Māui Rau

October 2018

Aspiration to execution

Mihi

Tuia te rangi e tū nei

Tuia te papa e takoto nei

Tuia ngā kaupapa ki te pou o Māui Rau e herehere ana i te tangata

Ka pō, ka ao, ka awatea. Tihei mouri ora!

Ko te pūrongo tuatoru tēnei a Māui Rau e whakaatu nei ki te ao i ngā pūkenga, i ngā wawata o te iwi Māori i roto i tēnei ao hou e hurihuri nei.

Tērā te pō me ō reira wānanga, he roimata taku kai i te pō, i te ao. Ao noa mai, ko aua wānanga e whakamārama ana i te ara kia puta te kaupapa tangata ki te whai ao, ki te ao mārama.

Kāti, tērā he whare me waihangatia ki ngā tohutohu tuku iho mā ngā hangarau o tēnei ao. Ko te papa, ko Papatuānuku. Kaore he nēra, he here kē te kaihonohono, pērā ki ngā whare ō-mua. Nō reira, me kaha ngā here, kia mau, kia ū, kia kore ai e tangatanga i te rā. Arā, he paku noa te tohutohu e pēnei ana:

Miroa te muka

Tuia te here

Herea te kaha.

Ki te pēnei te waihanga, ka tika te tū o te whare, ahakoa hau kaha. Me kī, he kaha tuamanomano te āhua o te here o tēnei whare, rite pū ki te here i herea te rā e Māui kia kite i te paki o Hineraumati.

Kūī! Kūī! Whitiwhiti ora!

Opening

The rising of Matariki signals the coming of the new year for many of today's generation. Over the last 10-15 years, there has been renewed interest in Matariki and the holding of events in celebration of this milestone.

This is fitting in a modern-day context, as Māori continue to reacquaint themselves with aspects of their traditions and develop their understanding of the signals provided by the natural environment. Of course, there are individuals and groups who have dedicated significant portions of their lives to maintaining traditional knowledge and practices, well before this renaissance period. They have been entrusted to ensure the deeper knowledge associated with traditional practices are appropriately shared so that it is passed from generation to generation.

Although the rising of Matariki passed a few months back, it's also important to acknowledge that it signals but one point in time and more importantly, the beginning of a cycle.

Depending on who you talk to, the rising of the constellation was also a signal to turn the soil in the gardens. This exposed it to the cold in the hope of dealing with the bugs so that the soil would be in prime condition for planting in spring – the time we are in now.

Had the preparation work been done going into winter, and the planting and nurturing of those plants occurred between spring and summer, the chances of a good harvest were increased. Some of the bounty would be consumed, some preserved to ensure adequate provisions between harvests, and some retained as seed to ensure there would be a next harvest.

While various accounts indicate that seasonal variations were less volatile than they are now, the rare changes or variations in the environment would have influenced the size of the harvest, and there were also practices used to manage or mitigate the impact of unusual events. While these approaches may have varied from place to place, what was common was the presence of systems, processes and discipline to monitor the signals, to make decisions and take a course of action in the interests of ensuring the survival of the people; not just for this season but for the many seasons ahead.

This gardening analogy is appropriate for this issue of *Māui Rau*. We are exploring options for Māori leaders to strengthen their organisations as they try to provide for their people (consumption), invest for the future (planting new seeds), and all the while face pressure from many other parties to do more while resources can grow increasingly scarce.

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Foreword

It's an exciting time for Māori, as the investments in developing our talented people over the last few decades are starting to bear fruit. The earlier generations are now coming through as the leaders of our collectively-owned organisations. There is still a long way to go, but it's important that we acknowledge and celebrate this.

These earlier investments focused on those in professions such as teaching, law and accounting; but as the world shifts and changes, we are seeing the demand for very different skills in organisations. You won't have to look far now to find job titles that include reference to creative, digital, design, data, agile, transformation. The list goes on.

The challenge for Māori organisations is how to attract the right talent to our organisations and retain them – so that we can put their skills to use as we seek out a better future for our people.

We believe we are part of the way there. Many mainstream companies and organisations are making significant investments in identifying their purpose or their 'why'. They are working hard to build a culture around that purpose, and have in place sophisticated systems to incentivise and reward the behaviour that helps them to do that. Of course, this is simply innate for many Māori who are working for their people. They carry the weight of their peoples' expectations on their shoulders, and experience their fair share of joy and frustration along the way. Many would absorb the pressure and find themselves in situations that they might otherwise not tolerate if they weren't working for their people.

But the area where there is room for improvement is in making sure that the building blocks of our organisations are strong, to the extent that they enable our people working within them to be focused on the task at hand, responsive to the people they serve, and clear on how their performance will be measured.

While many have enjoyed the first two *Māui Rau* reports, which took a broader view; this report is more focused on a few of the things that we can do to grow the maturity of our organisations, so that they are better equipped to pursue the results we seek. We must challenge ourselves to believe we can do more with what we have – we just can't do that without changing our approach and mindset. This starts with a very honest and objective assessment of what good looks like, and where our organisations are actually at.

Our organisations are working hard, but haven't had the opportunity to step back and look at how they could work smarter. Many are busy doing the do, but not understanding if that's actually the right thing to do. It's time for us all to recognise that the role of an organisational leader can be tough – the expectations are high and the resources are limited.

We're hearing the right language, but aren't really seeing the shift. This phenomenon might perhaps be explained by a quote from Dan Ariely from Duke University: "Big data is like teenage sex; everyone talks about it; nobody really knows how to do it, everyone thinks everyone else is doing it, so everyone claims they are doing it."

Whether it's big data or organisational development, the phenomenon may well be the same. The reality is that 'we don't know what we don't know', and that we have to find a way to learn about the things we didn't even know were important in the first place. We must share our stories and experiences and not allow our whakamā to stand in the way of the progress of our teams and our people.

"The challenge for Māori organisations is how to attract the right talent to our organisations and retain them – so that we can put their skills to use as we seek out a better future for our people."

Introduction

In the inaugural 2016 issue of *Māui Rau*, we looked at the possibilities for Māori, where we were headed, what stood in our way and how we might overcome those barriers in order to accelerate the pace at which we realise the wellbeing of our people and environment. In 2017, we picked up on two levers from 2016 – leadership and entrepreneurship – that could be pulled in our efforts to significantly change the trajectory of our path to mana motuhake.

Both of those reports were based on discussions with approximately 250 people from a broad cross section of people with a strong interest in Māori economic development. They included small business owners, government employees, and consultants; along with employees and governors from many Māori organisations.

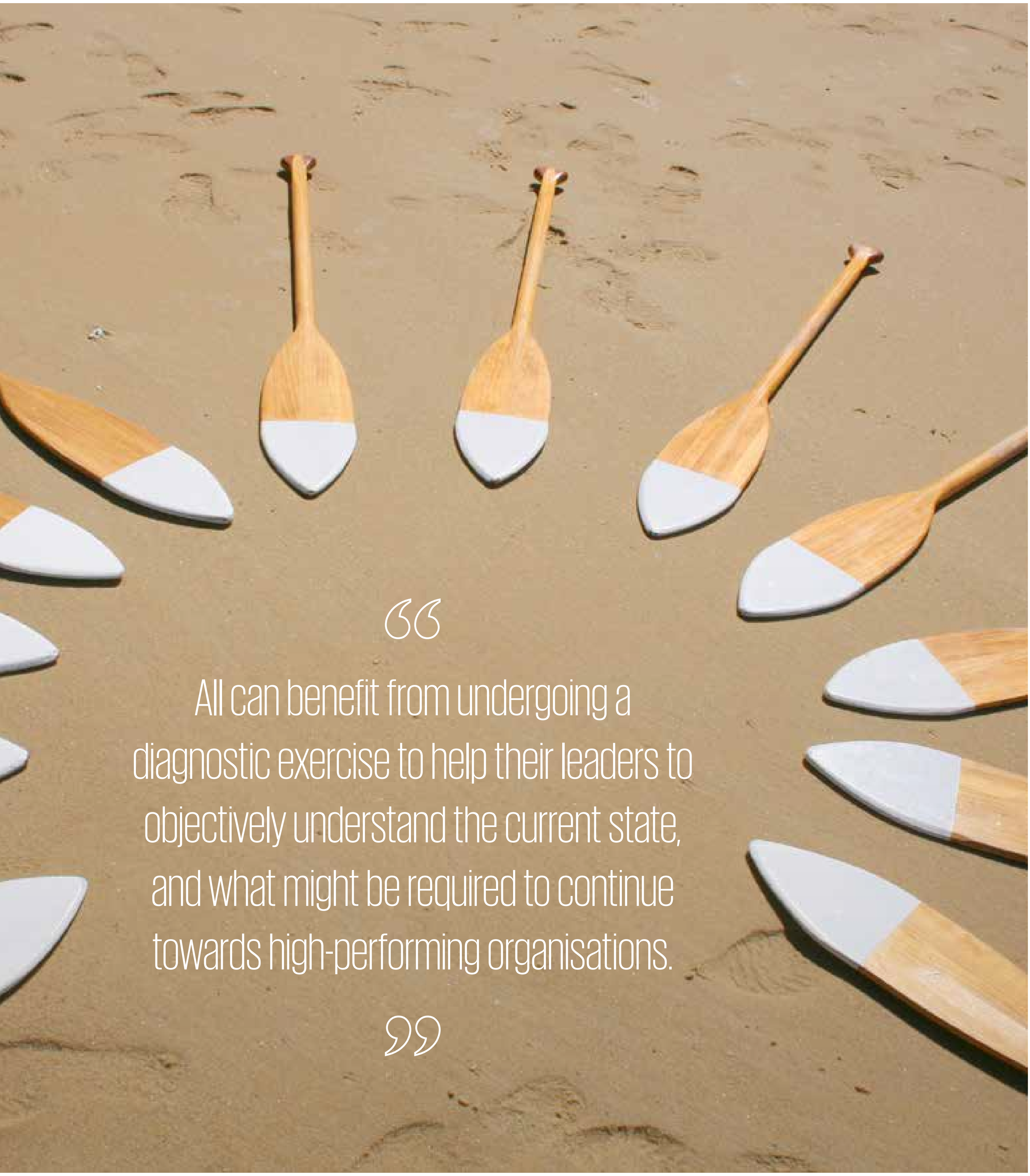
This year we have changed the approach for this third report in the *Māui Rau* series. We have taken this opportunity to share our observations from our work and/or involvement with collectively-owned Māori entities such as iwi organisations, trusts and incorporations. Individually and collectively, these entities have scale and the commercial and political influence to effect significant change.

The extent of this change will be largely dependent on the business maturity of our entities and how they combine the common business approaches and tools with our own practices and values. Some are further along the business maturity curve than others; but all can benefit from undergoing a diagnostic exercise to help their leaders to objectively understand the current state, and what might be required to continue towards becoming high-performing organisations.

The Māori 'sector' (for want of a better word) is, of course, hugely diverse. We hope that you keep this in mind as you read the report, as our observations are general in nature. It is intended to provoke thought and possibly even disagreement. We won't have done our job if there is wholesale agreement. If, in reading this, it triggers you to have a discussion, a debate or find out more about a topic that you have heard of but never delved into, we would view that as a positive result.

In so many instances, there is such a huge focus on the external-facing functions in our businesses and organisations that the 'internal engine' often gets overlooked. The tell-tale signs are common – our strategies don't provide our teams with adequate direction, leaving them feeling confused; the systems and processes don't work as intended; and investment in the capability of our people gets set aside, while our teams run on the treadmill of the expectations of the people. At worst, weaknesses in the organisations lead to risks that can cause significant damage.

It's time to step back and really understand the opportunities before us, and the drivers of the challenges we are facing. We also need to get laser clear in our focus. Often we are trying to do too much relative to the size of our organisations, because of an innate need by leaders to meet unrealistic expectations rather than manage them. This may work in the short-term but inevitably leads to longer term issues as the realisation dawns that the current mode is unsustainable.



"All can benefit from undergoing a diagnostic exercise to help their leaders to objectively understand the current state, and what might be required to continue towards high-performing organisations."

Bridging the tribal and commercial divide

The return of assets under Treaty settlements signalled the entry of a new type of structural arrangement for Māori entities – one where the commercial and tribal activities within an iwi group were separated into different entities to appropriately match the skills and experience to the functions of each. Prior to this time, Māori land trusts, incorporations and Trust Boards more commonly operated with these functions taken care of by one entity.

While there was, and maybe still is, strong rationale for this separation, the consequence of failing to mitigate the impact of the divergence in world views between the two entity types was possibly less understood at the time.

