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The critical challenges facing New Zealand's chief executives: implications for management skills

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This paper reports a 2012 survey of 265 New Zealand chief executives, representing 27% of the nation's largest organisations. It examines their most critical challenges in the current environment, discusses the implications for New Zealand's management skills, and considers how human resource practitioners can support such skill development. The results reveal a complex environment of changing markets and technologies in which the support of stakeholders, including key funders, is more guarded and conditional; in which there is an ongoing war for talent; and in which business models need to be reframed to respond to fast-paced and ambiguous change. The data suggest three fundamental management skill needs: managing uncertainty and renewal, managing stakeholders and business partners, and managing people and limited resources. Now, more than ever, human resource specialists need to focus on the development of managers, and take part themselves in development processes that bridge internal and external boundaries.

Keywords: chief-executive opinion, management development, management skills, New Zealand

Key points

1 New Zealand's chief executives report a fast-changing, ambiguous environment characterised by constrained funding.
2 In this environment, managers need capabilities in managing uncertainty and organisational renewal.
3 Managers need political and interpersonal skills to handle a complex web of relationships with stakeholders.
4 Managers need skills in, and a systemic approach to, managing people and limited resources.
5 HR specialists should design, foster and model the developmental processes that support these skills.

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In large organisations, chief executives sit atop a pyramid of managers and employees. Reporting to the board of directors, they are charged with leading the organisation into the future, co-ordinating its response to the opportunities and threats in its environment. Their role is inherently interdisciplinary and integrative: they must bring the parts of the organisation together to perceive and pursue a common agenda – or fail. But what challenges and risks do they see, and which are the most severe? This paper's goal is to report a survey of chief-executive opinion in New Zealand, examining what chief executives in the private, public and not-for-profit sectors perceive as the most significant issues in their current environment, and to examine their implications for management skills.

This is a timely moment for such an assessment. Since the global financial crisis (GFC) of 2008–09, New Zealand, like other nations, has experienced lower rates of economic growth. Its government has used increased borrowing to make up the deficit in the national accounts and has carefully reviewed public expenditure across the board (The Treasury 2012). The situation has been complicated by the need to rebuild Christchurch's economic and social infrastructure following the sequence of earthquakes that began on 4 September 2010. New Zealand does have opportunities for growth, including in its world-class primary industries, in its attractive tourism sector, and in high-value manufacturing and services, but New Zealanders have continued to emigrate in search of better career possibilities, putting at risk the country's skill base. This is a trend that has concerned governments, of all political stripes, but which they have struggled to arrest.

In this light, our aim is to present what New Zealand chief executives currently report to be their greatest challenges, and to discuss the implications for management skills. Given what is known about the business environment, what managerial capabilities are important, and how can human resource (HR) specialists support their development? We base our discussion on a recent survey of 265 chief executives from New Zealand's largest organisations. We begin with an outline of key features of New Zealand's organisational landscape and a review of existing research on its management capabilities. This leads into an analysis of the survey's quantitative and qualitative data and to an examination of the implications for management development and the HR function.

New Zealand organisations and management capabilities

New Zealand is a small economy of 4.5 million people remote from international markets. Apart from the dairy industry, in which New Zealand is a world-class player, it has few organisations of global reach. In 2011, New Zealand had no companies in the Fortune Global 500 while Australia, with a population of 23 million, had eight, and Singapore, with a population of 5.2 million, had two (CNN 2011). The average New Zealand organisation is a small or medium-sized enterprise. Although many multinational firms have branches in New Zealand, a smaller percentage of New Zealand employees (44.8%) work in firms with at least 100 employees compared with employees in the USA (64.4%) and in the UK (60.2%) (Mills and Timmins 2004). As might be expected, the average size of New Zealand's large firms is smaller than in the biggest Anglophone countries: 'the average number of employees per firm in firms with 500 + employees is 2532.2 in the UK and 3321.1 in the USA, but only 1593.9 in New Zealand' (Mills and Timmins 2004, 15).

While there are niche players in various spheres, there are many types of manufacturing, including automobiles, aerospace and semiconductors, that have little or no presence in New Zealand, restricting opportunities for individuals who wish to specialise in these fields. New Zealand has the kind of business and consumer services one expects in an advanced economy, but much of it is in foreign ownership, including almost the entire banking sector and large parts of retail and distribution (Boxall and Frenkel 2012).

In this context, it is commonplace for New Zealand managers to feel they have outgrown the country, and to seek advancement by emigrating to a larger economy or by transferring from the New Zealand branch of an international firm to one of its much larger international offices (Gilbert and Boxall 2009). Lack of progression to the 'really big jobs', and the absence of the kind of highly specialised roles available in the world's largest economies, make recruiting and retaining management talent a fundamental problem. On the other hand, New Zealand organisations do have some advantages. They are less bureaucratic, tend to provide individuals with greater job autonomy, and can argue that New Zealanders have an enviable quality of life (Gilbert and Boxall 2009). An empowering kind of management style seems to be commonplace in New Zealand's smaller, more informal organisations (Macky and Boxall 2008). None of this, however, is stemming the 'brain drain'. In the year to 31 August 2012, 53 900 people migrated from New Zealand to Australia while only 13 900 moved in the other direction (Statistics New Zealand 2012). There are now some 650 000 New Zealanders living in Australia (Department of Immigration 2013), where they have a high level of success in the labour market. Based on census data collected in 2006, '83% of New Zealand-born men and 70% of New Zealand-born women' resident in Australia were employed, 'compared with 72% and 62% for the comparable Australian groups' (Department of Labour 2010, 5).

