

Forté Enterprise Digest

Complimentary newsletter to inform, challenge and provoke
June 2012



The elephant in the room edition

"The beginning of greatness is to be different. The beginning of failure is to be orthodox."
- David Ogilvie

"Elephant in the room" is an expression referring to an obvious truth that is being ignored or goes unaddressed. It is based on the idea that an elephant in a room would be impossible to overlook so people in the "room" who pretend the elephant is not there have chosen to avoid dealing with the looming big issue. We think that the "room" is becoming so crowded with metaphorical elephants that there's little space left for anyone else. So, this edition considers a number of issues that we think are being ignored and ignored at our peril.

The late Sir Paul Callaghan in *Wool to Weta* got to the point - **"We are comforted but imprisoned by our myths."** Myths are just the strategies that we use to hide the elephants.

So who's responsible for ignoring the elephants. It's tempting to blame the government and politicians – after all we're pretty keen to absolve ourselves of responsibility for all sorts of issues by blaming them. Mathew Palmer in *New Zealand Constitutional Culture*, (NZULR Vol 22) noted that Kiwis have a strangely authoritarian outlook. We expect our Governments to identify and fix our problems but we then resent them for trying.

As a public, with the help of our media, we have created an environment where it is impossible to have a meaningful discussion about just about any of the things of importance to our future. Take productivity for example – our single greatest economic issue. We tend to think that productivity means working harder for less pay and any discussion soon heads that way. In other words, exactly the opposite of an economist's definition. Predictably, politicians and governments react to the public's misunderstanding and even hostility by borrowing a concept from Harry Potter. Just as Lord Voldemort must be referred to as "He-Who-Must-Not-Be-Named" or the "Dark Lord" so is productivity replaced by words like "innovation" or "competitiveness". Not to diminish the importance of those issues – but they are means to an end. It is productivity pure and simple that is at the heart of our economic mediocrity and that is behind issues like our low wages and associated social issues. **Put simply, we don't create enough value from what we do to pay for the things that we believe make (or once made) New Zealand great.**

So that leads nicely into our first article below ...

Contents

It's up to us now ... probably always has been - Conventional wisdom says that productivity and economic performance is a function of public policy. However deeper reflection suggests that the private sector bears more responsibility ... [more below](#)

Something's missing – and we've got a pretty good idea what it is! You can't fix something that's not working by doing more of it – or hitting it with a bigger hammer. Einstein described that as ... [more below](#)

How do we do things differently? Because the base assumptions that we rely upon have fundamentally changed, we need a massive mindset shift if we are to recognise and capture those opportunities ... [more below](#)

Renovating business models. Renovating our business models is how we transition from the past to the future. It's how we take what we are already good at and covert how we create and harvest value ... [more below](#)

Intellectual asset management as a business model. When New Zealand was rich, Finland was poor. How did they transform their economy? Was it planned? Good luck? What can we learn? Well here's a clue... [more below](#)

Attention to detail vs "she'll be right". In a joint project with The NZ Institute, we identified a problem around attention to preparation and presentation that increased costs and reduced the returns for Kiwi businesses. The analysis began from a perspective that ... [more below](#)

Glorious contentedness. People from every nation and culture hold dear to their myths and New Zealand is no exception. Trouble is, more and more, many of those myths ... [more below](#)

Snatching defeat from the jaws of victory. Like the song says – there's a fine line between pleasure and pain and so to there's a fine line between mediocrity and prosperity. This Digest has often commented on how we Kiwis inadvertently let opportunities ... [more below](#)

Motivation or manipulation. How do you develop intrinsic motivation? ... [more below](#)

Just like us. We encountered recently a great example of the "Universalism" we often talk about – the propensity to assume that others are just like us. We overheard ... [more below](#)

***It's up to us now.
Probably always has
been***

Conventional wisdom says that productivity and economic performance is a function of public policy. However deeper reflection suggests that the private sector bears more responsibility for New Zealand's productivity malaise than conventional wisdom suggests and it bears that responsibility not through how long and hard we work but through the thinking and behaviour of owners, managers, employees and the general public about how we create and harvest value, how we engage with people and how we manage performance. If we don't understand that thinking and behaviour then we are going to continue to struggle.

