

# The Role of Skills in Supporting Firm Growth Ambition



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**Ministry of Business,  
Innovation & Employment**



## Ministry of Business, Innovation & Employment

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# Executive summary

This report details the findings of a qualitative assessment of the importance of skills in helping New Zealand firms meet their growth ambitions. This assessment is particularly focused on the role of ambition and skills in supporting firm growth and the extent to which skill shortages are a barrier to growth. Secondly, the research sought to understand the role of management skills and communications in supporting firm growth.

## Ambition and skills

The key finding of this research is that ambition is a key component for firm growth – without it, there is no impetus to grow the customer base or improve the performance of the firm. The willingness and ambition of companies to grow is complicated and often dependent on where they are in relation to their markets or their point in the business lifecycle. We found that companies that are more ambitious tend to funnel this ambition through strategic planning processes to create a plan for success and therefore growth. Companies with lesser ambitions are less likely to take a strategic approach to growth, are more reactive to market demands and see a greater detrimental effect from skill shortages not being addressed in a timely way.

The impact of skill shortages on growth can be significant. Our interviews revealed that companies with strategic plans around growth were more likely to bring in new staff before the business experienced productivity losses as a result of skill shortages. For many businesses, this means accepting short-term inefficiency in order to optimise the returns made possible by growth later on.

## Management and communication

We know that high growth increases business complexity, thereby creating demand for leaders and teams who can efficiently and effectively adapt and react to change. Some firms that have experienced fast growth indicated that they could grow considerably faster but were unwilling because it would require implementing a management layer in the business – something they were not comfortable with. The primary cause of this discomfort is an unwillingness to cede control of elements of the company to outsiders who may have a different agenda or vision for the firm. These companies tended to be those in which the owner placed their personal ambitions ahead of any ambition for the business.

Firms that implemented management structures prior to entering periods of fast growth were among the highest-growth firms in our sample. In most cases, these firms implemented relatively flat structures that allowed the firm the flexibility to respond to change but formalised enough of the business to ensure that customer service, communication and reporting were not affected by rapid growth.

Businesses with a robust skill base are more likely to succeed in meeting the owner's ambitions. The skills that are used in operating the business are enablers of achievement, and these skills must work together in order to meet the demands of growth. To encourage this, firms use a range of communication tools and methods with varying degrees of formality. We find that the larger the skill base of the company, the more formalised communication is necessary. Firms with fast growth rates use communication, whether formal or informal, to ensure several things: that the vision of the company is understood by all; that the expectations of employees are clear and well articulated and that the right resources can be deployed in the right place at the right time.

Good communication is critical to ensuring the firm can successfully navigate periods of high growth without falling into chaos or collapsing under the strain of rapidly growing demand.

The remainder of this report details the findings of our qualitative research process and provides several examples (anonymously) taken from the transcripts of the interviews themselves. In addition to this report, the Ministry has been provided with a full set of interview transcripts (with identifying information removed). The appendix to this report provides detail on the methodology.

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# 1. Understanding ambition and the key drivers of firm growth

We are primarily interested in understanding the role of ambition and skills in supporting firm growth. Firms that are fast growing make up the main sample group of the study, and the smaller group of slow or non-growth firms constitute the control group.

Within the main sample, there are several subgroups: Māori businesses, women-owned businesses, international, and small/medium businesses.

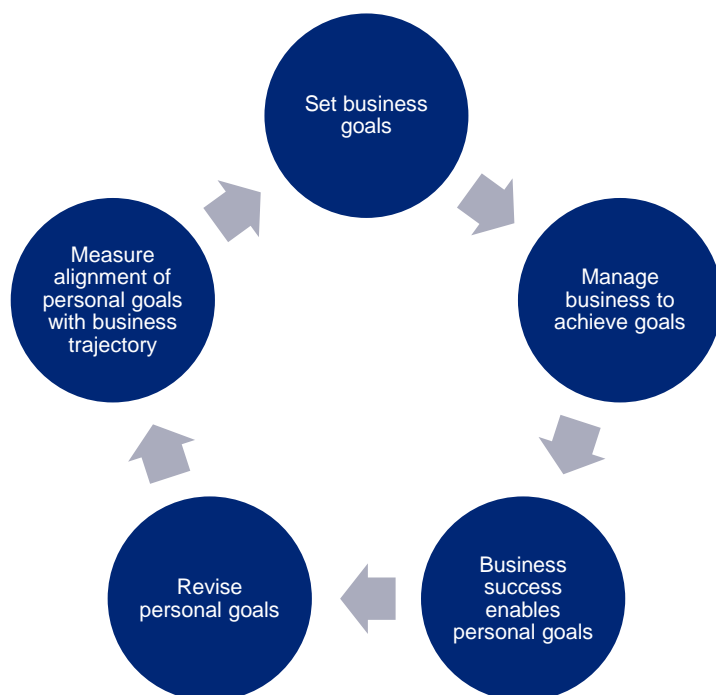
The research methodology (see Appendix 1 for details) consisted primarily of identifying 25 firms (20 fast growing and 5 slow growth) with the growth and subgroup characteristics required for the study. Structured interviews were carried out, recorded and transcribed. These transcriptions form the foundation of the research and findings contained in this report.

To ensure participant confidentiality, all private company and personal information was redacted from the transcriptions. Copies of the anonymous transcripts have been provided to the Ministry of Business, Innovation and Employment.

## Defining ambition

Ambitions are synonymous with objectives. We found that participants' ambitions were divided between specific objectives for their business and personal ambitions (usually independence and quality of life). For many, there is a feedback loop in which achievement of business objectives enables the realisation of personal objectives (Figure 1). For example, early-stage businesses need to grow their customer base in order to become profitable, and a profitable business enables financial independence. Once personal ambitions are achieved, business owners are able to either develop new business objectives to further their personal ambition or let the business continue while they enable their personal goals through other means.

