

outlook

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GETTING TO KNOW THE NEIGHBOURS: BUILDING NEW ZEALAND-ASIAN BUSINESS RELATIONSHIPS

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*“Building New Zealanders’
knowledge and
understanding of Asia.”*

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“Expanding and deepening commercial relationships with Asia is a high strategic priority for New Zealand.”

SUMMARY

THE RAPID RISE OF ASIAN ECONOMIES is presenting New Zealand companies with unprecedented opportunities to engage in trade and investment with their Asian counterparts. These activities are accelerating the growth in scale and sophistication of those New Zealand companies that do respond, thus significantly increasing their contribution to the New Zealand economy.

Making the most of these opportunities, however, requires a range of skills and resources that very few New Zealand companies have. Only 1,519 companies exported more than NZ\$1m of goods or services a year, according to a 2010 survey by New Zealand Trade and Enterprise.¹ Some 10,000 more companies are passive, infrequent and small-scale traders, merely responding to overseas enquiries.

Thus, greatly expanding and deepening commercial relationships with Asia is a high strategic priority for New Zealand companies and the economy. This paper identifies the opportunities and analyses the issues that arise; and it suggests ways to tackle them and areas for further study.

The paper draws on the knowledge of individuals, companies and organisations already engaged with Asia and those seeking to do so. It is based on the author's interviews with eight leading companies engaged with Asia² and his desktop research, plus his accumulated knowledge of New Zealand companies.

For the purposes of this paper, the author also drew out broad themes from transcripts of interviews with senior executives in 30 companies made available by the New Zealand Asia Institute (NZAI) at the University of Auckland, without identifying companies or particular incidents.

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The author is also grateful to everyone who gave their time and knowledge in interviews, or contributed in other ways to the paper.

1 New Zealand Trade and Enterprise (NZTE) survey data dated September 2010 showed a total of 12,603 exporters. But of those, 7,452 exported less than NZ\$50,000 of goods or services a year, equal to a total of 0.23 percent of all exports; 3,068 exported under NZ\$500,000 each or 1.35 percent of the total; 1,409 exported under NZ\$5m, equal to 5.9 percent of the total; 472 exported under NZ\$25m, or 13.37 percent of the total; and only 202 companies exported over NZ\$25m, equal to 79.15 percent of all exports. In total, only 1,519 exported more than NZ\$1m of goods a year.

2 Beca, Comvita, Fonterra, Icebreaker, Skellerup, Snowy Peak/Untouched World, Tatua Co-operative Dairy Company.

"In the 12 months ended February 2011, New Zealand's merchandise exports to Asia were worth \$17.65bn, up 19 percent from a year earlier."

THE ECONOMIC IMPERATIVE

REFORMS IN THE 1980's AND 1990's made the New Zealand economy much more efficient, but they did not fundamentally change the nature and direction of it. Thus, exports have remained stuck at around 30 percent of economic activity;³ commodities still account for the large majority of exports; our direct business investment overseas has languished; and direct foreign investment (FDI) into New Zealand has largely focused on buying existing domestic businesses rather than expanding New Zealand's export activities.

As a result, we continue to slip down the rankings of developed countries; our net international liabilities are forecast to exceed 85 percent of GDP in 2015,⁴ the third-highest level in the OECD; and Australia's GDP per capita is now 30 percent greater than ours. There is some agreement among New Zealanders that this is unsustainable.⁵ There is also broad agreement that developing relationships with Asian countries is a major part of the solution.

THE ECONOMIC OPPORTUNITY

The rapid development of Asian economies offer New Zealand companies abundant new markets for goods and services, and extensive opportunities to invest there or to attract investment here and to partner with Asian businesses for mutual benefit. Moreover, our fast-expanding range of Free Trade Agreements and other treaties is greatly facilitating these developments. Likewise, Asian migrants to New Zealand and Kiwi expatriate overseas open up many new channels to help pursue these opportunities.

Asia is already New Zealand's largest regional trading partner. In the 12 months ended February 2011, New Zealand's merchandise exports to Asia were worth NZ\$17.65bn, up 19 percent from a year earlier. They accounted for 40 percent of our total exports, whereas Europe and the United States combined accounted for only 20 percent.⁶

Likewise, our imports from Asia in the same 12 months totalled NZ\$19.3bn, a rise of 15 percent. They accounted for 44 percent of our total imports, whereas Europe and the US combined totalled 27 percent.

This rapid rise in trade with Asia involves many countries across the region, although it is our trade with China that heavily influences the growth, particularly since we signed a Free Trade Agreement with it. In the 12 months to February 2011, our exports to China rose 39 percent to NZ\$5.2bn, while our imports from it rose 14 percent to NZ\$6.9bn.⁷

In 2010 China overtook the US as New Zealand's second-largest trading partner. Australia remains our largest, with two-way trade totalling NZ\$17.7bn in the past 12 months to February 2011. While our trade with China only totalled just over NZ\$12bn, its far faster rate of growth compared with our trade with Australia suggests China may become our largest trading partner within a matter of years if current patterns of trade growth continue.

FDI flows between the two countries are on the rise too, with the large majority of the money coming from Chinese seeking investment here in agricultural, property and other sectors.

3 Statistics New Zealand's analysis of its Overseas Merchandise Trade data 1990-2010.

4 Treasury, 2011 *Budget Economic and Fiscal Update*, pp. 78.

5 Addressing these issues, and recognising the importance of fast-growing Asian markets to help deal with them, were central to the economic policies of the Labour Government 1999-2008 and the current National Government. They are likewise central to the reports of the Don Brash-led 2025 Taskforce, the positions of Business New Zealand and other lobby groups and researchers such as NZIER, BERL and the New Zealand Institute.

6 Statistics New Zealand, Overseas Merchandise Trade statistics for the 12 months ended February 2011, www.stats.govt.nz/browse_for_stats/industry_sectors/imports_and_exports/OverseasMerchandiseTrade_HOTPFeb11.aspx.

7 *ibid.*

"All forecasts show Asian economies continuing to outperform Western countries."

The New Zealand government is also seeking to double trade with China in only a few years. Doing so will be relatively easy through increased volumes and prices of agricultural commodities, which constitute the bulk of our exports, and through increased imports of Chinese consumer goods and other manufactured products.

But if New Zealand is to derive the full benefits of bigger, closer relations with China and its other Asian neighbours, it will have to pull off a far harder transformation: the shift from commodities to high-value exports, and from trade to co-investment between New Zealand companies and Asian counterparts in mutually beneficial opportunities here, in Asia and around the world.

ASIA RISING

All forecasts show Asian economies continuing to outperform Western countries. For example, the Economist Intelligence Unit (EIU) said in its special report on Asia in 2010 that "China, the world's second-largest economy in purchasing power parity terms, [will] return to first place in 2020, after a two-century hiatus. India, meanwhile, will move from fourth place, with an economy about 90 percent the size of Japan's, to third, with a GDP roughly two-thirds greater than that of Japan by 2020."⁸

Moreover, the nature of Asian economies will also change. The old way for Asia to grow rapidly was to sell more to Western consumers, in particular to increasingly indebted American ones. In the future, Asian – and Western, firms will rely more on Asian consumers to do the "heavy lifting".

"Western and emerging Asian companies will increasingly compete directly against each other and buy control of each other. Cheap Asian component suppliers will continue to vie with one another for the favour of assemblers in the developed world. But in addition, Asian manufacturers will be making finished goods and competing against their European and US counterparts. In the process, Asian and Western companies will begin to resemble each other more than before."⁹

CATCHING THE WAVE

In recent years think tank, the New Zealand Institute has been at the forefront of the analysis of New Zealand's economic performance and proposals for improving it. Its extensive series of papers has shed much useful light on how we can earn a much bigger living in the global economy.

