the systemic issues. The assessment revealed that the bank did not differ significantly from other financial institutions with its low retention of women and under-representation of women in senior management levels.

A key challenge facing the small working group was to monetise the impact of the findings. They recognised that a major transformation, as they envisioned for the bank, would demand a compelling business logic. They needed to demonstrate the commercial case not only to their own board and employees, but also to NAB. The board encouraged the adoption of a commercial case orientation to the strategy to temper criticism that the initiative was 'just an HR thing or a political correctness thing'.

The board acknowledged that Thorburn would have to reach widely and dig deeply into all aspects of the operations to provide the leadership required to effect a strategic transformation while remaining committed to the vision and values in an increasing competitive marketplace. It would demand an extraordinary ability of the board and CEO to collectively and individually exercise leadership to encourage all employees to be involved in achieving their potential to the fullest.

Based on their commercial case, the board believed that the time was right. Eager to proceed, they gave their commitment to support Thorburn on this ambitious journey. With that assurance in place, Thorburn drew on the executive leadership team to initially oversee a small working team guided by Harvey-Wills, Director of People, and Annie Brown, Head of Engagement. Along with external support provided by Teale, this group crafted a plan that would provide the foundation for BNZ to capitalise on its emerging diversity and inclusion strategy.

### **Board of Directors Back the Creation of a Diversity Council (2011)**

By December 2011, a comprehensive strategy was created and presented to the board. The directors had long recognised that banks were ‘very conservative and not necessarily quick to adopt new organisational theories’. They reviewed the proposal carefully. The proposed strategy imparted a clear business rationale, describing ‘how far behind the curve they thought they were, and what they needed to do about it’. A spirited discussion among the directors of the board ensued with some anxious about the scope while others brought a sense of urgency to the issue.

One of the key recommendations of the report that the board adopted stated that this initiative should not reside within the Human Resources (HR) department despite the groundwork conducted to-date by that unit. The report called for the strategy to be led by the board and CEO. One of the directors explained the rationale for establishing a new body, the Diversity Council: ‘Diversity Council was established to give us more formality and to ensure that the wider organisation understood that this initiative was something strongly supported at senior levels in the bank’. Another pointed to the comprehensiveness of the envisioned changes stating, ‘It wasn’t something that could just be parked with HR’. The creation of an entity dedicated to developing and implementing the strategy ‘needed to have something more formal than just an *ad hoc* approach’.

The board also determined that the chairman of the Diversity Council would report informally to the chairman for the People and Remuneration Committee of the board. This second key decision established an informal (dotted line) reporting relationship to ensure the board gained timely, accurate information on progress and barriers encountered, and would be well-informed about the initiatives undertaken. The Diversity Council was accountable to the CEO (Thorburn).



A third key decision made by the board was that the Diversity Council would be chaired by someone other than Thorburn. The board believed that separating the roles of CEO with chairman of the Diversity Council would allow the requisite attention to affect this change. The board also considered employees and other stakeholders' reactions to this decision as a great deal was at stake. The board wanted to add to the bank's overall image, reputation and performance, not risk it.

Thorburn believed that Anthony Healy was an ideal candidate to chair this new entity given his operational experience as the leader of the bank's business banking division, BNZ Partners. Healy also brought strategic vision, teambuilding expertise and mentoring capability. From Healy's perspective, it was a good fit in part because he brought a fresh set of eyes to BNZ and a passion for change. He had joined BNZ in 2009, following his experience with the ANZ Group as CEO of UDC Finance, and prior to that, as Deputy Group Managing Director of AmBank Group in Malaysia.

The board's fourth key decision was to create a specific mandate for the Diversity Council. It 'leads the BNZ Diversity Agenda, sets strategic priorities and oversees performance related to diversity'<sup>5</sup>. The board gained consensus rather effortlessly in setting the mandate. The board thoroughly discussed how to position their initial efforts in leading the implementation. A few of the directors were committed to positioning gender as the first step of a more comprehensive strategy. Other directors were keen to see a more inclusive first step.

The board accepted the recommendation for gender as a starting point. Healy committed to aggressive timelines, stating that the Diversity Council would 'not going to come back to you in five years on this. We are going to come back to you as we emerge the strategy on that over the next six to twelve months'. With that commitment to introduce the diversity strategy through gender, the board and ELT gained agreement.

### **Implementing the Strategy**

In all its communication efforts, the Diversity Council aimed to be precise and consistent about the commercial case for the strategy. The challenge, then, was to make the case compelling so that employees would take the next step, from being interested in this new initiative to becoming actively engaged.



**Developing receptivity for changes.** With the strategy developed and refined through engagement with the board, the Diversity Council believed that they should not immediately launch programmes. Instead, they opted to develop company-wide receptivity for change by organising a series of galvanising workshops initially for senior level employees. While the business case and macro trends affecting the future of the bank appeared clear, the goal of this ‘Unconscious Bias’ workshop was to make it personal for each employee.

Originally designed in Australia by Bob Wood at the University of Melbourne, the aim of the one-half day session encouraged participants to explore unconscious knowledge and its relationship to decision making. The Diversity Council selected the executive leadership team for the initial workshop. Their decisions impacted the culture, hiring practices, employee profile, resource allocation, risk, and client outreach. The workshop launched with the executive leadership team and cascaded through the organization. In the period between the launch of the first session in 2012 and 2015, the top 500 ranked employees participated in the workshop.

