

**Business is putting its head up over the parapet again after a self-imposed silence on its relationship with the Government.**

**The Herald surveyed CEOs from the 'Big End of town' through to smaller business owners who help to drive the country's growth engine. This is their story.**

**T**he Herald's "Mood of the Boardroom" survey, conducted in association with Business New Zealand, has been an ambitious initiative. We set out to capture the views of some 300 business chiefs — from the CEOs of major corporates like Fonterra, the co-operative owned by 13,000 dairy farmers, and Telecom, through to owner-operators of small to medium enterprises. Some 120 chief executives and company chairs engaged in the exercise. They included representatives from Deloitte/Management Magazine's Top 200 List, the Business Council for Sustainable Development and New Zealand Business Roundtable. The survey has been augmented by chief executives from some major Government (national and local) trading enterprises, and 180 responses from the small to medium enterprises represented by Business New Zealand.

New Zealand's business players are reasonably optimistic about the global outlook.

The Iraq war's effect on confidence in the international economy has lost its potency. Concerns over terrorism have receded — despite Madrid — and they have got used to President George 'Dubya' Bush and his brand of US hegemony.

But within New Zealand it is more complex. Business chiefs are relatively upbeat about overall prospects — but less so about their own industries' condition than this time last year. Many will hire more staff over the coming year. Skills shortages may have to be overcome in some areas.

But with a predicted slowdown in domestic growth later this year, company chiefs are preparing for a tougher environment. It is hoped new Labour Minister Paul Swain will take action to restore the critical relationship between Government and business. This was damaged badly when a raft of employment-related legislation was foisted on business just before Christmas without adequate prior consultation. On top of Treaty of Waitangi issues, it comprises a major negative.

But there are some high-points. Finance Minister Michael Cullen wins brownie points for his tight control of fiscal policy and his bulging \$6.1 billion Budget surplus — which business wants returned through corporate tax cuts.

Cullen's visionary moves to form a "single market" with Australia have also won the business sector's support.

There is also recognition that National Leader Don Brash's stronger performance has had an effect.

But major concerns over infrastructure and the security of energy supply must be tackled to support future economic growth.

Carter Holt Harvey chairman John Maasland spoke for many when he questioned, "Why would you want to invest much more in New Zealand when you're facing energy shortages and Kyoto?"

# The Mood Of The BOARDROOM

## What 300 company chiefs want



‘I’m stunned at the amount of detailed regulatory intervention . . . compliance costs are just becoming formidable . . . talk about losing the plot 9

— Roderick Deane, Chairman, ANZ-National, Telecom, Fletcher Building



‘I’ve been vilified a bit because I didn’t tear my hair out over this Employment Relations Act . . . lack of productivity is the real issue 9

— Ralph Waters, Chief executive, Fletcher Building



‘I’m not too happy about a lot of the CEO candidates I come across . . . a lot have been skilled at sharpening costs but not at regrowing a business 9

— Shane Jones, Chairman, Te Ohu Kai Moana



‘The culture of New Zealand has to shift . . . it’s still pretty negative about business and big business in particular 9

— Theresa Gattung, Chief executive, Telecom



‘I’ve operated in environments where Governments have had the courage to call the fact their infrastructure is stuffed . . . they’ve got to do something about it 9

— Ann Sherry, Chief executive, Westpac



‘We’ve got 29 plants running on natural gas . . . it’s critical the Government focuses on this now not when the fields run out 9

— Andrew Ferrier, Chief executive, Fonterra

### INSIDE

<b>THE VIEW FROM GROUND ZERO</b> Small firms feel Government's blast	<b>D2</b>
<b>WEAPONS OF MASS DISTRACTION</b> What the 'Big End of town' thinks	<b>D3</b>
<b>CALL FOR TAX CUT</b> 'The dollar is crippling us' says business	<b>D4</b>
<b>'DINGO GOT MY BABY'</b> What is the only item not wanted in a transtasman single market?	<b>D5</b>
<b>THE MARTHA STEWART EFFECT</b> Who's paying the price	<b>D6</b>
<b>'REVERSE GEAR'</b> Why Roderick Deane thinks we're heading backwards	<b>D7</b>
<b>CULLEN v BRASH</b> 'Bring it on'	<b>D8</b>



Business | NZ

The New Zealand Herald  
THERE'S A LOT MORE TO IT

nzherald.co.nz

PRICEWATERHOUSECOOPERS PwC



# The state and SMEs — sweethearts no more?

The business sector most closely allied with Labour is falling out of love with the party it once saw as the solution to its woes, writes Graeme Hunt

THE BUSINESS sector most courted by the Government — small-to-medium enterprises (SMEs) — is turning on its master.

SMEs' response to the *New Zealand Herald* CEO Survey is not only similar to that of big business lobbies but in some cases could be substituted for it.

Employment, holidays and health and safety legislation, compliance costs, the Resource Management Act, the Kyoto Protocol, Treaty of Waitangi matters and immigration issues are prominent SME concerns.

Compliance costs are being heaped onto small organisations with apparent "scant regard for those of us struggling to exist let alone comply", one businessman noted.

Another complained the level of regulation and intrusion into business was "stifling entrepreneurship" and increasing the barriers to business growth.

Only on the New Zealand dollar exchange rate is there a significant difference between SMEs and the big-business lobby.

The SMEs formed the backbone of Labour's business support in the past two general elections and were often at odds with a big business lobby, the *New Zealand Business Roundtable*.

Now they are singing from the same hymn book.

Business NZ chief executive Simon Carlaw said the survey demonstrated that the issues raised by his organisation were relevant to the members.

"It is very hard to convince somebody in business whose principal focus is [on] paying creditors and staff that something called the Kyoto Protocol could mean a problem for their business."

Carlaw said the survey was important in raising awareness of the relationship between successful business, national wealth-creation and state services.

"The search for [national] identity is not a sidepiece of Treaty [of Waitangi] issues," said Carlaw.

"The search for identity relates to who we are and what we make our dollars with."

Typically SME managers complain that the strong dollar is trimming profits and encouraging cheap imports at the expense of domestic producers.

They cite China as being a threat to New Zealand's growth.

But overall their concerns are with the prospects for the New Zealand economy rather than the global outlook.

Fifty-six per cent of business people who filled out the survey consider the global economy to be more optimistic than it was a year ago, yet they are far less optimistic about the future of their own industry.

Two in three business people are planning to hire staff over the next year.

## THE LOBBYISTS



**Roger Kerr**  
Executive director  
Business Roundtable  
His Jesuitical zeal has made him a thorn in the side of governments during a two-decade quest for policy perfection. "It's artificial to single out SMEs as different from big business... bad policies impact on businesses large and small."



**Simon Carlaw**  
Chief executive  
Business New Zealand  
Carlaw's SME membership is now closely aligned with Business Roundtable views. "It's become fashionable to try and sideline business organisations — but the survey shows what real businesses think."



**Barrie Saunders**  
Former PR man  
Business Roundtable  
The silver fox of the Wellington Government lobbying industry resigned the Roundtable account but still keeps a close eye on developments. "There has been convergence between the economic rationalists and SMEs on business."

Nearly half of business people expect to increase capital spending in the next year compared with last year, but fewer (44 per cent) expect to spend more on IT. Nearly two in three business people expected fewer mergers and acquisitions in the next year than last year.

However, some respondents pointed to loss of competition through acquisitions in the service sector and further M&A activity in biotechnology.

Most respondents (94 per cent) were convinced New Zealand did not have a growth strategy to sustain business success, with some of them critical of the Government's alleged lack of respect for business' contribution to the economy.

One person said New Zealanders seem to view business in a negative light, overlooking how only business creates the employee's income and the nation's wealth. "The Government must stop trying to pick winners and direct their funds in a more productive manner — such as an improved tax regime."

Another complained at the apparent lack of understanding by the Government of the importance of business to the country's economic success.

"There has been more of a focus on long-term success relying on Knowledge Wave-type approaches."

Not all respondents to the CEO Survey were negative.

The chief executive of the Wellington-based Industry Training Federation, Darel Hall, said recent changes to the immigration rules had made it easier to attract tradespeople, although shortages of skilled labour remained.

Hall said many young people did not consider a trade as a career option, yet good tradespeople who worked hard could earn a

good living. Being self-employed also offered a greater work-life balance.

He said there was still some way to go to having a shared training and qualifications market with Australia.

The survey suggests SMEs are becoming more outward-looking and less swayed by governments offering miracle fixes to their businesses by talking up the economy.

"The economy has less impact on our business than the state of health and mindset of the New Zealand consumer," one business person said.

"Are they [the consumers] employed, are they comfortable with the Government and are they comfortable with issues such as crime, family, ethics? All of these spin back to their level of comfort and hence their optimism."

As for the Government's partnership with business, the general view of SMEs is that it is not working. It was best summed up by the response that there could not be a partnership "where partners failed to listen to each other."

Stephen Kattan of Ludowici Plastics said the Government's real problem was that it did not understand business. An increasing amount of his time was spent on implementing employment policies and anti-smoking legislation.

"It is time I could be spending on developing growth."

Kattan said his company, like others, was struggling to find skilled staff. "I have been trying to recruit people since Christmas — it is difficult."

Other survey respondents complained that immigration bureaucracy made it hard for companies to attract skilled staff and added to costs.

One described the Holidays Act as a

potential disaster for his service-based industry.

"It represents a complete lack of understanding of the implications of legislation as it affects those other than employed people in regular daytime hours."

The chief executive of a central North Island-based company said Government bureaucracy and compliance had grown steadily in the past eight years.

"We have two well-qualified women on our staff of 10 just to keep the paperwork straight," he said.

"We have this well-documented *Empire Strikes Back* stance."

"We closed down many Government agencies in the 1980s only to have the bureaucrats come back."

Ian Macintosh, general manager of Credit Union Auckland, said compliance cut heavily into his time to market the highly competitive retail finance business.

"I don't have a PA so I have to manage OSH, ERA and board papers," he said.

"I am always conscious that I want to be in full compliance with the statutory regulations."

With just 16 full-time equivalent employees to manage a business with \$16 million in assets, Macintosh said he was regularly on the phone to an EMA consultant for advice on employment relations and OSH matters.

Barrie Saunders, an ex-president of Wellington Regional Chamber of Commerce, whose public relations firm used to act for the Business Roundtable, said there had been convergence between the economic rationalists and the SMEs on issues facing business.

He said many businesses appreciated the increased contact they had enjoyed with Government agencies under Labour, but were feeling the weight of new legislation and compliance costs.