To that end, it proposed some very challenging targets in its 2006 paper *The Flight of the Kiwi: Going global from the end of the world*:

"As a base target, this report proposes that New Zealand exports should be raised from their current level of 28 percent of GDP to consistently in excess of 35 percent of GDP by 2020, and that outward FDI should be raised from about 10 percent of GDP to consistently in excess of 15 percent of GDP by 2020".¹⁰

The Institute pointed out how big a challenge these apparently minor shifts in GDP and FDI were:

"Achieving an additional NZ\$35 billion of exports by 2020 will require an additional three Fonterra-scale companies (current exports about NZ\$10.5 billion), or about 500 Rakon-size companies (current exports around NZ\$70 million), 150 Pumpkin Patch companies (current exports over NZ\$200 million), or over 2300 companies the size of 42 Below (current exports around NZ\$15 million).

8 *The Big Tilt: The rise of the East and what it means for business*, Economist Intelligence Unit, February 2010, p 10.

9 *ibid*, p 7.

10 *The Flight of the Kiwi: Going global from the end of the world*, by David Skilling and Danielle Boven, New Zealand Institute Discussion Paper 2006/1, 2006, p 2.

“Much of the pioneering work of opening up new markets and technologies is being done by very low-profile, small and medium-sized companies.”

“To achieve the NZ\$18 billion FDI target will require 18 NZ\$1 billion investments to be made over the next 15 years. This is the equivalent of about seven transactions a year that are the size of Fonterra’s recent purchase of 43 percent of San Lu in China (NZ\$153 million).”¹¹

Given the improbability of growing quickly a few very large companies, the Institute and some other researchers have placed considerable emphasis on growing a lot of much smaller ones. This is a pattern that has served Germany well, for example. While its major multinationals such as Siemens and Daimler-Benz attract most attention around the world, the country’s *mittelstand* (small and medium sized enterprises) businesses are in many ways the bedrock of the economy and its exports.¹²

These small and medium-sized companies, typically family owned, employ 70 percent of Germany’s workforce. Many are also exporters of machinery and other high-technology equipment, often dominating their highly niche global market segments. For example, Kugler-Womako makes production lines for printing passports and Winkler+Dünnebier makes machines that produce envelopes.

While New Zealand has its large high-profile exporters too, such as Fonterra, much of the pioneering work of opening up new markets and technologies is being done by very low-profile, small and medium-sized companies, which like their German counterparts are usually owned by families or private equity funds.

In total, New Zealand might have as few as 350 companies that are well established as exporters and/or investors overseas, according to analysis by Andy Hamilton, chief executive of The Icehouse, the business growth centre at the University of Auckland’s Business School.¹³

Hamilton estimates this cadre of 350 companies would need to increase almost four-fold in the next eight years if the country were to start to meet its economic goals through predominantly smaller businesses.

Given that such companies are some of the most innovative in the country and their scale seems the most effective for our small economy, it is likely that these companies would stand the best chance of capitalising on New Zealand’s Asian opportunities.

The companies, however, face many hurdles, such as inadequate access to capital, technology, skilled workers and overseas partners. To overcome these obstacles, they are trying to devise business models that would enable them as small, highly entrepreneurial businesses to attract those resources and thrive in international markets. Inevitably, these models will look very different from those in Europe, the US or Japan, given that New Zealand is one of the smallest, most-distanced economies from major markets.

Developing the right management skills to meet these challenges is clearly pivotal for the companies. Yet on average New Zealand managers rank relatively low in international comparisons, such as the annual global competitiveness rankings by the World Economic Forum and by IMD, the Swiss business school.

The most comprehensive study to date of New Zealand management performance was *Management Matters in New Zealand – How does manufacturing measure up?* Commissioned by the Ministry of Economic Development, it was published in April 2010. It was based on methodology devised by the London School of Economics and McKinsey & Company, the global management consultancy.

New Zealand managers ranked in the middle of the 18 countries studied under this methodology, with a relatively higher score on running plants efficiently making up for low scores on strategy development, planning and goal setting and people management.¹⁴

¹¹ *ibid*, p.26.

¹² “A machine running smoothly”, *The Economist*, February 3, 2011, www.economist.com/node/18061718?story_id=18061718.

¹³ “Andy Hamilton: What’s needed is business growth”, *The New Zealand Herald*, July 28, 2009, www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10586924.

¹⁴ *Management Matters in New Zealand – How does manufacturing measure up?* Ministry of Economic Development, April 2010, p.28.

"This paper argues for creating a greater synergy between hard business skills and soft cultural skills."

While the Chinese and Indian companies studied under the same methodology ranked overall at the bottom of the pack, both countries had a large group of companies that were well run. Thus the study concluded that the top 30 percent of Indian and Chinese companies were better managed than the bottom 50 percent of New Zealand companies.¹⁵

The critical question of whether New Zealand companies have the management skills necessary to make the most of their opportunities in Asia recurred regularly through the interviews carried out by the author and those by the researchers at the NZAI.

A number of senior business people interviewed for this paper, such as David Mair, acting chief executive of Skellerup, and Jeremy Moon, chief executive of Icebreaker, argued strongly that most companies did not have the management skills necessary to make the most of opportunities in Asia. Moreover, it was a company's business skills that were ultimately far more important in determining its success in Asia than its cultural skills.

It is for these reasons that this paper emphasises the need to improve the business skills of New Zealand companies engaging with Asia. Yet a company also needs good cultural skills to thrive, either at home or overseas. It needs to be in tune with all its stakeholders.

Thus, this paper argues for creating a greater synergy between hard business skills and soft cultural skills. Simply stated, any initiative aimed at improving cultural skills in companies should be very directly linked to the practical development of their business skills.

¹⁵ *ibid*, p.37.

BUSINESS AND CULTURE

AS PART OF ITS *The Big Tilt* SPECIAL REPORT on Asia last year, the EIU devoted a section to analysing issues of business and culture, for both Western companies operating in Asia and Asian companies operating in the rest of the world.

It undertook an online survey of 1,017 executives around the world, 51 percent of whom described themselves as board members or C-level executives. To supplement the quantitative survey results, the EIU conducted in-depth interviews with 19 senior executives and experts.

The EIU concluded: "Cultural differences are among the biggest difficulties to doing business globally. Companies that are able to overcome these will gain an important competitive advantage. Among surveyed companies investing in Asia, cultural differences were the biggest business challenge over the past decade (cited by 31 percent of respondents as being one of the top two challenges)."¹⁶

On the issue of regulation, the EIU said, "Cultural factors determine how business rules are written and interpreted. But they also shape the unwritten rules of business, such as where a company should open shop: in 2007, Starbucks, an international coffeehouse chain, closed its outlet in Beijing's Forbidden City, following seven years of protest from proponents of traditional Chinese culture."¹⁷

In considering ways to internationalise the New Zealand economy, the New Zealand Institute has argued for greater cultural awareness in companies and greater involvement of migrants in the economy.

But it says the limited evidence available suggests that both factors are undervalued. In *The Flight of the Kiwi*, David Skilling and Danielle Boven write:¹⁸

"The international evidence clearly shows that migration links act to stimulate trade and investment links¹⁹, because of the increased understanding of other markets and cultures, and the existence of social networks. There is some recent evidence on the existence of this effect in New Zealand, but it does not appear as substantial as might be expected (Bryant et al. (2004)²⁰)."

Since this report was published the Asia New Zealand Foundation has since carried out a series of research reports on the role that New Zealand's diaspora can play in furthering economic links with Asia.²¹

Thus, as this paper argues, there is clearly plenty of scope to help New Zealand companies improve their hard business skills and their soft cultural skills by seeking ways to develop the two sets in tandem.

"Cultural differences are among the biggest difficulties to doing business globally."

16 *Big Tilt*, op cit, p.32.

17 *ibid*, p.33.

18 *The Flight of the Kiwi*, op cit, p.42.

19 Gould, David M., 'Immigrant Links to the Home Country: Empirical Implications for US Bilateral Trade Flows', *Review of Economics and Statistics*, May 1994, pp.302-316; Head, Keith and Reis, John 'Immigration and trade creation: Econometric evidence from Canada' *Canadian Journal of Economics*, 1998, pp.47-62; Rauch, James E. and Trindale, Vitor, 'Ethnic Chinese Networks in International Trade' *Review of Economics and Statistics*, 2002, pp.116-130.

20 Bryant, John, Murat Genc, and David Law, 'Trade and migration to New Zealand', *New Zealand Treasury Working Paper 04/18, 2004*; and Bryant, John, and David Law, 'New Zealand's diaspora and overseas-born population', *New Zealand Treasury Working Paper 04/13, 2004*.