Without an active effort to bridge this gap, we will continue to see some of the two-way frustrations driven by a lower level of understanding of each other's expectations, constraints and perspectives than is desirable. Part of that bridging process may involve developing the capability of each to understand the language of the other and this will be enhanced as we continue to build on the critical mass of culturally competent and commercially astute talent.

This doesn't mean that we will necessarily see the amalgamation of commercial and tribal entities over time, more that the alignment in values, perspectives and understanding will overlap to a greater extent, improving the alignment.

The graphic on page 11 depicts the extent to which shared values are embedded in both tribal and commercial entities within a group. There may never come a point where there is 100% overlap but the commitment to that end point is what matters.

But while we work towards bringing the tribal and commercial back together, globally we are seeing the early stages of convergence between social purpose and commercial goals grow.

In his 2018 letter, Larry Fink, the CEO and Chairman of Blackrock, cautioned CEOs that the world's largest asset manager with $6 trillion under management is unlikely to support companies that fail to make positive contributions to society.

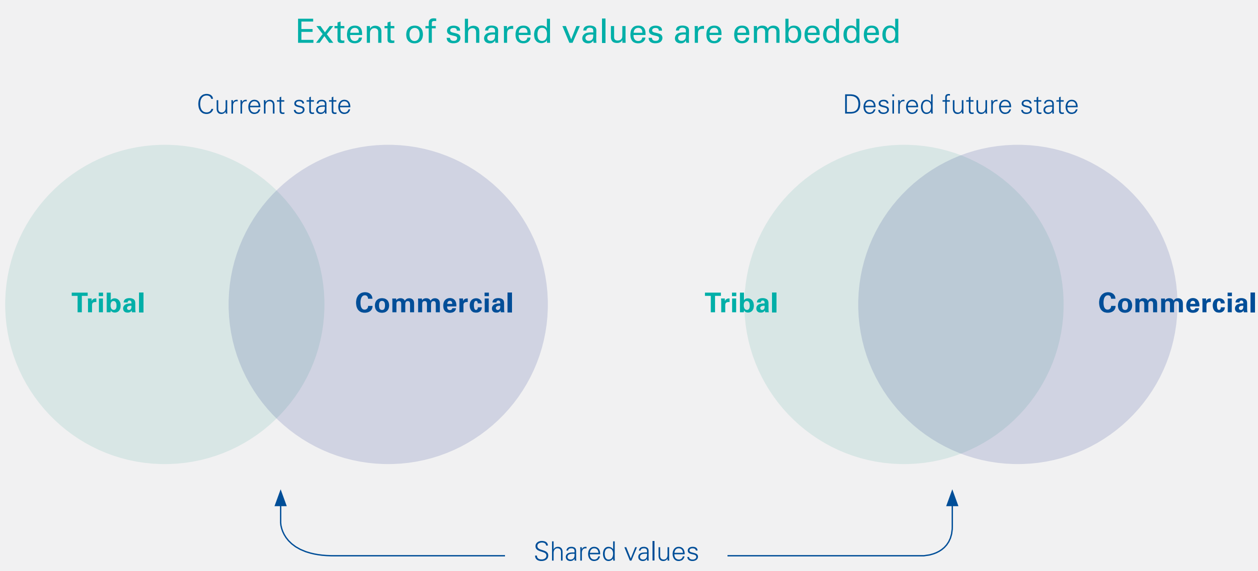
He stated "society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders."

The tone of his letter reflects the movement by companies to focus more on environmental, social and governance (ESG) criteria in investments. Demand for ESG due diligence is rising as investors understand the importance of corporate responsibility in driving and preserving business value.

The environmental and social dimensions have always formed part of the holistic thinking of Māori so the challenge is how we fully embed and reflect our values in the way commercial and investment decisions are made by those entities working in the commercial interests of the collectives. Some early mover entities have already taken steps and are using different approaches as they respond to the challenge.

Over the decades, this 'shift' has seen the emergence of different business models, products and industries that help businesses 'do well by doing good' such as responsible investing, social enterprise, impact investing, cleantech and greentech. While these may sound somewhat small scale and fringe, 229 participants in the Global Impact Investing Network 2018 Annual Impact Investor Survey had collective impact investments of $228 billion, an increase from 145 participants and $60bn in 2015.

The case studies on responsible investing and carbon farming on the following pages delve into possible opportunities where a more holistic investment philosophy may point.


Extent of shared values are embedded
Current state
Desired future state
Tribal
Commercial
Tribal
Commercial
Shared values

Impact investing and Māori

The growing strength of the relationship between purpose and economic value is opening up a new range of investment opportunities for investors with strong interests in environmental and social wellbeing, including community trusts and Māori entities with investment portfolios.

It hasn't always been so easy to clearly identify socially responsible investments from those driven purely for economic returns, as many Kiwisaver investors discovered in 2016 when they found that their savings had been invested in cluster munitions and tobacco.

The response from the investment community resulted in the establishment of Responsible Investment Policies, the majority of which now seek to exclude (negatively screen) these industries.

Following the KiwiSaver revelations, the New Zealand industry responded well with responsible investment growth in Assets Under Management (now adopting screening) showing a positive change of over 100% from 2016 figures.[1]

The increase in this type of investment reflects a broader awareness that failure to arrest the environmental and social decline will have negative long-term economic consequences. On the flipside, the maturing investment community is beginning to appreciate that managing environmental and social issues can in fact lead to positive economic impact. This was confirmed in the research which found the top drivers for responsible investment were now: alignment to mission and values; a recognition that environmental and social factors have a positive impact on performance; and a growing awareness that not managing environmental and social risks has a negative impact on value.

Responsible investment mechanisms

Responsible investment mechanisms are evolving, with Figure 1 showing the different lenses used to view investments. Whilst exclusion (or negative screening) is one mechanism, a maturing in thinking is now manifesting itself through growth in impact investing. But how does this differ to the traditional, solely economic view of investment returns?

What is impact investing?

Impact investing is defined as 'a financial undertaking that aims to generate positive social and environmental outcomes that are specific and measurable, whilst resulting in financial gain' [2]. Impact investment aims to access capital that is directly aligned with positive social and environmental outcomes. Impact investments, as opposed to philanthropic grants, expect a financial return in addition to the social or economic benefits.

Community trusts, private foundations, banks and asset managers have now been actively seeking and are starting to make impact investments across New Zealand. Impact investing has immense potential, and huge opportunities exist in New Zealand to leverage its benefits.

Impact investing and Māori

Although the concept of investing for societal good is not new for Māori, impact investing provides Māori the opportunity to frame and codify the environmental and societal benefits associated with their investments while also generating economic returns.

Given the more holistic view on value that impact investing affords, it represents an important tool in the investment kete for Māori. Impact investment can be used to accelerate positive outcomes in the social and overall wellbeing of whānau and iwi and the environment. For example, impact investing can be used where a potential investment opportunity aligning with iwi values and purpose has been identified.

Challenges to impact investing in New Zealand

While the momentum for impact investing continues to grow, we have identified a number of challenges limiting the growth of impact investing in New Zealand. These include a lack of investment opportunities, as many social enterprises are not yet positioned for the 'investor' lens. There is also a lack of clarity around impact investing's concepts and definitions – including what counts as an impact investment? A lack of relevant skills and expertise and scalability also challenges this sector. But it is perhaps the struggle to define value in more than financial terms - i.e. determining social and environmental outcomes that are specific and measurable – that is the biggest challenge.

Exploring impact investing

In our experience, the best place to start is to work on identifying what is important from an investment (i.e. the desired outcomes), and developing an investment mandate which demonstrates a strong alignment to your mission and core values. This will require prioritising the vast array of potential environmental and social risks and opportunities to those which matter most. For example, is the benefit a housing development provides to the wellbeing of whānau more, or equally important to, ensuring land development is sustainable? Having established and evaluated the important risks and opportunities, the next step is to integrate these into existing investment processes and establishing both qualitative and quantitative measures for environmental and social impacts (both positive and negative).

As the overall impact investing market continues to grow, we are confident the challenges will be overcome. It is critical to recognise that returns should be valued more holistically – and include specific and measurable environmental and societal impacts. Māori have an innate understanding of what impact investing seeks to achieve, and therefore have the opportunity to be leaders in this rapidly emerging space. The next challenge will be finding the talent who have both the harder edge investment expertise and discipline as well as an interest in social and/or environmental wellbeing.

One area of impact investment where there is opportunity for a higher level of involvement by Māori is Carbon Farming which we discuss on the following page.

Contributor:

Erica Miles, Director, Sustainable Value, KPMG Auckland

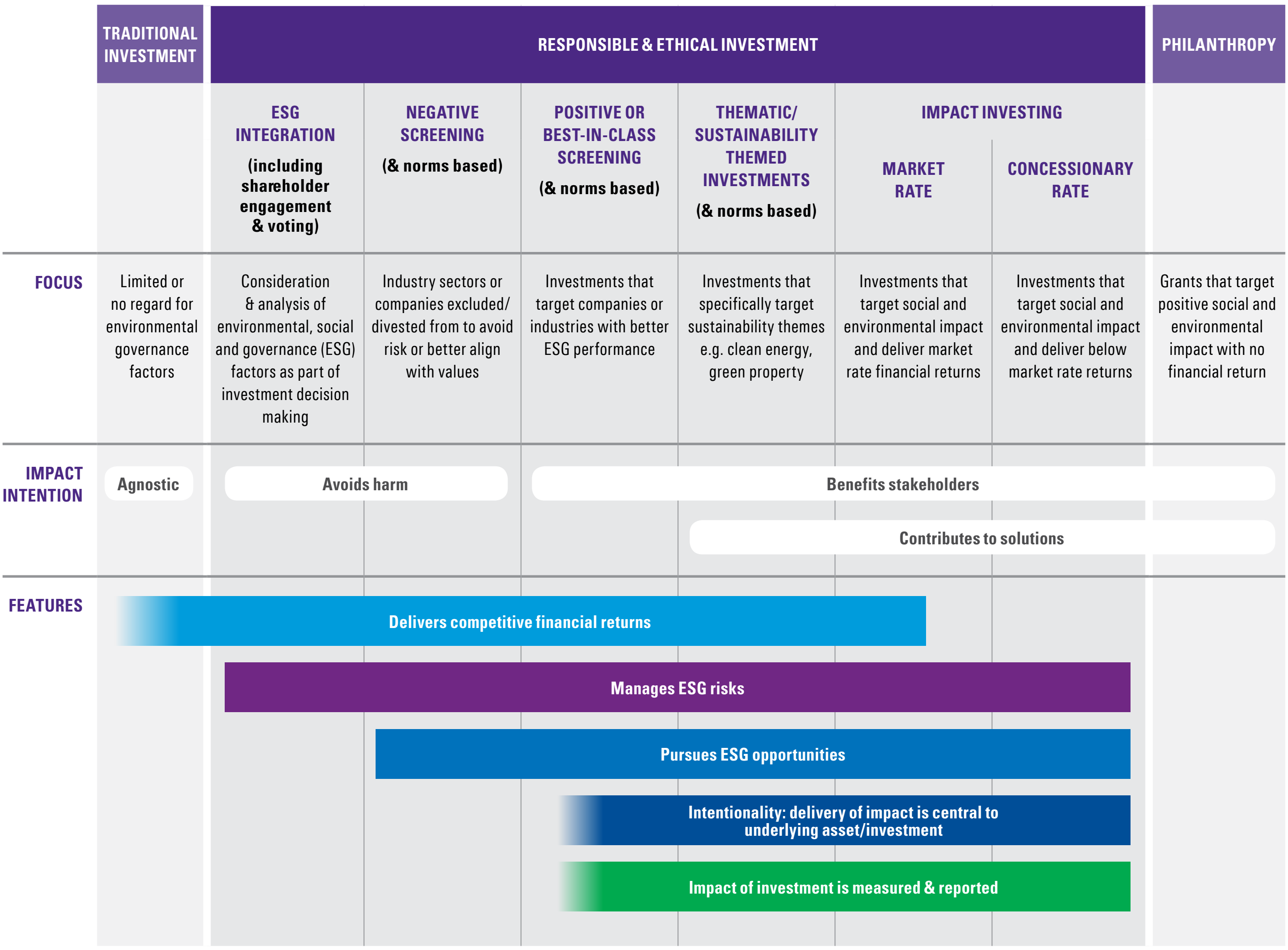


Figure 1: Responsible Investment Benchmark Report New Zealand, 2018, by Responsible Investment Association Australasia (RIAA)

1. Responsible Investment Association of Australasia (RIAA). September 2018. Responsible Investment Benchmark Report, 2018 New Zealand.
2. https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/11/impact-investing.pdf

Clearing the air: opportunities in carbon farming

Carbon farming offers unique potential for rural communities and enterprises to pursue what's important to them – whether that's more income, income diversification, or environmental restoration.