**Figure 1: Business and personal objectives feedback loop**



While business owners did not explicitly indicate that there is a process for setting and revising business and personal goals, it was evident across the interviews that the two are interrelated. Participants in the fast-growth group tended to be more competitive and interested in making the business more successful – hence their higher growth rates. Participants in the slower-growth group were less ambitious for their businesses (which were generally more stable and mature) and were generally more fulfilled in terms of meeting their personal ambitions.

The stand out characteristic of fast-growing businesses was those in which the major personal ambition was also the major business ambition.

The characteristics of ambition at the outset of the firm play an important role in setting the stage for business growth.

The control group were often more focused on personal objectives than business objectives, and in several cases, we found that control group participants did not really set objectives for the business specifically.

However, the same can be said of the fast-growth group. Several participants did not have a specific set of goals for their business, with one participant responding, “We just wanted to see if we’d still be in business a year from now.”

This type of ‘testing the water’ approach was relatively common among the younger and smaller firms that are trying to find a place in the market. Typically, their professional ambition is just to stay in business, and in order to achieve this, they are willing to change the business in response to market feedback.

The result is that a number of fast-growing firms set very broad objectives early on and then look to either validate these as realistic or modify their approach in order to set more realistic objectives.

### **Business and personal objectives**

A number of participants indicated their personal ambition and business ambition were actually the same objective. One example stands out.

A software company with a product for use by scientific researchers had the ambition to “put this tool into the hands of every scientist in the world”. The founder of this firm has been targeting this objective personally since the inception of the business. The result is that they have seen rapid growth internationally and the firm has been able to stay focused and high performing in a very challenging market.

Based on the interviews conducted, it is apparent that the extent to which a business owner’s personal ambitions are aligned to the business ambitions has a significant effect on the long-term growth profile of the firm. Without this alignment, business owners who have met their personal ambitions tend to set lower objectives for their business in the future and seek fulfilment of personal goals in other ways.

### **Personal ambitions**

The types of personal ambitions cited by participants tended to fall into two categories: independence and lifestyle.

Participants who cited independence were often individuals with a specific professional background or skill set who sought to work within their own business. This was commonly expressed as wanting to “own my own business”, and wanting to “realise my own vision, not someone else’s”. Essentially, this response indicates that a segment of business founders

seek the freedom to compete on their own terms and to accumulate the resulting benefits of success themselves.

Participants citing lifestyle were common in both the fast and slow-growth groups. These individuals often wanted their business to furnish them with independent income and the opportunity to step back from the business, not work as hard and enjoy the benefits of their success.

### **Business ambitions**

The ambitions owners had for their business at the outset were generally focused on proving the business's viability and growing it to the point where it is able to support their personal ambitions.

The participants often cited market dominance as an ambition. Participants who started their business at a younger age (before 30) tended towards more broadly ambitious, if somewhat naïve, goals, sometimes expressed as "taking over the world". Participants with a number of years' experience working in other businesses focused more on dominating their specific niche and/or succeeding within a given market. This reflects a maturity factor in business founders, and we note that the younger founders' ambitions gradually focus in the same way as more experienced founders.

This highlights the importance of experience in setting up a business. While all business owners have found it (at times) very difficult to build and maintain their firms, those who start at a younger age encounter a steeper learning curve and can often spend more time struggling to stabilise the business. That being said, the participants in this study all have sustainable businesses, and there is some indication that starting a business at a younger age provides the time needed to make mistakes and learn, ultimately producing individuals with highly valuable entrepreneurial expertise.

Within the control group, there was a lower emphasis placed on business ambitions of dominance and a greater emphasis on maintaining the business to support their personal/lifestyle ambitions. This is in part due to the fact that the control group businesses tended to be older companies that have reached maturity and are not looking to grow or diversify. Additionally, many of the control group participants were not the original founders of the business and so have less of a personal attachment to the firm.

The subgroups of female founders and Māori businesses expressed a number of ambitions unique to their groups. Both subgroups cited providing employment as an important goal of their business, and women in particular emphasised the importance of looking after their staff and providing a workplace that allowed the flexibility employees need. Māori businesses were focused on providing employment to Māori and the wider community.

In addition, Māori businesses shared a common ambition to be stewards or guardians of land and assets to provide for future generations. This goal was expressed only by Māori business and was considered an equal priority to ensuring the financial stability of the business.

### **Growth ambitions**

The firms we interviewed did not cite growth as an ambition in and of itself. When prompted, participants generally indicated that growth was important at the outset, but this was to ensure the stability of the business by providing revenue to support the business in its early phases.

More mature businesses tended to look for growth in particular market segments or business lines. Once again, this was primarily expressed as a need to stabilise and shore up that particular part of the company.



A key finding here was that many businesses could grow faster than they are at present. When explaining this, participants said that, in order to realise the full growth potential of the firm, they would need to give up control of certain aspects and that they were not prepared to do this. Interestingly, this was often in contradiction to a desire of businesses owners to move back from the operation of the firm. The implication of this is that owners of established businesses with high potential would like to work on the business more strategically. However, they perceive significant risk to the operation were they to introduce outside management.

