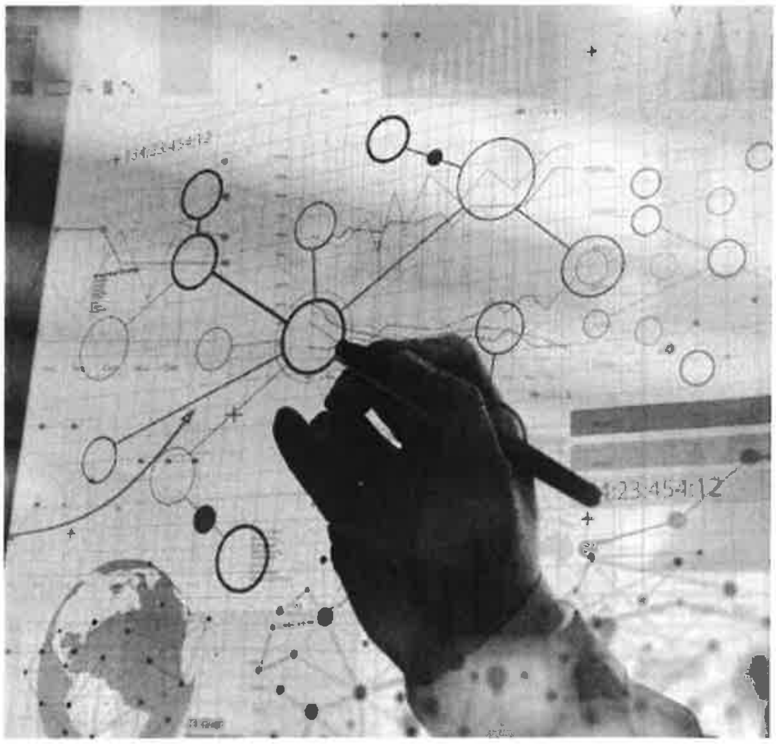
Taking calculated risks



Given the world we live in is constantly changing, the most significant risk many organisations take is continuing to instinctively do the same things that they have done in the past.

This desire to replicate past success makes our organisations vulnerable to the future. However, for many of our contributors breaking the gravitational pull of the status quo is one of the most pressing leadership issues they face in their organisations.

These issues are not unique to the New Zealand primary sector. A resistance to taking risk has permeated business culture throughout the developed world in the aftermath of the Global Financial Crisis. Research from Harvard University found that companies in the US have focused heavily on delivering higher short-term shareholder returns, in preference to positioning an organisation to deliver long-term success. Management attention has been directed towards growing short-term profitability (through discounting, cutting costs, and scaling back or halting investments into more risky initiatives), increasing cash dividends and implementing capital return programmes; all with a goal to raise share prices.

While such initiatives deliver short-term gains, they can have significant impact on future growth; particularly if the business loses its capability to innovate. One contributor suggested that an unwillingness to take the necessary risks creates scenarios where an organisation could move rapidly from comfortable to catastrophic failure. This is particularly so when there are many emerging organisations looking at how they can disrupt established players to capture their profitability.

Last year's *Agenda* highlighted to the cost of creating value – with expenditure often required significantly in advance of the likelihood of return. Yet without that investment, it is difficult for a company to successfully break away from commodity cycles. The challenge for management is that they need to make a compelling business case for these investments; which can be particularly difficult when faced with a conservative board using short-term shareholder return models as their guiding principle.