In this article, KPMG's **Dr Charles Ehrhart** provides an overview of carbon farming, with a focus on the opportunities and risks it may present for landowners.

What is carbon farming?

'Carbon farming' is about removing carbon dioxide (CO2) from the air and storing it in trees and soils. While the main purpose is to slow climate change, carbon farming can also provide income and restore valuable ecosystem services.

The practice of carbon farming can take many forms, including changes to how we produce annual crops (e.g. switching to no-till agriculture); incorporating trees into previously cleared pasture (i.e. creating silvipastoral systems); establishing tree plantations on previously cleared land; and restoring native forest.

Though diverse, each of these activities has two important things in common. Firstly, they increase the amount of carbon sequestered in a landscape; and secondly, they have economic value as a result of New Zealand's Emissions Trading Scheme (ETS), our country's unique Permanent Forest Sinks Initiative (PFSI), and global carbon markets.

The Emissions Trading Scheme (ETS)

All of New Zealand's major economic sectors – including forestry, power generation, industrial processes, transport, synthetic gases, waste and agriculture – have obligations under the ETS. Companies pay to pollute. For every tonne of greenhouse gas emitted, they are required to hand over one New Zealand Unit (NZU). The current market value of each NZU is around $25, but this figure is set to rise substantially over the next decade.

Putting a price on pollution is not intended to punish businesses. Rather, it is meant to motivate investment in technologies and practices that reduce emissions. It also encourages carbon farming by allowing eligible land owners to earn and trade NZUs.

Permanent Forest Sinks Initiative

The PFSI promotes the establishment of permanent forests on private land. It offers owners of forests established in 1990 or later the opportunity to earn NZUs for the carbon absorbed by their forests. Forests may be either exotic or native species, including native forests that have naturally regenerated since 1990.

PFSI participants enter a covenant with the Crown, which is registered against their land title(s). The covenant is in perpetuity, with the right to terminate after a minimum term of 50 years. Landowners are responsible for establishing and maintaining the forest. Limited harvesting is allowed on a continuous cover forestry basis.

Indigenous peoples' perspectives

Indigenous peoples around the world have had a long and complicated relationship with land-based carbon offsetting. Some oppose carbon farming, viewing it as little more than a new scheme to grab their land and enable powerful corporations to continue polluting as usual. Other indigenous peoples are embracing carbon farming for their own purposes; including finance for sustainable development and securing their territorial rights (by investing, for example, in video-enabled drones and high quality legal services).

Barriers to local benefits

Due to New Zealand's relatively progressive policy framework and current commitment to the rule of law, carbon farming arguably presents Māori landowners with more opportunity than direct threat.

Capturing its full potential, though, requires deep understanding of the complexities associated with carbon farming, access to capital, access to technical skills, and the ability to deal with complex (and dynamic) regulations.

Risk management

While carbon farming offers unique potential for rural communities and enterprises to pursue what's important to them – whether additional income, income diversification, or environmental restoration – there are risks.

These risks come in many forms; including environmental and biological risks, economic risk, market risk, regulatory risk and contractual risk. In each instance, mistakes can be costly – both in terms of lost opportunity and hard financial losses. Fortunately, most of these risks can be successfully managed.

Pitfalls to be mindful of

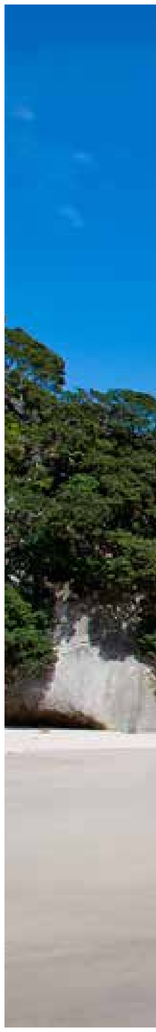
In his experience working with indigenous communities abroad, Charles has seen poorly-informed landowners sign contracts that unfairly favoured counterparties. If those landowners had better understood their contracts – or been aware of financial instruments enabling them to access capital – they could have kept far more money in their own pockets.

Increasing demand for land by third-party carbon speculators is sure to follow increasing carbon values. Given that carbon farming contracts can extend for long periods of time, even decades, we encourage anyone considering carbon farming to talk through their options, risks and potential rewards.

Contributor:

Dr Charles Ehrhart
Director, Sustainable Value, KPMG Auckland

Made by Māori: leveraging culture internationally



During his 20-year international career, **Andrew Watene** has worked in various markets around the world, and across many different cultures.

In this article, he explains how Māori export-orientated business can harness the incredible power of culture when taking their products and services to the world.

> "It is fundamentally important to produce a product or service that solves a problem, and has attributes that resonate."

Culture ties together a set of principles beginning with 'a place', 'a method or way of doing things', and a 'reputation'.

It is fundamentally important to produce a product or service that solves a problem, and has attributes that resonate. But to go one step further, by tying them to a unique cultural experience, is extremely powerful.

I strongly believe that culture is an opportunity for Māori export-orientated businesses to harness. With consumers now choosing to buy products aligned to their own values, culture has the power to influence consumer behaviour in buying one product over another.

Māori are well-placed to create consumer-centric products, that are 'made for' a market segment, as much as 'made by Māori' in New Zealand.

There is increasing demand from multi-nationals seeking to partner with businesses that impact local communities, as their consumers demand they source responsibly.

I love the Whakatauki "Ahakoa he iti, he puonamu" [despite being small, you are of great value].

I do so to articulate the uniqueness of New Zealand Māori. It sums us up nicely as a country, that despite being small, our gift to the world is very valuable. And that gift is our kai.

I am often asked, okay…but how is New Zealand different? How is it different by story, by product attributes, and competitive comparison?

An example was a recent dinner with two dear friends and Chef Rishi, a Michelin-star Chef. He is co-owner with his wife Manuela of the acclaimed 'Cheek by Jowl' in Singapore, which was opened with restaurateur Loh Lik Peng of lifestyle group Unlisted Collection early last year.

Chef Rishi is seeking a story behind the ingredients that he uses for the beautiful dishes he produces for his customers. I shared with him Māoritanga principles - those of Kaitiakitanga, Whanaungatanga and Manaakitanga - which we apply to any relationship, and how we as people nurture our surroundings that give us our kai.

I led Chef Rishi figuratively around Aotearoa, giving insight to the many Māori export organisations…spanning

algae-culture to apiculture, agriculture to horticulture. Along with unique stories of each business, connecting them to their whakapapa, I articulated how this uniqueness resonates with diners, and adds value to his business.

This has led to Chef Rishi booking to come to New Zealand next year.

Often an excellent beginning of leveraging culture for international markets is with the articulation of the whakapapa of an iwi, hapū or whānau. Principles of how people lived, worked and supported each other is critical; as it connects with a consumer's set of values, and increases authenticity which goes beyond a marketing play.

It acts as an anchor that creates customer loyalty, and is less imitable for competitors.

Looking to the global stage, the Amish culture provides another valuable example. Grocery stores, farm markets, wholesalers and chain stores are specifically looking for Amish-grown vegetables. These goods can command a premium price, due to their authenticity in growing natural, ethical and sustainable food. It is seen as a way of 'being' as a culture, as opposed to 'doing' a process to be accredited to a set of standards.

By establishing the origins of important events or people, traditional fishing, hunting or growing regions, or a place of significance where food was cultivated or stored creates opportunities to tell unique stories and experiences.

The Hungarian 'wooley-pig' is an example of tying these together. Its actual name is 'Mangalica', it is a species of pig which the Hungarian Government has now protected, certified as a national edible treasure, and appointed a Mangalica President.

It brings together culture associated with Hungary, farming tradition, places and practices. The Hungarians have succeeded in differentiating their product in-market, achieving premiums in a saturated market such as Singapore.

When leveraging culture internationally, and having articulated your story, what are the next challenges? They include establishing efficient ways to becoming visible or connecting with consumers; choosing the right in-market partners who are aligned to your vision and values; and being able to protect your brand and IP.

There are significant opportunities for Māori to collaborate, as the competition is not within ourselves. It is from those who are able to articulate their story better, to become the 'go-to' or preference where consumers are willing to pay based on their stories.

It's been incredible to have the opportunity to connect with New Zealand businesses after being offshore for the last fifteen years, understand ambitions, and help navigate the complexities of international markets.

But if we are to take full advantage of opportunities such as those highlighted, it's time we organise and align ourselves from aspiration through to execution.

Contributor:

Andrew Watene
Associate Director, KPMG
Auckland, Ngāi Tūhoe

Quantifying aspiration

Whether the saying goes "you can't manage what you can't measure" or "you can't improve what you can't measure" the essence is that organisations need a yardstick by which they gauge progress.

Articulating aspiration

Our observations over the time we've been working with Māori entities, is that they have an amazing ability to articulate their aspiration for current and future generations in a way that inspires and amazes. What is harder yet equally as important is pinning down the ambition that relates to that aspiration in a quantitative form and in a way that is informed by strong information, evidence and data.

Quantifying a financial target for a commercially focused business that is organised behind hitting that target is difficult enough. But this becomes even harder when we have small organisations with multiple priorities – more often than not including education, health, housing, environment and economic development. Compounding this is low staff numbers to execute, high expectations from stakeholders, shareholders and members, limited access to resources and a lack of clarity of the organisation's role in each of those priority areas.

Aligning to target

The importance of quantifying targets is not simply about setting goals and reaching them. It's also about the way in which we organise ourselves behind those goals and where we direct our time, attention and resource away from low impact activities and toward those that will 'move the dial'. It also helps to deal with the "pet projects" that often emerge post planning. It is very easy for additional items to land on a work programme during the year without anything being removed from the plan. As more is asked of operational teams with no extra support to deliver on the additional priorities, focus will be taken off the agreed priorities and goals and the likelihood of achievement against those goals reduces.

Output vs outcome

Discussions on measures can turn quickly into a debate with those in favour asserting the importance of measurement and those against arguing that not everything that is important can be measured. Ultimately measures can fall along the subjective to objective continuum but as organisations mature, we would expect the weighting to be more to the objective end. In setting the ambition it's important that we differentiate between output measures which usually measure activity and tend to be more objective and outcome measures which gauge impact and can often fall at the subjective end. It's more common to see a heavier emphasis on outputs (quite often on throughput volumes) than outcomes, possibly because they are easier to measure.

Focusing our measures

Before anything can be measured, we have to firstly identify the handful of indicators that are worth measuring and then ensure that we have the systems and processes in place to capture, analyse and report the data that underpin the measures, then use the insights to inform our decisions.

One of the most important reasons for being able to quantify the ambition is to guide the strategy development process. A well-informed, defined and quantified ambition provides a strong platform upon which to base strategy decisions (particularly about where to focus or target efforts).

Ambition and strategy

Good robust strategy is based on strong understanding of a market or landscape, including the pockets of populations that an organisation may choose to focus its activities on. With tribal member bases in the fives and tens of thousands, it is difficult to understand these pockets without deliberate intention and commitment to objective fact and data driven decisions. Essentially we need to understand where we should play and where we should focus our limited resources to get the maximum impact possible for the investment in time, resource and energy that we put in. We have to realise that we can do anything we want, we just cannot do everything. Limited resources means we must make choices. Sadly that will mean that someone will remain unserved by an organisation but if the strategy has been developed well, they will still be served by someone.

Courageous calls

These are difficult decisions to make, particularly when the need is so great and the sense of obligation to care and/or address that need so strong. It's therefore important to understand who else in the landscape might have obligations or is well positioned in respect to those we are unable to focus on? How might we work with those organisations?