Business Roundtable executive director Roger Kerr said it was artificial to single out SMEs as being different from big businesses.

"All New Zealand business is small business. Large businesses are often just a collection of small businesses [or] small ones that have grown," he said.

"There is no basic difference in the way bad policies impact on businesses large and small."

Kerr said the focus on compliance costs was misleading because if the prospective regulatory costs facing an enterprise were high, such as the costs of employing staff or making a resource management application, then companies would not make those decisions and there would be no compliance costs.

He welcomed the call by many SMEs for tax cuts but said this would happen only if Government spending was reduced and tax policy was geared to growth rather than social assistance and redistribution.

A Wellington respondent said a large proportion of [national] output came from small business.

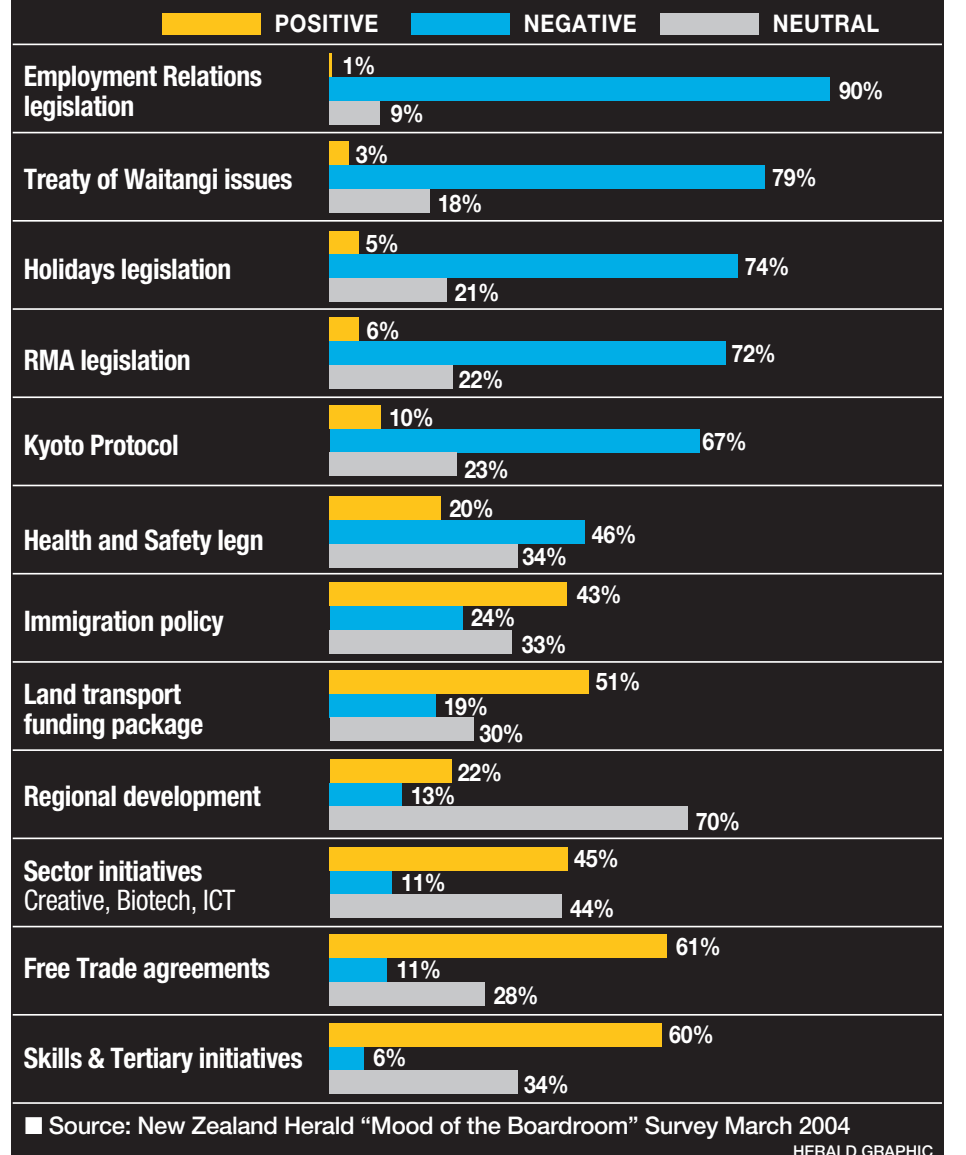
New Zealand needed to be extremely careful about the level of compliance costs it imposed because the relative costs were much higher than in other economies.

ON THE WEB  
See the *Business Herald's* acclaimed series "Working to Rules" for detail of new employment legislation at: [nzherald.co.nz/workrules](http://nzherald.co.nz/workrules)



## What is the effect of Government policies on productivity and economic growth?

120 Chief executives and chairmen from New Zealand's largest companies give their ranking.



## Survey covers wide business range

The New Zealand Herald CEO Survey, in association with Business New Zealand, was emailed to about 500 SMEs (small to medium enterprises) on February 19 and completed on February 27.

It received 183 valid responses. Nearly one in three (29.5 per cent) were from manufacturers, followed by health and community services (12 per cent), wholesalers (11.5 per cent), finance, insurance, property and business services (9.8 per cent), education (7.1 per cent), construction (6.6 per cent), transport and storage (5.5 per cent), agriculture, forestry and fishing (4.9 per cent), retailers (3.8 per cent), accommodation, hospitality and restaurants (2.7 per cent), communications services (2.2 per cent), electricity, gas and water supply (2.2 per cent), government administration, including local government (1.6 per cent) and mining (0.5 per cent). There was no response from businesses offering culture and recreation services or personal and other services.

The average size of respondent companies was 39 full-time-equivalent (FTE) employees and the total number of FTE employees covered in responses was 7139.



## Mood of the Boardroom 2004

Editor: Fran O'Sullivan  
Writer: Graeme Hunt  
Research: Fran O'Sullivan, Steve Summers (Business NZ analyst), Graeme Hunt, Leanne Little  
Design: Peter Eley  
Graphics: Richard Dale  
Cartoons/illustrations: Rod Emmerson  
Advertising: Lee Lapsley  
Marketing: Charlotte Hunt  
Promotion: Christina Flood  
Contact: New Zealand Herald (09) 373 6400

Special report on the web at [nzherald.co.nz/boardroom](http://nzherald.co.nz/boardroom)

successful business – shaping New Zealand's future  
successful business – shaping New Zealand's future  
successful business – shaping New Zealand's future

**Business|NZ**

[www.businessnz.org.nz](http://www.businessnz.org.nz) ■ phone 04 496 6555

# Weapons of mass distraction

## BIG END OF TOWN

### The chief executives



**Ralph Norris**  
Chief executive  
Air New Zealand  
The Air NZ chief says his airline is already struggling with an exchange rate priced in US dollars without having to bear additional regulatory moves. "It's the old story... it's not just one change... it's the incremental effect of changes over time."



**Peter Springford**  
Chief executive  
Carter Holt Harvey  
CHH is hugely exposed to the kiwi dollar. But Springford does not have much faith in Reserve Bank interventionist talk. "We don't have a lot of foreign reserves and if we start fighting hedge funds then we're going to lose... I think it's just talking."



**Hugh Burrett**  
Chief executive  
ASB Bank  
Burrett wants Labour Minister Paul Swain to create a better environment. "Ross Wilson in the CTU has said he wants industry awards — well that is just bloody ridiculous in the world today. You've got to have competition — healthy competition — and I don't think that provides it at all."

### The chairmen



**Jim Syme**  
Chairman, Waste Management  
Syme, honoured as New Zealand's top chairman at last year's prestigious Deloitte/Management Magazine Top 200 Awards, said the Government was selecting favourites. "Policy should be available to all business."



**Rosanne Meo**  
Chairman  
AMP New Zealand  
Meo is concerned at the apparent abandonment of targets to reposition New Zealand within the OECD. "Flip-flops on policy create uncertainty over a broad range of policy initiatives... It feels like electioneering is well under way."



**Bill Falconer**  
Chairman, Restaurant Brands  
Productivity is the key issue. "I want to see New Zealanders having bigger pay packets... to be earning the same as Australia... and feel good about the rewards for enterprise here."

*Business has got enough to do without a deluge of regulation, but there are signs the Government could be about to listen, reports Fran O'Sullivan*

ONE MONTH ago, and it looked as if it was all on for another "Winter of Discontent" between business and Government.

The effects of a surging kiwi dollar, a political backlash on Treaty of Waitangi issues, the dumping of popular Commerce Minister Lianne Dalziel and a potential revolt by small to medium-sized businesses against a welter of onerous employment legislation threatened again to sour their relationship.

It is not as if the relationship was already coated in gold-plate.

Since Labour took power the Government has occasionally played favourites and marginalised critics as it has sought to impose what critics claim is a trade union-inspired agenda.

The Government's "anti-business" reputation is not entirely fair.

It has won applause for sectoral initiatives to try to build up the information, communication, technology, biotechnology and creative industries.

"Yes, but," says Jim Syme, *Deloitte/Management Magazine's* 2003 chairman of the year, "the policy should be available to all businesses."

Overall the perception has turned negative.

National Party leader Don Brash's dramatic rise in the opinion polls, and Helen Clark's quick u-turn on some negative Treaty of Waitangi issues, have given business confidence that if it beats its drum loudly enough it might get a backdown.

There has been a significant development in the Government-business relationship, particularly with those companies from the "Big End of town".

Chief executives from the top 10 listed companies on the NZX recently held what is said to be the first of a series of biannual meetings with the Prime Minister.

The meeting — which took place under "Chatham House rules" a fortnight ago — was instigated by NZX chief executive Mark Weldon.

It is understood the agenda included discussions on immigration and the controversial Employment Relations Law Reform Bill — the mishandling of which cost Cabinet minister Margaret Wilson her Labour portfolio in Clark's recent Cabinet reshuffle.

Details of the discussion, which have since filtered out to a select group within the business community, suggest Clark may entertain some changes to the employment legislation as it winds its way through a parliamentary select committee. Others caution that the changes may simply be cosmetic.

There have been other indications that Clark will ensure a full consultation takes place with the business community on two key external initiatives — her quest for a free-trade deal with China and Finance Minister Michael Cullen's proposal for an Australasian single market.

She now seems aware that business is fed up with the Growth and Innovation Advisory Board acting as a private court — but not consulting widely with the broader business community.



ILLUSTRATION / ROD EMMERSON

"They've been duced", said one chief executive of Rick Christie's advisory group.