Governments do not create value – at least not in our capitalist system. They provide the framework within which we as businesses create value – profit, wealth and prosperity. The framework in New Zealand it seems is pretty good already. The OECD has described it as a “mystery” as to “*why a country that seems so close to best practice in most of the policies that are regarded as the key drivers of growth is nevertheless just an average performer.*” OECD (2003). Waikato University's Phil McCann (2009) described New Zealand as having a near text book set of institutional arrangements. Global research shows that bureaucracy in New Zealand is less impediment to business than almost anywhere else. In fact New Zealand has just been struck off a prestigious European Union banking and corporate “white list” because of this country's weak money laundering and terrorism financing controls and in particular the ease with which shell companies can be formed. So flogging the framework horse cannot be the answer. (Sorry about another animal metaphor!)

Eminent economist John Kenneth Galbraith noted in a number of his writings, the role of the corporation in economics has come to exceed the role of governments (In fact he wrote that first way back in 1958! And by the way, it was the same Galbraith who in that year popularised the expression “conventional wisdom”!) Galbraith's point was that corporations are so powerful that they are able to manipulate consumer spending in ways not anticipated or accommodated by the theories of economics, - supply, demand and prices.

When we look at the trajectory of New Zealand's economic performance over a period of 100 years it's clear that by the time Britain joined the EU – what conventional wisdom says caused our economic decline – we were already showing all the signs of being on a slippery slope – and we weren't scrambling our way up it. In 1914 we had the highest GDP per capita in the world. In 1950 we were still third but by 1955 we were already 8th and now we are 52nd or 53rd. OECD figures tell a similar story. 3rd in 1960, 22nd now.

Something's missing! What is it?

***Something's missing
... and we've got a
pretty good idea
what it is***

You can't fix something that's not working by doing more of it – or hitting it with a bigger hammer. Einstein described that as the definition of insanity!

Stick with us here for a moment – we want to follow a line of logic. The following is lifted from Wikipedia.com:

1. Economics is the social science that analyzes the production, distribution and consumption of goods and services. **Social science** is the field of study concerned with society and human behaviours.
2. A focus of the subject is how economic agents behave or interact and how economies work.
3. In economics, an **agent** is an actor and decision maker in a model.
4. **Behavioural economics** study the effects of social, cognitive and emotional factors on the economic decisions of individuals and institutions and the consequences for market prices, returns and the resource allocation.

In other words, economics is about how we the actors think and behave. Now we can provide compelling evidence that we Kiwis have a distinctive set of mental models that impact our economic thinking and behaviour and that we are different even to our neighbours across the Tasman. Consider this for instance (Morrison T & Conaway W (2006) *Kiss, Bow, or Shake Hands*, Adams Media, Massachusetts, USA):

Referring to New Zealand – “*The culture of New Zealand has a deep humanitarian orientation where humanistic progress is as important as materialistic progress.*”

Referring to Australia – “*The Judeo-Christian ethic pervades most behaviour, but material progress is more important than humanistic progress.*”

There's a disconnect between who we are and how we try to manage our economy and our businesses. We watched part bemused part horrified as a no doubt well meaning union official announced on Cambell Live (TV3 22/05/2012) a campaign to replace discussion of the minimum wage with one focused on a living wage. If that campaign went in the right direction it would be very useful indeed but from what was said we're pretty confident that it won't - because it misses the point. To cite the late Sir Paul Callaghan “We're poor because we choose to do low value jobs.” Now we think that's a bit simplistic because the majority of people do not determine what jobs are available and increasing skills in the areas of engineering and science as Sir Paul advocated certainly increases the supply but it does nothing for demand. The reality is that collectively we choose to have a low value economy and the consequence of that is

low value jobs. If we do not transition into a high value economy, no amount of campaigning, no amount of fiddling with employment laws is going to change the outcome. The simple and harsh reality is that Aussie businesses are 40+% more productive than Kiwi businesses and it is that higher productivity that results in higher wages. That is the direction of the causal relationship.