21 Dr Alan Gamlen, *Engaging Asia: the role of the diaspora*, Outlook 15, 2011, Dr Elsie Ho, Professor Manying Ip and Joanna Lewin, *New Zealand's diaspora in China: Untapped resources*, Outlook 14, 2010, Asia New Zealand Foundation; Dr Robert Didham, *Future potential and the invisible diaspora: New Zealand and South Asia diaspora*, Outlook 12, 2010, Asia New Zealand Foundation; Dr Robert Didham, *Intersections: Southeast Asia and diaspora engagement*, Outlook 11, 2010, Asia New Zealand Foundation

“Business in the twenty-first century is global, and the need to deal effectively with others who are culturally different has become a business necessity.”

CULTURAL INTELLIGENCE

Given great diversity between and within countries, people doing business overseas would find it impossible to learn enough about the customs and traits of every culture they encountered.

Instead, they should learn how to function effectively in any culture, argue David Thomas and Kerr Inkson in their book *Cultural Intelligence*.²² They show how people can disable their “cultural cruise control” so that they can pay attention, in mindful and creative ways, to cues in cross-cultural situations.²³

Their book describes a suite of skills appropriate to any intercultural setting, whether in business or daily life. They say the skills are useful in decision-making, communication and negotiation, in leading and motivating people from different cultures, and in building multicultural teams.

“Business in the twenty-first century is global, and the need to deal effectively with others who are culturally different has become a business necessity.”²⁴ Yet culture is more difficult to deal with than other aspects of the business environment, partly because much of culture operates invisibly.

However, if people develop their Cultural Quotient (CQ), their capability to interact effectively across cultures increases markedly. It takes a long time to develop CQ through study, observation, reflection, experiment and experience. Yet, it is important to do so because CQ is “a critical core competence needed in business today.”²⁵ It ranks with IQ and Emotional Quotient.

If you want to become culturally intelligent, there again, you need to become “skilled and flexible about understanding a culture, learning more about it from your ongoing interactions with it, and gradually reshaping your thinking to be more sympathetic to the culture and your behaviour to be more skilled and appropriate when interacting with others from the culture.”²⁶

There is still plenty to learn. “Despite the rapid modernisation of the world, culture is slow to change. For the foreseeable future, cultural differences will remain a key factor in interpersonal interactions.”²⁷

Thomas and Inkson say the first step towards switching off “cultural cruise control” is to become more aware of our own culture and its influence on our behaviour. They suggest we become more aware of our own assumptions, tune in to the assumptions of people to whom we’re relating, view situations from different perspectives, pay closer attention to context, try to be more empathetic and seek new information.

They suggest the next step is to raise our cultural intelligence. Character traits that help to do so are integrity, openness, humility, inquisitiveness and hardiness in dealing with stressful situations.²⁸

The authors go on to offer advice about decision-making in cross-cultural situations. They describe ways to deal, for example, with the differences between Western styles of decision-making, which are often based on clearly defined parameters, responsibilities and consequences, and those of many other cultures, which are nuanced and ambiguous.

22 Thomas, David C. and Inkson, Kerr, *Cultural Intelligence: Living and working globally*, second edition, 2009, Berrett-Kohler, San Francisco.

23 To make their case, the authors draw on their extensive international business experience. Thomas is a professor of international management and director of the Centre for Global Workforce Strategy at Simon Fraser University in Vancouver; and Inkson is an adjunct professor in the Management School of the University of Waikato and an honorary professor at Excelerator: the New Zealand Leadership Institute at the University of Auckland.

24 *Cultural Intelligence: Living and Working Globally*, second edition, 2009, p.182.

25 *ibid*, p.ix.

26 *ibid*, p.15.

27 *ibid*, p.182.

28 *ibid*, p.79.

"The mix of cultures in a team can enable it to spontaneously create a dynamic performance or innovation that external managers simply could not arrange."

They also deal extensively with communication across cultures, both verbal and non-verbal, including strategies for working in a second language but at a lower level of competence compared with one's native language.

Their advice on negotiations identifies five phases: building a relationship, exchanging information, trying to persuade each other, making concessions and reaching agreements. While many Westerners would already understand these phases, whereas they would still be very transactional in their negotiations compared with people from other cultures. Therefore, they need to be knowledgeable and mindful to navigate these phases with empathy and understanding.

The key to culturally intelligent leadership, they argue, is to understand what the followers' expectations are of a leader in a particular culture, mesh them with the leader's and strike a balance between the leader's own personal style and the limitations of the situation.

Lastly, the authors' describe the opportunities and challenges presented by multicultural teams. The mix of cultures in a team can enable it to "spontaneously create a dynamic performance or innovation that external managers simply could not arrange".²⁹ But to do so the team needs to develop a shared understanding among its members about goals and processes, build trust, work with cultural diversity and overcome the cultural distance between members.

Doing so is even harder in virtual teams linked, typically, through internal systems or the internet. Such teams can often prove strained, unproductive or even destructive because of cultural tensions, exacerbated by the lack of direct contact. In such situations, many of the normal cues for behaviour and interaction are removed, heightening cultural variables.

Learning to work well in such virtual situations is important for businesses worldwide. But it is particularly crucial to New Zealand companies because they are predominantly very small and far removed from the people with whom they engage around the world.

Further analysis of perception of New Zealand business people in Asian countries has been carried out by the Asia New Zealand Foundation.³⁰

²⁹ *Cultural Intelligence: Living and Working Globally*, Second edition, 2009, p.151.

³⁰ *Asian Perception of New Zealand business people* (http://www.asianz.org.nz/sites/asianz.org.nz/files/AsianZ_realitycheck07.pdf), 2007, Asia New Zealand Foundation

EIGHT MAJOR THEMES FROM INTERVIEWS

THIS PAPER DRAWS ON TWO SETS OF INTERVIEWS. This author conducted the first set with senior executives, in most cases the chief executives, of seven New Zealand companies with deep experience in Asia. Some companies have long-established markets there and all have well developed partnerships with Asian companies. They all have extensive subsidiaries and activities in one or more Asian countries.

The companies were: Fonterra and Tatua Co-operative Dairy Company in the dairy industry; Beca in engineering consultancy; Icebreaker and Snowy Peak in clothing; and Comvita in honey and other health products; and the seventh interview was with David Maier speaking in a personal capacity as a senior executive with long experience in Asia through Interlock, a windowlock company, and currently as a board member and acting chief executive of Skellerup, a maker of rubber products.

The interviews sought to learn how the companies had developed their Asian engagements, what new challenges they were tackling, and what lessons or help they could offer other New Zealand companies.

The second set of 30 interviews was conducted by researchers at the NZAI and covered a wide range of companies in terms of industry, size of company and level of engagement in Asia. Some were deeply experienced in doing business there, others relatively new.

The NZAI gave the author access to the transcripts of the interviews on the basis that he was free to draw out themes and some generic examples from them, but not to identify the companies or to cite specific examples by name.

The interviews covered the same areas of investigation as the author explored in his interviews. From the two sets of interviews, eight major themes emerged.

1. MAKING ASIAN CONNECTIONS IN NEW ZEALAND

The range of Asian connections in New Zealand has grown dramatically in the past two decades or so. The strong influx of migrants, the fast growth of overseas students³¹ and the rapid escalation of business ties have deeply enriched the country.

This is a great boon to companies considering doing business in Asia. During their preliminary investigations of Asian opportunities these companies can often get help and insight from New Zealanders here, either Asians or others, before they invest more time and effort overseas.

The connections take many forms, often leading to long-term business relationships here and abroad. The main connections are:

Experienced New Zealand companies

Companies with track records overseas are usually keen to help newcomers.

Fonterra is one example of a major corporate with a strong desire to support the internationalisation of other New Zealand companies.

"We exist because the government was prepared to take a long-term view to grow dairy exports," said Andrew Ferrier, chief executive of the dairy co-op, which is the country's largest exporter. The government had allowed the creation of the mega co-op even though it processes more than 90 percent of the milk supply, in the belief it would spur the industry's growth.

