

Sporadic

The Effects of NZ Business Culture

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Back in 2011 toward the end of a series of papers we wrote examining impediments to growth of the New Zealand economy we looked at the issue of our business culture. Based substantially upon the work of Tony Smale of Forte Management <http://www.forte-management.co.nz/> we were able to summarise the situation which leads us to often work just for the BBBs (boat, bach and BMW), and to fail to grow our businesses enough or effectively as follows.

<http://tonyalexander.co.nz/wp-content/uploads/2011/05/Our-Deficiencies-Summarised.pdf>

“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 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.

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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.”

I refer to this material today because it helps explain the results of a three yearly report just released based on research undertaken by the Productivity Commission looking at 1,200 small businesses around New Zealand. The results do not exactly fill one with a great feeling of hope that SMEs will be driving our economy forward in the near future. Here's why.

Only 31% of businesses said that they had experienced growth from 2011. Yet over that three year period nominal gross domestic product has risen by 13%, nominal retail sales have risen by 10.5%, and job numbers have risen 153,000 or 7%. The surge in construction and dairying since then one would have expected to have produced a far better outcome.

Only 36% of businesses plan expanding their business, unchanged from 2011. The lack of an increase is bad enough considering the growth in the economy. But the 36% level itself is also quite low. 64% of SME operators are saying they don't plan growing their businesses.

Compared with 2011 slightly fewer businesses plan investing in the likes of sales and marketing spending, new equipment, new vehicles and premises.

Only 41% plan upskilling or training their staff which is concerning considering the global shift in the key driver of business growth from incremental productivity change/cost cutting toward innovation and the effective use of talent and digital technologies.

40% don't use social media – so perhaps gauging ongoing user experiences with their output is not considered important. In a world where businesses need to be consumer-centric and utilise consumer data to power their innovation processes this is concerning.

29% say technology has had no impact on their businesses over the past five years. Only 5% have invested in research and development.

The survey is a good one not just because it highlights ways in which on the face of it our SME sector is not looking like it is at world class level, but also because it goes some way to identifying why this may be the case. Asked about the barriers to their growth 21% of businesses say they seek work/life balance, and 10% want to quit their businesses soon. Only 9% blame the current state of the market and this is quite a decline from 20% in 2011. But this gets to the guts of the problem. Businesses are finding the economic environment conducive to growth, but the proportion not choosing to grow because of their desire to balance work with home life has risen to the 21% just cited from 15% in 2011. And those who want out have risen to 10% from 6%.

The message one can derive in comparing this divergence between good operating environment growth and desire to coast or get out is that Kiwi SMEs aren't really in it for the money in many instances. The triple Bs of boat, bach and BMW may be all that people seek. Our culture helps explain why this is the case.

Can this change? As anyone attempting to change the culture of their company or sports club knows this can be difficult. Often it is the entry of new people with different attitudes which can propel a wider cultural shift. That is where the rising influence of Asian people on the New Zealand economy may become important. The high education ethic, the strong preference for running and aggressively growing small businesses into bigger ones, the linkages with other countries, the acceptance of outside capital, etc. can go a long way to boosting our overall growth. The fact that 23% of Auckland's population is Asian compared with 6% for the rest of the country represents another reason why Auckland is going to pull further ahead of the rest of the country than it already is.

As a reminder, the median annual household income in Auckland in the 2013 census was \$76,500, Wellington \$74,300, Canterbury \$65,000, and everywhere else below \$60,000. And between the 2006 and 2013 censuses Auckland's median household income rose by 15%, Canterbury 13%, and the rest of New Zealand near 6%. If you want more information on how Auckland differs from the rest of the country email me for the handout I give at some of my presentations around the country. tony.alexander@bnz.co.nz

<http://idealog.co.nz/venture/2015/02/top-ten-tips-doing-business-asia>

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4. A Capital Gains Tax on Housing? <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-4-April-16-2015.pdf>
3. China is Important to us. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-3-April-13-2015.pdf>
2. Kiwi/AUD parity – mainly a function of AUD weakness. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-8-2015.pdf>
1. Implications of interest rates staying low for a long time. <http://tonyalexander.co.nz/wp-content/uploads/2015/04/Sporadic-April-7-2015.pdf>

Sporadic is written by Tony Alexander, Chief Economist at the Bank of New Zealand. The views expressed are my own and do not purport to represent the views of the BNZ. It is a supplement to the monthly NZ Observer. Please sign up at www.tonyalexander.co.nz
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