
On the internationalisation of New Zealand SMEs

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Abstract: Small businesses around the world often internationalise by means of exporting. In contrast, many small New Zealand firms have had relatively little success at exporting, and since the liberalisation of imports, many have preferred to internationalise by becoming involved in importing, rather than exporting. This may harm the public good.

Keywords: New Zealand; SMEs; internationalisation.

Reference to this paper should be made as follows: Dana, L.P. and Dana, T.E. (2004) 'On the internationalisation of New Zealand SMEs', *Int. J. Entrepreneurship and Small Business*, Vol. 1, Nos. 3/4, pp.330–338.

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1 Introduction

Ohmae (1989) pointed out that the reduction of barriers, in a global economy, is providing unprecedented opportunities and threats in world markets. However, when international competitors penetrate formerly protected domestic markets, small firms are likely to feel increasingly threatened in their home markets. As discussed by Dana (2001), competition in international markets was traditionally the realm of large companies, with smaller businesses remaining local or regional, but nowadays, firms of all sizes are sharing the same competitive space. Given the deregulated environment in

New Zealand, and the small size of the domestic market, small firms in this country will have to internationalise in order to survive. It is becoming harder for independent, small firms in New Zealand to thrive on their own. Cameron and Johnston (2003) demonstrated that SMEs have a lower survival rate than do larger firms and that of all small businesses launched in 1995, only 27.4% survived to 2002.

Over three decades ago, Benchley quoted an interviewee:

“Perhaps we should increase our cattle holdings, although traditionally \$1,000 invested in sheep will return more than \$1,000 invested in cattle ... We can't go into chicken and pork because the big companies, especially the foreign ones, can produce more economically than we can.” (1972, p.119)

We are concerned that the situation is becoming increasingly difficult for small business. Considering that New Zealand is regarded as a nation of small enterprises (Linowes and Dixon, 1992), this is an important problem, potentially affecting a large percentage of the population in this country. McGregor and Gomes (1999) reported that SMEs employed 60% of the New Zealand workforce at the time. Fletcher (1999) noted that out of a total of 250,000 firms in New Zealand, only 1,300 employed more than 100 people. Cameron et al. (1997) calculated that 85% of all New Zealand firms employed five persons or less. Cameron and Johnston (2003) reported that in 2002, 86% of enterprises employed five or less full-time equivalents and 96.8% employed 19 or fewer; they also noted that SMEs account for a higher percentage of employment in New Zealand relative to other countries.

2 Related literature

Interest in New Zealand's small firms has been on the rise. Levine and Levine (1983) focused on small enterprises on Stewart Island. Levine (1985) conducted an ethnographic study of self-employed fishermen on Stewart Island, and their effects on the social organisation of the community. From an anthropological perspective (Barth, 1963, 1966, 1967, 1981), this study explored the relationship between entrepreneurship and social change.

Taylor (1993) found that small firms in New Zealand were less market-oriented than larger ones. Likewise, in their study of 427 respondents (from a list, of 1,250 organisations, supplied by the New Zealand Department of Statistics), Taylor and Brooksbank (1995) found significant differences between small and large firms. In their study of the pre-export behaviour of small-scale manufacturers in New Zealand, Caughey and Chetty (1994) focused on export stimuli.

Combining in-depth case research and a mail survey, Coviello and Munro (1995) obtained data from 25 computer software firms based in New Zealand. This study found that foreign market selection and entry initiatives came from opportunities created through formal and informal network contacts. Network relationships facilitated rapid growth and actively influenced the growth pattern and internationalisation process. It was concluded that small New Zealand software firms relied on network relationships for marketing-related activities in foreign markets. Clustering has since been gaining importance in New Zealand. This includes the fashion cluster in Auckland, the thoroughbred horses cluster near Auckland, the earthquake cluster in Wellington and the technology cluster in Christchurch.

In their qualitative study of the causal processes of exporting in twelve owner-controlled New Zealand manufacturers, Chetty and Hamilton (1996) found support for Reid's (1981) stage model and concept of psychic distance. This study also revealed other causal factors influencing the exporting process; these included relative technological sophistication, firm size, and the domestic market environment.