Given the small scale of New Zealand industry, and the challenges the country faces in retaining its educated workforce, what is the calibre of New Zealand management? Does the country have the management talent it needs? This is increasingly the question raised in relation to New Zealand's productivity performance. As the New Zealand Productivity Commission notes, New Zealand 'slipped from one of the wealthiest countries in the 1950s to now around 26th in the OECD' (New Zealand Productivity Commission 2013). New Zealand has one of the lowest rates of productivity growth in the developed world (NZIER 2011). With the US economy providing the reference point (US = 100), the OECD currently rates Australia's labour productivity (in terms of GDP per hour worked) at 81.4 while New Zealand is rated at 56.5, some 69% of the Australian level and below the OECD average of 74 (OECD Statistics 2013). This productivity gap, in turn, has resulted in substantially lower wages in New Zealand. In fact, based on 2006 figures, the income gap with Australia has been estimated at $14 000 per person (NZIER 2011).

Clearly, the productivity and income gap with Australia is a key concern for New Zealand. In the early 2000s, analysis of the productivity problem placed emphasis on the difference in capital intensity (Black, Guy and McLellan 2003). Australia has a higher capital-to-labour ratio, reflecting the fact that 'the Australian economy has a larger mining and quarrying industry' (Black, Guy and McLellan 2003, 23). There is no doubt that Australia benefited strongly from the resources boom prior to the GFC, but a recent study by the New Zealand Institute of Economic Research of the period from 1989 to 2006 argues that 70% of the productivity gap between the two countries 'is due to underperformance of New Zealand's industries rather than a difference in the industrial structure of the two countries' (NZIER 2011, ii). While capital intensity plays a role, the report attributes most of the difference to 'the quality of management, organisational innovation, the production process, and the quality of labour and capital' (NZIER 2011, ii). This assessment, it should be noted, masks important sectoral differences. New Zealand's agricultural and utility sectors have strongly outperformed their Australian counterparts, as, remarkably, has New Zealand's much smaller mining sector (NZIER 2011, 5). It is in services – including wholesale, retail, hospitality, finance and construction – that New Zealand's relative performance has been much weaker. Given that services employ around 70% of the workforce in both countries, this is a serious issue for New Zealand (NZIER 2011, 6).

As the NZIER's (2011) analysis implies, part of the productivity problem must relate to management capabilities, and surveys often point to shortages of managerial resources in New Zealand (e.g. Statistics New Zealand 2007). An analysis of management skills in New Zealand manufacturing firms has been conducted by Green et al. (2011), using a methodology developed by academics at the London School of Economics and consultants at McKinsey & Co. The approach relates management-reported practices in operations, performance and people management to productivity indicators. They rank New Zealand at 10th place in the 17 countries studied so far, arguing that:

> while some of New Zealand's firms are as good as any in the world, there is a substantial 'tail' of firms that are mediocre . . . This is a key differentiating factor between New Zealand and better performing, more innovative countries. (Green et al. 2011, i)

Green et al. (2011, iii) conclude that 'New Zealand manufacturers would benefit by focusing much more on the development of management capabilities within their firms'. Scale and ownership seem to make a difference: the study suggests that larger and foreign-owned firms have better management practices. The study's authors indicate, however, that we should be cautious with the results (Green et al. 2011, 13–14), as limitations in the availability of financial data meant that Green et al. were able to base their analysis on a sample of only 50 New Zealand firms.

It is safe to assume, nonetheless, that management capabilities in New Zealand can be enhanced, which leads to the question of what capabilities are necessary in the current environment. Context is an important consideration when assessing capability requirements, as is illustrated by Hitt, Keats and DeMarie's (1998) analysis of organisational challenges at the end of the 1990s. These authors observed an impending technological revolution and increased globalisation that, together, would lead to 'highly turbulent and chaotic (business) environments that produce disorder, disequilibrium and substantive uncertainty' (Hitt, Keats and DeMarie 1998, 23). They argued that managers would need to adopt new paradigms in order to facilitate strategic flexibility within their organisations. In particular, they argued that the most critical management skill would be non-linear thinking, which they defined as the 'ability to conceptualise (and reconceptualise) different and possibly contradictory information and scenarios' (Hitt, Keats and DeMarie 1998, 28). This emphasis on the ability to manage environmental turbulence has been reinforced by the events of the first decade of the twenty-first century, including political uncertainty and the severe economic challenges posed by the GFC and the great recession (Hitt, Haynes and Serpa 2010).

As is occurring elsewhere, New Zealand is now not only contending with technological revolution and globalisation but facing major economic threats. These challenges can be better understood by seeking the views of the chief executives who must wrestle with them. Yet, the literature appears to lack an in-depth survey of the nation's chief-executive population on how they perceive their context. In the analysis that follows, we ask what the key challenges are that chief executives see in their environment. These data are then used to develop a set of implications for managerial capabilities.

Method

A survey was sent in June 2012 to the chief executives of New Zealand's 1000 largest organisations from across the public, private and not-for-profit sectors. These organisations were identified using the *New Zealand business who's who* (2013) directory with the number of full-time-equivalent staff being the indicator of organisational size. Most had 100 full-time-equivalent staff or more, although some organisations had less. Nineteen surveys were returned to sender, leaving 981 that reached their destination. Of these, 265 chief executives (135 private sector, 62 public sector, and 68 not-for-profit sector) completed the survey, giving a response rate of 27%. For a chief-executive sample, this response rate aligns with senior-executive studies in top-ranking journals, which generally struggle to report response rates above 30% (Baruch 1999; Cycyota and Harrison 2006). Organisational leaders are notoriously difficult to survey due to time pressures and survey frequency.

