

# **Firm Foundations for Growth?**

## **Management and business capability issues in NZ**

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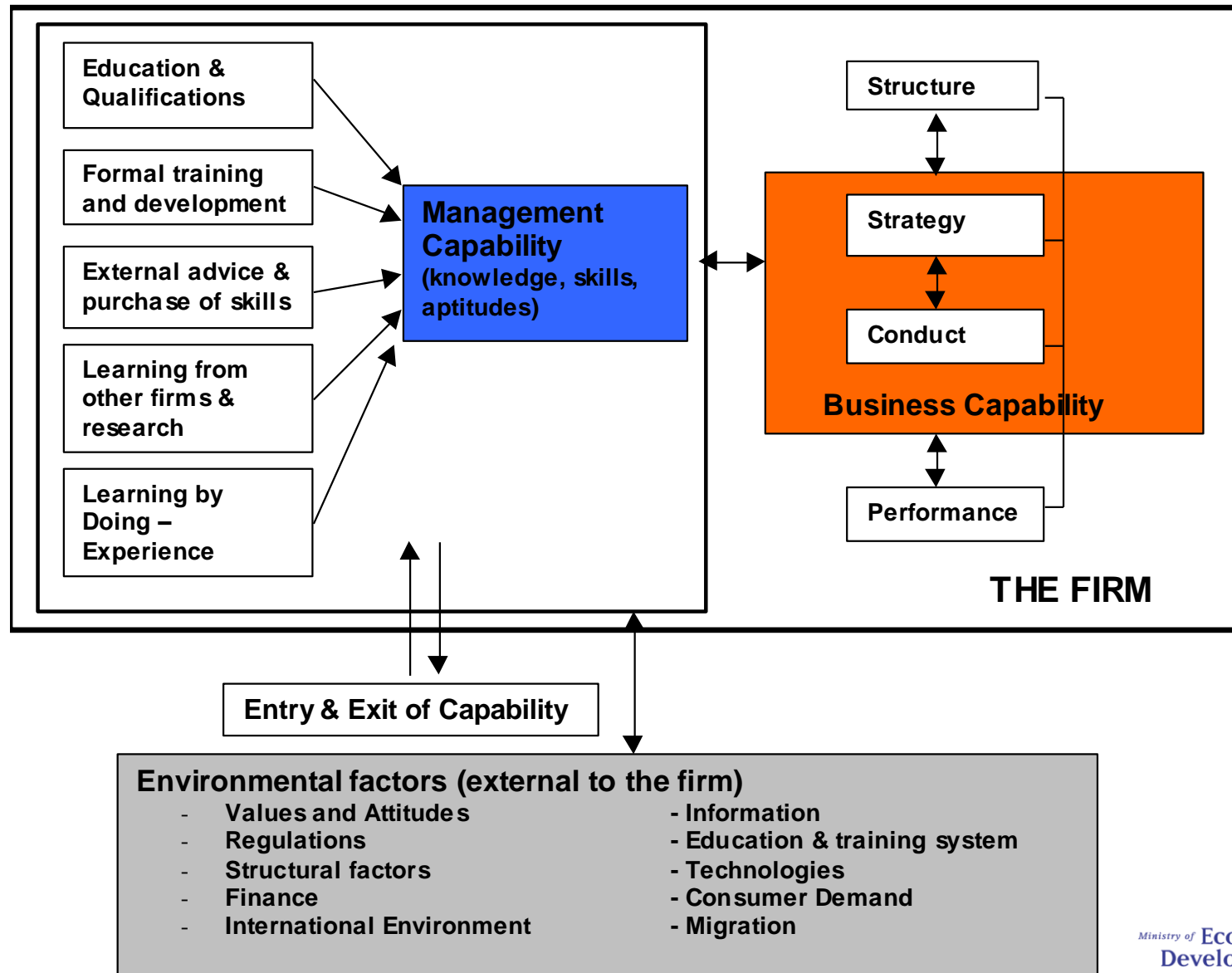
# Overview

- Management versus Business Capability
- A Framework
- NZ Evidence on Management Capability
- NZ Evidence on Business Capability - Firm Foundations
- What do Leading Firms do differently?
- Government initiatives
- Key Issues
- Future Direction

# Management and Business Capability

- *Management capability* - focused on individual attributes - comprises formal management skills & tacit knowledge and attributes e.g. communication skills, leadership ability, creativity
- *Business capability* - focused on the firm - practices and processes e.g. strategic planning, benchmarking, performance review practices etc.
- Having good management skills is a necessary but not sufficient condition for good business capability
- **Still debate about whether managerial capabilities can be observed outside the organisational context**

# A Framework



# Management capability in NZ

- Lack of evidence at the national level in recent years:
  - Leadership Surveys - Lincoln University/Victoria University; Management Competencies Survey 1994 although probably still relevant;
  - NZIM Mgmt Capability Index/HRM Index
- Evidence suggests:
  - communication and networking (people) skills need work
  - lack of strategic thinking skills
  - some technical skills issues e.g. marketing, finance etc