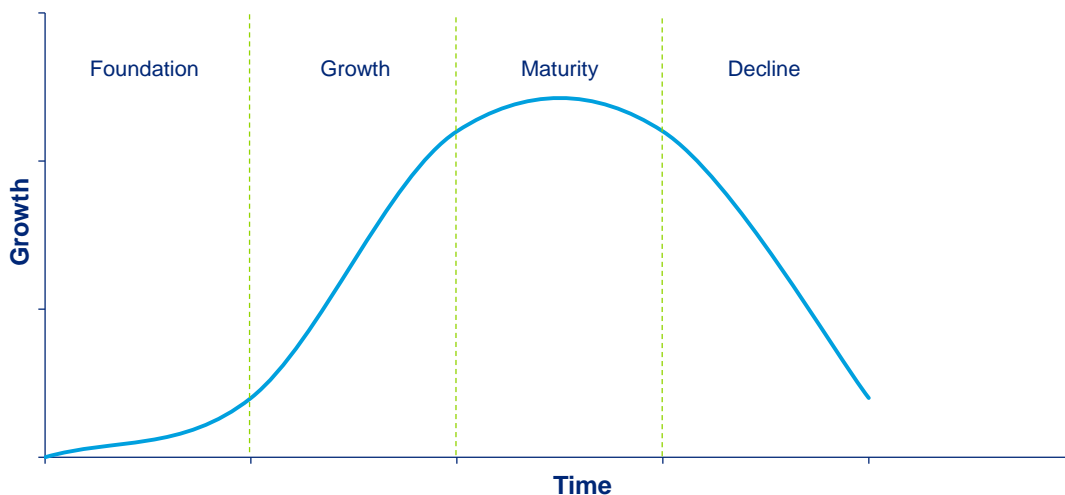
In one case, this risk was realised. The firm's primary founder had stepped back from the running of the company and hired an external CEO. However, after two years, the board agreed to remove the CEO and reinstate the founder to this role. The cause of the reinstatement was that the CEO did not have the same vision and drive to make the business a success, and it was agreed that the founder should return. The board provided the guidance needed for the reinstated founder to be a successful CEO. This highlights the importance of a good working relationship between board and CEO, particularly the need for a board to provide guidance to inexperienced CEOs and to identify when the business is being steered off course and then taking action to correct this.

This example also highlights the need for firms to have people with the drive and vision to realise growth opportunities. In order to support growth, founders need to have a line of sight across the business, and this enables them to identify what actions are needed.

## Realising ambitions

The role of ambition as an enabler of growth, at least in the short term, is vital. Indeed, owners have to have the ambition to start a business in the first place and, from there, the tenacity and drive to see it through the foundation phase and into a rapid growth phase (Figure 2).

**Figure 2: Firm growth cycle**



The challenge all businesses face is in how to transition from the foundation phase into a period of rapid growth. Understanding some of the barriers to growth helps identify what companies need to do in order to make this transition.

In general firms, face two types of growth barriers: internal and external. Internal barriers are factors within an organisation that diminish its performance, for example, inadequate facilities and support systems can cause internal friction that prevents a firm from delivering on its promises to customers. External barriers are factors outside the organisation such as

access to capital or supply chain inefficiencies, which again impede delivery on customer promises. Most firms are not able to influence the external barriers to their business, so the focus of participants in overcoming the challenges of enabling growth is on internal factors.

Six types of growth barrier were expressed by participants:

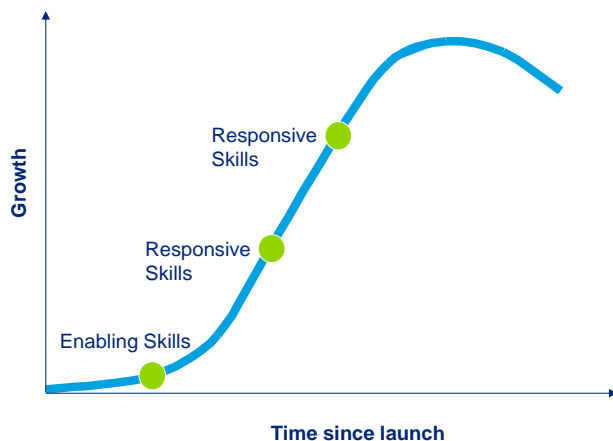
1. **People:** A business cannot grow without the help of other people. This is well understood and yet business owners often have the recurring problem of not getting the right people into the right positions at the right time. Alternatively, when they do find people, often the results are not satisfactory. This factor (access to skills) is the focus of section 2.
2. **Money:** Financial management is critical at all stages of the business lifecycle. During foundation and early growth, many businesses run into problems with cashflow, and without a detailed and accurate view of the financial status of the business, owners can often fall into the trap of making business decisions based on poorly informed financial data.
3. **Customers:** Acquiring customers is the central aspect of growth. Once established, firms focus on maintaining a customer base, but during early growth, the focus is on building that base. To do this, all aspects of the business must be aligned and working together to deliver customer service at the highest possible standard.
4. **Information:** The running of any business involves managing a wide and often chaotic flow of information. The ability of the business to manage and understand this information is a key determinant of success.
5. **Processes:** All businesses have certain processes that must run consistently and regularly. Without documented and purposeful processes, customer service levels can drop or become inconsistent, and inefficiencies cause flow-on impacts both financially and in terms of information management.
6. **Planning:** Company failure is not caused by growth – rather, companies fail because they do not plan their growth. Strategic plans containing measurable objectives are a common element of businesses that successfully move through the growth phase and into maturity.

Many businesses face challenges with some or all of these factors and are able to overcome them to a greater or lesser extent. Our interviews showed that the one consistent challenge across businesses both in the fast and slow-growth groups was the people factor. Gaining access to people with the right attitude and skills was cited almost always as a major challenge, and firms took a wide range of approaches to addressing the issue. Section 2 details the nature of these challenges and the extent to which firms have met these challenges in a way that enables growth.

## 2. Skills supporting firm growth and ambition

Access to people with the right skills and attitudes is critical for businesses to grow and succeed. Of course, each business has its own requirements in terms of the type of skills and experience needed, and there is variation in the way businesses access the labour market and their effectiveness in doing so. In general (for fast-growing firms), we find there are two main types of skill requirement: enabling skills and responsive skills (Figure 3).

