

BUSINESS STRATEGIES AND EMPLOYMENT DECISIONS: INTERVIEWS WITH NEW ZEALAND FIRMS

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Abstract

A firm's business strategy does not exist in a vacuum; it requires employees to implement it. However, firms often say that they have difficulties hiring certain types of employees. Through interviews with firms and analysis of the 2008 New Zealand Business Operations Survey, this research explored the interaction between strategy and employees' skills, and differences between high value-add (HVA) and medium value-add (MVA) firms. MVA firms focused more on production methods, technical skills, and margins over costs. HVA firms focused more on the business skills of a few, professional core employees, as well as the marketing aspects of their products.

JEL Codes: D21, J24

Keyword(s): business strategy, core employees, high value-add, hiring, New Zealand

Introduction

A firm's business strategy does not exist in a vacuum; the firm's employees have to make the strategy become the actual activity of the firm. However, firms often indicate on surveys that they have difficulties hiring certain types of employees. This paper is the result of research commissioned by the Ministry of Economic Development (MED) as part of the continuing work on business strategy, the skills of employees, and the relationship between the two.

Mason (2005) conducted somewhat similar research in the UK, and found that firms were constrained by the lack of appropriate skills in their employees. Some of these skills were at the management level: senior employees needed to be able to plan and manage, especially if firms were moving to higher value-add products. However, that was not the only constraint to creating premium products. Firms also required capital in order to finance improvements in physical plant and in sales and distribution.

To investigate these issues in New Zealand, face-to-face semi-structured interviews were conducted and the results of the 2008 Statistics NZ Business Operations Survey (BOS) were examined. The two goals were:

1. To understand the interaction between business strategy and the availability of specific skills in the employment market;
2. To investigate differences between high value-add and medium value-add firms, in order to contribute to understanding about productivity; and

Methodology

The research investigated 24 firms to examine their business strategies, experience with employees, and other dimensions. The sample included firms in three different industrial groupings: manufacturing/engineering, transport, and information technology (IT). Within each grouping, two different types of firms were targeted. One type had been identified as high value-add (HVA) by MED, while the other was considered medium value-add (MVA). The method for the project can be divided into sample selection, interviews, and comparison with BOS results.

Sample selection

The sample was drawn from a subset of respondents to the BOS that agreed to take part in a follow-up survey. A list of 30 firms was drawn from the Statistics New Zealand database by MED. The selection was not random, but was structured along several lines. First, firms in the whole population were classified into quartiles according to their labour productivity within the industry groups used for the stratification of the survey (see Fabling, Grimes and Stevens, 2008). Firms in the sub-sample of firms that had agreed to participate in follow-up surveys, were then coded as either HVA firms, if their labour productivity was in the top quartile of firms in their industry, MVA firms, if they were within the inter-quartile range (i.e. in the second or third quartiles), or low value-add firms. Next, three industries were selected from industries that contained at least five HVA and MVA firms to represent a range of different types of activities. Firms were selected from transport, manufacture/engineering (engineering) and IT. Finally, the selection was also

structured to include firms of different sizes, categorised by number of employees. Firms were broken into four size groups: 6-19, 20-49, 50-99 and 100 or more employees. The final list of firms was provided to the AERU to arrange and conduct interviews. The survey was conducted ‘blind’ in the sense that interviewers were unaware which firms were classified as HVA and MVA when the interviews were conducted. A few firms from the original list declined to participate. They were replaced by MED with similar firms where possible, or with other firms in the same industry.

Interviews

Twenty-four interviews were conducted, with all industry-by-value-add groups included and nearly all size categories included. A few firms from the original list could not be contacted, or interviews could not be scheduled.

Table 1 provides a breakdown of the firms interviewed and their value added status as subsequently provided by MED.

Table 1. Breakdown of Firms Interviewed

Industry	Number of Interviews	
	High Value Added	Medium Value Added
Manufacturing/Engineering	5	3
Information Technology	6	5
Transport	2	3

‘Manufacturing/Engineering’ is made up of ANZSIC three-digit industries C21 ‘Primary Metal and Metal Product Manufacturing’ and C22 ‘Fabricated Metal Product Manufacturing’

‘Information Technology’ corresponds to ANZSIC two-digit industry M70 ‘Computer Systems Design and Related Services’

‘Transport’ corresponds to ANZSIC industry I ‘Transport, postal and warehousing’

The interviews were conducted as face-to-face interviews at the place of business for the firms. The people interviewed were variously CEOs, chief accountants, business managers, and other senior management. The interviews lasted from 30 minutes to an hour. To record the interviews, the interviewers took notes.

As is typical for semi-structured interviews, an interview guide was used. Respondents were asked the questions on the guide, and then additional questions might probe a specific point or seek clarification of an issue. The guide was developed in cooperation with MED, and follows similar research by Geoff Mason.

After the interviews were finished, MED provided further information to AERU about whether the firms

were considered high value-add (HVA) or medium value-add (MVA) firms. This classification was then incorporated into the analysis of results.

This paper presents the results of the interviews in two ways. First, the responses are described and similarities and differences are discussed. Secondly, where possible, responses are categorised and counted and the categorical responses are statistically examined with cross-tabulations and chi-square tests of significance.

Comparison to BOS results

The results of the interviews were also compared to the results of the nationwide BOS survey, to assess whether the firms in the present research were different from the larger sample. Potential reasons for differences would be the following:

- Sample selection bias in the choice of the firms;
- The presence of low value-add firms in the BOS sample, compared to the HVA and MVA firms in the present research; and
- Differences between the specific industries in the present research and the wider nationwide sample.

Results from interviews and analysis

The results from the research are divided into five sections: general firm information, market strategy, competition, value-add, and employee skills. The discussion includes findings from both the interviews and the BOS data. For the BOS results, the discussion indicates key results and the relevant tables from Statistics New Zealand (2009a, 2009b).

General firm information

The time in business for the firms covered a broad range, from less than 10 years to over 40 years. Some firms had even longer histories, and could trace their origins through different ownership or business structures.