Carlsson (1996) conducted an international comparison of manufacturing firms in Europe, New Zealand, and the USA. This study found a unique scenario in New Zealand. While the economy declined, the number of manufacturing establishments grew rapidly, but manufacturing employment fell. Therefore, the average manufacturer declined in size, from 30.9 in 1978 to 11.5 employees in 1993.

Coviello and Munro (1997) examined the internationalisation process of four software firms in New Zealand. They found the establishment chain to be rapid and compressed into only three stages, and characterised by externalisation of market development activities, through investment in network relationships. The authors suggested that internationalisation patterns could be better understood by integrating the models of incremental internationalisation with the network perspective.

Dean et al. (1998) focused on manufacturing firms in Canterbury, in the South Island. In their examination of export development, they identified two types of barriers to export: those that were stable across stages of development and those that changed, in their level of importance. Berg and Hamilton (1998) focused on internationalisation efforts of New Zealand firms, and found that joint ventures tended to result in failures. Sadler and Chetty (2000) found New Zealand exporters influenced by business networks. Hamilton and Dana (2003) provided an overview of small business in New Zealand.

3 Historical background

New Zealand has long been known as a progressive nation. Its first welfare legislation was enacted in the 19th century. Airmail was introduced between Auckland and Great Barrier Island in 1897, when pigeons began carrying mail across the 60-mile distance. In 1898, the country introduced old-age pensions (Walker, 1952). A free medical care programme was made available in 1938.

Since Rutherford, New Zealand has been home to great minds. The paper clip was invented in New Zealand, as was the postage stamp vending machine.

In 1950, New Zealand was among the richest countries in the world, on a per capita basis (Christainsen, 1996). Walker (1952) noted there were 17½ sheep per inhabitant at the time, and more than 2½ cattle. He elaborated:

"Fifth among the world's flock owners, the country exports more mutton and lamb than any other; it stands third in wool production and second in its export. Local mills absorb only 15 million pounds of the annual clip; more than 300 million pounds, on the average, go far and wide." (p.421)

Furthermore, the export of dairy products was on the rise. In 1955, per capita income in New Zealand was the third highest in the world (Cameron, 1985). During the ten-year period starting April 1, 1964, economic growth averaged 4.1% per year. Until 1973, New Zealand had one of the world's strongest economies, with full employment. One New Zealand dollar bought US\$ 1.48.

When the UK joined the EEC, in 1973, the New Zealand economy was jolted with the loss of its primary export market. The oil shock of October 1973 further harmed the New Zealand economy, as high oil prices led to inflation and unemployment (Cameron, 1985). While new legislation was introduced to help trade unions, the top personal income tax rate was increased to 66%. When inflation reached 20% in 1982, price controls were instituted along with controls on rents and interest rates. The price controls led to shortages. New Zealand had the lowest rate of productivity growth of any developed country (Christainsen, 1996).

By the early 1980s, 92% of all firms in New Zealand provided 54% of private sector employment, 50% of manufactured exports and 45% of GDP (Devlin, 1984). During the ten years leading to 1984, inflation averaged 13.4% per annum. In 1984, government spending represented about half the nation's GDP, and New Zealand was not even among the top 20 countries (Christainsen, 1996). Instead, public spending had led to an acute fiscal crisis, with inflation approaching 20%. Interest payments on debt accounted for about one-fifth of government spending. Something had to be done.

Once the governor of the central bank was put on a performance contract, and state enterprises were privatised, inflation fell and budget deficits were eliminated. New Zealand reduced its public sector by more than half, and each department became a separate employer, with top public servants hired on five-year contracts. Top bureaucrats were required to focus on delivering measurable outputs based mainly on profits; individuals could be fired for non-performance. Deputy ministers became chief executives, and they were hired by independent search committees.

In 1985, the newly elected government reduced its fiscal deficit, deregulated the financial system, floated the New Zealand dollar, and reduced trade barriers. On September 2, 1985, the minimum weekly wage for adults was raised from NZ\$100 to \$170. On September 27, 1985, *Euromoney* named New Zealand's Minister of Finance, 'Finance Minister of the Year', honouring him for his boldness and vision in reforming a highly regulated and subsidised economic system.

Most indirect taxes (including the wholesale sales tax) were eliminated when a 10% goods and services tax (GST) was introduced, in October 1986. The income tax scheme was simplified and income tax rates were reduced.