**Launching initiatives.** In 2012, following the launch of the ‘Unconscious Bias’ workshops, the Diversity Council introduced a series of targeted initiatives aimed at cultural and business transformation. The multi-pronged initiative included identification of flexible career pathways, personal professional development for leadership, mentoring and sponsorship.

The Diversity Council looked to NAB to efficiently acquire programme resources. NAB’s programme, Realise, met their need. The BNZ adapted it for use with the largest pool of women concentrated in mid-level ranks. The programme aimed to strengthen the talent pipeline of women for the top three layers of management.

The Diversity Council also set a goal to reclassify all positions as ‘flexible’. They established a policy that all jobs could be performed through flexible work arrangements, such as job sharing and working from home. While accepted in principle, actual practice lagged. Many managers believed that ‘the jobs had to be done full time and the minute you went part time or adopted flexible working arrangements, you were not seen as ambitious or executive material’. A review of the six month hiring data following the policy change revealed that most managers (‘job owners’) had refrained from implementing it. The Diversity Council recognized that their intended effect required alignment with the needs of the role, the team, customers and the

business. Policy revisions ensued. Managers gained the discretion to opt out with an explanation of the exception. The 'adopt or explain' principle increased the flexibility option to 60 to 70 percent of all advertised positions.

### **Board of Directors Commit to Modelling the Way**

**Unconscious bias workshops.** As the board of directors learned more about the initiatives spearheaded by the Diversity Council, they found themselves drawn to the programmes and a desire to model the way. Intrigued by the 'Unconscious Bias' workshop, they signaled their interest to participate in one of the early sessions. With expectations riding high, the session tapped into director differences over career paths for women. It allowed directors to recognise that 'directors also came with their own biases'. The directors, strengthened by this common learning experience, candidly shared their own stories. Emboldened by the directness of the discussion, others acknowledged past behaviours that had, unconsciously and inadvertently, fuelled traditional stereotypes.

The session allowed directors to gain an understanding of how unconscious bias worked: 'It might be about their body shape, it might be about the way they speak, their accent, their ethnicity, their culture' which informed a bias about a leader's gender, race and age. In this context, an additional issue emerged: some directors maintained that experience in the financial service industry was not necessarily an advantage for a director.

It is a very level playing field for directors when they come to those sorts of conversations because years and years of banking experience arguably isn't necessarily a help to try and deal with those challenges because you find people defending what they have always done and believed in. Whereas if you don't have actually have any skin in that history, you are more willing to face up to some of these things.

The candour of the directors instilled an even deeper degree of commitment among them to shape practices, processes and behaviours in the desired direction. As one director explained:

It is extraordinary to be on a board like this because it makes you feel able to contribute fully; not to self-censor to stay on side and to be the same - but you feel encouraged to be different, which allows you to maximise your contribution.

In 2014 the board decided to participate in a second unconscious bias workshop. This session did not land with the desired impact. The facilitator, informed of the board dynamics in the first workshop, elected walk through the learning objectives and programme changes. This did not sit well with the directors. The directors wanted to learn, once again, from their shared experience. Collectively and overwhelmingly, the directors believed that their active

participation rather than listening to design changes would contribute to their enhanced board leadership.

Consequently, the board engaged in a third workshop later that year. Rebranded as 'Unconscious Knowledge', the three hour session was conducted with the directors and senior executives. The directors gained insight into the complexity of the embedded nature of unconscious knowledge, along with the subtle and overt ways in which mental models were shaped and behaviours, processes, and practices were influenced. As one of the directors pointed out, 'I think it has actually brought to light some unconscious biases that people were a bit surprised about'.

**Other programmes and initiatives.** In their aim for the strategic and operational transformation of the bank through its diversity strategy, the board created and implemented an annual plan of activities and events to 'expand their input, knowledge and skills on diversity'. The directors participated in at least two rounds of Te Reo Maori language training. As a board, they went to a Marae in Porirua with a group from the Maori internship programme. Following their meeting with the interns, the board identified the need to have a target goal set for selection and retention of interns, which they subsequently developed.

On an individual level, members of the board engaged in BNZ-designed initiatives for women aspiring to senior levels through the leadership development programme, Realise. One of the directors, Macken, played a strong personal leadership role in her sponsorship, mentorship and connection with women in the programme. She conducted forums in which she candidly discussed the successes and challenges she encountered in her career.

According to a director, their collective commitment to learning as a board had the potential to shape their long-term success:

Getting oneself ahead of that curve is not as easy as an executive team where you can, through contractors or others, bring in skills and experience. As a board we can bring in advisors but actually legally and institutionally the responsibility is that of the director, so we are not as agile in dealing with some of those challenges.

The alignment of the board's strategy with their individual and collective commitment did not go unnoticed. As one senior leader stressed, 'It was really important they had shown that they were committed to role modelling diversity as well as interest in the whole program around what the board commissioned'.

