KPMG

Enterprise Report

How entrepreneurs grow from managers to leaders of globally competitive businesses

KPMG New Zealand

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Contents

Foreword

New Zealand's many private businesses drive growth and are the foundation of the country's long-term success.

New Zealand is a nation of private business owners, large and small.

Whilst NZX-listed companies and large corporations receive most of the attention, it's worth noting that nearly two-thirds of our economic output comes from private businesses and they are the cornerstone of employment in New Zealand.

New Zealand is also a great place to do business. That rare combination of a true entrepreneurial spirit, a free market economy and a country that embraces innovation, provides many of our private businesses with a great environment to prosper.

But, for some reason, many of our privately-owned businesses get to a certain stage and fail to push on and reach their potential. The end result is we lack enough businesses that have sufficient scale to grow their sights beyond New Zealand, becoming genuinely competitive on the world stage.

At KPMG, we have engaged in research to understand why this is the case. Our Enterprise DNA research has analysed the best companies in the country to understand what has allowed them to grow from clever ideas to global exporting super-stars.

Our *Enterprise Report* takes an in-depth look at three specific stages in an entrepreneur's journey. First, the start-up phase, when a good idea is commercialised and the search for capital and customers begins in earnest – an exciting stage, but one that all-too-often burns people out.

The second phase is growth, where the entrepreneur must grapple with how to incorporate new talent into the business; essentially recognising his or her deficiencies and actively looking to bring the right people on board.

The third stage we've called 'Letting go', although a more correct way to put it might be 'Learning *when* to let go', as the person who has nurtured and grown the business steps aside, having first – ideally – established a future-proof company culture and a viable succession plan.

We've also talked to business owners and leaders, both in roundtable discussions and in in-depth, one-on-one conversations, about the challenges at each stage of the entrepreneurial lifecycle. Their amazing stories will illustrate what it takes to establish a truly successful business.

One thing is clear: New Zealand's many private businesses drive economic growth and are the foundation of the country's long-term success.

Nurturing and helping grow our private businesses into the 'next big things' is something that excites us.

We hope that this report helps to start a conversation about how great we can make New Zealand businesses. As we all know, from little seeds, great things grow.

Paul McPadden
KPMG
National Managing Partner
Private Enterprise

Why it matters:

Small business means a small economy

By Bernard Hickey

As New Zealanders, we see ourselves as an innovative bunch, punching above our weight on the world stage. We see our generalist ability, our flexibility, our drive and our 'number eight wire' approach as a unique part of our culture, helping us win against bigger and wealthier competitors.

If only that were true.

It turns out we are a nation of surprisingly small businesses that are almost wholly focused on the domestic market, and are quite happy to muddle along without much competition in a way that allows us a great lifestyle without too many growing pains.

That's a pity. New Zealand needs more small companies to grow into medium-sized companies that are in a position to take on the world.

Our productivity – and therefore income – performance over the past 30 years has been weaker than most in the OECD and has contributed to the 30 percent wage gap that's opened up with Australia in the past 30 years.

Which sounds like the perfect incentive for New Zealand to lift its game.

I'm going to lay out the official statistics here, showing conclusively that small business is less productive, less expansive, less profitable, more vulnerable to failure, and far less likely to export than mid-sized businesses; if we can improve these data in the coming years, we'll have a better economy. It's as simple as that.

The Statistics

The fact that small business is unable, or unwilling, to make the jump into becoming higher-growth and more internationally-exposed can be blamed for the country's poor productivity, according to the New Zealand Productivity Commission.

There are just so many small businesses remaining small – seemingly purposefully – that the question has to be asked just what it will take to get more of them smashing through that \$5-10 million mark and into the big time. The Ministry of Business, Innovation and Employment (MBIE) reports that 90 percent of all local businesses employ fewer than five people, with a whopping 69 percent having no employees. It also found most of small businesses either fail in the first five years, or stall at a small size, with very few going on to become growth engines. (Fg.1)

The MYOB survey of 2015 gave more context around the lack of growth, and put starkly, it suggested small business owners are choosing lifestyle rather than growth.

"New Zealand business owners' long-term goals for the business focused on flexibility rather than growth," it noted. "In terms of the long-term goals for their business, almost one third of business owners nominated flexibility, allowing them to make money but also spend time with the families and take holidays."

Only one in five said growth was a

Bernard Hickey
Publisher and journalist

'key goal', while 17 percent said doing something he or she was passionate about was the main aim of the business.

Perhaps this is why such large numbers of small businesses don't survive the mediocrity of little growth; doing something you love without any real return may well wear after a while.

Most fail in fact, with few reaching bigger and better things.

The Productivity Commission studied this rather gloomy lifecycle, looking at how companies born in 2001 lived, stalled or died. It found that within 10 years only a third had survived, but the average survivor only increased its employee numbers from 0.5 to two. The real growth in employment happened when a very few were able to make the leap into becoming businesses with more than 10 employees – or had more than 10 to start with. (Fg.2)

Fg 1: A NATION OF SMEs

THERE ARE
473,846
ENTERPRISES
IN NEW ZEALAND

97%
HAVE FEWER THAN 20 EMPLOYEES

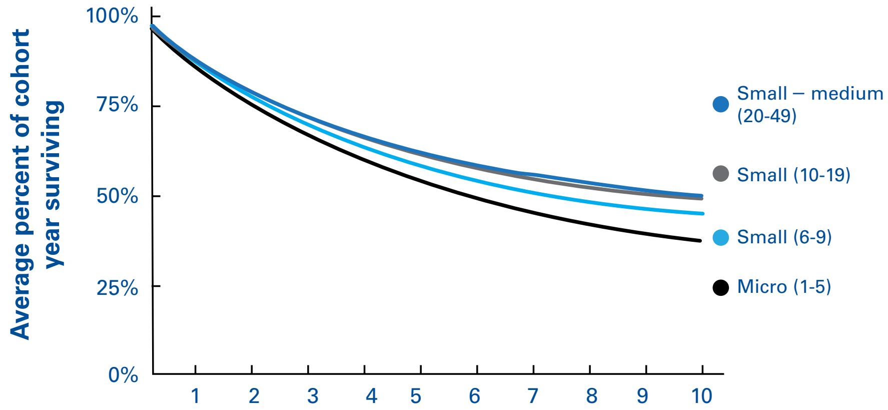
69%
ARE SOLE TRADERS

34%
OF SMEs ARE LESS THAN SIX YEARS OLD (COMPARED TO 16% FOR LARGER FIRMS)

Source: Business Operation Survey 2007-2013, Statistics NZ

Fg 2: SMALL FIRMS FAIL MORE

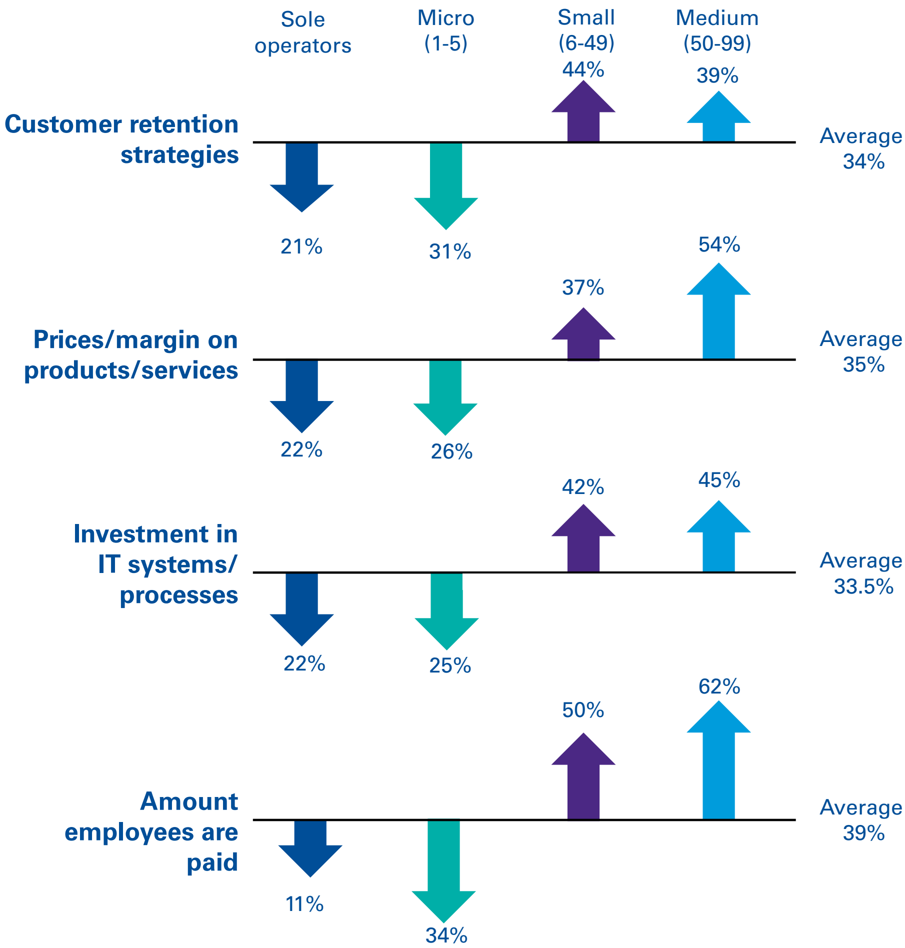
Average enterprise survival rates by firm size



Source: Business Demography Statistics. Statistics New Zealand, 2013. Access via Statistics New Zealand website.
Note: All numbers are provisional. Survival rate is defined as the percentage of enterprise births in each reference period that survive into future reference periods in the business demography population. For full notes consult source data.

Fg 3: SMALL FIRMS INVEST IN LESS

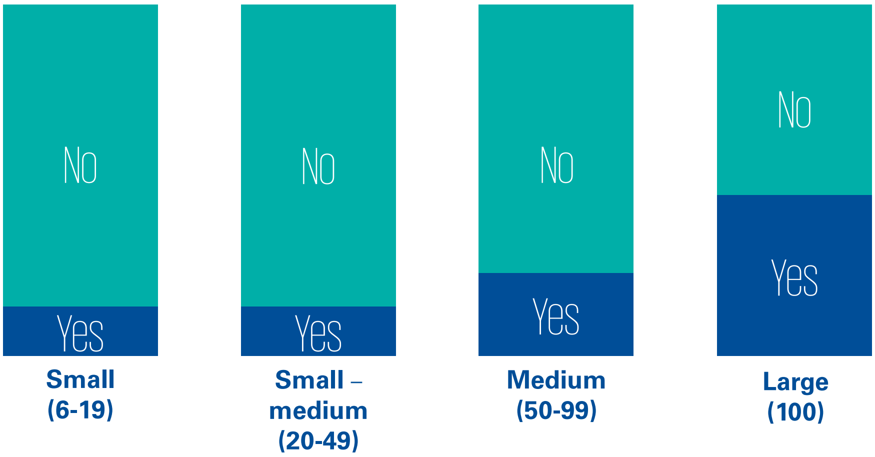
Percent of firms increasing their focus/investment



Source: MYOB Business Monitor, 2015

Fg 4: SMALLER FIRMS HAVE LOWER EXPECTATIONS

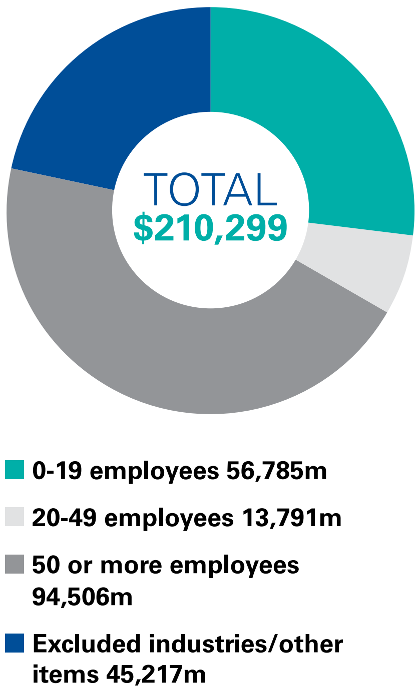
Percent of business that invested in expansion in 2013



Source: Business operations survey, 2010 - 2013, Statistics New Zealand

Fg 5: MID-SIZED BUSINESSES DOMINATE GDP

Estimated contribution to GDP by employee size group



Source Statistics New Zealand, National Accounts Mar 2012

Mid-market pre-eminence

Firms that started bigger were more robust; firms that became mid-sized were also more robust. MYOB's research backed that up, saying medium-sized businesses were more likely to be planning to invest in retaining and growing customers and profit margins, increasing wages and bonuses for staff, and selling and marketing more products and services online – all the touchstone factors for successful modern business. (Fg.3 and 4)

It probably goes without saying that mid-market businesses contribute more to the economy, but let's bring in the stats again to paint the picture properly. GE Capital conducted a mid-market survey in 2015 which showed business in this bracket comprised 36 percent of national sales and 55 percent of the growth in sales, despite the fact they were only 6.5 percent of all business.

Tellingly, 60 percent of mid-sized business say the goal of operation is 'growth' – a growth powered by an average of 23 employees and annual sales of almost $5 million.

With a healthy turnover – assuming profitability is also healthy – these businesses have the means to invest in the types of things they need to do to perpetuate still more growth. For example, they spend an average of $220,000 a year on R&D and an average of $440,000 on product development.

They more than contribute to the country's GDP, churning out almost 40 percent of it in any given year. (Fg.5)

We often hear just how important exporting is for a country like New Zealand – a trading nation. But the fact is that our small businesses just haven't got the ability to look beyond the domestic scene. But our mid-sized concerns do. (Fg.6)

More than a quarter export, and a further 11 percent are investigating the possibility. Australia, Asia and the US are the most common markets. Even those that don't export are more likely to be involved in the export supply chain, which might explain why they are much more concerned about things like the high New Zealand dollar.

These businesses are involved with exciting ventures that play perfectly to New Zealand's strengths, and help build around them a business 'hub'. Wellington is a prime example of this. While Auckland is home to most mid-sized business, Wellington's mid-market enterprises enjoy a sales growth which is double that of most companies around the capital. The really stand-out ones here are largely in IT and digital entertainment fields, and have proved a catalyst for associated services to give the city a real vibrancy and wealth by attracting young, talented workers. So much so that there is a skills shortage in Wellington, and 40 percent of the mid-sized businesses canvassed in the GE survey were looking to recruit.

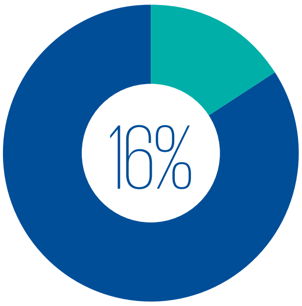
The South Island's mid-market, conversely, is concentrated in the rural industries, engineering and construction: areas where again, New Zealand has found a point of difference, and can sell the services, products and the intellectual property offshore.

In total, the country's 33,210 medium-sized businesses generated sales of over $159 billion in the last survey, outpacing the $97 billion generated by almost 500,000 small companies.
Of course, 'big' business outstrips both of these categories, generating almost 50 percent of sales, or $239 billion, in that same time. And there's only 1,190 of them.

