Grant Thornton
An instinct for growth™

Business Adviser

Q4 2017 Issue 70

Commentary, opinion and intelligence for the New Zealand business community

NZ relationship property report highlights industry and social issues

Grant Thornton New Zealand launches Asia Services Group

PLUS

NZ business outlook positive amid weakened global profitability expectations

Accentuate the positive with India

Four steps to address your corporate culture

NZ relationship property report highlights industry and social issues

More efficient resolution of relationship property cases, greater certainty over the status of trusts, and stronger penalties for failing to disclose information are potential areas for relationship property law and practice reform, according to a survey of New Zealand family lawyers.

The New Zealand Relationship Property Survey 2017 produced by Grant Thornton New Zealand and the New Zealand Law Society (Family Law Section) is based on the views of nearly 400 family law practitioners. It is one of the most comprehensive studies of its kind.

The survey coincided with the launch of the Law Commission's review of relationship property law, and provides many interesting insights into current legal and practice issues of concern to family lawyers.

Practitioners' responses clearly indicated a strong focus on resolution, reporting a use of negotiation in 95% of disputes, but the desire for more efficient resolution of relationship property matters when negotiation alone is not enough was evident. They ranked speedier resolution in the Family Court, together with specialist relationship property judges and relationship property tracks, as the most important areas for reform.

Another notable finding was that around 60% of responding practitioners seek greater certainty around the interface between relationship property law and trust law. This finding is timely given the review of relationship property law together with current trust law reforms under consideration.

Two-thirds of survey participants also identified non-disclosure of information as the most problematic area in relationship property cases.

When asked what the most beneficial areas for relationship property reform would be, 64% called for stronger penalties for those who fail to disclose information about their assets.

The report also offers a range of insights into the practice of

60%

of practitioners seek greater certainty around the interface between property law and trust law

relationship property law.

The findings highlight that relationship property lawyers usually work with assets of considerable value and in that respect may undertake the most significant legal work for many New Zealanders. However, it's also clear many practitioners have significant experience and related expertise in doing so – and this certainly reflects our firm's experiences with those lawyers that engage Grant Thornton for forensic accounting and valuation services.

What's also really interesting is the social trends that appeared in the survey results.

For example, very few practitioners (12%) said consideration of children's interests were seen as important when managing relationship property cases, and most felt that children were rarely (72%) or never (6%) a focus of proceedings; this suggests children's property and other rights may not be adequately addressed in current relationship property practice.

This finding might be seen as surprising given the Property (Relationships) Act explicitly directs the courts to consider the interests of any children in a relationship.

A broad profile of the 'typical divorcee' also emerged. Someone who has been in a relationship between 10 to 20 years, is aged between 40 to 49 years old, has grown apart or fallen out of love, and will share in relationship property valued between $500,000 and $1 million comprise a profile of people typically advised by lawyers. This finding certainly suggests the 'midlife crisis' is alive and well.

Another interesting trend is the apparent rise of the 'silver splitters' – those aged 50 and over who separate, together with an increase in that age group seeking advice on prenuptial agreements. New Zealand's aging population suggests this trend will continue and bring new challenges – including juggling respective input from adult children from these relationships.

The report also highlights the most common reasons for separation in New Zealand. Typically, this was either growing apart or falling out of love (67%) and extra marital affairs (52%).

But what's of much concern is some of the other social issues that cause people to separate and how prevalent these are throughout New Zealand. Domestic abuse (33%) and alcohol/substance abuse (30%) were the next most common reasons for relationship breakdowns, providing further indication of how significant these issues continue to be in our country.

Download your issue of the New Zealand Relationship Property Survey 2017 here: bit.ly/2izF2ex

Jay Shaw
Partner, Financial Advisory Services
Grant Thornton New Zealand
T +64 9 922 1204
E jay.shaw@nz.gt.com

Contents

NZ business outlook positive amid weakened global profitability expectations

New figures from Grant Thornton's quarterly International Business Report (IBR) survey of 2,500 companies in 35 countries reveals that nine of the world's ten largest economies have reduced profitability expectations over the next 12 months.

However, in New Zealand, the proportion of businesses surveyed that expect profits to increase is up 72% in Q3 2017 from 60% in Q2. The country sits second equal with Australia in a league table of countries surveyed, behind Nigeria (84%).

Globally, the proportion of businesses surveyed who expect profits to increase over the coming 12 months has fallen, down from net 47% in Q2 2017 to 42% in Q3. Most notably, of the world's ten largest economies, the outlook on profits has weakened in Germany (-25%), Brazil (-16%), India (-15%) and the US (-10%).

Globally, the reduced profit outlook has arisen from concerns about the growing lack of access to skilled workers. Nearly forty percent of business leaders worldwide say this constraint now weighs on their firms. This is the highest figure ever recorded within the Grant Thornton IBR survey, and this trend is visible across most regions.

The survey revealed that New Zealand, currently sitting at 36%, has similar concerns over access to skilled workers despite a slight decline in Q3.