The top 10 companies do not intend to become a formal group and are there by right of size — not prime ministerial choice, or self-selection.

There is huge opposition within the business top table to the employment-related changes.

Fully 90 per cent of the 120 chief executives and company chairmen surveyed said the legislation rated as a negative.

This negativity outweighs some relatively positive responses to other Government-led initiatives on sectoral reform, skills development and transport and spills poison on the relationship.

None of the "top 10" chief executives who were invited to the prime ministerial soiree attends the Business Roundtable, though Fletcher Building chief executive Ralph Waters pays lip service through an annual membership fee.

Neither is Andrew Ferrier, chief executive of Fonterra, New Zealand's largest company, a member.

Few from today's top 10 listed companies line up with Roundtable executive director

"I think New Zealand's got a bit of a serf mentality where they think low wage costs is a comparative advantage"

— Ralph Waters  
Chief executive  
Fletcher Building

Roger Kerr's economic rationalists. Clark's ostracism of Kerr continues.

But there are signs a more vigorous debate is emerging within the business community on some aspects of employment and productivity.

ASB Bank chief executive Hugh Burrett says the employment legislation assumes all employees want to join a union. Burrett presides over two major businesses.

"We have Sovereign with a collective and we have ASB on individual contracts, so we see both sides and probably understand both sides, and would rather have the opportunity for an either/or."

"Whatever they put in place we'll operate that and I'll make it happen."

But Burrett does not want any more "going back to the sixties" stuff.

"Ross Wilson in the CTU has said he wants industry awards — well that is just bloody ridiculous in the world today."

Some businessmen see an opportunity to make cultural change.

Bill Falconer, chairman of a raft of New Zealand listed companies, said if the employment legislation survives intact, it will make it difficult to negotiate contracts

across industry. "What I am seeing is a regulatory framework introduced by this Government which is going to make business harder."

Productivity to Falconer is the key to social equity. "Social equity is not about redistribution — it is about driving the system better to everyone's benefit."

"There's nothing more satisfying to an employer than to be able to award a bonus or special payment or put the wages up because people have done well."

"To achieve social equity by redistribution of an existing cake just seems to me to be backwards looking."

Waters also points to the need to get a high wage growth mentality established. "I think New Zealand's got a bit of a serf mentality where they think low wage costs is a comparative advantage," he said. "Well Fiji's a low-wage-cost country."

"We've had high wage growth for years in Australia and high productivity and I think it makes the cake bigger because at the bottom of the pyramid all those people are earning more."

Westpac's Ann Sherry shares Waters' view that business reaction against the employment legislation has been overdone.

"People keep saying how terrible it is," said Sherry. "I think, 'Well, not compared to some of the union things I've dealt with.'"

Others suggest their frame of reference is coloured by the fact they are both Australians and used to union-dominated industrial relations agendas.

Shane Jones, chairman of Te Ohu Kai Moana — which has a major stake in the New Zealand fishing industry — questions whether business should turn the blowtorch on its own performance more often. Jones laments the calibre of chief executive candidates coming through.

"A lot have been skilled at sharpening costs but not at regrowing businesses."

The surging kiwi is another major issue facing the top table chief executives and chairmen. Already it has had a huge impact on the earnings of dairy farmers and a host of other exporters.

Carter Holt Harvey chief executive Peter Springford said despite Reserve Bank Governor Allan Bollard's proposed intervention, currency remains a big issue. "It's a bit of an overhang for us."

"We're working damn hard on productivity to overcome it," says Springford. "We'll get a long way towards overcoming it, but it's our number one profit driver for this year."

The forestry chief says the employment legislation is imposing impediments on CHH's productivity drive. "We're certainly telling the Government."

Others such as Air New Zealand's Ralph Norris say their business is already operating on tight margins. Norris says if the Holidays Act is applied in the way in which it is intended, Air NZ's business will become less competitive — particularly within its engineering group, which competes for business internationally.

Sherry says the dollar will also put pressure on farmers who "cash-flow their businesses" from year to year.

Over-riding the top table concerns is a desire for a "no-surprises" policy environment. Many chief executives canvassed by the *Herald* suggested the Government-business relationship would be greatly improved if they talked to — not past — each other.

Over-laying this concern is the potential for a change of government.

Said AMP's Rosanne Meo, "Flip-flops on policy create uncertainty over a broad range of initiatives."

"It feels like electioneering is well under way."

## Inaction on energy, roads threatens growth

THE Government needs to take charge to avoid a looming energy crunch and push aside local authorities to complete roading projects so growth is not strangled.

That is the message from the heads of some of New Zealand's major companies.

Fonterra chief executive Andrew Ferrier said the major issue facing his company is not regulation — "it is energy".

"We have 29 plants in New Zealand that run on natural gas," said Ferrier. "If we had to start spending money to convert those to coal over the next 10 years we would spend a huge amount of capital for no real benefit for our farmers whatsoever."

"That capital should be spent on investing in

R&D, on investing and growing our value-added businesses — it's critical that there's a real focus on it now, not when those fields start running out of gas in two or three years."

Fletcher Building chief executive Ralph Waters said the "one-in-50-year" occurrence that Governments had used to explain away recent crises was a myth. "I just hope people haven't already forgotten that we did run out of power in two years out of three."

"If we keep on bringing in people and growing at a sensible rate, there will be growth in demand."

"Even if the rain does come there's a finite capacity to generate."

"It's a serious issue and quite clearly with a thou-

sand years of coal in the place if they weren't all handicapped by Greens and tied up with Kyoto ideology — you'd build a reliable coal power station."

"It would add to your base-load and it wouldn't matter whether it rained or not."

Oil industry and power utility chiefs — along with a raft of major New Zealand industrial energy users — agree. They want the Government to get involved with this "critical economic" issue rather than focus on peripherals such as sustainability.

There is little confidence that recent moves to integrate electricity power planning or the Auckland Land Transport Package would provide the answer to vital infrastructural issues.

Auckland roading is a particular bugbear.

"It has been debated for decades and still no solution," said Hamburg Sud's Bo Samuelsson.

Westpac chief executive Ann Sherry is amazed. "I've worked in environments where governments at all levels have at least had the courage to call the fact that their infrastructure is stuffed and they've got to do something about it. Local government has captured the infrastructure debate when it's a national business growth issue."

"It's happening as an argument between Auckland Regional Council and Auckland City," said Sherry. "But there's a real lack of both foresight and political courage in taking that issue on... If we don't do something sharper with it, it will strangle Auckland."

FROM THE BOARDROOM AND BEYOND

PricewaterhouseCoopers: our commitment to quality in corporate reporting

# Tax cuts urged to counter dollar

*Cutting the corporate tax rate could help soothe the pain many smaller businesses are feeling with the high kiwi dollar, reports Graeme Hunt*

**T**HE GOVERNMENT is under pressure to cut the corporate tax rate to compensate companies affected by the strong New Zealand dollar.

*Herald* surveys of SME heads and chairmen and chief executives of larger companies — taken before the Reserve Bank sought the power to intervene in the foreign currency market — list the strength of the kiwi and the corporate tax rate as major concerns affecting their industries.

Gallagher Group chief executive Bill Gallagher said his company anticipated the dollar would strengthen but the extent of the rise was a shock.

"The good news is that we moved to cover two to three years in advance — [but] next year is going to be very rough."

The head of New Zealand's largest company believes the current "extremes" will force companies to improve productivity.

The appreciating New Zealand dollar has savagely clipped the incomes for Fonterra's 13,000 dairy farmer shareholders, but chief executive Andrew Ferrier says, "it's not unhealthy for Fonterra to be staring down the shot-gun barrel of currency rates."

Stephen Kattan, general manager of Ludovici Plastics, said: "If they can't find time to lower the dollar then we should get tax cuts." Kattan is among a growing chorus of SME managers who consider the Government is out of touch with business. His company, part of an Australian operation, is based in Onehunga, Auckland. It is a net importer, employing 74 staff, and is doing well from the high dollar, but Kattan does not expect the good fortune to last.

"Business is getting tougher," he said. "The dollar is starting to affect it — it is good for me but not for my customers."

The corporate tax rate — with an average ranking of 6.7/10 — topped the list of economic factors which most concerned SME respondents to the chief executives' survey.

Following close behind were worries about the cost and security of power (6/10), the strength of the NZ dollar (5.9/10) and further interest rate rises (5.8/10). Inflation (4.9/10) and the current account deficit (4.5/10) brought up the field.

The Employers & Manufacturers Association (Northern), many of whose members responded to the survey, has since called for a major cut in the company tax rate in line with Budget relief signalled to other low and middle-income earners.

"The same personal tax rate on earnings up to \$38,000 should be applied to companies as it is to individuals," says EMA chief executive Alasdair Thompson.

"Ninety per cent of our small and mid-sized companies are owned by Kiwi battlers.

"Their companies earn net profits of less than \$38,000 a year and would benefit the most from such a move... The average income of their owners are not greater and often less than the average wage."

Ken MacKenzie, chief executive of Gore-based topdressing company MacKenzie Aviation, said compliance costs were growing when the farming economy was being hit by the rising dollar.

MacKenzie said although the meat price



ULTIMATUM: Stephen Kattan says business should get tax cuts if the Government can't find the time to lower the dollar. PICTURE / MARTIN SYKES

was holding up, there was a degree of nervousness in Southland over the strong dollar. This was eating into farm incomes and would affect the topdressing business.

He said the Government should be held to account over passing on costs to business. "We have got to have accountability over bureaucracy."

An importer/wholesaler said although his business appreciated a strong kiwi, generally most of its competition was importers. "So any gains are quickly negated... From a currency perspective, we are seeking a stable dollar, with less monthly volatility."

Another pointed to possible flow-on effects: a glut of Japanese-import cars hurting new car registrations and the need for huge stock write-backs to affect the dollar's value.

But not all chief executives are quivering under the high dollar. Non-exporters do not see the strength of the kiwi as relevant and there are others who view the strong currency as advantageous and a reflection of the global standing of the New Zealand economy.

Ferrier, who shifted to New Zealand last year, said the exchange rate had also been a big issue in his home country, Canada. "The Canadian dollar got very weak to the US



dollar so manufacturers got lazy," he said. "They took advantage of a weak currency and didn't focus on putting their R&D into productivity and new products."

Ferrier said the exchange rate had been an overriding concern, but he tried very hard to drive the business.

"I tried to use this mantra," he recalled. "We have to assume it's a dollar-for-dollar Canadian-US exchange rate."