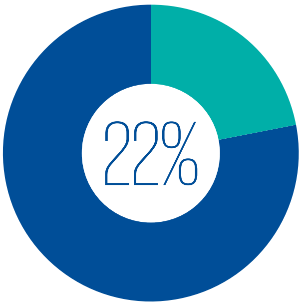
But there was one area that mid-sized businesses triumphed over both small and big categories – and that was in increasing their 'value-add' – a measure of wages, profits, capital investment

Fg 6: SMALLER FIRMS EXPORT LESS

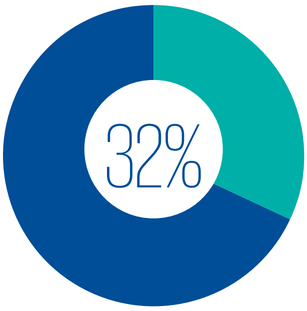
Percent of firms that generated overseas income



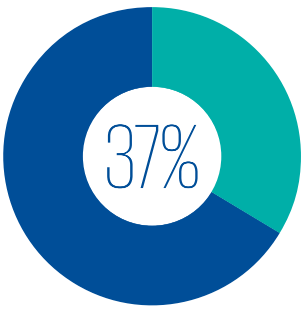
Small (6-19)



Small – medium (20-49)



Medium (50-99)

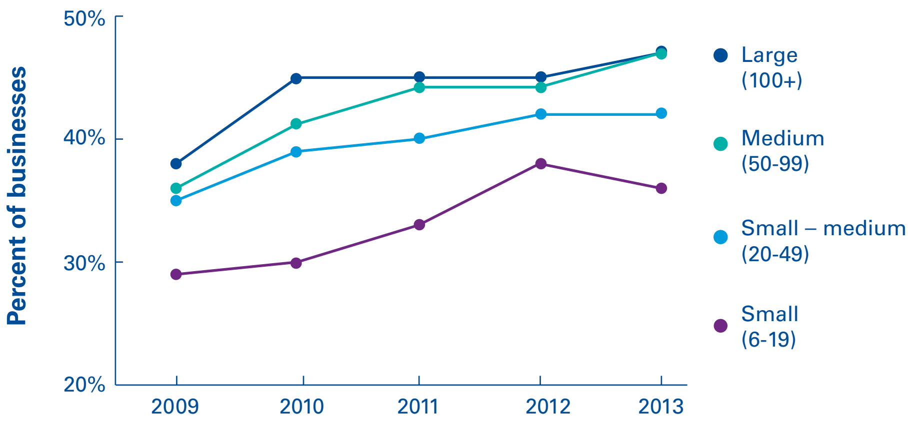


Large (100)

Source: Business Operation Survey 2009-2013, Statistics New Zealand

Fg 7: SMALLER FIRMS ARE LESS PROFITABLE

Percent of companies reporting increase in profitability



Source: Business Operations Survey, 2009-2013, Statistics New Zealand

and taxes. GE estimates that mid-market firms increased their value-add by almost 10 percent in 2013. (Fg.7) They're also the stars of the fastest growing parts of the economy, which are, according to the statistics, areas like manufacturing and construction.

Construction was the stand-out in terms of what it made for the country but also for its mid-market participants, growing sales by almost 40 percent year-on-year.

Innovation gap

With more profitability in the medium and large business sectors, their ability to reinvest in the business and pay more in wages has a direct influence on productivity. Innovation is another natural by-product of the drive to grow productivity.

The higher propensity for innovation among larger firms is nothing unique to New Zealand, but our higher proportion of comfortably stagnant smaller firms conspires to put us at the lower end of innovation tables of OECD countries. (Fg.8)

The Productivity Commission's work, looking at the country's poor productivity growth since, 1980 has identified that too few firms operate in competitive international markets. It is these markets that force firms to adopt the most productive techniques and technologies; that is, innovation results from global connectedness.

The effect is also felt in companies that are foreign owned. Companies with more foreign connections – whether in part or in full owners or as customers – inevitably improves productivity.

Why it matters

The reluctance of the smallest businesses to either relinquish control, or their inability to export, keeps the New Zealand economy hamstrung; we can't increase our productivity and subsequently we cannot increase our GDP per capita.

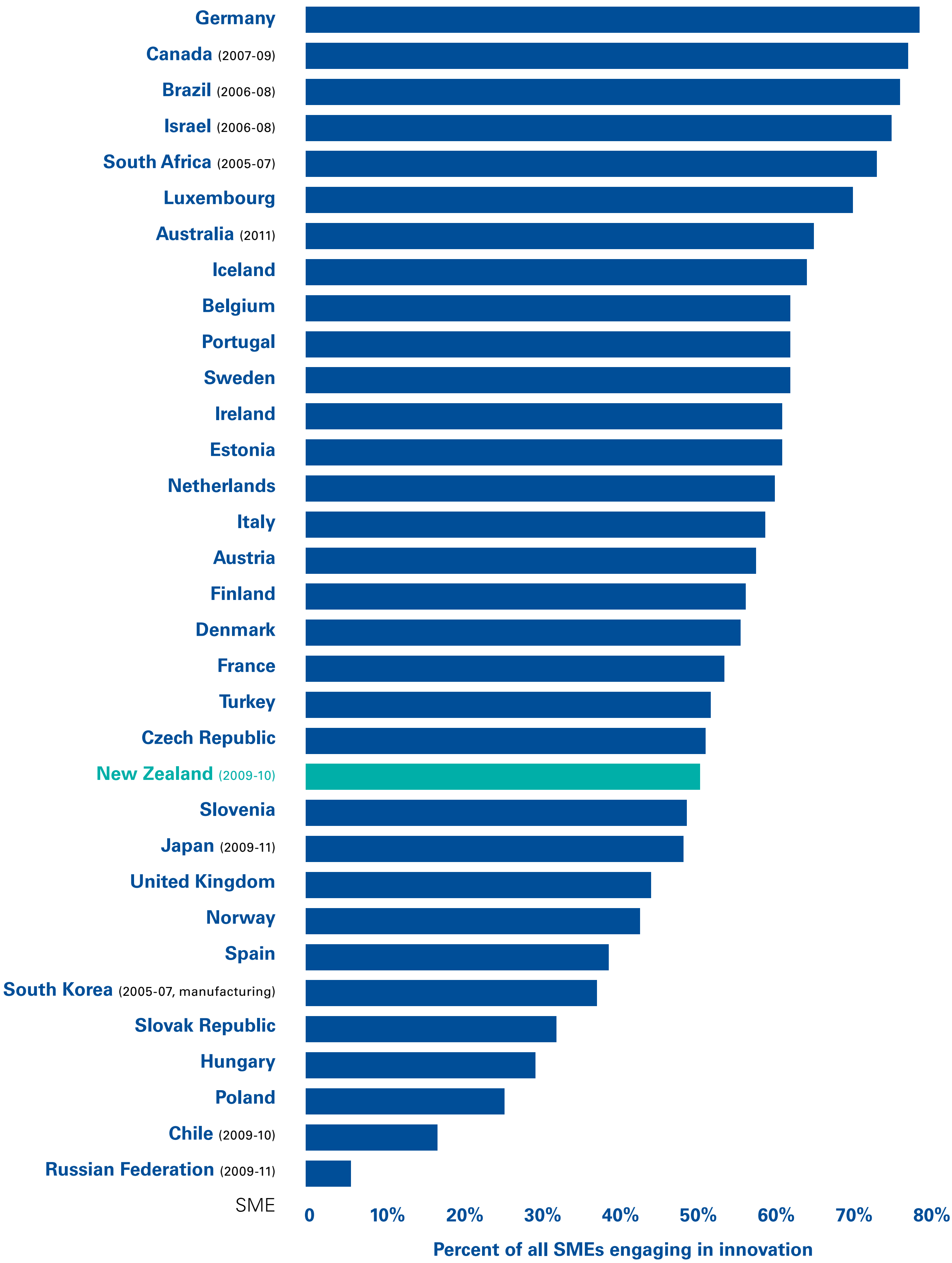
The OECD backed this up in its *Future of Productivity* report last year, pointing out that New Zealand's small enterprises were stumbling on with low growth, in part due to less competition, particularly from overseas, whereas they should be growing – or exited.

New Zealand, it found, had one of the higher start-up rates, but one of the slower growth rates once those businesses were up and running.

"A key message is that creative destruction and up-or-out dynamics are central: entry matters but what happens next is crucial – all else being equal, young firms should grow rapidly or exit (i.e. 'up-or-out') but not linger and become small-old firms," the OECD wrote.

Put simply, we grow our small businesses at the same rate as the sclerotic and stodgy Italian economy,

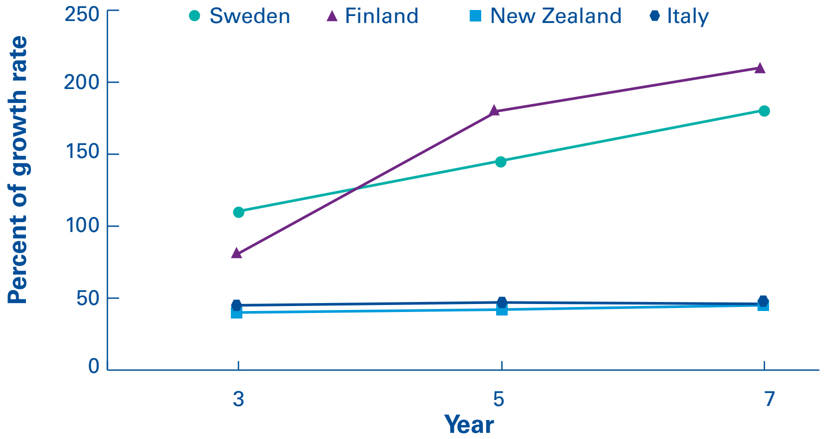
Fg 8: NEW ZEALAND RANKS POORLY IN SME INNOVATION



Source: OECD Science, Technology and Industry Scoreboard 2013. Access via OECD Library
Notes: The OECD defines SMEs as firms with fewer than 250 employees. For full notes regarding data, consult source material

Fg 9: OUR SMEs GROW LIKE ITALY

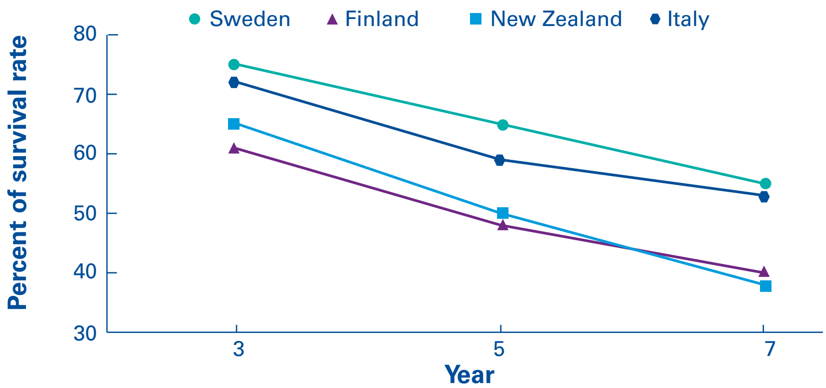
Growth rate of firms



Source: OECD, the Future of Productivity, 2015

Fg 10: AND DIE LIKE FINLAND

Survival rate of firms



Source: OECD, the Future of Productivity, 2015

tracking poorly in the same way as countries like Finland (Fg.9 and 10). Some of that is down to our geographical remoteness and small market size, but other factors look likely to be more tied to our nature as a people, who are blessed with plentiful and easy-to-harvest food, water and resources.

What we should do

This report you're about to read gives an outline of the key drivers at each stage of business; the attributes and methods that successful business leaders have, or have learnt, to drive them from small-scale entrepreneurs to genuine world beaters. These insights are valuable, because these people have done this despite a laid back business culture. They've had to propel themselves, operating in a culture in which people love to start business, but then sit back and enjoy the lifestyle.

While you can't fault people for wanting to enjoy life, the fact is life will not be enjoyable for enough of us if all of our potential wealth-creators took that approach. Our lack of ambition and connectedness to the rest of the world has consigned us to muddling along at the level where productivity and real wealth stagnates. Instead, we work longer hours and employ more people on low wages.

For now we're more than happy, it seems, to leverage our equity in land for capital gains, and pump up the value of our commodity exports by adding more people, water and nitrates to our natural environment to enlarge the size – but unfortunately not the quality – of our economy. It's not sustainable.

A serious conversation has to begin about how we encourage our business people to have bigger dreams. We need them, first of all, to equate business with 'growth'. Not 'bach and beamer' and 'being my own boss'.

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Then, perhaps we need to look at places in the economy where New Zealand has a natural advantage and seek to bring in businesses that are operating on the margins of these sectors. We need to invest more in our best and brightest business leaders. We need to instil a love of success at school. Most of all, we need to be open to our innovators, our entrepreneurs, and our winners.

We need to have more ambition and then get on with it.

Sources: Firm dynamics and job creation in New Zealand: A perpetual motion machine

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Understanding the DNA of business

By Simon Hunter

Simon Hunter
KPMG
Partner – Performance Consulting

Studying the DNA of successful business is a key to unlocking the mystery of New Zealand's lagging productivity.

New Zealand needs more businesses doing more business.

That's the very simple premise that led KPMG on a hunt to drill down into the country's most successful businesses, understand the traits they share, analyse and distil those traits, and share them with others to build an even better and more vibrant economic sector.

At first glance, the reasons that so few local businesses excel into bigger, better and more productive concerns are hard to find. The evidence suggests New Zealand is an awesome place to do business. Constraints to trade are low, the regulatory and operating environments are generally fair and allow for growth, and we can be competitive while still attracting a premium price for our products.

On a broader note, we're in a strong position economically, having survived the Global Financial Crisis relatively unscathed. For the last 20-30 years we've developed the right products in the right niches; we're closer than ever to our markets, including critical markets in Asia, while at the same time being far enough away from chaos points in the world.

It's a sweet spot in many ways. And yet, over that same last 20-30 years, we haven't grown as fast as our peers and competitors. We seem to have missed the boat on driving productivity. And we have failed to increase our margins and prices in key markets.

There's huge opportunity if we can unlock this mystery.

One of the points that has come out of extensive research KPMG has done in this area is identify that New Zealand doesn't, in truth, have a productivity problem – it has a people problem. This becomes abundantly clear when we study some of the key people who have driven superlative New Zealand businesses – companies that are working well beyond the domestic market, targeting a place in the global market and driving prosperity for both themselves and the country.

New Zealand doesn't, in truth, have a productivity problem – it has a people problem. This becomes abundantly clear when we study some of the key people who have driven superlative New Zealand businesses.

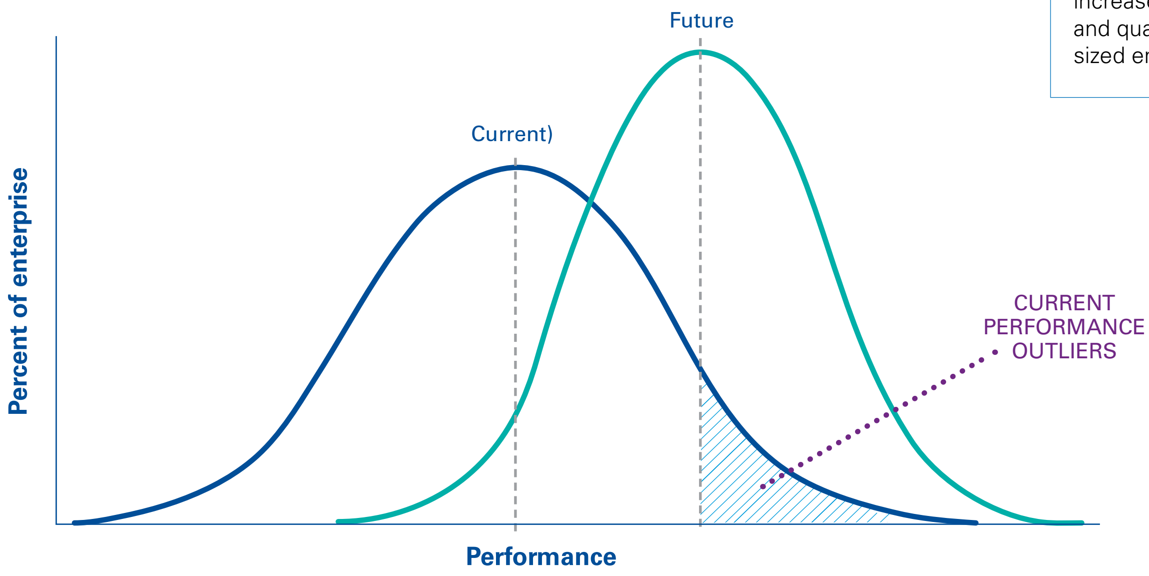
We thought if we could drill down into these businesses we could understand so much more about the keys to success. In some cases, those that attracted our attention operated in industries and sectors that were, in general, struggling – but were not just surviving, but thriving. They could even be described as 'outliers'. What were these outliers doing so differently to everyone else?

We distilled this knowledge into eight traits we've named Enterprise DNA.

The first of these is Pivotal Leaders, the person who may be an entrepreneur, or the person brought into revive a company's flagging fortunes. This person seems to both devise and epitomise the values of the business, and he or she is also the person who assembles the right people around

SHIFTING THE INDUSTRY'S PERFORMANCE

KPMG is determined to help New Zealand increase the number and quality of medium-sized enterprises



themselves – advisors, board members, managers – to bring that singular vision to life.