**Diversity of the board itself (2008 to 2015).** Having joined the board on June 2005, Dr Susan Macken was credited with leveraging her experience as an economist at the World Bank and as a senior manager in high profile publicly-listed companies, including the Fletcher Group, and as an experienced director. Her initial three year appointment was renewed. Healy lauded Macken's commitment to diversity in the workplace where she played a strong personal leadership role not only in her role as board director but also candidly sharing 'the successes and the challenges she has had as a female succeeding in a corporate world'.

In 2008 Dr Andrew Pearce and Stephen Moir were appointed. With Pearce's professional qualifications as an environmental scientist, he valued the board's willingness to seek out directors who were not like-minded individuals. In his previous role, Pearce introduced a 'women-as-scientists' initiative and held directorships with local government as well as the elected body of Ngai Tahu in commercial operations and infrastructure companies. Stephen Moir brought his expertise in international banking to the board.

In 2009 the directors welcomed Prudence Flacks. Having honed her commercial law acumen in one of New Zealand's largest law firms, Flacks brought expertise in corporate and regulatory matters, corporate finance, capital markets, securitisation and business restructuring to the boardroom.

In 2011, Doug McKay, an experienced international CEO and director, was approached. He joined the board in 2013 after gaining approval from Auckland Council. In 2015, McKay accepted the appointment as board chairman following the retirement of Waller.

Consistent with their selection criteria, the board recommended that Mai Chen join the board in April 2015 as their sixth independent director since 2008. Prior to her appointment Chen had initiated a Superdiversity Centre aimed at increasing awareness of the legal and policy implications of the demographic changes facing New Zealand's businesses, governments, and citizens. This initiative combined Chen's legal expertise as New Zealand's pioneer in the practice of public law.

Meanwhile, changes were also coming from the NAB Group. In 2011 Gavin Slater was appointed as a non-executive director. In 2014 a change in leadership introduced two new non-executive

directors. Michelle Healey replaced outgoing NAB Group CEO Clyne on the BNZ board. Anthony Healy was promoted to managing director and CEO of BNZ from his previous role as head, BNZ Partners.

The directors' appointments affirmed their collective commitment to embracing diversity because 'boards benefit from having a range of views and experiences around a table so that's the critical thing'. As one director explained:

You can't have people on the board just to tick a box. They have to be able to contribute. Boards these days don't have passengers. Shareholders are not prepared to pay for that. Boards have quite rigorous evaluation processes. At the end of the day you've got to run a bank so you've got to have the skills that you need around the table.

Another director elaborated:

You can't make up a perfect board. What you want is diversity of experience of different kinds, in different types of industries. There are some "must haves". I don't think you can have a bank board without a lawyer. I don't think you can have a bank board without somebody who is deeply experienced in financial services.

The board's approach to identifying and attracting new directors seemed to pay off in terms of board leadership in positioning the bank as an international trail blazer for gender diversity.

### **Board of Directors Set and Monitor Strategic Diversity and Inclusion Direction**

The board's leadership took on increased significance to create a greater fit between operational actions and organisational goals. The board could see that their constructive engagement in setting direction complemented their active participation in monitoring, evaluating and revising the implementation of the diversity initiative over the long term.

**Board's role in setting and revising strategic direction through Diversity Council.** The board delegated authority to the CEO working through the Diversity Council to generate an annually updated set of targets relative to the diversity strategy. The Diversity Council, which met four to six times per year, came together to 'refresh the strategy and set the targets'. Healy would then 'bring it to the board, the board reviewed it, pushed it around, changed it, challenged it. The product ended up better'. The challenge Healey faced when presenting the targets to the board were two sides of the same coin. One set of questions queried whether the bar was being lifted high enough. The others revolved around whether the boldness of the strategy could be achieved without a drain on their resources.

The board and the ELT continued to view the strategy as a key driver for its competitive advantage. As one director pointed out, ‘There is no doubt this board is completely aligned along the subject of diversity. It is not as though management is having to push it through the board or there are members on the board who say we are just doing this for the sake of looking good’. This commitment to the diversity strategy found expression through the leadership exercised by the board.

The issue for a director in a changing company is to be able to paint the vision and then help management see the pathway to achieving that vision. It’s a bit like running the country; you can’t be too far ahead and you can’t be too far behind. If you’re too far ahead they just don’t know where you’ve gone and they can’t follow you. So the issue is to always work with senior management where they are to work out how we get to where we want to go in the shortest amount of time.

**Board’s role in setting and revising strategic direction with NAB.** Despite being a subsidiary of the NAB Group, the board took steps to position the BNZ as leader for the diversity and inclusion strategy. They capitalised on their small size of 5,000 employees relative to NAB with its 42,000 employees to accelerate the adoption and continuous improvement of innovative practices and process. As one ELT member pointed out, ‘Often we are so much more nimble here, we can get things moving quickly’. Their efforts outpaced those undertaken by NAB, creating a distinct set of dynamics for parent-subsidary relationships. Healy explained:

The BNZ leads the NAB on its diversity strategy. So unlike other parent-subsidary relationships that I have experienced in other portfolios of the Group, where the parent dictates what will be done and the subsidiaries roll it out, the BNZ one has been ahead of NAB. It has been far more bold and courageous and therefore, if anything, we the National Australia Bank are learning from and adopting practices from within the BNZ.

