BNZ Insights

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Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy in a language they can understand.

How Our Deficiencies Matter

Over the past two months each week we have released a paper looking at the factors which various global studies have identified as holding our economy back. Last week we went beyond the traditional analysis of economic deficiencies to look at qualitative studies of the managerial abilities of New Zealanders and the way in which our culture impedes our progress. In this paper we have brought all the deficiencies together in one place for ease of comprehension, and have devoted some effort toward making clearer the ways in which they act to restrict our growth.

Inadequate roading, electricity and telecommunications infrastructure

- Infrastructure is viewed as inadequate and that likely reflects the fact that NZ has a small population spread over a large area with only one centre approaching the size of a minor city by world standards. Uncertainty about the reliability and cost of infrastructure such as transport, electricity and telecommunications will tend to restrict business investment.

Low savings, high cost of capital due to the tax system, and the risk premium demanded by offshore investors.

- Low savings mean interest rates and the exchange rate are higher than would otherwise be the case. This tends to impede business investment and export sector growth. Low saving also means high business reliance upon bank financing rather than from investors (hallow equity and bond markets means) and this produces reduced ability, incentives and pressure on businesses to innovate and expand.

Poor domestic market competition including in the gas and telecommunications sectors.

- Poor domestic competition in some sectors tends to raise the prices for their outputs and restrict innovation.

Tax rates, including low capital gains taxes and high tax burden associated with GST and ACC compliance.

- Absence of a capital gains tax on residential property diverts investment funds away from productive activities while high compliance costs reduce business profitability and ability to expand. When combined with restrictions on the availability of residential land, low competitiveness in the building materials sector, and a desire by Kiwis for individually designed houses this produces high house prices and faith in levels being sustained and capital gains continuing.

Lack of scientists, engineers and technicians, insufficient skilled labour/brain drain

- A lack of scientists, skilled labour etc. means reduced ability to undertake research and development, redesign products for specific market needs, grow business output etc.

High dependence upon a primary sector export base, low medium to high-tech products in exports, and low export sector as a proportion of GDP.

- High export sector dependence upon the primary sector limits export growth as scaling up primary activities is difficult (in contrast with manufacturing, mining and services exports). Primary exports can experience large price fluctuations, face barriers into overseas markets, and have significant risks surrounding pests and diseases. Outputs are also generally easily replicable in other countries.
- Low levels of technology exports limits potential for clustering activities and vibrant interchange of ideas, though realistically this deficiency is more a reflection of other factors than a causal entity itself. The same goes for the low proportion of exports as a proportion of GDP.

High youth unemployment and low inclusion of 15-19 year olds in education or training.

- High youth unemployment and low participation in training and education means substantial wastage of labour resource especially with regard to develop of good skills and attitudes which will assist later productivity growth, entrepreneurship and innovation.

Poor management skills, especially international experience and people skills.

- Poor management skills restricts efficient allocation of resources within firms, internationalisation of companies, and effective management of staff.

Low linking of academic research with businesses.

- Weal links between academia and business (though improving) limits the speed with which ideas can be commercialised, and with which existing outputs can be improved.

Low business R&D spending

- Weak research and development in the business sector limits the development and successful designing of products for foreign markets .

A high 21% of people think hard work will not get them ahead in life.

- Because many people feel hard work will not get them ahead the drive to take inventions to the market is limited along with the perceived rewards from undertaking education and training.

Weak outward FDI.

- Weak outward foreign direct investment limits the importation into NZ of not just dividends but ideas, processes, personnel, market awareness etc.

Small domestic market size.

- The small domestic market size means businesses have less ability to achieve economies of scale compared with those in larger markets. Most importantly, growing businesses face the costs, uncertainties and bureaucracy associated with exporting at a far smaller size than overseas firms. This tends to limit productivity growth and export development.

Distance from other countries.

- The large distance from other countries means, when compared with countries in close proximity, less interchange and vibrant interaction between entrepreneurs, investors, scientists, and officials, and lags in the transmission to businesses of changes in export market conditions.

Inadequate early childhood education, especially for low socio-economic groups.

- Inadequate early childhood education means reduced ability for women in particular to enter the workforce, and reduced educational attainment of children from lower socioeconomic backgrounds when they enter the compulsory school system.

Low agglomeration of economic activity.

- Low agglomeration (absence of very large urban areas) raises per unit of output infrastructure costs and limits benefits from close and frequent interactions of business participants.

Excessive size of government, high taxes, high state asset ownership – especially energy and transport., plus low public sector productivity.

- The increasing proportion of economic activity accounted for by government in recent years reduces resource availability to the private sector, limits the benefits from competition in sectors of high state asset ownership, and increases efficiency losses from the higher level of taxes needing to be imposed to pay for government spending.

The Emissions Trading Scheme and Resource Management Act lack clarity and streamlining.

- Uncertainty surrounding the ETS plus widespread concern about time delays and costs imposed by the RMA tends to restrict efficient and timely reallocation of resources.

The remaining factors listed here are either the result of the factors already discussed, simple necessities reflecting the pest and disease vulnerability of the primary sector, or a matter of contention.

- Large exchange rate cycles.
- Labour market regulations, unemployment benefit regime
- Low capital stock per employee.
- Low internationalisation of NZ firms (remoteness)
- Restrictive biotechnology, sanitary, pharmaceutical, and phytosanitary regulations and services market access barriers perhaps creating low technology transfer from FDI.
- Local authority ownership of port assets

Our Cultural Impediments

The factors above are traditionally identified barriers to growth and can be thought of – once "corrected" - as necessary conditions for driving stronger productivity growth. However they are not sufficient because simply creating an efficient environment does not mean growth will ensue if people are unwilling to take advantage of it. The following factors help explain why Kiwis have failed to take advantage of the hefty deregulation of the economy which largely halted almost two decades ago, and perhaps why there is not a large voter constituency for further reform.

