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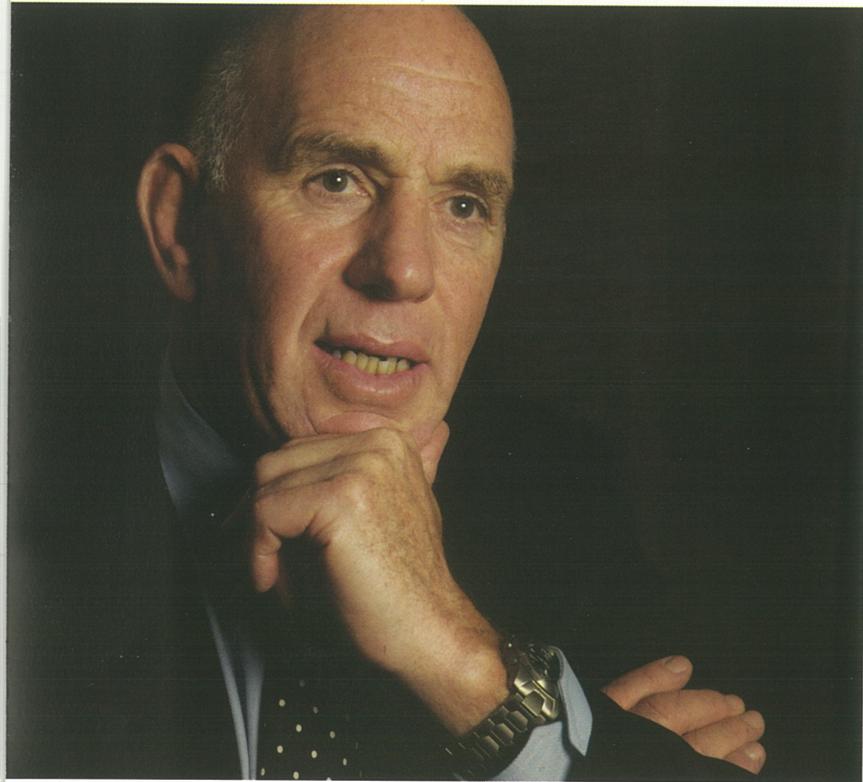


Kerry McDonald has come a long way from the early days when he couldn't get into his accounting studies and was to be found, more often than not, on the rugby field or surfing the waves. These days, he sits on the boards of some of New Zealand and Australia's largest companies, has some pretty harsh words to say about current government policy and has progressed to fast bikes and whizzing down ski slopes. ZILLA EFRAT reports.

PHOTOGRAPHY BY CHRIS MCCARTHY

Born in Wellington and later schooled in Christchurch, McDonald was not an academically inclined youngster. In his early years, his most important lessons in life's school were provided by his mother, a former school teacher, and his father, a policeman who had grown up on a farm. "I had a superb upbringing, including a good biff on the backside from time to time, which kept me reasonably close to the rail," he says.

His story, however, may give hope to many an anxious parent. Distracted by sports and a great social life, a youthful McDonald barely passed School Certificate by just six marks.



"It's often difficult being a company director. You have to work as a team and you generally don't get to choose the team."

"I wasn't that interested in education," he says. "I had no clear idea of what I wanted to be when I grew up and no sense of that being a serious issue. New Zealand had full employment and it wasn't hard to find work."

Instead, his energies were focused on winning championships in surf life saving and achieving on the rugby field – he went on to play in the front row for Wellington for six seasons and even played against the 1967 All Blacks in London as part of the Scotland B Team.

"It was only in the final year of my undergraduate degree that the switch went on and I really started enjoying learning," he says.

Indeed, he finally found his academic niche only after he changed from studying accounting to economics and he went on to complete a Masters Degree from Canterbury University.

"Economics is a very useful and powerful tool, not only for tackling business situations but also for analysing a lot of other things in life. There are a lot of tools and techniques that help in understanding and decision making and risk analysis," he says.

After a slow start academically, his first full-time job was as a junior research officer at the New Zealand Institute of Economic Research. He worked his way up to become the director of the institute where, he says, major achievements included "building a good team and both good research outputs and good financial outcomes".

He also worked across the Tasman, including at the Australian National University under Sir John Crawford, a key player in reorienting Australian economic policy and a pioneer in getting Australia to engage with the Asia-Pacific region, on the Australia-Japan economic relations research project.

Later, when McDonald joined Comalco in Melbourne in 1981, he encountered another respected industry figure who would have a strong impact on his career – Sir Roderick Carnegie, the former head of CRA (Rio Tinto), which was one of Australia's biggest miners at the time.