These excellent businesses also have the right Ambition and Attitude – DNA trait number two. Everyone is invested in the vision and wants to be the best – in the world – as soon as possible.

This shared vision is underpinned by a Strategic Anchor – DNA trait number three – a succinct and clear idea of what the business exists for which doesn't essentially change, even while aspects of the business itself may change and evolve.

It will be no surprise to hear that the best businesses place a high premium on Capable People, trait number four. But the premium companies seek to protect their culture as a first step to deciding on the people they use, and everything flows from there.

DNA trait five is Investment and Resource Allocation. The best companies understand where to put their capital in terms of physical assets as well as innovation, and have the right priorities in terms of investing in their people.

The best businesses also all have Customer Intimacy (DNA trait number six) – they walk in the customer's shoes, ensuring they're happy and listened to constantly. They also have Deployment Discipline (DNA trait number seven) – excellence in execution and troubleshooting.

The final trait is Connection and Collaboration, and it's this quality that these outlier businesses naturally excelled at, despite the fact New Zealand business as a whole does not.

KPMG has looked at studies from around the world and we note that in other regions, collaboration and working together is very important; it creates a network and ecosystem which helps 'raise all boats'. The best businesses reach out to their peers, collaborators and stakeholders almost instinctively,

We've worked to foster this type of collaboration in our Te Hono bootcamps targeting the agricultural sector, and the results are almost immediate.

Of these eight traits of Enterprise DNA, four relate to the leadership and people within an enterprise (Pivotal Leaders, Attitude and Ambition, Capable People, Strategic Anchor).

The report you are reading singles out these four strands of DNA and examines how these traits look at the business lifecycle. It asks pivotal leaders what drives them, and what allows them to transcend the role of small business owners and managers and into becoming entrepreneurial leaders.

In putting these pieces of research together, we aim to get to the crux of what needs to happen to bridge the 'people gap' that's developed in the last few decades that has seen New Zealand's growth stagnate. We've got to find people who aren't satisfied with middling results – we want those next ten percent of businesses who aim to grow by as much as 40 percent yearly.

Because those are the ones that will fuel prosperity, unlock opportunity, and inspire the kind of success that will drive the country towards more prosperity.

Enterprise DNA

High-performing enterprises grow from a set of conscious decisions to do things a particular way. Embedding excellence into an organisation is a cultural issue that cannot be imposed on people through meetings or Power Point presentations.

Changing culture requires leaders to work closely with their teams to demonstrate the desired behaviour, celebrate milestones, be open and honest about failings, and hold each other to account.

This takes time and requires investment to equip people with the skills and tools they need to have an impact. Most critically, any cultural change requires clear communication, starting from the top of the organisation.

Four key leadership traits of Enterprise DNA

Pivotal Leaders

- Has driven the business from inception, or is brought in to get the business 'back on track'. Identifies closely with the business and is there for the long term.
- Has the vision, passion and industry experience combined with strong commercial focus.
- Brings a rhythm to the business, and a focus on constant improvement. Can bring everyone along for the ride.
- Use their boards wisely, and know how to seek help while remaining independent.
- Stable management is a focus, with the company's legacy always protected despite change.
- Introduction of new people under a pivotal leader is done carefully, and with a view to not undermining the culture of the business.

Capable People

- Company culture set from day one, and adhered to by all.
- Everyone in the company knows where it's going, and there's a common purpose.
- People must fit in with the culture, understand and represent the values, and if they don't, hard decisions need to be made.
- The culture is always protected, and culture protects the business, throughout change/evolution.
- Internal communication is as important as external communication.
- The enterprise is developing core capabilities that will be required at least five years into the future.

Strategic Anchor

- A single idea that's been there from day one, and everything in the company is built around this idea.
- The anchor is never compromised, even as the business evolves and changes.
- It's very distinctive, not a 'me too' position.
- Sees the company constantly look to narrow and define its focus, culling brands and other elements that don't fit any more.
- Has the same core purpose now and well into the future.

Ambition and Attitude

- A desire to be the best in the world – and be the best in the world quickly.
- An ambition to be globally relevant, not just a domestic star.
- Everyone in the company is on board with being number one or two in every market segment.
- A relentless desire to be better in every way.
- Humility about the way the business conducts itself – confident, not arrogant.
- A laser-like focus on the future.
- A desire to do something extra-ordinary for future generations.

Small versus medium

Bigger is better, especially in terms of outcomes for mid-sized businesses. We quantify the difference.

Small versus mid-market: The key differences

We know that New Zealand is a nation of small-to-mid-sized enterprises. Some 97 percent of all business have less than 20 employees. But not many grow into mid-sized businesses. Yet we know how important mid-sized and large businesses are for creating wealth, employment, exports and IP.

The question that we must answer is 'why?' Why do so few small businesses kick on to become genuine, sustainable businesses that are independent of their founders? No doubt there are a host of reasons, including access to capital and markets, training and talent. There may be industry-specific reasons. For example, there's growing evidence that the technology sector is growing companies of genuine scale, but other industries haven't been able to replicate that model.

To examine further the possible factors that stymie growth, we chose to focus on the importance of leadership and ambition, which covers four of the Enterprise DNA traits – Pivotal Leaders, Ambition and Attitude, Strategic Anchor and Capable People, partnering with Colmar Brunton to conduct two pieces of interlocking research:

Quantitative: In which we compared the attitudes and attributes of those leading 'small' companies (turnover below $2 million) with those leading 'mid' companies (turnover above $2 million).

Qualitative: In-depth interviews with the leaders of 12 medium-sized enterprises conducted by New Zealand research company Colmar Brunton.

We also conducted workshops with 21 entrepreneurial leaders in Auckland, Tauranga, Hamilton and Wellington to test our insights against the experiences of real businesses. The results give us strong clues as the difference between these two kinds of firms and suggest what needs to be done to nurture more of them

Small versus medium

Tapping into Colmar Brunton's annual survey of small businesses, we contrasted the attitudes of the leaders of companies with $2 million turnover with those below $2 million. The results are summarised as follows:

- Small business owners have to stretch themselves over several roles, i.e. finance, operations, marketing, whereas medium enterprise employees are more focused on their disciplines.
- Mid-sized enterprises are more likely to be in agriculture, manufacturing, mining, infrastructure industries and less likely to be in business services.
- Mid-sized enterprises are more established – 61 percent of these companies are older than 10 years, compared to 32 percent of small enterprises; 39 percent are looking to invest in growth or productivity initiatives. One quarter are looking to reinvent themselves as they face increased competition or other macro pressures.

Mid-sized sentiment

In addition, the mid-sized companies:

- Feel more in control of their business' success, with agency to make change.
- Are more likely to focus on growth in the coming year.
- Feel more optimistic compared to 12 months ago.

Mid-sized businesses are more likely to have long-term plans – 47 percent have one-to-five year plans compared to

MEDIUM-SIZED ENTERPRISES:

ARE

6.5%

OF ALL NZ FIRMS

ON AVERAGE THEY EMPLOY

23 PEOPLE

AND GENERATE

$4.8M

IN REVENUE

36%

OF TOTAL NZ SALES

AND CONTRIBUTE

34%

OF GDP

Source: GE Mid-Market Monitor, 2015

Running a business is better for medium-sized enterprise

	Small enterprise <$2m %	Medium enterprise >$2m %
Learned a lot, got heaps out of it	76	89
A personal and lifestyle success	62	74
Liberating and exhilarating	58	72
Lots of fun	57	67
A financial success	52	75
Much better and easier than I expected	35	47

Source: Colmar Brunton

27 percent of small enterprises and micro-sized enterprises.

The focus on the future is a major feature of the entrepreneurs we spoke to. This marked desire to look to the future may explain why our leaders hewed towards optimism, always believing they had the agency to make good things happen.

In terms of business operations, mid-sized enterprises are more likely to have the following outsourced:

- Administration
- Marketing, advertising and media
- IT/Technology
- Legal

Medium enterprises are more challenged by macro factors such as government policies and access to labour, but other challenges are felt the same as small enterprise.

In terms of top priorities, medium and small enterprises share the same concerns: cutting costs, improving profitability, improving production and building brand awareness. However medium enterprises also list ‘launching new products and services’ and ‘gaining more capital’ in their list of priorities.

In hindsight, two-thirds of medium enterprises would still have set up their own business, compared to only half of small enterprises.

And, finally, medium enterprises are overall more enthusiastic about business than their small counterparts.

In summary, it appears there are **measurable** differences in the attitudes and leadership styles of small and medium-sized enterprises. If we’re to grow our enterprises then cultivating those attitudes and styles is critical.

So what are those attributes of the medium-sized businesses and how did they develop them?

Consistent themes emerged about what kind of people lead medium-sized enterprises, their leadership styles and ambitions and how these changed as their businesses evolved over time.

We have characterised these people as ‘entrepreneurial leaders’ as opposed to mere ‘managers’.

The entrepreneurial leader

Over the course of many discussions with successful medium-sized firms, the character traits of the entrepreneurial leader emerged like someone walking out of the mist. It’s true that at various times they have been required to micro-manage their businesses, especially in the start-up phase. And they continue to act as managers, although often reluctantly and sometimes, by their own admission, not very well.

However they are different from ‘mere’ managers in their heads and hearts. At their core is the question ‘why not?’ – and different answers characterise each

There are measurable differences in the attitudes and leadership styles of small and medium-sized enterprises. If we're to grow our enterprises then cultivating those attitudes and styles is critical.

GROWING IN THE MIDDLE

MID-SIZED ENTERPRISES:

GREW THEIR 'VALUE-ADD' BY

9%

(MORE THAN OTHER BUSINESS SECTORS)

CONTRIBUTED

55%

OF THE GROWTH IN TOTAL NZ SALES

47%

INCREASED THEIR PROFITABILITY (HIGHEST OF ANY SIZE BUSINESS)

AND THEY HAVE LONGER LIFE, INNOVATE MORE AND EXPORT MORE

AND THEY SPEND

$660,000

PER YEAR ON R&D AND PRODUCT DEVELOPMENT

Source: GE Mid-Market Monitor, 2015

type. A manager will say "I can't", while an entrepreneur says "If they say it can't be done, then I must try and do it!". The ability to tolerate risk separates the two groups from each other.

This openness to possibility, call it optimism or even belligerence, seems to us to be one of the defining differences between the manager and entrepreneur. From it springs other really important attributes common to leaders:

They create and disrupt
Entrepreneurs don't let rules or social conventions stop them. They see a way of getting it done and then do it. They look beyond points where a lot of people would stop and have the ability to see different paths and different options.

Failure is a precursor to success
Entrepreneurs are not afraid of failure as they see that it's part of the learning curve and inevitable.

"By failing, especially in the beginning of your career, you learn and become better at what you do. You understand better where you sit, where your strengths and weaknesses are and how to deal with them," said one of our discussion group entrepreneurs.

Shape their own world
Whereas many of us wonder where we fit into the world, entrepreneurs have an innate need to shape and create the world according to their own to their views. This can often be perceived as arrogance or worse, narcissism, but a more positive interpretation is a need for self-actualisation: they are determined to prove themselves to themselves, rather than to society. This could be the reason why making money is ranked low in their measures of success.

Not a job, a journey
Entrepreneurs view their task as a journey, with no set way of getting 'there'. It's certainly not a job. Which explains why they are such hard workers and also strong networkers. For them 'work' is a passion that does not end after 5pm.

Value people and process
Unlike sole-traders, entrepreneurs actively cultivate outside expertise. They've a great deal of self-knowledge; they know they are not heroes or Lone Rangers. From the start they seek help from staff, boards, mentors

Whereas many of us wonder where we fit into the world, entrepreneurs have an innate need to shape and create the world according to their own to their views.

and professional advisors. They realise they cannot do it all.

"Mark Zuckerburg has arms and legs like us. It's how he uses them and who he's got with him that makes the difference," said one of our leaders, echoing a common sentiment from our discussions with leaders.

Growing with the business

These attributes separate the mere managers from entrepreneurial leaders. And they mark the entrepreneur as a rare beast.

But by themselves they are insufficient for business growth. At each stage of the business lifecycle the entrepreneur must bring a distinct set of skills and attitudes to the task.

These are often inherent traits, but they can also be learned, and in being learned, can be cemented into the company culture by entrepreneurial leaders. Both the learning of the traits, and the process by which they are handed down within a business to ensure its survival, are keys to growing a small business into an entity capable of handing growth.

Putting together entrepreneurial traits, where the business is at the lifecycle, and talking to those that show these traits at different stages in their own journeys has given us a clear picture for the kinds of factors that affect leaders and their people at each vital stage.

We've also talked in-depth to people who have made the journey and learned from their experiences. Their experiences are weaved into our findings and stand alone as case studies; all those interviewed were eager to share their trials and tribulations and this is again a very typical attribute of an entrepreneurial leader – the desire to share knowledge and experience for the greater good.

Once the early challenges like finding capital and the best people with which to build a team are conquered, the journey has begun. But growth is the next major phase, which requires a new set of skills and behaviours.

The journey of an entrepreneur

Commercialising a great idea takes the entrepreneur on a unique path

Key characteristics
DRIVE AND PASSION

- Innate drive to find out
- Innate drive to influence the world
- Transformers

Business stage 1
SETTING UP

- Turning ideas into action
- Learning curve – failing, and getting up again
- Realising limits to abilities, hiring others
- Enthusing others – staff, customers, funders

Business stage 2
GROWING

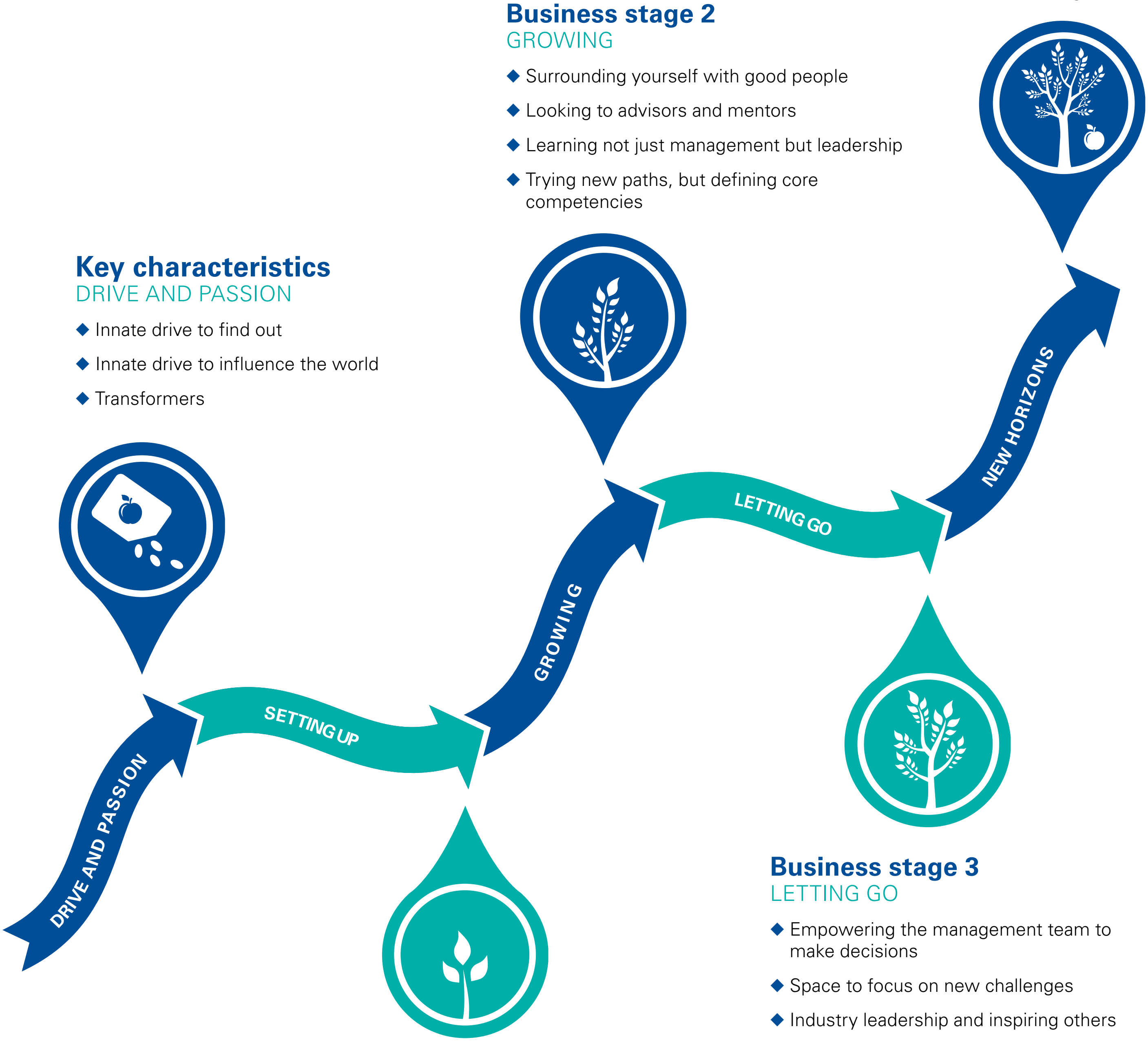
- Surrounding yourself with good people
- Looking to advisors and mentors
- Learning not just management but leadership
- Trying new paths, but defining core competencies

Business stage 3
LETTING GO

- Empowering the management team to make decisions
- Space to focus on new challenges
- Industry leadership and inspiring others
- Succession planning – ensuring the business can be maintained without you

New horizons
EXPLORING OTHER OPPORTUNITIES

- Mentoring, public speaking, consultancy
- Giving back
- Re-inventing self



Start-up

All entrepreneurs who bring ideas to market must navigate the start-up phase, where ideas are plentiful – unlike capital – and burn-out is a real risk.