The impact of the downturn in the economy was a common thread amongst firms. For example, the recession has reduced the demand for housing, which has affected, amongst other things, transport, logistics, shipping, and engineering firms. The recession has also reduced investment in new plant and machinery, imports, and consumer spending. This has, in turn, compounded competition between firms for the reduced business opportunities that are available. As one HVA engineering firm said: *‘Everyone is chasing the same projects and there aren’t as many projects around’*¹. The value of the New Zealand dollar and current interest rates has also affected some firms: *‘We*

¹ The chapter includes quotations from the firms interviewed. Because interviewers took notes as they conducted the interviews, the quotations may not be word-for-word transcriptions. However, they are accurate and represent the general intentions of the respondents.

struggle when the dollar is high' (two engineering firms, one MVA and one HVA).

Market strategy

The interviews asked respondents to discuss their firms' market strategies. Figure 1 shows graphically the number of firms identifying a specific strategy they currently followed. All but two firms indicated some type of strategy, and many firms indicated more than one. Figure 1 also suggests some differences in the strategies between HVA and MVA firms. The HVA firms had more strategies, on average, than the MVA firms. In addition, the HVA firms were more likely to be focusing on overseas markets (eight HVA versus two MVA firms). Becoming a specialist was also seen as a strategy for some HVA firms, while MVA firms did not have this approach. MVA firms did, overall, identify many of the same strategies as HVA firms. However, two MVA firms also stated that they did not have a market strategy. These firms, from the engineering and transport industries, tended to have enough work to keep them busy. They took advantage of opportunities that presented themselves but without a strategic view.

The question of market strategies yielded interesting discussions. Six firms (two MVA IT, two HVA IT, one HVA engineering, and one HVA transport) indicated that their strategy was to open new geographic markets for the products they already produced. For example,

they might be trying to sell software that had been successful in New Zealand and Australia into the United States or an Asian market. One HVA IT firm described their strategy as: *'Franchise industry in US. We want to have franchise work so we can use that to open more customer partnerships and launch more*

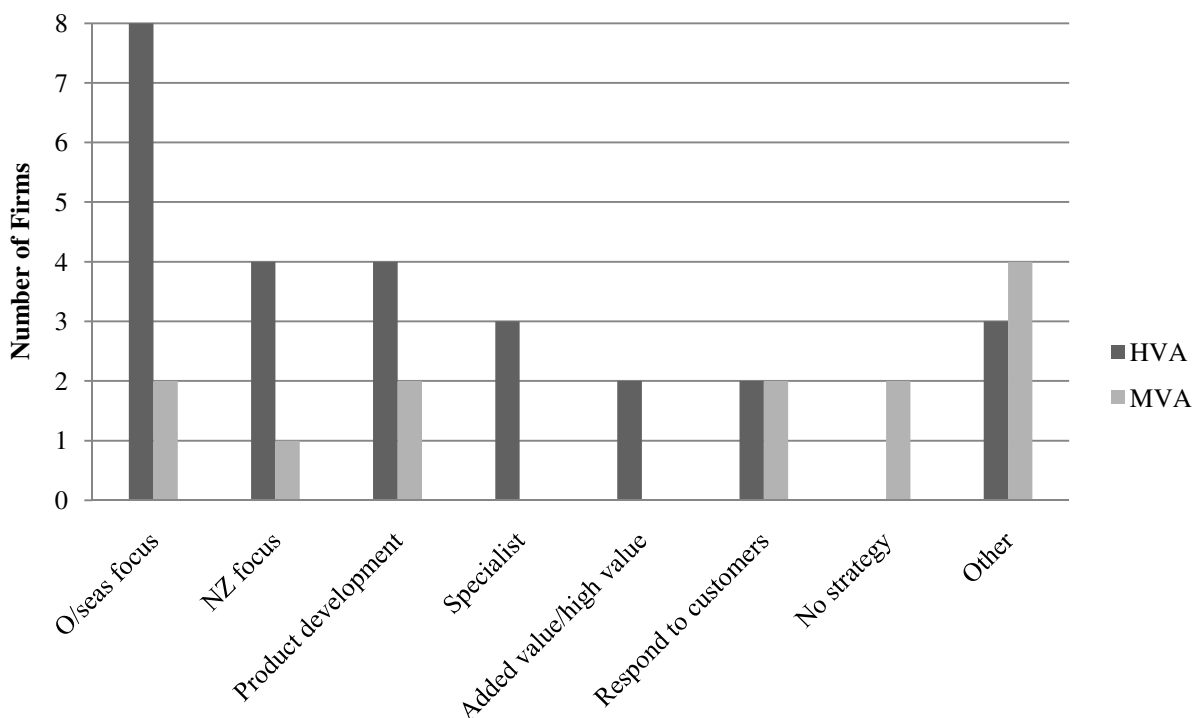
products with those partners in the US'. Other firms (three HVA engineering, one HVA IT, and one MVA IT) were working closely with existing clients to find additional work – either more of the same product/service or additional products/services. One HVA IT company said part of their strategy was: *'We won't make any new products.... But,(we'll grow) for example, by not just selling products, but installing them. [We] want a bigger piece of the projects.'*

About half of the firms were interested in targeting additional markets but had not yet been successful (two HVA IT, three MVA IT; two HVA engineering, two MVA engineering; one HVA transport, two MVA transport). For two MVA engineering firms, it was a question of being able to establish strong business relationships with firms in the target industry. Until they could establish those networks, it was felt they would be unable to compete with incumbent firms.

About one-third of firms, from the three industries and two value-add groups, were not interested in developing new products or entering new markets. This was primarily due to these firms having enough business to keep them busy at this point, or wanting to focus on what they were currently doing and doing that well. Many of these firms had co-evolved with their customers. Business opportunities had arisen and firms were in a position to take advantage of them. By working with customers, understanding the industry, and providing flexible products or services, they had grown alongside their customers. This was true across all industries.