"Sir Roderick had become focussed on exploring the science of management, rather than relying on the endless anecdotal views that the literature was full of. He saw the need for developing a more effective and successful approach to organisations, to improve their ability to operate successfully and compete internationally. Essentially he was focussed on how to develop high performance organisations and his approach led to a number of very successful developments in Australia and elsewhere. I really learnt a lot from him and the work that he initiated and I am still using and learning from a lot of the stuff that came out of that period. It is very powerful and effective, but not widely used or understood."

"These techniques can be applied to any organisation, from a university or day care centre to a bank, factory or mine," he explains. "It's basically about how you organise people, train them, lead them, develop their leadership skills and ability and empower them. You also have to have the systems and processes that allow this delegation to work effectively. Firstly, it's good for the company. Secondly, it's good for the people involved because they get trained and develop their skills and abilities. They also become more productive, better paid and get more satisfaction from their work... Hence my frustration with New Zealand's poor productivity levels and the apparent inability of the state sector generally to lift its performance."

McDonald describes his time as a senior executive at Comalco as "very challenging and rewarding".

"I often worked with great people on interesting issues and on large and complex projects in places like Australia, New Zealand, North America, Venezuela and Asia... I was also involved in major negotiations and often went to Japan many times a year to negotiate project agreements."

"I had to understand the culture and I learnt how to work in that environment," he says. "It was very satisfying, if time consuming."

Today, McDonald sits on the boards of some top organisations, including the Bank of New Zealand, one of Australia's biggest banks and an ASX listed gold miner. He finds these roles no less challenging.

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FAST LANE

Just get him started and Kerry McDonald has a list of serious concerns to voice about New Zealand's weak economic performance and relatively low living standards.

"New Zealand is a country that has everything going for it, in many respects, but it has lacked the leadership and policies to take advantage of this, to realise its potential and prosper – and the whole community suffers as a consequence," he says.

McDonald is particularly concerned that there is no sign of this changing and of New Zealand meeting the challenge of keeping up with Australia and other OECD economies.

The professional director and stalwart of the New Zealand business scene (see Bio on p10), who spent the first 17 years of his career involved in economic research, is worried about how the lack of a sound strategic focus, and rising government intervention and regulation, are affecting the country's productivity levels and its international competitiveness in the export markets.

"Poor policies mean low incomes and living standards and unduly constrained national capability," he says.

"The domestic consumer sector is buoyant, but the business and export sectors are struggling.

"And it's not just because of the strong currency. There's much more intense competition in the international product market these days, particularly for manufactured goods and elaborately transformed manufactures, from throughout Asia. But there's little sense of the Government dealing effectively with the issues.

"The Government talks about growing exports, but there are no significant policy changes that would make a real difference, only a range of smaller interventions, often targeted at individual firms. We need a much more determined and comprehensive approach to exports."

McDonald is also concerned about how the combination of growing regulatory intervention and rising costs, including the costs of social policy, will impact on businesses.

"I support social programs in principle, like increased holiday pay and maternity leave. These make the lives of the people better, but to be able to support these, the country must be able to afford them. The economy has to be sound and growing and productivity has to improve sharply to allow that."

McDonald is particularly worried about New Zealand's inability to boost its productivity levels. "The increase in productivity between 2000 and 2005 is less than half the productivity improvements in the past decade. And, our overall productivity levels are consistently well below Australia's," he notes.

"There's no reduction in tax rates, including company tax, yet the Government is running a substantial surplus. It is focused more on political and social issues and less on important economic issues. Reflecting its poor productivity

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the average New Zealander has a relatively low income and is too dependant on government subsidies and handouts. The Working for Families is a poor alternative to a more efficient tax system... That's where the difficulties in the economy impact – on the average person, and on New Zealand's capacity for social policies, conservation, overseas aid, and so on."

