Dr. Jana Matthews (centre) chats with colleagues at the ICEHOUSE

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Learning to Grow a Business

by Jana Matthews

My husband and I first came to New Zealand in 1982 to fish the pristine streams of South Island. As it turned out, we were the ones who got "hooked." In addition to the fishing, we came to love the country, and we have returned every year, often with family and friends. Over time we've become friends with many Kiwis, and I've enjoyed several spirited conversations about why New Zealand companies weren't growing - and what could be done about it. In 2001, I was pleased and honoured when New Zealand Trade and Enterprise (formerly Industry New Zealand) e-mailed me asking about the timing of my next fishing trip. Several members of the Information, Communications, Technology (ICT) Task Force had read one of my books, and they wanted to talk with me. Since that time, I have helped the ICEHOUSE develop their 321 Go Global programme, and designed a new course for the University of Auckland Business School.

I live and work in Colorado, which has roughly the same land mass and population as New Zealand, with a high rate of company formation—and growth. My career has focused on technology-based economic development, and my experiences here and in the U.S. have provided me with many concrete examples of what to do and not do to create more growth companies in New Zealand.

Over the years I have done considerable research about the changes companies experience as they move from start-up through the various stages of growth. I've also studied what CEOs need to know to lead and manage growth. These findings are guiding my work in New Zealand.

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Research and local perspectives

When I first met with the ICT Task Force, I reviewed the stages of growth and the entrepreneur's roles and responsibilities at each stage (Figure 1).

FIGURE 1: Evolution of the role of the owner/manager in a growth company

CONTINUOUS GROWTH	Strategic innovator Change catalyst Organisation builder Chief of culture
RAPID GROWTH	Team builder Coach Planner Communicator
INITIAL GROWTH	Delegator Direction setter
START UP	Doer/decision maker

The Task Force identified several key issues impacting the future of New Zealand's economy:

- Some company owners have no desire to grow their companies.
- Others are unwilling to take the risks required to grow.
- Some are willing but don't know how to operate globally, i.e., which countries to choose, what strategy to use, and what to do—or not do—when they enter another company.
- Very few company owners recognise or understand the need to build a strong organisation in New Zealand before going offshore.

Four factors essential for growth

Surpringly, very little entrepreneurship research has focussed on business growth or the people trying to grow companies. However, during my eight years at the Kauffman Center for Entrepreneurial Leadership, we identified four key factors that are essential to starting and growing companies: talent, ideas, people, and capital (see Figure 2).

New Zealand needs to focus on all four factors and build an infrastructure that supports growth companies:

FIGURE 2: Four key components of entrepreneurial activity

Talent: There is no company until an entrepreneur takes the risk to create something from nothing. And while some people are more predisposed and willing to take risks than others, not everyone who starts a company has the skills or knowledge to grow a company.

Idea: A company can't be successful unless it has a "better idea" about how to meet a target customer's needs and wants. The idea gets translated into products and services which are positioned, marketed, branded, and sold to customers in the global marketplace.

People: An owner-manager needs to know how to select, lead and manage people, build an organisation for growth, develop a plan then align people's efforts around executing the plan and accomplishing goals.

Capital: While entrepreneurs may have the personal resources to start a company, very few have enough to grow a company. Most need to learn how to manage their balance sheet, do debt financing, cultivate strategic alliances, and understand equity financing.

Talent: we need to develop talent from an early age and teach people to start and grow companies; educate people about the basics of enterprise and foster, rather than extinguish, their entrepreneurial instincts. Programmes could be developed for students from the primary school level, through secondary school and into universities. The Spark: Vision to Business course is open to anyone at the University of Auckland and gives students an opportunity to learn the basics of starting and growing a company. Obviously, entirely different types of programmes are needed for the entrepreneurs who have started companies and are trying to grow them. The ICEHOUSE has developed a set of programmes for owner-managers and entrepreneurs.

Ideas: New Zealand has some amazing technology and many examples of people who have commercialized that technology into products and services that are sold around the world. UniServices has developed into a very successful organisation that helps the faculty at the University of Auckland transfer technology to new and established companies. But it's not easy to differentiate between an interesting idea and a commercial opportunity. Likewise, the transfer of technology is often as much art as science. And helping researchers start and grow companies requires skills that few technology transfer officers have—but need in order to protect their IP investment. Organisations such as the ICEHOUSE also help founders and innovators transform their ideas into commercial ventures.