The entrepreneur's journey: Start-up

A good place to spot the difference between the small business manager and the entrepreneurial leader is in the start-up phase.

New Zealand is a country of small business, 70 percent of which have no employees at all (that is, they're self-employed people).

These figures suggest a country of people who enjoy the challenge of business, who like working for themselves, and who have an openness to get on and try new things.

They are backed by a stable political and business environment and a limited but solid number of basic support services provided through government agencies such as MBIE and for exporters, NZTE.

It's a positive picture in many ways, but it is not necessarily a recipe for a wealthy New Zealand. For a start, many of those businesses fail – almost 50 percent in their first nine years. But for those that remain, only a handful will make it to the next stage. That next stage can be measured many different ways, but it may be more employees (50 or more employees usually denotes a medium enterprise) or more revenue (over $2 million).

It's not just the figures that mark out a company with potential. They are characterised by having leaders that take a long-term approach and look beyond the domestic market to global sales.

As a country, we need to be able to grow entrepreneurial leaders, not just small business managers.

Managers are those who are immersed in the day-to-day operations of their business. They're focused on a short planning horizon that may just entail one or two seasons or years, and most importantly, they're not driven by dreams of endless growth.

They're more likely to be motivated by achieving a comfortable lifestyle for themselves and, if they must, hire only a few staff.

These small business managers score lower on many metrics, from ambition and planning to innovation and specialisation. Curiously, they also enjoy their business less than medium-sized business owners do – a hint, perhaps, of the underlying motivations of small-business managers: their business is a means to achieve a lifestyle.

Entrepreneurial leaders, by contrast, find pleasure in their business and are highly motivated to grow and achieve longer-term goals for the business, not just themselves.

We need more of these types of people to evolve to be leaders that are able to step away from the daily operational challenges and think deeply about how to maintain relevance, and create and capture value into the future.

It starts in the start-up

A good place to spot the difference between the manager and the entrepreneurial leader is in the start-up phase. On paper, two start-ups may appear the same, with one or two employees, bank loans as capital and zero-to-small spending on premises or equipment. From a high-level point of view these two businesses will be recorded the same by the Companies Office. Banks, investors and future partners may have difficulty identifying which one has potential for growth and which will eventually plateau.

What attributes does the entrepreneurial firm demonstrate at this early stage to distinguish it from the manager's less ambitious company?

The first four elements of the KPMG Enterprise DNA framework provide a helpful guide.

Pivotal Leaders

The first clue is that the start-up with growth potential will typically have an entrepreneur or a group of entrepreneurs at its helm. This person or group will

WHAT WORRIES MEDIUM-SIZED ENTERPRISES

25%

ARE WORRIED ABOUT THE EFFECT OF THE HOUSING MARKET

47%

SAY THEIR BIGGEST CHALLENGE IS LOW-COST COMPETITORS

1.4%

THE LEVEL OF GROWTH THE MID-SIZED SECTOR EXPECTS IN THE COMING YEAR – DOWN FROM 2.8% IN 2014

53%

FIND IT HARD TO FILL VACANCIES (WHICH IS BROADLY SIMILAR TO LARGE FIRMS)

Sources: GE Capital, Mid-Market Monitor, 2015; Statistics New Zealand, Business Operations Survey, 2014 be visionary, tireless and brave. They will demonstrate the core belief that 'anything is possible' with a belligerence that can be occasionally affronting.

These leaders will impose the right disciplines from the start. Sometimes it's as simple as taking control of the basics. One entrepreneur that we interviewed inherited his share of the business from a very capable tradesman father, yet the firm was struggling to scale itself up.

"When we started we had no controls. So the first thing I did was buy the entire business so I could make proper decisions. Then I created systems and values. I decided that one thing that would set us apart from our competitors was the quality of our service, so we made that one of the cornerstone values and build systems to deliver it."

Without the determination of the entrepreneurial son, the business would likely have closed when the father eventually retired.

Ambition and Attitude

A key attribute of entrepreneurs in this early phase is the determination to 'make a difference in the world' – not just 'be your own boss' as is the motivation for so many, if not too many, small business owners.

We saw this ambition expressed many times in the workshops, whether it was the desire to create a new product, solve a problem or just get started on some kind of big adventure. The ambition was to 'do something' that affected the world, not just create a job.

Interestingly, very few of the entrepreneurial leaders identified money as an ambition. Financial success was seen as a by-product of the original mission. "Success is making a difference. It's never been about making money," said the owner of a North Island restaurant chain.

If there was one critical observation, few of our interviewees articulated a desire to be globally competitive. The measures of success, especially in the start-up phase, was to 'do something'.

Said one owner of a highly awarded Wellington business: "Our ambition was to do something different. We didn't think we'd get big. We just wanted to get started. Now that we're getting big, we're asking ourselves, do we want to keep do this? The answer is yes. We want to keep doing this in 25 years' time and whether it's big or small we don't really care."

Should our entrepreneurs be more ambitious than this?

Over and over we found the entrepreneurs we spoke to started their businesses on the assumption that they would not be working one day – and that the business would continue to flourish without them.

Strategic Anchor

Whereas small businesses will put a capable person at the centre of the business, for example a tradesman, a scalable company will articulate a strong strategic reason for being.

Typically we found that our entrepreneurs talked about filling 'the gap in the market' by solving a problem, providing something significantly different or creating a new product that no one had yet thought of.

The strategic anchor makes it possible for the business to scale beyond the influence of the founder-practitioner. It also allows the company to pivot when the market changes.

Auckland firm, Howick Engineering, is a good example of a company with a strategic anchor at its core, as opposed to a company based on a talented individual. Starting out as the general engineering workshop of founder Bruce Coubray, Howick narrowed its focus on the steel framing industry, specialising in manufacturing roll forming machines. Its patented machinery is now sold globally and has far exceeded in revenues what Bruce could have achieved as a single engineer. Bruce is also in the process of succession planning with his son and a management team.

While Bruce is a talented and pioneering engineer, the business' anchor turned out to be in serving a need in a growing industry, not just charging an hourly rate for its founder.

Over and over we found the entrepreneurs we spoke to started their businesses on the assumption that they would not be working one day – and that the business would continue to flourish without them.

As one software company founder said: "Success for me is happy clients – and that I don't have to be here every day to make that happen."

Capable People

In the early stages of an entrepreneur's journey, there's a heroic quality to their task. Often they are the only one that can see the future. That's what makes them visionary. They are cash-strapped, so have to do everything themselves. And they are hard-working, to the point of being unbalanced in their lifestyle.

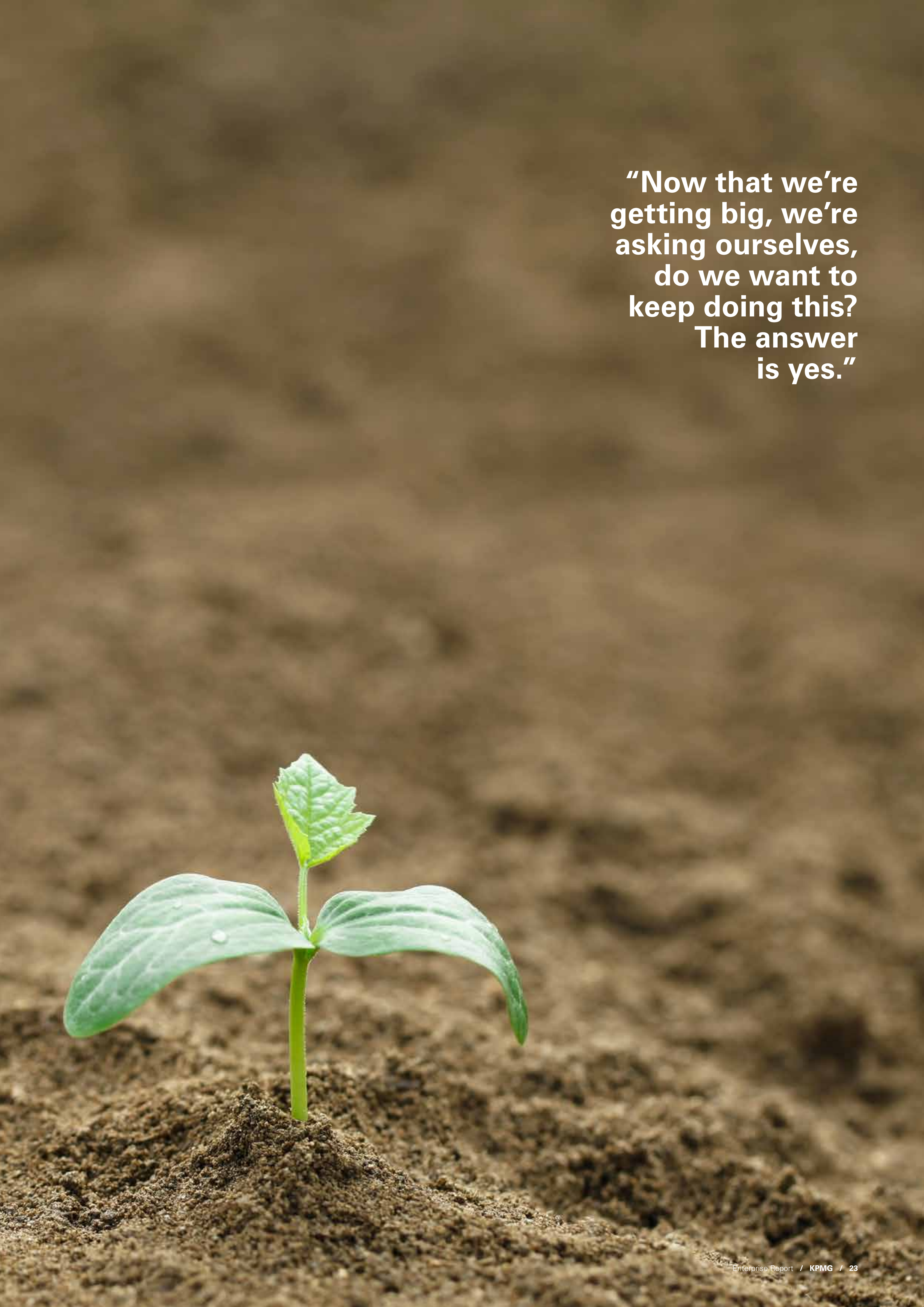
There's not much that can be done to change this. Needs must!

But an early warning sign for investors and partners is just how long this phase lasts. Said one highly successful Hamilton entrepreneur about his early days: "I did everything – meeting customers, payroll, creating software – but for too long. I should've replaced myself sooner. We would have grown faster."

The entrepreneurs that progress beyond one or two-person operations must attract capable people. In the start-up phase that manifests itself in two ways:

- Early hires: the quality of the first few staff says a lot about the company's ability to 'get beyond' the founder and continue to hire great talent. This especially matters as it exits the start-up phase and enters the growth phase of its lifecyle.
- Quality professional advisors: all good entrepreneurs will surround themselves with boards, professionals or mentors. What's more, they will actually listen and take on their advice.

“Now that we’re getting big, we’re asking ourselves, do we want to keep doing this? The answer is yes.”



In summary: Start-up

Enterprise DNA in the start-up phase

PIVOTAL LEADERS IN THE START-UP PHASE

- They have self-belief – sometimes so strong it seems like belligerence.
- They are tireless and brave.

> "Entrepreneurs don't put blinkers on by saying 'I don't want to be like…', they create themselves and the world they want."
> – Anon

- They work hard and seek to drive and control all aspects of the business.
- They're having fun and are driven by passion – their main driver is not usually money.
- Sheer determination brings others along.

AMBITION AND ATTITUDE IN THE START-UP PHASE

- Roadblocks don't stop them; they 'work around' barriers.
- They disrupt.
- There's sometimes a failure to desire global competitiveness.
- They are excellent at spotting opportunities.

> "I can remember we had a very small customer call us from Scotland...and they were a two-screen cinema or something like that and we flew over...did the deal, and they're now, I think, the fifth largest cinema chain in the world. So whenever we see a customer we don't think 'oh, that's really small'. It's a new territory, a new opportunity..."
> – Murray Holdaway, Chief Executive, Vista Group

STRATEGIC ANCHOR IN THE START UP PHASE

- They are driven by a particular idea or concept and won't be swayed.
- Long-term vision is critical.

> "We have a 1000-year legacy, a 1000-year vision… there was no exit strategy because this was building something for the long term...however, we also wanted to build one of the great wine estates in the world in our life-time."
> – Steve Smith, Co-founder, Craggy Range

- Business is capable of pivoting in a different direction, but remains capable of scaling up.
- The anchor here lies with pivotal leader – he or she remains the guardian of the idea and the driver of any execution, so staying true to the strategic anchor is easier.

CAPABLE PEOPLE IN THE START-UP PHASE

- Tend to be a 'one-man band' at this stage, so has not yet outsourced certain functions to other experts.

> "I used to do everything!"
> – Anon

- Advice is sought, usually from entrepreneur's close circle of family and friends.
- Mentors are often those that drive an entrepreneur on, may not be from the same industry but help nurture the seed of ambition.

Case study

Paul Cameron – Booktrack: Revolutionising reading

To be entrepreneurial is to be ahead of the curve… but what about if you're so ahead of the curve that the technology for your idea hasn't even been invented yet?

Paul Cameron
Booktrack
CEO

That was the dilemma facing Paul and Mark Cameron, brothers from Auckland, who had long been pondering the way commuters read their books on trains and buses on their way into work, listening to Sony Walkman or Discman music players while they travelled.

"We realised that reading was the only main stream entertainment medium without synchronised sound," says Paul.

It was from that observation that the former aeronautical engineer developed an idea to create soundtracks to books, which would allow people to have a movie-style soundtrack experience while reading. Constant tinkering created a product that put sad, happy or suspenseful music alongside a tragedy, comedy or thriller. It allow the reader to hear ambient audio such as a babbling brook or car crash as he or she reads about it.

But of course, as a digital application, the idea had to be put on ice until smartphones and tablets exploded on the market some five years later. With smartphones came eBook adoption, and the canny entrepreneurs saw a chance to revive their idea.

"We really see this as having the same transformative effect on reading as sound did when it was put to silent movies in the 1920s," says Paul. "That is our aspiration, and what drives us on as we navigate the start-up route, which can be pretty tough at times."

The brothers were focused from the beginning on the global market, where their business partners and customers would largely be found, and so focused their attentions offshore right from the beginning of their expansion.

With the help of one of the initial investors, digital entrepreneur Derek Handley, the company opened an office in New York and began setting about the hard work of making connections.

They launched two book titles (with soundtracks) initially, and those titles rocketed to the top 10 book apps in 20 countries shortly thereafter. The company then removed the barriers to using the technology, and made the Booktrack creation and reading tools available in people's browsers.

Numbers grew from 250,000 to 3 million users in two years – a growth that portended great things.

But while the company has moved into the post-revenue stage, it's not been without the usual blips that make the start-up process challenging.

Paul says capital is an issue, even when the product has an impressive roster of interested parties, including some of the biggest book publishers in the world.