"Now we'll probably never go there, but if you run your business that way then you're focusing on the right things."

Doug Heffernan, chief executive of Mighty River Power, said the high dollar was an asset to the energy business.

"Given the requirement for more energy supplies for New Zealand, fuel is a big issue — ironically, a high dollar is better for that."

Waste Management's managing director, Kim Ellis, said the high dollar helped his company.

"We do a lot of travelling and my issue is that I am only seeing prices going up."

A Wellington respondent to the *Herald's* corporate survey, who asked not to be named, said he was more concerned with the burden of regulation, tax and compliance than the strength of the dollar.

Additional reporting Fran O'Sullivan

## SECTOR SNAPSHOTS

### Rigours of RMA block business development

**N**EW ZEALAND'S largest retailer, the \$6 billion Foodstuffs group, wants the Resource Management Act rewritten to stop it being used to block development.

Managing director Tony Carter said it was one of the many frustrations he faced in business.

"The RMA needs rewriting," said Carter. "It is one of those acts that has got good intentions but it has been proved that it does not work and gives pretty good opportunities for interest groups to stop our developments."

"As the law stands they can object and although the court has the facility to award costs against them, it can't award damages."

Carter said compliance costs were also a major challenge to retail — "So much of



Tony Carter

business is more complex than it was 20 years ago."

He said food regulations and changes to employment law were also challenges facing the food industry.

The [former] Employment Contracts Act was easy to work with.

Carter said he favoured employees getting an extra week's holiday, contrary to the view of many employers.

"I know it's a cost to business but it is in line with international trends. The people who oppose it most vociferously are those who enjoy four weeks [holiday] or more."

He said he would have been happier if workers had the right to negotiate on whether they wanted to take an extra week's holiday. Carter expects the economy will slow.

### Weak patent laws endanger local drug research

**W**EAK patent protection for brandname drugs is undermining the Government's aim to create a knowledge-based economy, the head of a major pharmaceutical company claims.

Mark Crotty, New Zealand general manager of Pfizer Pharmaceuticals Group, said the Government had succeeded in cutting the price of

publicly funded drugs and increasing the number of prescriptions but at the expense of research and development. "There has been very little done to encourage more research yet New Zealand is in a good position to undertake research," said Crotty.

New Zealand's patent laws were much weaker than those of its major trading partners, especially Australia, in Crotty's view. Yet companies were delivering drugs to New Zealand at the best value for money anywhere.

Before the creation of Pharmacia in 1993,



Kiwi pharmaceutical companies were getting higher prices than Australia.

"Now we are getting prices 50 per cent lower than... the average of OECD countries," said Crotty.

He said the Government-business partnership had not worked well in his industry for many years.

"The Government continues to take a short-term view of our industry. It is gradually putting at risk the potential of capturing a much larger slice of the pharmaceutical research spend or... losing what is currently spent in New Zealand."

He questioned whether the Government had the skills to put its growth strategy into action and said New Zealand was not doing enough to stay competitive in global markets. "In the Asian regions, governments offer competitive tax relief schemes to attract increased investments."

### Property market strong but prices will tighten

**T**HE PROPERTY market will remain strong but vendors will have to be flexible on prices, real estate agency Barfoot & Thompson predicts.

Director Peter Thompson said sales volumes this year would be similar to last year's but there would be a plateau in the average sales price.

New Zealand's image as a haven, which grew after the September 11 terrorist attacks in the United States, remained a drawcard for expatriate New Zealanders and immigrants, he said.

Other factors, such as low unemployment, were also contributing to continued confidence. Overseas, people are still investing in New Zealand property.

Thompson said he did not expect the real



Peter Thompson

estate boom to continue at the same level as last year. "We are still ahead of the volumes of last year but the average sale price will tend to level," said Thompson.

"There could be a period of time — it could simply be one or two months — where the vendors are hoping to get unrealistic prices are going to have to be more realistic."

Thompson said Auckland house prices were lower than those in Sydney and Brisbane and offered value for money. The level of interest rates was the greatest concern to his industry.

Barfoot & Thompson, founded in 1923, is 100 per cent family owned and operates in Auckland and Northland. About one in three homes on the market in greater Auckland is sold by the agency.

### Old-style contracts may mute retail sector rise

**H**ILL & STEWART managing director Nigel Merrett said the retail market was "still pretty good" and he expected strong growth in his sector to continue for 12 to 18 months.

But Merrett is concerned that proposed changes to the Employment Relations Act will result in a return to old-style industrial relations. "You're going back to what it used to be

like," said Merrett. "This old-style [industrial relations] has gone."

"We cannot succeed unless we have a motivated workforce."

Merrett said Hill & Stewart ran entirely on individual employment contracts and did not need a collective contract. "It is not like there was a problem out there to fix."

# Talkfests: But Government, business still can't dance

*A true partnership with the state is still a long way off, say business players*

**T**HE PLETHORA of talkfests, charm offensives and confidential chief executive forums has failed to persuade business that the Government's partnership model is more than rhetoric.

Ninety per cent of CEOs polled in the *Herald's* first "Mood of the Boardroom" sur-

vey (November 2002) said the politically promoted "partnership" model had not taken off.

Fifteen months later the relationship is yet to improve.

An overwhelming 90 per cent majority still says the Government/business partnership model is not working, in spite of the fact 43 per cent of chief executives feel initiatives to boost the ICT, biotech and creative industries are positive.

"The dialogue needs a new beginning," said an insurance player.

There is particular concern that "part-

nership" policies translate into advantages for some at the expense of neutral policies for all.

Griffin's Foods' Tony Nowell said if partnership refers to picking winners in underdeveloped regions then it has been "significantly unsuccessful".

Said CanWest's Brent Impey, "In our industry Government is a competitor and regulator — not a partner."

A dissenting player said the model was working but the business sector still remains at a less than effective level of engagement. "Relying on an EMA/Business

New Zealand to be the voice of business is not allowing all views to be known."

Many business people used the survey to vent their outrage over former Labour Minister Margaret Wilson's "anti-business approach". "It's a joke — what partnership?" was a typical response.

"They are on a crusade to change the social, political and economic fabric of New Zealand by stealth and to hell with the long-term consequences."

"With Margaret Wilson now handling Commerce there will be no partnership model," said a financial sector player. "She

hasn't listened to business once in the term of the current Government."

"Hopeless micro-economic policy... [Margaret Wilson] cannot possibly compensate for Regional Development Minister Jim Anderton having friendly chats with the sectors," said a Sydney-based CEO running a transasman company.

Anderton was given marks by some business people for trying. But others criticised a "handout mentality".

"This picking winners is nonsense — even [The Warehouse's] Stephen Tindall can get a handout!"

Even the SME sector — which gains most from feeding at the Government's grant trough — was critical. Just over 80 per cent of SMEs surveyed said the partnership model was not working.

Conversations between Government ministers and business were like "we're like two separate species", read one SME's response. "It is a bit like teaching a pig to sing... the results are never really very good and it only annoys the pig."

New Zealand Trade and Enterprise was urged to base its policies on what business needs — rather than political need.

# Results

More customers do business with Barfoot & Thompson than any other real estate company.\*

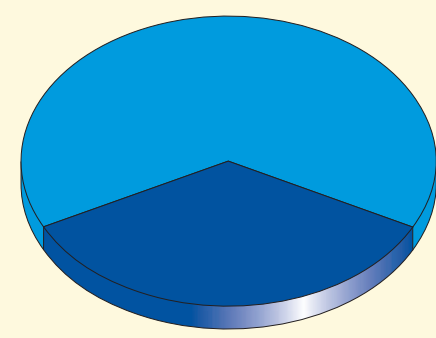
As the leader in Auckland's Residential real estate market, Barfoot & Thompson sells one in three homes in this city.\*\* Our Property Management division successfully manages properties on behalf of almost 6000 property owners. Record levels of business have been entrusted to our Commercial division by corporate, commercial and business partners and clients, resulting in exceptional growth both in the number of transactions and value of sales achieved in recent

years. Sales for the 2004 financial year in the Country and Coastal division are up over 25% in volume and 50% in value from the previous financial year.

The combination of these business strengths has resulted in Barfoot & Thompson's most successful year on record, with the value of sales in 2003 being in excess of \$6 billion.

Auckland Market Share\*\*

Barfoot & Thompson 34.8%  
All others combined



\* Research Solutions, 2003 \*\*REINZ statistics February 2003 to January 2004

# 'We're up for it,' says business to one market

## TASMAN TIES

### The politicians



**Peter Costello**  
Treasurer, Australia  
Costello has charged the Australian Treasury to negotiate the single market deal. Says Telecom chairman Roderick Deane: "My fear is the Australians are more powerful negotiators than us — there is real risk we will get the lowest common denominator."



**Michael Cullen**  
Minister of Finance, NZ  
Business applauds Cullen's determination to see a trans-tasman single market emerge. But there are fears that new Commerce Minister Margaret Wilson will not bring a pro-business determination to sorting out regulatory issues.

### The businessmen



**Kerry McDonald**  
Chairman, Bank of New Zealand  
The long-time trans-tasman businessman debunks claims that Australia is more difficult than New Zealand. "I don't agree with that... I think the issue is normally one of not having the right calibre of people leading the businesses in Australia."



**John Maasland**  
Chairman, Carter Holt Harvey  
Maasland is closely involved with two major trans-tasman businesses. "It's very important that Australia and New Zealand move to a consensus on single market issues — but we mustn't do it on the basis that we're the poor relation."

### The diplomats



**Allan Hawke**  
High Commissioner, Australia  
Hawke cannot understand why New Zealand business has been so slow to get into the debate on the trans-tasman market. He warns they should get into it now to make sure all the wrinkles are ironed out before the deal is put together — hopefully by June 2006.



**Simon Murdoch**  
Chief executive, Ministry of Foreign Affairs & Trade  
The former New Zealand High Commissioner to Canberra experienced a bitter taste when trans-tasman relations soured over the Ansett collapse. He is now working with McDonald on a Leadership Forum to rebuild the relationship at all levels.

*Finance Minister Michael Cullen gets a qualified tick for a trans-tasman single market. But full nuptials? Forget it, writes Fran O'Sullivan*

**F**INANCE Minister Michael Cullen's vision for a trans-tasman single market meets overwhelming approval from business. Cullen put an integrated competition law regime, joint accounting standards and banking prudential supervision on his 2004 policy agenda at a meeting with Australian Treasurer Peter Costello in February.

A Herald survey of 120 chief executives and company chairpersons has found more than 85 per cent favour proposals for a common competition and accounting platform and want a raft of other policies included in the single market.

