BNZ Insights

May 2011

Culture and Managerial Ability

Up until this point we have concentrated our analysis upon traditional gauges of economic competitiveness and found New Zealand not only wanting in many areas but slipping behind other OECD economies which have continued to reform whereas NZ has to a large extent sat still since the early-1990s. But there is probably more to our new movement down the OECD ladder than simply other economies becoming more efficient at a faster pace. We can think in fact in terms of having had one of the most deregulated economies in the world, yet failing to fully take advantage of it. As the old saying goes, you can take a horse to water but you can't make it drink. The reforms from 1984-92 took us to the water but we have drunk sparingly.

Are there other factors not already identified which may account for our increasing under-performance? This is what the first of the following two pieces of research looks at. Specifically, is there something about the Kiwi culture which holds us back? Our second piece discusses a study of management practices in the manufacturing sector in New Zealand.

Cultural Impediments To Innovation and Economic Growth

"The Influence of National Culture on New Zealand's Innovation Outcomes".

This section edited by Tony Smale of Forté Management

This 2008 dissertation by Tony Smale in partial fulfilment of his MBA delves into the issue of an identified disparity between high inventiveness of New Zealanders but low conversion of inventions into profit and prosperity. "This dissertation therefore sought to explore whether N.Z.'s national culture represented a barrier to creating and appropriating benefits from the national innovation effort."

This sociological analysis stands in contrast to the normal economics approach where institutional and structural impediments to innovation and growth are considered.

The research starts with a wide ranging overview of the literature and reports some key findings:

- There are two key stages to the innovation process – initiation (creativity, invention, discovery) and implementation where commercial outcomes are achieved. Different thinking, behaviour, resources and institutions are needed to optimise the two stages.
- National culture, described by Geert Hofstede as "the software of the mind", is the learned set of mental models that groups of people use to interpret the world around them and to solve problems.
- National culture can be measured as "dimensions". The dimensions vary in important ways from nation to nation. Some of them correlate with the performance of the two stages of the innovation process.
- Although debate continues in academic circles about measurement methodologies, the four studies that include New Zealand came to remarkably similar conclusions.
- In New Zealand's case the dimensions align strongly with the initiation stage of the innovation process. We are more motivated by the thinking and behaviour associated with doing new things.

The study then shifts to reporting the results of an in-depth qualitative survey of some 23 NZ innovators and "experts" aimed at exploring the specific NZ links between innovation practices and culture – something not previously done here. The study finds that there is a complex combination of thinking and behaviours that tend to act as barriers to effectively optimising the returns from implementing ideas:

Intense self reliance, individualism and desire for control results in narrow, tightly held capital structures, often involving friends and family, while being suspicious of external sources of capital. Along with negative attitudes to failure and a short term perspective, risk taking and long term optimum payoff plans from innovation implementation are limited.

The tall poppy syndrome has material negative impacts on performance, contributing to a debilitating reluctance to give and receive feedback and a suspicion of “specialists” and “book learning”. Performance improvement is impacted and product development and market entry slowed.

A strongly New Zealand centric view means that we tend to “think for our customers”. We design and sell from our perspective not the customer’s and do not always pay the attention to detail that our customers expect. We unwittingly present a “she’ll-be-right” and “take-it-or-leave-it” attitude meaning we miss out on a lot of value.

We undervalue relationships and networking, emphasising instead rules and contracts. That results in a short term transaction approach to business that is limiting in many markets.

We use our inventiveness to drive down the cost of production rather than creating new value, imbedding our high value intellectual assets in comparatively low value products. We consistently fail to realise the immense value on offer.

We tend to start businesses for lifestyle and not wealth creating reasons. In the tension between leisure and wealth creation, partly because leisure pursuits are so accessible and cheap, leisure or the next adventure wins out at quite a low threshold.

In summary, our unique culture means that we Kiwis are very good at DIY “make and use” but not so good at “make and sell”. In our series of papers examining impediments to NZ productivity and economic growth we are assiduously avoiding entering into the debate regarding solutions. Yet one comment may be useful following this more sociologically based section. The challenge of addressing our mediocre performance is made more difficult by our population churn. Each year 1.7% leave, many to pursue wealth creation goals, while 2.1% arrive, many of whom, the research shows, come here for lifestyle and not wealth creation reasons.

Next week we shall bring together all the traditional factors we have identified plus the factors here which we shall explain in a slightly different manner from the exposition above in order to aid understanding.

Management Matters in NZ: How Does Manufacturing Stack Up?