At least half of the firms (particularly IT and transport firms) were very focused on the New Zealand market. They felt they had the knowledge and experience to cater to this market and aimed to expand their New

Figure 1. Market strategy of firms



Zealand custom. One MVA IT firm said: *'We are truly a New Zealand company that understands the New Zealand market.'* Understanding the New Zealand market was seen as a strength; through their depth of understanding, companies could build trust with clients and expand their business offerings. Where they had picked up some overseas business, it was opportunistic rather than the result of a strategy: *'We don't actively have sales and marketing efforts overseas. International clients come from opportunities'* (HVA IT firm). The decision to focus on the New Zealand market was not always driven by strategy however. For example, a HVA transport firm felt that the cost of shipping goods overseas was too high and beyond the company's means and thus chose to keep their focus local. Where firms were focused on considerable growth, they tended to look overseas. There were many countries and regions of interest for expansion, including North America, Australia, Asia, Europe and the Mediterranean. The countries that were considered for expansion differed across industries and value-add groups.

Firms identified a number of factors that contributed to their success, as shown in Figure 2. Success was often due to a number of factors, rather than one isolated factor. Price was generally always a consideration, but no firm gave price as the only reason for success. Most of the firms provided flexibility, and customer-focused products or services that met the needs of their industries better than their competitors as a reason for success (two MVA transport, one MVA IT, two HVA engineering). For example, one MVA transport firm said that success was due to *'competitive pricing; ensur[ing] clients know we can deliver flexible solutions'*. In some cases, this led to focusing on niche or boutique markets (e.g., one HVA transport firm). In other cases, these firms were major suppliers into

major industries (e.g., one HVA engineering firm). Either way, nearly all firms focused on their ability to meet the needs of existing and potential clients.

For HVA firms, brand awareness and having the marketing tools to deliver it were key to success. Access to capital went hand-in-hand with this. HVA firms also noted that access to skilled employees was necessary for a business to be successful. For MVA firms, intrinsic to success was the ability to provide good seamless service at all levels. MVA firms noted that competitive pricing was important, particularly where companies were offering the same product/service. MVA firms also emphasised the importance of business relationships, consistency and knowledge, and had a focus on efficiency that was not evident with the HVA firms.

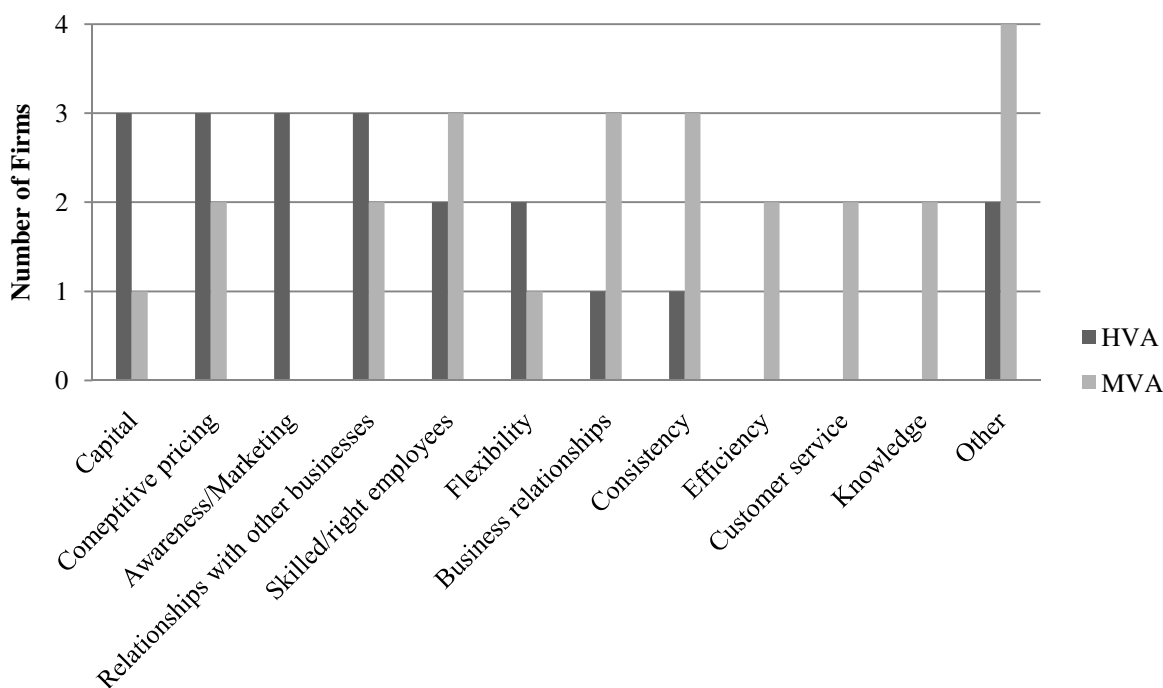
Current market knowledge was described as fundamental to succeed. It was acknowledged that in order to succeed, access to good industry advice was required. One HVA IT firm that has been operating for over ten years commented:

'We are a bit insular in our knowledge. We are comfortable that we have good ideas and very smart technology, but wrapping them up and selling them is the gap. We don't want to fool ourselves that there is a market where there isn't.'

One HVA IT firm expressed that their success had come down to *'shit loads of luck'*. Regarding their business in the US, they said:

'We have no idea how business operates in the US or about companies and potential customers'

Figure 2. What Firms Believe is Required to be Successful



there. We need partners there to make contacts, understand key industries and key industry influencers.'

The BOS also contained questions related to market strategy. Firms were asked to identify the location of their largest market (local, national or international) and the location of their main competitors (local, national or international) (Statistics New Zealand, 2009a, Table 34). The largest market for over 50 percent of the three industries of interest was local. This was considerably larger for the transport sector, with 73 per cent of firms saying that the local market was their largest market (compared with 52 and 50 per cent for the manufacturing and IT sectors respectively). The manufacturing sector had the largest number of firms indicating that their largest market was overseas, but this was only 11 per cent of firms. This finding is interesting in that during the interviews, a number of firms indicated that they had an overseas focus, although exact percentages were not collected. However, it appears that the majority of business in New Zealand comes from the local and national markets, rather than the overseas markets. These results signal that there could be differences across low-, medium-, and high-value add in terms of their markets.