"We've managed to raise NZ$20 million in investment as we've grown over six years so that's been great, but a lot of effort's required to secure that – it's not for the faint hearted," says Paul.

"Building a strong team of people is also fundamental. We have a very strong management team now in New Zealand and North America, but it was a bit of trial and error at the start, which can happen when you hire people offshore – you don't always get it right first time."

The company will look to another round of fundraising in 2016. It's looking to eventually grow its user base to more than 10 million, and says it has the right people in place to make it happen. The team is "all on the same page" with the company aspiration to revolutionise reading – not exactly a modest aspiration.

"It's not just about money for us," says Paul. "There are easier ways to make money than go the start-up route, but the opportunity to work with a great team and create something that gives millions of people around the world a great deal of pleasure in something as important as reading is a massive opportunity that cannot be missed."

Lessons from starting-up Booktrack

- **Don't be afraid of the idea that seems impossible**
- **International connections and a physical presence offshore is critical if clients and end consumers are too**
- **Take care in hiring people offshore, it's easy to make mistakes**

Case study

Kirsten Taylor - SleepDrops: A sleeper hit

Kirsten Taylor's long experience and study of herbal medicine, nutrition and naturopathy – combined with an inability to sleep soundly – created the spark that lit the fuse on a hugely successful business.

Kirsten Taylor
SleepDrops
Managing Director

Kirsten had a successful clinic for many years from which she made remedies for clients, but when her sleep problems started, she veered down a slightly different product path and now runs a company with sales topping two million dollars annually.

Kirsten is next focused on breaking into the US, where natural sleep remedies are a billion dollar industry. The sales have always come, but throughout her journey in entrepreneurship, access to capital has been a consistent challenge.

"If you start your business with nothing it's a crawl forward by your fingernails exercise every day," she says.

"There is support available through places like the Chamber of Commerce, which do an excellent service. But I would say banks need to up their game in terms of providing support and vision to smaller businesses. They fall back on saying 'we are not equity partners' but I think in some instances they should be."

Her challenges now revolve around securing a larger pool of investors.

"I don't want to be restricted by money and held back and stifled so I'm hoping there will be investors looking for a great opportunity with our company – it's essential for our expansion and survival because we can't be sustained by just the New Zealand market.

Kirsten says the key to growing business and surviving the inevitable ups and downs is to be "very hands on."

"I can literally pick up the phone and say to my suppliers 'this is what happened to me I'm really sorry I don't have the money – can we develop a payment plan?'

"Because they trust me and know we're a reliable company we can do that.

"It's helped at times such as when we signed a $40 million contract with a New Zealand company for China, and because of a chain of events out of our control, in that country, the contract fell over and we were left with a year's supply of stock and a serious cash flow problem which was a big challenge.

"We were able to ride that through because I have always made it a priority to meet with our business partners and let them know I am on top of things."

"While these relationships are very time consuming, they're absolutely worth their weight in gold to your business."

Another aspect of business driving Kirsten is she feels she's helping solve a world-wide problem – a chronic lack of sleep.

"This year's been financially challenging for us and some things haven't gone our way, but one success we have had is massively increased the profile of the company and highlighted the importance of sleep – a big issue on the minds of many in the world.

"And that is really what drives us – and particularly me. I genuinely believe my products will help improve lives – I'm not just selling roof paint.

"There's a whole movement around conscious entrepreneurship and that is something that resonates strongly with me – I will never be in business just for the sake of being in business.

There has to be a service aspect to it."

Lessons from starting-up SleepDrops

- **Access to capital will always be a challenge, and banks aren't necessarily your friend**
- **Constant focus on maintaining a relationship with your suppliers and customers will help when trouble arises**
- **Sometimes part of your job is to create a wider awareness**

Case study

James Obern - Avertana: Chemical kings

You may not know what titanium dioxide (TiO_2) pigment is, but it's all around you, hiding in plain sight: the white in paints, plastics, textiles and toothpaste the world over. Globally, it's a $13 billion dollar business.

Sherif Ibrahim, Sean Molloy and James Obern
Avertana
Founders

Although it's a necessity of modern life, both existing manufacturing methods to produce titanium dioxide present serious environmental issues.

The processes used have barely advanced since their creation decades ago. But three entrepreneurs saw a gap and stepped into it. These three – Sean Molloy, Sherif Ibrahim and James Obern – had worked together at New Zealand-born carbon recycling company Lanzatech. All three had a desire to start a green revolution in chemical manufacturing, and at the same time, build a world-class business producing a product that's a step-change: ten-times better environmental performance with industry-leading profitability.

Their business, Avertana, took a couple of years to gestate, with the trio spending all their spare time investigating how they might create pigment out of heavy industrial residues – forging a new product from waste.

Pre-seed investment from Lanzatech's Dr. Sean Simpson allowed for proof of concept lab work, as well as the necessary commercial and legal nuts and bolts. A cornerstone seed investment from Sir Stephen Tindall's K1W1 followed, providing the capital to build a pilot plant.

When this proved successful, day jobs were quit and the hunt for additional investment began in earnest.

"Banks certainly have an openness to funding innovation but the due diligence process is rigorous," says Avertana Commercial Director James Obern. "There's nothing easy about getting a process technology start-up off the ground – raising capital is stressful and absolutely full-on."

That said, in just two years Avertana has pulled together a world-class team of technical and commercial specialists, getting key partners on board with the company's mission early on in the process.

It's now focused on securing institutional investment to develop a pioneer commercial plant in New Zealand in 2019, from which it expects to generate revenues topping $150 million, with the potential to quadruple this in using locally-sourced raw material.

Beyond New Zealand, the company has identified a pipeline of future project opportunities using waste resources.

Collaboration has been critical. The company made it a key priority early on to seek advice from other industry players and in doing so attracted people who liked its mission. Business development director Ivan Tottle is a great example. He previously headed up the Specialties division of Nuplex, and after being approached to provide input on the company's go-to-market strategy, decided to get directly involved, taking a stake in the business.

"In process technology companies in particular, where the team is multi-disciplinary, it's critical that people stay engaged and talk to each other constantly – that's where a lot of the real innovation and creative thought takes place," says James.

James is keen to stress that the early years of a start-up are full of, well, stress. "I took a huge pay-cut to throw my energies into Avertana and had to work part-time as a consultant to keep my family afloat; the demands on your time and energy are immense and an understanding partner is essential."

"A lot of people have great ideas but don't pursue them because they fear the downside," he continues.

"For all of us, the fear of not following this hugely exciting opportunity would have been far worse than not taking the lunge – and that is what drives us."

Lessons from starting-up Avertana

- **Use every industry connection you have and ensure plenty of face-time with contacts**
- **Senior people in the industry who have grown businesses already are great hires**
- **The stress on families can be immense – an understanding partner is crucial**

Growth

The growth stage of a business sees the entrepreneur move from *manager* to *leader* – from the person doing it all to the person assembling a great team.

The entrepreneur's journey: Growth

In the growth phase, the entrepreneur must move from 'doing' to 'inspiring'.

The business is making money, and it is soundly anchored by a great idea with a long-term outlook. The entrepreneurial leader of this business wants to do more than just serve the small domestic market; he or she has a desire to not just be the best in New Zealand – but also conquer the international market.

As with the start-up, the passion and drive are there in the growth stage, but there comes a point where the necessary expertise is not.

At this stage in the lifecycle of the entrepreneur, he or she becomes aware that there's a need for people who are better at various supplementary functions (the accounts, marketing, strategy and so forth) to take the business to the next level.

Learning to manage these people and grow the business using their strengths and passions to complement the leadership direction is key to developing past a 'manager' and into a 'leader' – someone who inspires.

The right people

Time and again, finding the right people was mentioned throughout our research as key to growth.

The need arises fairly early, when a business starts to get too big for a sole owner or manager to be able to continue doing every task. Many of our subjects expressed regret that they had waited so long to hand over the reins to people who were specialists in their fields – be they accountancy, human resources, marketing, IT, or anything else. They require specialist knowledge as the business acquires scale.

Entrepreneurs are often the type of people that like to maintain control and so the idea of letting someone else in to drive parts of the business can be a challenge. But no-one that we spoke with regretted finding people better than themselves at various things and giving these people a genuine independence and autonomy in the business, because it inevitably led to a better result. Those that had brought in additional expertise talked about hiring for where they wanted to be, not where they were.

This level of growth and expansion requires not just specialists to join the business but external people to cast their eye over the business and steer it in the right direction (or keep its strategic anchor in place). This phase may see a board of directors established, advisors employed, or mentors sought.

Sharing values and vision is very important between an enterprise and a board or group of advisors, and so this seems to be where the entrepreneur must use his or her gut feeling and instinct to first establish a relationship.

There is another element to the relationship, a sort of 'X factor'. In business as in life, partnerships often rely on chemistry, and even a match on paper may be missing that X factor in person, or when the relationship encounters strain.

There must also, obviously, be two-way trust, respect and honesty for external advisors to work; a two-way process of listening is vital.

Mentorship is different again – an unpaid, long-standing relationship in general. Both mentorships and advisory relationships need to be constructed carefully to extract maximum benefit, and both partnerships should agree up front a model and structure that will work for both parties to ensure that each can see the benefit and the value from the relationship, while being able to measure progress.

Finally, collaboration is a natural extension of finding the right people for a business – and building a community of people within which ideas and support can freely flow. Innovation can be successfully sparked this way.

The first four elements of the KPMG Enterprise DNA framework provide a helpful guide.

Pivotal Leaders

Having a pivotal leader is critical to ensuring the continuing success of the business. Thriving businesses need someone who can clearly articulate where the business is heading and helps people see what role they have to play in getting there. Having an inclusive and trusting style brings out the best in people and empowers them which results in a loyal and committed team.

The pivotal leader continues to bring the drive and passion and inspires energy and excitement in others that are involved in the business.

For some, learning to let go and trust others can be a challenge. The sense of responsibility can be overwhelming. Previously the entrepreneur just had to worry about him or herself but now there are others relying on the business for their livelihood. However, this can be added motivation to keep moving forward and building a much stronger business.

It also provides other perspectives and opinions. A true pivotal leader is confident enough to listen to others and consider their point of view. Sometimes the right place to lead from is the back. Empowering people and allowing them to feel invested ensures the right culture is developed for growth. Truly sustainable businesses need to function without the founder there all the time.

One Auckland company senior employee talked about taking "what was in the head of the founder, and codifying it – otherwise we are no better than a start-up." For many leaders, getting the balance of implementing structure and processes to improve the business while keeping the magic alive and having fun was a daily challenge during this stage.

Creating the right culture for people and the business to develop will bring long-term benefits.

Ambition and Attitude

An interesting feature of our interviews was the entrepreneur's ambitions grew as the company matured. Very few of our interviewees had a fixed end when they started: "It's a journey, not a destination" was a common theme.

An entrepreneur with a successful hospitality chain started off just wanting to run the best bar in his city. Now he wants to own all the bars in his city, something he would not have dreamed possible at the outset.

Ambition can be thought of as a dirty word, something that is aggressive and hostile but it is actually about having the belief and vision about where the business can and should go, and being able to act on that instinct.

Ambition for change and growth must remain undimmed at this stage if the business is going to break through the small business ceiling.

A lack of ambition can also lead to mistakes. Another Wellington entrepreneur, who had recently sold his business, said in our interviews that he castigated himself regularly about his lack of ambition. "When I look back I think I could have been bolder. I should've taken more risks. I was better than I allowed myself to think."

The pivotal leader must retain his or her ambition for, and attitude towards growth in this sector, but change is also necessary. As one Tauranga participant said: "The biggest challenge comes from the founders themselves because they can't change enough as their companies grow."

Strategic Anchor

If the company is established well in the first place then the strategic anchor is unlikely to change although it may be expressed differently.

Here we found strong agreement from our subjects – they could all articulate their target market and their role in serving it.

The challenge is in the execution, both internally and externally. Over and again we heard about the difficulties in finding staff and training them to meet that strategic need. Transferring the enthusiasm and knowledge from the founder to staff is such a recurring theme that we wonder if training in the private sector is a problem.

The best operators are already doing it themselves, of course. A North Island restaurant chain learned through bitter experience that the founders' passion needed to be systematised.

"Our values have remained the same despite intensive growth and investments. They've formed the essence of our company from the start. But we made lots of mistakes with staff so we developed a system off the back of our values set. We get our staff to complete a questionnaire that asks 'what do those values mean in your own jobs?' That becomes our document for performance reviews."

The strategic anchors provides guidance when decisions may appear difficult. One of our entrepreneurs talked about linking decisions back to their strategic anchor and the answer would become blindingly obvious.

The strategic anchor is crucial for developing a great culture, it allows people to feel that they are doing things for a good reason. If everyone understands what the goals are and what their part to play is then it's simple.

Sometimes businesses get tempted by the bits around the edge and lose focus because globalisation and digital disruption are driving change at a frenetic pace.

But survivors adapt. Trutest is a great example. Says chief executive Greg Muir: "We had a business in Australia that was involved in manufacturing equipment for shearing sheep and the shed numbers in Australia had dropped from 90 million to 30 million. Getting out of that sector freed up some cash for us to invest in things that would become the future of the business and allowed us to focus on things that could deliver long-term growth."

Adapting at the right time is critical.

Capable People

Getting the right people involved in the business is critical, but not as easy as it sounds.

It can also mean a sizable investment; the company may not feel it is able to afford new staff. But over-coming these growth thresholds is one of the big things that marks a small business from a mid-size business.

One Tauranga entrepreneur said it sometimes involved taking risks. "Sometimes we've hired before we were ready, to ensure that when we won the work, we'd be ready to serve," he said.

Great people make a difference. It is important to have a strong leader but they also need to surround themselves with people who are better than they are. One business leader advocates hiring people that you can't afford, in the expectation that you will be able to at some point – and you'll be prepared when a growth spurt hits.

It's obvious that founders must replace themselves at some point, yet many of our subjects expressed regret that they had waited so long to hand over the reins to people who were specialists in their fields, particularly those from the likes of accountancy, human resources and marketing.

However, the best leaders understand that finding people better than them is never an unwise move. Greg Dickson, once leader and now a director of Tauranga's ISO port company, has an unfortunately all-too-unusual approach to finding and retaining capable people.

"Together with a university psychologist we created a system to hire the right talent and turn that talent into leaders. They in turn have hired and grown other leaders," he says.

"One of the pleasing things is that I get former staff saying how they use that approach in their own companies."

The role of the leader at this stage shifts from 'doing' to 'inspiring'. This applies to staff as much as it does to customers. The kinds of behaviours we see in successful companies across the board are leadership across hiring, culture and customer relationships.

LESS INNOVATIVE?

MEDIUM-SIZED FIRMS SPEND LESS THAN LARGE FIRMS ON ACTIVITIES THAT SUPPORT INNOVATION

27%

ACQUIRED HARDWARE OR SOFTWARE (COMPARED TO 35% OF LARGE FIRMS)

12%

INVESTED IN MARKET RESEARCH (COMPARED TO 22% OF LARGE FIRMS)

15%

INTRODUCED NEW PRODUCTS AND SERVICES (COMPARED 25% OF LARGE FIRMS)

18%

INTRODUCED NEW MANAGEMENT OR BUSINESS STRATEGIES (COMPARED TO 26% OF LARGE FIRMS)

Source: Mid-Market Monitor, GE Capital 2015

As far as boards of directors go, our interviewees gave mixed reviews. A disturbing number regarded boards as ineffective because they didn't provide the quality of advice needed, while others regarded boards as a 'brake' or simply unnecessary.

On the other hand, about half of companies we spoke to like their boards and highly valued their independent input. Often, the composition of these boards had changed as the company grew and evolved.

For example, one business owner found appointing professional directors had hugely increased the quality of decision making and lifted the governance of the company from a focus on management to one on strategy.

Nevertheless, the lack of boards – and ambivalent attitude towards them – is an area of concern. Research shows that small businesses with effective governance structures record better financial returns.

One way forward for companies lacking the resource might be the use of mentors and one-off advisors. Almost all our entrepreneurs had formal mentorship programmes or sought independent advice on an ad-hoc basis. The quality of such services was a matter of discussion and there is definitely the need to be judicious when hiring or appointing advisors.

Finally, industry collaboration can also provide important external input and the building of a community within which ideas and support can freely flow and it is here where innovation flourishes – from the meeting of minds.

