



## A summary of the 2006 discussion document *Te Wa O Te Ao Hurihuri Ki Te Ōhanga Whanaketanga Māori – A Time For Change In Māori Economic Development* prepared for Te Puni Kōkiri by the New Zealand Institute of Economic Research (NZIER)

Discussion documents are meant to spark just that – discussion. *Discovering the Māori Edge* is a synthesis of ideas taken from a larger document. It is provocative and it is challenging, suggesting that where often there are perceptions of negatives and barriers, may really exist positives and opportunities. Likewise, the concept of the Māori edge offers possibilities and opportunities as an accelerated pathway to economic transformation not just for Māori but for all New Zealanders. Something certainly worth discussing we think.

### ■ SUMMARY

It is no longer expected or accepted that Māori be on the sidelines of economic development discussions. Māori are now not only participating in such deliberations, but are often setting agendas and leading debate. Māori understand business and are increasingly expressing their aspirations through commercial enterprises.

Due to a seeming dislike for overt publicity (coupled with a paucity of data collection on Māori business) we are in all likelihood only seeing the tip of the iceberg. Māori economic transformation could be described as a quiet revolution. Therefore, the prospect of Māori assuming more of a leadership role in economic and business development is one which deserves currency. This is not about artificially creating a role for Māori toward the top end of the economic development food chain as of right, but rather a strategic initiative designed to capitalise on the "Māori edge".

In essence, the Māori edge is an expression of Māori comparative advantage. Points

of difference are potentially very valuable.

Traditional values, activities and protocols are providing Māori with natural advantages they can exploit. Capturing the positive demand for aspects of Māori culture, particularly internationally in creative industries, is providing the catalytic spur for broadening the appeal more widely. Māori images and people create a segue into the "New Zealand experience" in ways that cannot be replicated, opening doors for non-Māori opportunities along the way. In simple terms, it appears 'cool' to be Māori, and is eagerly sought globally.

A central premise in this discussion of the Māori edge is that economic development activities are not necessarily a zero-sum game. The activities undertaken by one party may not necessarily impinge on the ability of other parties to undertake similar activities. Māori and non-Māori aspirations are not mutually exclusive. Therefore, the challenge the Māori edge creates is, how best do we lever off these comparative advantages to benefit not only Māori but all New Zealanders?



## ■ BACKGROUND

In 2003, *Te Ohanga Whanaketanga Māori* - the Māori Economic Development Report threw up findings that startled many. They concluded that:

- the Māori economy is more profitable than the New Zealand economy (i.e. while accounting for just 1.4 percent of value added (akin to GDP), the Māori economy generates 2 percent of operating surplus)
- the implied growth of the Māori economy generally exceeded growth of the New Zealand economy between 1989 and 2000
- Māori are net lenders to the rest of New Zealand (i.e. the Māori economy has a higher savings rate than the New Zealand economy)
- Māori are disproportionately open to the world economy (i.e. in 2000 the Māori economy accounted for 2.5 percent of total exports, despite accounting for only 1.4 percent of value added)
- Māori remit \$100 million more in tax than they receive in transfers (benefits)

In 2005, further work was undertaken looking in particular at Māori business interests. This research found:

- **A relatively strong, but tightly centred asset base:** Assets are centred around agriculture, fishing and forestry (\$3.1 billion assets), and less well known, a major shareholding in property and business services (\$2.4 billion assets).
- **Regional assets skewed towards the North:** Over three quarters of Māori assets are held in the North Island. Māori property investments are heavily concentrated in the Auckland region, with lesser, but still significant assets held in Waikato, Canterbury and Wellington.
- **Growth prospects also lying in the North:** The makeup of Māori business in the North Island is more heavily weighted towards higher growth service sectors. Consequently, Māori business in the North Island appears to have more high-growth opportunities.
- **Education, health and social services are key:** Māori business in the North Island generally has a much stronger growth platform in the social services of education and health, and community services, than business in the South Island.
- **'Crossing over' of service delivery providing opportunities:** Strong growth platforms in these services may reflect growth in service delivery "by Māori to Māori". Therefore, while the platform is there now, the real opportunity may lie in crossing over to non-Māori service delivery.

Examining Māori businesses from a different perspective may identify strengths where weaknesses were thought to reside

### **Māori business goals and objectives are comparable:**

The goals of Māori organisations are similar to any organisation: to run organisations that are well governed, expertly managed and which provide good returns to stakeholders.