The sample was checked to ensure that it contained a wide range of industries and organisational sizes. Where any groups were initially underrepresented, targeted organisations were contacted, resulting in an appropriately representative sample that included organisations from each broad category in the New Zealand Standard Industrial Output Categories (NZSIOC) classification (Statistics New Zealand 2013). The resulting sample included organisations from industries such as banking and finance, professional services, health, media, construction, dairy and agriculture, social services, retail, charity, local government, and central government. The response rates were 24% for the private sector, 29% for the public sector, and 35% for the not-for-profit sector.

The survey included quantitative and qualitative sections. In the quantitative section, respondents were presented with a list of 19 challenges and a separate list of 14 risks, and were asked to rate the intensity of each item using a Likert scale. With regard to the challenges, the Likert scale ranged from 1 to 4, with 1 being 'among the top three to five challenges faced by my organisation' and 4 being 'not challenging'. With regard to the risks, the Likert scale ranged from 1 to 3, with 1 being 'one of the riskiest issues faced by my organisation' and 3 being 'not a significant risk'.

The lists of challenges and risks, shown in the Appendix, were created by the authors first compiling a master list of all possible areas of business risk, opportunity or operation, using corporate governance guides (The Cadbury Report 1992; The Turnbull Report 2005), management consultant reports (Ernst & Young 2012; Grant Thornton 2012), and further material from two websites: http://www.charities.govt.nz and http://www.icaew.com. Following this process, the authors then worked with a team of three senior executives, two of whom had held chief-executive roles, to narrow these terms into a set of risks and challenges that would capture the key issues as comprehensively as possible, while also remaining short enough for chief executives to complete. When the list was ready, it was piloted with an executive MBA class, and, as no problems were identified, no subsequent changes were made. Although the items did not necessarily need to be presented in two separate lists (for example, a risk and a challenge could be seen as the same thing), they were broken into two lists in order to make the survey easier for respondents to complete.

Following the quantitative section of the survey, five open-ended questions prompted respondents to elaborate. These questions were: 1) 'in the two lists, is anything not included that poses a significant challenge or risk to your organisation? Alternatively, would you like to pinpoint a more specific risk/challenge than was allowed by the above broad categories?'; 2) 'please list any specific economic issues that currently pose a major challenge to your organisation'; 3) 'please list any specific political, legal or regulatory issues that currently pose a major challenge to your organisation'; 4) 'please list any specific emerging technologies that currently pose a major challenge to your organisation'; and 5) 'please list any specific social changes that currently pose a major challenge to your organisation'.

Results

The private-sector results are presented separately from the other two sectors, as the data differed slightly between those organisations that were primarily profit-seeking and those that were not. For each sector, the quantitative data are presented first, analysed as the percentage of respondents who rated each item as a '1' (i.e. 'among my organisation's top three to five challenges' or 'among the riskiest issues faced'). The qualitative data follow, serving to illuminate the quantitative responses.

Private sector

For the private sector, market risks were reported as the biggest factor, with 32% of respondents rating such risks as among their top 3 to 5 challenges. Following this were access to finance (27%) and dialogue with shareholders (27%). Finally, 23% of