Also from the BOS, the majority of firms felt that their main competitors were either local or national. Sixty-seven per cent of transport firms identified their main competitors as being local while 44 per cent of IT firms identified national firms as being their main competitors. Forty-five per cent of manufacturing firms believed that their main competition was from local businesses. Less than ten per cent of all firms indicated that their main competitors were overseas.

Competition

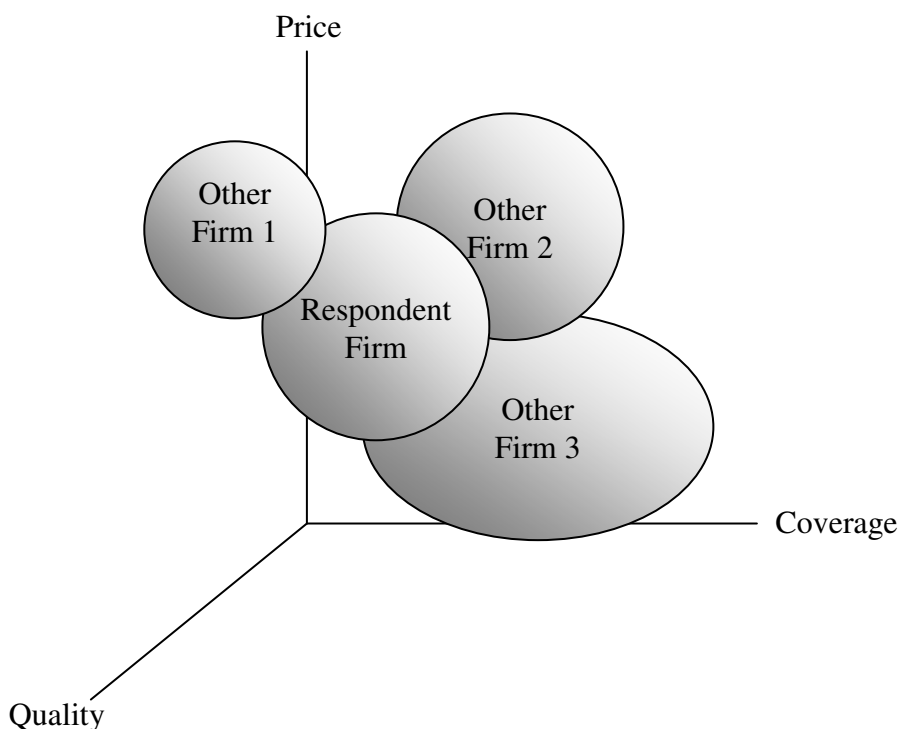
When asked to compare their products and services to those of their competitors, business owners responded generally by suggesting that their firms were better than competitors. For example, when asked to compare quality, flexibility and customer satisfaction, it was clear that firms on the whole believed they were producing goods and services that were better than their competitors. This was true for both HVA and MVA firms. Taking price as an example, of the 11 HVA firms who answered the question, six felt that the price of their products was higher than competitors, while four firms felt that their prices were lower than competitors. On the other hand, when looking at MVA firms, seven felt that the price of competitors' products was the same as their price.

The nature of the textual data allowed responses to be categorised and analysed statistically. The firms generally indicated that they were better than the competition on the dimensions included in the survey: costs, flexibility, customer satisfaction, etc. There was generally little difference in the responses across the industries or between the value-add groups. Two differences, however, were found:

- More HVA firms believed they had higher prices than their competitors, while more MVA firms believed that their products were priced the same as competitors ($p = 0.067$)
- In the transport industry, MVA firms were more likely than HVA firms to indicate that their prices are the same as competitors ($p = 0.025$)

As a general rule, firms saw their products and services as unique. In fact, two firms indicated that they had no competitors (one MVA engineering, one MVA IT

Figure 3. A Firm's Niche and Competition



firm): *'[We are] the only global competition. So, [we are] the only choice for firms'* (MVA IT firm). Many firms, from all sectors and both value-add categories, suggested, however, that when businesses are operating within the same area, there is bound to be some overlap: *'Even though we operate in high tech solutions, it's a commodity. The product has evolved and most solutions are packages, they are not customised. So most products have pretty much the same functionality, price and technology'* (HVA IT firm). Some firms, predominantly in IT, believed they were very different from competing firms through their production methods. One MVA IT firm described its production methods as being *'...very different. We have [had] robust processes for the last 7-8 years and other companies have become more similar [to us] now.'*

When the idea of competitors was explored, respondents would discuss firms that competed for some of the same customers or business. What emerged was a picture of business in which the firm was the sole member of its own particular niche. This niche could be described by several dimensions, such as price, flexibility, speed, quality, and coverage (extent of products/services offered). Other firms would compete for some customers on some dimensions, but no other firm was in exactly the same space. Figure 3 represents this idea graphically. The respondent firm occupies an area of the market described by a particular combination (here, by price, quality, and coverage). Other firms have different offerings, and intrude into the respondent's space without duplicating it completely.