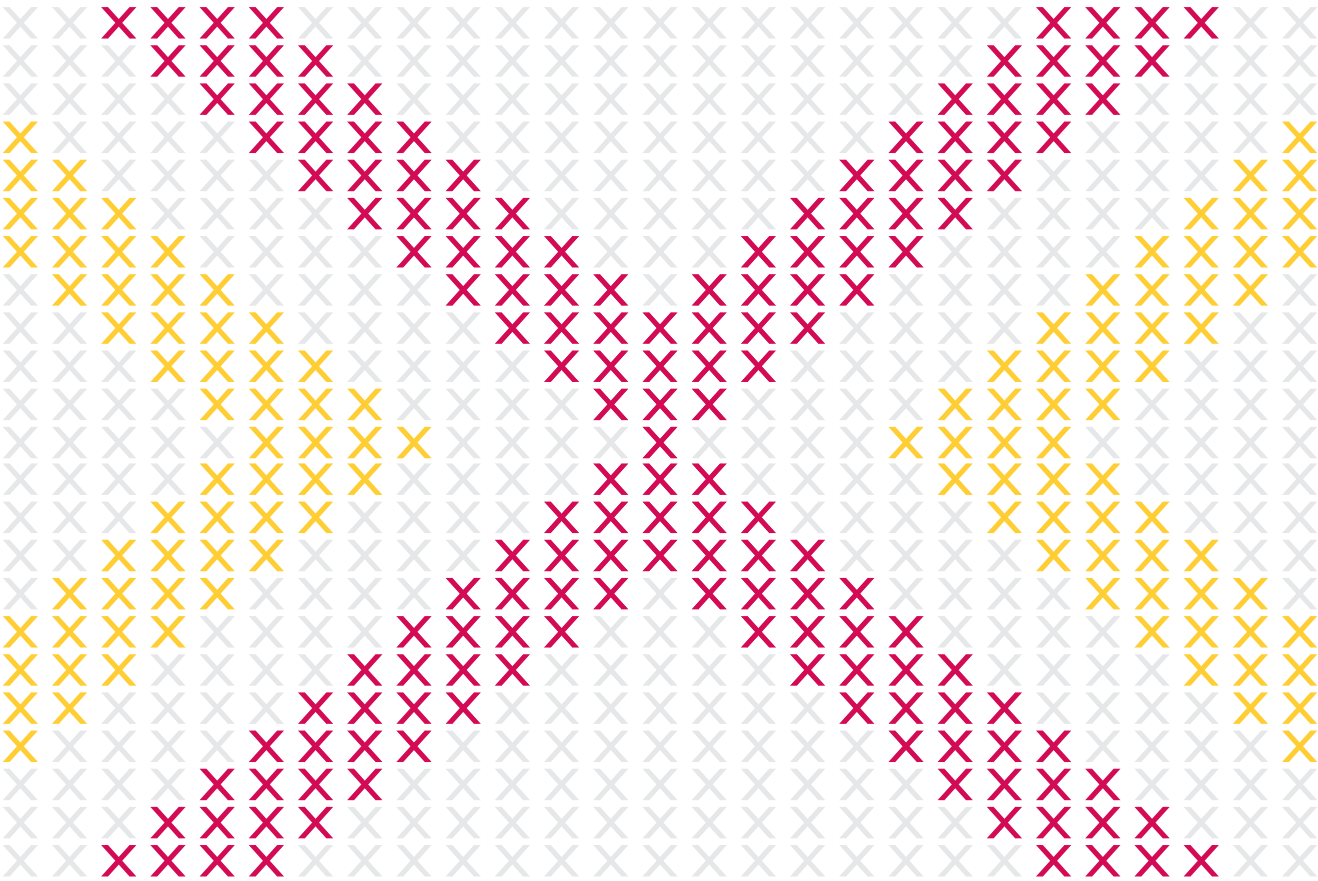
Aspiration doesn't have to be in financial terms but it must be quantifiable. In a world where data is gold, we must turn our minds to setting a target and understanding the extent to which our activities are helping us to achieve that.

"In a world where data is gold, we must turn our minds to setting a target and understanding the extent to which our activities are helping us to achieve that."

Know thyself: harnessing the power of data and analytics

Harnessing the power of data offers exciting opportunities for Māori organisations. For instance, it can help you gain richer insights into your iwi demographics, guide your Board towards future-proofed decisions, or help you measure and track the impact of your strategy and outcomes.

Lighthouse New Zealand; a centre of excellence for data, analytics, automation and artificial intelligence (AI), was recently launched. Its team of data scientists and business intelligence specialists help organisations get more from their data, and translate it into actionable insights.



The real value of using data

In a nutshell, there are four broad categories where data is delivering huge value within organisations. It can: improve the customer experience; manage risk, achieve cost efficiencies; and drive growth/profitability.

For iwi organisations, that can apply both in a commercial sense, as well as helping them to achieve their strategic priorities.

A well-planned Data Strategy delivers a whole host of benefits:

It helps drive your strategy

The first step is for organisations to understand their ambitions and aspirations – as well as any problems they are trying to solve. They can then develop a roadmap of data initiatives that are aligned with where they're wanting to go.

Data can be used quickly to get feedback on how your strategy is tracking. For instance, did engagement rates with tribal members increase by implementing a particular change? So it also helps to identify early when something's not working – so that a pivot can quickly occur and a different approach be adopted.

It supports good decision-making

Business leaders and Boards are increasingly under pressure to make fast decisions. At the same time, they're encountering new situations, new technologies and disruptive behaviour. Good data informs their decision-making in a complex environment, particularly where there are a lot of unknowns. It helps to raise questions and test hypotheses along the way. For democratically elected governors with multiple interests and broad stakeholder groups, strong data will help challenge some of the untested views.

It helps you predict where the world – and your market – is moving to.

There are subtle shifts occurring in the market all the time. These may only be visible when you look at the data and challenge the widely-held assumptions. For example, many people initially thought Air BnB was a crazy idea – that there's no way people would want a stranger living in their house. But of course there was a massive global demand for that idea. It just wasn't visible on the surface.

Insights into iwi demographics

In last year's *Māui Rau*, we highlighted the work of the Ruapehu Whānau Transformation (RWT) project, which began with a deep-dive research project into the statistics of the rohe.

In a similar way, any Māori entity can harness the power of data to gain a richer understanding of their iwi demographics.

Organisations can start with the data they already have, and then begin to augment that with third party data that's available from a range of sources. For instance, there are tools available that offer micro-segmentation on every household in Aotearoa. They're very descriptive around where you live, who you are, employment and income levels, financial risk and a lot of other information. It paints a very rich picture.

The huge advantage of having a well-planned data strategy is that once you begin – the data set is able to continually build upon itself.

That will set your organisation on a journey, where you start to uncover new patterns and trends that can help guide and support your over-arching strategy.

The commercial outcomes

Of course, data also delivers competitive advantages for iwi that are looking to grow their commercial ventures including iwi with tourism ventures looking to grow their customer base

These businesses already have their own information on who is visiting their ventures, from ticketing and related data. But the real insights are around those customers that are not being captured– that is, who is visiting the region and represents a missed opportunity. Accessing external data sets will give you those insights.

The potential uses of data are endless but the insights it can provide into the people you serve, whether tribal members or customers can be hugely valuable.

A finding from KPMG's 2018 CEO Outlook Report revealed that: "74% of New Zealand CEOs have overlooked insights provided by data analysis or computer-driven modelling because they were contrary to their own experience or intuition."

So, what is the right balance? Should you still rely on gut instinct – even when the data is telling you otherwise? As KPMG's Stephen Hastings explains, there's still a place for both.

"Human intuition is basically all the data that you've personally collected over a lifetime of experiences. So it's definitely an extremely valuable thing. We believe the future is in 'augmented intelligence'…which is the combination of human intuition, intelligence and creativity; combined with information, machines and algorithms. So it's not a case of man versus machine. It's when the two work in unison that you get the very best outcomes."

Contributors:

Dr Stephen Hastings, Partner, Lighthouse, KPMG Auckland

Alistair Evans, Director, Lighthouse, KPMG Auckland

Getting started

So if you're keen to get your data working for you, what are the first steps? The good news is: it's not as daunting as you think.

You don't need a big IT budget or team of data scientists. With the emergence of Cloud analytics, the cost of data integration is a fraction of what it used to be.

Even the smallest organisation is able to make the transition to becoming more data-driven.

Most organisations will have various sources of data – with online, offline, and legacy systems. Typically, a lot of the information can be held in Excel spreadsheets. The data organisations already have can be integrated and turned into a resource you can really start to use.

Organisations interested in further exploring their data journey may be interested in a Data Analytics Maturity Assessment, a 3-4 week process which provides a snapshot of your current data state; includes a workshop to map out your goals; and a roadmap for achieving it.

Customer experience excellence: the context for Māori entities

Iwi organisations or Māori businesses selling products and services to the world can leverage the Six Pillars to obtain insight into what constitutes an outstanding customer experience.

This year KPMG New Zealand launched its inaugural Customer Experience Excellence Report, which builds on eight years of research to reveal what New Zealand consumers value most from their favourite brands.

Following nearly a decade of intensive research – including over 2 million individual consumer evaluations in 14 countries – the 2018 report analysed over 54,000 consumers globally to dissect what consumers want and expect from leading organisations.

Today's customer demands excellent experiences which involve minimal time and effort, demonstrate integrity and authenticity, are empathetic and above all, personalised.

Organisations who get it right are rewarded with increased customer trust, loyalty, advocacy and significant economic benefits. The research quantifies the commercial outcomes for the top 50 global 'customer experience masters', who achieved revenue growth 54% higher than the bottom 50, at an aggregated level.

In order to compete, organisations must lift their game – and the Six Pillars (see page 23) provide a proven framework for doing so.

The Six Pillars enable a psychological understanding of customers which can be aligned with business objectives. They provide an easy-to-follow framework for organisations to measure and improve their customer experience.

It is essential that you achieve all Six Pillars, not just one or two, on a consistent basis.

The Six Pillars through a Māori lens

It's interesting to note how the Six Pillars naturally align with tikanga Māori. The concept of manaakitanga, for instance, will always be inherent in a Māori-owned tourism businesses; while rangatiratanga and whanaungatanga reflect the 'integrity' that underpins the work of many Māori organisations.

The Six Pillars can be applied to any business or organisation - whether your goal is to make a profit, or to create better experiences for members or a community.

While customer experience provides a substantial upside for top performers, there is a significant downside for organisations who fail to deliver great experiences. Research shows that 63% of customers have stopped doing business with organisations who provide poor customer experience[1].
This is especially true for the tourism and hospitality sector, where the prevalence of social media and review sites enables customers to share their experiences more easily than ever before.

Māori organisations who are able to articulate their provenance story provide the type of authentic experiences that are hard to replicate, providing a distinct advantage.

When you combine that with a focus on the fundamentals of customer experience excellence, customers become ambassadors. They share their great experiences, and organisations realise a word-of-mouth effect that is far more powerful and cost-effective than traditional advertising.

Embedding excellence within your organisation

Global research has found that customer experience is overtaking price and product as the number one brand differentiator. Organisations that embed customer excellence are able to fulfil a very real and personal human need.

The research helps to understand human problems, and determine how to solve those problems in a way that's good for both the organisation and its wider communities.

A clear understanding of your member or customer base is a critical input into the strategy development process, the focus of our next article.

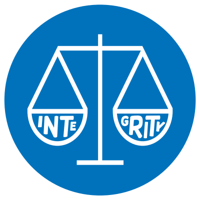
Contributor:

Baxter McConnell
Head of Customer Experience,
KPMG Auckland

> Businesses with a Māori provenance story provide the type of authentic experiences that are hard to replicate.

The Six Pillars are the DNA of every outstanding customer experience.[2]

Personalisation
Using individualised attention to drive emotional connection.



Integrity
Being trustworthy and engendering trust.

Expectations
Managing, meeting and exceeding customer expectations.

Resolution
Turning a poor experience into a great one.

Time and Effort
Minimising customer effort and creating frictionless processes.

Empathy
Achieving an understanding of the customer's circumstances to drive deep rapport.

1. Forrester Research, 2017: 'Elevate Your Customer Experience with End-To-End Customer Service'
2. 2018 KPMG New Zealand Customer Experience Excellence Report

'Strategy' beyond vision, mission and values

Strategy is a widely-used but less understood term. It would be hard to find many organisations that don't have a strategy. In fact many have multiple so-called strategies - but if you scratch the surface, most are simply plans. This is somewhat expected, given the use of the term 'strategic planning' (which in itself is an oxymoron) and possibly the reason organisations confuse strategy with planning.

Strategy is more of a guiding framework about how we will make decisions across time, versus a plan developed at a point in time that hardcodes what we will do.

Strategy for Māori organisations has often focused more heavily on vision, mission, value, goals and timeframes – the why, what and when. But what is often less clear is how the organisation will position itself to achieve those. This is not surprising – Māori are naturally long-term thinkers. We have a strong sense of purpose, plenty of passion and energy that fuels us towards the destination.

So while the destination is clear in our minds, we don't always understand the terrain or have the GPS to help choose the right route, the fit-for-purpose vehicle and the relevant capability to help arrive at that destination on time to complete the mission. It's in this 'middle piece' between understanding the destination, and knowing the arrival time, that a few key things are not clear.