But political union with Australia is definitely off their agenda.

Restaurant Brands chairman Bill Falconer argues New Zealand needs a reality check. "We are part of Australia economically," he said.

"I'm very pleased to see what the Government is doing on that front. We can have all sorts of national feelings about whatever we want from rugby to tourism, but many of our larger companies are subsidiaries of Australian companies and most of the best people feel as comfortable either side of the Tasman."

Australia already has its footprint well-cemented over New Zealand business. All five major trading banks, the two dominant newspaper companies, big supermarket chains — these are just some sectors dominated by "Aussie" ownership.

"Just look at the last six months — Tranz Rail bought by Toll Holdings, ANZ buying National Bank, Fairfax buying INL," said Telecom's Theresa Gattung.

Added an Australasian finance company head: "Dingo got my baby long ago."

But beneath the hoopla is a real concern that New Zealand and Australia "get the single market right".

Carter Holt Harvey chairman John Maasland warns New Zealand must not do it on the basis that "we're the poor relation and accept everything that has been said".

"That would be fatal." Maasland's stance is replicated by many players who want Cullen to ensure his officials push for the retention of much of this country's light-handed regulatory approach during forthcoming negotiations.

But ANZ-National Bank chairman Roderick Deane warns New Zealand is getting into "high-risk territory" negotiating with a country which is substantially larger than our own.

Deane questions "conventional wisdom" that the single market is "a good thing".

"To the extent we can further reduce barriers to movements of traded goods, capital and people then that presumption is certainly true," said Deane. But he questions whether major economic gains will be made. "My fear with securities... and competition regulations and things like that is the Australians are much bigger than us."

"They are more powerful... they have a great belief in their own rightness and I think there is a real risk we'll get the lowest common denominator."

Ralph Waters, an Australian heading up Fletcher Building, is another sceptic. "Sure it is trendy, but I can think of some negatives — can you tell me the positives?"

Waters says much of the agenda is being driven by local subsidiaries of Australian banks. "You need to be cautious;

that's where they're all owned — and send their dollars back to."

Waters is particularly against any move to combine the two stock exchanges, which could damage capital-raising efforts for New Zealand companies. "We're in the top 10 on the exchange here but we're about 90 by market capitalisation in Australia and we're not in the ASX 100 Index."

Westpac chief executive Ann Sherry counters, saying people are already "behaving as if it's a single market".

"We're operating in a world where 60 per cent of New Zealand's exports are going to Australia and lots of people are also buying holiday homes."

"There's actually a level of activity that's completely unrecognised in some of the structures that sit around banking transactions — we've made it very difficult for people to do business."

Bank of New Zealand chairman Kerry McDonald argues there may well have to be trade-offs as negotiations continue. "It's an issue we've got to be careful about," said McDonald. "But at the end of the day there may be a trade-off here where we say 'Yes, there are some areas where we've got to compromise'."

"We've got to accept what we think is a less satisfactory regulatory environment for the benefits of the more integrated economy."

AMP's Rosanne Meo says the critical issue is the need to form an Australasian economic unit to compete globally. "That must take precedence over Australia-New Zealand sibling rivalry."

McDonald is driving an inaugural Leadership Forum between New Zealand and Australia. On the agenda are "big-picture strategic issues" — the background to the relationship and external factors including the economic, political and security environment.

One negative issue raised by opponents of the single market is the struggle New Zealand firms claim they experience across the Tasman.

McDonald said the real issue is to have people of the right calibre leading the businesses. "There's a very clear track record that when good people are put into Australia — regardless of whether they're New Zealand, Australian, Chinese or American — they do a good job and largely succeed."

"Where average people are put in they often struggle... New Zealand companies have been very slow to learn that lesson."

Some are concerned New Zealand's paltry defence commitment may hamper progress. Gattung, who attended Costello's lunch for Cullen in Melbourne, believes foreign policy differences between Canberra and Wellington do not matter. "We wouldn't have got this far otherwise."

The survey also shows strong business support for a single aviation market and common corporate tax to be added to the policy agenda and growing support for a common currency and combined stock exchange.

But full political union, on the table since the Australian Federation came into being in 1901, is out: nearly 80 per cent want the two countries to remain separate.

"Sovereignty is important," wrote an SME respondent. "Today our population limits our independence. This will change over time. Don't give up our independence easily."

Auckland's Rob Challinor is one of a few who believe political union will eventually come — in 30-50 years. "Treaty of Waitangi issues need to be resolved first."

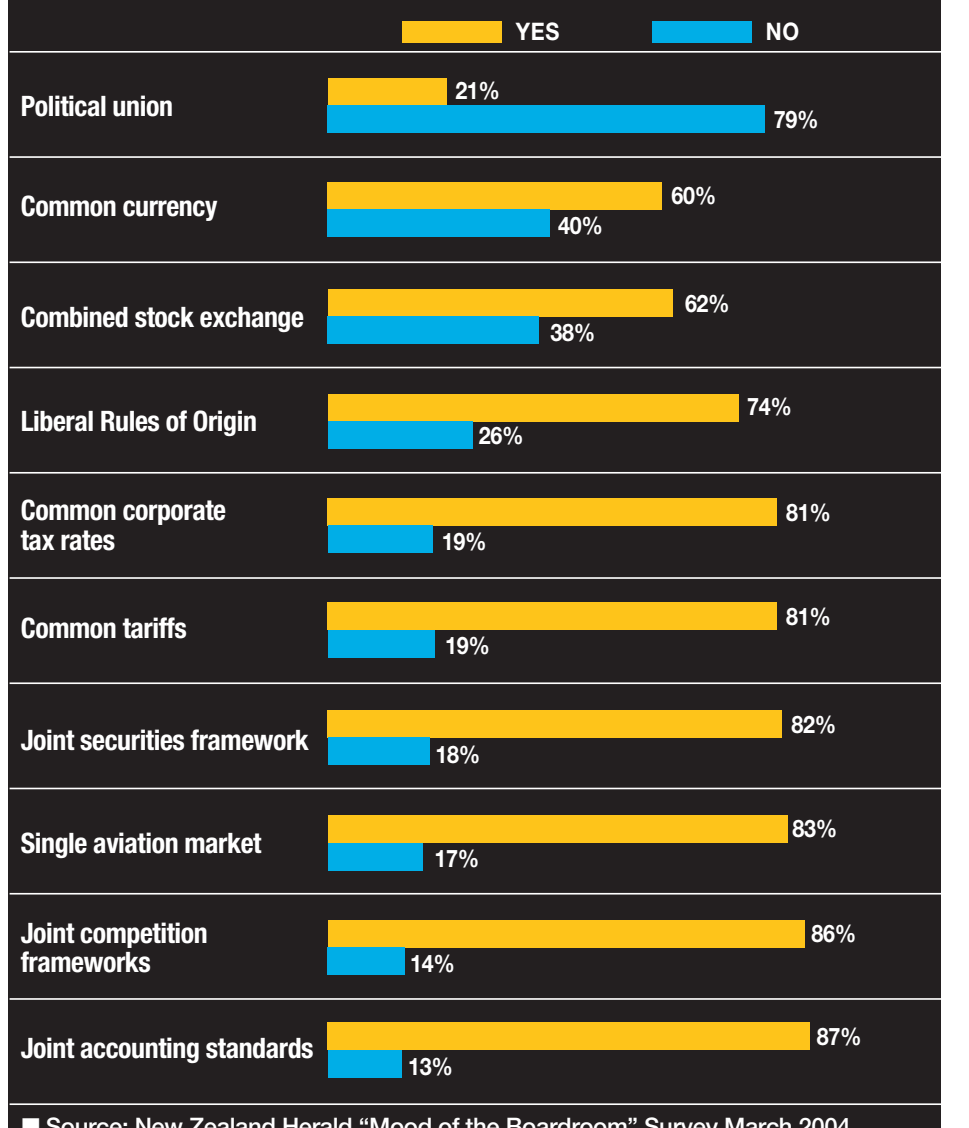
SMEs have also strongly endorsed economic union with Australia, with around nine in 10 backing a common tariff regime and joint accounting standards, securities law and competition rules.

Nearly eight in 10 support a common corporate tax rate and nearly two-thirds want a common stock exchange, single aviation market, common currency and liberal rules of origin — although some manufacturers had concerns on the last point. They share top table concerns over Australia's regulation. "They're often not as good as New Zealand's, contrary to what the Government seems to think," said one.



## What should be on the agenda for a trans-tasman "single market"?

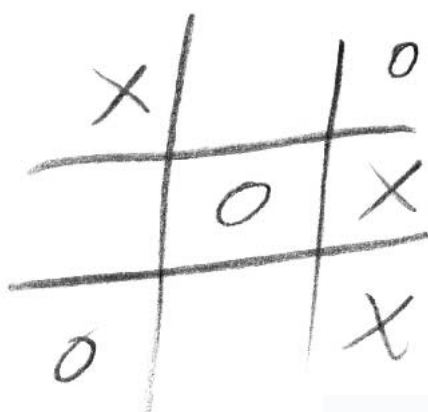
120 Chief executives and chairmen from New Zealand's leading companies say "what's in" and "what's out".



Source: New Zealand Herald "Mood of the Boardroom" Survey March 2004 HERALD GRAPHIC



ILLUSTRATION / ROD EMMERSON



## the winning line

International Financial Law Review has named Bell Gully as this year's IFLR New Zealand Law Firm of the Year.



www.bellgully.com

# 'Blunderbuss' approach galls CEOs

## THE DEBATE

### The accountants



**John Hagen**  
Executive chairman  
Deloitte  
Regulator Jane Diplock has won support for many of her recommendations, says Hagen. But adding in an "audit oversight committee" to supervise auditors would be "absolute madness".



**Warwick Hunt**  
Chief executive  
PricewaterhouseCoopers  
Hunt believes it is in the long-term interests of public companies to operate under the same set of rules on both sides of the Tasman. "There is an opportunity to persuade Australia of the merits of New Zealand's more light-handed approach."

### The regulators



**Margaret Wilson**  
Minister of Commerce  
The Prime Minister gave Wilson the commerce portfolio after Lianne Dalziel resigned under pressure. Business hopes Wilson will make a better fist of Commerce than her previous Labour portfolio. "Even listen to us," said one respondent.



**Jane Diplock**  
Chairman  
NZ Securities Commission  
The "Aussie" regulator has set out to move NZ governance standards to an internationally recognised platform. But many NZ business players still prefer the market's free-wheeling past. "Why legislate against an Enron we haven't had?" asked one.