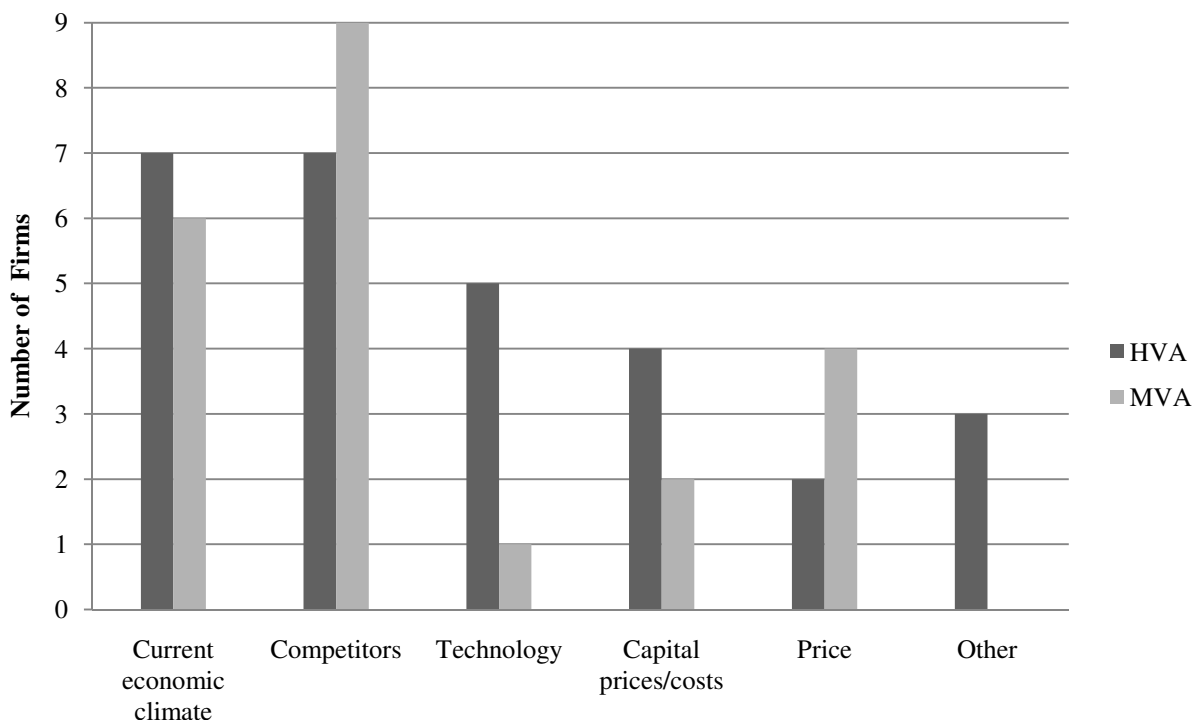
The current economic climate was adding to competitive pressures felt by firms (Figure 4). The larger number of competitors was also of concern to both HVA and MVA firms. Changes in technology were much more of a concern to HVA than MVA

firms, while MVA firm felt that price (and the lowering of prices) were of more concern to them than HVA firms. The majority of firms identified an increase in competitive pressure in the current environment. The overwhelming theme was that there is less money and work in the market and a larger number of competitors are trying for the smaller amount of work that is available. Work is not as buoyant as it was two to three years ago and comments reflected this: *'Customers [are being] asked to take more off IT budget than before'* (MVA IT firm) resulting in a lower price demanded from clients for the same amount of work. A number of firms (two MVA transport, one HVA engineering, one MVA engineering, five MVA IT, one HVA IT), particularly MVA IT firms, commented on competitors discounting rates and clients pushing prices down: *'Strong client trend to push down rates and competitors to cut corners'* (HVA IT firm). Not all firms yielded to the price pressure, however; the same HVA IT firm went on to say: *'We've chosen not to and to stay where we are.'*

Adding value to products was one way firms described to compete in a difficult market. By adding value to their products they could prevent this service being undertaken by another company. For example, one HVA engineering firm stated that *'Because of the economy, we are trying to add value to what we have instead of selling something that someone else then adds the value to'*.

The BOS also investigated competition amongst firms (Statistics New Zealand, 2009a, Table 11). When comparing themselves to other firms, the majority of firms believed that they were either *'on par with competitors'* or *'higher than competitors'* for a number of different attributes. The majority of firms felt that costs (56 per cent) and time taken to provide customers

Figure 4. Types of Competitive Pressures Faced by Firms



with goods or services (51 per cent) were 'on par with competitors'. Quality (54 per cent), customer satisfaction (52 per cent) and flexibility (50 per cent) were all perceived to be 'higher than competitors' by firms. A similar number of firms felt that employee satisfaction was either 'on par with competitors' (43 per cent) or 'higher than competitors' (40 per cent). Costs were the only element where more than ten per cent of firms (13 per cent) believed that they were 'lower than competitors'. These findings were consistent with what was found during the interviews, with most firms believing they were the same as, or better than their competitors on similar attributes.

Value-added

It was generally fairly difficult for firms to describe premium high value-add products within their industries. As Figure 5 shows, there was a range of definitions provided by firms. MVA firms often defined it in terms of higher cost or margins, while HVA firms were more likely to describe it as something specific for customers, or of a higher quality. For example, some of the definitions provided by firms were:

'The brand helps define a premium or high value added product. Having a track record of having solved similar problem identifies an organisation as being high value' (MVA IT firm).