Steve Smith of Craggy Range Vineyards has always been a fan of industry collaboration, having driven the establishment of The Guild of Growers Wine Association and other industry groups. He says various factors can stymie collaboration – "there isn't always a community of people willing to do it."

"My advice would be, just find one person first. The one person you talk to might come through with ideas – and you might share values and principles and enjoy each-others company … change and growth with collaboration happens at very small levels – you just have to be tenacious and patient."

Learning to outsource

The business leaders we spoke to agreed: at some point in the cycle of growth, they have to stop doing everything themselves.

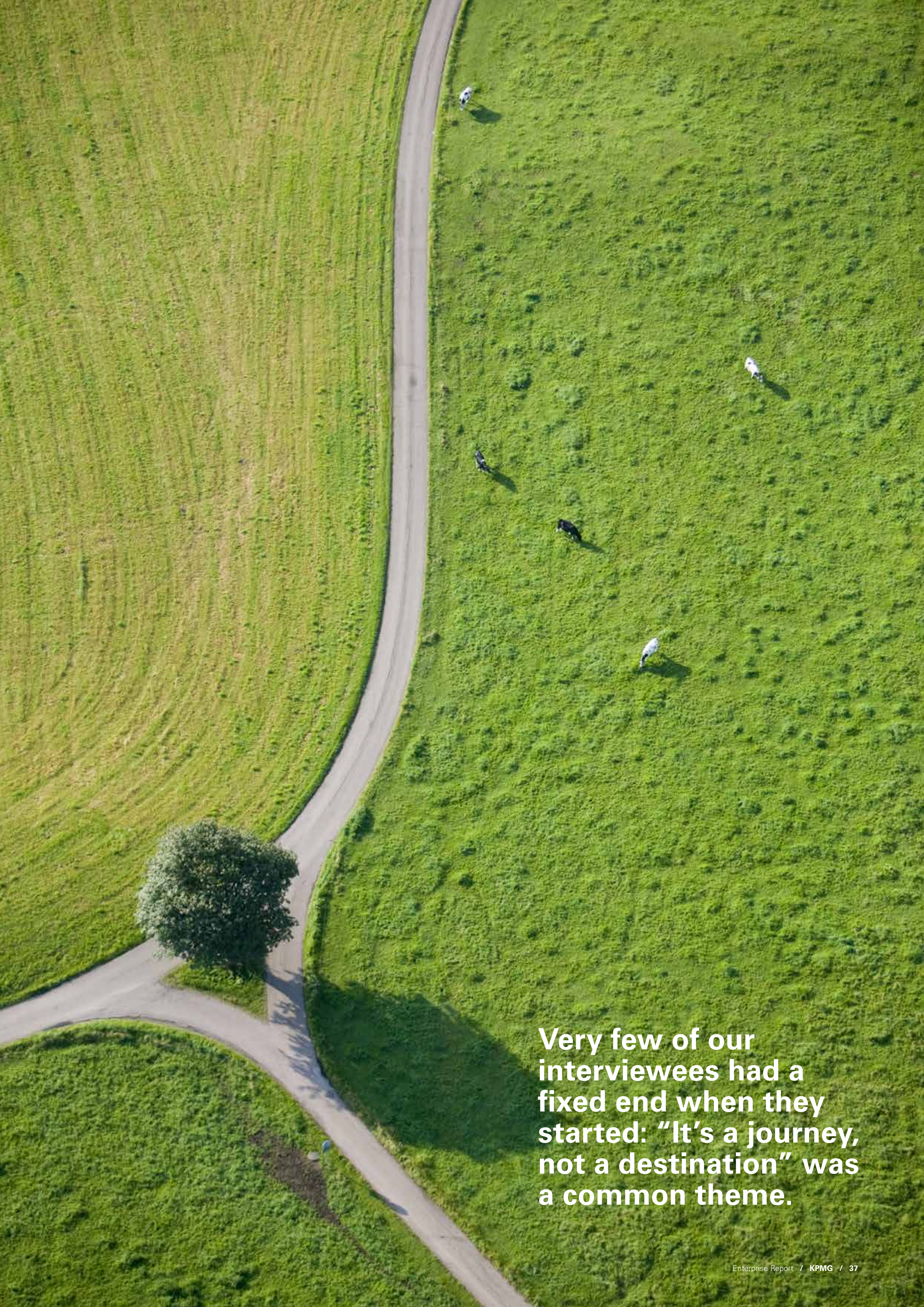
Often this process begins with outsourcing certain tasks within the business, and it's a process that many business owners wish they had got to more quickly.

As one of our roundtable respondents said, "I did everything – meeting customers, payroll, creating software – for too long. I should have replaced myself sooner, but it was hard."

A Business Profiling study done by Colmar Brunton in 2015 shows the tasks usually outsourced by businesses in both small and mid-level stages:

Percent of in-housing and outsourcing

	In-house	Outsource	Outsource in full
HR	87	12	1
Recruitment	86	12	2
Contact centre/ telesales	84	14	2
Administration	82	16	2
Sales	77	20	3
Telco advice & consulting	66	31	4
Banking, currency, investment	64	29	7
Marketing, advertising, media	61	36	3
IT/technology	57	39	4
Accounting	42	39	19
Legal	33	44	22



Very few of our interviewees had a fixed end when they started: "It's a journey, not a destination" was a common theme.

In summary: Growth

Enterprise DNA in the growth phase

PIVOTAL LEADERS IN THE GROWTH PHASE

- They have the ability to find others who can do the job better than you – both as employees and professional advisors.

> "We've moved from hiring generalists to hiring specialists. I used to do everything. Now 14 years on we're hiring people much better than me. We're hiring 'up'."
> – Anon

- Trusting in others that have the same goals and empowering them.
- Inciting energy and passion in others by capably articulating your vision.
- They take calculated risks.

AMBITION AND ATTITUDE IN THE GROWTH PHASE

- There's an ambition that goes beyond just the domestic market.
- Ambition is tied to the business' values.

> "I can recall a time when our stated vision was to be 'a' leader but now we want to be 'the' leader."
> – Murray Holdaway, Chief Executive, Vista Group

- There is striving for constant improvement.

> "I had a grandfather who once said to me 'I don't care what you do in life, you be a street sweeper, but make sure you're the best street sweeper'. And I apply that thinking in my business life."
> – Tony Egan, Chief Executive, Greenlea

STRATEGIC ANCHOR IN THE GROWTH PHASE

- Idea or concept has been strengthened and refined over time and more people share it, culture changes to adapt.

> "We used to be woefully inappropriate in our humour and language. Now we are much more politically correct. But you have to be. We've got a diverse culture, age range ethnic mix. We were professionally naïve, now we're compliant. We've grown up."
> – Anon

- Long-term vision is also shared and part of everything the business does.
- Each new hire is done with an eye to maintaining company's strategic anchor.

CAPABLE PEOPLE IN THE GROWTH PHASE

- Starting to outsource certain functions to other industry experts.

> "The first thing a leader needs is an understanding of their weaknesses and their shortcomings .. if there is a gap in the skills needed, its incumbent on that leader to make the decision to get [people with] those skills."
> – Tony Egan, Greenlea

- Advice actively sought, not just in close circle but the net is cast wider into industry, sector and cross-business contacts.
- Board of Directors start providing strategic advice.
- Mentors help grow the business.

Case study

Steve Saunders – Plus Group: Agri-Tech innovator

A love of the land and a boyhood spent tinkering in his grandfather's garden and his uncle's electronics workshop have led Tauranga's Steve Saunders (Ngāti Ranginui, Ngāi Te Ahi) to head up some of New Zealand's most exciting horticultural and agri-tech ventures.

Steve Saunders
Plus Group
Managing Director

He's managing director of Plus Group which includes Robotics Plus, a cluster of agri-tech companies, the largest of which, Gro Plus, manages over 150 orchards around the Bay of Plenty. On top of that, Steve is a champion of Māori horticultural transformation through his directorship and shareholding of Tūhono Whenua Horticulture, sits on the board of Landcare Research, Tauranga Enterprise Angels (the largest Angel group in the country), and is a shareholder and director of Tauranga's Newnham Park Innovation Centre, amongst other things.

Being invested with some 34 companies makes for an extremely busy work-life, which Steve tackles each day by getting up at 4.30am and heading to the gym.

"A few years ago I really transformed my life by starting a routine that I find works incredibly well – I get up at 4.30am, go to the gym, have breakfast with the family and come to work – and I do that every day," he says.

"I need that space where I can think, but it also gives me energy to do the really important stuff in the morning, leaving the afternoons for the connections and the conversations."

After 18 years working in horticultural innovation, and taking ideas and commercialising them several times over, Steve's passion has take a turn towards facilitating technology start-ups from his base in Tauranga .

"I'm not into building a big corporation, I'm more into building a system where we can invest in start-ups, getting them established and become profit-earning companies – it's more an enabling role," he says.

"I've done this because I see that many people don't want to invest in start-ups, as they see it as too risky, whereas I just go 'if I like it, let's do it'. A part of it is gut instinct, but the other part for me is mapping out how these investments are interconnected – there's a bigger strategy at play."

Leading by inspiring has become a key plank of his work. "The businesses are all individually run and so I provide what I'd like to think is leadership that inspires people to come along; it's subtle but it's a very powerful leadership tool."

Steve says collaboration is something New Zealand business needs much more of.

"In New Zealand you have a few business challenges: tall poppy syndrome is alive and well for one thing, and also managing complexity can get too hard for people, they are content to stay small and have their nice lifestyle."

"But once they can see what is possible, and they're collaborating with other people – passionate people – the ideas come spilling out."

Steve has some words of advice for those looking to build sustainable growth in their businesses.

"At some point you are going to have to consider that you're not the best person to lead the company, and you'll have to step out of that role because you're not trained to scale the business up – that's the toughest conversation, and if I've learnt anything, it's to have that conversation right at the start," he says.

"You will see lots of people who have founded a company become a figurehead. But they won't be driving the business. The fact is you should never be scared to employ someone better than you or smarter than you.

Steve had to come to grips with his own advice along the way.

"I became more powerful in stepping back myself, because I could actually concentrate on strategy, connections and ideas – a whole new world opened up for me, and it was transformational."

Lessons from growing Plus Group

- **Carve out time in the day to ponder or re-energise**
- **Collaboration is very important**
- **Don't be afraid to hire someone smarter or better than you**

Case study

Ina Bajaj - East Day Spa: Beauty business innovator

A successful restaurateur in Wellington for over a decade, Ina Bajaj realised, on trips around the world to recruit her chefs, that there was an almost insatiable appetite for high-end spa treatments.

Ina Bajaj
East Day Spa
Founder and CEO

She opened her first East Day Spa in Wellington in 2002, followed by Auckland 2005, and then Melbourne and Bali, a spot in which she's also developed luxurious stay-over hideaways as well as social spas – venues where people can beautify together – which have also extended to Queenstown, Wellington and Auckland.

East Day Spas are unique in New Zealand, drawing heavily on Eastern ideas of holistic health.

"I love starting and building a brand that's been created by me, it's not a franchise or someone else's idea but every bit of it has been nurtured and raised by myself," she says.

"We're working in an exceedingly sensory industry which means I get to choose scents, colours – the elements that make up the personality of the East Day Spa brand."

Ina says she does rely on some business advice, but she also has a springboard for ideas in her brother, with whom she owns the business. "It can be difficult working with family as emotions come into it and different personalities want different things," she says. "For example, I build to retain, and my brother builds to sell. We have our disagreements, but then I realise he's my brother and I do love him!"

There's been little stopping the business since it began, with a steady growth of clients. But there have been growing pains as well. Ina says her worst experiences have been entering markets for "the wrong reasons" and not doing her homework. One particular mistake cost her nearly a million dollars, but was, she says, "equal to any post-grad degree. I learnt so much from it."

It started when East Day Spa was shortlisted for a big resort project in Singapore. But after five gruelling days of negotiations Ina walked away.

"As a business we were still in our teens; had it been now I think I would have had the tenacity to accept the challenge," remembers Ina. But that mistake caused a chain reaction. When Ina got back to New Zealand she got a call to say there was space at a brand new Melbourne property if she wanted

it, and, not wanting to have returned from her travels 'empty-handed' – she accepted without doing her homework.

"It was a huge mistake. I acted on emotion and I let my ego get in front of me and signed a lease that became a noose."

With that costly lesson behind her, it's been largely smoother sailing since that episode, although Ina says there are always opportunities to learn and develop – and keeping in touch with the front line of the business is always important.

"I have stepped back from the coal face now, but I was horrified a few months ago when I took a payment from a waiting guest and realised I didn't know how to use the Eftpos terminal," she says. "Immediately I volunteered to go and work at Spring in Wellington over Christmas to get back in touch – and let's just say I had a lot of practice, as we broke all previous records for business in that time."

Far from slowing down, her growing business empire is experiencing almost limitless demand for luxury treatments in spa settings, both here and in high end markets across Australia and Asia. There is plenty of upside remaining in the high-value end of this seemingly limitless health and wellbeing business sector.

Does she ever plan to slow down? Ina laughs heartily. "I'll do that alright – but not until I'm six foot under!"

Lessons from growing East Day Spa

- **Working with family members requires a different set of interpersonal skills**
- **Opt to take calculated risks**
- **Don't let your ego drive decision-making; do your homework**

Letting go

The business has its strategic anchor in place and its best people in charge. The entrepreneur is free to step back, finding a new role.

The entrepreneur's journey: Letting go

There comes a point when the pivotal leader of the business takes a step back, leaving the business to capable people who share the company's values and understand its mission. What next?

While many New Zealanders choose the path of small business ownership, only a small percent of these will become leaders of growth businesses.

Fewer again will go onto become 'inspirers' – people who go on to become 'kaumātua' in their respective industries – called upon to serve on boards in different businesses, speak on industry issues, mentor the up-and coming, and generally re-tool their lives to find different passions and interests.

While the 'inspirers' may not be involved at the coal-face of a business any more, they are still an invaluable voice on a company's direction and strategy, and possibly even more importantly, have worked hard to ensure the business is future-proofed. That means a succession plan is in place, and a strategic vision has been set.

Succession planning in any business is crucial – so crucial that ratings agency Moody's now uses a metric to score companies for how they manage 'key person risk'.

The agency's advising companies to mitigate the loss of their key people with more widespread knowledge-sharing. Within the company, more emphasis on transparency and 'team culture', and an equity ownership by past leaders, can help ease the process of change.

In family businesses, succession planning is more complex again.

Several of the entrepreneurs we spoke to detailed stormy intra-family relationships that revolved around issues of control in a business. Their advice was overwhelmingly to have formal agreements, well defined areas of control and responsibility, and a spirit of flexibility to deal with the specific difficulties that can arise with family-owned concerns.

This can be a painful process. One Wellington entrepreneur told us the remarkable story of a family business that was losing its relevance in the marketplace. The children of the founder could see how and where the business needed to change, but any such moves were resisted. In the end, the children had to force their father out of the business.

"He wouldn't let us make the decisions that we needed to make," one of his children told us. In the end, my mum said 'if you don't let them take over, I'll leave you'. That was hard."

"We have learned one really important thing – make sure you have clear shareholding and employment agreements."

Starting to formalise the process of succession sooner rather than later is important. It starts with a strategy that, as Moody's says, builds infrastructure, policies and procedures that "focus on proven investment processes that are transparent to investors and in turn, significantly reduce their exposure."

Finally, for all owners who have grown and nurtured the seed of a business, letting go's a phase of taking stock. This can lead to changing relationships with family and friends as well as employees, as new roles and ambitions are realised. But these changes need not be negative. In fact, many of the leaders we spoke to talked of a renewed sense of excitement around new challenges. For the entrepreneurial leader him or herself, the letting go stage is a time to take a wider perspective on business, view new horizons and take new paths.

Succession is something that should be planned for years in advance. It may not be an overt process, but neither should it be something mysterious.

The first four elements of the KPMG Enterprise DNA framework provide a helpful guide.

Pivotal Leaders

The legacy of a truly pivotal leader is creating a company with a strong culture that can continue to grow and thrive without them. This is a far cry from the beginning of the journey when nothing happened without the entrepreneur's involvement. At this stage the business runs smoothly and functions without the daily input from the founder.

The most effective succession planning begins long before the leader is actually contemplating exiting the business. All our participants agreed that it worked much better when it was not a mysterious process. If the company culture is working as it should, there will be people empowered to make leadership decisions, and it's from within this group of people that a likely successor will emerge.