### The sceptics



**Kim Ellis**  
Managing director  
Waste Management  
Ellis opposes giving shareholders more control. "It's the role of CEOs to focus on creating greater shareholder wealth. Shareholders should direct their efforts to persuading Government to reduce compliance costs and cut taxes."



**Doug Heffernan**  
Chief executive  
Mighty River Power  
Free-market Heffernan says there is nothing to stop shareholders subjecting boards and chief executives to greater scrutiny. "They already have freedom of choice."

*Tighter rules on corporate governance are a worry to business — especially accountants, who are divided over the prospect of increased audit regulation, writes Graeme Hunt*

**B**IG BUSINESS is becoming increasingly wary of the drive for greater corporate governance compliance. Just one in two of the 120 chief executives and company chairmen surveyed by the *Herald* believe shareholders should subject boards and chief executives to greater scrutiny.

An Auckland-based chief executive of a major New Zealand company cautions the Government should also not go overboard. "A blunderbuss apparatus is being used to zap and fix a very small incidence or problem. Boards and management are forced to spend huge amounts of time on things other than generating profits."

Kim Ellis, managing director of Auckland-based Waste Management NZ Ltd, is typical of the listed company chief executives opposed to giving shareholders greater powers to put directors and chief executives through the hoops. He said the role of the chief executive was to enhance shareholder wealth and said this could be assisted by cuts in the corporate tax rate and compliance costs. But he held out little hope for progress under the present Government.

"The real issue is that the quality of financial analysis in New Zealand is far too weak," said another business person. "There is not enough good advice... The best solution [for good corporate governance] is to have good analysis and good advice and people will vote with their feet. Shareholders should not only hold boards and chief executives accountable but advisers as well."

Mighty River Power chief executive Doug Heffernan added that there was nothing stopping shareholders subjecting boards and chief executives to greater scrutiny. "They already have freedom of choice."

But others from business' top table are sceptical. New Zealand boards have burned through a huge amount of cash and destroyed value in companies such as Brierley Investments and Bank of New Zealand, they were "too incestuous" and needed "to be more transparent", were some of the countering viewpoints.

At the SME level it is a different story. Seven in 10 SME respondents wanted shareholders to subject directors and chief executives to greater scrutiny, including external audits. But most shy away from demanding more regulation to enforce corporate governance.

"Shareholders have a right as part-owners to demand accountability from their boards and chief executives," one business person said. "But they also elect the boards. Therefore that process is one that should be carefully monitored."

The Government has introduced a vast wodge of commercial regulations and laws since the US Enron disaster.

However, the Securities Commission, led by Australian-born chairman Jane Diplock, concedes that corporate governance practices in New Zealand are by and large good. "Good corporate governance should increase confidence in boards and management, and attract support from investors and other stakeholders," Diplock said in a report to the Government last month. "Ultimately it should make business more productive, competitive and financially sustainable."

The commission's 10 principles for good corporate governance are largely common sense. They provide guidelines for ethical standards, independence, disclosure and respect for shareholders and stakeholders. What they do not cover, or even allude to, is profitability or wealth-creation — key principles in the 1993 Companies Act.

It is possible, therefore, for companies to meet the principles of good corporate governance in full and to also fail.

No New Zealand research provides evidence of a relationship between the commission's 10 principles and corporate success, though Diplock claims that transparency through high standards of reporting and disclosure is of paramount



CLAMPDOWN: Labour's review of securities trading law will focus on insider-trading and market manipulation — crimes like those of Martha Stewart (above). PICTURE / REUTERS

importance. "The quality of corporate governance can play a key role in corporate performance. Improving governance should be a priority for all corporate entities," she told the Government.

"Shareholders and other stakeholders can properly evaluate an entity and its governance only if they are fully informed."

Diplock's regulatory mindset is largely shared by the Government. Only last month, the then-Minister of Commerce, Lianne Dalziel, warned that rubber-stamping practices are not in a company's best interests. She praised the Shareholders Association for focusing public attention on issues that, she said, were fundamental to the proper functioning of the securities market. This includes highlighting the responsibilities that are too often ignored by institutional investors, who hand their proxy votes to the very people whose actions are supposed to be subject to independent scrutiny.

Dalziel made corporate governance the most important item on her corporate reform programme. The first part of the programme, the Takeovers Code, in force from July 1, 2001, had improved perceptions of the New Zealand market because minority shareholders now felt they had greater rights during takeovers.

The Securities Markets and Institutions Bill, enacted on December 1, 2002, also gave the NZX the powers of a front-line regulator under the supervision of the Securities Commission.

New securities market regulations, in force from March 1, would improve transparency by ensuring information on directors' and officers' shareholdings was up to date, and a review of securities trading law would concentrate on insider trading and market manipulation.

However a new NZX requirement that listed companies have a minimum of two independent directors (or at least one-third of their boards) has raised hackles. GPG head Sir Ron Brierley fired a written broad-

**'I know the no-rules brigade regard every aspect of regulation as an unnecessary compliance cost but there is a cost in being different that New Zealand cannot ignore'**

— Lianne Dalziel, then-Minister of Commerce

side at the stock exchange in January saying it had no mandate to restrict shareholders rights to elect or not elect the directors they wished to represent them on a company.

Riposted Dalziel: "I know the no-rules brigade regard every aspect of regulation as an unnecessary compliance cost but there is a cost in being different that New Zealand cannot ignore. Independent directors... can provide an impartial arms-length perspective to a board and can help ensure the protection of minority shareholders' interests. I consider it essential that there are checks and balances in place."

The *Herald* survey reveals that two of the country's top accountants are sharply divided over whether a new level of audit regulation, an audit oversight committee, should be introduced.

The new chairman of the Accounting Standards Review Board, Warwick Hunt, favours it, but the former chairman, John Hagen, describes the proposed committee as "absolute madness".

The oversight committee is a key recommendation in the Diplock report, although it was strongly opposed during the commission's extensive consultation.

Diplock says New Zealand is unusual in not having a body independent of the audit profession responsible for the oversight of auditors.

The commission considers independent oversight of auditors would contribute to confidence in audit quality and, in particular, auditor independence.

John Hagen, chairman of accounting firm Deloitte, said the only area of disagreement was an oversight board for the auditing profession. "This is a small country in comparison with the UK, the US and even Australia and to put on another layer of regulation when the problem is not apparent is absolute madness."

Hagen said corporate governance had improved in New Zealand over the past three years. He welcomed the country's



commitment to adopt international accounting standards by January 1, 2007.

But Warwick Hunt, who is also chief executive of accounting firm PricewaterhouseCoopers, said an auditor oversight board operated in Australia and would be an issue when trans-tasman accounting standards were harmonised.

He said considerable progress was being made on harmonisation. New Zealand was now represented at meetings of the Australian Financial Reporting Council and the Australian Accounting Standards Board.

Hunt said it was in the long-term interest of public companies to operate on both sides of the Tasman under the same accounting rules. He said there was an opportunity for New Zealand to persuade Australia of the merits of its light-handed approach to regulation.

Hunt said the standard of corporate governance in New Zealand was good but there were reporting deficiencies.

■ Additional reporting Fran O'Sullivan

# The Breakfast of Business Champions.

CEOs can make a marked difference and drive a positive attitude to business in New Zealand through their advocacy of growth. As a CEO you are invited to join the EMA CEO Network. With a focus on leadership, human capital and innovation, the EMA CEO Network offers regular breakfasts with high profile and topical guest speakers, acclaimed experts in their fields,

covering high interest topics including leadership, motivation and much more. Chief Executives of our member companies are regular participants in our CEO Network Breakfasts and we invite non-member CEOs to come along to learn and experience the value of EMA membership. Join the EMA CEO Network today and become a champion of New Zealand business.

To join the EMA or for further information call 09 367 0918

Business|NZ **EMA** NETWORKING

# Deane hits at burden of red tape

Roderick Deane maintains politicians' interventionist path is leading the nation back to the future', writes Fran O'Sullivan

THE chairman of three of New Zealand's major companies is a man of piercing intellect. Right now Roderick Deane is turning his attention to the plethora of Government regulation, interventions and policies which he says are putting New Zealand back to where it was before the 1980s economic deregulation era.

"My perspective on the last decade is that New Zealand has had relatively sturdy economic growth," said Deane. "The major blip was the Asian economic crisis... but it's been a good performance."

That growth took time to emerge because of economic lags. But responsible fiscal and monetary policies were a major contributing factor. In sharp contrast the Government has since moved to an extensive array of re-regulation; compliance costs are becoming more costly and onerous.

"The Government's awareness of this is minimal," he charges. "The regulation we have now encompasses across a broad spectrum of business activities has accumulated to a scale which in a few years' time will not be unlike what we had 25 years ago."

"There's been such a huge degree of intervention — but it's now taking time for that to become pervasive — and the business community has really just in the last year or so realised how extensive it all is."

In the building and construction sectors, resource management issues are "now heavily burdensome", he says.

Other examples include:

■ Industry — Kyoto arrangements are making critical elements of the industrial sector (steel, aluminium, cement) dependent for their survival on decisions of Government rather than "simply on their own efficiency".

■ Banking — Reserve Bank demands are about to lead to higher industry costs. The central bank is also demanding that banks seek its approval for any direct reports to the CEO. "I would say to the [Reserve

Bank], this is curious because if anything goes wrong we'll be able to say 'you approved this'."

■ Telecommunications and electricity — regulators are adversely affecting future investment prospects.

"Again it will take some time for the full impact of all these moves to be fully apparent, but past experience would unequivocally indicate that we will see reduced flexibility and reduced adaptability for private sector firms in the future."

"These will have adverse effects on our economic growth prospects."

Deane has a huge footprint over New Zealand business: Chair of both Telecom and Fletcher Building and now poised to chair the new ANZ-National Bank combo. He also chairs the NZ Seed Fund and Te Papa. "One of the strongest comparative advantages New Zealand... firms have enjoyed over the past decade or so has been the highest degree of adaptability and flexibility that the business sector has experienced in the past 50 years."

"Some might think I'm a bit prejudiced because I was involved in the policy side so heavily 20 years ago," said the former Reserve Bank deputy governor. "As far as I'm concerned I'm just a pragmatic business person."

The other major factor concerning Deane is that entrepreneurs are being driven away. "Now they've gone partly because they can get better tax deals abroad, but partly because they've just had enough of the Government being negative about the business community and the generation of wealth."