**Figure 3: Requirements for enabling skills and responsive skills**



**Enabling skills** are those a business brings in to allow transition from foundation phase to growth phase. Typically, these are skills that allow the firm to be more active in the market and can range from general labour to supply chain management to marketing and business development.

**Responsive skills** are those a business needs in order to cope with rapid growth following the transition out of the foundation phase of the firm.

To illustrate the difference, consider a manufacturing firm. Their use of enabling skills may be to bring in lean manufacturing specialists, whereas the responsive skill equivalent is to simply bring on more labour to increase productivity.

In terms of actual skills, there is a high level of crossover between the enabling and responsive approaches. Most firms focus on the skills they need now, while relatively few have plans in place for the types of skills they will require several years in the future. Among the participants who have planned skill acquisition strategies, there is a more controlled approach to growth, and they tend to be more established and larger firms. There were a number of relatively young firms with controlled growth plans and associated skill acquisition strategies, though it is likely that these cases are largely due to external and board guidance rather than young entrepreneurs' developing these strategies independently.

Across the respondent group, we found that all participants understood the importance of skills as a driver of productivity, and most of the businesses are actively helping staff to lift their skill base and drive productivity improvements across the firm. This was noted particularly among businesses with local manufacturing operations that require machine operators and labourers.

The following sections detail the findings of our interviews with regard to accessing skills to support firm growth. In these sections, we see that there are recurring challenges faced by growing firms, and in the final section, we investigate the characteristics of firms that successfully navigate these challenges.

## Enabling skills

Firms in the early stages of their existence are generally focused on creating a customer base. While this is obviously critical for business survival, it can be a long and time-consuming process and one that many businesses do not navigate successfully. Indeed, many businesses do not survive their first 18 months due to the immense strain that the foundation phase can place on both the financial and personal wellbeing of founders.

There are many examples of the need for enabling skills, all of them dependent on the goals of the owner, the nature of the business and the market in which it operates. Two examples taken from our sample of fast-growth firms are presented here.

### Example 1: Market knowledge

In this case, the participant in question had returned to New Zealand after several years living and working in Asia and Europe. With expertise in the energy markets in these regions, the founder took a decision to create a company here in New Zealand, having identified a number of niche opportunities. These opportunities were more complex than straight supply, and the company was founded to provide niche electricity services by leveraging the expertise of the founder. To quote from the interview:

The problem I ran into was people saying that I don't know the New Zealand market.

This was a common response among participants – in order to be taken seriously, a firm needs people with knowledge of the specific market they are trying to enter. For the individual in this case, he was tremendously experienced in international energy markets, but that was not considered enough to make headway in the New Zealand market.

The net result of this lack of market knowledge is that the business ran into trouble early on. They had to spend a great deal on brand and advertising, and they underestimated the cost to acquire and serve domestic customers, as well as the length of time involved in these activities.

Since that time, the business has found a place in the New Zealand market, the local knowledge needed to support the business was brought in, and the founder has gained a lot of market experience himself as a result of running the business over several years.

### Example 2: Labour

In this case, we look at a small manufacturing business making products for the domestic food service market. The founders had experience in sales and marketing and process manufacturing, so in terms of setting up the business, they were fine. Their issue during the early stage of the business was in accessing labour. During foundation, the manufacturing was very small and did not require a large number of labourers. However, there was a distinct need for the labour that they did have to be able to work at all points of the manufacturing process. This is because smaller firms in general have a greater need for generalists, and as they grow, more specialist skills are brought in.

The founders indicated that this was troublesome as there was a large time cost to training the staff, which had a big impact on short-term productivity. It is well known that smaller firms do less training due to high fixed costs, which larger firms find easier to absorb, for example, taking people off the production line. However, the ethos of the company was to train all their staff as much as possible, and as a result, they now have a loyal and hard-working labour force taking care of the manufacturing and warehousing operation.

The impact of this is that the firm took longer than expected to move from the foundation to growth phase. However, once the transition was made, the quality and commitment of the staff enabled the growth to take place in a way that was relatively free of disruption.

## **Access to enabling skills**

The key challenge for businesses seeking skills as they start out is that it is perceived as being risky and potentially expensive and damaging to the company if the wrong people are brought in. This came through particularly with participants who needed to bring in specific technical or market expertise.

Owners take a long-term view of the firm, and its success is linked to their own personal ambitions. For employees, though, the vision and direction of the company may not be something that is aligned to their own ambitions. Not surprisingly, then, many participants cited the importance of attitude when selecting employees in the early stage of the business. Businesses can take a range of approaches to addressing this, from incentivising to being very particular about the type of people they employ. In general, there is no correct answer, and this seems to be something that all businesses struggle with at various stages of their development.

## **Responsive skills**

When firms enter a period of rapid growth, it is often not a time for celebration – rather, it is a time for careful management and can require owners to make some very difficult decisions. These firms face a fragile transition as they are in flux and can become disoriented by the rate at which change is occurring.

In contrast to the foundation phase where owners bear a lot of the stress of ensuring the firm's survival, during the rapid growth phase, there is far greater need for all employees to act in support of the vision of the firm and to ensure the company delivers on its promises.

Participants in the fast-growth group have had varying experiences with managing growth, but across the board, it has been a difficult experience. All have had issues with accessing and managing skills, and all acknowledge the vital importance of skills in ensuring the business survives its growth phase.

Often, the skills needed to support growth are extensions of the existing employee skill base – access to more factory workers, perhaps, or managerial staff or salespeople. Companies that are successful in managing rapid growth do not tend to deviate from their vision of what the company does. This means that growth phases do not require additional innovative or entrepreneurial talent as is sometimes the case in the foundational and maturity phases of the business lifecycle.