"So we want to give back to other companies. We see the symbiosis. We're a very small country so we can't have resources everywhere."

³¹ *Tracking Study of Asian Business Graduates Report Two*, by Terry McGrath, Vivienne Anderson, Chze Pheng Ching, Akira Doi and Paul Stock <http://www.asianz.org.nz/sites/asianz.org.nz/files/files/AsiaNZ%20Asian%20Business%20Graduates%20Study%20part2.pdf>

"The range of Asian connections in New Zealand has grown dramatically in the past two decades or so."

“There is clearly abundant scope to develop such professional relationships across Asia.”

Fonterra draws on many New Zealand companies for goods and services to support its exports from New Zealand and also its operations overseas. For example, it has used a number of companies from New Zealand to help it build up its farming operations in China.

Likewise, when Fisher & Paykel Appliances (F&P) established manufacturing operations in Thailand in 2007, it encouraged a number of its New Zealand component suppliers to set up neighbouring plants to support it. One plastics company, for example, said that it would not have built a plant overseas if F&P had not encouraged it to do so. It began by supplying F&P, but has since significantly broadened its customer base to other multinationals and some Thai companies.

The plastics company similarly, the first work in China for Beca was to help build Lion Nathan’s brewery in Suzhou, west of Shanghai, which opened in 1998. It has gone on to build for other New Zealand companies such as Fonterra and multinationals such as Tesco, the UK supermarket chain. Its Chinese operations are now substantial and broad-based.

It is interesting to note in such cases that the New Zealand firms preferred to engage Kiwi companies they knew and trusted even though the companies did not have the in-country experience that foreign competitors might have had.

This suggests positive and negative impacts: on one hand, such Kiwi bonds will continue to help internationalise New Zealand companies; but, on the other hand, the companies (either senior or junior partners in the relationship) might settle for a familiar company from home rather than seek the best partner they can from the international arena.

Foreign multinationals

A New Zealand company with strong business relations with a foreign multinational can often get introductions to the multinational’s subsidiaries in other countries. This has been a useful way for several small telecommunications software providers, for example, to enter new markets.

Sometimes the multinational can make wider connections for the New Zealand company. For example, Tatua, a small co-op specialising in food ingredients, said that a multinational company it works with in Australia had introduced it to customers in a number of Asian countries.

Professional relationships

Scientists, engineers, accountants, lawyers and other professionals always have some connections with colleagues overseas, through either working directly with them or getting to know them through professional associations.

These relationships were crucial to representatives from two small, high-tech companies interviewed by the researchers from the NZAI. Scientists founded both companies. They in turn brought longstanding colleagues from overseas into the businesses as their overseas partners. This is proving to be a particularly powerful alliance for a New Zealand agribusiness working on very challenging technology with Chinese farmers.

Sometimes the professional connection can be little more than a chance encounter. For example, when a start-up company in the incubator at The Icehouse was looking for a Chinese contract manufacturer for its product, it contacted one it had met briefly when a Chinese delegation had visited The Icehouse some time previously. The two companies have since established a strong, trusting relationship.

Given that New Zealand’s links with Asian countries are far newer and less well developed than links with the English-speaking and European countries, there is clearly abundant scope to develop such professional relationships across Asia in far more targeted, active and intentional ways.

“Clearly the New Zealand economy would benefit enormously if businesses could tap into this rich vein of immigrant expertise.”

Asian migrants to New Zealand

Every company interviewed had powerful stories to tell about their relationships with Asian immigrants. For example, Tatu’s Chinese distributor has strong New Zealand roots. Originally from Taiwan, he and his family lived in Hamilton for some years and his children had gone to university here. In due course he decided to set up a food distribution business in Shanghai. It has grown rapidly and has become Tatu’s distributor. He and his family maintain their New Zealand home and connections.

Immigrants’ engagement in business in New Zealand varies enormously. Some come with substantial business interests overseas and seek to develop them here; some seek to build up exports from New Zealand, particularly in large consumer sectors such as food, wine and tourism; some seek to invest in existing New Zealand businesses or establish new ones; some would like to do business here but fail through lack of connections, language skills or other impediments; and some come as semi-retirees but keep their eyes open for potential business opportunities.

Clearly the New Zealand economy would benefit enormously if businesses could tap into this rich vein of immigrant expertise, overseas connections, capital and entrepreneurial drive.

Such connections are still haphazard and fraught with cultural impediments. While immigrants have developed some of their own networks, typically with people from their home countries, these networks are rarely connected into the wider New Zealand economy or to immigrant networks from other countries.

Here is one example of the difficulties encountered. The Committee for Auckland is a business leadership group drawn from some of the region’s largest companies. It offers analysis, programmes, lobbying and other activities intended to help develop the regional economy.

Its Future Auckland Leaders (FALs) programme is a two-year course for 25 fast-track executives, typically in their late 20s and early 30s, from business, the professions, the arts and government. A major part of their course requires them to devise and run a project, which can turn into an ongoing business. For example, one project became the Committee’s OMEGA service, which helps professional migrants get jobs in their relevant fields.

Two years ago, a group of FALs sought to create an Asian Angels network to introduce New Zealand start-up companies to immigrant Asians keen to invest locally. The group was led by Kenneth Leong, a director of Euroasia, an Auckland-based provider of training in languages and other cross-cultural services. But the group found it difficult to identify companies and potential angels who were willing to work on overcoming the cultural differences between them.

There is clearly great potential to foster such networks among immigrants. One potential avenue lies with existing bilateral trade associations. Typically their members are corporates from mainstream New Zealand businesses or foreign corporates operating here. While there would likely be a mismatch in size, and perhaps market focus, between them and immigrant businesses, the bi-national basis of the associations would be a natural link to encourage more membership of and participation by immigrant business people.

“The rapid growth of Asian students studying here is creating a large talent pool for New Zealand companies.”

Asian students in New Zealand

The rapid growth of Asian students studying here is creating a large talent pool for New Zealand companies. In most cases, the employees are valuable for their business and language skills, their knowledge of their home countries and their ability to be bridges between the cultures of New Zealand and their home countries.

Anecdotal evidence from the interviews suggests, though, that the recruitment process needs a great deal of development. Companies hiring their first overseas graduates are often unsure about how to find them, how to judge their merits, how to acculturate them into the companies, and how to offer them paths for professional development.

Even if the overseas-born, New Zealand-educated employee gains good business skills and is comfortable in the company, that is no guarantee they will be successful on behalf of the company back in their home country. The interviews revealed several cases where such people struggled to fit back in, often because they were considered to be too “Westernised”. This suggests that such overseas postings can need some specialist personnel support from the companies and the employees’ friends, families and ethnic communities.

While the New Zealand education link is clearly very valuable to companies, it also carries a risk: companies might rely too heavily on this source of staff for their overseas operations because they feel comfortable with the cultural fit. They would be better off, however, if they broadened their cross-cultural skills so they could feel just as comfortable hiring people overseas, thus hugely expanding their talent base.

Research carried out on behalf of the Asia New Zealand Foundation recommends that business organisations and the Department of Labour proactively assist by: providing work experience programmes; educating members concerning the strategic values of employing Asia-born, New Zealand-trained graduates; and providing Asia-born graduates with specific advice concerning the study-to-work track.³²

2. MAKING CONNECTIONS IN ASIA

In terms of how they found distributors, manufacturers and other business partners in Asia, the companies interviewed fell into two broad camps: the casual and the intentional.

The first group consisted of a large number of companies that were relatively passive. While those companies did some market development through the likes of trade shows and other ways to raise their profiles, they seemed to rely quite heavily on distributors, agents, customers, suppliers and other business partners coming to them.

In some cases such contacts developed into mutually beneficial, trusting, long-term relationships. In others, some business might have been done, but the relationship quickly became fraught and damaging.

It is hard to tell from the interviews why the companies took such a haphazard approach. But it is consistent with a strain of New Zealand business culture demonstrated by some companies. At best, this culture is opportunistic or at least hopeful in the ‘she’ll be right’ mentality. At worse, it is fateful in the ‘stuff happens so I’ll fix it’ mindset.