Ambition and Attitude

Having worked hard to build the business up it can be a tough decision to step back with many finding it hard to recognise that the future of the business he or she grew and nurtured will carry on with a new set of people.

However, this should be a time when the entrepreneur feels pride at establishing a business that is bigger than they are. If the pivotal leader has done his or her job well then the next generation of leaders will have come up through the business and be ready for the challenge.

This doesn’t necessarily spell an end to our entrepreneur’s journey however. They can be found as angel investors, board members or mentors to the next generation of business owners. They bring wisdom and experience as well as funding to new ventures, and may find themselves veering completely off their beaten path and into areas they may not have considered initially.

Others get involved in philanthropic ventures, setting up foundations or trusts. Bill Gates is one of the world’s most successful business leaders and now uses his fortune for good. Closer to home, the likes of Sir Stephen Tindall and Sam Morgan have established investment companies that help start-ups get on their feet with capital, talent and networks.

Successfully exiting the business through a sale or an IPO can provide the funding that entrepreneurs need for their next venture.

Strategic Anchor

Having set a really clear direction for the business, the entrepreneur may find that personal priorities have changed. Where once dominating the market or bringing innovative products may have been the focus, lifestyle concerns may now come to the fore.

The entrepreneur often stays connected with the business, particularly if it is a family-owned business, and provides guidance from the board. But in this instance, roles must be carefully drawn and well defined. Some entrepreneurial leaders have trouble letting go of the leadership role.

However, a strategic anchor that has been well-embedded in the company should insulate the business from trouble. Entrepreneurial leaders we talked to confirmed that the letting go process was much easier if work on the strategic anchor was well consolidated by the time he or she came to leave the business – either in selling it, or appointing someone else as the manager of leader.

Established values will remain but the direction will be reviewed by subsequent business leaders to ensure that the business is staying relevant and innovative into the future.

Capable People

The investment made in the right people really pays off at this end of the business lifecycle and while the entrepreneur may continue to be involved either formally or informally, the business will thrive without them being present.

There was a palpable sense of pride from the leaders we spoke to when they talked of leaving a capable team behind when either selling or otherwise exiting the business. The same capable team often makes the business a takeover target or saleable concern in the first place.

For capable people to stay with a business, they must see a clear path of progress through the business. Some leaders sold their businesses or moved aside to grant their best people these types of opportunities, and this is yet another mark of great leadership.

LETTING GO

41%

OF BUSINESS OWNERS EXPECT OWNERSHIP CHANGES IN THE NEXT FIVE YEARS

40%

SAY THAT SUCCESSION PLANNING IS A PROBLEM FOR THEIR BUSINESS

BUT ONLY

10%

OF THOSE EXPECTING TO FACE SUCCESSION HAVE A PLAN

49%

HAVE TROUBLE FINDING A SUITABLE SUCCESSOR

Source: ANZ Passing the Baton

Selling the business

There are many ways the entrepreneurial leader can 'let go' of the business, and a sale is one of those.

More often than natural succession is an approach to management to buy a business – causing owners to have to reach out for help.

But there are numerous ways to make a company 'attractive' to potential buyers, if this is the 'letting go' plan. To get to the point of saleability, a business must have the obvious attributes: financial performance, industry attractiveness, size, market share, customer concentration and security of revenue are all likely to boost the company's allure.

The key, according to those who have done it, to increasing business saleability – above the fundamental business characteristics – is installing transparency, credibility and confidence in the eyes of a potential buyer which is encouraged by:

- Creating a compelling business plan (with a sensible number of initiatives) that outlines business objectives and links them to financial projections.
- Ensuring strong processes are in place such as board reporting, tracking of KPIs and a strong IT system.
- Having depth in management and a succession strategy in place.

Strategic Options

Divestment
A divestment comes about through a sale, either to trade or a financial buyer. A sale can be for a minority stake, majority stake or an 'outright buy' – where 100% is purchased. Trade buyers generally prefer an outright buyout whereas financial buyers generally require key executives to retain an equity stake.

Initial Public Offering (IPO)
An IPO requires a large business (usually upwards of $150 million).The advantages of an IPO are that they provide shareholders with increased liquidity and exit flexibility, and boost the public awareness of the company. On the flip-side, IPOs bring increased compliance obligations, financial reporting transparency and extra cost.

Managed buy-out (MBO)
An MBO involves an acquisition by the current management team with equity or debt support (and in some cases vendor financing), and is a common exit option for assets too small to attract more substantial injections of cash or buyers.

Key points for a successful sale

1. Hire an advisor

Advice from someone who sells businesses on a day to day basis is key to plotting a path forward. This person or company brings a number of bonuses, including utilising its network – national or international – to find the right buyer.

A good advisor can also prepare professional and compelling marketing materials, and manage both shareholder and buyer expectation.

2. Don't be constrained by stock-standard business valuations

Sometimes valuation insights come from using more 'creative' methods. Some of these include looking at multiples of net assets or looking at the value of each revenue generating asset (e.g. hives for honey producer, cows for a dairy farmer etc) can be a useful paradigm to use.

3. Be creative regarding potential buyers

There are many transactions where a business does not sell to the 'obvious' buyer. The key for developing a list of buyers that have compelling acquisition rationale is to apply a smart screening approach, asking questions such as:

- Who has an overlap in customers?
- Who uses the same technology?
- Whose products have the same production requirements?

The lifecycle of an entrepreneur

At every stage of the business the entrepreneur must adopt a different role and personae

START-UP

The MANAGER

Desires Control

Goal Create prosperity

Fears Chaos, being overthrown

Weakness Being authoritarian, unable to delegate

Talent Responsibility, leadership

GROWTH

The LEADER

Desires Truth

Goal Use intelligence to analyse the world

Fears Being misled, ignorance

Weakness Bogged down in details, inaction

Talent Delegation, intelligence

LETTING GO

The KAUMĀTUA

Desires Total understanding

Goal Make dreams come true

Fears Unintended negative consequences

Weakness Becoming manipulative

Talent Wisdom

In summary: Letting go

Enterprise DNA in the letting go phase

PIVOTAL LEADERS IN THE LETTING GO PHASE

- Realising you have people more capable than you.

> "I would like to see some of the younger people in our organisation carry it on and do the same thing myself and my partners have done for the last 20 years. Keep on building keep on creating that Kiwi company."
>
> – Murray Holdaway, Chief Executive, Vista Group

- Stepping back from the day-to-day.
- Inspiring the next generation.
- Self-examination and realisation.

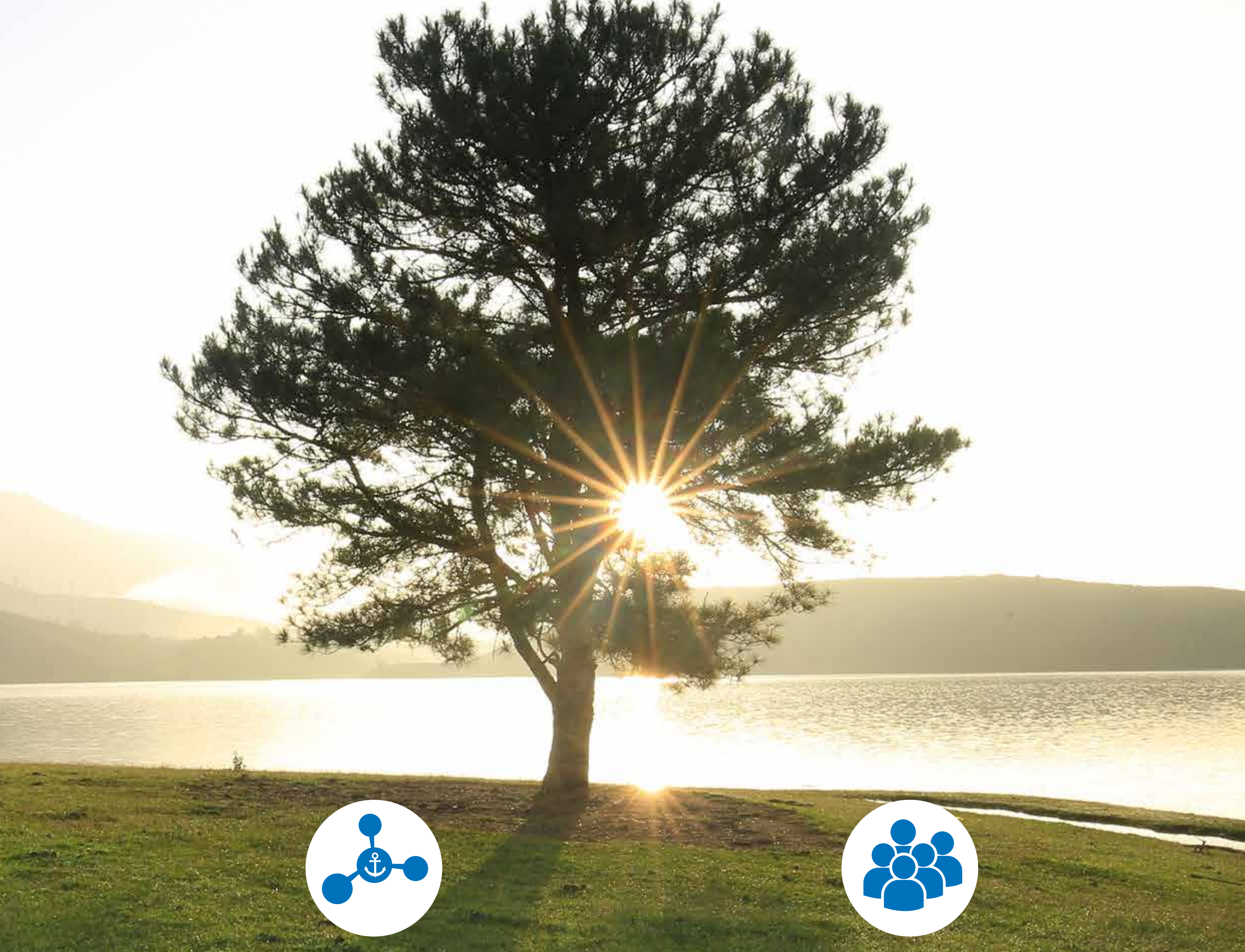
> "I've built a business and just sold it. I've succeeded. Now what I want to achieve is significance."
>
> – Anon

AMBITION AND ATTITUDE IN THE LETTING GO PHASE

- Ambition has changed along the way.
- Still invested in the success of the company, but from a distance.

> "I have got no intention of retiring but the place will run without me .. and I think I have tried to engineer that .. I can buzz off for a month and leave them to it. I still monitor what is going on, and if I see anything going off the rails I ask questions about it."
>
> – Sir William Gallagher, Gallaghers

- Company honours the past but looks to forge a new path to success.



STRATEGIC ANCHOR IN THE LETTING GO PHASE

- Values of the company remain but more established ideas may be re-examined for relevance.

> "Strategy's directional but ...it shouldn't stop people modifying , adapting and changing direction if needed during the year – and between years."
>
> – Tony Egan, Chief Executive, Greenlea

- Succession planning ensures the business is future-ready, with robust risk management procedures in place.

> "Pivotal leaders in really great exporting companies tend to grow from inside the company, and don't regularly cycle through new leaders from outside ..."
>
> – Greg Muir, Trutest

- Sale conducted while keeping strategic anchor in place.

CAPABLE PEOPLE IN THE LETTING GO PHASE

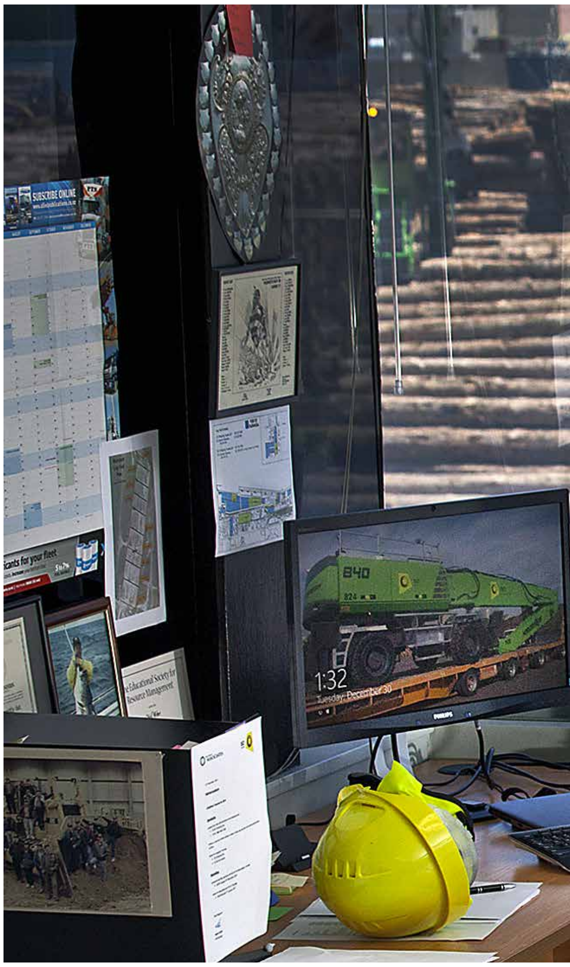
- People who built and led company step back, may become consultants and advisors.
- Good advisors still important, industry collaboration welcomed as efforts to strengthen whole sector grows.

> "At a time when the New Zealand wine industry was changing from a collection of a family-owned wineries to being largely corporate owned, but many of us were keen to make sure the heart and soul of the New Zealand wine story continued to be told, so we sat down and wrote a list of 12 wineries with great businesses and brands – and we've subsequently supported ourselves all over the world, and it's been a fantastic collaboration."
>
> – Steve Smith, Craggy Range

- People are given the ability to make their own decisions and successors emerge.

Case study

Greg Dickson – ISO: Back from the waterfront



It was only meant to be a year's break from his job in banking in Australia, but when Greg Dickson was asked to come back to New Zealand and take over the stevedoring business his father had begun in Gisborne, he found he loved it.

Greg Dickson
ISO
Director

Over twenty years later, ISO (formerly International Stevedoring Operations) operates across New Zealand from 10 ports, handling up to 16 million tons of freight each year, and employs 750 people. Through the use of IT in particular, the company has revolutionised the way the waterfront operates, and has won a steady stream of accolades for its innovation and managerial nous.

To top it off, Greg was made a member of the New Zealand Order of Merit for services to the cargo logistics industry just over a year ago.

Although ISO is now run by Greg's son Liam, and Greg remains a director, it was sold to Australian listed firm Qube Ports & Bulk at the beginning of 2015 for $80 million, in a deal that effectively saw the Aussies buy the company lock, stock and barrel – including the leadership.

It is clearly a point of pride for Greg that ISO was purchased without any changes to its management structure whatsoever. "The reason Qube bought us, aside from the fact that we'd built an excellent business, was that our values and corporate culture very much aligned with their own," says Greg.

"At ISO we've always grown leaders and managers, providing a growth path for good people within the business, and encouraging an open and honest culture from which people learn and develop – it doesn't happen overnight but we've worked hard to develop core values and sharpen our business purpose, and we've actively pushed for mutual respect in the employer-employee relationship."

While Greg was managing director and chief executive at the time of the sale, he has since dropped back into the directorship, and is coming to the end of a year of reflecting on what his next move is.

"I am looking at ways of passing on my knowledge, perhaps as a coach of a business that needs a bit of strategic help at the boardroom level," he says. "I really like the challenge of growing a business, and I want to produce something; I want to invest in something and make a difference."

Greg's entrepreneurial flame was lit all those years ago when his father Les offered him a chance to come and run the business, and the torch is passed now that Greg's son Liam has taken over the reins of the business. But for Greg, the idea of a succession plan based on family ties is absolutely wrong.

"If you are making hiring decisions based on nepotism, especially to the top table, you're making a mistake," he says. "I told my team early on that while Liam's last name gives him an opportunity, it's a privilege to be part of leadership at ISO, and he must prove himself."

Greg says he was tougher on his son than everyone else in the company, but that Liam earned respect with his performance very early on. "He's much better than me," he says with a chuckle. "He has demonstrated exceptional abilities."

On the broader issue of succession planning, Greg says starting early is crucial, but a more important issue is that without the right company culture, it's pointless.

"You have to have an environment in which everyone is invested in a clear business purpose, in shared values, and measurable results, and if you don't have that, forget about succession planning and go back and try and get the culture right."