We present two brief examples of participants' experience with acquiring skills during rapid growth phases.

### **Example 1: Managerial**

This participant is experiencing rapid growth and, over the last 18 months, has grown from around 15 staff to 40 staff. This growth has placed constraints on internal communication, so the founder has put in place a management team structure.

Because the business is primarily technical, the management team was selected from existing staff with a range of managerial experience. While this has allowed the overall team to grow, the capacity of those members of the team who were promoted has dropped as they take on new responsibilities. This trade-off between technical productivity and the need for management has been of great concern to the founder.

The founder made a very conscious decision to form the management team from existing staff, as the preservation of the firm's culture was seen as vital to surviving the growth phase:

We've set high standards for ourselves and are relatively demanding on staff... because they come with the right attitude, [they] have an amount of professional pride so put in a lot of time and effort. Without that culture, we wouldn't be successful.

The management of the firm is in place to ensure that employees are provided with the flexibility and environment they need to contribute meaningfully to the company's objectives. By being proactive in putting this management structure in place, the founder has successfully transitioned the business from foundational to growth phase with minimal disruption.

### **Example 2: Experienced staff**

In this example, we look at a participant who runs a domestic recruiting firm that is now experiencing a period of growth as it expands from being based in a single city to creating a presence in other main centres in New Zealand.

The position the firm is in is one of very responsive hiring. They are operating in a very competitive market, and finding the right people to work in the business can be time consuming and costly.

Initially, I wanted more strategic people as consultants, and then I realised that recruitment is very reactive, so you want operational people who can react quickly to change, who are quite adept. They also need to have business acumen and street smarts, because when you are dealing with people, you need to have good people skills.

This quote is quite revealing. Initially, the founder believed that more strategic people were required to navigate the growth period but soon realised that the people needed were those who could adapt to change without disrupting the operation of the business. Because of the nature of growth, this kind of resilient attitude becomes very important to business owners.

### **Access to responsive skills**

Most participants indicated they could access the skills they needed to support growth locally. The businesses that required more technical expertise tended to have to look internationally more frequently.

Overall, participants hiring for responsive skills tended to seek people who could work within a changing environment and had the right attitude to contribute meaningfully towards the company's goals. The interviews show a theme that fast-growing firms need to be flexible with their workforce arrangement to both get the best out of their people and to ensure that skills are applied where and when needed. Many participants have had difficulty with staff members during the growth phase, and more often than not, it was due to a misalignment of values between employer and employee. The threat to business owners is that a single disruptive employee can have a very negative impact on a small growing business.

### **Skills for managing growth**

As companies experience growth, there can be a number of impacts on the organisation, and careful management is required to ensure that growth is unimpeded. The participants generally held the view that the skills of managers were vital to this. However, none of them explicitly stated that knowledge or experience of managing growth was important.

The skills needed to manage growth can be attributed across the six barriers presented in section 1.

## **People**

Managing people is a skill that all firms require regardless of their growth profile. For firms in a phase of rapid growth, the management of people is critically important to ensure that all employees are working towards the same goal. Some companies took a very proactive approach to this, creating documentation of the firm vision and the expectations of staff members. Others believed a more flexible and open communication approach works best. The determining characteristic of which approach is used is the size of the firm. A larger employee base requires more formal management structures, and as smaller firms grow in size, the nature and timing of implementing formal management structures has a significant impact on their ability to realise growth opportunities.

## **Money**

Financial management can be handled in a number of ways. We found that smaller firms relied on the advice of external accountants and bank managers to manage their financial position. During periods of tumultuous growth, firms need to be flexible and responsive in making financial decisions, and often this is not possible when working with external financial advisors. The firms that are most successful have management staff with business and financial acumen to provide meaningful input to financial structuring decisions.

## **Customers**

Sales and customer care are a focus for all businesses, though fast-growing firms can find their ability to serve a growing customer base constrained by internal difficulty. Owners themselves are often so busy with the various other managerial aspects of the business that they have to bring in customer and account managers to work with them. The success of these people is largely determined by attitude, and it can be costly and expensive for owners to find the right people to fill these roles.

## **Information**

Managing information is something required of all managers. In small firms, the volume of information under management can increase very rapidly as the customer base expands. Having systems and reporting structures to support this is critical to ensure that informed and timely decisions can be made. Many businesses could grow at a faster rate if they had better information management. However, the cost of implementing systems (and the risk that new systems pose) is often perceived as being prohibitive.

## **Processes**

To ensure that growth does not throttle the operations of the firm, suitable processes must be in place to ensure consistency and efficiency in meeting customer needs. While not all businesses are process driven, almost every business has at least some degree of process management. As the company grows, these processes must be scalable enough to allow a greater throughput.