How do we do things differently?

Because the base assumptions that we rely upon have fundamentally changed, we need a massive mindset shift if we are to recognise and capture the opportunities that the changes are presenting to us.

Government is allergic to intervention. It cannot directly bring about change but it does, in our opinion, in the absence of leadership coming from somewhere else, have a duty to provide change leadership. But first of all our Government has to grasp how the world has changed and recognise that simply standing out of the way is not the leadership that's needed to dig us out of the hole that we are in. If we are to avoid protracted, maybe permanent pain then we have to make fundamental changes— and that means changing the way that we think and behave - because it is our legacy mindsets that are holding us back. We don't have to change the world – that's already happened. What we have to do is realign our business models, not just to survive but much more importantly to leverage the opportunities the changed world places before us.

Few nations on earth can be as well placed for the future as New Zealand – if we can just get our head around the nature of those opportunities. First – and we can't overstate how important this is: We do not have to stop doing what we already do in order to grasp the new opportunities. There's increasing demand for what we have traditionally produced – food. We must escape from our entrapment in our own commodity trading mentality where we believe we have little or no influence over prices. We have to focus more on understanding how to harvest the value from that product and that relies almost entirely on understanding what our customers perceive as our value propositions. Try "integrity" for one! Grass fed meat and milk is much ... MUCH healthier than feedstock fed produce. People all over will pay large premiums for that. So please tell us - why are we not focused on harvesting the value that represents – instead of letting others do so?

We now live in a world where value lays much more in values and culture and in our intellectual assets (the instruments of a knowledge economy) than in tangible assets (80:20 in favour of intellectual assets). In fact most tangible assets are really liabilities because they constantly depreciate. Knowledge on the other hand increases in value as it is applied. It appreciates not depreciates. Facebook's float valuing the company around \$US110 billion isn't just hype – despite the post float falls – it's the value of knowledge and the monetisation of that knowledge. And here's a key point. New Zealand's is a knowledge rich economy – Kiwi businesses just haven't worked out how to monetise it ...yet!

Renovating business models

Renovating our business models is how we transition from the past to the future. It's how we take what we are already good at and covert how we create and harvest value into a 21st century context. Renovating the business model is conceptually straightforward.

1. Rethink the Customer Value Proposition – we tend to think for our customers and sell ourselves short – well short in terms of what our real value proposition is. Waitrose for instance label New Zealand lamb as grown by farmers "who share our values". We all learnt marketing 101 – understand the customers needs. It's just that no one told us how complex that could be and how different to us our customers would turn out to be in the 21st century – even those we think are quite similar.

2. Redefine the revenue and profit model - how the business goes about creating shareholder value. We've talked about the "Knowledge Economy" for several decades without realising what it meant. Well it's here folks and we're in the midst of changes as least as significant as the industrial revolution. There've been fundamental changes in our base assumptions that create immense opportunity for Kiwi firms and the New Zealand economy – if we can just make the required mindset shift.

3. Review and revise existing processes, channels and customer engagement models and create new ones that align with the new model.

4. Deploy the renovated model.

Of course nothing is ever as easy in reality – we're talking about big changes in our mindsets here. And there's no doubt that is going to be really uncomfortable. But not as uncomfortable as if we continue on floundering around the way we are at the moment. Let's look at an illustration.

Intellectual asset management as a business model

When New Zealand was rich, Finland was poor. How did they transform their economy? Was it planned? Good luck? What can we learn? Well here's a clue. They have a forest industry. Their rotation cycle is 150 years. Ours is 50. Our climate is temperate. Theirs is cold and harsh and it's dark quite a lot. They have Nokia that grew out of a forest radio company. They are world leaders in the production of pulp and paper machinery, chemicals and consulting. Here's another clue. Iceland is a major fishing nation. They're also a world leader in the production of fishing technology. So what's the point? First, they have a different view of creating and

harvesting value. Second, cell phones, pulp and paper and fishing technology are not commodities. That gives them a huge advantage. Third, these are all examples of monetising the technologies that those nations used to underpin their primary production of wood and fish respectively. In other worlds they took another step beyond primary production. They took the technologies (intellectual assets) that were otherwise embedded in their comparatively low value primary production of commodity products and monetised them. It's a step that with few exceptions we've not even contemplated let alone managed.