Strategy, when done well, has to go beyond an internal assessment of what we want to achieve and when. If we know the how – we are in a better position to understand what levers need to be pulled to get the effect.

Understand the terrain

Strategy can't be developed in a vacuum, as there are external forces that either provide opportunities or threats. A fuller consideration of these forces may or may not result in organisations adjusting their strategies and/or plans. This requires an analysis of the macro-economic environment and trends; including political, environmental, social, technological, economic and legal issues. Decisions may be made that go against the direction of the trends, but this fuller analysis means that an *informed* decision will be made and will need to be backed by very strong rationale. One example is the focus on trade training courses while the macro-economic trends indicate that manual labour jobs are under threat from robotics.

In addition to the macro environment, a full external analysis of the regional and local environment is valuable too. This may result in some partnerships or opportunities beyond the local authorities, government agencies, larger regional employers, and providers. It's an opportunity to understand who is doing what in the landscape, what their strengths are and how those strengths might be leveraged. Equally it helps you to identify how your organisation is best positioned to either complement rather than compete.

Understand the mechanics of your vehicle

Having a better understanding of the terrain will help you to choose the right vehicle for the journey, as some will be more suitable than others. A deeper look into an organisation's strengths and weakness, how it allocates resources for impact, its process for considering its next moves, along with the way it converts resources into outcomes, will provide an idea of how well-positioned the organisation is (or as the case may be isn't) within its operating environment. A programme delivery organisation will need a very different vehicle from one that focuses on partnering for delivery.

GPS

The analysis of both the internal and external environments is heavily reliant on data and information. This provides the baseline from which progress toward a desired future state will be measured. The organisation's internal and external radars should be on alert 24/7, so that corrective action can be taken if external or internal events cause the vehicle to veer off course.

Data is also crucial during the journey, to ensure the vehicle remains on target; and at the end, to reflect, learn and improve ahead of the next mission.

Choose the route

We can do anything we like, we just can't do everything. This is the cold hard reality that all organisations face where there comes a fork in the road and choices must be made. This is an extremely difficult but not insurmountable task in organisations where the governors are democratically elected, or where the size of these governance groups is too large, and/or where the range of interests represented are diverse and expectations of the broader group are high.

Again data (see page 20) has an important role to play in objective decision-making and particularly in getting a more granular picture of the membership bases to inform where resources and effort should be targeted. Organisations may be focused on their membership, shareholder group or customer; but haven't necessarily understood the pockets of people their organisation is there to serve beyond broad demographics. And so we have historically taken a universal approach to delivering to our people, where we treat everybody the same, despite the diversity among the group.

The benefit from making difficult choices around who we serve, what our role is (and more importantly isn't), and what we will (or won't) do within that role is significant. It provides clarity on who specifically we need to align organisational efforts and resources behind, and who we support on a 'low touch' basis. It helps us to define the processes we need to deliver, the type of skills and capability needed, and the nature of our investments in systems, processes and platforms.

Strategy is much more than visioning workshops and the expression of our dreams and desires. It is an exercise in grounding those in the realities of external forces, key choices and our ability to execute – but in every case, it should always be about the people we serve whether they are tribal members or customers.

If your strategy leads you down a path of growth through acquisition, it's important to understand the top matters to consider.

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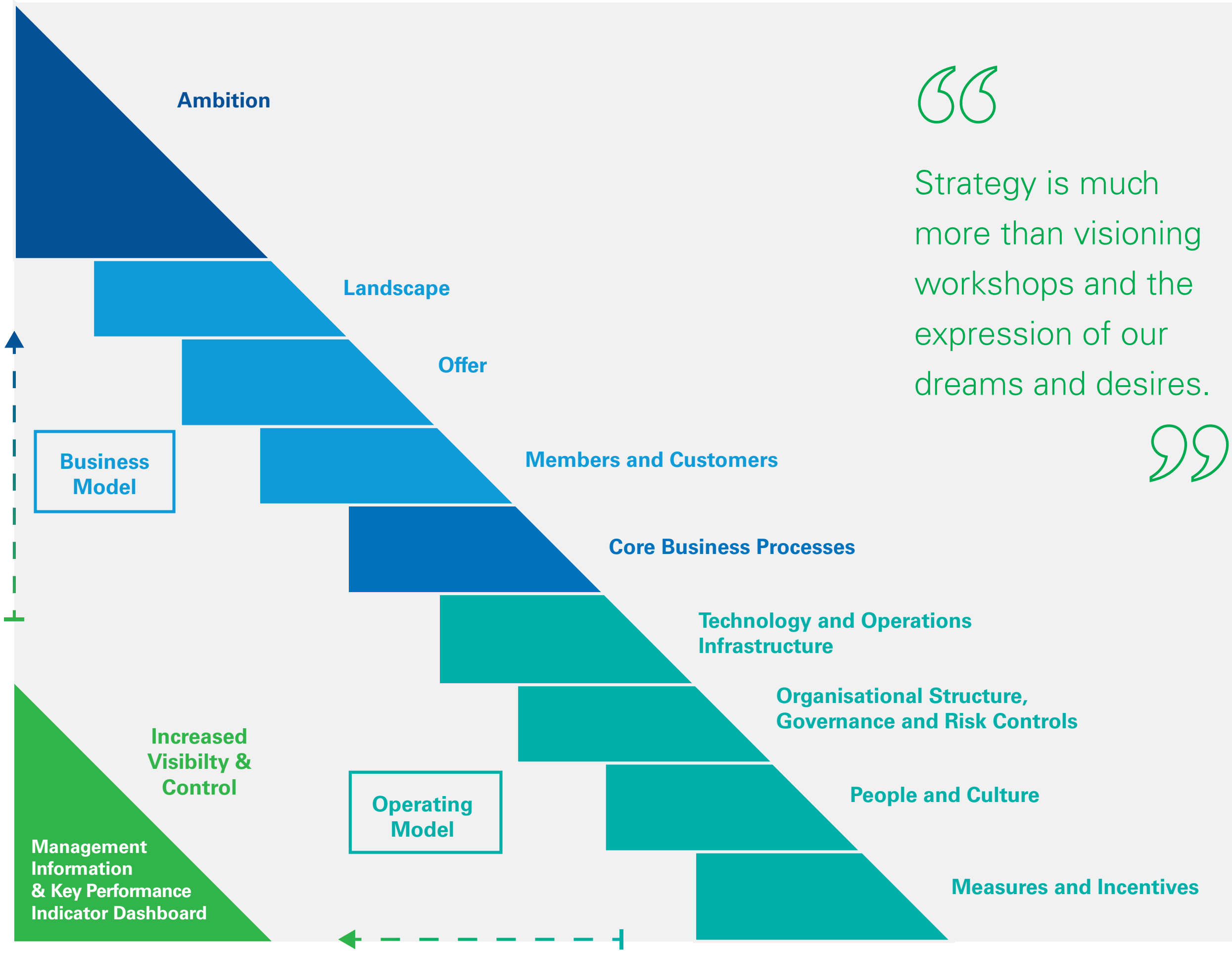
Ngāti Maniapoto, Tainui, Ngāti Porou



> Strategy is much more than visioning workshops and the expression of our dreams and desires.

Buying in: growth via acquisition

Are you thinking of buying an existing business asset? It can be a fast and effective way to realise your growth ambitions – as long as you have a well-considered strategy and robust processes.

Rangi Ririnui from KPMG's Deal Advisory team outlines the main steps to a successful acquisition.

#1.
Deciding if acquisition is the right path

There are number of different pathways to growth – whether that's by organic (natural) growth over time; investing in new marketing initiatives; entering into strategic alliances with others (such as joint ventures); or setting up new ventures yourself (such as additional branches or franchise models).

So how do you know which is the right path? The answer will be found in your over-riding strategy.

Many Māori entities would have a SIPO (a Statement of Investment Policy and Objectives), which forms the foundation of their investment objectives. More often than not, if they have received a Treaty settlement, Māori entities are likely to adopt an asset-based growth strategy.

So effectively the question becomes, what assets do we need to invest in, in order to facilitate our investment objectives? Whether it's creating employment opportunities, or intergenerational benefits, you'll then look for assets with characteristics that will advance that.

The pros and cons

Growth by acquisition has a number of advantages. It allows you to achieve instant market penetration, increase market share overnight, or gain competitive advantages (by weakening or acquiring your competitors). Finally, you gain total control over the asset (versus sharing control with others under a JV arrangement).

The big upside of the acquisition approach is that you'll have control of the asset, and you will enter the market quickly.

But it also involves more risk, so there's a cost-benefit that needs to be run here. In other words, is it worth what you'll have to pay in order to get those benefits?

#2.
Funding the acquisition

The next step is deciding how to fund the acquisition.

If you're a Māori entity that has had a cash injection – there are really only two options.

You can keep the money in the bank for minimal return, or you can make investments. There's really only one option – and that's to optimise your balance sheet. Ideally, you want to be optimising the returns on your existing assets; while also making new investments and acquisitions.

If you don't have the cash yourself, you'll need external sources – the bank, or another equity provider – to help fund your purchase.

Those funders will want to know how much headroom you have in your balance sheet. So it's important to continually monitor your operational and financial KPIs.

#3.
Calculating value

Once you've identified an asset you'd like to own, you need to assess what it's worth. There are two valuation approaches that are widely used in the industry:

1. **Discounted Cash Flow Valuation (DCF)**, In simple terms, you are deciding how much you're willing to pay, based on how much the company is expected to earn in the future.
2. **Market-based approach** (also known as the 'multiples approach'). You create a short-list of companies with similar characteristics to your target acquisition, and assess what they sold for (e.g it might be six times their earnings) relative to the target.

Often what happens is that you'll use a combination of both.

It's common to calculate the DCF, then sense-check that against the multiple approach, which takes the wider market into account. That would then be used that to further refine the valuation.

4.
The importance of due diligence

The final step is the due diligence process.

Usually, after going through the initial stages of a transaction, the buyer will provide an 'indicative valuation' of the price, or range of pricing that they're prepared to pay. That will be spelled out in an agreement called a term sheet. The buyer doesn't usually name an actual dollar figure at this stage – but they do describe the calculation they'll use. And that agreement will be conditional upon due diligence being done.

In a nutshell, the due diligence process achieves two purposes. Firstly, you're satisfying yourself that you're actually getting what you're paying for.

For instance, you might value a company at X times their previous year's earnings – but there could be some anomalies in that period that give a bit of a false reading. It's the job of the due diligence team to bring that to the surface.

Depending on what is discovered, you may negotiate a reduced purchase price.

Secondly, due diligence gives you a deep understanding of the company and how it operates, before you become an operator yourself.

The value of, and any return on, and investment will be heavily reliant on the way in which a strategy is executed.

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Ngāi te Rangi, Ngāti Ranginui

Aspiration to execution

It is said that "strategy without execution is hallucination." Perhaps a link can be drawn between that and Thomas Edison's quote that replaces the word strategy with 'vision'.

Strategy, by its nature, is general and high level. But when done well, it is backed by some in-depth analysis.
It essentially outlines:

1. What we are trying to achieve taking into account our vision, the targeted strategic and/or financial outcomes, risk appetite, and starting point;
2. Where we will play to achieve the impact that we seek, including our choice of landscape/market we will target, and who specifically within that landscape/market we will focus on, and what we will offer; and
3. How we will win or execute through a highly efficient, effective and performing organisation.

As the quote indicates, all the planning in the world and understanding of context and target markets and customers is fruitless without execution.

There are so many tales of massive investment of time and resource going into the development of strategies that end up sitting on a bookshelf or propping up a computer screen.

This can happen for multiple reasons, but it's commonly because:

1. The strategy was unrealistic in the first place; or
2. The strategy was realistic but the operating model to execute on the strategy was not aligned or didn't adjust to align with it.

The first situation comes down to the approach taken to the development of strategy in the first place. But the second scenario comes down to the attention given to the operating model once the strategy was approved.

The operating model

The operating model refers to how an entity can best organise and run itself to efficiently and effectively deliver to its customers or tribal members, in accordance with the strategy. It is something that is often confused with the organisational structure which is only one of many components of an operating model.

The organisational structure needs to be aligned with the core business processes; the underlying infrastructure and technology; the way in which the organisation is governed and manages risk; the process for developing people and fostering the right culture; and the measures and incentives in place to drive the right behaviours. This needs to be accompanied by an operating rhythm and reporting that underpins performance.