# Business capability in NZ

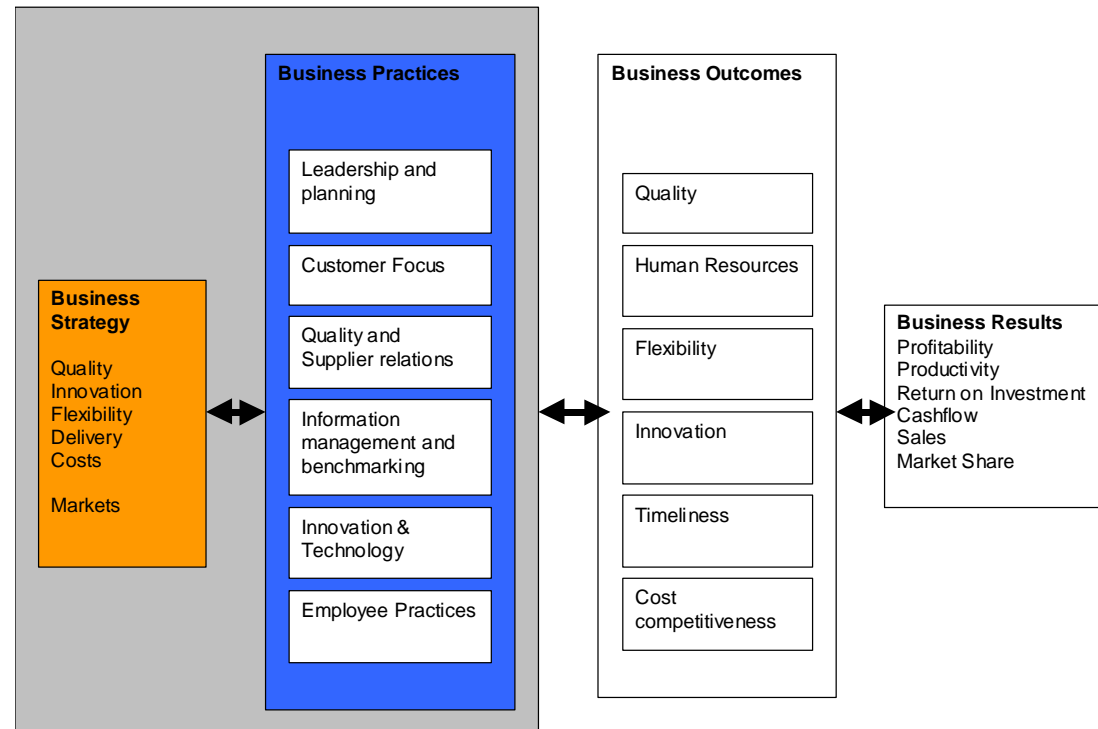
- Considerable research
  - CANZ World Famous in NZ; Otago University Marketing studies; NZIER's Islands and A Season of Excellence; Infometrics Exporters Studies
  - Business Practice suite of studies: Leading the Way; Gearing Up; Firm Foundations
- Firm Foundations
  - Examine business practices, outcomes and results of national population of firms (>5 staff)
  - Attributes of higher and lower performing firms
  - Questionnaire: 3,378 firms – 82% response rate; 48 firm visits

# Firm Foundations

## • Business Practices and Performance Survey Model

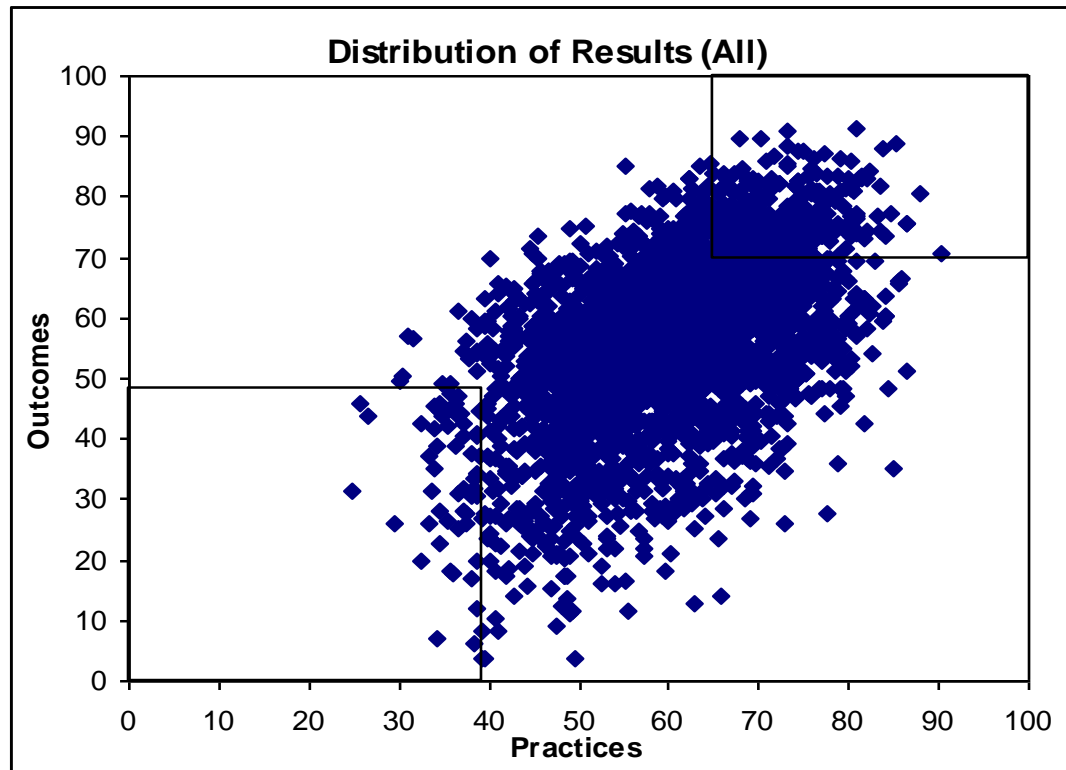
- based on business excellence frameworks e.g. NZBEF, MBNQA, Made in Europe
- six core business practice areas; six key areas of outcomes