They established a leading presence and generously shared their insights to ‘help shape the parent company’s strategy because we were so much further ahead in terms of the impact we have been able to have’. NAB also gained access to programmes, policies and practices tested and honed within BNZ for implementation across the Group.

**Board’s role in monitoring performance.** With the board’s commitment aimed at strengthening the bank’s fitness for the future they also made it clear that performance counts. As a board, they needed evidence as one director noted: ‘The governance role nowadays is no longer just heading the strategies and our expectations of values but also measuring to make sure that they are being followed’.

The board saw an opportunity to introduce diversity performance metrics across the bank that accounted for individual and collective responsibilities. Like any strategy, the board needed financial and other performance indicators to assess the speed and extent by which the bank moved in 'an unwavering way that was non-negotiable' toward real change.

Such performance measures needed to tap the efforts from employee recruitment and retention through to promotion at all levels across each of the business and service units. The measures also needed to be readily accessible, tracked over time and reported. The board championed that the bank 'do it with hard measures' from the outset. To capture employees' attention, Thorburn opted to incorporate diversity performance objectives for every formal leader in the bank.

When they launched the performance metrics, the board was aware that a readily available option involved setting all targets at 50 percent. They rejected a one-size fits all approach. As one director pointed out, 'if you are going to commit to something, measure it properly'. It did not benefit the board or the company to set unrealistic targets that could undermine the sustainability of the strategy. It took time and resources to develop internal candidates in the succession planning process. The bank played for long term results as one ELT member explained:

It has taken time to get to that point that we have now even got that embedded into our behaviours, which are like our values. At the heart of it, we have inclusion but we couldn't have done that five years ago if we had had to build up this level of understanding, ownership, commitment, and realisation around what is happening in New Zealand with diversity and the richness of thought that you need.

**Delivering award-winning gender diversity and record-breaking financial results.** From October 2010 to August 2015, BNZ's diversity results tracked over key metrics showed they were making progress on their commitment to gender diversity. In 2015, women now represented 44 percent of senior leaders who reported director to the Executive Leadership Team, an increase from 21 percent. Within the Executive Leadership Team, women held 38 percent of the positions, up from 17 percent. Among the most recent recruits to the bank in 2015, women comprised one out of every two graduate recruitments, up from one in every three only five years ago. The proportion of women at the base of the organisational pyramid persisted at one out of two, with little change over five years. The board felt confident that the overall results would continue to improve over time.



The approach to diversity as a strategy seemed to have paid off. In 2014 the bank earned international and national recognition for their efforts<sup>6</sup>. The United Nations recognised BNZ's corporate leadership as the supreme winner for gender quality and their progress in implementing the UN Women's Empowerment Principles. BNZ won Deloitte's Top 200 inaugural diversity award. They also were recognised by the Asia-Pacific Economic Cooperation forum (APEC) as one of the top 50 companies for women to work among 21 Pacific Rim economies.

BNZ's vision to be New Zealand's most respected bank, enabled by its campaign 'Be Good with Money', also guided another year of successful financial performance. In 2015, cash earnings exceeded NZ\$1 billion for the first time as part of their ongoing commitment to balance sheet strength<sup>7</sup>.

Now that the board was past the launch phase of the strategy aimed at gender, other elements of diversity needed to be considered and implemented. The directors saw it was time to lead anew through their diversity and inclusion strategy.

### **Board Considers Next Options (Beyond Gender) for Diversity and Inclusion Initiative**

With the 'maturing of the strategy' some directors were keen to move ahead with a comprehensive strategy for other socio-demographic markers of diversity, including ethnicity and life stage (age).

**Segmented customer base.** A 'Superdiversity Stocktake', financed in part by the Bank of New Zealand, laid out the sweeping changes that the financial service industry faced, including demographic shifts of the consumer. As one director pointed out:

The Diversity Council is trying to go beyond just gender, which is important, but frankly - it's the battle that we should have won by now, and we should be moving on especially in Auckland where we are almost 50 percent Maori, Asian, and Pasifika. We really do need to address ethnicity. It is a burning platform for companies.

The Diversity Council had launched a series of pilot initiatives beyond gender which delivered promising results. The bank was trying to grow by initiating specialized business units aimed at Asian, Maori, Indian and Pasifika clients. As one director explained, 'If our banking business is going to succeed, we need to be able to relate to all new types of customers'. New consumers brought a greater discernment about the financial service industry generally. As clients, they

sought a fit between the bank's practices, including communication, and the bank's responsiveness to address their needs.

The bank's strategy for diversifying among Asian clients focused on 'recruiting customers from high value niches and that included investor migrants and high skilled migrants because they tend to earn a high salary'. To develop and maintain a connection, initiatives were formalised and supported with dedicated resources that combined translated material (digital and print) and outreach initiatives.

With a multi-lingual team in place at a branch office in an attractive, high traffic area with prominent signage in multiple languages, the Asian and Migrant banking unit set out to grow this segment of the customer base. They targeted their message to prospective individual and business clients looking for products and services that were easy to understand, free from complicated clauses usually found in the 'small print' of regular banks products, and managed efficiently in their preferred language of choice. The bank advertised aggressively, hosted television shows on the dedicated Asian cable channel, and built relationships among the growing Asian community. Their strategy was to become the preferred bank for Asian clientele.