The vast majority of Māori businesses understand and embrace the need for commercial returns. There is an acceptance of the need to compete in markets and to make profits. Standard financial indicators are routinely utilised to assess performance in much the same way as any other business organisation would.

A major theme emerging from the case studies of the Federation of Māori Authorities (FOMA) and Te Puni Kōkiri, He Whakatinama te Tūrua Pō, is that industry leadership is a driving force in many Māori organisations. It is not acceptable for these organisations to simply be participating in or making up the numbers in an industry. Being widely respected and seen as being at the forefront of industry best practice is the goal. In short, the goals and objectives of Māori businesses are little different to those of non-Māori.

### **Māori business practices and processes are distinct:**

While Māori businesses may indeed have the same goals and objectives as non-Māori, there are some key differences in terms of the practices and processes employed by Māori. Perhaps the most obvious difference relates to distribution policies and the uses of profits and/or other growth dividends.

There is a much wider sphere of interest for Māori businesses in terms of their role and functions. The need for profits is well understood, but profit in Māori businesses is sought in an instrumental sense rather than being an end in itself. That is, surpluses are sought to apply to areas outside the normal purview of businesses. Such areas often include educational grants and other more socially oriented community-based ends that may not result in any direct or tangible benefit to the business.

This view may be considered as being somewhat enlightened in a world that appears to be eagerly promoting and embracing sustainability in business practices. The focus in

Māori organisations on the need to keep reinvesting in their communities in order to meet their values and aspirations is a key point of difference that Māori have enjoyed in the past and are likely to continue to do so in the future.

Unlike other organisations, when there is a disjuncture between personal preferences and the purposes of the organisation, free exit (e.g. via sale of shares or other rights) is not generally available. This is most relevant in the case of iwi-based organisations, where membership is involuntary and rights are not generally traded or tradable. Consequently, decisions involving incompatible preferences are resolved by other, often political means.

Governance structures therefore reflect the different internal dimensions that operate in Māori businesses. Increasingly, however, there is evidence emerging that organisations are now much more focussed on the role of governance. In particular the need within collective organisations for a clear separation of ownership from control is being recognised and acted on in successful Māori organisations.

### Māori businesses playing the long game:

In line with their desire to protect assets and provide for future generations as well as current ones, Māori businesses often have a long-term focus. With the burden of future generations weighing heavily upon such organisations it is not surprising that decision-making may take some time. Taking a longer-term view, Māori businesses are perhaps content to eschew high-risk/high-return opportunities in favour of safer options. While there might be some support for having a portfolio that includes both alternatives, and options in between, it is perhaps not irrational to pursue a low risk strategy when playing in a longer-term game.

The merits of relational contracting arrangements, as opposed to one-off, market-based contracts, are widely recognised in the law and economics field. With such relationship-based dealings, the focus moves away from opportunism and chances to extract rents from the other party and more towards preserving the relationship for mutual benefit in the future. The parties may be sacrificing shorter-term opportunities to 'hold-up' the other party, but do so knowing that the returns over the long run may be more lucrative.

## AN ALTERNATE VIEW OF MĀORI ORGANISATIONS

### "Traditional view"

Māori organisations have different goals and objectives that are not commercially driven.

Māori organisations are convoluted, disorganised and confused about the role of business. Nepotism is rife.

Māori organisations are inflexible and hamstrung by drawn out decision-making routes and an inability to make decisions. They are too risk-averse.

Māori organisations are poorly governed by unqualified people. They have loose accountability, and inadequate reporting functions pervade. Organisations are too insular.

### "Alternative view"

Most Māori organisations are well aware of financial and economic imperatives. Top performing Māori organisations are little different from top performing non-Māori organisations in their business goals and objectives.

Māori organisations possess real strengths in terms of sustainable business practices. Broad social networks enjoyed by Māori are likely to provide a smooth transition into similarly broad business networks over time.

Such arrangements within Māori organisations are consistent with a longer-term and more custodial view, where possible short-term gains are traded-off for longer-term stability.

There is no one size fits all governance arrangement. Māori organisations are increasingly seeking to both "make" and "buy" individuals for board-related duties. Much more thought is now being placed on matching the needs of the entity with the skills of those in the governance role.



### **Evidence of the Māori economy repositioning:**

Māori employers and the self-employed are not restricted to just the primary sector (agriculture, forestry and fishing). Data shows construction, retail trade and property, and business services sectors, are also prominent. This data is suggestive of Māori using business enterprises as a vehicle for diversifying into areas that historically may not have been thought of as strengths.