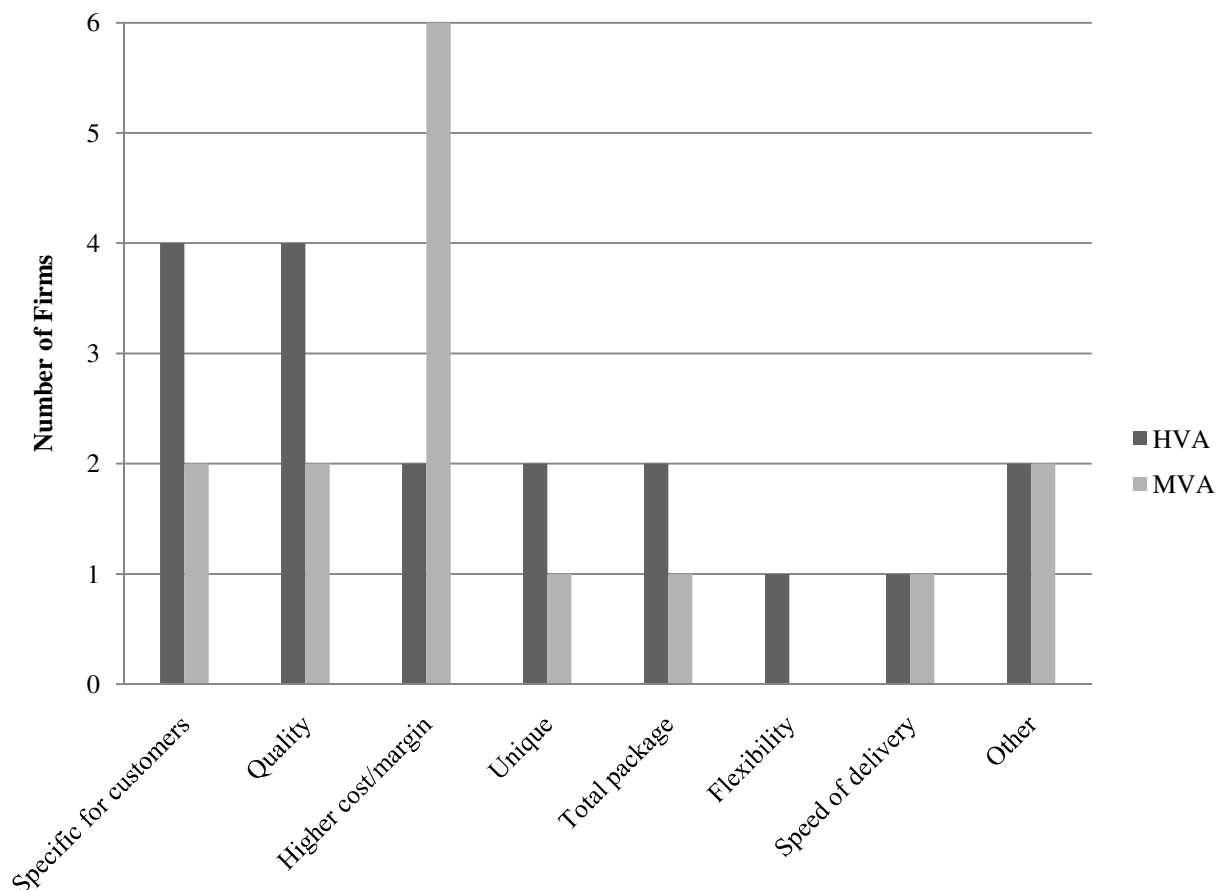
'Where innovation is involved – something unique – something precise or well-finished – that can be charged a premium [price]. They are one-offs – specific purpose' (MVA engineering firm).

'A premium product is something that competes with or is a strategy different from the norm. Premiums can be seen as monolithic systems and lots of money, but this is not necessarily the case' (HVA IT firm).

'Ability to meet [the] needs of [the] client. Good gear, staff training, good systems' (HVA transport firm).

When asked to describe how they determined whether a product they produced was high value-add or not, firms generally responded in two ways. First, they described a premium product, which was generally one tailored to the customer. The tailored product or service did the job better than another because it was exactly what they customer needed for their business. One HVA IT firm described it as: 'Value add is understanding the customer's business and getting them more value by helping them achieve more. It's a tool to help them do better'. In transport, for example, a premium service moves the goods from exactly where the customer has them to where they want them (i.e.,

Figure 5. Definitions of Value Added Provided by Firms



door to door) in the fastest and most reliable way, and for a reasonable price. In software, a premium product is one that works around the client's needs rather than requiring the client to work around the software.

The second way firms responded to this question was to discuss the margins they made on their products or services. Of those firms that identified a way in which they measure value-add in a product, there were a number of different definitions. For example, one MVA engineering firm described it as *'Profit – effort for return'*, while one MVA IT firm described it as *'cents per head'*. Other firms (e.g., one MVA IT, one HVA IT, one HVA transport) used the term *'Higher margin'*. Other definitions included: *'What people are willing to pay'* (MVA IT), *'Value for money – perception'* (HVA engineering) and *'Financial'* (HVA transport). As a term, 'margin' seemed to be widely used. Although its definition was not explored in the interviews, respondents seemed to be referring to revenues less direct costs (i.e., gross margins). An interesting indication from Figure 5 is that firms who focus more on the higher margin aspect of high value-add are more likely to be MVA firms. HVA firms do look at the margin, but also consider customisation, quality, and other aspects, too.

While nearly all firms were involved in providing premium products, most firms provided a number of products or services. Some of these had low value and low margin, while others had high margins. There was a lot of flexibility in pricing, with most firms expressing some attempt to price according to how much customers were willing to pay. One MVA transport firm said: *'Typically we aren't the cheapest. We're not known as the cheapest, sometimes we have to be, though.'* In software, for example, different markets might have different abilities to pay. In transport, a customer's willingness to pay might

depend on the perishability of the product and the possibility of alternative modes of transport. Because most firms saw most customers as part of a long-term relationship, there was no indication that they were seeking to gouge customers for short-term gain. However, there was an awareness of when the supplier had leverage and when leverage had passed to the customer.