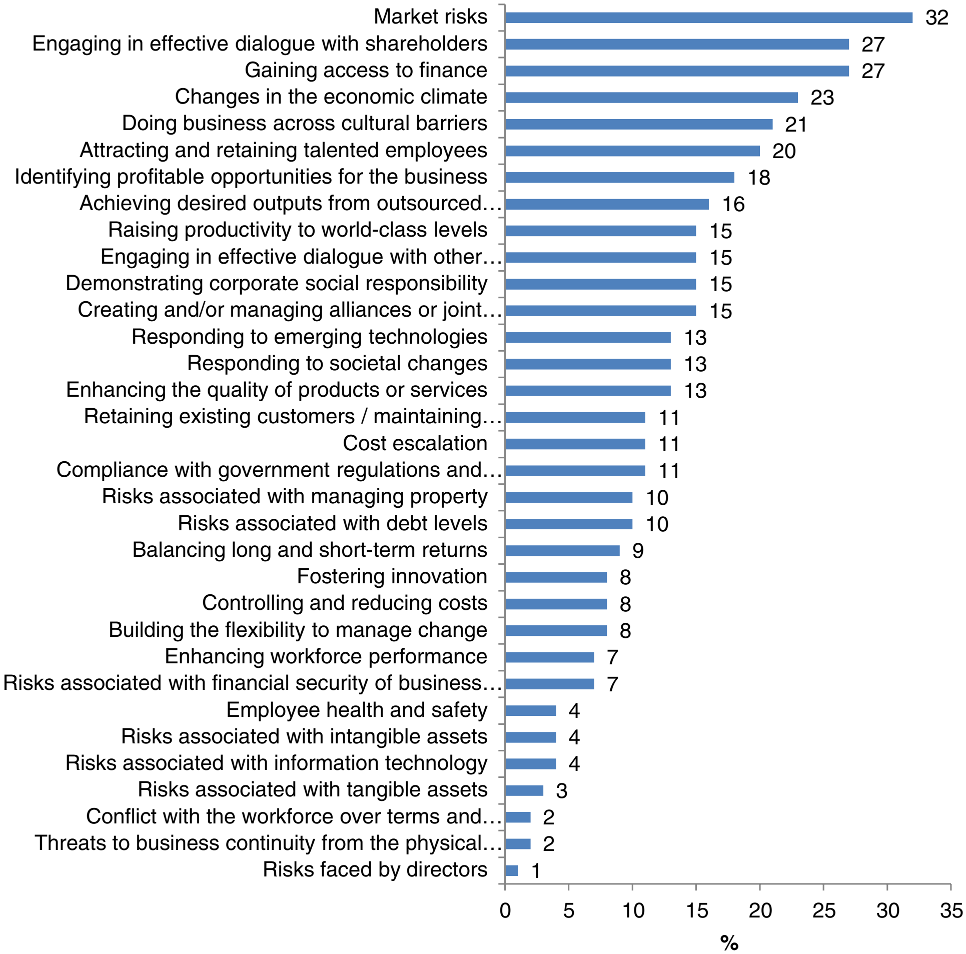

Figure 1 Private-sector chief executives' most critical issues

respondents rated changes in the economic climate as being one of their riskiest issues, 21% rated doing business across cultural barriers as a major challenge, and 20% listed attraction and retention as a key issue. The full results are shown in Figure 1.

In the survey's qualitative section, chief executives elaborated extensively on the market risks, describing a rapidly changing environment with emerging technology, changing consumer values, and shallower consumer pockets prompting them to think very carefully about their market(s) and their business model(s). In some cases, market shifts, particularly from technology, were threatening their core business. For example, a print-media chief executive commented that 'we have full exposure to a market that is in structural decline because of the choices available to customers through electronic media and technological advancements'; and a chief executive of a garden-centre chain noted that their revenue had dropped substantially due to 'people doing less around the home'. In all, numerous chief executives mentioned some kind of market shift, with further examples being 'a greater awareness of environmental issues', 'a move to smaller cars', and 'most consumers [having] a drive towards low cost and low value'. Others couched the problem in more general terms: 'the niche market we used to service well no longer exists', 'the biggest risk is failing to renew our offerings', and 'different business models need consideration'.

Chief executives also noted how difficult it was to grow their business in the current environment, with revenues having been so severely affected. The global economic situation was described by one chief executive as a 'calamity escalator', and by another as 'economic Armageddon'. Several chief executives noted the 'knock-on' effects of the economy from one industry to another, and several conveyed the sense that they were waiting, delaying any radical developmental initiatives until the economy improves. Growth was also constrained by the fact that banks were unwilling to lend, shareholders were displaying a 'low appetite for risks associated with business and strategy', and overseas investors were 'unwilling to invest in New Zealand'. It is these comments that appeared to be behind the 27% who found access to finance challenging and the 27% who listed dialogue with shareholders as one of their top challenges.

In their answers to the open-ended questions, chief executives confirmed that global staff mobility is posing a critical skills shortage; but they also identified the exacerbating influence of impending baby-boomer retirements, with one respondent observing a 'daily [baby] boomer retirement from the workforce', and another saying that 'a dominance of leaders all within a range of 10 years in age difference' means that 'care needs to be taken in developing succession plans'. It was clear from the qualitative data that these skills shortages are being experienced across a wide range of levels and professions, and the data – from all sectors – saw mention of shortages of apprentices, qualified tradespeople, social workers, scientists, nurses, managers, senior executives, and board members.

Public sector and not-for profit sector

As the public and not-for-profit sectors showed reasonably similar patterns to each other, their results are presented together. Changes in the economic climate were considered the most salient risk, particularly for the not-for-profit sector where 50% of chief executives rated such changes as particularly critical (compared with 26% of the public sector). This focus on the economic environment was combined with a concern about fund raising (26% for both sectors) and escalating costs (24% of the not-for-profit sector, 21% of the public sector). Around one-quarter (24%) of the not-for-profit sector and 18% of the public sector also rated corporate social responsibility as a major challenge, while 23% of the not-for-profit sector and 14% of the public sector rated employee attraction and retention as a critical issue. Finally, both sectors listed access to finance as being a major challenge (21% for the not-for-profit sector and 19% for the public sector); and alliances