Māori business performance has been strongly competitive between 1997 and 2005. This is suggested in the difference between the actual change in employment in Māori business, compared to the change that would have been expected to occur had it simply followed the national rate. The employment-related data suggests a realisation by Māori of the need to diversify, while also maintaining existing strengths. Māori movement towards the services sector is in line with modern economies, where the services sector is now responsible for a larger share of economic activity than was previously the case.

What makes this process noteworthy for Māori is that such movement could be interpreted as a marker for wider change. Activity in services is largely about people-to-people based transactions. This is an area where Māori would appear poised to exploit natural advantages that stem from their traditional activities and protocols. Such advantages encompass a high degree of face-to-face and personal dealings. This derives from their preference for trust-based relationships, rather than the more arms-length and discrete approaches that normally characterise commercial activities.

### **Markers of change not always highly visible:**

Economic goals and strategies now regularly dominate iwi gatherings and annual economic summits are now commonplace. It is no longer sufficient to articulate aspirations in terms of returns on established assets, e.g. forests. Māori at such hui now demand information on ways to leverage those assets for maximum gain as well as extending the reach into areas where potential gains seem greater. There is no established way of definitively measuring such an attitudinal shift, but in the current parlance, Māori are an active participant in the process of economic transformation.

Like many things associated with Māori activities, it is conceivable that much of the action for Māori businesses takes place beneath the surface or away from public view. It is not "the Māori way" to be showy or overtly boastful in dealings. Applied

to business, Māori are less likely to over-hype their products, practices or processes, preferring to under-promise and over deliver. Whatever the reason for this, the "just get on with it without the fanfare" attitude is a prominent feature of Māori dealings. This outward expression of simplicity belies the detailed thinking that often underpins things.

Due to the combination of the seeming dislike for overt publicity and little official data collection on Māori business, we are in all likelihood only seeing the tip of the iceberg. Māori economic transformation is more likely a quiet revolution than something from the "big bang" school.

### **The time is right to consider what the key messages that flow from this body of research are and what they indicate**

#### **"Māori edge" behind this quiet revolution:**

In essence, the Māori edge is an expression of Māori comparative advantage.

It is extremely difficult to fully define what makes up the Māori edge. While largely conceptual in nature, there are strands of this Māori edge that are capable of further articulation and discussion.

The key elements encompassed by a "Māori edge" concept can be summarised as:

- Resilience / flexibility
- Inherent and acquired trading capacity
- A culture well suited to transactions in growing markets
- Curiosity and increasing willingness to diversify
- Uniqueness / freshness
- Dual-world skills

We explore both historical and contemporary elements of Māori competitive advantage - the Māori edge - in the following tables.

## ■ ELEMENTS OF MĀORI COMPARATIVE ADVANTAGE: HISTORICAL ELEMENTS

### DESCRIPTION

### RELEVANCE TO BUSINESS AND ECONOMIC ENDEAVOUR

#### Resilience

Economic and social events over time have disproportionately impacted Māori in a negative way. Yet on every occasion, Māori bounced back.

One key feature of entrepreneurial endeavours is the ability to take losses – to get knocked down but to get up again.

#### Trading Culture

Māori have a long trading history and could be considered natural traders (both within and across iwi and between Māori and Pakeha). Understanding the potential gains from trade is firmly ingrained in Māori.

Keeping an eye on potential opportunities while also sealing deals in existing areas of strength is a useful, but scarce, talent.

#### Highly contextualised interactions

Māori culture is one that could be termed highly contextualised. Such cultures stress relationship building and a long-term perspective. They are characterised by the use of lengthy, complex, and sometimes more formal styles and approaches to interactions.

Increasingly New Zealand's trade is being developed with cultures which also have highly contextualised cultures, particularly in the Asian region. Western countries (including New Zealand) are seen as being low context cultures. Māori may open more doors, or allow the doors to remain open longer, as a result of cultural similarities.

#### Flexibility and responsiveness

Related to the resilience element discussed above is the ability to rapidly change in response to changing conditions. Māori have, perhaps by necessity, developed into a relatively nimble group, which is reflected in Māori businesses.

The process of creative destruction has much currency, and is likely to continue to do so, when looking at economic and other transformations. The notion of shedding irrelevant or decaying elements to get to the nub of the issue is well known to Māori.