While one dimension of the bank's strategy targeted migrants coming to Auckland, the bank took a country-wide approach to building relationships among individual and business-led Maori clients. They were aware that Maori consumers could choose from many well-established banks. Following the Crown-treaty process, it was anticipated that 35 to 40 percent of the GDP for New Zealand would have some Maori ownership by 2030<sup>8</sup>. With the growth potential for banking among Maori-businesses, trusts and individuals, the bank was keen to grow their 22 percent market share among Iwi.

Through the efforts of a dedicated business unit initiated by Thorburn, the bank attracted and retained clients, in part, because of their long term relationship building approach with Iwi. As one member of the Diversity Council explained, 'Maori business is about more than just business, it's also about the people. So for every product or service that we create which helps our Maori business in the business sense, we also try to create a product or a service that helps the people'. He clarified how this worked:

One of the service packages we came up with is discounted banking packages for Iwi members. So if the Iwi has their main banking relationship with the BNZ, then we will offer to their Iwi members discounted banking packages. Now we had these packages

already at an employee level, so if a company banks with us, Air New Zealand for example, we'll give their staff discounted banking packages. Nothing new there. But we haven't done it yet for members as opposed to employees. And so we decided to offer that.

Now there were a few legal things we had to get across, so we created a package called "Your Association Benefit". If you've got members - such as sports clubs, Iwi, church groups - and your main organisation banks with us, then we'll give them discounted banking packages. So one product for the business, one product service for the people.

The tailored approaches seemed to resonate with Asian and Maori consumers and led to initiatives with Indian and Pasifika clientele and staff. Internally, the Heads of the Businesses collaborated to ensure a few key objectives: they worked to minimise silos among business units, share lessons learned in recruitment and retention, and underpin their activities with compelling commercial cases.

Developing a targeted customer base for the bank generated insights for the board. One director pointed out, 'We can't just expect different customers to follow our usual processes. We actually have to adapt our processes so that they work for different ethnic groups. That's quite major for a bank because the bank is very process driven'.

**An aging workforce.** By undertaking initiatives to reshape their client base, progress on balancing an aging workforce with attracting new prospects earned the bank further distinction among its competitors. Strong relationships developed between seasoned employees and clients in their business banking division (BNZ Partners) over many years which demanded a smooth transition to relatively unknown new employees. Along with their extensive experience, the near-to-retirement employees also brought considerable expertise and insight on which the bank had developed many of its strategies. Flexible working arrangements pioneered with a maturing workforce, coupled with their talent retention strategy, aligned opportunities with employees' lifecycle. It reflected, 'a tacit understanding that we understand people have a life outside of the bank' as pointed out by an ELT member. The bank's ability to lead this transition allowed for the continued delivery of BNZ's strong performance.

### **Board's Key Challenges: Where to From Here**

It was still early days in this phase of the broad diversity initiative. The convergence of effort achieved among the directors to focus on gender initially appeared to elude them as the agenda broadened. As one director explained, 'It was a combination of a whole lot of fine-grained practices that changed the game with gender. So where to from here is a little more difficult'.

One director called for ‘the organisation move to measure or have more specific measurements around the ethnicity at different levels within the organisation’. Sidestepping metrics, another director called for others to gain an appreciation for the complexity of the diversity and inclusion strategy. The director explained, ‘We are all an intersection between gender and ethnicity and sexuality. This very artificial construct where we deal with one equity line at a time is artificial; so we need to start broadening the definition of diversity and also acknowledging that it’s a bit messy’.

Another director queried whether an ethnic customer base could sustainably generate financial earnings and not turn into a drag on cash flow. The director framed two potential approaches for consideration. In one approach, ‘the focus is going to be much more strongly on matching more of our frontline staff and their supervisors with the community that they serve. We have experience with that’. An alternative approach may demand ‘that we stop doing things in a focused way and integrate/mainstream them instead’. The challenge for the board resided in ‘finding the right balance between those two approaches’.

While the board considered strategic direction, they also grappled with the accountability of the Diversity Council. With Healy’s promotion to CEO in 2014, he no longer embodied the separation between CEO and chairman of the Diversity Council as set out by the board. The board’s renewed commitment to the diversity and inclusion strategy seemed to warrant scrutiny of the Diversity Council’s composition and role.

The board’s commitment to sustaining its record of profitability and growth was reinforced by chairman McKay, who explained the bank would focus on its competitive diversity strategy for the future:

It is critical, it’s at the heart of our strategy. But it’s all about how you implement and how you give effect in the organisation. Because we all intellectually understand the evidence base that is building globally around diversity in organisations leads to better long-term financial performance. We look at every decision we make from a diversity perspective. We don’t always reach the high standards we set ourselves and occasionally we fall back a bit on some of the key measures we’d like to be continually driving. There is no conversation that is not influenced by a diversity outcome, because a good diversity outcome is a good business outcome.

## Looking to the Future

With the target revenue for 2015 of NZ\$1.02 billion on track, a clear international leadership position in workplace gender diversity, and new additions to the board and executive management team, the board was well positioned to redefine the diversity and inclusion strategy for the next phase. The bank had come so far in less than 10 years and had achieved many accolades.