People: New Zealand companies do not appear to have the same tradition as international companies in terms of investing in the development of people and re-investing in the company for future growth. For example, while U.S. companies, on average, leave 75 percent of their profits in the company for future development, NZ companies typically take out 75 percent, leaving only 25 percent for reinvestment. New Zealand and its companies need to focus more on the development of owner managers; they, in turn, need to learn how to select the kinds of people who will help their companies grow and then hold them accountable for high performance. They need to set goals, measure accomplishment of goals, provide feedback; hold employees accountable; and promote or terminate them, based on performance and fit with the company's values. The development of people who can thrive in a high performance company will be essential if we want to accelerate the growth of companies in New Zealand.

Capital: Companies in New Zealand are no different from companies in the rest of the world. In order to grow, they need more capital. The additional capital will need to come from a variety of sources: the entrepreneurs themselves may need to leave more money in the company and/or be willing to re-invest more of their own money in the company. New debt instruments may be required, and more angel and venture capital is essential. On the other

hand, owner managers need to understand what's required to be "investor ready." Clearly financing the growth of New Zealand's companies is a topic that warrants considerable discussion.

Peter Maire of Navman and other members of the ICT Task Force agreed that New Zealand's owner managers needed to learn how to build strong organisations, develop the skills required to mange growth, understand how their leadership roles changed at each stage of development, and develop a sound plan for "going global."

How Entrepreneurs Learn

While the ICT Task Force was quite clear about the content of the programme that was needed, the structure and methodology of the course was less clear. However, we did considerable research at the Kauffman Center about how entrepreneurs or owner managers learn:

- They preferred to learn from other successful entrepreneurs who had "been there, done that."
- They were not interested in learning theory, per se, but wanted to go to a trusted resource whose programmes had a sound theoretical base
- They often did not know what they didn't know, hence needed diagnostics and other tools to create "the need" to know or learn.
- They always tested what they were learning against their own experiences in an effort to determine whether the information or theory being proposed helped explain their reality. If it did, then they immediately made plans to implement the changes. If it did not, they dismissed it as "not relevant" to my current situation.
- They had different problems in each of the functional areas, e.g., human resources, finance, marketing and leadership at each stage of growth.
- They are holistic and integrative learners who seek resources and "just-in-time" learning when they need it. Rather than learning something they don't need at the moment, they book-mark a resource (often a person) and look it up later, when they have a need to know.

In short, programmes designed for entrepreneurs are most successful if they include the following elements:

- a diagnostic or a set of questions that enable the owners/managers to identify what they know versus need to know
- content that addresses the issues they have identified to manage growth
- opportunities to discuss the application of that content with other entrepreneurs, and
- time for reflection and creation of a plan of action that outlines changes to be made.

These findings formed the basis of the NZTE-funded work I did with the ICEHOUSE when we designed the "321 Go Global" programme.

Building the Leading Growth course

I also designed a course last year called Leading and Managing Entrepreneurial Growth. The course was comprised of 9 half-day sessions and was offered to 25 graduate students at the University of Auckland in September, October and November of 2004. More than half the students in the course were seriously thinking about starting their own company within the next five years and wanted to learn how to lead and manage growth. The course was designed to be a combination of class room learning, and case studies of New Zealand companies that were trying to grow. As a researcher, I was interested in whether the questions the student teams asked would "trigger" the need to learn. Would owner managers discover "what they didn't know they didn't know – but needed to know to manage growth"?

FIGURE 3: What you need to know to grow a company

Building the awesome organisation	Financing high growth
"Managing me"	Marketing and sales
Developing and delivering products and services	Managing externalities (What's out of my control)

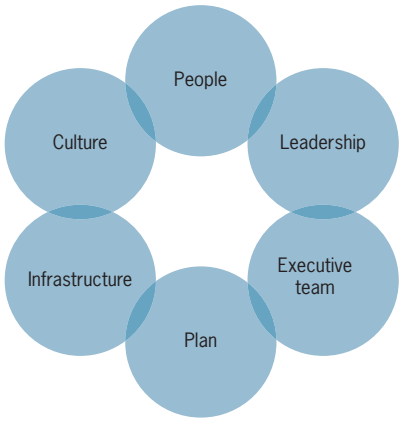
In the first session, I introduced what I call the Growth Knowledge Framework (see Figure 3). This framework is a way of organizing the "1,000 chunks of knowledge" an owner manager or entrepreneur needs to understand in order to manage growth.

In the beginning stages of a business, owner managers or entrepreneurs are typically focussed on the product or service they are offering. Then they recognize that they need to develop a market and sell the products or services. Often, it's only when they get blindsided by other competitors, or hit by fluctuating exchange rates and changing customer tastes, that they learn to monitor and manage externalities. And while they intuitively know they need to sell something to customers—and that usually requires employees—it takes time for them to understand the importance of building an organisation.