## ■ ELEMENTS OF MĀORI COMPARATIVE ADVANTAGE: CONTEMPORARY ELEMENTS

### DESCRIPTION

#### Highly contextualised interactions

Māori have continued to focus on protocols, processes and practices that place business and other dealings within a broader context of relationships and informal and formal institutions.

### RELEVANCE TO BUSINESS AND ECONOMIC ENDEAVOUR

The ability of Māori, and Māori businesspeople, to effectively straddle dual worlds and cultures will be potentially valuable in a globalising world.

#### Freshness

Māori culture and perspectives offer a fresh alternative to the sameness that might characterise New Zealand's dealings with the world. While traditional elements have begun to permeate pop culture (e.g. non-Māori celebrities sporting ta moko), the ease with which Māori incorporate spiritual elements with the physical world also creates appeal.

Points of difference are difficult to manufacture, but are potentially very valuable. The challenge is to capitalise on the inherent "cool" of things Māori.

#### Renaissance

Domestically, there has been a "re-awakening" among Māori youth to the teachings and merits of Māoritanga, which has infused a sense of invigoration.

Confidence stemming from knowing your sense of place provides Māori with a tool that others may not possess. The corollary is an ability to push existing boundaries and break new ground, rather than looking to imitate others.

#### Knowledge/ Skills

Māori participation in training and education is continuing to grow. In the area of governance, increased exposure by Māori has much to offer.

New instruments and approaches to governance that would assist in long-term asset management and growth can be created. Again, being able to effectively operate across dual worlds (e.g. collectives and limited liability organisations) creates something of an advantage for Māori.

### The strengths of the Māori Edge:

It is worth considering the relative strengths of this edge, or comparative advantage. Is it people, products or processes, or some combination of the three?

Distinctive Māori products and processes are emerging and look likely to continue to do so, but at its core, the Māori edge will be about being Māori and living Māori.

For the concept to be something capable of further definition, refinement and development it is important to pose some questions around whether it currently possesses properties considered desirable in making the concept meaningful. These properties might be:

- **Durability / robustness** – the Māori edge should be based on sound foundations and capable of withstanding the inevitable fluctuations of business and economic cycles.
- **Replicability / appropriability** – more particularly, the Māori edge should not be easily replicated or the characteristics appropriable by others.
- **Portability** – features of the Māori edge should not be restrictive or arcane in nature and should be relatively easy to teach and apply within Māoridom.
- **Convertability / definability** – for the Māori edge to have meaning, it should be able to be converted to visible benefits or returns. In addition, the edge should be capable of definition, and attribution should be simple.





### Future thinking:

Further development and realisation of the Māori edge is a positive and important contribution to the New Zealand economy, and to what has been termed the Māori economy.

While New Zealand may enjoy some points of difference and areas of international appeal which are almost indistinguishable from those of Māori, having Māori spearhead the New Zealand assault on the world could provide further impetus and differentiation. The main premise however, is that Māori and non-Māori aspirations are not mutually exclusive.

### Complementarities:

Economic development is not necessarily a zero-sum game. Māori and non-Māori interests are complementary and Māori success does not detract from or lessen the prospects of other New Zealanders.

Māori goals and aspirations are very similar to other non-Māori organisations in New Zealand. Therefore, much could be gained through increased cooperation and collaboration between Māori and non-Māori businesses that might otherwise be seen as competing to develop scale, complementary skills, and comparative advantages.

Areas where there is a possible case for further Māori leadership include the traditional natural resource based industries (farming, forestry and fishing) but also the "new 3 F's" emerging for Māori - film, fashion and food. Furthermore, strong activity in the property development and social service provision areas suggests further Māori leadership prospects.

### External growth good for all in New Zealand:

The importance of international trade and particularly of agriculture to our economy is well understood. Māori are acknowledged as major players in the primary sector, and

thus have a role to play that is based on existing strengths. In addition, the world is also in the midst of a services boom. This has benefited New Zealand since the services we trade in, mainly tourism and education, are subject to few barriers.

Finding ways to further apply and capture the significant Māori added-value externality, which accrues presently to tourism, would also be a feature of a more enhanced leadership role for Māori. A greater role for Māori in terms of branding and relationships could also pay dividends.

Alignment and development of the Māori edge suggests that this comparative advantage could appreciate over time. This is especially so in relation to international relations and concomitant external trade.

Given the positive outlook and relatively strong state Māori economic development finds itself in, now is an opportune time for the waka to lead the New Zealand fleet.

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