BUSINESS PRACTICES AND PERFORMANCE MODEL



# Business Practices Scorecard

- Good Practices positively related to good business outcomes





# Key Results for NZ

## *Strengths*

- information management
- building customer relationships
- some areas of employee practices
- some aspects of quality

## *Weaknesses*

- long-term planning
- benchmarking activities
- building supplier relationships
- environmental focus

# What do Leading Firms do?

- **Greater commitment to the ‘softer’ dimensions** e.g. relationships with stakeholders when planning and innovating, promote company values, assessing staff performance and satisfaction
- **Work much more closely with customers** e.g. developing new products and services, dealing with customer complaints, assessing customer satisfaction
- **Undertake more R&D and innovation** supporting activity e.g. training, marketing, up-to-date technology
- **Broader strategies and performance measures** - particularly look to compete on innovation and flexibility
- Far more proactive in **creating and developing linkages** with other firms

# Environmental Factors

- **Values and attitudes/motivation** – NZ firms undervalue management upskilling? Lack of growth intentions may mean little motivation to upskill
- **Education and training** – how effective and relevant is training to the needs of business (quality, timeliness, flexibility etc)
- **Availability of external advice/information** – plethora of information and advice out there; difficult to determine and distinguish quality
- **Finance** - Costs of training/upskilling relatively low. Might be an issue in some regions, and at start up end

# Environmental Factors (cont)

- **Internationalisation/FDI**– evidence suggests that FDI and global linkages have +ve impact on management of domestic firms
- **Regulation** e.g. standards, employment related regs. Standards not well used or thought about in NZ? ERA places greater pressure on HR practices. Some concerns with OSH. Compliance costs can detract from mgmt upskilling.
- **Evolution of capability** - huge changes in general business capability over last 15 years in response to competition and deregulation

# Government initiatives

- **Enterprise Development Grants**

- provides funding of up to 50% of costs (up to \$3000) to undertake advanced mgmt training or employ a business mentor. Businesses must have <\$5m turnover or <20 staff

- **Enterprise Training (formerly BIZ)**

- provides free training workshops, coaching, diagnostic from 18 providers around NZ

- **Growth Services Fund**

- Grants up to a maximum of 50% of qualifying costs (to a maximum of \$100,000) for growth projects (businesses must have clear and significant growth potential)

# Some Key Issues

- Size and transition points in firm lifecycle
- Connections
- Appropriate mechanisms for learning

# Size and Stages of Growth

- Small firms need good mgmt capability, not necessarily structured business capability.
- More informal management and leadership is effective for emergent businesses
- As firms grow, need more formal business capability
- Failure to adapt to transition points caused by growth is a key cause of failure

# Connections

- Little emphasis placed on working relationships with suppliers or other firms
- Only a third of firms develop their products, processes and services with others
- less than half of firms compare themselves against other businesses and when they do comparisons are usually restricted to financial and cost measures
- More informal and ad hoc relationships than structured linkages; mainly domestic



# Mechanisms for Learning

- Demand side
  - not great enthusiasm for business managers to pursue formal courses leading to qualifications (time and resource constraints)
  - different firms at different stages rely on different mixes of management and business upskilling
  - For most businesses there is a strong reliance on personal and informal mechanisms, including observation, mentoring and practical experience

# Mechanisms for Learning (cont)

- **Supply side**
  - a steady increase in formal management qualifications and business training over the last 15 years.
  - Increase in availability of mentors and advisors; books etc
  - Supply is mixed in quality, often inflexible and may lack practical application
  - Confusing plethora of options
- In sum, no shortage of opportunities, though businesses find it hard to identify provision that meets their needs

# Possible Future Directions

- **More and better research needed**
  - on supply - formal and informal - and quality
  - on demand - how sourced; time spent; how used
- **Promoting awareness** - explain benefits of upskilling using real examples; availability of diagnostic tools; better sign-posting of available options
- **Support informal and formal techniques**
  - at all levels - primary, secondary, tertiary
  - learning by doing
  - networks and firms learning from each other