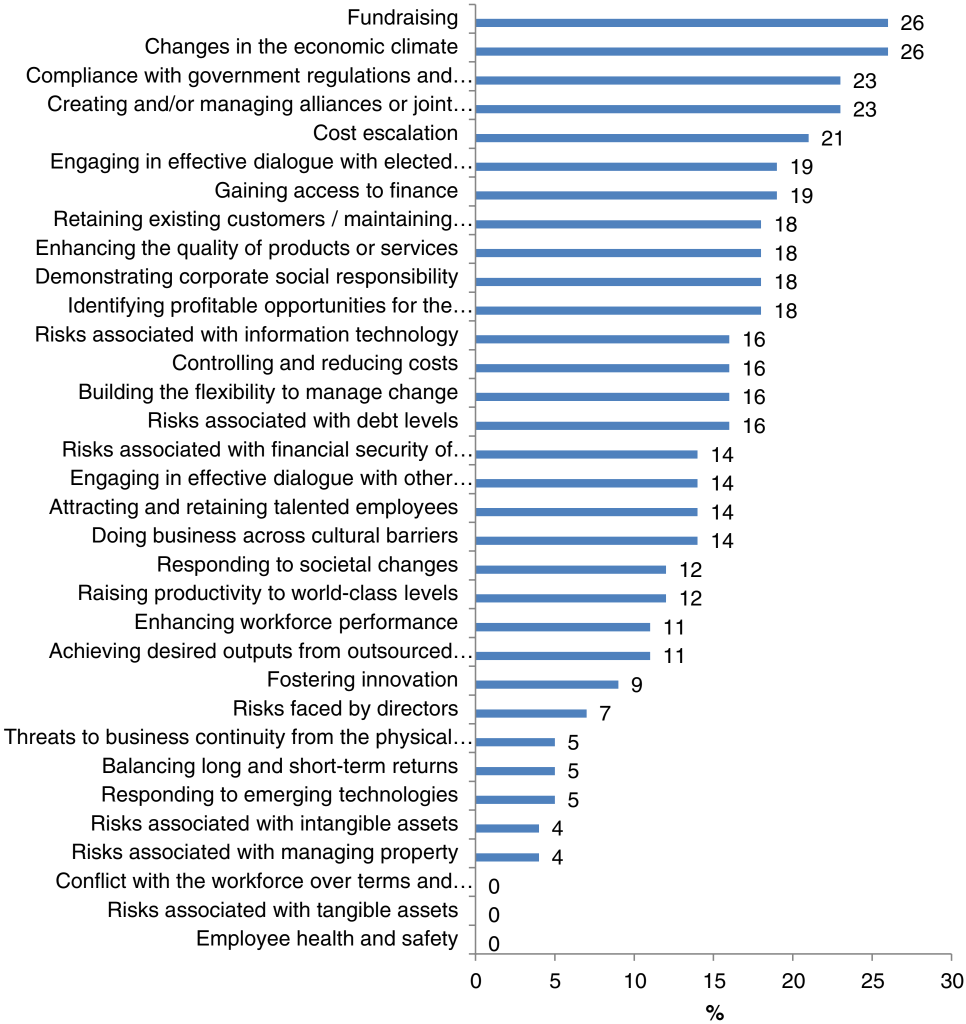

Figure 2 Public-sector chief executives' most critical issues

and joint ventures featured strongly for the public sector (23%) while outsourced and shared services were challenging for the not-for-profits (21%). The full results are shown in Figures 2 and 3.

The open-ended questions gave rise to comments about a severe drop in revenue, whether it be in reduced income from local ratepayers not being able to afford rates or whether it be the national government freezing funding. Several not-for-profit organisations highlighted how difficult it was to raise funds in an environment where the charitable spend is the first to go in a household. Fundraising events also held risks, with