He maintains "tens of billions" in entrepreneurial capital has followed the risk-takers out the door.

"So the Government says one day, 'Right, we'll create a venture investment fund and put \$100 million in it'."

"Next day some entrepreneur will leave and he's worth \$500 million — then you've got 20 of them left, collectively worth billions, then borrowing capacity on top of that of more billions — none of that money is being invested in New Zealand."

"It's just incongruous."

Deane has not made a big deal of these issues with the Government — nor is he on ministers' consultation lists for policies such as the trans-tasman single market.

"I guess people are aware that I've got a great sense of unease about the extent of regulation because I see it as anti-business."

"And it's being promoted by people who've never run a business in their lives, ironically."

## DIFFERENT STROKES FROM SIMILAR FOLKS



### Where they agree

Roderick Deane (left)  
Chairman FCL Building

"I'm stunned at the amount of detailed regulatory intervention. It's accumulated again to the scale which in a few years' time will not be unlike what we had 25 years ago. Compliance costs are just becoming formidable — the amount of time we spend at board level is quite disproportionate. The thought that you can regulate for integrity and things like that — talk about losing the plot."

### Where they disagree

Roderick Deane  
Chairman FCL Building

"We've always regarded [our labour market regulations] as a huge advantage relative to the Australian situation. But the Government seems to be determined to erode that comparative advantage. They keep arguing it's good for business — well of course it's about the resuscitation of union power."



Ralph Waters (right)  
Chief executive FCL Building

"The real game in town is we're going to run out of power — everything else is a sideshow. We've been talking about roads for the whole three years I've been here. They've been talking about building power stations — all of the things that really matter. I've seen very little traction on those; but enormous amounts of traction on bloody rule writing or changing — they're besotted with regulation or rules."

Ralph Waters  
Chief executive FCL Building

"I've been vilified a bit because I didn't tear my hair out on the Employment Relations Act. I get sanctioned when I start saying the ERA is what business deserves because none of us have been too generous in giving much away — you've obliterated the union movement. But lack of productivity is the real issue."

## Growth strategy is viable, says Gattung

But we need a culture change to get a pro-business attitude, says Telecom chief

Telecom chief executive Theresa Gattung's contention that the Government has a viable growth strategy to sustain business success puts her at odds with the majority of New Zealand's top chief executives.

The Herald survey — once again — found widespread business scepticism in the Government's growth policy framework, with an overwhelming majority saying a glut of "anti-business" policies impact on business success.

Gattung concedes that some regulations being dumped on the business sector conflict with the Government's growth strategy.

"I would say that is not consistent with the overall direction," she said, stressing hers was a personal view. "They will think this is all internally consistent because they've got a number of drivers that they are working with."

"But as you sit in business you would say, 'Well some bits of this actually are headed in the right direction and some bits of it don't feel consistent, at least from where people like me sit'."

A member of the Government's Growth and Innovation Advisory Board, she has attended a number of ministerial briefings.

Her key issue — "which is not talked about much" — is the need for a cultural shift if New Zealand is to achieve high growth ambitions.

"We've now got a generation of New Zealanders who don't really identify with that paradigm," said Gattung.

"They don't necessarily associate an overall macroeconomic target, whether that be getting as good as Australia or top of the OECD, with anything that is going to benefit them."

"The culture of New Zealand is still pretty negative about business in general and big business in particular."

One issue the Government was "genuinely grappling with" was how to make growth objectives meaningful.

"People understand the downsides of it (such as traffic problems) but... don't bank [on] the upsides."

Other chief executives suggested the Government would get greater business buy-in to its growth strategy objectives if it adopted a more pro-business model. Among other questions were: Why is there so little investment in any major wealth-creating industry? Why are we funding future superannuation when there is such a shortfall in infrastructure investment?

Others said detailed policies and plans were needed to achieve results that boosted business success (and national incomes).

# Helen Clark, Iraq and 'nukes' — what our CEOs think

Principles or realpolitik?  
The business community votes for the latter

PRIME Minister Helen Clark's strong stance on Iraq has split the business community.

Many top chief executives and chairpersons (65 per cent) believe Clark's independent foreign policy stance and defence strategy is hindering economic growth, particularly relations with New Zealand's traditional allies Australia and the United States. They take issue with the Government's line that trade and security are not linked.

But others (10 per cent) believe Clark's independent line has opened new opportunities with Europe and Asia, particularly China.

Said Beca Group chairman Gavin Cormack: "Our relations with our two most important allies and trading partners, Australia and the US, are being adversely affected by our anti-nuclear policy and low

## VIEWPOINTS



Gavin Cormack  
Executive chairman,  
Beca Group

"Our relations with our most important allies are being adversely affected by our anti-nuclear policy and low defence expenditure."



Tony Nowell  
Managing director,  
Griffin's Foods

Australia had a "bee in its bonnet" over our lack of defence commitment. "If you can't rely on your friends and neighbours, who can you rely on?"

defence expenditure."

Griffin's Foods managing director Tony Nowell said Australia had a "bee in its bonnet" over our lack of defence commitment. "If you can't rely on your friends and neighbours, who can you rely on?"

But others took a neutral stance (23 per cent). "The stance is definitely hindering relations," said one chairman. "But this is

an acceptable cost for a policy and strategy I agree with."

The survey did not directly probe attitudes to New Zealand's bipartisan anti-nuclear policy, now under review by a National Party strategy team. But a number of players said New Zealand continued to pay a price for banning nuclear-propelled ships. Some put New Zealand's failure to

open free-trade negotiations with the US down to the controversial policy. "We are perceived as anti-American, left-wing socialists and politically correct," said one.

Others questioned whether a "flip-flop" on Iraq was sensible. "You are either going to Iraq or not... not say 'no', then fall over."

There was a general sense that New Zealand ought to take its place and support its

allies. "Just as our clients want us to do something for them, so do our trading nations," said one businessman.

But the head of a legal firm said New Zealand seemed to be keeping its principles intact on Iraq, "a hard balance to achieve".

Canwest chief executive Brent Impy agreed. "The correct decisions [were made] on Iraq, and now support for the effort in Afghanistan."

SMEs linked Government foreign policy and economic growth for the first time. Some 47.7 per cent said foreign policy and defence strategy was hindering economic growth, 47.1 per cent were neutral or could not give a definite answer. Just 5 per cent said foreign policy and defence strategy were helping economic growth.

Some people identified New Zealand's failure to strike a free-trade deal with major trading partners (other than Australia) as a reflection of a flawed defence policy. "Why would they bother with a bunch of chest-beaters?" asked one person. There was little popular endorsement of the Iraq war. One respondent said New Zealand had made a wise decision over Iraq even if it had curtailed some future economic activity.

## Strategic 'what ifs'

Top executives and chairmen rate risk factors (out of ten)

International	Score
More Terrorism	4.2
Weak US dollar	7.7
Weak European Economies	5.5
Aust/US free trade deal	5.5
WTO - lack of progress	6.7
Pandemics	5.3
US hegemony	4.8
Domestic	Score
Interest rate increases	5.8
NZ dollar strength	6.5
Current Account Deficit	5.4
Energy Supply	6
Inflation	4
Corporate tax rate	6.1

Source: NZ Herald Survey March 2004. HERALD GRAPHIC

## DO YOU FEEL YOU COULD ACHIEVE SO MUCH MORE?

If you feel you could achieve so much more, then it's time to take that first step forward and make a real difference to your future.

Over the last 35 years our Extramural programme has enabled more than a quarter of a million New Zealanders to secure the future they really want. They've studied for postgraduate and undergraduate qualifications, both here and overseas, while they work full-time, bring up families and live rewarding lives.

You can choose from over 240 internationally recognised qualifications and study at a time and place convenient to you.

We have campuses in Auckland (Albany), Palmerston North and Wellington as well as our extensive Extramural programme via the Internet, email, post and telephone. Best of all, you don't have to wait - with Midstart you can begin July 12th. All you have to do is make the call.



Te Kunenga  
ki Pūrehuroa

0800 MASSEY  
www.massey.ac.nz

MAKE A DIFFERENCE



Massey University  
AUCKLAND • PALMERSTON NORTH • WELLINGTON • EXTRAMURAL

# Business stops 'wimping out'

After a period of self-imposed silence, business people are now challenging the Government, write Fran O'Sullivan and Graeme Hunt

MIRROR, MIRROR ON THE WALL, WHO'S THE DRIEST OF THEM ALL?

**T**HE SPECTACULAR rise of National leader Don Brash in the opinion polls has created a climate where business feels it can openly take issue with Government policies without being pumelled in response.

Many respondents to the Herald's corporate survey said a wider debate on the Government's attitude to business had ignited in the wake of Brash's controversial reshaping of the debate on race relations and the Treaty of Waitangi.

Business people had kept their heads down — or sheltered behind business lobby organisations — rather than risk public ostracism by openly taking issue with "anti-business" policies.

But others question why business allowed itself to become subservient in the first place.

Brash set the race-relations agenda in January with an outspoken state-of-the-nation speech to the Orewa Rotary Club. It caught the Government on the back foot but returned National to the status of a credible Opposition.

"Brash has made it acceptable to debate subjects that were not politically acceptable to debate," said Ian Frame, chief executive of Wellington-based investor Rangitira Ltd.

"I am not referring to the race issue... I am referring to the restructuring of the economy that took place in the 1980s and early 1990s."

'Business has been so subservient. But you can feel a certain effervescence that there is a chance for making a change.'

—Kim Ellis  
Waste Management NZ

Kim Ellis said business had itself to blame for allowing the Government to impose changes that were costly and made it less competitive.

"The business community has been so subservient," said Ellis. "But with Brash you can feel a certain effervescence that there is a chance for making a change. We see the possibility that we will have a credible Opposition and a closely fought general election."

But Ian Watson, deputy vice-chancellor of Massey University's Albany campus, said the Government deserved credit for talking to business. "The Prime Minister and the Deputy Prime Minister probably deserve some marks for trying," said Watson.

"Both, however, are academics, admittedly with a good grasp of economics, but unfamiliar with the day-to-day hassles of business."

"Furthermore, they are surrounded by others whom one might objectively describe as anti-business."

Watson said some of what Brash said at Orewa was unfortunate, but he had opened the Treaty of Waitangi to regular discussion.

Not all business sentiment is falling Brash's way. A number of survey respondents suggested that while the treaty needed to be debated, there was a risk that New Zealanders would be pitted against each other.

"Why not support the Prime Minister's inquiry?" asked one Wellington financial company head.

The treaty rated as a major negative issue for business in this year's survey.