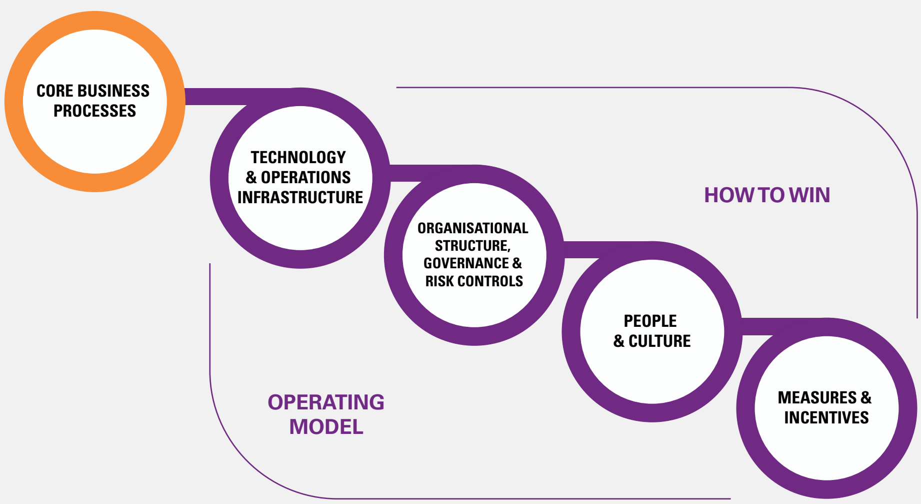
Aligning to strategy

Changes or shifts in strategy can, and often do, result in organisational re-structures. However the results may be sub-optimal if changes in the other components are not considered at the same time.

For smaller organisations, an understanding of their operating model is critical; as it will give an indication of where focus and attention might be placed to address current or potential issues.

There is a broad shortage of people with the talent, skills and expertise that fit the opportunities in the broader job market; and this is exacerbated outside of the metropolitan areas where many Māori organisations are based.
This gives rise to an opportunity to look at how the infrastructure and technology platforms can enable us to access talent that doesn't live within tribal boundaries.

"Strategy without execution is hallucination"



Another example might highlight whether the current organisational structure is helping or hindering the ability to execute on the strategy. If the strategy is to be responsive to the people - but the hierarchy has policies in place that inhibit that - then there is an opportunity to explore a different structure that enables that responsiveness. The advent of agile working practices where authority for decisions are delegated to the team to enable them to better respond is one example of the hierarchy structure evolving to speed up response to the customer.

Fit for purpose capability

If the strategy of an organisation is based around social innovation, then acquiring or developing the capability to co-design, test, improve and roll out programmes for its people, as part of people and culture might be necessary.

Key questions

There are some questions we might ask ourselves as we reflect on our own operating models:

- How do we execute our core operations in a way that serves our people?
- What foundational services, physical assets, information, and systems are required to enable the core operations?
- How does our organisation need to be governed, structured, and risk managed to best enable our go-forward strategy?
- Do we have the leadership, capabilities and culture in place to achieve our ambitions?
- How do we accurately track progress towards our goals, and incentivise the right behaviours required to accomplish the ambition?

The key point is that an organisation's operating model plays a significant role in the success of strategy execution.

It's about the people

While it is absolutely critical that there is alignment between the strategy and the operating model, ultimately it is the people that matter. The importance of common understanding and shared language throughout the organisation, from governance to the frontline, cannot be overstated. Problems are likely to occur if various constituent groups have different views of the goal and area of focus. In these situations, it is likely that the organisation will become reactive and the price ultimately paid by those who we intend to serve.

As we continue to grow both public and private partnerships, our execution track record will have a bearing on the rate at which we can increase our impact alongside partners with similar organisational maturity and shared goals. Execution and discipline go hand–in-hand.

As we execute there will always be risk that we have to identify, manage and reduce to ensure our progress stays on track as the following article discusses.

Risky business: how to keep your organisation safe

Managing risk will help you ensure your organisation remains strong, protected and sustainable for generations to come.

But how do you know what the risks are? And how do you go about managing them?

Why is risk management important?

When most people think of risk in the business context, it's usually things associated with financial processes (particularly fraud) that spring to mind. But risk covers a very wide range of things within an organisation.

In a nutshell, a 'risk' can be anything that could get in the way of your organisation reaching its short-term or long-term objectives. It's important that organisations identify and manage those roadblocks so they can get on with realising their goals.

A risk can literally be anything within your organisation; spanning everything from finance and operations, to people and reputation.

What does good risk management look like?

As a rule of thumb, risk management is about having a good 'bird's eye view' of what's happening within your organisation, and a structured approach to evaluate and manage the uncertainties that you face.

Having a good risk management approach also means everyone feels more comfortable about risk – from Board level and management, through to tribal members and other stakeholders.

Risk management maturity will vary from one organisation to the next. For example, a larger organisation may have a highly-detailed risk management framework; including a risk strategy, risk appetite statement and tolerance levels, risk governance structure, and established processes for assessing, measuring, monitoring and reporting risk.

A smaller organisation is unlikely to require that level of depth but you'd still like to see some type of risk management approach that is right-sized for the organisation; which helps them to identify, evaluate and manage their key risks.

Here are just a few real-world examples of different risk scenarios that can arise:

- Membership database is vulnerable to being hacked in a cyber-attack
- Members in your accounts team share passwords to ensure that payment runs can happen when one of them is absent
- There may be some unsafe working practices in your forestry operation
- One of your agriculture developments is potentially in breach of the Resource Management Act
- You're contracting with a business that one of your Board members has an undeclared interest in
- An interim Board member has been appointed without due process being followed

Getting started

For those who have heard about risk management, know it's important but have never really got around to doing anything about it, a good place to start is with a facilitated risk workshop.

This brings together the leaders of the organisation to start a conversation around what risk is, why it's important, and how it ties to the organisation's strategic objectives. From there, a process to identify, challenge and prioritise the organisation's key risks would occur, before developing a fit-for-purpose risk management approach.

Once the risks have been identified, the next stage is to manage and reduce those risks.

Contributor:

Gabrielle Wyborn
Associate Director, Risk Consulting, KPMG Hamilton

Benefits of risk management:

- Helps uncover where "risk blind spots" may exist
- Prioritises an organisation's top risks, and aligns the Board and management on these
- Develops a consistent approach to communicating and managing risk across the organisation
- Promotes a healthy organisational culture
- Helps to achieve the organisation's outcome

"Risk management is about having a good 'bird's eye view' of what's happening within your organisation, and a structured approach to evaluate and manage the uncertainties that you face."

All under control

You've had the luxury of a stable workforce for a long period of time, the systems and processes aren't perfect but there haven't been any major issues plus you get a clean financial audit every year so things seem fine.

Then one of your long-term employees leaves for greener pastures and your new joiner comes along, scratches the surface and finds some major weaknesses in your systems and processes putting the organisations assets at risk – your heart sinks.

Increasing awareness

It is relatively easy to be unaware of some significant risks where there hasn't been a historical issue that resulted in improvements. Situations like this are common but in the worst cases, the ones that hit the media, there can be a loss of assets to the point that some entities cease to operate.

These scenarios are much less common for organisations who embark on a programme of regular review for the purposes of continuous improvement. Ultimately that is what internal audit is, a way to identify and reduce risks, improve processes, and keep the organisation humming well before problems have a chance to arise. Internal audit is often referred to as an assurance service and is quite distinctly different from external audit.

The word 'audit' can have negative connotations – it sounds like someone's coming with a clipboard to check up on you and that is not what internal audit is about. It's about helping organisations to identify and manage their risks, so they eliminate any roadblocks and can get on with achieving their ambitions.

Governance and management

The work of internal audit supports both the governance and management. For governance, it's about giving them assurance and comfort around the information they're receiving. For management, it's about helping them improve processes in practical ways.

Internal audit can help improve virtually any business process you can think of and can be applied to day-to-day operational areas – such as security, health and safety, or protection against fraud. Or it can look at the bigger picture – such as how your organisation makes decisions, or manages its strategic risks.

Internal audit vs external audit

Internal audit is quite distinct from and shouldn't be confused with external audit which is purely focused on providing an independent view of whether the financial statements are a 'true and fair record'. When it comes to finance, internal auditors have a different role. They look at the financial processes used within the organisation – to identify any risks, or where better controls might be needed.

Both functions are important. Organisations can sometimes get a false sense of security when the external auditor has signed off on their accounts. Primary responsibility to detect fraud does not lie with the external auditor. It's the internal auditors role to look at whether there are robust internal controls in place – around things like accounts payable or payroll, for example – to reduce the risk of fraud.

Benefits of internal audit

As well as managing risk, internal audit can deliver a raft of other benefits. Including:

1. It supports good decision-making.

Internal audit can help organisations strengthen their decision-making – not so much whether a good decision has been made; but was the right process followed, were the right people engaged with and at the right time which should lead to a good decision. Internal audit work can also focus on reporting, and making sure it's as accurate and as useful as it can be. Is the report actually helping the person at the end – where the buck stops – to make the right decision?

2. It keeps projects on track.

It's not uncommon for Māori organisations to be embedding multiple projects at once. Coupled with that is the long-term intergenerational view. When you have a 200-year plan, internal audit can provide you with those check-in points where you ask: are we getting there, are we still on track?

3. It builds trust.

Internal audit can increase levels of trust between the Board and management. As well as providing assurances to the Board; management also gets the opportunity to have their work validated – and prove to their Board that they have things under control.

4. It improves communication.

In the context of Māori organisations, they need to communicate their outcomes to a very large whānau-based group. So finding a clear way to tell that story is invaluable. For many tribal members or shareholders, it's difficult to understand the reporting that comes out of their iwi entities, trusts and incorporations and internal audit can be used to help make the reporting more understandable.

5. It protects reputation.

When an organisation has poor internal controls, it can result in negative publicity and reputational damage. One example would be sensitive expenditure such as travel or purchase of gifts or koha. When you see something splayed across the papers, that's usually a risk that hasn't been managed. Internal audit can be used to identify the policy framework and systems to avoid this.

If things aren't running as you would expect it could be that there are some system improvements that are needed or undiagnosed risks. It's always worth taking the steps to assure yourself by reducing the risk of some nasty surprises.

As organisations evolve, so do systems and processes. There will always be opportunities to consider whether what we do is still relevant and ask ourselves whether it actually adds value to those we aim to serve. A focus on removing the waste from those systems and processes is discussed next.

> “When you have a 200-year plan, internal audit can provide you with those check-in points where you ask - are we getting there, are we still on track?”

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The LEAN machine: embedding efficiency across your organisation

The board papers are late, a tribal member has complained, something doesn't quite look right in the financial reports, and the contract hasn't been signed.

These signs may indicate creaks in the systems and processes that might need attention. With organisations trying to achieve as much as possible with the available resources, it's important that these systems and processes help teams to deliver as efficiently as possible.

Systems and processes often evolve and escape review until an incident occurs that places them under the spotlight. Furthermore, people have simply become familiar with the processes or even worse, resigned themselves to the fact that a process is just not going to improve.

There are many indicators that might suggest that an organisation could benefit from reviewing and improving their processes including;

- Is your team comprised of a high proportion of administration staff?
- Are you spending too much time on administration and back-office functions – time that might be better spent focusing on your customers, shareholders or tribal members?
- Do you hear inconsistent feedback about your organisation and it's service levels? Is there some positive and some negative?
- Are certain processes simply taking too long?
- Is there a high frequency of checking and re-work required resulting from errors?
- Is your team highly utilised one week and not the next or is part of your organisation busier than another part?
- Does your organisation feel like it's regularly in fire-fighting mode?
- Is work delivered late?

All of these situations could indicate that there is excess waste in the process that could be stripped out. One of the tools that we have seen used successfully to help organisations improve their process efficiencies is Lean. Lean is a business concept that has its origins in manufacturing in Japan and rose to prominence in the period after World War II as a result of the work undertaken by the Toyota Motor Company.

One of the main tenets of Lean is that it gives the workers permission to identify and implement improvements versus waiting for a command from their superiors further up the chain. It acknowledges that those closest to the action are better equipped to solve it.

Essentially Lean is about focusing effort on getting the right things to the right place at the right time in the right quantity while also minimising waste and being flexible and able to change. It's about making sure you're doing things in an efficient manner, with no waste or unnecessary steps along the way, and that you're creating exactly the outputs your customers want. You've also got your processes set up in a way to consistently get the same high quality outcomes.

Lean can be applied to virtually anything. If it's a process that has a series of steps in it, it's something one could think about from a Lean perspective.

Often the best place to start is by looking at what are described as 'noisy' processes.