In fairness, some of these companies seemed to want to be more intentional about their business development in Asia. They did not know, however, where to get all the advice, support and resources they needed.

³² *Tracking Study Series of Asian Business Graduates, Report 2*, by Terry McGrath, Vivienne Anderson, Chze Pheng Ching, Akira Doi and Paul Stock, <http://www.asianz.org.nz/our-work/knowledge-and-research/research-reports/business-research/asian-business-graduates-report2>

“The quality of the first five or six contacts you make in a country is absolutely vital.”

Thus, if New Zealand Inc. works with the right partners across Asia, these mechanisms and resources can evolve rapidly. Then growth in the quantity, quality, value and resilience of business relationships would be impressive.

The second group of companies was far more thoughtful, prepared and disciplined about its business development in Asia. While it typically comprised large companies or others with long experience in Asia, these attributes were also demonstrated by a number of smaller, younger companies. This subset of companies stood out for its quality of leadership, its depth of strategic thinking and its ability to execute. Above all, the companies were confident, based on a very clear sense of their place in the market and on their successes to date.

Crucially, these intentional businesses took time to learn deeply about new countries and new markets so they could then work out business models that they believed would work there. From that, they would figure out what skills and resources they needed. Only then would they actively seek out high-reputation business partners locally who they believed would meet those needs.

“The quality of the first five or six contacts you make in a country is absolutely vital,” said one of the intentional executives interviewed by this author. “If they are good, you will build a reliable, trusting network fast; if they’re bad, you’ll struggle.”

Thus, New Zealand companies need to significantly develop their skills in learning fast in a new country who’s who, what help those people might be to them, the quality of their reputations and how best and through whom to approach them. These are essentially skills of knowledge-gathering and networking. But significant cross-cultural skills are also needed.

3. BUILDING RELATIONSHIPS IN ASIA

“It’s all about relationships”, goes the cliché about doing business in Asia. Companies from any country can do some business in Asia on a purely trading or transactional basis. But they need relationships to develop high-value, resilient, long-term business.

All the companies interviewed that are successful in Asia talked about the quality of their relationships there, whether they were with customers, suppliers or other partners or with their own Asian staff. In many cases those relationships had become over time close personal ones, often involving family members holidaying, studying or working in each other’s countries.

There was also a strong consensus in the interviews that culturally New Zealanders are good at such relationships. We tell ourselves we want to get to know and work with people, not dominate or exploit them.

So far many of these business relationships are between individuals, typically owners or senior managers in New Zealand companies, and their counterparts in Asian countries rather than, more extensively through the organisations.

People experienced in such relationships offer plenty of advice, such as stressing the importance of being upfront, transparent and keen to work through problems as they arise.

Many also suggest it is wise in many Asian countries to keep contracts broad and simple and rely instead on the quality of the relationships to ensure issues are dealt with fairly and rapidly. In many countries, long, highly legal contracts are off-putting to local partners, they say.

Yet far more complex types of relationship are starting to develop. They involve many more individuals, parties or agencies. For example, Zespri has learnt how to build relations with several thousand farmers who grow kiwifruit for it under contract in both Japan and South Korea. It works through horticultural associations and its own local staff.

“One of the big challenges for New Zealand business people working with Asian colleagues and partners is to find common ground between the two styles.”

Fonterra offers a different example. It is expanding its sales in China into second- and third-tier cities, requiring it to develop relations with smaller local governments and communities.

The biggest relationship challenge raised in the interviews involves what to do when you and your Asian business partner begin to grow apart. In broad terms, this can happen in two ways: you or your partner begin to develop business goals that are no longer mutually compatible; or you or your partner do not have the skills or resources to deliver what the other expects.

Companies expressed the need for a lot of help in cultural and practical terms for repairing relationships, modifying their purpose or disengaging from them.

The need for help seems to arise most often when New Zealand companies struggle to match the speed and scale of development of their Asian counterparts, particularly Chinese companies.

4. BUSINESS CULTURE IN ASIA

Obviously the typical style of business varies from country to country around the world, as well as in Asia. The contrasts can be marked and often crudely stereotyped, as one interviewee described from his experience from two neighbouring countries.

“In Japan, people are very straight, very honest, very credible, very slow and very particular. In China, they’re very rushed, very entrepreneurial, a lot less interested in dotting the I’s and crossing the T’s, with a lot less financial credibility... it’s very much about the deal on the day.”

The styles of boards and management teams can also be very different, as another interviewee described, based on his experience with a New Zealand company with Chinese investors and board members.

“The Chinese members are used to short, very high-level meetings; the Kiwis are used to very long, detailed ones.”

While such tensions certainly reflect differing business styles, they also likely reflect different business scales. New Zealand companies are typically small by international standards, so management is used to multi-tasking across several functions and the boards are used to being more deeply involved in the business. In contrast in much larger Asian companies, management is more specialised, delegated and hierarchical and the boards highly strategic.

Thus, one of the big challenges for New Zealand business people working with Asian colleagues and partners is to find common ground between the two styles that gives both sides confidence they are achieving their objectives.

As Jeremy Moon, founder and chief executive of Icebreaker, said: “Business is a bit of a leveller. Everyone knows it’s about understanding everyone else’s point of view. It’s not about forcing your culture on others or being too subservient. Successful companies are confident companies. They’re ‘built to think’, to learn from their mistakes and to learn from other people.”

Fonterra’s experience with San Lu, the Chinese dairy company, is by far the biggest, most damaging case of a New Zealand company failing to put the right governance and resources into an Asian investment. After Fonterra took its 43 percent stake in San Lu in December 2005, it gave extensive technical assistance to the company to help it develop its infant formula business, but it did not have any direct management control, only representation on the San Lu board.

In 2008, San Lu became the centre of a scandal in which milk tainted with melamine caused an estimated 300,000 babies to become ill, of whom six died. Some other companies produced tainted milk but San Lu was the largest supplier. The government-enforced product recall, the subsequent trial of four of its senior executives including the chair of the board and the resulting financial losses drove San Lu out of business. Fonterra had to write off its NZ\$200m investment in the company.

“New Zealand companies need to learn the business skills needed to work with Asian manufacturers if they want high-quality, competitive sources of products.”

“We didn’t have a feel for what was going on with management in the company because of the way the deal was structured,” Andrew Ferrier, Fonterra’s chief executive, said in an interview with this author. “We should have been more immersed in the supply chain risk. But to do that, we would’ve needed a bigger presence. “I’d never do that again – just board representation when you don’t know the culture well enough. It was a big, broad lesson. We need to find ways to immerse ourselves in unfamiliar cultures.”

5. MANUFACTURING IN ASIA

New Zealand companies are beginning to build up expertise in a wide range of manufacturing relationships in Asian countries.

Variations include contract manufacturing to the New Zealand companies’ designs and specifications; Original Equipment Manufacturing, where the Asian partner takes on some responsibility for design; Electronic Manufacturing Services providers, which take full responsibility for the design, manufacture, distribution and warranty service of consumer electronics to a New Zealand brand owner’s specifications; joint ventures; and manufacturing operations wholly owned by New Zealand companies.

While China hosts many such operations, it has competition. For example, F&P set up its own plant in Thailand and Skellerup has an affiliate manufacturer in Vietnam.

Interviews of representatives from companies revealed a wide range of experiences. Most had enjoyed successful and often long-term manufacturing relationships, through both owned and contracted plants.

But there were also plenty of incidents of problematic, complex, misconstrued and even outright odd relationships that had cost the New Zealand companies a lot of heartache, effort and money.

Two big themes emerged:

- Manufacturing in Asia is not simply about low-cost production. It is increasingly about getting access to sophisticated technology, quality products and large-scale production that is difficult, sometimes impossible, to get in New Zealand. This is because manufacturing here is sub-world scale or world best practice in many sectors apart from the main export-oriented ones, and in some areas of highly specialised niche manufacturing.
- New Zealand companies need to learn the business skills needed to work with Asian manufacturers if they want high-quality, competitive sources of products. One company said switching its manufacturing to its own plant in China had lifted its credibility with its customers. It associated China with high quality, whereas it thought of New Zealand as an agricultural producer, not a sophisticated manufacturer.

