

The New Zealand Investment Conference 1992

**New Zealand:
A Window of Opportunity**

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Before making a few comments about the performance of the economy and the outlook for industry, I want to congratulate Buttle Wilson and SG Warburg for organising this investment conference. The timing could not be better. For the first time in more than fifty years, New Zealand is an attractive place to operate an internationally oriented business. The country is now well placed to think seriously about achieving the economic performance associated with more successful economies.

I have been asked to bridge the gap between the speakers on the economy you heard this morning and those discussing the political situation this afternoon. Let me start with some personal perspectives.

My background is in the liquor industry. After eight years in the United Kingdom and the United States I came back to New Zealand 30 years ago and found it a truly remarkable place. The country was hyper-regulated, no industry more so than liquor. All its products were under price control. You needed a licence to open a liquor store. Obtaining one was extraordinarily difficult. You had to convince a regulator that there was a consumer demand for the service. There were wall-of-death controls on imports. Profitability in the industry was lousy even though it was dominated by only a few companies.

The same was true of other industries. Radio and television were state owned. A special permit was needed to carry goods by road more than 40 miles. Travel overseas was rationed by controls on currency and businesses were not allowed to transfer funds offshore. We had a British-style trade union system with all its horrors.

No great value was placed on education. We had chronic labour shortages and a cradle to the grave welfare system. There were plenty of jobs for low-skilled workers in protected industries producing over-priced goods for captive consumers. This bizarre structure was supported by more or less guaranteed access for our products to the United Kingdom. New Zealanders were content with their colonial dependence and abysmal levels of productivity growth. You would need to hurry to Albania before it changes to understand what New Zealand was like in those days.

The turning point was 1973, the year of the first oil shock and - more importantly for us - the year Britain entered the European Community. The chips were down for New Zealand. But instead of facing up to this harsh reality we procrastinated. We hoped the problems were temporary and would go away. We tried everything except living within our income. We borrowed overseas and subsidised industry, even agriculture. Loose monetary and fiscal policies led to double digit inflation becoming the norm. Major energy projects were underwritten by the state and ended up costing the taxpayer billions.

In 1982, when inflation hit a peak of 17 percent, the Muldoon government froze virtually all prices and wages. Over the next two years the distortions magnified and we ended up with a run on the currency. We were on a road to nowhere because the political leadership lacked the courage to tell the awful truth about the economy.

In just eight years since then we have moved to create a modern, competitive economy and achieved a revolution in attitudes towards business and the outside world. It is interesting to reflect on the factors that brought about the changes.

Countries have frequently changed course following an economic crisis. Against such a background in New Zealand, the government was able to move quickly. The pressure groups, including most business organisations and trade unions that had prevented the introduction of sensible economic policies, were largely swept aside. Self-serving lobbying was out. Roger Douglas, as minister of finance, was determined to implement policies that were in the interests of the overall community. This was the big achievement of the 1980s.

The changes included the removal of support for agriculture and reduced protection for manufacturers. Each reduction in assistance or protection created demands for similar action in other areas. The farming community saw its assistance disappear at an early stage. Unlike most farming leaders in other countries, ours were far-sighted enough to see the benefits of achieving a competitive economy. They elected to support the changes, provided everyone else was equally exposed.

The New Zealand Business Roundtable, an organisation of chief executives of around 40 leading businesses, also supported the reform programme. By the mid-1980s our members accepted that there had to be an end to the ritual of vested interest groups seeking favours from the government.

My company, Lion Nathan, was lucky in that, due to a quirk of fate, the beer market was opened up to competition earlier than most. Needless to say, those running the company at the time were shocked and, together with the unions, marched on Parliament protesting at the idea that the New Zealand consumer could be allowed to buy foreign beer. Fortunately the government sent them away with a flea in their ears.

This sort of unproductive activity was worse than useless. It wasted the time of management, led to a poor use of resources and thereby slowed economic progress. New Zealand had to join the real world and adopt orthodox policies. Business Roundtable members knew the transition would be tough and that some would not make it, and a number did not.

In the liquor industry, the prospect of serious competition from abroad forced us to work out how we could compete with our most serious rivals, the Australians. We did it by a dramatic upgrading of packaging and marketing, new product development, and plant rationalisation - and eventually by taking a well-known company over. We also devoted enormous effort to managing our human resources more effectively.

In the Auckland brewery back in 1983, workers used to drink on the job, as well as before and after, there were mattresses on the floor for them to doze off on, we had 16 complex awards that expired in December and a strike before Christmas was as predictable as Christmas itself. The unions effectively determined how many people worked in each operation. If you put in more sophisticated equipment the union still ensured the same numbers of people were employed.

Management did not have a direct interface with the staff. The workers had loyalty to the union and little if any to the company. It was seen by many as the 'enemy'.

Problems usually occur at the local level but under the old regime had to be resolved centrally, which meant they weren't.

Today we have a health and leisure centre for staff and families at the brewery, no drinking, one collective enterprise agreement, a strong commitment to training, there have been no strikes for five years, our total wage bill is down but our individual pay rates are up, and productivity has increased by 300 percent.

A recent open day was held with shift workers acting as tour guides. It attracted 8,000 visitors. Production on that day was the highest in the history of the brewery.