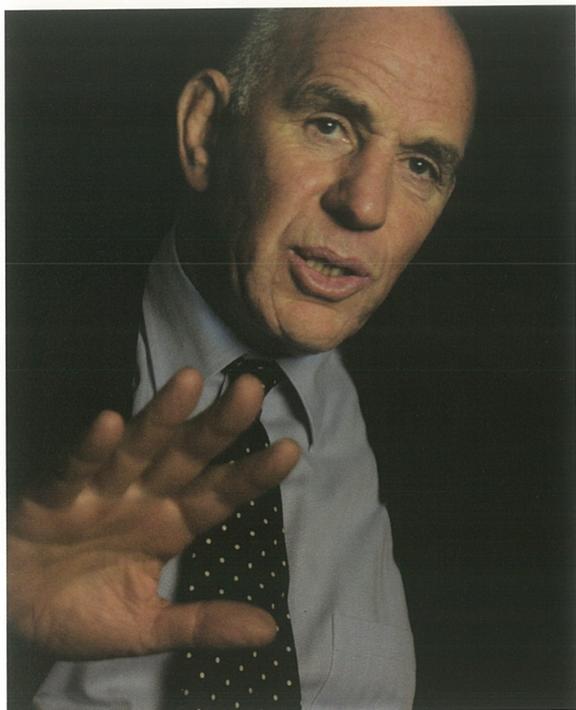
McDonald is also apprehensive about what the Government is doing about climate change policy. "It's a serious issue, one the country has to focus on," he says. "New Zealand's first attempt after signing the Kyoto Protocol was a mess. The Government got its calculations wrong and it is in now in the process of exploring further policy options. There's a risk, for example, that for political reasons, the Government will not act decisively on private motoring and will instead target business and private industry.

"New Zealand is dependant on resource-based exports but these tend to be energy intensive. Even the tourist industry is energy intensive. Tourists consume a lot of energy by using busses and planes.

"It will be a major challenge for New Zealand to get a set of policies that encourage economic growth but also address social and environmental concerns, and results thus far are not encouraging."

McDonald also believes that New Zealand's policy framework doesn't encourage innovation so that different sectors in the economy can operate to their full potential, including the State Sector.

"There are many innovative and entrepreneurial people in New Zealand across all sectors of the economy," he says. "Many New Zealanders are also, by nature, highly competitive. They hate losing in sport and they don't like losing in business. That's why New Zealanders often end up with great employment opportunities in other countries. But there is less evidence of these traits in New Zealand's modest economic performance. I know this all sounds rather critical but New Zealand has a great potential and we really do need to get our act together."



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to choose the team. Typically, the other directors are very capable. The prime objective is to add value to the business but you don't always think the same way. It's sometimes difficult to get everyone on the same page.

"Also, as a non-executive director you are only in a business part-time. It's good if you are getting good information and there is a good relationship between management and the board but if this relationship isn't good life can be difficult."

Perhaps one of the most challenging times for McDonald as a director was early last year when he got caught in the \$3.3 billion takeover battle for forestry giant Carter Holt Harvey (CHH).

During the four-month saga, McDonald led the independent directors assessing the merits of billionaire Graeme Hart's takeover bid.

Hart had asked McDonald and fellow independent director Helen Nugent to resign soon after he gained a 51 per cent

stake in CHH. But both refused and stayed until the takeover was completed in the interests of minority shareholders.

McDonald believes what happened in this battle highlights a major weakness in the Takeovers Code which allows a bidder to take control of a company before a takeover offer has been completed and while the offer is still open.

"This is something that should be looked at," he says, but adds that Hart did behave impeccably. "He could have called a meeting and dismissed all the independent directors if he wanted to."

These days, McDonald divides his month roughly in two. Half the month is spent on his directorships, meetings and public roles and the other half to his hobbies, speaking and various ad hoc activities. Based in Wellington, he spends considerable time at his house at Ohakune below Turoa ski field.

"I am really enjoying the often more flexible working hours of being a director. It means that my wife, Luvaine, and I can do more together although she has her own interests in sport and sports management," he says.

"I do a lot of skiing now, in New Zealand and Canada, and I also enjoy swimming, shooting and mountain biking, and climbing on Ruapehu."

And, he is particularly fond of motor bikes. "Not Harley Davidsons, but Kawasaki sports bikes. Kawasakis are for performance. Harley's are more image and chrome." He is on his second ZX10R, after three ZX9Rs.

Quiet time is spent reading, often on contemporary and recent history. Of late, he's been particularly interested in the US, its involvement in Vietnam, Iraq and Afghanistan and the strengths and weaknesses of its capability and performance. He finds it shocking that many of the political and senior command decisions being made now are as bad as those that led to the Vietnam debacle and that the learnings from Vietnam have not been absorbed by key institutions.