As David Mair, acting chief executive of Skellerup, said: “If there are manufacturing quality issues in China it’s because the New Zealand company hasn’t managed the relationship properly.”

The 40 companies interviewed by this author and the NZAI researchers believed they were safeguarding adequately their intellectual property. The most common approach was to keep innovating to keep ahead of their competition. This strategy, though, deserves serious study. Given that many overseas companies are known for their fast, iterative innovation, slower-moving New Zealand companies might not have the protection they believe they have.

Only two companies spoke of product copying or intellectual property theft by Chinese companies. Others acknowledged that copying was a risk, but believed being involved in manufacturing in China did not increase the risk. If a competitor were intent on copying their product, they could simply buy an example of it in New Zealand.

“A number of New Zealand companies are becoming large employers, by New Zealand standards, of Asians in their own countries.”

All this, however, is not to say that New Zealand has no future as a manufacturer. There are many examples of companies here that compete vigorously worldwide. Typically, they are in niche areas of high-technology, highly customised manufacturing in which the companies have well established reputations for their innovations and intellectual property.

Examples include Rakon, which designs and makes electronic components for frequency control in mobile phones and GPS receivers, Glidepath in baggage handling systems, and NDA in stainless steel vessels for processing in dairy and other sectors.

Many of them have well established manufacturing operations, joint ventures and other investments in Asian countries. Rakon, for example, has joint ventures in India and China with local companies, two investments that have helped to transform the company. Five years ago it was simply a New Zealand exporter relying solely on its plant here. Today, it is a truly international business with substantial design and manufacturing operations in two European countries and two Asian ones, plus sales offices in 14 countries.

This innovation of business models, reinforced by the ability to build long, deep relationships with partners overseas, is the real key to unleashing New Zealand’s economy potential, argued Jeremy Moon, chief executive of Icebreaker.

“We’re committed to building an international business based from New Zealand, creating leadership in the territories in which we choose to invest.” Its role as a company is to design products and tie together all the relevant parties in the value chain, from merino farmers through manufacturers and distributors to retailers. “It comes down to the design of the business.”

6. HIRING IN ASIA

A number of New Zealand companies are becoming large employers, by New Zealand standards, of Asians in their own countries. For example, Beca has 500 employees in Asia, 90 percent of whom are local people; Fonterra employs 250 in China, of whom only a handful are ex-pats; and Comvita employs 150 people across the region.³³

“One of our core competencies is to grow general managers from local employees wherever they need them around Asia and the world,” said the chief executive of one of New Zealand’s largest companies.

A number of companies interviewed by this author, such as Fonterra and Tatua, and others interviewed by the NZAI researchers showed growing confidence in using local recruitment companies in Asian countries to find staff. Understandably, the more senior the post, the more intensive is the process.

For example, one food company said the local recruiter would offer it a list of four or five candidates whom it would interview by video from New Zealand. Senior executives would then travel to the country to interview the leading two or three candidates. The best one or two would then be brought to New Zealand for further interviews with a wide range of senior staff before a final decision was made.

The absolute need to build understanding and relationships between staff here and local colleagues overseas was emphasised by all companies. But this acculturation seems to be a rather informal process in most companies.

In particular the plethora of small companies involved in Asia seems to rely on getting to know overseas staff by bringing them to New Zealand to spend time with colleagues here, or by New Zealand employees spending time with them when they visit Asia. Formal help and assessment appears rare.

³³ Data from the author’s interviews with the companies.

Given the increasing importance of locally hired staff to many companies' Asian strategies, an academic study of these processes for recruitment, employment, company acculturation, performance review and reward, and career development would be extremely valuable.

Certainly there is no doubting the appetite of New Zealand companies for hiring locally; or for Asians to want to work for them. The opportunity to run a country operation, albeit usually a small one, was very attractive to ambitious young business people who might otherwise have to wait to get such responsibility and opportunity in much larger local companies, several New Zealand companies said.

7. LANGUAGE

A large majority of companies interviewed rely heavily on English for doing business in Asian countries. Only a few felt it was beneficial for some of their New Zealand staff to learn Asian languages. Where they employ staff locally, all speak English, except typically the most junior.

"When we're looking for partners and employees, we look for a level of English that doesn't inhibit business, that doesn't create any ambiguity," said one chief executive. "That's not ethnocentric. That's practical. We can find Chinese people with MBAs from American universities."

Fonterra's Chinese operations now employ some 250 people, mainly locally hired. English is required of staff from managers down, although some jobs, such as more junior ones in sales, finance and accounting, do not require English.

Of the entire staff, all speak Mandarin bar three, of whom one is Philip Turner, Fonterra's managing director for China. He is, however, a fluent Japanese speaker and he ran the Fonterra's operations in Japan before moving to China. He says those skills and experiences help him to feel comfortable and competent working in China.

In less formal settings than, say, conducting business or negotiating, there is real benefit from gaining some skills in Asian languages, several of the interviewees said. Doing so helped to develop relationships.

"I learnt to speak enough words so they knew I cared enough to try to learn," said Peri Drysdale of Snowy Peak of the friends and colleagues she had made doing business in Japan.

8. CULTURE IN MARKETS

In a fast-homogenising world in which one product looks ever more like the next, it would be tempting to believe that consumer tastes are becoming more uniform.

That is probably true for luxury goods that trade on their value as status symbols, or commodity products that have a simple utilitarian value, said Jeremy Moon of Icebreaker.

But "there are a lot of graveyards in the middle," he said, in which product and brand attributes – tangible and intangible – do not necessarily translate well from one country to another.

In the case of his company's merino outdoor clothing, the story of the wool's high-country provenance in New Zealand and the wool's intrinsic benefits in comfort, style and function easily translate in European and North American markets.

But in China the outdoor recreation clothing market doesn't exist yet. Nike, for example, is building 1,500 themed stores in three years to convey its brand values of aspirational, personal achievement.

"There is real benefit from gaining some skills in Asian languages."

“Many of these visitors wanted to be on tours with other nationalities rather than segregated in tours of their own people.”

Thus, Icebreaker is still searching for partners and ideas to help it establish a business model for China. The issues are practical as well as ephemeral. The body shapes of Chinese people are similar to those of Westerners. But their arms are longer, so to sell in China Icebreaker would have to double its number of stock-keeping units. This would add a degree of complexity and risk to the business that is not yet justified by potential consumer demand.

Of all New Zealand’s major sectors doing business with Asia, it is tourism that faces the greatest challenge in dealing with cultural differences in the marketplace.

The business potential is huge, even looking just at China. The Chinese National Tourism Administration forecasts that the country will have 83 million outbound tourists in 2015. The current figure is 46 million a year, a quadrupling in a decade.³⁴

Our share of outbound Chinese tourists is only 0.3 percent. That equalled 127,837 people in the year to January 2011, up more than 30 percent in a year. Currently, the Chinese are our fourth-largest national group of tourists after Australians, Americans and the British. With the latter two in sharp decline, we can expect to see the Chinese rising up the rankings.³⁵

The opening up of new tourism markets is hard, however, even more so when most of the people travelling to New Zealand do not speak English. In the early years, they came on short, whirlwind, packaged trips, often combining New Zealand with a visit to Australia.

They often have a disappointing time of it. They are rushed through a lot of towns, pausing only briefly at shops and restaurants geared for their languages and tastes. They complain they do not have a chance to experience the real New Zealand.

There’s been quite a lot of negative feedback from Chinese visitors to New Zealand in the past couple of years, just as there was from Koreans who experienced the same low-quality trips in the mid-1990s and the Japanese before them. Typically companies from the home markets have operated these low-quality tours because too few New Zealand companies are geared up to serve the new tourists.

Some New Zealand tour operators are getting smarter, developing more attractive, better-supported programmes.³⁶ For example, one New Zealand tour operator said in an interview with this author that its recent market research on Chinese visitors had given it a big insight: many of these visitors wanted to be on tours with other nationalities rather than segregated in tours of their own people. But they also wanted much better orientation before the trip and help on it so they could feel comfortable and fit in better with the others.