The biggest single problem we have had to address in recent years is raising the quality of management. In my experience real progress can only be made with changing work practices when managers accept the need for fundamental changes in their traditional role. Some have not coped. In our retail chain Deka, for example, 20 percent of store managers have been replaced, the impetus for change often coming from shop employees. Even more interesting, many of the new managers are being promoted from employee ranks.

These days I spend two thirds of my time on people management compared to next to nothing a few years ago. In those days treating staff as people, rather than commodities bought on the basis of awards, could make no difference. We never bothered to actively recruit graduates. Chief executives could get away with giving staff a ritual vote of thanks in the last paragraph of their annual report - if they remembered to include it all.

The new labour laws have given management the opportunity to get much closer to their employees and to provide them with the incentives to perform. We know that the quality of our human resources is what will give us a competitive edge - not the basic technology that anyone can buy. And by creating clear lines of accountability we have been able to reduce the number of management layers from eight to five.

The changes have been difficult for managers whose whole work experience was based on regular confrontation with the trade unions. It is often pointless to present the same person to the workforce and say he or she is in charge of a "whole new cooperative approach". Employees for their part have placed pressures on their delegates to work cooperatively. Many have not adapted and have been removed by the workers.

Life has also radically changed for senior management. Like many CEOs, in the regulated environment I spent half my time in Wellington lobbying. So did business organisations. This has all changed. Last year the Business Roundtable met with the prime minister on the grand total of two occasions. We didn't meet with the minister of finance at all. Our job now is to run successful businesses. The only way to do that is to satisfy customers.

Companies know that unless they can compete with the best, they will not succeed and grow. Lion Nathan has established international benchmarks of performance and we are able to compare ourselves with the world's best. There is increasing realisation in the corporate sector that success requires world class human resources. This explains why the business sector is taking a much closer interest in the education system, from primary schools right through to the tertiary level.

There are lessons to be learned from the way New Zealand has gone about the reform process. The main one is that economic reforms should be carried out speedily and consistently. Pausing for a teabreak, as the Labour government did from 1988 to 1990, is disastrous. The failure of the previous government to control its spending and reform the labour market were serious errors of judgment. Firms were caught between a rock and a hard place. They lacked the flexibility to adapt. The result was a sharp rise in unemployment.

Last year's moves to cut spending, including on social welfare, were essential although they were hard for many people. The Employment Contracts Act has been an outstanding success. The productivity gains have come much faster than many thought possible. The new regime will be a major factor in promoting employment growth in the period ahead.

The outlook for the balance of the decade looks much more positive. There is a widespread consensus that we have got many of the basics right. Manufacturers are enjoying a competitive advantage of 25 to 30 percent vis-a-vis Australia. There is an emerging confidence in the rural community that farming without subsidies can work.

New Zealand has become a good place for internationally-oriented companies. The infrastructure is excellent, as are the professional services available to business. The costs of electricity, telecommunications and transport have all come down. The regulatory environment is relatively straightforward and we are working to further improve it. The small domestic market is no longer a major issue as many more businesses are looking to achieve growth through exporting.

There is a broad consensus in favour of an open economy. No one in a position of influence believes returning to fortress New Zealand economic policies will solve our problems. There is agreement that we should strive to become a highly educated, high wage, full employment society.

The government deserves very considerable credit for its achievements to date. The National party was not always a party for the open economy. In the eyes of many New Zealanders it was the party of inflation and intervention. We owe a lot to Jim Bolger and the two members of the stronger sex in Cabinet for recognising the need to change. The government was prepared to tackle the difficult issues which its predecessors had baulked at, and we are now seeing the benefits.

There is still much work to be done. Although it has made progress in dealing with an alarming fiscal situation, the government will still need to borrow an additional \$7 billion over its three year term on present estimates. This is unsustainable. More needs to be done to cut government expenditure and borrowing.

As part of such a programme, there is a strong case for pressing on with a programme of privatisation. The experience of the state-owned enterprises has demonstrated that large efficiency gains are obtainable, once businesses are required to operate in a competitive private enterprise environment. It is a puzzle that the privatisation process has stalled in New Zealand at a time when it continues to gather momentum around the world.

The public concerns about privatisation must be addressed by both business and the government. The success of the SOEs, and those that have been privatised, needs to

be communicated to the wider public. Investment bankers and other financial institutions are going to have to do a better job explaining to the community the case for privatisation. Newly privatised businesses should be explaining what they have done to improve their efficiency and service standards.

I believe New Zealand has learned some lessons which it will not quickly forget. Living beyond your income or trying to insulate yourself from the outside world damages the very people such policies are designed to protect. Breaking away from such policies is not easy. In an environment of greater freedom, some firms lost their way. But that experience is largely behind us now. We are much further down the learning curve.

The business survivors of our transformed economy are acquiring skills to enable them to compete with the rest of the world. There has been an infusion of new managers from outside the country. We have become hooked into the international business world.

The present time is an excellent entry point into New Zealand.

Despite a lot of noise and distraction, I believe we are closer to a political consensus on where New Zealand needs to go than we have been for many years. A recent poll indicated that the majority of New Zealanders thought the country was on the right track. Another found that 89 percent are very happy or fairly happy with their lives. There is a growing sense of national stability and cohesion.

As the recovery gathers momentum, more will become convinced that New Zealand really has a future. The insecurity about becoming part of the global economy will dissipate. There is an exciting task ahead to build a new economy, and we need foreign investment and international business skills to help us undertake it. This is a window of opportunity.