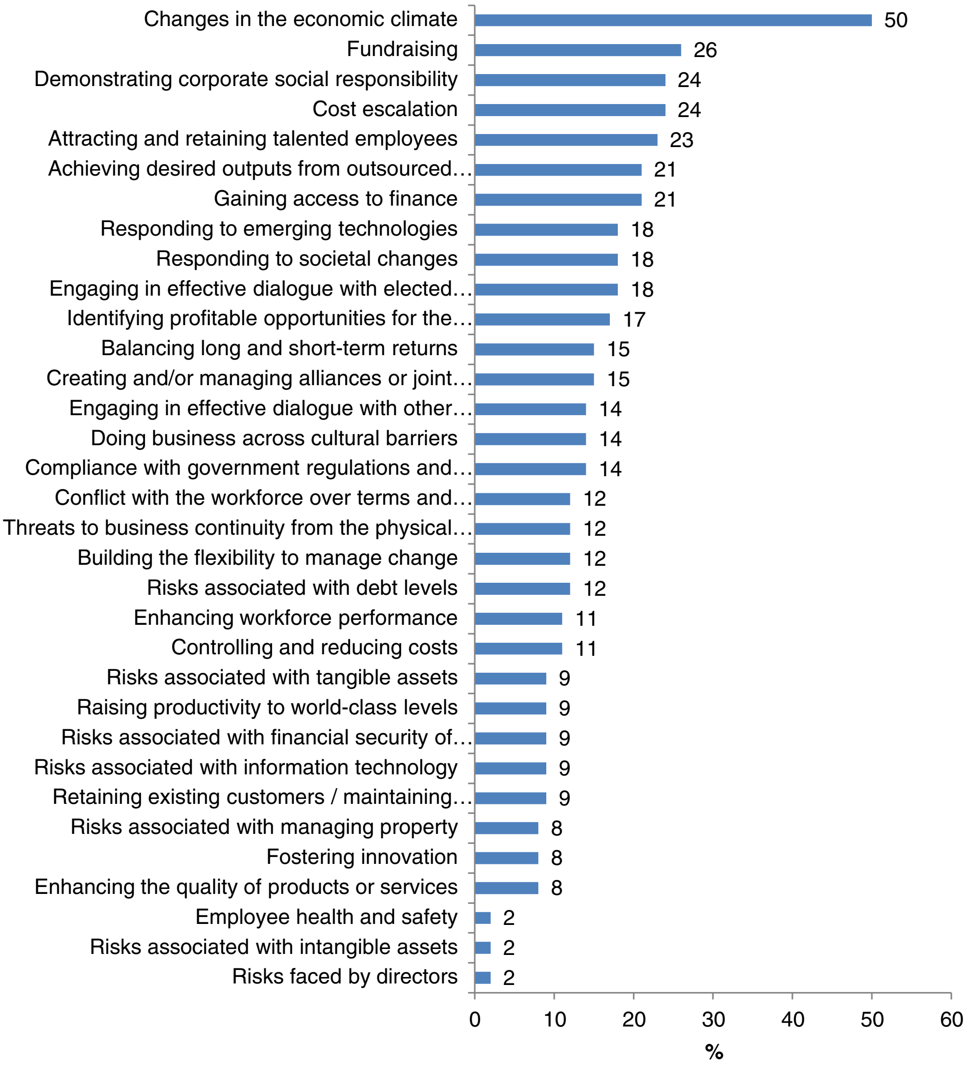

Figure 3 Not-for-profit sector chief executives' most critical issues

initiatives failing and efforts being wasted. The sample included a number of not-for-profit organisations that contract to the government for social service provision. These organisations are heavily dependent on such contracts for their income, and were locked into arrangements that the government could cancel at any moment. This potential drop in revenue was extremely difficult for them to prepare for.

Alongside these difficulties in funding, public-sector and not-for-profit organisations were struggling with escalating costs. These include increased insurance and building-code compliance costs following the Christchurch earthquakes and the compulsory *Kiwisaver* scheme (a recently introduced national retirement fund). More generally, respondents noted how frequently the government changed regulations and noted the costly, sometimes crippling, nature of these regulations. Overall, different attitudes towards the handling of such costs were evident among respondents. For some, 'escalating costs mean compromising the quality of service delivery', that is, doing 'less with less'; others, on the other hand, considered that escalating costs led to the need to do 'more with less'. Ultimately, the need to manage resources efficiently has become imperative across all these sectors.

Financial constraints also mean that not-for-profit organisations face particular difficulties attracting and retaining staff, with numerous respondents mentioning those difficulties when responding to the open-ended questions. These organisations simply cannot compete for talent by paying higher wages, with notable 'difficulties in creating the ability to reward staff for excellence within constrained funding'. As with the private sector, not-for-profit chief executives noted the trend for good staff to go to Australia, and staff loss was exacerbated by an ageing workforce on the verge of retirement.

Turning to a different area, the quantitative data revealed corporate social responsibility (CSR) to be another salient issue. The qualitative responses suggested that this was not so much CSR as a private-sector manager might view it; rather, it took the form of a trade-off in trying to meet the community's needs and achieve their organisation's mission, while also tackling the impact of the economic environment on revenue and costs. Several not-for-profit organisations, in particular, noted how community needs have grown because of an ageing population and growing poverty, both of which heighten the need for their services. Once again, this raised the need to do 'more with less' or, where escalating costs make this impossible, provide fewer or reduced services (doing 'less with less').

Finally, when analysing the qualitative data, it appears that the dialogue with stakeholders takes the form of explaining to government how difficult it is to operate under these kinds of financial conditions. One respondent likened the government's approach to 'squeezing a dry sponge in the hope of water'. Respondents also despaired at how difficult regulations made their operations and highlighted the need to 'manage regulators'. Much of the dialogue with stakeholders was about 'gaining political support for what we do', as well as managing the public's opinion of their work and mission. So, stakeholder management, as in the private sector, is currently critical in these two sectors.

What picture emerges when we compare the overall results from the two types of sector? There are broad similarities, particularly in the fact that all chief executives are adjusting to a challenging economic environment and are sensitive to the fragility of stakeholder support in this climate. In addition, they all face the 'war for talent', both in terms of the alternative job offers that high-performing individuals can find internationally, and in terms of a wave of baby-boomer retirements (with the latter being particularly acute in the not-for-profit sector). However, the overall pattern in the private sector is more externally focused. Here, chief executives are thinking about the relevance of their business model and how to change or reinvent it in profitable ways. Change in markets and technology is fast-paced and its direction is often ambiguous. Moreover, the business environment is international and culturally diverse. Chief executives reported seeking financial backing for new business ideas but the appetite for risk is low. The overall pattern in the public and not-for-profit organisations is more inwardly focused. Here, chief executives are concerned about adjusting to a constrained funding base, one over which they have little control because government, or a cash-strapped public, faces limits and trade-offs in its expenditure. Consequently, there is a driving need to improve efficiency, to find ways of surviving in a climate of high demands but escalating cost and expanding regulation. As noted above, this can mean doing 'more with less' or, when this is not possible, 'less with less'.

Discussion

Based on these results, what management capabilities are important for New Zealand? Taking an integrative approach across sectors, we see implications in the survey for three fundamental sets of managerial skills: 1) managing uncertainty and renewal, 2) managing stakeholders and partners, and 3) managing people and internal resources. The first of these, the need to manage uncertainty and renewal, comes through the strong emphasis private-sector chief executives place on adapting to constant change in markets and technologies. This implies a need to interpret ambiguous changes and renew, or reinvent, business models. It is also seen in the way public-sector and not-for-profit chief executives now have to think more creatively about their models of service provision. In this context, managers need to be more versatile, with an ability to think laterally and solve unstructured, novel problems that change the 'rules of the game'. Management, as a whole, needs to foster a more agile kind of organisation.

This need to manage uncertainty was identified by Hitt, Keats and DeMarie (1998) as a key management skill and our data support their argument that non-linear thinking is now critical for senior managers. In the New Zealand context, similar observations were made by Walsh, Bryson and Lonti (2002), who studied a selective sample of competitively successful organisations, and found that each had deliberately adopted managerial policies and practices that facilitate organisational agility.