But the type of tourist most valuable to New Zealand is the Free Independent Traveller (FIT). They stay longer and spend more than people on packaged tours. And the sector needs them urgently, because the traditional FIT markets of the US, the UK, Germany and Japan are weak, reflecting the state of their economies.

Being a FIT takes a lot of confidence and prior travel experience, not to mention almost certainly speaking some English. Moreover, the New Zealand travel industry won’t find FITs through mass media, even in existing markets, let alone in China.

34 ‘New Zealand a crucial port for airline’, *The New Zealand Herald*, April 11, 2011, www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10717917.

35 Statistics New Zealand data quoted in ‘Chinese tourists a key market to be tapped’, *The New Zealand Herald*, April 11, 2011, www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10717918.

36 Tourism New Zealand’s Visitor Monitor shows readings of over 9 on a scale of 1-10 for visitors from Australia, the UK, the US and Germany. The rating for South Korean and Chinese visitors was 8.2 in the third and fourth quarters of 2008. In the following two years, the South Korean rating was unchanged while the Chinese one rose to 8.7. www.tourismnewzealand.com/markets-and-stats/north-asia/china/visitor-experience-monitor.

*“The cultural differences
are nowhere near as
great as some
people claim.”*

New media, particularly social media, is the way to attract tourists, Tourism New Zealand believes. It began about 18 months ago to work on that opportunity in China by, for example, identifying high-profile, popular, young Chinese professionals, then offering them trips to New Zealand as long as they blogged and communicated in other ways about the experience here.³⁷

The experiment worked well, so Tourism New Zealand and the industry are building on it. Attracting more of such travellers will be highly beneficial for the tourism sector, and it will also enhance New Zealand’s relations with Asia, at least at a personal level.

SEVEN VIGNETTES

ICEBREAKER: PURPOSE UNITES, CULTURE DIVIDES

“We work in 14 countries and in each of them we can’t win long term by just trading,” says Jeremy Moon, founder and chief executive of Icebreaker, a merino wool outdoor clothing company.

“It was important in each country to establish the principles of the business and then to be sympathetic to the cultural differences. It’s very much about the business principles. The cultural differences are nowhere near as great as some people claim.”

Key principles include the brand integrity that links the intrinsic qualities of the New Zealand merino wool with the attributes of the garments, the mutually beneficial long-term relationships between the company and its suppliers and partners, and ceaseless innovation in products and business model.

One of the most important expressions of the principles is Icebreaker’s relationship with its Shanghai manufacturers. To turn New Zealand merino into garments, it has created a closely co-ordinated system by linking four plants from four companies, with each a different nationality – French, German, Japanese and Chinese.

“It was a very intentional approach to finding the right business model and partners for the long term based on their skills and reputation. We didn’t deal with people who approached us or simply turned up. We share financials and long-term projections and we link the companies with end-to-end controls. We bring them out to New Zealand to build team spirit and we run it as a cultural network. New Zealanders are good at bringing people together – purpose unites, culture divides.”

BECA: IMPLANTED IN LOCAL SOCIETY

Beca believes that being a good partner has been the key to its success across Asia in the past 30 years. As a New Zealand company, its culture has always led it to work with people rather than order them around, as some other nationalities might.

The style of overseas relationships was set from the outset when George Beca began developing business in Papua New Guinea and Sir Ron Carter in Indonesia, says Simon Walter, the engineering consultancy’s director of marketing.

³⁷ ‘Campaign breaks new ground for New Zealand in China’, Tourism New Zealand, April 13, 2010, www.tourismnewzealand.com/media/latest-releases/2010/04/campaign-breaks-new-ground-in-china/; and ‘Spotlight: Tourism New Zealand’s China influencer marketing campaign’, *China Travel Trends*, January 5, 2011, www.chinatraveltrends.com/2011/01/3007.

“Asians are ahead of us. We’re only just recognising the power of this.”

The pattern of engagement can vary, though. In Singapore, Beca began with an equity partnership in a local firm. It has grown into a substantial business, which has also developed operations in Malaysia and Myanmar. Some eight years ago the stake in the Singapore firm was incorporated into Beca’s group structure, which is employee owned.

“It is seen as a Singapore business with Kiwi heritage,” says Walter. “It is very much implanted in Singapore society.”

While the Indonesian business has grown strongly in the past 30 years into a major engineering firm working across many sectors, it has remained an employee model because it has proved too difficult to find a local partner or establish local equity ownership.

Beca now has some 500 employees across Asia, about half of them based in Singapore. Fewer than 50 of them are non-Asians.

Given that consulting engineering worldwide is increasingly dominated by very large firms and multidisciplinary consortia to deliver very large projects, Beca is embarking on its next big business and cultural challenge: bringing the various country operations more closely together to ensure the group has the skills and scale to remain highly competitive.

TATUA DAIRY CO-OPERATIVE COMPANY: POWER OF SOCIAL MEDIA

Social media and other internet services are rapidly changing Tatua’s relationships and ways of doing business across Asia.

“Asians are ahead of us. We’re only just recognising the power of this,” says Paul McGilvary, chief executive of the Waikato dairy co-op specialising in food ingredients.

“Our staff build more personal, direct relationships with people through emails and informal channels. I’d never close that down because it builds intimacy. In business, these people relationships are everything.”

It’s a big change in culture and style. “As management, we no longer control the interface, the flow of information between us and our customers. There are risks, of course. If something goes wrong, the information is out there in uncontrolled ways.”

Tatua’s response in such circumstances is to act very quickly, transparently and fully. For example, in 2008 at the height of the crisis involving melamine-tainted infant formula made by Chinese companies, Tatua and Westland Milk Products, a West Coast dairy co-op, discovered miniscule levels of melamine in their production in New Zealand of lactoferrin, a milk protein bioactive.

The levels were close to the extremely stringent limits set by the New Zealand Food Safety Authority and several thousand times lower than melamine levels in Chinese infant formula. But both co-ops immediately publicised their suspension of exports while they traced the melamine to a disposable plastic seal used on a filter in their production processes. Once a different type of filter had been installed, production and exports resumed.

“My approach was to bend over backwards to fit in with their culture and to show respect for them.”

COMVITA: LOCAL EMPLOYER

In the past 25 years, Comvita has progressed from a very reluctant exporter to Asia to a deep investor in the region.

Back in the late 1980s, “Asians based here in New Zealand were knocking on our door wanting to sell our products,” says Brett Hewlett, chief executive of the Bay of Plenty company.

“Driven by their entrepreneurial spark, they knew the health benefits of our manuka honey would be very popular overseas. But we were unsure how to respond.”

Comvita’s first approach to the markets was through a distribution agreement with a Hong Kong company. But, “it was a very problematic relationship, a real mismatch of expectations. There were lots of problems such as quality of service from New Zealand.”

The company’s next step was to employ Sam Tsoi, a New Zealander originally from Hong Kong, and employ him with the distributor in Hong Kong to liaise between the two parties.

“This completely changed the relationship for the better,” Hewlett says, “but we were still just ‘box fillers’ sending containers overseas. Apart from Sam we had no marketing, no market liaison.”

To deepen its engagement in the region, it bought its Hong Kong distributor in 2007 for NZ\$9m in cash and shares. It has turned the operation into its Asia regional headquarters, building up the team from six to 25. It also employs 20 people in Taiwan, six in Japan and six in Korea.

It has also opened 54 retail outlets across the region, some owned, some franchised. It owns all the Hong Kong ones, employing 110 retail staff in them.

It continues to develop the Chinese market, however, through a local distributor. “It is so, so hard for a company like ours to be involved directly with consumers. We need a partner to do it in a high-integrity way.”

SNOWY PEAK: BECOMING AN HONORARY MAN

Peri Drysdale had lots of things going against her when she took her first business trip to Japan in 1998.

“I arrived with no contacts, I was a woman and I had no language skills. All I had was cheek and naiveté – and I definitely had the goods.” Back in New Zealand, Japanese tourists were enthusiastic purchasers of her Snowy Peak knitwear.

Drysdale began touring Tokyo’s major department stores, checking labels to learn who the distributors were. She was helped by a Kiwi who had learnt a little of the language playing rugby there.