We are individualistic, like to keep control, don't like relying on others for success.

- Because we distrust authority and value individuality we are not inclined to buy into grand national schemes of economic salvation unless an intense sense of crisis is at hand – as happened briefly from 1984-87.

Our Tall Poppy Syndrome leads to
-Distrust of leadership.
-Distrust of experts and "book-learning", preferring those who's achievements are practical.
-Lack of workplace and business emotion.

- Because we dislike superiority and are sensitised to not make ourselves look superior we have difficulty being an effective manager of people we have worked alongside in a business. Being an effective boss may mean moving to another company where the mateship bonds are absent and the new manager/employee relationship can start without having to hold back. This can cost a firm the meta knowledge built up by the advancing individual.
- Because we distrust experts and "book learning" we fail to imbed and effectively utilise and nurture in our businesses talented managers, scientists etc.
- Because we tend not to show respect to those who over-achieve we tend to drive them away.
- Because we prefer to keep control and avoid bringing in outside capital the growth in our firms is usually financed out of cash flow and that retards growth.
- Because we distrust experts we fail to subject our inventions to the analysis and refining needed to reduce the need for trial and error and move them closer to being profitable innovations.

We focus on the short term rather than the long term.
We prefer rules and regulations to relationships

- Because our focus is on short term returns we tend not to build long lasting networks which can yield benefits over the long term. In particular in a world where some foreign cultures value relationships over contracts our short term rules-based focus tends to see us not naturally selected as partners and input sources.

Don't like giving or receiving feedback.

- Because we dislike giving and receiving feedback – associating it with a relationship involving one person having superiority – we fail to weed out non-performers and fail to adequately identify and facilitate the growth of high performers. We let talented people slip from our grasp.

Like to avoid failure

- Because we have a negative attitude toward failure we tend to take fewer risks and this can retard implementation of new ideas, seeking out of new partners, markets and products. We also promote a culture where failure is shameful and that constrains the important process of trying, failing, trying again with lessons learnt and eventually succeeding – like children learning to walk.

NZ centric – we believe the rest of the world is like us.

- Because we have an NZ-centric view of the world and think our customers overseas are like us we fail to take their specific tastes and requirements into account when developing products for export.
- Because we think others are like us we believe they also make the inventions we make therefore there is little for us to gain from exploiting the intellectual property in our applied ideas and developing our products for the rest of the world.

Highly satisficing, enoughism – we work for leisure, not wealth.

- We feel the payoff from work effort is limited and this tends to restrict our innovation, perceived incentive to undertake training and education, take risks etc.

Low assertiveness

- Because we are not assertive we refrain from tackling projects involving important partners and tend not to make others aware that we are eagerly looking for and open to new opportunities.

Avoid uncertainty

- Because we dislike uncertainty we limit the influence we give to others on our business outcomes and this limits the development of new relationships.

Undervalue our time

- Because we place a low value on our time we tend not to concentrate on activities with the highest return and instead undertake tasks better contracted to others.

Action oriented – when a problem is identified we are eager for action to fix it.

- Because we are action-oriented we fail to adequately research customer requirements and optimal distribution methods etc in our haste to produce something.

We prefer hands-on activities and devote our attention to ideas aimed at driving down production costs rather than adding value.

- Because we prefer hands-on tasks to delegation to functional specialists and relying on others for our success we limit the speed of growth in our companies and the introduction of new ideas.

The upshot of our culture is that because our focus is on invention we tend not to patent what we develop and not to think about how to commercialise it, therefore we miss profitable growth opportunities.

How We Are Viewed Offshore

These comments from offshore businesspeople captured in an NZ Trade and Enterprise study help elucidate the way in which our culture tends to retard our export growth and therefore productivity improvements.

- Naïve, complacent, not very world-wise
- Low in business acumen.
- Unemotive and lacking hunger.
- Not spending enough time outside New Zealand.
- Unsophisticated with a short-term focus.
- Too focussed on rules and regulations rather than relationships.

- Because we tend not to show emotion – including enthusiasm – we can be misunderstood and mistrusted by foreign potential partners such as Americans.

- Because we tend to take a laid back and short-term focus potential offshore partners in a more dynamic environment will not tend naturally to seek us out to complement their activities.

- Because we focus on rules and regulations rather than relationships we can suffer similar negative assessment from Asian cultures which value relationships and a long term focus.

Over the past two months we have examined factors traditionally identified as highly relevant to growth and added recent work examining the way our Kiwi cultural characteristics lead us to be good at inventing but poor at taking our inventions profitably to the market. From here the next logical step is consideration of policies which can address these identified barriers. However we are not planning to undertake that exercise because there are literally thousands of people actively engaged in considering and lobbying on policies which may address these issues. Many of these people work for years with literally no policy progress to show for all their efforts.

There are naturally strong political elements attached to policy proposals and with just myself working in this area there is not sufficient time available to first of all canvas all the available policy responses, then become engaged in discussing reasons for and against implementation in terms of who would be affected positively and negatively, how compensation might be enacted, what the implementation process would like, how to make adjustments along the way, and so on.

Those who are interested will find no shortage of policy proposals in the documents referenced in our papers What We Lack #s 6 and 7.

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