For identifying likely leaders in the business, Greg has always trusted his instinct about a person but checks that against externally conducted behavioural analysis of the candidate, which has given the company from very early on a benchmark of the key attributes and values to actively look for in hiring. "When selecting management – you hire for attitude, and train for skill. You can train a person with the right attitude and leadership potential to be a good manager, but it is very difficult to do the reverse."

"A big part of your role as CEO is to go and find people to work alongside you with the kinds of attributes you lack – and you have to be honest with yourself about what those attributes might be."

There's also an inevitable amount of risk you have to assume as leader when you promote people to leadership, he says "and that's what being a leader is about, using your instinct and experience to make a decision."

While Greg says there haven't been too many areas of regret over his business life ("a few missed opportunities I suppose – I have a saying, sometimes an opportunity coming towards you looks like a gnat, and going away looks like an elephant's arse!") but he did have a sense of sadness and regret about selling the business he'd taken two decades of hard graft to build.

"It was sad, of course, and if I had had the personal resources I would have probably held off selling it a bit longer," he says. "But the fact is we had taken the business as far as it could go as a 'family business', we needed more equity to be able to grow" he says.

"Selling was a way to provide the company and our people the kind of opportunity we knew it – and they – were destined for."

Lessons from Greg Dickson

- **Provide potential leaders with a growth path**
- **Develop core values and demand respect to all in the business**
- **Hire for skill, train for attitude**

Case study

Sir William Gallagher - Gallagher Engineering sustainability and success

Having helped build his father's engineering firm from an innovative, but small concern to one of the country's top five privately-held technology exporters has been the life work of Sir William Gallagher.

Sir William Gallagher
Gallagher Group
Chairman and Chief Executive

Originators of the electric fence, Gallagher now makes annual sales of over $200 million, employs 1200 staff across its business arms: livestock and wildlife fencing, security and electronic identification.

The company has products in over 160 countries, while continuing to do most of its manufacturing in New Zealand.

Outside the boardroom, the accolades for Sir William's business acumen and integrity are legion: just two of many include being knighted for services to business in 2010, and a line from ex-Prime Minister Mike Moore in biography on him that read "[i]f New Zealand had another 100 Bill Gallaghers we would be the richest, most decent, best-natured nation on earth."

Despite his success, however, Sir William says he has never been driven by money, which probably explains why he is still involved in running the group of businesses bearing his name, long past the point many others have retired. He explains he's not one to lapse into relaxation too much – that he's "not the kind of person who would have been happy with my bach, boat and BMW and then retire."

"I think for me the thing that always keeps me going is striving to do everything better. Money is not the end result; money is only a measure of the score. But it's an important one; life's a bore if you don't get credit when you 'score'."

In his longevity, he is not alone at Gallagher, where about 55 percent of its staff have been with the company over five years while about 5 percent have served 25 years or more.

Sir William says he has deliberately created a company that has encouraged its staff to stick around.

"My belief is that people like working here because they are empowered to do their jobs, they're in control of what they're doing. We don't want people who leave their brains outside, we want them to be brought into the workplace, thinking about how to do things better.

"Open transparent communication is essential, open door policy – nearly everything is discussible. We have staff surveys which we live by and usually get a very high score. We live by those principles."

With the right company culture in place, Sir William says that it will run without him at some point – "I've actively tried to engineer that. It runs well without me, and that's what I hope will happen well into the future."

He says his leadership style has brought the Gallagher Group to the point at which people from across its different arms make decisions using a sort of shared logic.

"The way I do it is more that when someone asks me a question, a relatively easy question, I come back with 'well what would you do?' 'Have you thought of this? Of that?'," he says.

"After a while doing that people learn to make decisions by themselves – but because they've been coached they make similar decisions to you, using similar thought processes. So you can leave them to handle decisions, empowering them."

Integrity has always been a by-word for Gallagher. It's another strategic anchor the company lives by, and Sir William has worked hard to instil it in the corporate culture.

As Gallagher sells around the world, with as many as 26 associated companies signed on to sell product, it must first capture the imagination of that distributor "because we have to ensure we're giving him the most exciting and profitable product he's handling."

It's then a bit of mutual dependence, buttressed with a mutually exclusive distribution agreement. There are clear rules whereby Gallagher won't sell to that distributor's competition, and the distributor can't buy from the competition, either. Trust becomes a key attribute of the relationship, especially when there's a big distance between the parties.

"The most important thing here is the distributor's integrity, because we've had a few with shonky integrity and those relationships have fallen apart unhappily," says Sir William.

"On the other hand, I'm working with the third generation of my Japanese distributor, and the second of my Dutch, so these kinds of long relationships are maintained and can work brilliantly."

Overall, Sir William has looked to surround himself with those who operate with the same values.

"You just want honest, moderately smart and hardworking associates in business and you are sorted."

Lessons from Sir William Gallagher

- **Create a company culture that encourages your best people to stick around**
- **Empower your people**
- **Do business with people who share your values**

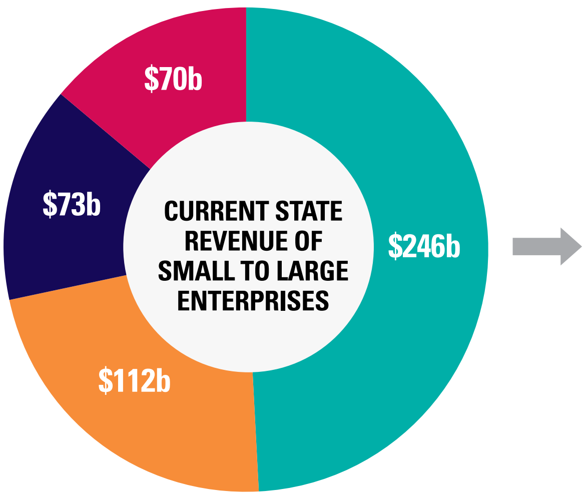
From ideas to action

THE CHALLENGE

Medium-sized businesses generate 38 percent of New Zealand's business revenue and drives New Zealand's growth (55% of increase in sales).

We have a reputation for innovation and punching above our weight in everything we do, but have not cracked the productivity challenge (IMF estimates the gap to where we should be is equivalent to 40 percent of GDP or $80 billion per annum).

Cracking this issue is game changing.



Large: 1,100 Enterprises and 470,000 Employees

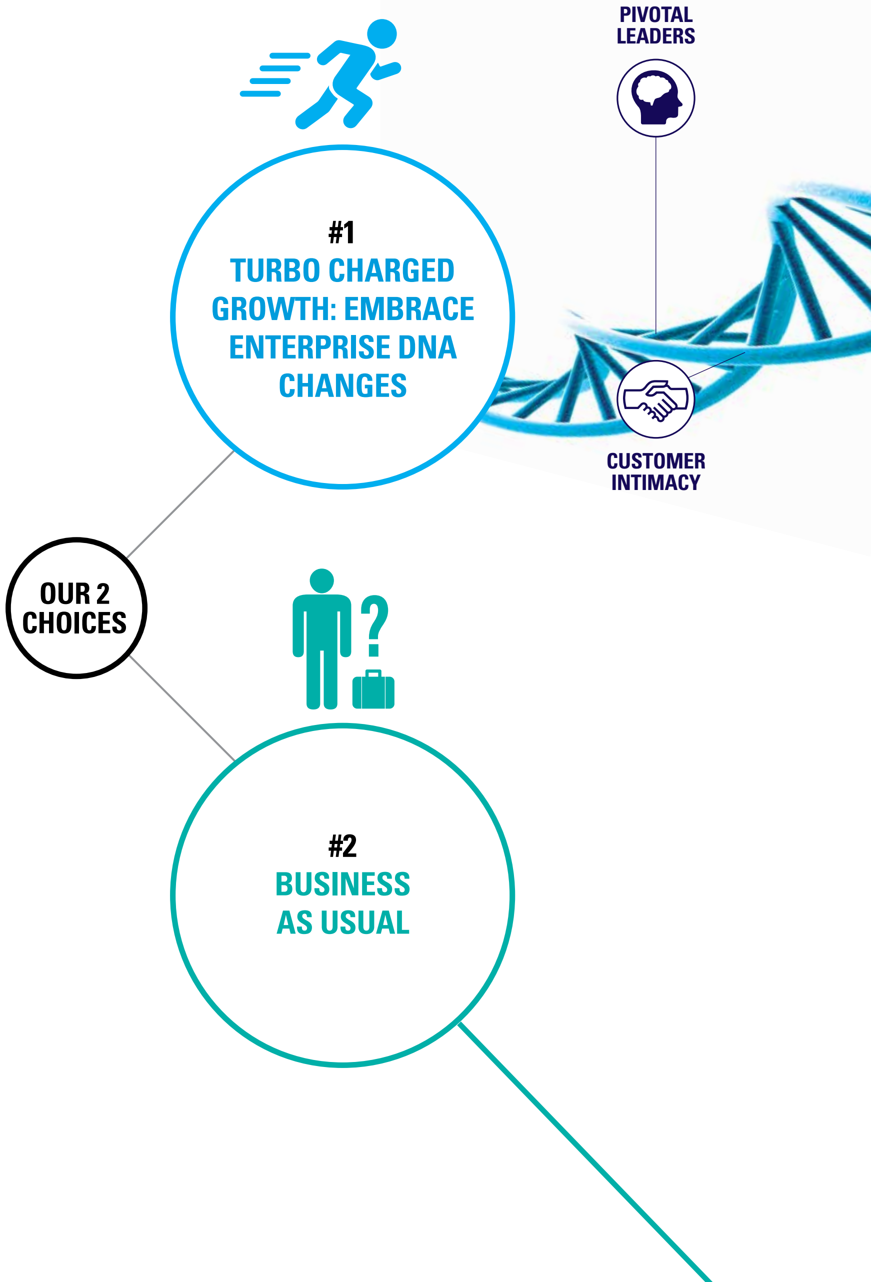
Medium: 9,150 Enterprises and 400,000 Employees

Small: Enterprises 37,500 and 355,000 Employees

Micro: Enterprises 367,000 and 362,000 Employees

Zero: Enterprises 19,000 and 33,500 Employees

THE FLIGHT PATH



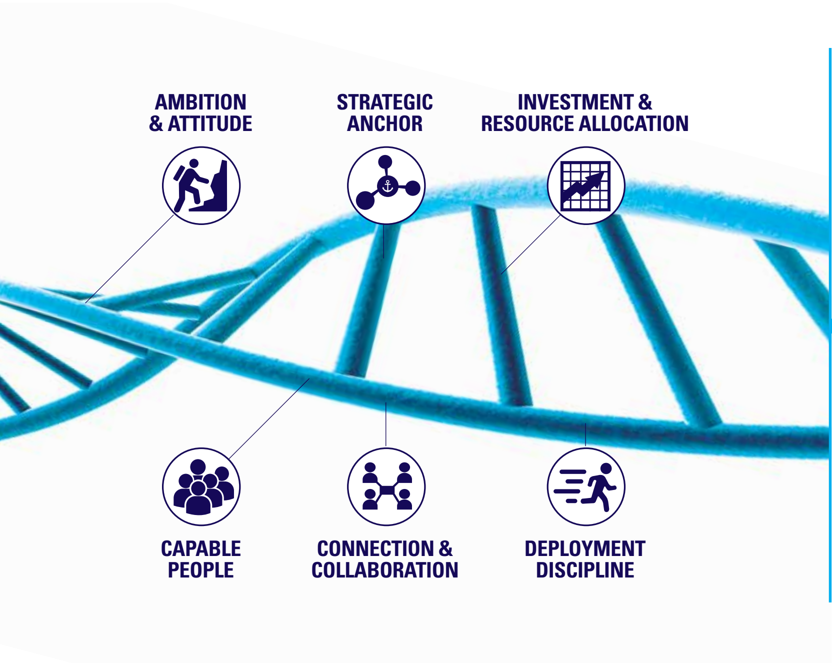
"The prize for New Zealand is substantial and we need to disrupt our current journey, putting ourselves on a path of growth and innovation."

Paul McPadden

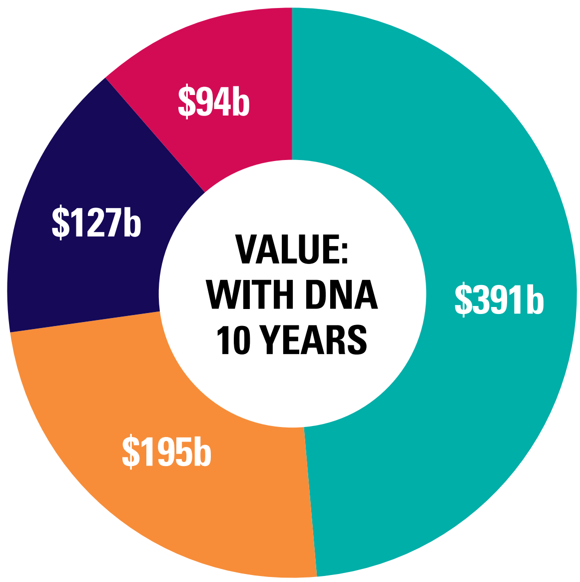
"This could be New Zealand's time in the global economy. We have so many things that work well and in a disrupted and changing world our Kiwi way of doing business is an advantage. We must embrace this opportunity."

Simon Hunter

How our medium-sized enterprises could propel New Zealand's prosperity to a new level



THE VALUES



PRIORITY ACTIONS FOR ALL MEDIUM SIZED FIRMS

To be part of the new way forward our enterprises should be focused on these four actions today:

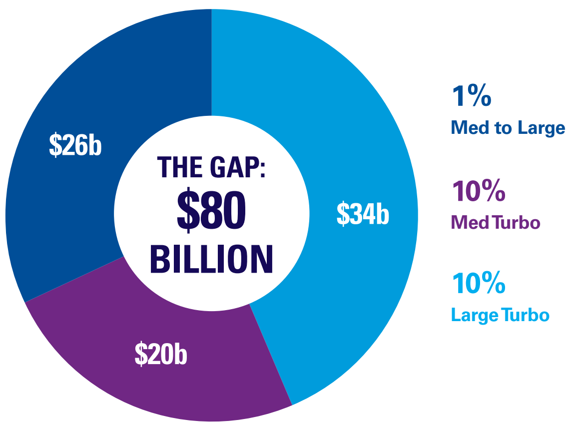
1 Connect, share and collaborate across the enterprise ecosystem

2 Establish boards and management teams that embrace change and disruption

3 Prioritise building a culture for change

4 Step back and really examine the DNA of enterprises and what is needed to fuel growth

THE PRIZE FROM TURBO ACTION:

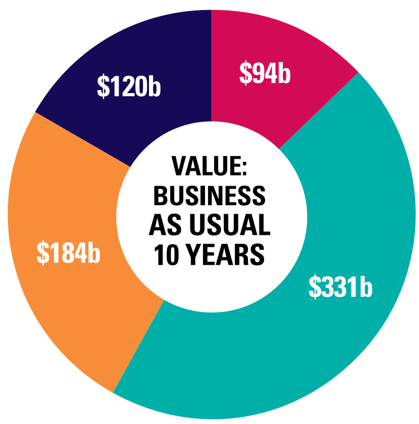


TURBO GROWTH (THE MATHS PER 10 YEARS)

1 Move 1% of medium firms to large firms

2 Change the growth rate for 10% of medium firms (increase by 10%)

3 Change the growth rate for 10% large firms (increase by 10%)



IF BUSINESS AS USUAL, THIS IS WHERE WE GET

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In-depth interviews and case studies

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Paul Cameron – BookTrack

Steve Smith – Craggy Range

Ina Bajaj – East Day Spa

Sir William Gallagher – Gallagher

Tony Egan – Greenlea Premier Meats

Greg Dickson – ISO

Steve Saunders – Plus Group

Kirsten Taylor – SleepDrops

Greg Muir – Tru-Test Group

Murray Holdaway – Vista Group

Expert commentary

Bernard Hickey – Finance/economics writer

Simon Hunter – KPMG

Ross Buckley – KPMG

Workshops and discussions

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Doug Bartlett	Aisleworx
Ross Pearce	Callaghan
Eugene Polkan	Callaghan
Elizabeth McInnes	Callaghan
Willem Van Der Steen	Callaghan
Bruce Coubray	Howick
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Chris Chandler	KPMG
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