## **Planning**

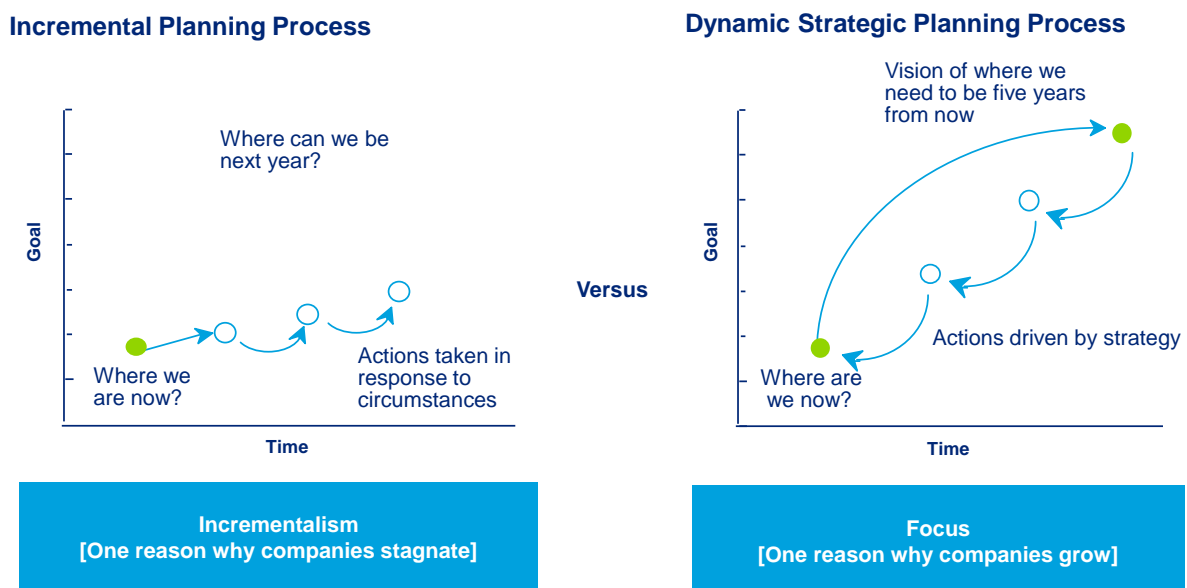
Planning is a major subject of section 3. Some participants identified planning as critical to their successful growth profile, while others were far more responsive to opportunities for growth. In competitive markets, it is quite well understood that planning is critical to support growth. In particular, planning for the new skills and people that will be needed is important for firms to maximise the opportunities presented by the growth phase.

### 3. Characteristics of growth

#### Planning for growth

Companies showed two main approaches to dealing with growth: incremental and focused. Under the incremental model, firms tended to position and target opportunities as they arose. For early-stage firms, this approach was quite characteristic as they worked to find their place in the market. As these firms transition into the growth phase, they generally found their ability to position for new opportunities was inhibited by inefficiencies deriving from a lack of planning. By contrast, those firms that plan for growth are more robust – their staff and management have clearly articulated objectives, and everyone is working to achieve them. The different approaches are summarised in Figure 4.

Figure 4: Planning approaches



Firms that have the most success in navigating the growth phase tend to be those that have a focused planning process. However, there are some exceptions. In most cases, these are where a new market is opened up or where a business diversifies into a new product or service offering. That being said, there is a strong indication that firms without robust planning processes do not maximise their growth potential.

One possible factor that contributes to firms having poor planning processes is simply that business owners do not know how or when to plan for growth—largely due to managerial inexperience. Many firms have a general idea that more staff will be required in the future, but in terms of timing, scope and financial impact, they tend to be light on detail.

A possible opportunity exists to work with business owners, particularly in the early stages, to plan for growth and to understand the actions that need to be taken today to ensure that the business ambitions can be realised tomorrow. An important example is the existence of business start-up incubators, which research suggests play an important supporting role in the early stages of business growth.

#### Acquiring skills

Firms take a wide range of approaches to acquiring new skills. Interestingly, a common theme across participants was their willingness to hire a person with the right attitude and grow them into the role. It must be noted that this applies mainly to less technical roles. For



highly specialised skill requirements, firms were more likely to look overseas to hire people or to contract in the skills they needed for short periods.

The real challenges in acquiring new skills come during the rapid growth phase. These firms are experiencing high activity levels and often need more hands on deck sooner rather than later. This can lead to hasty staffing decisions being taken, which can severely impact the firm, particularly in the case of managerial hires. Several of our participants recounted stories of poor hiring experiences. To avoid this, many make use of recruitment firms. However, this can be expensive and time consuming for business owners who need to focus on their customers and markets.

The attitude of owners to the hiring process was interesting. Many felt that, while there was adequate access to talent and labour, what they really wanted was people with a desire and willingness to help the business grow, whatever their role in the company. This reflects two issues: aligning employee ambitions with those of the owner and the difficulty of screening employees for these skills and ambitions.

Some firms were disappointed with their experience seeking skills in the labour market. One company said, "We are hiring with more of a focus on training than we would want... making compromises." This firm was looking for machine operators to support increased production requirements and felt that the labour market should provide trained people. This view is in contrast to the majority of participants who were more interested in getting the right person into the organisation and training them on the job.

## **Addressing skill shortages**

A number of participants indicated they experienced skill shortages at some time during the growth phase of their business. Skill shortages were reported in the fast and slow-growth groups, although the fast-growth group was somewhat more likely to take proactive action in addressing such shortages.

When presented with a skill shortage in the labour market, participants had a range of approaches to hiring. However, the most predominant was simply to wait until someone came along who could fill the position.

The fast-growing firms identified a range of other supplementary approaches to filling skill gaps, which included:

- looking offshore
- employing first and training later
- utilising specialist recruiters
- advertising in other channels/media
- having a presence at university career fairs.

A common response to the issue of skill shortages in slower-growth firms was that participants were more likely to hire someone with the right attitude and train them rather than wait for someone with the necessary skill and experience (but who may not be a good fit with the business).

Another common theme expressed in regard to skill shortages was in the pipeline of graduates coming out of trade schools and universities. Many businesses believe they do not have access to these groups, thereby limiting the potential to provide internships and graduate positions for younger people entering the workforce. One participant has even started working with local economic development agencies to bring in interns (with a view to hiring them as graduates the following year).

A number of firms said they could bring on more people tomorrow to grow their companies even faster but that they were not going to do so. When asked why, the respondents said that they did not want to take on the additional management duties that come with a staff increase and/or that ever-faster growth was not the objective of the firm.