In considering the next phase of the diversity and inclusion strategy, the board would need to come together as they did with the gender aspect of the strategy. The board, Diversity Council and the bank as a whole had gained insight into important lessons in leading and governing such a transformation. Would the board be able to draw on these lessons to inform the next phase of the bank's strategy? What issues should the board prioritise and what decisions should they make?

## Exhibits

### Exhibit 1 Biographies of Active Directors of the Bank of New Zealand Board (2005 – 2015)

**Doug McKay** is the Chairman of BNZ and has been an independent and non-executive director since March 2013. Mr McKay brings considerable commercial experience to the BNZ Board of Directors. His previous roles include senior positions with Auckland Council, Lion Nathan, Carter Holt Harvey, Goodman Fielder, Sealord, Independent Liquor and Procter & Gamble. Mr McKay is currently a Director of AMI Insurance, Eden Park Trust Board, Genesis Energy Limited, IAG (New Zealand), IAG (NZ) Holdings, Lumley General Insurance (NZ) Limited, NZ Food Company Holdings, NZ Snack Food Holdings, Wymac Consulting Ltd and an independent Director of New Zealand Institute of Chartered Accountants and Chartered Accountants Australia & New Zealand. Mr McKay is a member of the NZ Institute of Directors.

Prior to **Anthony Healy's** appointment to Managing Director and Chief Executive Officer, Anthony Healy led BNZ Partners, the company's business banking division. He has been involved in banking across New Zealand, Australia, Asia, and the Middle East for more than 20 years. As well as being a member of the BNZ Board and the Group Executive Committee of NAB, Mr Healy is chair of the New Zealand Bankers' Association (NZBA) Council.

**Gavin Slater** joined National Australia Bank in 1999 and has held a number of key executive positions including Chief Financial Officer for the Australian region and Group General Manager. From 2005 to 2009 he was Executive Director for NAB's Clydesdale and Yorkshire Banks in the UK. From 2009 - 2013, Mr Slater was Group Executive for Group Business Services at NAB. In early 2013, Mr Slater was appointed Group Executive, Personal Banking. Mr Slater started his career at the Standard Bank in South Africa. Prior to joining NAB, Mr Slater spent two years at PwC in South Africa followed by two years at PwC in Australia. He is a Fellow of the Certified Practising Accountants.

**Prudence Flacks** is Chair of the Board Risk Committee. Ms Flacks is a director of Chorus Ltd, Mighty River Power Ltd, Mighty River Power LTI Ltd, Planboe Limited and a trustee of the Victoria University Foundation. Ms Flacks is a barrister and solicitor with extensive specialist experience in commercial law and, in particular, banking and finance and securities law. Her areas of expertise include corporate and regulatory matters, corporate finance, capital markets, securitisation and business restructuring. She is a consultant to Russell McVeagh and was previously a partner at Russell McVeagh for 20 years. She is also a member of the Institute of Directors, INFINZ and the New Zealand Shareholders Association.

**Dr Susan Macken** is Chair of the NZ Regional Audit Committee. Dr Macken is a non-executive board member of The Treasury. She is currently Chair of the Institute of Environmental Science and Research Ltd and her directorships include Blossom Bear Limited, ESR Limited, FA Ventures One Limited, Fertility Associates Ltd, Fertility Associates Trustee Limited, STG Limited and Tamaki Redevelopment Company Ltd. Past directorships include Southern Cross Healthcare, Hutt Valley Health, the NZ Trade Development Board, the New Zealand Racing Industry Board and the Land Environments CRI. Dr Macken has extensive experience in senior management roles within the Fletcher Group of companies, the NZ Kiwifruit Marketing Board and as Chief Executive of the Auckland Regional Economic Development Strategy.



**Dr Andrew Pearce** is Chair of the BNZ Board People and Remuneration Committee. Dr Pearce's directorships include Christchurch City Holdings, FAUNA Ltd and Seon Pearce & Associates. He is Chairman of Focus Genetics Management and the Hawke's Bay Regional Investment Company Limited. Past directorships include Wool Equities, Keratec, Canesis Networks, Ngai Tahu Group, Migco Pharmaceuticals and the Wool Research Organisation of NZ. Dr Pearce was the founding Chief Executive of Landcare Research New Zealand.

**Stephen Moir** is Chair of BNZ Life Insurance Ltd and BNZ Insurance Services Ltd. He has extensive banking experience, previously holding senior roles in Westpac Institutional Bank, Credit Suisse (Singapore), and Citibank (Singapore, Thailand and Australia), focusing on Treasury, institutional banking and financial markets. Mr Moir is currently a member of the Board of The Guardians of the New Zealand Superannuation Fund, a Director of Ijap Limited and is the Chair of the Advisory Board to BNZ Chair of Business in Asia at Victoria University.

**Michaela Healey** joined National Australia Bank in 2006 and was appointed Group Executive, Group Governance in March 2009. In April 2013, Ms Healey took on the expanded role of Group Executive, People, Communications and Governance. Prior to joining NAB Ms Healey worked at North Limited and then Orica, the world's largest manufacturer of commercial explosives and Australia's largest chemical company. During her time at Orica she was company secretary, corporate affairs manager and established a new retail services business for the Orica Consumer Products businesses of Dulux, Yates and Selleys. Ms Healey spent her early professional years as a corporate lawyer and working as legal counsel and a company secretary.

