



Submission to the 2025 Taskforce

IMPROVING PRODUCTIVITY AND CLOSING THE GAP WITH AUSTRALIA BY 2025

Introduction

The Independent Business Foundation represents the interests of the New Zealand Small to Medium Enterprise sector and provides a forum for informed debate and interaction at its annual Small Business Summit. Our Board of Trustees is made up of recognised business, professional and academic persons familiar with the nature and aspirations of SMEs and the factors influencing their operational environment. We welcome the opportunity to submit our views, which are based on available research based data and our own observations. In doing so, we confine ourselves to the specific questions stated in the Task Force's invitation.

What is holding New Zealand back?

By comparison with other OECD countries, our business spread covers a largely small enterprise identifiable constituency made up of two-thirds by home-based and non-employing entities. The next numerically strong grouping consists of companies employing less than 6 and is comprised mostly of growth disinclined owners motivated largely by personal objectives. For want of a fitting term, we refer to them as Life Stylers. Of greater significance, but represented by only 5,000 units, are enterprises with staff numbering between 10 and 20 which can be considered to be innovative and growth orientated. The NZ Stock Exchange listed corporate sector amounts to 150 companies against 2,000 listings in Australia. This presents a challenge in respect of depriving us of an essential source of grooming in management skills, which also accounts for the continuous loss of emerging talent in search of management development opportunities that are not available in small firms.

Lacking a strong corporate presence and support structure and dependence, with few exceptions on the domestic market, the relatively small employing section has little incentives, beyond its owners' personal objectives to embrace productivity for its own sake. Overall, New Zealand is lacking in a sufficient number of good examples to encourage increases in output and exports to create a slipstream to entice others to follow suit. Innovative growth companies invariably become the target of foreign acquisition or at their own volition relocate to destinations closer to their markets or outsource their manufacturing to countries providing cost and competency advantages. These benefits invariable are the result of productivity gains that are difficult to achieve at home.

Specific Barriers to Productivity

By and large small companies are owned and managed by individuals and families with trade skilled members or second career operators, with a substantial percentage in the 40 plus age bracket. The majority are in real terms management incapable and resistant to external influences. A disinclination to avail themselves of available facilitation and professional advice is a major contributor to stymied productivity. In global terms under funded and poorly resourced they are at a distinct competitive disadvantage in respect of regularly achieving cost efficient qualitative outputs.

Lacking formal business skills training and unfamiliar with the effective application of technology they fail to take advantage of Organisation and Methods principles in running their operations. Lack of quality systemisation contributes significantly to internal inefficiencies that result in poor quality, wastage and lack of control that defeat many attempts to raise productivity.

The most noticeable causes are poor HR practices. Recent industry surveys have revealed that two-thirds of the New Zealand work force are effectively disengaged, with only 12% stating a commitment to the employing company. This is of real worry as it is reflected in attitudinal behaviour that is counter-productive and unlikely to be resolved without external stimuli. Living by the example of their superiors, whose behaviour in terms of self-serving use of time, facilities and resources, staff can be excused for living by standards of performance that reflect their level of training and remuneration. Examples are taking all available special leave regardless of circumstance, using business property for own advantage and participating in social networks while at work. Societal behaviour of instant gratification may account for the unscheduled application of funds on non-productive, non-essential status symbols. In the absence of essential in-service and augmented off-site training of principals and staff with recourse to expert advice and facilitation such companies are unable to stay abreast of and take advantage of productivity enhancing new developments in their respective industries to their own detriment and the country on the whole. Further examples of underachievement and their causes can be found in the just released text by David Irving entitled "Changing Gears" with extracts quoted in the attached NZ Herald Business article by Gill South.

What should the Government do about it?

We are very conscious of an attitude prevailing particularly in the small business community that welcomes Government assistance, particularly with financial incentives, provided it comes without any strings attached that could be construed as a form of statutory supervision. The very nature of public funding demands accountability that serves as a disincentive to participate in programmes that entail some form of official scrutiny and is reflected in the low level uptake of past and present schemes designed to lift business performance and with it results in increased productivity. In our opinion it requires a paradigm shift to change the prevailing culture of business under achievement. Based on our observations in Australia, we would like to make the following recommendations:

1. Achieving management capability

The value of tertiary education in preparation for a successful business career cannot be over estimated. We have no shortage of providers and courses to meet our immediate needs. Where we are wanting is in respect of cadetships in large organisations that have formal structures in place

to further develop academic knowledge into practical application. SMEs lack this ability and are ineffective in grooming young graduates to stardom, whereas we lack the required number of places in a small domestic corporate pool to make much headway in this regard. Sending interns overseas for induction will result in their long-term or permanent loss to the local economy.