Historically, our research demonstrates that concerns over access to skilled workers in New Zealand tends to fluctuate, so there is every chance that we could follow the rest of the world into decline; it's important for business owners to learn from what's happening overseas as the situation is becoming quite acute.

Globally we're seeing fierce competition among companies as they compete for skills – both to retain those they already have, and to recruit the additional people they need.

This will put profits under pressure as wage bills rise to try and tackle the skilled worker shortage; but in time, this will limit business owners' abilities to invest in future long term growth, and this in turn may drive up the costs of goods and services which creates inflationary pressure.

While Kiwi businesses are currently in a good position to start planning for the coming months and years, it's critical to acknowledge these pressures and ensure there's a balance so that other investments are not abandoned altogether.

Paul Kane
Partner, Privately Held Business
Grant Thornton New Zealand
T +64 9 922 1276
E paul.kane@nz.gt.com

Accentuate the positive with India

The recent APEC summit in Vietnam delivered the first opportunity to transition international relationships to new Government Ministers as New Zealand looks to continue its drive for export-led economic growth.

It was also the first chance for Prime Minister Jacinda Ardern to meet with the leaders of some of our major trading partners, and those we would like to increase trade with, including Prime Minister Narendra Modi of India. Prime Minister Adern reaffirmed New Zealand's desire to forge a deeper relationship with India.

With a population of 1.2 billion and a growing and dynamic economy, the Indian market represents a significant prize for New Zealand exporters if it can be effectively unlocked.

High optimism and profitability expectations continue amongst New Zealand businesses, according to new figures from Grant Thornton's quarterly International Business Report (IBR) survey of 2,500 companies in 35 countries. The research demonstrates that the proportion of New Zealand businesses surveyed expressing an optimistic outlook remained consistent at a healthy 68% compared to the same time last year. There is also strong revenue growth expectations at 78%, and the profitability expectations are among the highest of all countries surveyed at 72%. Importantly, Kiwi businesses with concerns over economic uncertainty has plummeted to only 22% from 48% a year ago.

According to the IBR, there has been a moderate adjustment in expectations of Indian businesses from a year ago, reflecting a trend in the world's major economies. Indian business optimism has reduced to 78%, down from 93% a year ago. Revenue and profit expectations have also reduced from highs a year ago to 75% (down from 85%) and 54% (down from 79%) respectively. Indian businesses, however, are significantly more pessimistic than New Zealand businesses when it comes to concerns over the economic outlook. A net 62% of Indian business respondents to the IBR reflected concerns, consistent with a year ago (63%).

Despite these downturns, Indian businesses' expectations are still exponentially higher than a lot of their international counterparts; strong business growth and opportunities still remain in the sheer vastness of the Indian economy.

And New Zealand businesses are well positioned to unlock those opportunities.

Rhetoric over the potential for a finalised Free Trade Agreement between India and New Zealand continues, and the extent to which it can unlock significant trade between the respective countries. However, with 10 rounds of negotiations completed since they commenced in 2010, there is no consensus on how close we are to a conclusion, or even if we will ever get there at all, despite hope springing from India and Canada agreeing to an early conclusion to their Agreement having also started discussions in 2010.

New Zealand businesses should not wait for a Free Trade Agreement to be in force to progress on business contacts with India, as highlighted by Grant Thornton's research; New Zealand businesses remain in a strong position, and the Indian economy continues to grow - even a small slice of such a large economy would significantly benefit New Zealand's economy.

The change in New Zealand's Government provides an ideal opportunity to strengthen trade ties, develop new relationships and maximise the opportunity for both countries.

Greg Thompson
Partner and National Director, Tax
Grant Thornton New Zealand
T +64 4 495 3775
E greg.thompson@nz.gt.com

Four steps to address your corporate culture

Grant Thornton's global International Business Report (IBR) survey of 2,500 businesses in 35 economies has revealed that 82% of boards surveyed in New Zealand (71% globally) are establishing internal controls that address culture and employee behaviour, and 48% say that culture is now a standing item on their agenda (50% globally).

One definition of corporate culture is the combination of values, attitudes and behaviours that a company exhibits in its operations, and the relationships with those affected by its conduct, eg, employees, customers, suppliers and wider society. Others will put it differently.

What's undeniable though is that around the world, the issue of corporate culture is gaining increasing regulatory attention as a foundation of good governance. In New Zealand for example, the Financial Markets Authority said in its 2016 review of corporate governance disclosure said that, 'although corporate governance disclosures are not a direct result of the quality of culture or conduct within an organisation, they can indicate the emphasis placed on governance by a board'.

The message this sends to boards is clear. There is a growing responsibility on their shoulders to meet increased regulatory expectations. That includes holding executive teams to account, to make sure they are taking the issue of culture seriously and fostering it throughout the company in the right way. Holding management to account is one of a board's fundamental purposes and culture is emerging as an issue regulators expect to be part of.