## **Impact of skills on ambition**

Skills are the enabler of ambitions. They lend support to the ambition of business owners in a range of ways, and different skills have different impacts. It is difficult to generalise which skills make the most significant contribution to achieving business ambitions, as it all depends on the business. However, we have been able to draw some conclusions from the interviews.

### **Communication**

Put simply, businesses with a robust skill base are more likely to succeed in meeting the owner's ambitions. The skills that are used in operating the business are enablers of achievement – provided of course the people working in the business have a shared understanding of the owner's objectives for the firm. The first skill that enables ambition is communication. Firms with good communication are more co-ordinated in their activities and more responsive to opportunities. Communication is a skill needed both by the individuals running the business and those working within it. Effective communication means that business issues are raised and resolved quickly, without impeding efficiency.

Firms take a wide approach to communication and are more or less formal depending on their size. The larger firms become, the more formal their communication channels need to be. We did find that, as firms get larger during growth phases, there is a need for both formal and informal communication. This allows the company to ensure that the goals and objectives are shared by everyone (formal channels) but that employees can use informal channels to communicate among themselves to resolve issues and to work through issues with the managers and/or owners.

All the firms interviewed placed a high degree of importance on both internal and external (customer-facing) communication, though most firms only viewed external communication as a skill.

Given the ubiquity of communication as an important component of business, it is surprising that business owners do not view it as a skill they look for when addressing skill shortages. It may be, however, that owners/managers tend to assess communication skills implicitly during the hiring process.

### **Communication and attitude**

A number of firms indicated that, when addressing a particular skill shortage, they are more interested in finding a person with the right attitude over experience and skill. Of course, everyone has a different view of what constitutes the right attitude. However, it could come down to a matter of communication style.

Smaller organisations tend to have a communication style that is very much driven by the owner or manager of the firm. As such, for employees to make a meaningful contribution at this stage of the business lifecycle, it is important that they are able to communicate effectively with the key people involved. Without this ease of communication, the business can become inefficient, and this can be a critical threat for young businesses.

What is interesting is that none of the participants identified the communication style or ability of their staff to be a skill they sought during the hiring process.

## **Management**

All organisations need good leadership. In fast-growing firms, the management structures need to be fluid enough to cope with rapid changes and robust enough to ensure the goals of the company are kept in focus.

The relationship between managers and founders is interesting, and it is this interface that most impacts the realisation of ambitions. Many business founders said during interviews that they did not want to hire managers or hand over control of aspects of the firm. The primary reason for this is that owners' perception of managers is that they are more likely to have their own agenda and to shift the focus of the business to achieving different objectives. For this reason, many business owners spend a large amount of time involved in managerial activities for which they are not suited. This behaviour is reinforced by the belief that refusing to hire managers makes the business more financially viable.

Having the appropriate management skills in place is obviously important for businesses – particularly as growth rates increase. Based on the interview responses, we see that, in cases where owners have resisted introducing managers as firm size has grown, revenue growth has been suboptimal. The owners of these firms, however, tend to have less ambitious objectives for the business and are consequently less concerned with improving growth figures.

In general, we find that firms that take a strategic and planned approach to growth are more likely to implement management structures early in the business in order to support growth as it occurs and to optimise business performance. Conversely, firms that take an incremental approach to planning and growth are more reluctant to implement management structures, preferring to retain control over all or many business functions.

In terms of the way skills support ambition, the conclusion to be drawn is that firms are more likely to select skills based on the owner's ambition. None of the participants in this study indicated that skills or availability of skills had any impact on their ambition for the business.

## **Impact of skills on growth**

With very few exceptions, businesses rely on the varied capabilities of many people to support growth. For businesses to grow, they need marketing and sales staff, technical and manual labour, administrative and management staff. Depending on the nature of the business, these skills are required to a greater or lesser extent.

The key finding from our participants is that getting the required skills on board early is critical to support growth. By bringing these skills into the firm early, the necessary training and relationship building can take place so that the different skill capabilities all work together as demand from the market increases.

We found that most of the participants do not take a proactive approach with regards to skills supporting growth. A few carry out annual recruiting, and some will hire based on skills first and build the job around the person. Such firms are the exception. Many participants indicated that they have existing skill gaps but are struggling to find the time and resources to hire for these roles. The impact of this situation on growth is clear: it is less than it could be. The reasons behind it are rather less clear. It may be that the participants are on a learning curve in terms of hiring good people, and it could be a simple management issue that needs to be resolved. In general, the causes of this behaviour vary widely and are dependent on the nature of both business and owner.

The reaction of firm owners when asked about the impact of skill access on growth was generally mild. Many accepted that the business could grow faster, but if this is not one of the business objectives, there is little cause or justification to rush through hiring.

## 4. Conclusions

Overall, we find that the ambitions of business owners are a major determinant of firm growth in New Zealand. The owners' ambition sets the tempo for the firm and provides the employees with a vision and purpose that everyone can work towards.

Of course, ambition is not alone in determining firm growth. Contrasting the fast-growth group with the slow-growth group, we see that firms that experience fast growth tend to be more ambitious. The nature of ambition in fast-growing firms is widely varied, though it typically stems from a personal ambition held by the owner. When this personal ambition is linked to a specific business objective, the growth potential of the firm is magnified.

Many of the participants in this study indicated that they have experienced skill shortages in the labour market. The impact of skill shortages is not to affect the ambitions of owners but rather to impede growth. The extent to which skill shortages when left unchecked can damage the growth phase of a business is not clear. However, based on our respondents, it is likely that lost growth opportunities due to skill shortages are considerable. The extent to which owners are aware of (or care about) these lost opportunities is varied. More ambitious owners are less likely to encounter skill shortages (they are more proactive when hiring), and so they are less tolerant of missed opportunities.