Maybe you're receiving complaints from customers or tribal members about a process; or people in the organisation don't feel it's working as it should. Or perhaps it's causing cost pressures or some other negative impact.

Common processes such as the annual budget process, responding to queries, preparing monthly and annual accounts, regular board packs and the process of registering a shareholder or tribal member are just a few examples where Māori organisations can benefit from Lean.

The next step is to carefully consider how to improve the process – taking into account the entire end-to-end process. This involves understanding what the current version of the process looks like – how long it takes, what it costs, who's involved, the quality of its output – and what the customers of the process value. It's really important to get clear on what the problem is, and make sure you're solving the root cause and not just the symptoms.

It's also important to understand the entire process from end-to-end, and not just one little piece of it. For instance, you may think it's unnecessary to collect certain information, but there may be a legislative reason for it.

Ultimately the stronger organisations have been successful at embedding a culture of Lean, where everybody within the organisation is constantly looking for improvement opportunities - not just the CEO, or the Board. In fact, it's the people on the ground who stand to benefit most.

A lot of the time people who are involved in a process will express their frustrations. For instance, they might have to write a report every month, without knowing if anyone reads it. Or there's a form with three extra questions they have to ask customers, but that information never gets used.

It can be empowering to improve processes by removing steps that are not adding value; and it frees people's time up to focus on things that really matter to customers.

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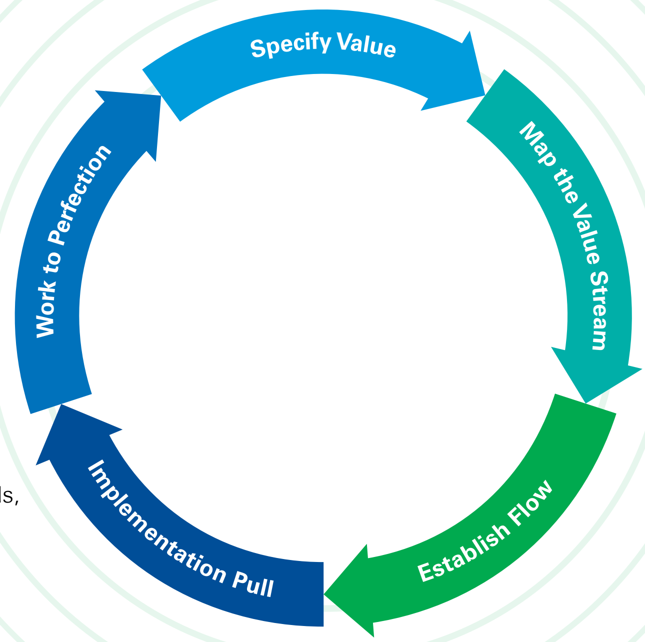
Principles of lean and continuous improvement

Specify Value
Value is defined by customer

Work to Perfection
Constantly seek out new ways of improving and perfecting your process.

Map the Value Stream
The Value Stream is the sequence of steps taken to create value.



Implement Pull
Make or process only what the customer needs, when they need it by reacting to a trigger - how can we respond to customer demand?

Establish Flow
Flow is developed so that the products or services move fluently and without interuptions through the value stream - the steps to create value.

In summary

The contributions to the report have really focused on what organisational leaders might think about as they look to improve the effectiveness of their organisations and increase the value they provide to their membership or customer bases.

Some are already there and others continue to push forward and so we will undoubtedly see significant positive changes across Māori organisations as the maturity of individual organisations grows.

As we deepen our awareness of the various operating models that underpin organisations, we will start to understand more about the drivers of effectiveness, efficiency and customer satisfaction, cost and waste at an individual entity level.

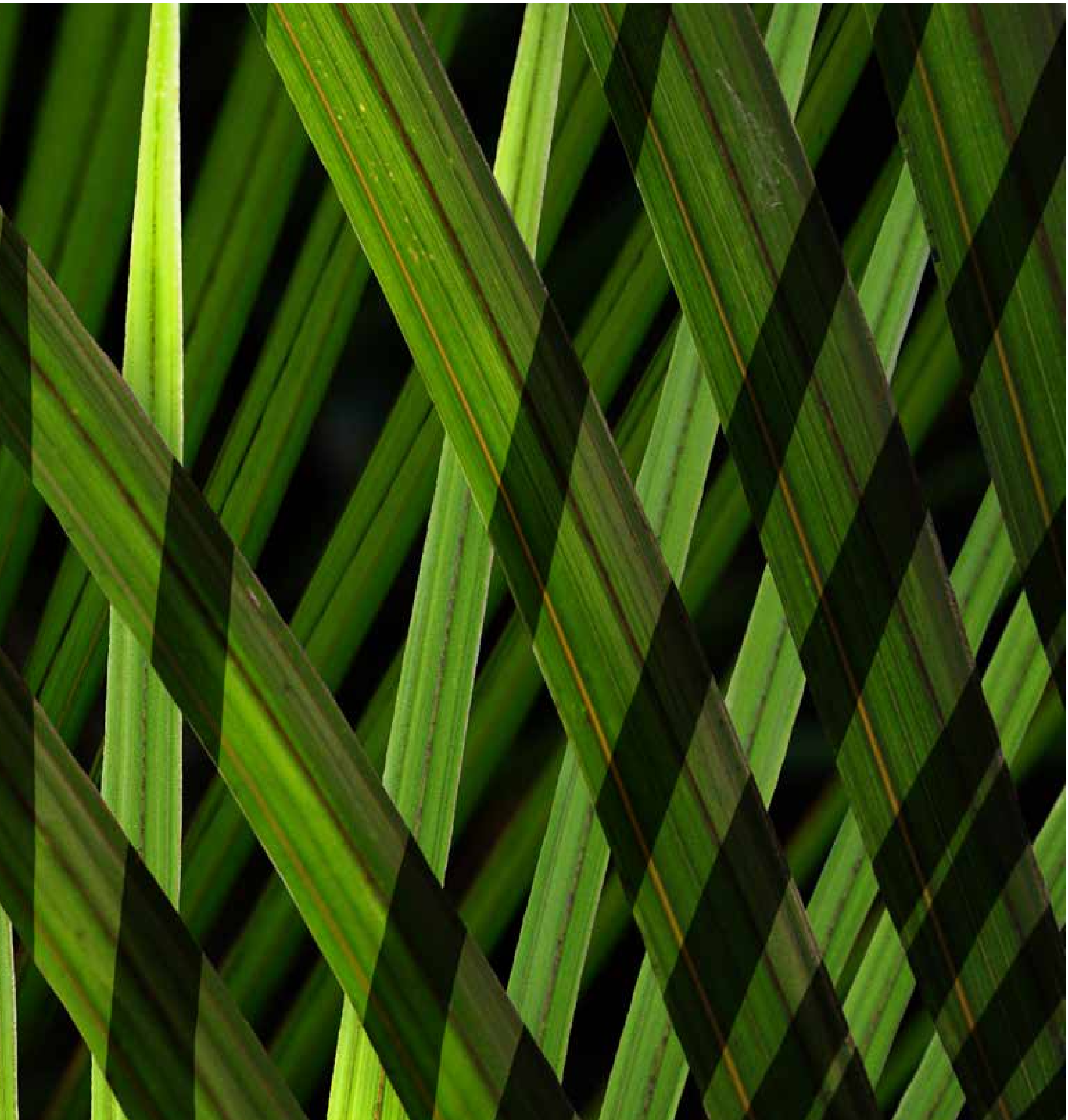
This will help us understand where we add most value and where it makes sense to work with others.

But making logical sense is not always enough. Ultimately there are human drivers that determine whether what is logical actually materialises. There have been many discussions that talk about the potential of collaboration and there seems to be reasonably broad agreement that there are significant benefits.

Ultimately it comes down to courage and vulnerability. The courage to trust your potential partners and the vulnerability to accept that another leader may be best suited for the matter at hand.

This year's only case study focuses in on the Iwi Collective Partnership and how this particular group of 15 iwi managed to come together and stay together for collective advantage.

As the African whakatauki says, "If you want to go fast, go alone. If you want to go far, go together".



It's not just about the fish, it's about us

Collaboration is the easiest word to say, but it's often the hardest thing to do. The Iwi Collective Partnership (**ICP**) has been successful in allowing its partners and shareholders to collaborate as Aotearoa's largest collective of Māori commercial fisheries interests and this has been acknowledged recently when they won the Outstanding Māori Business Leadership Award 2018.

Maru Samuels, General Manager of the ICP says "Initially we worked together for a couple of years as an unincorporated group, which was an important part in the process to suss each other out. Nothing was formal and the group had a couple of hui each year to work out how to deal with commercial partners."

The ICP set up a limited partnership with a five year term to enhance commitments to commercial partners. Based on a relationship of trust the iwi members intended to change that to a 15 year term however legislation did not allow that and the term is therefore a rolling five year term.

The business itself started with aggregating and trading their respective annual catch entitlement (ACE). Then people started to approach the ICP with investment opportunities so an investment segment was established. The third segment is branded products which is still in a formative stage and the ICP has a policy to prioritise working with and supporting companies it owns and other iwi or Māori businesses.

The on-boarding process for new iwi members is welcoming and simple, and it's driven by manaakitanga. A 12 month courting period allows the incoming group to trial being a member with no obligations to join at the end of the period.

The biggest benefit is the trust-based relationships which allow the members to navigate challenges as they arise. It comes down to trust and credibility which provides an objective and fair platform.

"You have to have a core set of people whether that's on the board or in management, people who understand how to make relationships work, how do deal with raru and deal with that in the right way. A perfect constitution or structure won't do that for you alone, people are key. You still need people who can make money and do deals, but you definitely need people who know how to make relationships work."

Benefits of collaboration:

- Cost efficiencies (shared expenses)
- Spreading of risk in a high risk industry
- Shared expertise and knowledge – limited expertise in the industry
- Scale and therefore better returns as a collective as opposed to business on your own
- Flexibility on entry / exit, and direct investment opportunities which caters for the range of size, ACE contribution and expertise amongst iwi members
- For iwi – retention of ownership of quota shares
- Easy on-boarding process for new iwi members with no obligations to join at the end
- Relationships – built up trust and credibility – can also be used as a platform for collaborations outside the seafood industry and outside of the ICP
- Shared resources.

Potential Challenges

Running a lean structure, with one employee and an emphasis on flushing money out directly to iwi members has the potential to be challenging. Long-term sustainability in a growing business and the spreading of risk are issues that could arise if not dealt with.

The capability and capacity of iwi members varies where some are really involved and others are more passive. The iwi members with full time CEOs, CFOs and businesses are really involved. However the less active iwi members still make valuable contributions through specific expertise (such as financial expertise, risk management, environmental experience and sustainability, and non-fisheries related business).

Competition between iwi members on branded products is a potential issue, particularly when ACE is pooled and one iwi is using the ACE of another iwi to compete against them.

The challenges are not insurmountable and great relationship management can allow the ICP to navigate challenges as they come.

Reiterating the importance of those relationships Mark Ngata, the ICP's chair says "It's not just about the fish, it's about us." It's the human factor that makes or breaks the business.

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An Investment Opportunity – what worked?

- Opportunity came in the door because an external organisation wanted to work with particular iwi members within the ICP
- Relationship management – kōrero kanohi ki te kanohi
- Rational korero by egoless leaders who were more interested in the bigger picture and therefore willing to make a compromise in order to get the deal across the line
- Time pressure of 48 hours to close the deal.

An Investment Opportunity – what nearly killed it?

- A number of investment models were developed on the hoof and were not presented objectively
- Tensions between the investment models could have meant the loss of the deal, however active relationship management allowed the deal to proceed
- A lack of objective advice on investment model options before the options were presented.

Fuelling aspirations

Debt is an important ingredient along the business growth journey as it provides important fuel to keep the business moving in the right direction. While these are matters ordinarily dealt with in the commercial entities, this summary provides those involved with parent entities with a general overview of what is on the minds of banks when in discussions with commercial subsidiaries considering using debt to fuel their aspirations.

1. The people in your business can either make or break it. Your success comes down to the quality of your people, and in particular, their capability to execute on business outcomes. Your management and governors are key in this. Systems, processes and structures can be set up to empower your management and governors to move quickly on opportunities and adapt as necessary, however at the end of the day, the key to success is in your people.

2. There are a number of ways to grow your business, one of which is raising capital and there are options for that too. Debt is one of those options and the general view within the Māori sector is to be risk-averse, with some organisations having no debt at all. That comes from a mindset that all debt is bad. However debt can be good if you can use it within your means to leverage growth and opportunity, for example when you take on a mortgage to buy a home for your whānau.