It is worth exploring what managerial behaviours constitute 'managing uncertainty and renewal'. According to Hitt, Haynes and Serpa (2010) and Hitt, Keats and DeMarie (1998), relevant behaviours include experimentation, taking unorthodox approaches and allowing a degree of risk, demonstrating vision, and 'recognizing and coping with multiple states of coexisting stability and instability, [while also] recognizing the fact that most of these states are only temporary' (Hitt, Keats and DeMarie 1998, 25). Chapman (2001) adds that managing uncertainty requires managers to create and identify new opportunities, and develop the kinds of organisational structures that enhance flexibility. Such approaches imply an ability to question ideas and strategies established in more stable business climates (Chapman 2001; Hitt, Haynes and Serpa 2010; Hitt, Keats and DeMarie 1998).

The theme of managing uncertainty and renewal aligns with Yukl's (2012) analysis. Combining an understanding of the current environmental context with leadership research, Yukl (2012) developed a taxonomy of leadership behaviours that captures what leaders need to do to help their organisations perform. In particular, he argues that the encouragement and facilitation of change is critical in the current environment. The specific behaviours that he identifies as being relevant are: advocating change, envisioning change, encouraging innovation, and facilitating collective learning. Quantitative studies (reviewed by Yukl 2012) have shown that each of these behaviours is correlated with overall managerial effectiveness.

The second theme identified from our findings concerns the issue of managing relationships with stakeholders and business partners. The private-sector chief executives in our sample placed emphasis on the need to win the support of financiers, while the public and not-for-profit CEOs were engaged in a difficult tussle over the continuity of traditional funding sources. All the CEOs were involved in complex networks of alliances and outsourcing arrangements, locally and internationally, seeking to provide cost-effective products or services. This skill domain involves managers developing the kind of acumen that will help them to win the support of the various stakeholders and alliance partners involved.

Once again, this second theme reflects shifts in the business environment. Authors of the late 1990s rightly anticipated the hyper-competitiveness caused by technological shifts and globalisation, but were not in a position to foresee the effects of a full-blown financial crisis. While Hitt, Keats and DeMarie (1998) discussed the value of building strategic alliances, they did not anticipate the current financial crisis and the difficulties it would present (a situation rectified by the revised analysis in Hitt, Haynes and Serpa 2010). Yukl (2012) tackled the capability question more recently, and did identify this area, labelling it 'external leadership behaviour', arguing that it comprises networking, external monitoring, and representing the organisation; the ultimate goal being to gain information about external events, obtain necessary resources and support, and promote the interests of one's organisation. In terms of skills, these behaviours suggest that political acumen will be particularly important, supporting Ferris et al.'s (2005) and Fortune's (2012) calls for management education to better address political skill as a key area of managerial capability.

Political skills are linked to the complex set of development needs associated with our third theme: that of managing people and internal resources. As our chief-executive respondents reminded us, people continue to leave New Zealand for better pay and career opportunities overseas. This 'brain drain' has long been a feature of the New Zealand business environment (Thorn 2009). Unless New Zealand's productivity improves dramatically, the pay gap will remain an ongoing difficulty, and, apart from selective responses to key individuals, it is difficult for New Zealand management to make a concerted response. The ability to respond to the international labour market is greater in the private sector but this is a relative comparison: the problem affects the whole landscape of New Zealand organisations.

On the other hand, the scope an organisation offers for individual development can be a stronger factor than pay with regard to staff retention (Boxall, Macky and Rasmussen 2003), and this issue is more tractable for management. It implies two areas of skill development, and related support from HR specialists. One concerns the interpersonal skills that enable managers to build rapport with their team members, learning how they respond to their jobs and feel about the career opportunities in the organisation. Building on these interpersonal skills, managers need an understanding of how to design work and foster greater learning opportunities. As Eraut (2004) argues, there are often ways to open up opportunities for informal learning through work redesign and project-based assignments, including enhancing employee discretion and involvement in teamwork, but organisations are often poor in helping managers develop this kind of know-how. The issue is particularly important in terms of how higher level managers and HR specialists support the development of first-line managers (Purcell and Hutchinson 2007). HR specialists, then, need to ensure that management-development programs are equipping managers to meaningfully develop their own staff, coaching them in how to have useful dialogue with individuals, educating them in relevant theories of individual development, and training them in the range of methods available.

The skills of managing people must, however, be linked to the related challenge of managing limited resources. Chief executives emphasised an ongoing need to improve efficiency, either to deliver a new business model, or to reposition the existing one with constrained resources. For managers, this is not necessarily straightforward. It can play out in two main ways. In one scenario, it is possible to ‘trim the fat’ and enhance quality without creating staff redundancies. This calls on management skills in processes of quality management and lean production, working collaboratively with employees to identify waste and enhance performance. Although it is critical to understand the technical dimensions of these management strategies, their success is heavily based on the people management aspects (de Menezes, Wood and Gelade 2010; Sterling and Boxall 2013). However, these strategies are largely positive, involving improved selection, training, team-building, and job design. In a second scenario, corporate financial pressures are such that some jobs will be made redundant and parts of the organisation, or entire plants, will be outsourced and/or offshored. In some cases, organisations will be merged or disestablished. This scenario puts a premium on the vision and skills of senior managers in organisational renewal, as noted in the first set of skills identified, but also on the ability of the entire management hierarchy to foster substantive, procedural and interactional fairness in the people-related decisions that restructuring brings (Boxall and Purcell 2011).