A number of characteristics identify business owners as more or less ambitious. These are summarised in Table 1:

**Table 1: Owners' characteristics**

<b>More ambitious</b>	<b>Less ambitious</b>
Take a strategic approach to planning for growth	Follow an incremental approach to growth, responsive rather than planned
Implement management structures early, before rapid growth occurs	Reluctant to implement management structures as perceive this as a loss of control
Tend to grow the employee base faster and earlier in order to support growth immediately	Focus on keeping a small and controllable team
More focus on building brand and market presence overseas	Domestic focus and unlikely to target international growth

In terms of barriers to growth, skill shortages can be a major issue. The participants indicated that skill shortages are more often temporary, in that it can take a long period of time to find the 'right' person rather than finding any person with the right skill base.

Firms take a wide range of approaches to filling skill shortages – with varying degrees of success. Summarising the experience of our participants, we find there are four actions that owners/managers should take to ensure that skill shortages have a minimal impact on growth.

### **A vision of the future**

The owner has a vision of the firm as a larger entity and is able to make decisions based on achieving that vision. By reverse-engineering the steps needed to achieve this vision,

owners/managers can anticipate the challenges ahead and position their workforce to address them early before the growth trajectory is eroded.

## **The team of tomorrow**

The team and skills that are needed tomorrow are hired and developed today. Building on the first action above, owners who know what skills they are going to need ahead of time can avoid any growth constraints deriving from skill gaps by beginning the recruitment process well before the gap exists. Many firms choose not to do this as they see the cost of carrying and training extra capacity before it is needed as being inefficient. In the longer term, however, early hiring is the key to achieving unrestricted growth.

## **A primary objective**

The vision and direction of the firm is known by all employees and is articulated clearly and frequently. For the employees who work in a business, whether basic labouring or head of global marketing, an understanding of what the firm is trying to achieve is critical. A recent global survey of over 500 CEOs found that the most important activity for them was talent-driven innovation. In order for employees to drive productivity improvement and efficiency and improve customer service, they must have a clear understanding of what the goal of the business is. The participants who communicate this objective most clearly tend to have the most committed staff, and their growth profiles reflect this.

## **Minimal hierarchy**

Firms that are growing rapidly need to be responsive and innovative to meet the challenges of a competitive marketplace. Minimising the hierarchy of the firm enables skill and talent to be deployed where it is most valuable. This flexibility is of the highest importance for firms that are going through phases of rapid growth. During these phases, efficiency and customer service are vital, so it is important that employees are focused on making the company perform well as a whole rather than focusing on specific business processes within the confines of a job description.

# Appendix: Methodology

In developing our approach, we used a framework that allowed us to build on existing knowledge and research and used a structured interview approach to capture information across the research participants in a consistent manner.

Our approach used a five-stage process.

## Stage 1: Build knowledge

Our objective was to deepen understanding of the work programme and to summarise the existing broader research on firm ambition and skill influence on firm growth.

Understanding previous research findings and constraints is important to inform this research. We incorporated work from the Deloitte Human Capital and Better by Design practices to help define the attributes and culture elements of a high-performing business.

The output of this was a scoping document outlining the key findings and measures to inform our selection of firms for our interview process.

## Stage 2: Select population and sample

The objective of this stage was to identify a population of New Zealand business from across the economy (for example, business type, longevity and scale) from which a representative sample could be selected as well as a control group.

A list of businesses was pulled together using a range of sources, including:

- the high-value manufacturing and services sector directory (approximately 3,800 firms)
- the Deloitte Fast50 and Fast 500 entrant lists
- the Deloitte Top 200 (New Zealand's largest entities)
- the New Zealand Stock Exchange directory of 108 listed companies.

To draw meaningful results from this study, a subset of our sample population needed to form a control group, and for this reason, we had a group of five companies with moderate growth characteristics

The outcome of this stage was a list of target companies with a selected control group.

## Stage 3: Questionnaire design

The objective of this stage was to design a questionnaire that was able to capture responses that answer the five primary questions and enrich the quality and detail of the information passed over during the interviews.

We executed a workshop with Ministry staff to explore the five key questions, the potential uses of the information and the broader context of the project. A key outcome of this process was understanding what a winning outcome is for the Ministry and to then test our questions, formats, and prompts to ensure they contributed meaningfully to achieving the needs of the Ministry.

Within the process, the Ministry team was sought out to provide feedback and ultimately signed-off the questions.

The output of this was a final questionnaire that was used in soliciting company support for joining this research and was used during the interview process.

#### **Stage 4: Undertake the interview**

The objective of this stage was to obtain company support for this research, capture high-integrity data and accurately group the data into core themes for initial reporting.

We used our tried and tested interview process that our team has refined and improved over time. Key attributes of this process were:

- targeting interviews at Board, CEO or COO level
- structured interview questionnaires grouped with prompts to ensure information capture
- informed interviewers who understand the background, purpose of the research and targeted company
- two-person interview teams to ensure agreement of the data and themes at conclusion of the interview
- audio transcripts documented for ease of review
- interim reports that enabled initial discussion of themes with the Ministry team

The output from this stage, based on 25 interviews conducted (a sample of 20 and a control group of five) was that we produced initial reporting of themes, held initial discussions with the Ministry team and collated all interview findings to enable a timely draft final report.

#### **Stage 5: Report findings**

The objective of this step was, through the use of plain English, to concisely capture, describe and document the findings from the interview process, which would include any lessons for the next round of research.

We prepared a report to an agreed structure to ensure it provided the most value possible to the Ministry team. We found grouping our findings into themes and the use of targeted examples were an effective means of communicating complex information.

⇒ More information

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