So what are the fields that New Zealand leads the world in? Cool climate wine production, dairying of course and agriculture in general, and aquaculture as starters. New Zealand for instance, is considered a world leader in marine farming and processing technology and in shellfish water quality management systems. But, and it's a very large "but", where do we monetise that leadership? The simple answer is, we do not. We do not even recognise that the opportunity exists. Our mindsets are firmly fixed on the products we use the intellectual assets to produce.

If New Zealand businesses are to transform and to escape the multiple tyrannies of small domestic market, distance to export markets, and variable commodity prices, then we need to renovate our business models to first recognise the latent value hiding in clear view, protect it as appropriate, package and leverage it into a whole new value and profit stream. Easier said than done of course but there's a strict limit to how much milk powder, how much wine, how much seafood we can grow and process. There's little or no limit on harvesting value from our clever innovations.

We try to avoid selling ourselves in these newsletters but this is such an opportunity for Kiwi businesses that we are making an exception. Interested? Give Tony a call on 0274967821 or email tony@forte-management.co.nz

Attention to detail vs "she'll be right"

In a joint project with *The NZ Institute*, we identified a problem around attention to preparation and presentation that increased costs and reduced the returns for Kiwi businesses. The analysis began from a perspective that Kiwis are just slack when it comes to the attention to detail associated with quality and aligning our value proposition offer with the customer's expectation. But we argued that it is much more complex than that. We find no evidence that most Kiwis and Kiwi firms are not capable of delivering world class quality. The problem is that we believe that we have applied enough attention to that quality at a lower threshold than our customers expect and demand. It's in our mindset again. We have low "thresholds of enough". We are satisfied that we've done enough at too low a threshold.

We wrote in an earlier edition about the now late Sir Paul Callaghan expressing concern that Kiwis "she'll-be-right" attitude was returning and we suggested it had never gone away. Sadly it's all around us. It is a widely accepted and equally widely denied truism that our best quality products are exported and those not up to the mark for export are sold to Kiwis. We don't really know the truth of the matter but we thought two recent experiences are useful illustrations. We've been doing renovations and purchased two lots of timber. The first was premium 100 x 50 framing timber. The 100mm dimension varied by 3mm between batches. To us that variation is simply a lack of attention to detail. There's no excuse for it. The next example was worse. We purchased machined 150 x 50mm timber – beautiful, clean, dry and straight – except that on some of the 5m lengths there was 9mm variation across the 150mm dimension from one end to the other. That's right 9mm, 0.9cm! Try creating mitred corners with that.

There are lot's of reasons why this sort of thing happens but we can't help wondering about the legacy of our past where we did export all the good stuff and we were taught to be grateful for what we did get. Anyone who dared complain was labelled a "Whinger" – that feedback reluctance that we often talk about. So we think this was part of the creation of our low thresholds of enough. Receiving and responding to complaints is one of, if not the most powerful tool for improvement. We've got a double problem, we accept that mediocre quality is good enough, plus we are culturally inhibited when it comes to complaining and demanding superior quality.

Our plea then is – we must increase our thresholds of enough – dramatically – across every endeavour. We must demand the highest quality standards for ourselves – to paraphrase L'Oreal's famous by-line "*Because we deserve it*". In fact we think that we Kiwis have a moral imperative, a duty to the future, to demand the very highest standards. Only then are we being true to ourselves and the ideals we hold dear. Only then will our mindsets be in the right place to climb out of the mess we find ourselves in.