Cameron predicted, "there is likely to be a resurgence of interest in small business" (1988, p.32). In December 1988, the government announced a NZ\$ 7.9 million programme to fund local employment centres and promote the development of small enterprises. The purpose of this programme was to decrease the high failure rate among small businesses, by giving entrepreneurs access to management skills. The programme was targeted at unemployed people seeking self-employment, as well as to existing owner-managers.

Beginning in 1990, the state targeted inflation (Cook, 1995). In 1993, GDP growth was almost 5%, the second highest in the OECD. In 1994, private investment as a percentage of GDP was double that seven years earlier. Unemployment dropped to 6.5%. In 1994 and again in 1995, the economy grew by more than 5%. Inflation stayed under 2%, and real private investment and exports soared by 70% in three years (Cook, 1995). The combination of low inflation and rapid growth enhanced the attractiveness of New Zealand assets.

By 1995, government spending cuts enabled New Zealand to wipe out its NZ\$1.6 billion deficit and to accumulate a surplus of NZ\$1.8 billion. In 1995, New Zealand's public service employed 36,000 people, 50,000 less than was the case in 1984.

The nation was operating on an annual surplus. Public debt in 1995 was 34% of GDP, down from 51% in 1991. The unemployment rate was 6.6%, down from 11% in 1991. During the fiscal year ending March 31, 1995, GDP grew 6%.

Trade barriers were brought down, and by the late 1990s, most tariffs were negligible. The New Zealand dollar tumbled from above US 70 cents in 1996, to under 40 cents in 2000, before peaking above 70 cents in 2004. What does this mean for exporters? Rather than make better products at lower costs in New Zealand, some New Zealand firms have been manufacturing or sourcing overseas. This takes away jobs from New Zealand, and puts pressure on the New Zealand dollar, arguably causing harm to the average New Zealander.

Defining 'competitiveness' as the set of institutions and economic policies supportive of high rates of economic growth in the medium term, *Competitiveness Report 1999*, released by the World Economic Forum in Geneva, ranked New Zealand as No. 13. The following year, when the definition was expanded to include what drives growth and how it affects standard of living, New Zealand fell to position No. 20.

In June 2000, the ministry of research, science and technology announced its intentions to become a leader, a facilitator, a broker, a partner and an investor in innovation. New grants were established to encourage R&D.

In 2001, Lehman Brothers released a report that measured economic health, based on a database of 400 variables. The study considered three distinct categories of microeconomic policies:

- those that increase the long-term potential growth rate of an economy, taking into consideration education and R&D
- policies that affect labour-market performance, taking into account wages, costs, flexible working practices, employment protection, and taxes
- policies that cause reductions in costs, such as the dismantling of monopolies.

Analysing the structural policies of New Zealand, the report ranked this country as having the third best economic health, in the world.

New Zealand today has one of the world's most open economies, with one of the most deregulated business sectors. A problem, however, is that financial liberalisation has facilitated borrowing, while the tax system does not encourage savings. Both the OECD and the International Monetary Fund have warned that New Zealand's very high net foreign debt makes the nation vulnerable. Fletcher argued that "The level of our savings must equal the amount needed for investment" (1999, p. 78). He elaborated,

"We must have an effective savings policy, so that New Zealanders fund the required level of investment ... If we can increase New Zealand's private savings, hopefully we can also increase the availability of venture capital." (Fletcher, 1999, p.79)

4 The manufacturing sector

Since the 1930s, quotas and high tariffs sheltered the manufacturing sector in New Zealand (Cameron, 1985). Yet, the sector was slow to develop. In 1966, manufacturing accounted for only 2.7% of GDP. Cameron (1983) reported that, in 1978–1979, 94% of the manufacturing firms in New Zealand had 100 employees at most,

and that these small manufacturers provided half the jobs in the manufacturing sector. By 1987, there were 15,615 manufacturers in New Zealand. Of these, approximately 99% of these had fewer than 200 employees, and 82% had fewer than 20 employees¹. Carlsson (1996) reported that the manufacturing sector in New Zealand declined from 1984 to 1991, and subsequently grew rapidly. By 1994, the manufacturing sector was contributing 25% of GDP.