Our solution, based on successful Australian examples is to provide business incubators attached to every tertiary institute providing management education with links to selected companies with the ability to accommodate interns with elements of financial assistance in preparation for further career development on the open market. This can be achieved with extensions to the student loan schemes or direct training subsidies to the participating company.

2. Vocational skills training

Again, following Australian example, we see room in our industry specific apprenticeship training for business skills to equip the trade capable candidate with management and/or business ownership aspirations. We base this on the makeup of our productive industry, trade and service providers, who form the nucleus of our employing small businesses.

We are aware that several Industry Training Organisations are already paying attention to business skills training, but would like to recommend that this become standard practice in all vocational education. Productivity is the outcome of an understanding and appreciation of the contributing processes that take advantage of best practice principles in an orderly sequence at minimal cost. To achieve this, business participants need to have an understanding of the key disciplines involved in every production step, including the skill sets involved and the financial implications. Enlarging the technical syllabus to this extent will ensure heightened productivity awareness.

3. Quality Systems

The ISO regime is a tested method of quality management and in a reduced New Zealand developed format, known as QBase, is ideally suited for small business application. In spite of its availability little effort has been made to convert SMEs en masse to quality management as a means of raising productivity. While skeptics maintain that adherence to it will not guarantee product quality as a direct outcome, but only the integrity of the process, it stands to reason that productivity will be enhanced by adherence to documented procedures that ensure a logical sequence and uniformity in manufacture or service delivery.

We believe that productivity gains will result with the wider adoption and application of ISO and QBase with a mandatory requirement for firms applying for public sector incentives and assistance. We can also see merit in an introductory paper on this subject in tertiary business education courses.

4. Business Advice and Mentoring

While there is no shortage of free or low cost advice and assistance in the form of a user friendly Government portal, seminars and short courses provided by Economic Development Agencies and volunteer Mentors, evidence suggests an insufficient recourse by a majority of most affected SMEs. A major issue that was raised at the 2nd Small Business Summit organised this year by the Independent Business Foundation concerned the relative ease of starting a business in New Zealand, which may be one of the reasons for low growth and productivity.

We are aware that several European countries with much better productivity records require business start-up to be preceded by proof of competency to deal with the operational and compliance aspects before a licence to trade is granted. We subscribe to the view that greater attention needs to be paid to management competency in the conduct of a business from the outset to ensure greater certainty of success and financial return to the people employed in it. Raising the bar may serve as deterrent to the less capable, but will encourage productivity as a means to achieve higher output, income and parity with better placed OECD economies.

How much difference could it make?

What we are recommending may sound like small incremental steps. However, in terms of a realistic appraisal of the prevailing business culture, what we are suggesting are relatively low cost measures that require political will to return New Zealand to its former position, not only in relation to Australia, but with a higher OECD ranking. We cannot guarantee achieving full parity with our nearest neighbor in every respect, but believe that in spite of our special SME predominant nature there is no reason why we cannot close the personal income gap. We have no shortage of well qualified people, but lack the environment to provide them with meaningful and productive employment from the outset that challenges their initiative and actively engages them with their chosen employers. In this respect our HR practices in the SME environment require special attention, bearing in mind that employers of choice have a first call on the most promising talent. Unless we get to grips with staff engagement, we will continue to surrender our most needed human resource to better prospects overseas and productivity will suffer as a consequence. This is particularly important where recent graduates are concerned, who are not given the opportunity to apply their applied learning in productive workplaces or in a worst case scenario, deprive them of opportunities in Small to Medium Enterprises, where there is still a noticeable lack of appreciation of the value of academic knowledge looking for an outlet. Conversely, much has to be done to lift the image of this sector in the perception of graduates. Having Government ministers using every opportunity to emphasise the importance of SMEs to the New Zealand economy will help to build a better profile in public perception.

Publication of our Submission on the Taskforce website?

We have no objection to being quoted. Placing submissions on public view will encourage informed debate and invite further comments that will enhance the chances of constructive dialogue to arrive at solutions that are feasible, practical and receive committed endorsement leading up to implementation.

Contact persons for further information

The sub-committee of trustees responsible for this submission, who are available for further information, are

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Gill South: Book offers help for small companies with big ambitions

4:00AM Saturday Oct 17, 2009

New Zealand's tertiary institutions have plenty of courses for executives wanting to climb the career ladder, but there are few equivalents for business owners looking to get bigger.