Preparedness for these scenarios implies a high degree of management familiarity with how the organisation works as an entire system of people and resources, and how the parts interact and contribute to the good of the whole. This kind of understanding is assisted by management rotation, including the rotation of support specialists, such as HR and finance professionals, into line-management roles where they must personally deal with the trade-offs involved. It also implies high levels of cross-functional team-working so that managers are regularly exposed to interdisciplinary challenges. If management development has been silo-based or 'ghettoised', knowledge of how to restructure in a way that strengthens the organisation is likely to be problematic. Development processes that foster systemic thinking are needed to build skills in the simultaneous, and often conflicted, management of people and resources.

This theme, to an extent, reflects what decades of management competency research have shown: that managing people and organising resources are key features of a manager's work (e.g. Boyatzis 1982; Bücker and Poutsma 2010; Winterton 1999). However, our historical frameworks for building management competencies need to be relevant to a post-GFC environment where managers are faced with ongoing trade-offs which, as Yukl (2012) argues, render leadership behaviours more complex. Managing trade-offs implies the need to think carefully about the timing and complementarity of leadership behaviours, including being aware that positive behaviours can be overused.

Together, the three themes provide a useful starting point for enhancing management capabilities in the New Zealand context. It is beyond the scope of this paper to discuss how these capabilities are best developed, but HR practitioners could begin by using a diagnostic tool such as Yukl, Gordon and Taber's (2002) 'managerial practices survey', which is currently being updated. Such a diagnostic tool allows managers to assess their existing capabilities, and gain an understanding of their own developmental priorities, paying particular attention to the three themes identified in this paper. Having conducted a diagnostic analysis, HR practitioners can then go on to use developmental strategies to target selected areas of capability within their managerial workforce.

There are, naturally, some limitations to our analysis. First, a fuller picture might have been obtained had we sought the opinion of more than one respondent per organisation. Second, the data are descriptive and do not directly measure chief executives' assessments of skill deficits or requirements. However, asking for their evaluation of their environmental challenges was the critical first step in considering the skills that managers need. An obvious direction for further research would be to obtain chief executives' reactions to this analysis of skill needs, to find out whether there are any skill-groups that the study has missed, and to explore the extent to which managers in New Zealand currently exhibit the capabilities identified, before then identifying the management-development strategies that may be effective in New Zealand.

Conclusion

New Zealand's chief executives face a challenging economic environment, with changing markets and technologies, in which the support of stakeholders, including key funders, is more guarded and conditional than it has been historically. They face a 'war for talent', both internationally and in terms of the demographic wave of baby-boomer retirements, many of whom hold important knowledge or leadership positions. In the private sector, chief executives are reconsidering and reframing their business models to cope with fast-paced and ambiguous change. Chief executives in public and not-for-profit organisations are adjusting to a constrained funding base over which they have little control. They need to find ways of surviving in a climate of high demands and escalating costs, driving a need to do 'more with less' or 'less with less'.

This environment poses some major challenges for management development, which we have grouped into three broad categories: managing uncertainty and renewal, managing stakeholders and partners, and managing people and resources. The issues chief executives face, such as how to renew and restructure an organisation effectively, do not fall neatly into one disciplinary silo and are handled better by managers who have been equipped to deal with systemic problems. Now more than ever, HR specialists need to be focused on the development of line managers and need to take part themselves in developmental processes that bridge internal and external boundaries. Management capability is one part of a cluster of issues surrounding New Zealand's low productivity, but if these developmental needs can be tackled more effectively, New Zealand organisations will be better placed to tackle the fast-changing, complex business environment in which they now operate. As our discussion indicates, HR specialists have a key role to play in this development process. Their expertise is needed in the design and support of systems and processes that identify and nurture management talent and enable managers to develop their own teams in a more precarious business environment.

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Appendix Challenges and risks

Challenges

Markets and the business environment

1 Identifying profitable opportunities for the business
2 Retaining existing customers/maintaining customer satisfaction
3 Responding to emerging technologies
4 Responding to changes in society (e.g. ageing, growing diversity)

Operations

5 Enhancing the quality of your products or services
6 Raising productivity to world-class levels
7 Creating and/or managing alliances or joint ventures (including public/private partnerships)
8 Achieving desired outputs from outsourced operations, offshored operations, or shared services
9 Doing business across cultural barriers

People

10 Attracting and retaining talented employees
11 Enhancing the performance of your workforce
12 Building the flexibility to manage change
13 Fostering innovation

Finance

14 Gaining access to finance (e.g. share capital, loans, other funding)
15 Controlling and/or reducing costs

Stakeholder interests

16 Engaging in effective dialogue with shareholders or owners (private sector)/elected members or trustees (public and not-for-profit sectors)
17 Engaging in effective dialogue with other stakeholders
18 Balancing long- and short-term returns
19 Demonstrating corporate social responsibility

Risks

1 Changes in the economic climate
2 Market risks (i.e. competition, pricing)
3 Cost escalation
4 Compliance with government regulations and other legal aspects around how we operate
5 Threats to business continuity from the physical environment
6 Conflict with the workforce over terms and conditions of employment
7 Employee health and safety
8 Risks associated with managing property (i.e. real estate)
9 Risks associated with information technology
10 Risks associated with tangible assets other than property and information technology
11 Risks associated with intangible assets (e.g. intellectual property)
12 Risks associated with debt levels
13 Risks faced by directors
14 Risks associated with financial security of business partners

A slightly different version of this list was given to the public and not-for-profit sectors, with 'risks' removed and 'fundraising' added.