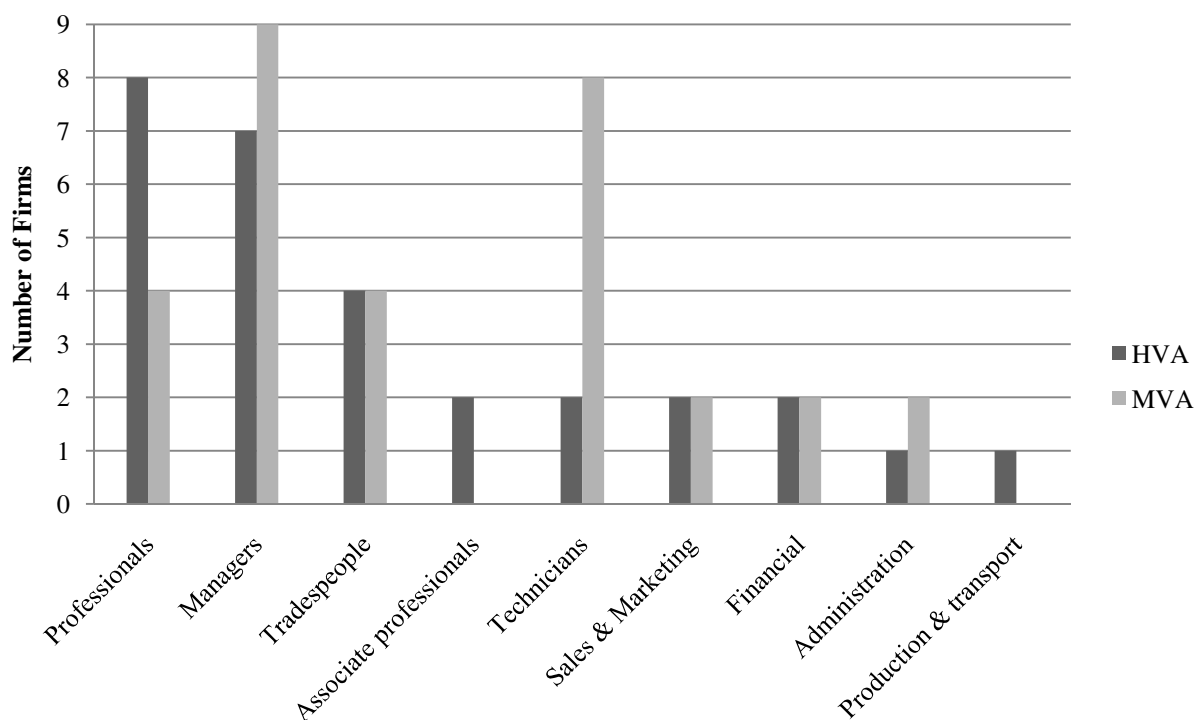
The BOS included results about customisation of goods and services (Statistics New Zealand, 2009a, Table 37). When asked about customisation of goods and services, the majority of transport firms (63 per cent) indicated that they only produced a standard range of products. Just under half of IT firms (46 per cent) indicated that they only produced a standard range of products, with about quarter of firms indicating that they made some minor differences depending on customer requirements and a further a quarter making substantial differences to products for customers. Manufacturing firms, on the other hand, were relatively equally represented across the three degrees of customisation, with about a third of firms falling into each category.

Firms were also asked about their ability to obtain a higher price than their competitors for their main goods and services (Statistics New Zealand, 2009a, Table 39). Around half of firms suggested that they could *'sometimes'* obtain a higher price, with fewer than five per cent in the sectors of interest saying they could *'always'* obtain a higher price. Between five and ten per cent of the firms in the sectors of interest could *'never'* obtain a higher price.

Skills

The focus of the skills section of the survey was the 'core employees' of the firms. These were defined in

Figure 6. Core Employees of Firms as Identified by Firms



the interviews as employees or group of employees 'whose skills and knowledge are deemed to make the greatest contribution to the success of this business'.

One point needs to be made initially. There were two obvious groups of responses. Some firms would name three or four people in their firms – and these were not necessarily small firms – who they believed were the core employees. Typically, they would include the General Manager and sales or production managers. Other firms had obvious difficulty narrowing their responses to a few people or positions. For these people, most employees contributed to the firm's success in their own ways. They expressed that it was important to have competent workers on the shop floor, who are managed by capable direct managers, who are given good direction by the general manager.

Having said that, most of the core employee positions identified were managers of one sort or another. They often had professional qualifications or significant industry experience, and sometimes both. Employees with technical or industry-specific trade skills were also important. In IT firms for example, these were computer programmers with skills for specific software or technologies. In engineering firms, these were often individuals with knowledge and experience of specific types of machines. Although these employees might be classified in different occupational categories depending on their industry, they served comparable functions in their firms. Figure 6 shows graphically the core employees identified by firms, using a standard classification system. One significant difference of note between MVA and HVA firms (irrespective of industry) was that significantly more MVA firms were likely to identify technicians as core employees than HVA firms ($pr = 0.004$). One interpretation of this result is that MVA firms were more like to be production, cost-plus orientated than HVA firms. In the engineering sector, HVA firms were less likely than MVA firms to indicate that managers were key employees ($pr = 0.005$).

The key skills required of core employees were generally consistent across firms and industries. The skills that were most commonly required across all firms were customer service or sales skills, with 17 firms identifying this as a key skill of core employees. Those firms that did not identify this as a key skill were three MVA IT firms, one HVA IT firm, and two HVA engineering firms. Professional and technical skills were also deemed important. All but four firms (two HVA IT, one MVA IT, one HVA engineering) identified this as a skill required of their core employees. Professional skills were seen as important predominantly by HVA firms, but were desired by a large number of these firms. This result likely reflects the fact that most firms interviewed felt that they provided flexible, customised products or services for their clients. It was therefore important for core employees to be able to talk with clients, understand their needs, and design appropriate solutions. Management and supervisory skills were required by 15 of the firms, with those that did not require such skills predominantly being IT firms (both MVA and

HVA). Marketing skills were mentioned by only three firms. Analysis suggested that management skills and computer skills were more often mentioned by MVA firms than HVA ones ($pr = 0.098$).

Around three-quarters of the firms had tried to hire core employees in the previous two years. Those firms that had not tried to hire core employees were from a range of industries, but were more likely to be HVA than MVA firms (four HVA firms as opposed to two MVA firms). Nearly all firms said they had experienced difficulties in filling these positions. Those that had not had any difficulty were IT firms and from both value-added categories. Firms generally indicated that the process was long, difficult, and painful. In order to fill vacancies, a range of approaches had been used, including recruiting from overseas, up-skilling existing employees, or hiring people who did not fit the original position description. Sometimes, unfilled positions were left open.

Over three-quarters of firms had engaged in some sort of training for core employees in the past year. Those firms that had not undertaken any training were from all three industries and both value added groups. One HVA engineering firm who had not done much training in the past commented: *'If we need a skill we employ it. We haven't had much luck in training. If it were 10 years ago would put training into the business plan so the business would be good member of the community'*. Some firms had brought in outside consultants to run training workshops, (two MVA engineering, one HVA transport), while others had sent employees out to external training (one MVA engineering, two MVA IT, two MVA transport). Topics included change management, management training, software training, process efficiency, and workplace communication. Two firms (one MVA transport, one HVA IT) indicated that they had a programme of on-going training, such as periodic formal workshops. Most firms also indicated some level of on-the-job training or mentoring. Finally, the plans that firms had for future training generally reflected the amount and types of training they had done in the past. For example, one MVA engineering firm said that they have *'Ongoing training. Direct on-line courses for refresher training. Main focus is on internal training. Mainly on leadership'*. However, due to the current economic climate, it was suggested by some that training had been reduced because of a reduction in money: *'...but not as much with current financial constraint. We are more prudent than a couple of years ago. It's reflection of the economy'* (MVA IT firm).