But there was far less unprompted comment than in the Herald's November 2002 Mood of the Boardroom survey, suggesting business has already moved on.

Business people interviewed after Brash gave his "tax speech" last week suggested there was a risk that if the National leader made many policy concessions simply to attract votes, he would lose appeal.

"It's not as if someone earning \$60,000 a year is rich," said one respondent after learning Brash had scrapped earlier policies to cut the 39 per cent top rate.

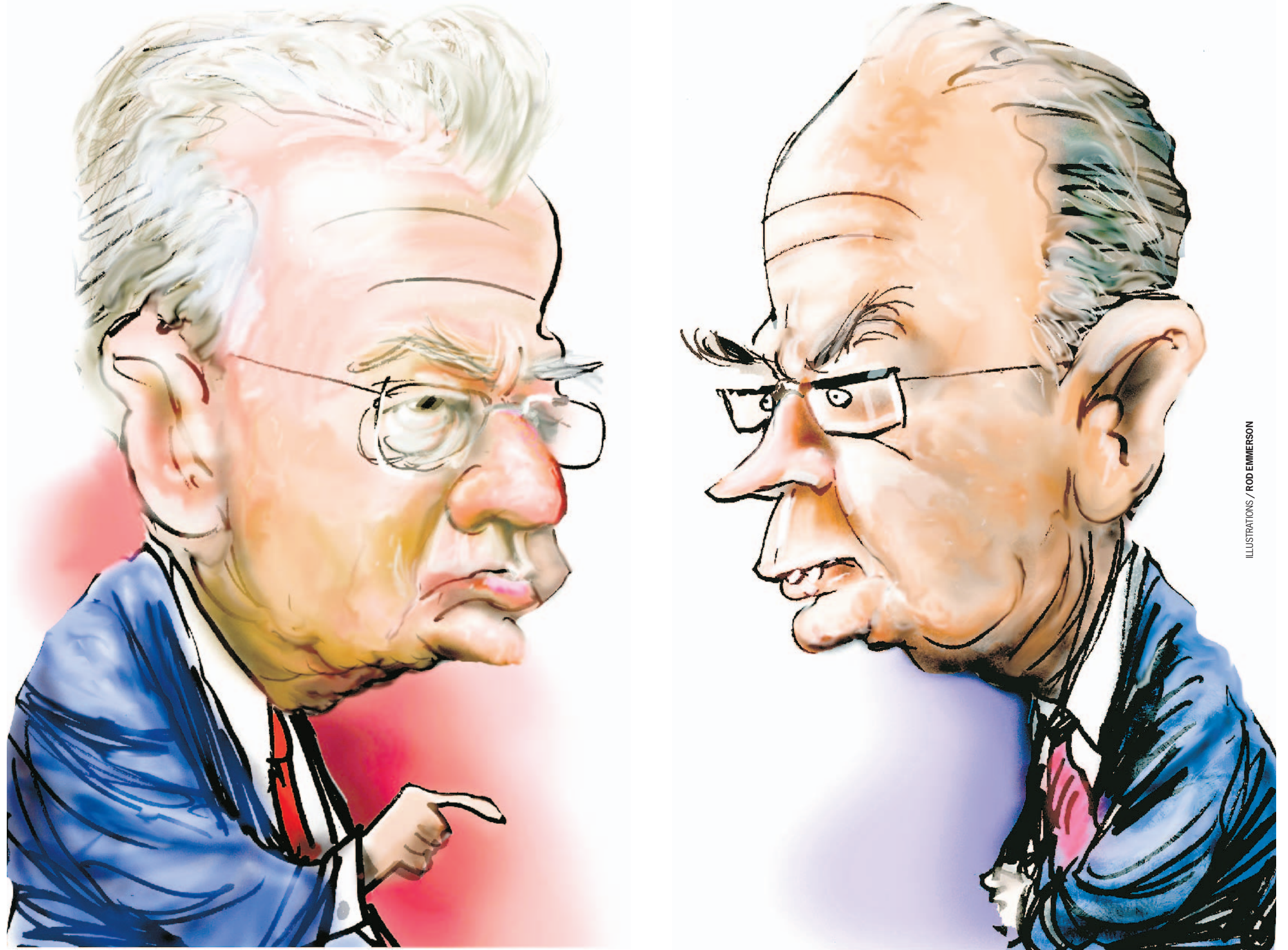
Another suggested Brash should not be allowed "to get away" with ducking debate on controversial issues such as health. "How is he going to fund a boost to the defence budget to get in good with the Aussies?" asked another.

"Brash has opened up the discussion and there is a whole level of debate now taking place."

Frame believes the reforms of the fourth Labour Government and the National Government that followed were essential to improving competitiveness.

"We attracted a lot of investment and [the economy] started to grow. Currently the economy is trading on that period. But we are sliding downhill and I suggest it is quite a steep slide."

Waste Management NZ managing director



Michael Cullen, Finance Minister  
Deputy Prime Minister and Cabinet trouble-shooter

FINANCE Minister Michael Cullen is seen by many in business as the Cabinet's "fiscal dry" with a firm grip on the Government's coffers.

Bill Falconer — who chairs many prominent companies such as Hellaby Holdings, Kiwifruit International, Oyster Bay Marlborough Vineyards and Restaurant Brands — is one of several businessmen who gives him a tick. "Michael himself as a keeper of the books is quite dry and I think he finds a lot of Treasury advice palatable in that sense."

"It suits him probably to think that all the benefits to business are given by [New Zealand] Trade and Enterprise and 'I don't have to do that somewhere else'."

Falconer, a former top-flight public servant himself, questions if the regulatory framework that the Government has introduced "will just make things harder."

ASB Bank managing director Hugh Burrett agrees Cullen has done a "good steady job".

"I actually think he's probably kept the lid on expenditure to some extent and tried to control what could have got out of hand with the surpluses."

But company chairman Roderick Deane questions why Cullen has presided over a surplus which will snowball to \$6.1 billion by the middle of this year, he emphasises.

"I think tax rates are too high and the surplus is probably larger than it really needs to be," said the peripatetic chairman of companies such as ANZ-National, Fletcher Building and Telecom.

"But nonetheless fiscal policy in an overall sense has been pretty responsible."

Falconer adds Cullen's rationale for refusing to

reduce the New Zealand corporate rate from 33 per cent to the 30 per cent rate enjoyed by Australia should be contested by business.

Cullen says Australian companies pay just as much once additional imposts such as payroll taxes are added. But Falconer maintains the company tax rate "is a very important driver in itself".

"You don't go round and add up all your taxes," said Falconer. "I think he's got it wrong there."

"The strength of the corporate tax rate is a driver for business performance and if you want to encourage business it should be by way of tax."

"If you've got to queue up for New Zealand Trade and Enterprise to get a grant it feels like cheating... but to take advantage of a tax break — that's what we're all about."

Don Brash, National finance spokesman  
National leader and former Reserve Bank Governor

NATIONAL finance spokesman Don Brash is a bit of a "poster-boy" for business right now.

Riding high in the political polls on the back of his campaign against so-called "Maori privilege", Brash has uttered little this year on his own key shadow portfolio responsibility — finance.

Company chairman Roderick Deane, whose own former career as a Reserve Bank deputy governor and free-market businessman puts him in a similar philosophical camp to Brash, takes issue with claims that the National leader's race campaign has provided the drawcard for business.

Deane points out that many business people are

simply fed up with creeping re-regulation. "It's part of the reason why the business community will grab at the philosophies of a Don Brash," said Deane.

"It's not about racial divisiveness — it's actually much more about 'Well here's somebody who might have a more sensible commercial agenda'."

There are signs that business wants Brash to address wider issues instead of constantly harping on about the Treaty of Waitangi, or the state of Prime Minister Helen Clark's marriage.

"He's got to move on," said company chairman Bill Falconer. "I want to hear what he's going to say about health and what he's going to say about education. I also want to hear more about what he's got to say on tax."

ASB Bank's Hugh Burrett concedes Brash has yet to put much on the table to alert business to the economic policies he would implement if National gained the Treasury benches at the next election.

"You can almost feel for any politician in Opposition," said Burrett. "You can't show your colours too soon — but you've got to get to remain in the public eye somehow."

Burrett says it is difficult to make a direct comparison between Cullen and Brash. "They come from different political fronts so will have different attitudes... to tax and so on."

Said Fletcher Building chief executive Ralph Waters, "I don't think you'd see Brash having the courage to go to election here saying, 'We really need a capital gains tax and to means test our pensioners... it's not going to be popular, but if we want the numbers to add up we've got to do that.' Nobody would have the guts to do that here under MMP."

Waters said Brash told businesses that those two issues are "not on our agenda". But he could be a "one-term person" if he got the right things done.

## The contenders square off in Auckland

Finance Minister Michael Cullen and National's finance spokesman Don Brash will square off at special breakfast function in Auckland this morning to launch the *Mood of the Boardroom* report.

This is the first time the two finance supremos have debated publicly in Auckland this year.

A top-flight audience of prominent chief executives and company chairpersons, together with many of the city's leading SME players, will be present. The *New Zealand Herald* and *Business New Zealand*, in association with EMA Northern, are co-hosts.

Hot issues such as tax — where Brash has stated he will not cut the top rate — will be top of mind.

Tomorrow in Wellington, Small Business Minister John Tamihere will square off against United Future leader Peter Dunne. Tamihere, who was passed over for Commerce in Helen Clark's latest Cabinet reshuffle, will pit his combative style against Dunne, a former Inland Revenue Minister, at a lunch at the Hotel InterContinental.

Their debate will be hosted by EMA Central.

■ Full coverage of these events will be available at [nzherald.co.nz/boardroom](http://nzherald.co.nz/boardroom)

## New Zealand's best bank now offers home loans in Newmarket (or anywhere else in Auckland).



With our Home Loan Lounge in Newmarket and mobile managers on call, you can discuss your home loan needs face-to-face with someone from TSB Bank anywhere in Auckland. Not only will you get some of the

most competitive rates available, you'll also experience the friendly, personal service that has earned us the acclaim of "Best Bank" for customer satisfaction for the last five years in a row.\*

To make an appointment, call now on 09 920 4222.  
TSB Bank Home Loan Lounge, 10 Manukau Road Newmarket  
[www.tsbbank.co.nz](http://www.tsbbank.co.nz)

\*TSB Bank rated highest for customer satisfaction in the University of Auckland Business School Residential Bank Customer Survey 2003.



**TSB Bank**   
100% New Zealand owned since 1850