Glorious contentedness

People from every nation and culture hold dear to their myths and New Zealand is no exception. Trouble is, more and more, many of those myths, once founded in a degree of truth, now hide increasingly unpalatable realities – that damned elephant again. We have a long string of negative statistics – social and economic that we hide and shelter from behind our myths.

We came upon some interesting research recently showing that satisficers are more content. Satisficing is where goals become upper limits or constraints. This is the technical term for our

“low thresholds of enough”. The conclusion was that people who accept low thresholds of enough are happier and more contented – largely because they are disappointed less often. Kiwis have a high level of contentment and are profound satisficers. We’re contentedly getting poorer and poorer – less able to pay for the very things like free accessible health care that we cherish so much. We can’t help thinking that we Kiwis are content because we are accepting the inevitability of our decline and living vicariously in a past represented by our myths. There are words – but we cannot print them – that say – that’s not good enough. We have moral and commercial imperatives to do much better!

Snatching defeat from the jaws of victory

Like the song says – there’s a fine line between pleasure and pain and so to there’s a fine line between mediocrity and prosperity. This Digest has often commented on how we Kiwis inadvertently let opportunities slip through our fingers, despite working hard and long. We’ve attributed some at least of that problem to the thinking and behaviour resulting from our national culture. The following therefore resonated with us:
“I grew up as a traditional Scot with dark masses of savage insecurities and a devotion to avoiding success. ... Scotland has hitherto tried to specialise in the production of underdogs who nearly triumph over adversity and then manage to not win at the last moment, thus retaining the moral high ground.” (Source “Understanding the underdog: AL Kennedy on the real Scottish heroines” In Tartanry and Tyranny, Financial Times, FT.com)

Motivation or manipulation

The following is reproduced from the Gurteen Knowledge Letter written by David Gurteen. You can enrol at <http://www.gurteen.com/gurteen/gurteen.nsf/id/knowledge-letter>

Those of you who know me, will be aware of my strong views about the role of rewards in KM and in business in general. In the (note: you need to be a member of the forum to read this) there is a short discussion on rewarding knowledge sharing. In it, Mahesh Varavooru poses the question *“How do you develop intrinsic motivation? Or is it a fact that it cannot be developed?”* This was my reply:

In his book Drive, Dan Pink states that there are 3 fundamental things that research has shown to motivate us:

- Autonomy: the freedom to do what we want how we want
- Mastery: the freedom to master a discipline, to become "the best"
- Purpose: a higher purpose than earning money; doing something that we feel is worthwhile

So as a manager, possible ways to allow people's intrinsic motivation to emerge might include:

- Giving them more autonomy in how they do their work
- Giving them more time and opportunity to master their chosen field or profession
- Where possible allowing them to pursue or identify a purpose in their work other than just making money

I would also add that we should start with the assumption that all of us wish to do good work. And so we should stop trying to do things to each other by rewarding each other with goodies or trying to manipulate each other in any other way. We should treat each other with respect and work together for the common good. It may seem idealistic but I suspect this is far more effective than trying to manipulate people.

Motivation is emergent. If you try to develop it in someone its not motivation - its manipulation.

Just like us ...

We encountered recently a great example of the “Universalism” we often talk about – the propensity to assume that others are just like us. We overheard a conversation between two executives involved in the same industry. One says to the other “Great the season’s over now – we can take our holidays.” The other says with exasperation “But what I do isn’t seasonal – it happens 365 days of the year”.

This was a perfect example, at the domestic level of how easy it is, how attuned our Kiwi minds are, to making the assumption that others will think and behave, have similar experiences to our own. If this happens when the differences are right in front of us to observe, how difficult is it to get our heads around the idea that people from other cultures are thinking and behaving according to completely different value sets, mental models and societal conventions?

Published by

Forté Enterprise Digest is published by Forté Management, www.forte-management.co.nz, ++64 274 967 821, news@forte-management.co.nz, Marlborough, New Zealand.

Articles in this newsletter are available for reproduction in part or in full provided they are accompanied by full acknowledgement of the authorship and copyright.