The BOS also included detailed questions on the skills of employees and training. These questions were different from those used in the interviews, in particular because the interviews focused on core employees.

Firms were asked about the level of difficulty of recruiting different groups of employees (Statistics New Zealand, 2009a, Table 7). The degree of recruiting difficulty has remained fairly constant from 2007 to 2008. Of those firms who indicated different

groups of employees were applicable to their business, *'tradespeople and related workers'* appear to be the group of workers who were the most difficult to recruit (13 per cent). Compared to the interviews, the number of firms having difficulty recruiting staff was considerably lower, since about three-quarters of interviewed firms suggested they had difficulties recruiting core employees.

Of those businesses with vacancies that they felt were not easily filled (approximately half of firms) the key reasons firms felt vacancies were hard to fill were that applicants *'lacked the desired attitude, motivation or personality'*, *'lacked work experience'* and *'lacked the appropriate qualifications or skills'* (Statistics New Zealand, 2009a, Table 41). The same held true when looking at this at a sector level (for those sectors of interest), but interestingly, for both the manufacturing and transport sectors, *'not enough applicants'* was also an issue in filling vacancies. While this was not addressed directly in the present research, a large majority of firms who indicated they had recruiting difficulties discussed finding applicants with the correct skill set as a problem. It is also important to note that the issue of *'not enough applicants'* may have changed from when the BOS was undertaken given the change in the current economic situation.

From the BOS, 82 per cent of businesses had trained their staff in the past two years (Statistics New Zealand, 2009a, Table 47a). In terms of new staff, half of firms had ensured all new staff participated in training. The same held true amongst those sectors of interest. For staff who were changing roles, at an overall level, about a quarter of firms had ensured all staff received training (24 per cent). For existing staff in existing roles, in the manufacturing and IT sectors, the majority of firms indicated that less than half of these staff had received training (38 and 35 per cent respectively), while in the transport sector, 32 per cent of firms indicated that all existing staff in existing roles had received training. These training levels are much lower than reported for core employees by the interviewed firms, over three-quarters of whom had engaged in training in the prior year. Whether this difference arises from the types of firms interviewed or the type of employee in question is unknown.

The results from the BOS provide an interesting counterpoint to the results from the surveys. The BOS, a nationwide survey with a very high response rate (Statistics New Zealand, 2009b), could be taken as representative of New Zealand firms. The results from the interviews conducted in the present research were somewhat different. Interviewed firms engaged in more training, had more trouble finding employees, and were more focused on professional and management skills. The source of these differences is unknown. The firms were selected from amongst HVA and MVA firms, so are not a representative sample. The sample was much smaller, to allow for more in-depth interviews. Finally, the interviews focused on core employees, rather than all employees of the firm. The differences between the two data sources suggest that these may be fruitful areas for further investigation, particularly as they may

signal important differences between more-productive and less-productive firms.

Discussion

The research was conducted qualitatively with a small, non-random sample. It is important not to extrapolate too much from the actual comments made by respondents. However, some general trends and themes did emerge.

Regarding the general business environment, the research found the following:

- The economic climate was affecting most businesses. It required adjustment, but generally nothing radical.
- Business strategies can be described as formal versus informal and intentional versus opportunistic. MVA firms were more likely to be opportunistic.
- Customer relations were very important. Customers affected what a firm did, for example, by requiring customised services or by helping the firm develop a new product.
- Firms generally described complex competitive environments, so they had many actual and potential competitors.

The interviews explored the idea of high value-add, which led to these findings:

- The notion of 'high value-add' did not fit the experience of most firms. 'Premium product' was more widely applicable.
- Premium products were described in two ways. A premium product from the customer's perspective was better at meeting individual needs than other products. A premium product from the firm's perspective was one with higher margins (revenue less direct costs). MVA firms were more likely to focus on the margin of a product.
- Most firms supplied high value-add products, often as part of a product mix. Those who did not were not interested in targeting such markets.
- High value-add products or services were often the result of cooperation with customers to produce tailored products or solutions.
- All firms considered themselves to be better in some dimensions than their competitors. HVA firms were more likely to indicate that their prices were higher than their competitors.

A key section of the interviews concerned core employees. The results were as follows:

- The concept of the 'core employee' led to two types of responses: one type identified senior management roles as core, and the other type indicated that everyone had an important role to play in the company. MVA firms were more

likely to indicate technical or trade people as key employees.

- Core employees or core positions tended to be management positions. Nearly all the skills listed in the survey were required by core employees.
- Most firms had tried to hire core employees in the previous two years.
- Most firms had trouble recruiting key employees. They reacted by recruiting from overseas, training an existing employee, relaxing the criteria, or simply leaving the position unfilled. MVA firms were more likely to focus on problems finding technical or trade skills.
- About half of firms suggested they had been slowed by their hiring problems, but no firm indicated that it changed its business strategy.

In many respects, the firms in the sample had much in common. They reported feeling the pinch of the current recession; they could point to one or more market strategies; they felt that they offered a unique combination of products and customer services, and did it better than their competitors. When it came to their staff, they found it difficult to recruit people with the required skills, and included training as a regular activity.

It is possible to offer a tentative description of the difference between HVA and MVA firms. MVA firms were more focused on the methods of production, the technical skills of employees, and the margin over costs that they made on their sales. HVA firms, on the other hand, focused more on the business skills of a few, professional core employees, and discussed more the marketing aspects (branding, customer needs, 'total package') of their products. The HVA firms also indicated that their products and production methods were better than average, so the focus on business skills and marketing was additional to more technical production issues.

The research was also interested in the interaction between business and market strategies and the ability of firms to obtain specific skills. The overall finding is that the two issues are treated quite separately by firms. They appear to develop a strategy and stick to it, while staffing and skill shortages are treated as impediments, hopefully short-term, to following the strategy.

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