Our research with U.S. growth entrepreneurs indicated that three of the components in Figure 2—building the awesome organisation, "managing me," and financing high growth—were the most important ones for owners and managers of growth companies. They could certainly delegate product development, marketing sales and services, and hire people to monitor and alert them to changes in the externalities. But their success or failure was tightly coupled with how well they managed themselves as people and leaders, whether they built an organisation that could sustain growth, and their choice of financing options.

Since it's critical that the leader of a growth company know his/her strengths and weaknesses and hire accordingly, I asked each student to identify his/her strengths and weaknesses as a potential leader of a growth company, then hypothesize which stage(s) of growth those strengths and

FIGURE 4: Key components of organizations built for growth



weaknesses would be most useful or problematic. Students developed some interesting insights about themselves.

Most of the class sessions were focused on analyzing the six components of an awesome organisation (see Figure 4). We had several guests in our class, including Mark Edwards, a venture capitalist with No 8 Ventures, who discussed the importance of culture in a growth company. Carol Frank, a U.S.-based entrepreneur, shared her experiences and lessons learned about finding good partners and dealing with dishonest vendors and suppliers.

Establishing win-win interactions

The heart of the university course was the field case study work. The ICEHOUSE asked several of the business owners in the 321 Go Global programme if they would be willing to have student teams study their company. Three agreed, and we added Xsol, whose CEO was on the ICT Task Force, and Music Works, a retail chain that sold musical instruments. We set up five teams of five students per team, and each team was assigned the task of studying how the owner manager or leader of their case company was building one of the six components of an awesome organisation.

One team studied Music Works and how the leader had created and maintained a culture of growth. Another team studied Annie's of Marlborough and focused on how the leader was developing the people needed for growth. A third team studied how the leader of High Modulus was planning for growth. A fourth team studied how the leader of XSol was developing the infrastructure required to sustain growth. A fifth team studied Logis and how its leader was developing the Top Team.

The research involved several components[1] and the "test" was for the student teams to present their findings to a panel of three of New Zealand's well-known CEOs: James Watson of Genesis, Ross Mathieson of Peace, and Mark Thomas of Right Hemisphere. As the student teams presented their findings, the CEOs challenged them and forced them to dig deeper to justify their conclusions. During the final hour, the panel shifted its focus and discussed their challenges of growing their own companies—and the lessons learned in the process.

Developing insights about business growth

Feedback from all the participants in the programme suggests that the student teams did, in fact, "trigger" the need to learn, as we had hypothesized. Andrew Kobylinski, the president of Music Works, believes the experience provided him "with the long overdue 'heads-up' I needed to re-evaluate and improve my leadership." Similarly, John Blackham, the CEO of XSOL, found that "being probed on relatively sensitive issues" proved to have a "galvanizing effect" on his team. "It was," he said, "as if the XSol management team were being subjected to a lie-detector test with regard to their views on the company and each other's contributions to our venture. The results were illuminating and gratifying."

Similarly, Watson observed that the student researchers—because of their independence—were able to highlight and tackle the "real" versus perceived management problems faced by the companies who were trying to grow. Mark Thomas wisely noted that the process of analysis enables a company's issues to "become clearer, particularly when they are mirrored in other companies' experiences and mistakes."

Summary

The course on Leading Growth was a win-win for all. The student teams provided a catalyst for company owners to think and talk about their company's growth. They had to answer questions that made them re-assess their personal assumptions about leadership and growth. The students gained an appreciation for the risks and benefits of company growth and now know quite a lot about what should go right—and can go wrong. If I were leading a growth company in New Zealand, I'd be recruiting these students and trying to get them to come work for me. They are an important part of the talent base New Zealand is developing that should support the development of many more growth companies in the future.

The Leading Growth course will be offered again between June and September, 2005. The programme needs eight owner managers to volunteer to be field case studies for student teams, and six experienced CEOs or owner/managers for the CEO review panel. Those interested in participating should contact Virginia Spicer v.spicer@auckland.ac.nz

ENDNOTE

1. Each team asked the CEO to respond to two sets of questions. The team leaders sent the quiz and list of questions to the CEOs before visiting the company and interviewing people, customers, the top team and the CEO. Teams were then required to develop a half hour presentation about their company and describe how the CEO was leading and developing the organisation. The presentations were delivered to the class and the CEO was invited to attend. Each team then had to develop a team paper which included the analysis of the problem and their insights from the experience. Copies of each team's paper were given to me and sent to the company. The "test" for the course was to identify the biggest problem impeding growth in their case study company, to describe the issue, the manifestation of the problem(s), and to recommend solutions.