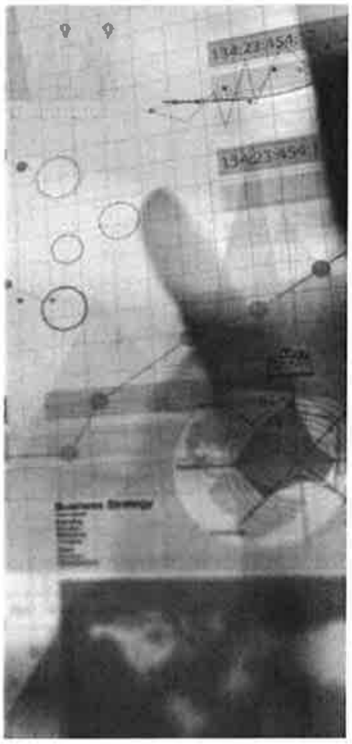
Many ideas were raised around initiatives companies should pursue. The goal is to provide them with both the flexibility and the capability to remain relevant to their consumers and position themselves to deliver shareholder returns into the future. These are not always radical tactics, but when combined with innovation spending, collaborative partnerships and consumer connectivity they can protect a company's relevance and equip it for future growth.

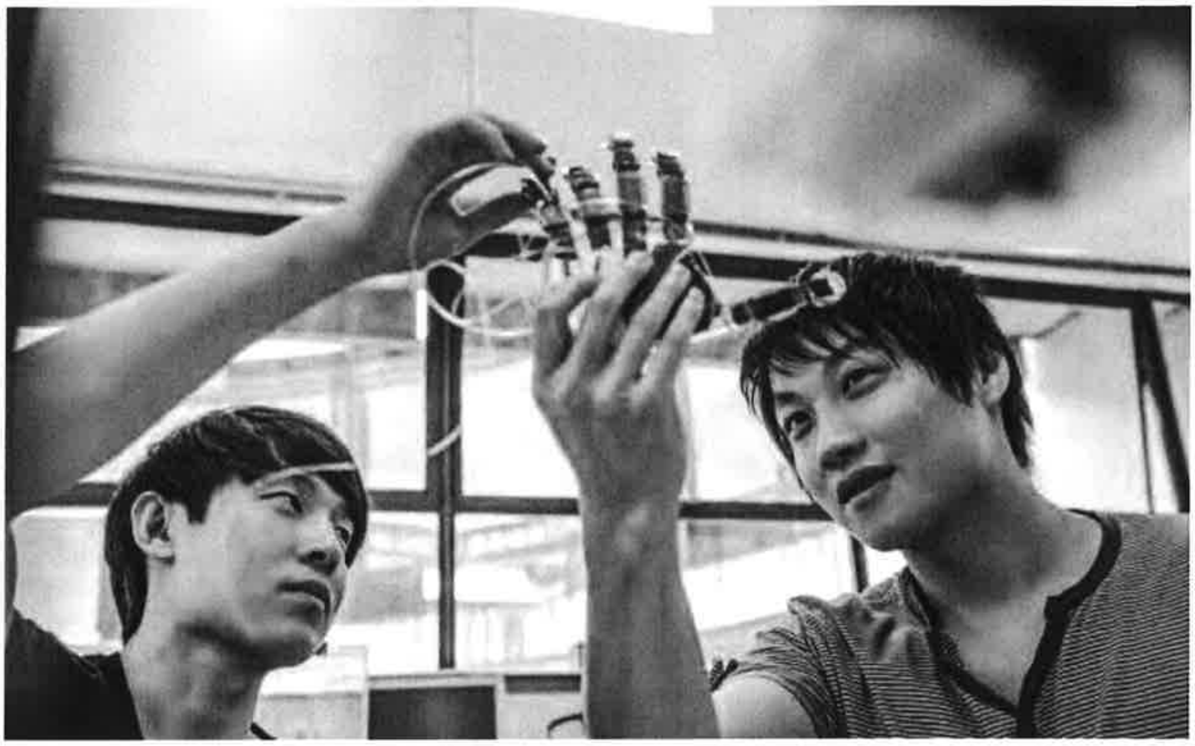
Sourcing adequate capital for growth

One of the biggest constraints on taking risk is the quantum and mix of capital available to New Zealand companies. Many of our large companies are co-operatives. These entities often lack cash to take risks for growth, given the cash needs of their members, however there is no lack of other funds available to enable good businesses to grow. We need to build a culture that recognises that owning half of a growing business is better than 100% of a stagnating entity. Even though risk comes from partnering in an investment, this can be managed by carefully identifying an investment partner and clearly defining the rules of engagement from the outset. Aligned investment can provide the capability to take a risk that an entity could not countenance on its own.