This recently rereleased paper prepared by the University of Technology, Sydney, for the Ministry of Economic Development, NZ Treasury and NZ Trade and Enterprise examines the management capabilities of 152 medium to large-sized NZ manufacturing firms using techniques developed as part of a 2009 study of 16 other countries by McKinsey & Co. and the London School of Economics. The key findings of this management benchmarking exercise are fascinating because when we look at the areas of weakness identified in this extensive piece of research we can see a strong correlation with the cultural behaviours identified in the work undertaken by Tony Smale. But first, in achieving an overall ranking of 10th out of 17 here are the rankings across the three principle areas of management.

Operations management 10th

We rank 11th for “Process problem documentation” meaning we tend toward not making process improvements when problems occur as opposed to good performers where “Exposing problems is integral to individuals’ responsibilities rather than ad hoc solutions”. We rank 10th for “Operations performance review” meaning we tend toward reviewing performance infrequently and only success or failure is noted. But good performers tend toward “Performance is continuously reviewed, based on indicators tracked; follow-up ensures continuous improvement.” We rank 9th for “Operations performance dialogue” meaning at meetings and discussions we either have no or irrelevant data or the meeting is directionless. But good performers tend toward “Regular performance conversations focus on addressing root causes . Purpose, agenda, and follow-up steps are clear to all”

Explaining this in terms of behaviours already noted our desire for hands-on application of our ideas and laid back attitudes explains our lack of attention to detail and frequency of operations performance reviews, and our dislike of giving and receiving feedback undoubtedly stymies discussion at performance meetings.

Performance Management 9th

We rank 11th for the "Types of goals" criteria which tend toward goals being exclusively financial or operational rather than being a balance of financial and non-financial. We rank 10th for "Time horison" meaning we tend toward top management having a short term focus as opposed to top performers who tend toward "Short-term goals are set so that they become a staircase to reach the long-term goals"

Explaining this in terms of behaviours already noted, our focus tends to be on the short term rather than the long term and we prefer operating by rules and regulations rather than relationships.

People management 14th

This is our weakest area. We rank 16th for "Addressing poor performance" meaning we tend toward a position where "Poor performers are rarely removed from their positions". In contrast top performers veer toward "Poor performers are moved to less critical roles or out of the company as soon as weaknesses are identified". We rank 14th for "Retaining high performers." We tend toward "Managers do little to try and keep the top talent" as opposed to top performers who lean toward "Managers do whatever it takes to retain top talent". We rank 13th for "Promoting high performers." This means we tend toward "People are promoted primarily upon the basis of tenure" as opposed to "Top performers are actively identified, developed, and promoted."

Explaining this in terms of behaviours already noted, as Kiwis we do not like giving or receiving feedback, hence the low "Addressing poor performers" ranking. We are wary of experts hence our 14th ranking for 'retaining high performers" and 13th ranking for "Promoting high performers." The Tall Poppy Syndrome rules our actions.

But the way in which our behaviours inhibit our economic growth becomes even more evident when we examine the analysis the authors did of their results broken down by various factors.

Firm Size

They find that large firms tend to have good management practices but the small ones account for our low rankings. Because we are a country of small firms and as the OECD have noted we have struggled to grow large firms as other small economies have, we have delivered ourselves a structure not conducive to good productivity growth. This inability to grow large firms is likely to reflect a combination of high financing costs, lack of risk taking due to high reliance on bank and family financing, and our desire to keep control over what we do while distrusting experts of the sort generally required in large operations.

Foreign Ownership

Multinational firms well outperform solely NZ-owned firms so perhaps our desire to keep control of what we do limits the spread of good management practices and thus suppresses productivity growth.

Public or Private Ownership

Publicly owned firms are found to outperform in the management rankings compared with private ones, family firms, and cooperatives. In New Zealand the sharemarket is small, venture capital only lightly available, and business owners tend not to like letting in outside capital anyway. Again, our desire for control limits improvement in our small to medium sized firm management capabilities.

"Among the family owned firms, those that engage an external professional manager as CEO perform better, albeit marginally, than those that are both owned and managed by a family member"

Skilled or Unskilled People in Charge

Firms with strong management practices tend strongly to have more skilled people. "88 per cent of managers in the highest scoring firms possessed a university degree or higher, as did 8 per cent of the non-management workforce. However, among the lowest scoring firms, only 45 per cent of managers and only 3 per cent of the non-managers possessed a university degree." "Skill levels within New Zealand manufacturing are among the lowest in the developed world."

Management Structure
Those firms with a more hierarchical structure display better management practices than those with flat structures. The cultural impediment here is that Kiwis do not like giving away control to autonomous managers or taking on experts – in this case those with high management skills.

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