3. One way ASB adds value to its clients is being another pair of eyes on a growth or business opportunity. We sit down with our clients to talk through proposals to understand their needs and the opportunity better. If a business is looking to acquire another business, we'd look at the debt levels within that business to see if it is 'normal' for that particular business sector based on current market conditions. We have clients across a range of business sectors and can bring that knowledge to the table. Wanting you to be successful is a given, and the banks values should align with yours in terms of how you succeed, so that you are not taking on debt unnecessarily and you are leveraging debt effectively.

4. By bringing a bank to the table on some of your opportunities you can bring another skillset in. By its very nature because the bank is effectively investing money (by way of debt) in to your business, the bank is keen to discuss the risks with you with a view to understanding how you will mitigate those risks. That is why banks do their own form of due diligence at the outset, to ensure that they are putting money in to opportunities that are going to succeed. At the end the day, the bank is also making a commitment by way of debt, together with your commitment of capital and everyone wants the business to succeed.

5. Māori organisations are different in nature in that they often have multiple business sectors such as forestry, fishing, farming, and property. This highlights the importance of ensuring banking solutions are tailored to meet those needs and there is often multiple ways of borrowing against the mix of assets.

6. When considering whether or not you want to bring a bank in, a key consideration is what your risk appetite is. Is it articulated and do your management team and governance group understand what that risk appetite is? You should ensure your risk appetite is clearly articulated and understood by your decision makers.

7. Banks will look at a number of things when considering lending opportunities. Three key measures are people, cashflow and security. As noted above, people are key – the bank is effectively investing in your business by lending based on the people involved. Those people need to have the right capability within the relevant sector. For example, if you're looking to acquire a forestry business, your people involved would need to have proven forestry sector experience and capability, whether that is in your business or in the business you are acquiring.

8. Cash flow is important as that speaks to serviceability, ie your ability to pay the bank back. Security is another consideration whether that is taken over physical assets or by way of a general security agreement or guarantees. What is important here is how you structure yourselves. For example, in terms of physical assets, we often see clients separating out their most important assets (often that includes cultural assets) so that only the commercial assets are available for security. There are a number of ways you can structure it so that your most important assets are protected.

9. In terms of cashflow we can assist by doing a banking review with our transactional team, the purpose of which is to increase efficiencies, enabling you to better manage your working capital and so there's no 'lazy cash' lying around. Ultimately that contributes to increasing your return on investment.

10. Based on what we are seeing in market, these are some of the matters for you to consider when looking at growth opportunities. Of late we are seeing more Māori organisations, both individually and collectively, looking for direct investment opportunities and it is imperative to start the kōrero at the outset so you can make better informed decisions.

ASB

Next steps

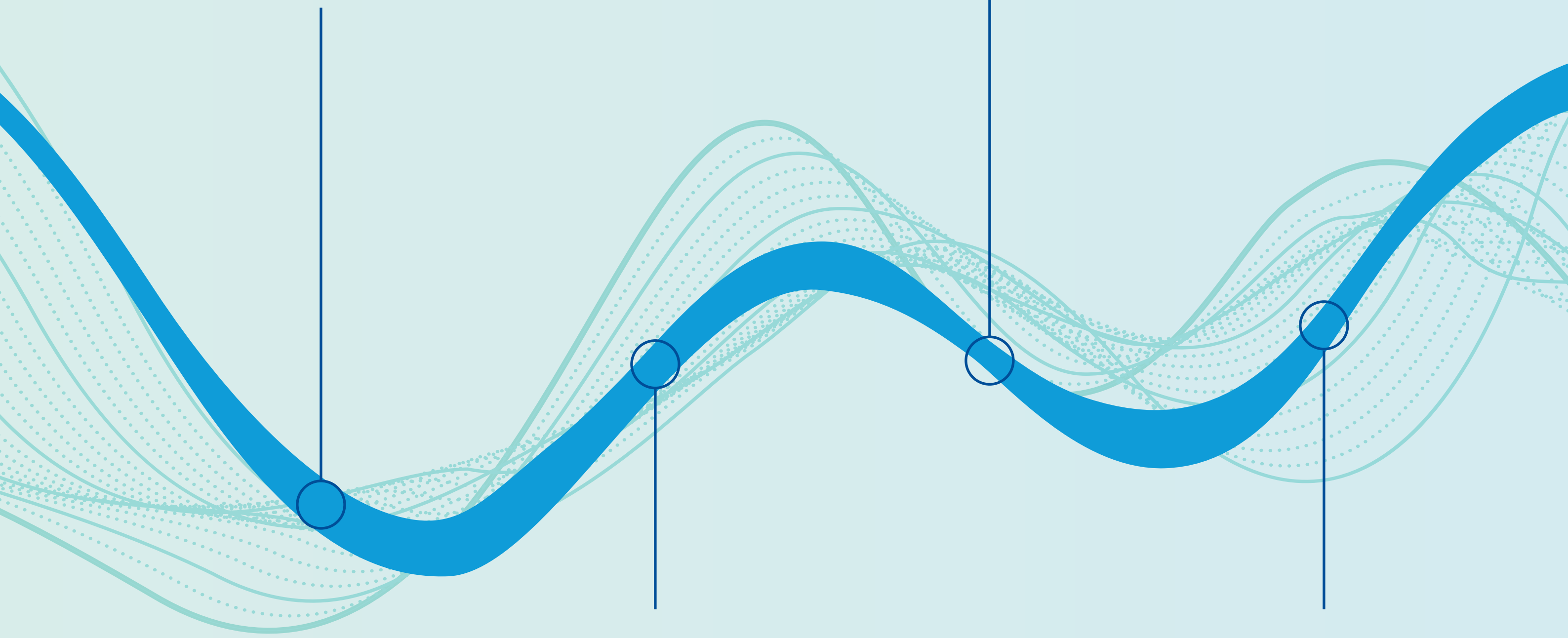
Throughout the report, we have touched on a number of areas that are important and have outlined some scenarios and steps that you might consider as you work to grow the maturity of your organisation. If they resonate with you, we invite you to contact us to discuss further by emailing Riria Te Kanawa at rtekanawa@kpmg.co.nz or Andrew Watene at awatene@kpmg.co.nz

We know data is important, we just don't know what data to collect from where and how to get started.

Assess data and analytics maturity

We aren't where we planned to be at this point so perhaps we need to flex - revisit and adjust the strategy.

Review strategy



We need to more deeply understand our customers and tribal members, so we can deliver better outcomes and improved experience.

Assess your current customer experience

We don't have a good sense of what outcomes we get for the investment we make.

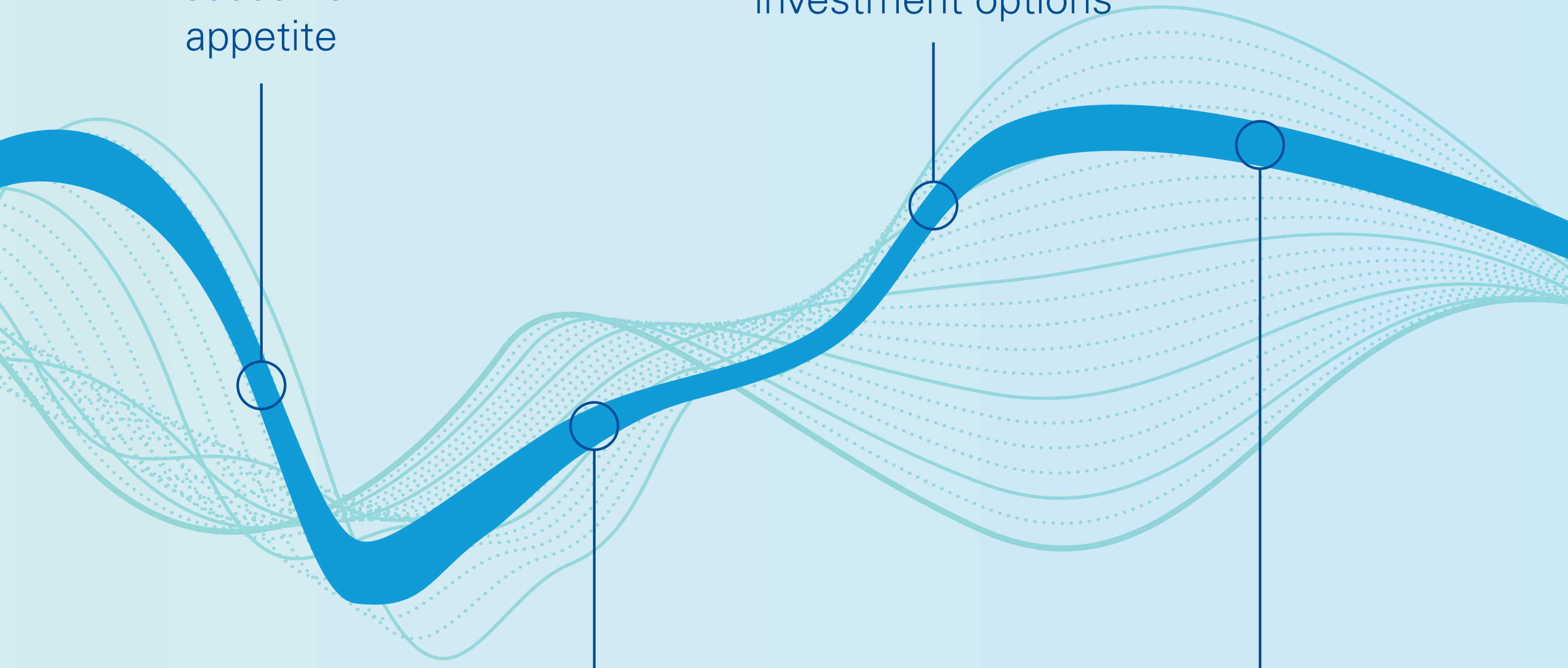
Review operating model

We aren't sure if our risk appetite enables or constrains our strategy and approach.

Assess risk appetite

We want to understand more about combining environmental and social impact with financial returns.

Understand sustainable investment options



We don't have a clear sense of our strategic and operating risks.

Undertake risk assessment

We want to achieve long-term sustainable growth through acquisition.

Complete due diligence

Call to action

This third edition of *Māui Rau* has taken a different track from the first two. Our earlier work was set in the wellbeing of our people and where the opportunities lay for them. This time around we have focused this toward the Māori organisations that serve them.

The wellbeing of our people is not dependent on what their iwi organisations, trusts and incorporations do. But those entities will play a part in accelerating the pace at which the journey toward wellbeing takes place.

Our organisations are working so very hard trying to meet ever growing expectations. There are two choices to change the story – continue to try and meet the expectations with negative long-term consequences or manage the expectations and deal with the short-term pain for the long-term gain. A tough ask where leadership is democratically elected but a choice all the same – a choice that needs courage.

It's important that we allow the people that serve us to stop and consider if and how things could be done differently – whether more efficiently to get the same result or more effectively to get a better result.

It is incumbent upon our organisations to;

- develop strategies that are based more on evidence and analysis than they are on popular opinion
- make the tough choices that allow them to focus and target their efforts for higher impact
- explore and innovate on the operating models that not only help them to become high performing organisations but also truly enable whānau to help themselves
- give themselves permission to heavily invest in the capability needed for the next phase
- take time out of the day to day on a regular basis and understand the signals from the environment and respond to them.

This is much easier said than done but how we prioritise is up to us.

This report is essentially a point of view from the perspectives of the authors and contributors. The authors perspectives have been drawn from both personal and professional experiences working with Māori organisations and businesses along with experiences and observations outside of the Māori sphere. It's also underpinned by the layers of kōrero and interaction in informal situations that have been accumulated over many years with individuals who are deeply involved in Māori organisations.

For the first time we have invited our colleagues to contribute on matters we see as being relevant either now or in the not too distant future. This was about bringing a completely different view and perspective to the table in a bid to raise awareness on matters that could add value for organisations and we are grateful for their contributions.

Māui Rau 2018 is intended to prompt thought, reflection and discussion, particularly for governors and executive leaders in our organisations. We certainly don't expect everyone to agree with the view presented – this is natural, simply because our own views are shaped by the experiences we have each had which will likely differ in some way from the diverse realities and experiences among the readership.

You may agree or disagree with the report (or parts of it) but the true value from this account will come from the way in which the points it raises are used to fuel discussion and debate, to broaden perspectives and consider matters that may not have previously been part of the discourse.

We hope you enjoyed the read. Once again, it is our pleasure to have bought you *Māui Rau*.

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