The closest thing is the Owner Manager Programme run by business growth centre The Icehouse and its partners at the University of Auckland Business School. The course runs for three consecutive days a month, for five months, and feedback is that it improves business owners' earnings by 30 per cent.



A new book – *Changing Gears: How to take your Kiwi business from the kitchen table to the board room* – is trying to help a wider audience of small-to medium-sized enterprise (SME) owner-managers. Co-written by former Heinz Watties Australasia CEO and Icehouse co-founder David Irving, with three Business School academics involved in the Owner Manager Programme, it sets out to address the main areas stopping good small companies from growing.

Describing the typical SME owner-manager, the book doesn't pull any punches: "Your management capability is limited. Even if you are an excellent manager yourself, you struggle to expand this capacity throughout the business. Developing a business plan, operational excellence, human resource practices, marketing strategies and creating a senior leadership team, represent major challenges for you."

The nation's business owners often fall into three "management traps", says Irving. They are working in the business not on the business, reacting to events and firefighting; they don't change gears, but do things the way they always have done; and they don't develop their people and recognise talent.

"They are often not strong managers. They do things on instinct, based on their upbringing," says Irving. "They know what they have got to do – but it's quite a challenge for them to change some habits.

"Delegation is so hard for them," he says. "But without delegation, the firm cannot grow."

What owners must always hold on to are the purpose and values of the business and the key appointments and dismissals, says Irving. If they have a team they can rely on, then they can decide the strategies, organisational matters and remuneration strategies. If they don't, then the owner-manager must make those decisions.

Good leaders will be in touch with their people, particularly those on the front lines.

"The people in the company want to know and see their leader. It is a cost and pleasure of leadership," says Irving.

Adds co-author; Associate Professor Darl Kolb: "One simple example that stands out in my mind is an owner-manager who, instead of going into his shop at 8am Monday morning, goes for a coffee and plans his week, reflectively. Two things result. First, he has a sense of priority when he arrives at work, and secondly, his team have had to initiate the week, solve problems and motivate themselves without him there. When he arrives at 9am, he steps into the flow instead of needing to create the flow."

Irving, who partners with six companies including Hubbard's Foods, Cable Bay Vineyard and AuCom Electronics, says the most important thing he has worked on to help them grow is senior staffing. "With each one of these companies, the thing that we have improved is the development of their top team," he says.

As *Changing Gears* puts it, "the senior team is important in a corporate, but often is the business in an SME."

Small firms should find a good recruitment firm they can trust and give them a long-term brief to keep them supplied with good people, says Irving. "Their small size actually means that each appointment is more important than the bigger employers'," he notes.

Adds Kolb: "Google is the most sought after employer on the planet and it interviews the deepest applicant pool on Earth up to six times per candidate. They obviously take talent searching seriously, and not because of scarcity, but because it is so important. Owner-managers should see talent searching as a key role, not a hassle to hand over to recruitment agencies."

In the book, Irving disputes the notion that New Zealand owner-managers are happy just to bring their businesses to the point where they have the "beemer, bach and boat", then put their feet up.

"Our small domestic size and distance from international markets are the significant physical reasons why we do not grow bigger firms," he says.

It would be wrong to blame any lack of enthusiasm on the part of our owner-managers for companies not achieving greater size, says the former CEO. "Place their peers here from other more populous areas in the world and you can imagine their reaction to a small local market and distance to the population centres of the world."

Another key area of education for owner-managers is to pay attention to their health, something many business owners ignore until it is too late. *Gears* devotes a whole chapter to this topic.

Drawing from the research of Dr Sven Hansen, from the Resilience Institute, it recommends a good diet, a regular exercise regime, strength-building and plenty of sleep.

As *Changing Gears* observes: "Without you there is no business."

The question of succession is something preoccupying many babyboomers, but Irving questions the need to be so fixed on looking for a trade sale.

"I've been a big proponent of longevity," says Irving. So many people in New Zealand have a "must sell" mentality, he says. The Cable Bay partner visited many wine businesses in France recently, all family operations and all "steeped in knowledge".

He works with owner-managers to help them transition from the role of CEO to the role of founder. The move can be very liberating; they then have a licence to "do whatever", he says. The 67-year-old founder of AuCom, of which Irving is chair, comes in and does the wages. His son now runs the company.

BETTER BUSINESS

Changing Gears (Auckland University Press, \$29.99) is co-written by David Irving, Auckland Business School Associate Professor Darl Kolb, and lecturers Deborah Shepherd and Christine Woods.