Creating billion dollar product brands

New Zealand has hundreds of companies growing and exporting agricultural products, despite producing less than 1% of global production. We have a plethora of great small food companies but they struggle to double or quadruple their businesses – yet alone grow billion dollar brands. With a small domestic market, our companies must risk entering offshore markets earlier in their lifecycle to build scale, making it harder to grow major brands from New Zealand. That is why collectively providing pathways for a warm entry into a market – whether co-funding of promotional activities or collectively bringing customers to New Zealand – creates value for all our growing businesses. The benefits of presenting a wider basket of New Zealand products to market provides both Government and commercial companies with an incentive to help growing businesses.





Embedding a start-up mindset

The inherent benefits of a start-up culture were raised during a number of conversations. Start-ups live by the seat of their pants. They try new things every day and often take risks that 'bet the business' in the process of delivering on their purpose. As the business grows, and process and governance is introduced, the excitement and passion of the start-up period is often dissipated. Preserving (or reinstating) these elements of a start-up culture in an organisation is critical if a business is going to be closely connected to its purpose and comfortable taking risks aligned to that purpose.

Learning to fail

Not every risk will pay off. Start-ups know this very clearly, and see failure as a critical part of developing and growing. Yet failure appears to carry a stigma in New Zealand that does not apply in other countries. This is something we need to change. As a small country, a failure often attracts disproportionate media attention than it would elsewhere around the world. Governors and others in the sector need to support people who have been through a failure experience. Learnings from failures are beneficial. The key is having the maturity to know when to admit something isn't working and fail an initiative, rather than trying to flog a dead horse.

Facing up to reality

The need to actively scan the global environment for opportunities and potential seeds of disruption has already been noted in this report. Problematically, we often only focus on the analysis that confirms our beliefs about the future. To ensure a business is focusing on the most relevant risks, it is more important that the analysis is not confirmatory but focuses on evidence that contradicts an established view of the world. In the agri-food sector, there are burning platforms, including the emergence of synthetic and cultured proteins which challenge all our assumptions on natural protein. Analysing these issues with an open mind clear identifies the value inherent in storied, natural proteins that would be missed if the role of new food types is ignored.

Looking beyond the Government

For too long, the sector has looked to the Government to provide solutions to issues and risks they have identified in the market. The immediate reaction that the Government has the answer to every problem harks back to a past generation. Of course, there are areas where the Government is well-placed to assist with finding solutions; such as the challenges working through market access impediments, like phytosanitary issues, to get products across a border. However more often than not, it is better to look to the market for an answer; be that a commercial collaboration, a product redesign, an innovation programme or a supply chain reengineering exercise. During our round-table discussions, it was made clear that more solutions to primary sector issues will come from the market rather than Wellington.

Employing the visionaries

Every *Agenda* we have written has highlighted the importance of getting the right talent to enable organisations to unleash their potential. The key to identifying and managing risk is having people with the ability to see the biggest of pictures and understand what opportunities this creates for an organisation. Dreamers may be unfair description of them but they are people with the ability to scan the horizon, analyse, interpret and action the strategies that will shape the organisations future. They are the disruptors, who deliver a clarity of thought many organisations lack. Talented people can come from any background. One contributor described their game changing employee as a 15-year-old they had recently recruited.

Forcing change through standalone structures

A number of contributors raised examples of initiatives to drive change within their businesses through the use of challenger brands that sit largely or totally outside their mainstream business. These companies have taken this approach because of the resistance to change inherent in their organisation, making standalone the only effective way to respond to risk and shape the future. This approach is becoming more common. Spark used the approach successfully to create challenger brands like Skinny. Scaling a challenger model or shifting it into the mainstream can sometimes prove difficult; nevertheless, they provide a strong case for change to those still stuck in the past.

Image above right: Chris Williams, The NZ Story