At Grant Thornton, we recommend the following four steps to assessing your corporate culture:

1 Understand culture

Conduct a culture audit/ assessment

Obtain a clear picture, and therefore a better understanding, of the positioning of your organisation's culture. Examine the formal drivers of culture – leadership; strategy; corporate responsibility; people management; resource management; process – and evaluate your findings against the perceptions of your employees and other stakeholders (eg, customers, suppliers). Where are there gaps, or misalignment? Then look at your strategy and ask: is your culture enabling your strategy? Or is culture holding your strategy back?

2 Set culture

Set a code of conduct

This is a fundamental bedrock to establishing a strong corporate culture. If the behaviour expected from all employees is clearly defined and accessible for all, it provides parameters for what corporate culture can and cannot encompass.

Create open channels of communication for culture to flow

This could involve periodic training sessions, and opportunities to discuss the code of conduct once it is set. Or it could simply involve setting the tone from the top; you might be familiar

with **this gem sent by Elon Musk to his entire team at Telsa.**

3 Test culture

Test culture with real life examples

Culture is as much a spirit and a sense of how things should be done, as a set of policies and procedures. By applying culture to solving an existing business problem, this can test the culture in real life rather than exploring it in theory – and make sure that the culture is working for the challenges your business faces, rather than against it.

Factor culture into ongoing risk governance

Board members have responsibilities when it comes to risk, and assessing behaviours and processes through a risk lens has an important impact on maintaining a strong corporate culture. If a board uncovers behaviour that could derail culture, it should be captured as part of risk assessment activity.

Ensure cultural alignment with key stakeholders

Respondents to our IBR survey told us that boards worldwide are thinking about the culture of their customers and their suppliers when they do business with them. It illustrates a recognition that those external stakeholders you deal with can affect your brand and reputation if you are associated with a stakeholder who ends up making headlines for the wrong reasons.

4 Refine and improve culture

Develop strong relationships with senior management

One role of a board is to understand how the leaders it oversees articulate the culture of the organisation in their own words. Consider how to spend more one-on-one time with senior management, getting to know them and asking behavioural based questions to see how culture plays in the things they do every day.

Explore ways to boost the diversity of your board

Some respondents believe that bringing younger employees into board discussions could help boards embrace digital change. It may also help culture embed right throughout an organisation. In the UK last year, Prime Minister Theresa May chose not to make worker representatives on boards mandatory, but did say "some companies may find [this model] works best for them".

Set targets - make culture an actionable corporate objective

Encourage leadership teams to include changing or developing culture as a strategic objective. Doing this gives leaders extra accountability for ensuring culture is embedded properly.

Focus on the future as well as the present

Alongside overseeing day-to-day activities, part of a board's responsibility is to make sure the business they govern is either equipped to meet future challenges, or is taking steps to react and become equipped. In order to establish this sustainability, look at the role culture will play in the years ahead.

Mark Hucklesby
Partner and National Technical Director, Audit
Grant Thornton New Zealand
T +64 9 922 1381
E mark.hucklesby@nz.gt.com

Grant Thornton New Zealand launches Asia Services Group

If you're a Chinese company aiming to invest or establish operations in New Zealand, or you're a Kiwi business wanting to do business in Asia, our recently launched Asia Services Group (ASG) is here to help.

Trade links and foreign direct investment between China, in particular, and New Zealand have grown significantly over the last decade and this is opening up a world of opportunity for businesses in both countries.

Our research shows that only 1% of New Zealand's mid-sized businesses have international operations, and China can be a challenging market. Common issues include local competition, complex local rules and regulations, cash extraction, government intervention, and cultural and language barriers; and while New Zealand is ranked #1 in terms of the easiest countries in the world in which to do business, new market entrants still need on the ground support and the right advice to flourish.

Doing business in New Zealand is notably different to doing business in Asia. The key focus of Grant Thornton's ASG is to assist Asian businesses to grow in the New Zealand market. The team also helps Kiwi businesses to cultivate and strengthen their ties within Asian markets and we are really excited to be working with businesses that want to deploy inbound or outbound investment strategies.

Our Asia Services Group works with all of Grant Thornton's specialist services lines and provides invaluable assistance in helping businesses to build relationships and networks through bilingual staff who are culturally connected and fluent in a number of Asian languages.

Nick Li
Head of Asia Services Group
Grant Thornton New Zealand
T +64 9 922 1375
E nick.li@nz.gt.com

If you require further information on any of these topics or would like details on other accounting matters, contact your local Grant Thornton office:

Auckland
L4, Grant Thornton House
152 Fanshawe Street
Auckland 1140
T +64 (0)9 308 2570
F +64 (0)9 309 4892
E info.auckland@nz.gt.com

Wellington
L15, Grant Thornton House
215 Lambton Quay
Wellington 6143
T +64 (0)4 474 8500
F +64 (0)4 474 8509
E info.wellington@nz.gt.com

Christchurch
L3, 2 Hazeldean Road
Addington
Christchurch 8024
T +64 (0)3 379 9580
F +64 (0)3 366 3720
E info.christchurch@nz.gt.com

www.grantthornton.co.nz

Prefer to go electronic?
If you would prefer to receive your copy of Business Adviser electronically, please contact your local office.

If you would like to be deleted from our mailing list, please contact your local office.