When she was told in one store not to take pictures, she opened her suitcase of samples, explaining she was a knitwear manufacturer from New Zealand. Staff gathered around to look and, excited by what they saw, introduced her to one of the store’s buyers.

She rapidly developed a network of contacts from whom she selected some distributors and began selling to the department store chains.

“My approach was to bend over backwards to fit in with their culture and to show respect for them. But the biggest danger was that I’d be treated like a Japanese woman. So I would sometimes give them a bit of a shock by politely disagreeing with them. I had to assert I was the boss of my company.

“In time, I became an honorary man and an 80 percent honorary Japanese.”

“If we want to be relevant to Asia, we’ve got to become very good at doing business.”

FONTERRA: DEVELOPING LOCAL LEADERS

“Our single highest priority in markets like China is to build our management team from local people,” says Andrew Ferrier, chief executive of Fonterra.

Its appointment last year of a senior Chinese executive as its head of strategy in China is testament to the progress Fonterra has made in recruiting local people.

But the co-op admits it has taken a long time to reach this level of skill and confidence in its hiring. It and its predecessor, the Dairy Board, have been through three broad phases in its 30-year involvement in China: appointing English-speaking expats; then Mandarin and Cantonese speakers, either overseas Chinese or foreigners; and in recent years local people.

“We were relatively slow in adjusting to the changing dynamics of the labour market,” says Philip Turner, managing director for China. “There’s now a great flow of confident, competitive people with expectations of being offered good jobs in multinationals.”

Fonterra finds candidates through its networks in China and through a boutique Chinese-owned recruitment firm in Shanghai.

“We’re looking for people with good education and experience, good values and integrity,” Turner says. “Those who come from other multinationals can more easily demonstrate those than can people coming from Chinese companies.”

Elsewhere in Asia, local executives head its country operations in Thailand, India and the Philippines, while an Indian runs Sri Lanka and a New Zealander runs Vietnam.

DAVID MAIR: BUSINESS SKILLS PARAMOUNT

“If we want to be relevant to Asia, we’ve got to become very good at doing business,” says David Mair, acting chief executive of Skellerup, a manufacturer of rubber products for dairy and other industries.

“It’s about the culture of business, not the culture of countries,” he says, drawing on his experience working in Japan for 10 years for National Panasonic, an electronics company, then back in New Zealand for Interlock. When Assa Abloy bought Interlock, Mair took on a global manufacturing role for the Swedish multinational.

He believes most New Zealand businesses are still far short of world best practice in the likes of manufacturing disciplines and other business systems. In particular, they rarely focus on fast, continuous improvement. “If something doesn’t work, they race off to find a new idea rather than work on the system.

“We are unsophisticated in our view of culture. We think it’s about being sensitive to cultural differences. That plays a part. But the real issue is the quality of our work. Good business is good business in any country.”

For example, dealing with different languages and cultures is relatively easy for New Zealand companies working overseas. They can hire relevant expertise. In contrast, many Kiwi companies suffer greatly from their poor negotiating skills. They end up agreeing to seriously disadvantageous contracts.

“New Zealand business community needs to develop more and better ways to share its expanding knowledge so more companies can learn and benefit.”

CONCLUSION AND RECOMMENDATIONS

IN ESSENCE, this paper argues for creating a greater synergy between hard business skills and soft cultural skills. Simply stated, any initiative aimed at improving cultural skills in companies should be very directly linked to the practical development of their business skills.

Companies need a wide range of hard skills, such as: identifying and analysing market opportunities; identifying and assessing potential customers, partners and suppliers; developing and managing relationships; research and development; fundraising; sourcing, production, marketing, shipping, distribution and after-sales service and support; sharing risks and rewards with partners; crisis management; and governance.

They also need a considerable array of soft skills in areas such as: languages; relationships; social and business customs and protocols; emotional and cultural intelligence; and cross-cultural decision-making, empathy, communication, team-building and leadership.

Thus, companies have a great deal to learn about how to identify the countries, markets, potential customers, contacts and partners with which they should seek to engage. Similarly, the New Zealand business community needs to develop more and better ways to share its expanding knowledge so more companies can learn and benefit.

Yet sources of help on these hard and soft skills are still limited. This and previous New Zealand governments have expended considerable efforts on trade negotiations to open up new markets. But they have put insufficient resources to date in helping companies make the most of those opportunities. While New Zealand Trade and Enterprise and other agencies have developed good services, support and expertise, these resources are available to relatively few companies.

Likewise, it is only in recent years that business schools, banks, commercial advisers, intermediaries and other support organisations have begun to develop their own roles in helping New Zealand businesses to take up Asian opportunities.

There is a great deal to be done. Here are some of the main areas in which the nexus of hard and soft skills would benefit from a great deal more research, programme development and engagement with companies and other parties:

Migrants

- Help migrants to develop their networks in New Zealand, and help New Zealand companies to leverage those connections here and overseas.
- Help overcome cultural barriers so that business migrants can better deploy their skills and capital in New Zealand companies.

Employees

- Improve the employment practices of New Zealand companies in Asia and their employment of Asians in New Zealand.
- Improve processes for acculturating Asian staff in New Zealand companies overseas and in their relations with their New Zealand colleagues.
- Help the labour market to involve more Asian students here in work experience with New Zealand companies, and upon graduation help more of them to get jobs with New Zealand companies.

*“Foster better sharing
of cultural knowledge
among New Zealand
companies.”*

Management

- The development of CQ analysis and measurement systems should be encouraged, following Inkson and Thomas; promote the deployment of the tools in New Zealand companies here and overseas.
- Encourage New Zealand subsidiaries of multinationals to draw on and share the cultural skills of their global colleagues.
- Help New Zealand companies to tap into the cultural knowledge in social, sport, recreational and other networks in New Zealand.
- Foster better sharing of cultural knowledge among New Zealand companies.
- Advise New Zealand women doing business in Asia on the role of women in Asian business and strategies for dealing with the differences.

Sectors

- Work with the tourism sector in New Zealand to improve its cultural awareness.
- Encourage the creative sector to develop social media, and to work with businesses.

Professions

- Work with the Institute of Directors, the New Zealand Institute of Management and other professional groups to promote cultural intelligence.
- Foster stronger relations between professional associations in New Zealand and their Asian counterparts.
- Generate greater engagement with Kea’s members in Asia.

Research/business education

- Research cultural factors in translating New Zealand brand propositions for Asian markets.
- Explore ways to link New Zealand businesses better with Asian business schools and other learning systems.
- Research differences in hard business skills and disciplines in Asian and New Zealand companies; seek ways to foster cross-pollination of the best of both.
- Research the role of social media in developing relationships, cultural awareness and related issues in New Zealand companies with Asian operations.
- Foster a deeper understanding of the characteristics and drivers of Asian FDI in New Zealand and of New Zealand investment in Asia.

PROFILE: ROD ORAM

ROD ORAM HAS MORE THAN 30 YEARS' EXPERIENCE as an international business journalist. He has worked for various publications in Europe and North America, including the *Financial Times* of London.

Rod and his family emigrated from the United Kingdom to New Zealand in 1997.

He is currently a columnist for the *Sunday Star Times*; a regular broadcaster on radio and television; and a frequent public speaker on business, economics, innovation, creativity and entrepreneurship both in New Zealand and global contexts.

For more than a decade, Rod has been helping fast-growing New Zealand companies through his involvement with the ICEHOUSE, the entrepreneurship centre at the University of Auckland's Business School.

Penguin published in 2007 his book on the New Zealand economy, *Reinventing Paradise*.

He was named the Landcorp Agricultural Communicator of the Year for 2009.

Rod was the winner in the individual category in the 2010 *Vero Excellence in Business Support Awards* and was Columnist of the Year in the consumer category in the national magazine awards for his columns in *Good*, a consumer sustainability magazine.

ASIA NEW ZEALAND FOUNDATION

The Asia New Zealand Foundation (Asia:NZ) was founded in 1994 as a non-profit, apolitical organisation dedicated to building New Zealand's links with Asia. Through its activities in education, business, media, culture, research and policy, Asia:NZ aims to promote initiatives that deepen understanding and relationships between New Zealanders and the peoples of Asia.

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