

Bright young things

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New Zealand is home to No 8 wire and a do-it-yourself culture. But how do small businesses rate in the innovation stakes? Kristina Greene investigates.

Don't imitate, innovate – the Hugo Boss slogan, created to launch a men's perfume was a huge success.

It shook up the advertising scene. And it was plagiarised worldwide. It gave the designer's brand image a dynamic polish that reached further than any youthful-looking models.

For today's business generation, carrying on like dad and granddad is no longer enough. Even after the dotcom crash, entrepreneurship, innovation and a sound portion of risk are the new model business values.

Studies show that Kiwi businesses have a higher innovation rate than those in European Union countries. And, according to the latest Global Entrepreneurship Monitor study, New Zealand is one of the most entrepreneurial countries.

But a closer focus reveals that innovation is unevenly distributed among businesses. The smaller the firm, the lower the innovation effort and eventual success.

According to the Research, Science and Technology Ministry's survey, rates of innovation varied strongly with size. Nearly 60 per cent of big businesses reported innovation activity, compared with 50 per cent of medium sized and 40 per cent of small sized businesses.

The survey defined innovation as the introduction of a new or significantly improved product, service or process. It recorded internal innovation, such as research and development, personnel training and acquisition of equipment.

With lower spending on innovation, small and medium enterprises missed out on significant profit opportunities, the survey showed. In eight of 10 companies, innovation was linked directly to increased profitability. The same number of businesses reported an increased range of goods and services as a result of the innovation.

So, if the breakthrough appears so close and the benefits so evident, what is keeping SMEs from success and wealth?

For Howard Frederick, professor of innovation and entrepreneurship at Unitec, the usual complaints about SMEs' lack of capital and time or about big companies' crushing market position fall short of the mark.

“It’s mainly a question of attitude. New Zealand SMEs are incredibly innovative. The problem is that most of it is ‘low-horizon’ innovation with low-scale perspectives,” Professor Fredrick said.

The educational system did not encourage business thinking, he said. “You can get bursaries for Greek and sculpture but not for business.”

Instead of pursuing export-driven growth, managers’ highest aspiration was typically a family bach and a boat.

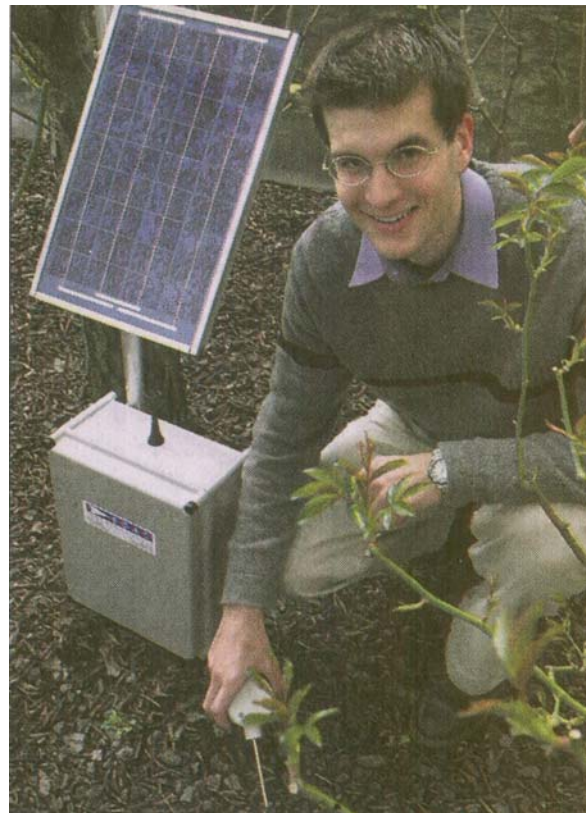
Managers’ desire to retain full control of their businesses denied them the opportunity of more dynamic partnerships, while a strong inward focus kept them from growing and testing their products on overseas markets.

For EDAC Electronics, a 10 person Christchurch business, success came from taking the opposite stance. The company targeted exports early and soon narrowed its focus to agricultural technology.

The firm consistently conducted market research and searched for suitable partners before launching into a new market.

Ten years later, 98 per cent of its products were sold in the EU and Australia. A third of turnover was spent on research and development.

“Our policy is that if you focus on four million people instead of a billion, you’ll never grow,” EDAC project manager Henry Bettle said.



EDAC Electronics' Henry Bettle with the new EDAC E-Frost system

Christchurch based Pulse Data chief executive Russell Smith believed the main problem was that New Zealand enterprises received too little encouragement to spend capital on research and development.

This hampered innovation efforts considerably, even if companies benefited from the availability of a qualified workforce and comparatively low engineer salaries.

“With easy grants and tax breaks, our competitors in Canada and Australia have a much easier time than we do,” he said.

Innovation was the “factor number one” in company success.

After it started as a spin-off from Canterbury University in 1988, Pulse Data grew to set up worldwide subsidiaries and now leads the worldwide markets for equipment for people with impaired vision and hearing.

The reason the company succeeded was strong backing from the university, Dr Russell said. The company spends more than 10 per cent of export turnover on research and development.

“We are set in a niche market, which is significant worldwide but very small in single countries. Therefore a focus on export and heavy investment in innovation and design are essential to fend off competition.”

Mr. Bettle tells a similar story. Most SMEs were incapable of setting aside the human resources needed to sort through grant options, he said.

EDAC spent more than a month of last year seeking funding information for research on urgent new projects. “Everything was extremely disorganised. But luckily, we could afford to spend the time – which isn’t the case for all firms.”

Tax breaks would be a more efficient alternative to grants and would offer proportional support to all innovative companies, Mr. Bettle said.

SMEs were effectively sidestepped by government grants targeting big firms.

“I just can’t believe that governments subsidise huge foreign companies who take most of their profit back home.”

“Those same companies benefit from tax incentives in their own country. That puts us at a double disadvantage.”

Mr. Bettle was taken aback by his peers’ attitude toward tutelage and government funding.

“SME managers suffer from a misplaced sense of pride. They don’t like to ask for help – it’s like there’s something wrong with them.”

According to the latest Global Entrepreneurship Monitor, a big proportion of New Zealand SMEs rely on financing through friends and relatives instead of using venture capital.

Policies allowing investors to deduct capital losses from their declared income were the most effective way to put SMEs on the same standing as big companies, Professor Frederick said.

“Innovating isn’t just about thinking up new products and services, which Kiwis are terrific at. The innovation has to be successfully commercialised.”

Instead of fostering individual entrepreneurs, the Government was stuck on innovation-speak and concerned with reaching research and development targets to match other industrialised Western countries, he said.

“That’s like worrying about only two legs when you have a three-legged stool,” Professor Frederick said.