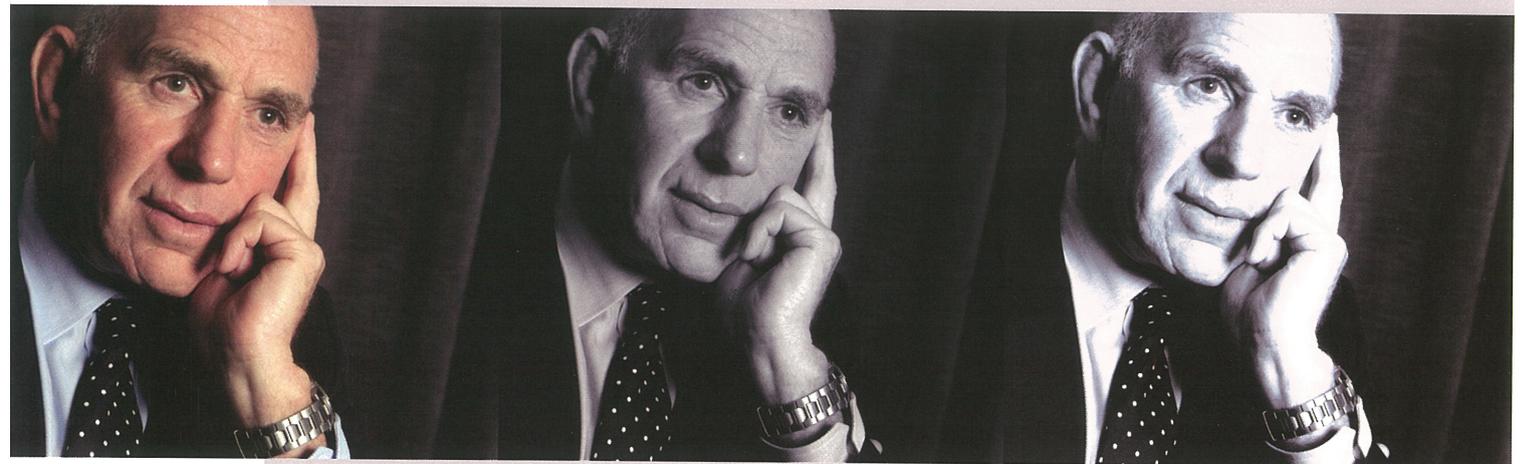
"Often the successes achieved depend on the performance and initiative of individuals, at all levels, in the face of the clear failure of key organisations and their leadership. As one US General recently commented, we fought the wrong war in Vietnam, conventional not counterinsurgency and with incompetent leadership. Now we are doing exactly the same thing in Iraq," he says.

Asked what he expects to be doing in five years' time, McDonald says: "Very much more of the same. I enjoy business, and decision making and time with Luvaine and the family. Recreation is also stimulating and I'll pursue this very satisfying work-life balance as long as I am able. I enjoy the challenge of decision making and there's nothing like a fast corner on the motorcycle, a good ski run or a big wave to make you feel like a boundary testing youth again." ▀



KERRY McDONALD

CURRICULUM VITAE



Kerry McDonald is chairman of the Bank of New Zealand, Vice Chairman of Oceana Gold Limited and a director of National Australia Bank, Ports of Auckland Limited, Gough Gough and Hamer Limited and Opus International Consultants Limited.

He is also chairman of the Wellington Branch and a National Councillor of the Institute of Directors, deputy chairman of the NZ Institute of Economic Research, a member of the New Zealand Antarctic Institute Governing Board, a Trustee and Board Member of New Zealand Business Parliament Trust, and a Life Member of the Australia New Zealand Business Council.

He has chaired both the New Zealand - Japan and Australia - New Zealand business councils. He was also New Zealand Chairman, until 2006, of the Australia New Zealand Leadership Forum. And, he has been a director of a number of other companies, including Carter Holt Harvey and Owens Group.

In addition, McDonald has been involved in a range of trade and public policy related activities and organisations in Australia and New Zealand, including chairing the State Sector Standards Board and the Department of Conservation Oversight Committee after Cave Creek, the Apec Business Advisory Council and Australia Japan

trade issues. He has been closely involved with the Kakapo Recovery Project and has a particular interest in developing high performance organisations.

Employment history

- * 1961-1962 BP Oil
- * 1965 -1967 NZ Institute of Economic Research
- * 1967-1968 Senior commodity economist, Commonwealth Secretariat, London, and editor of the World Grain Trade Yearbook
- * 1969 -1975 Research officer, senior research officer, contracts manager, NZIER
- * 1976 -1981 Director, NZIER
- * 1981 - 1986 Group economist, Comalco, Melbourne
- * 1986 -1988 General manager (business analysis and power), Comalco Smelting, Melbourne
- * 1988 - 2000 Managing director, Comalco New Zealand, Wellington; member of Comalco Group Executive Committee. From 1997 also MD, Energy Environment and External Affairs
- * 2000 - June 2003 Executive director/deputy chairman, Comalco New Zealand

Education

- * BCom Economics - Canterbury University, 1964
- * Mcom (Hons) Economics - Canterbury University, 1967