**Mai Chen** is managing partner at Chen Palmer, an adjunct professor at the University of Auckland Law School and the current chair of NZ Asian Leaders. Ms Chen has served on the Securities Commission and on the advisory board of AMP Life Limited (NZ), on the NZ Board of Trade and Enterprise's Beachheads programme, on the Asia New Zealand Foundation board, the Royal NZ Ballet board, and on university and polytechnic councils. She was also inaugural chair of NZ Global Women, and was instrumental in establishing the BEST Pasifika Leadership Programme. Ms Chen pioneered the practice of public law in New Zealand, including co-founding Chen Palmer, a leading law firm specialising in public and administrative law, legislation and public policy as well as employment law.

## **Exhibit 2 Timeline for Appointments to the Bank of New Zealand Board of Directors (2005 – 2015)**

Doug McKay, Chairman (2015 – present, director from 2013)  
 John Waller, Former Chairman (2008 – 2015, director from 2008)  
 Anthony Healy, Managing Director and CEO (2014 – present)  
 Andrew Thorburn, Former Managing Director and CEO (2008 – 2014)  
 Gavin Slater (2011 – present)  
 Prudence Flacks (2009 – present)  
 Dr Susan Macken (2005 – present)  
 Janine Smith (2005 – 2008)



Dr Andrew Pearce (2008 – present)

Stephen Moir (2008 – present)

Michaela Healey (2014 – present)

Mai Chen (2015 – present)

### Exhibit 3 NAB Group Vision, Objectives and Goals for 2015<sup>9</sup>

Our vision	To be Australia and New Zealand's most respected bank
Our objective	Deliver superior returns to our shareholders
Our goals	<ul style="list-style-type: none"> <li>• Turn our customers into advocates</li> <li>• Engage our people</li> <li>• Generate an attractive return on equity</li> </ul>
Our strategy	<ul style="list-style-type: none"> <li>• Focus on priority segments</li> <li>• Deliver a great customer experience</li> <li>• Execute flawlessly and relentlessly</li> </ul>
Our people living our values	<ul style="list-style-type: none"> <li>• Passion for customers</li> <li>• Will to win</li> <li>• Be bold</li> <li>• Respect for people</li> <li>• Do the right thing</li> </ul>
Our foundations	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Risk</li> <li>• Technology</li> </ul>

### Exhibit 4 Select Awards for the Bank of New Zealand for Diversity (2010 to 2015)

2014 Deloitte Top 200	Inaugural Diversity Leader Award
2014 United Nations White Camellia Awards	Supreme Winner Awarded for the bank's corporate leadership for gender equality and its progress in implementing the UN Women's Empowerment principles
2014 APEC	Recognised as one of the top 50 companies for women to work
2013 United Nations	Recognised as one of five organisations internationally named as leading the way in promoting gender diversity

### Exhibit 5 BNZ's Performance for Women in Leadership (2010 to 2015)

Women in leadership at BNZ	Baseline	Current
Focus	Oct 2010	August 2015
People Leaders (Band 1, 2, 3)	50%	49%

Senior Leaders (Direct Reports to ELT)	21%	44%
BNZ Executive Team	17%	37.5%
Graduate Recruitment	37%	50%

### Exhibit 6 BNZ's Performance in Four Key Strategic Markets in 2014<sup>10</sup>

- Retail Wealth Funds Under Management (FUM) doubled since 2013.
- On-target Youth customer growth supported by customer-led enhancements to the innovative YouMoney proposition and targeted campaigns.
- The small-medium enterprise segment achieved equal first place in market customer satisfaction and was recognised externally for its innovative solutions and value to customers.
- Agribusiness maintained market share since November 2013, despite the highly competitive environment and increased regulatory provisions.

### Exhibit 7 New Zealand's Distinct Superdiversity (extracted from *Superdiversity Stocktake: Implications for Business, Government and New Zealand*<sup>11</sup>)

Over the past two decades, New Zealand has become one of a small number of culturally and linguistically superdiverse countries.<sup>57</sup> There are 213 ethnicities in New Zealand as at the last Census in 2013, and New Zealand is now home to 160 languages.<sup>58</sup> The largest five ethnic groups are New Zealand European, Māori, Chinese, Samoan and Indian, and the biggest increases since 2006 come from groups within the broader Asian category, led by the Chinese, Indian and Filipino ethnic groups.