Carlsson (1996) found that the manufacturing share of total employment in New Zealand was 17%, compared with 21.5% in Ohio. Yet, New Zealand, with a third of the population of Ohio, had 20,200 manufacturing establishments in 1993, considerably more than the 18,400 in Ohio.

McGregor and Gomes (1999) found relatively weak product development systems, managerial skills and technology-adoption strategies among small and medium manufacturers in New Zealand.

5 Government assistance

Many governments have established programmes, the purpose of which is to increase the rate of creation of new ventures. To this end, New Zealand set up its state-funded Small Business Agency, in 1978, as a division of the Development Finance Corporation. Nonetheless, it is widely known that most new ventures soon disappear. Perhaps more important than simply creating new ventures is their sustainable survival.

In New Zealand, the Ministry of Commerce has instituted a business development programme, which includes the Enterprise Growth Development Scheme. The purpose of this scheme is to improve the nation's competitiveness, by providing grants to help enterprises become more efficient and effective in the marketing of their goods and services.

Operated by 21 business development centres across New Zealand, the Enterprise Growth Development Scheme offers financial assistance to applicants requiring protection of intellectual property rights, market research, trade fair participation, promotion and advertising.

The Ministry of Commerce has also established the Expert Assistance Grant Scheme, which provides grants to establish small-scale and medium-sized enterprises engaged in international business. The grants are provided for the purpose of hiring business consultants in key management areas, where improved performance will yield sustainable increases in efficiency and competitiveness. The target areas of this scheme include marketing strategy, research and development.

TRADENZ is the government agency, which is responsible for promoting the internationalisation of New Zealand industry. This export agency attempts to increase the number of New Zealand exporters, the scale and quality of exports, and the level of international involvement. In 1966, 62% of New Zealand's exports were sent to Western Europe; less than 30 years later, only 15% of the nation's exports went there.

6 Thoughts for discussion

Exporters have recently expressed concern that a strong New Zealand dollar may hinder their ability to sell overseas. How does Switzerland continue to be a great exporter, given that the Swiss franc is worth five times its value some years ago? How do Japanese firms continue to export when the dollar is no longer worth 300 yen? A strong New Zealand currency need not harm New Zealand exports. The key is to sell products and services that consumers recognise as having value. Swiss firms were exporting when their currency was worth very little; when the franc escalated, people continued to buy Swiss exports because these had a respectable, quality reputation. The same is true for Japan. New Zealand can follow a similar model. Canterbury-based, Merino New Zealand Limited already has.

Merino New Zealand is a marketing organisation for New Zealand merino wool fibre producers. Whereas merino was formerly sold at auctions fetching prices similar to regular wool, this organisation, through technology, has excelled at value-adding, thereby creating a high-end product sought after in the most prosperous economies. Simultaneously, New Zealanders benefit from the availability of locally-made, highquality merino products.

In contrast, the opposite is true in some other sectors. When local production has been replaced by production overseas, quality has often been compromised to the detriment of the average New Zealand consumer lured by the lower price tags. Is it better to pay \$5 for a widget than lasts five years or \$4 for one that lasts six months? For a minor short-term monetary saving, we are paying more in the long-term, accepting second-rate products and filling our rubbish dumps.

New Zealanders may benefit from more long term strategies and less short-sightedness. Rather than focusing on producing top rate products for export markets, many entrepreneurs are ignoring great opportunities. We have stopped manufacturing new cars in New Zealand; instead a few individuals get rich by importing second-hand cars from Japan and selling them in New Zealand at very high mark-ups. When the New Zealand dollar tumbled, importers increased the prices to consumers. When the New Zealand dollar gained strength, few savings were passed onto consumers.

7 Conclusion

Beamish defined internationalisation as a process:

“by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries.” (Beamish, 1990, p.77)

This definition is very appropriate to small firms in New Zealand. However, unlike small firms in some other countries, those in New Zealand are finding it easier to import than to export. Is the easy road best for the long-term sustainability of business in New Zealand? Perhaps we should ponder the words of Hillel, in the famed Ethics of the Fathers 1:14, “If I am not for myself, who will be for me? But if I am only for myself, who am I? If not now, when?”.

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Note

¹Source: Department of Statistics, Wellington.