New Zealand is the fifth most ethnically<sup>59</sup> diverse country in the OECD.<sup>60</sup> One in every four residents in New Zealand was born overseas,<sup>61</sup> and New Zealand has one of the highest immigration rates in the world.<sup>62</sup> Auckland is now one of the most diverse cities in the world.<sup>63</sup>

Table: Percentage of foreign-born compared to total population, selected OECD economies<sup>64</sup>

Country	2001 (%)	2006 (%)	2011 (%)	2013* (%)
Australia	23.1	24.6	26.7	27.7
Austria	13.8	14.7	16.0	16.6
Belgium	10.8	12.5	14.9	15.8
Canada	17.6	19.0	20.1	N/A
France	10.5	11.4	12.6	11.6
Germany	N/A	12.7	13.1	12.2
Hungary	2.9	3.4	4.7	4.5
Italy	3.9	N/A	9.0	9.4
The Netherlands	10.4	10.6	11.4	11.6
New Zealand	18.0	21.0	23.6	25.0
Spain	6.4	11.9	14.6	12.8
Sweden	11.6	12.9	14.1	15.9
UK	8.2	9.6	12.0	12.5
USA	11.1	12.6	13.0	N/A

\* Figures from European Union countries accurate as at 1 January 2014.

Auckland, New Zealand's largest city generating one-third of the country's GDP and the gateway to migration, is one of the most superdiverse cities in the world together with a uniquely large

indigenous population. Auckland is where the majority of New Zealand's new migrants arrive and settle, which makes its diversity distinct from other cities and regions. In the 2013/2014 reporting year, Auckland had the highest net migration gain in New Zealand with 17,800 people.

## Exhibit 8 NAB Group Diversity and Inclusion policy excerpts<sup>12</sup>

### Overview

It is critical that we attract, recruit, retain and develop the best talent. We cannot afford to ignore a segment of the talent pool – whether we are talking about women, mature workers, people with disabilities, indigenous Australians, recent migrants or graduates. New market-leading ideas and perspectives require new thinking and we believe a diverse and inclusive workforce is the key lever behind such thinking. For NAB, diversity also means having an employee base which matches the geographies, customers and communities within which we serve.

### Definition

It is not sufficient to bring together a diverse mix of people; it is about having a culture (and leadership) that encourages all employees to reach their full potential in the workplace. We already have a diverse workforce comprised of different people with different experiences. At NAB we define these differences to include age, gender, disability, ethnicity, marital or family status, religious or cultural background, sexual orientation and gender identity. Diversity does not address how these different people function or work - this is inclusion. Inclusion enables us to strive to have all people respected and valued, not just for their abilities, but also for their unique qualities and perspectives. It is inclusion that promotes diversity of thought.

### Policy Principles

#### Diversity = Strong Business Performance

- To continue to be a relevant, adaptive and innovative organisation, we must leverage the full potential of all our people. A culture that embraces individual differences in all its forms will enable us to do this through diversity of thought.
- Our intent is to develop and maintain a workforce at all levels, including senior management, which reflects the diversity of the customers we serve, and the communities in which we operate. This simply makes commercial sense.
- Inclusion must be a part of who we are – there is no full stop and no end to this pursuit.

<sup>1</sup> 1958 'First Bank for Women Opened by Mayoress' <https://www.bnzheritage.co.nz/archives/historic-timeline>

<sup>2</sup> The NAB Group established the Technology Committee in 2014

<sup>3</sup> <http://www.stuff.co.nz/business/industries/10052356/Bank-boss-achieves-balance> (18 May 2014)

<sup>4</sup> <http://www.interest.co.nz/bonds/69292/andrew-thorburn-head-bnzs-parent-company-after-retirement->cameron-clyne

<sup>5</sup> Statement of Disclosure for the Bank of New Zealand 2015, page 4

<sup>6</sup> Bank of New Zealand Diversity case study 2014

<sup>7</sup> In 2015, cash earnings of A\$762 million were recognised by NAB as part of their ongoing commitment to balance sheet strength, demonstrated by an increase from A\$738 million in 2014 and A\$649 million in 2013.

<sup>8</sup> Healy interview.

<sup>9</sup> NAB Group Annual General Report 2015

<sup>10</sup> NAB Group Annual General Report 2014

<sup>11</sup> Cited material, including the endnote references 57 to 63, refers to Chen, M. (2015). *Superdiversity Stocktake: Implications for Business, Government and New Zealand*.

<sup>57</sup> The Royal Society of New Zealand Languages in Aotearoa New Zealand (2013) at 1.

<sup>58</sup> Statistics New Zealand “New Zealand has more ethnicities than the world has countries” (press release, 10 December 2013).

<sup>59</sup> Statistics New Zealand defines “ethnicity” as the ethnic group(s) that people identify with or feel they belong to. Ethnicity is self-perceived and people can identify with more than one ethnicity. Ethnicity is different from ancestry, birthplace and nationality. For example, people can identify with Māori ethnicity even though they may not be descended from a Māori ancestor. Conversely, people may choose to not identify with Māori ethnicity even though they are descended from a Māori ancestor. See Statistics New Zealand National Ethnic Population Projections: 2013 (base) – 2038 (21 May 2015) at 12.

<sup>60</sup> OECD “Migration – Foreign-born population chart” (2011) <data.oecd.org>.

<sup>64</sup> OECD Data “International migration statistics” (2011) <data.oecd.org>; Australian Bureau of Statistics “Australia’s population by country of birth” (18 December 2013) <www.abs.gov.au>; Eurostat “Foreign-born population by country of birth” (1 January 2014) <ec.europa.eu>.

<sup>12</sup> The full revised Group Diversity and Inclusion Policy is available in the Corporate Governance section of the Group’s website at [www.nabgroup.com](http://www.nabgroup.com).