Tapping our entrepreneurial heritage

By Ian Hunter and Marie Wilson

Recent reports from government and from local economic development organisations, such as the Auckland Regional Economic Development Strategy group, have highlighted decreasing economic performance in New Zealand. Businesses are urged to become more innovative and ambitious and to grow dynamic firms that will lift the country’s export performance and provide challenging, rewarding jobs to stop the flow of talent from our shores (AREDS, 2002; Glass and Choy, 2001). Do we have what it takes?

With such a high concentration of small businesses, New Zealand must surely be an extremely entrepreneurial place. Reports from the 2001 and 2002 Global Entrepreneurship Monitor (e.g. Fredericks and Carswell, 2001) and subsequent analyses of the GEM data suggested this. On indicators such as opportunity entrepreneurs, business angel activity, women entrepreneurs and general entrepreneurial activity, New Zealand came out significantly ahead of other countries. The problem with the GEM report, of course, is that everyone who is self-employed is classified as an entrepreneur and this approach can produce distorted results. For example, in some studies it has meant that seasonal farm labourers or journeymen were classified as
entrepreneurs (Levenstein, 1995; Godley, 1996). Historically, New Zealand has had large numbers of workers outside the traditional waged structures, but these are not the kind of entrepreneurs economic development reports have argued New Zealand needs.

Indeed, by many definitions they are not entrepreneurs at all. Economic growth and development requires innovators who grow businesses beyond the small sizes that dominate in New Zealand and reach beyond these shores. Yet research suggests that we are one of the worst nations at creating vibrant, growing firms (Reynolds et al, 2002).

Why are entrepreneurs so important? Cantillon (1931), a banker and financier, recognised that entrepreneurs acted as a vital link between producers and consumers in an economy. Knight (1921) stressed that it was the entrepreneur who produced pure profit in an economy because of the uncertainty in speculative activity. Schumpeter (1934) added innovation as a primary attribute of the entrepreneur. He saw the entrepreneur as someone who “did things differently”.

Such differences might include new firms, new products, new methods of production or new ways of organising – but innovation, claimed Schumpeter, stimulated economic growth and progress. Innovation can have other benefits. Baumol (2002) suggested that it increased a nation’s capital stock.

It is this element of innovation that differentiates the self-employed from the true entrepreneur and renders the GEM report findings difficult to apply in a policy context. Close examination of the GEM results suggests that we are a nation of inwardly focused contractors and small businesses that struggle to get any bigger or add true value to the national economy.

Has this always been the case? While we are concerned for the future, we may gain some insights from New Zealand’s entrepreneurial past. In particular, we might compare the entrepreneurial activity at the turn of the 20th century with that at the turn of the 21st century.

NEW ZEALAND’S ENTREPRENEURIAL PAST – A CENTURY AGO

The present study used a case analysis of 150 New Zealand entrepreneurs who were active between 1880 and 1930. The entrepreneurs were selected from a list of more than 500 business people after a survey of biographical dictionaries, Who’s Who, newspaper reports, company histories and biographies. This list was culled to 150 by asking two questions of each case. Firstly, was this person an entrepreneur or a manager? An entrepreneur was defined as someone who had a significant ownership stake in the firm and was actively pursuing innovative growth of the firm during his or her lifetime. The study excluded managers with no ownership stake, those who were “self-employed workers”, or those who were clearly running a firm as a lifestyle choice, without innovative endeavour.

The second qualifier was whether the person was active as an entrepreneur at some point in the years 1880-1930. Those who were outside this time period were not considered for this study. The final list included a wide range of people and activities. Some were well known, such as baker Ernest Adams, newspaper proprietor Henry Brett, winemaker Assid Corban, baking powder manufacturer Thomas Edmonds and retailer Bendix Hallenstein. Others were not so well known, including bedding manufacturer Arthur Ellis, florist Sarah Elsom, tent manufacturer and dairy importer Carl Dahl and merchant Byron Brown.

The study investigated a range of variables including the age at which the entrepreneur started his or her first venture, family and social background, educational background, venture activity, industry type, business strategy, failure rates, sources of capital and reasons for start-up.

This article examines four of these areas and considers the degree to which they inform the present discussion on New Zealand’s entrepreneurial future. The issues that emerge from our consideration of these historical cases, particularly the importance of commercial
experience, the experience of venture failure, immigration and access to capital, are also issues that speak to current and future New Zealand entrepreneurs.

THE IMPORTANCE OF COMMERCIAL EXPERIENCE

Does entrepreneurial success favour the young? Certainly, some high-profile media accounts tend to suggest this is the case. Local entrepreneur Sarah Hunter made headlines when she sold PC Direct to Blue Star in 1996 for an estimated $30 million, having started the firm seven years earlier as a 22-year-old, with business partner Maurice Bryham. Wellingtonian Steve Outtrim’s success was even more dramatic. With just $18 to his name, he created the web-page software Hotdog and within 18 months was a multi-millionaire. Is this the 21st-century requirement for business success?

The results of this research suggest youth is not enough. Historically, young entrepreneurs have started some of our most successful long-term firms. Edward Firth was only 20 when he joined his father in Ironclad Products, later Firth; Josip Babich was 25 when he opened the New Era orchard and vineyard; William Winstone was 26 when he started his cartage business; Robert Kerridge was 28 when he opened his first cinema; and John Kirkaldie was 25 when he and partner Robert Stains commenced the drapery business Kirkaldie & Stains. But this is not the whole picture; indeed it is too limiting just to consider the age at which they started their first business without considering the previous background and experience they had that equipped them for this activity.

Historically, New Zealand entrepreneurs did not start a new enterprise with no previous commercial experience. Indeed, the complete opposite was true. The mean age they started their first business venture was 27, with an average of 12 years of commercial experience. They were not, as a rule, particularly well educated; the mean school-leaving age was 15. But it was their experience post-school that was of interest. Thirty-five per cent received a trade qualification in such fields as printing, drapery, ironmongery and building. Forty-one per cent held a management position before starting their first venture.

The entrepreneurs’ first leap into a new venture took several forms. Some had an opportunity to buy the firm they were working for; others saw an opportunity in their industry and pursued it alone; some met partners who had complementary skills to theirs and together they started a business; a few went into business with an established partner with existing capital. What was consistent was that launching into a new business venture was typically after a decade or more of industry experience.

Entrepreneurship researcher Patrick Liles called this stage “readiness” (Liles, 1981). The entrepreneurs are at the point in their lives where they have not only achieved mastery of business problems and skills, but also over themselves, displaying greater self-image, self-confidence and competence. It is during the mid-life period that entrepreneurs have established the networks, contacts, experience and credibility to establish a successful business. The entrepreneurs may identify key features of a product or service they work with that they believe they can operate better, or deliver at a lower cost, or with greater benefit. Or they may discover a particular need for a product or service no one is supplying.

The recent book Entrepreneurs at Work: Successful New Zealand Business Ventures (Cameron and Massey, 2002) paints a similar picture of the contemporary New Zealand entrepreneur. Of the 22 entrepreneurs portrayed in the book, 19 had
extensive experience in the industry in which they started their first venture. Ruth Pretty ran her own restaurant for 10 years before starting Ruth Pretty Catering; David Ellis had worked in senior capacity at Fairydown for nine years before starting his outdoor clothing company, Earth Sea Sky.

VENTURE FAILURE

It is claimed on occasion that up to 50 per cent of entrepreneurs fail within the first five years. This statistic is enough to put off some would-be entrepreneurs for life. Fortunately, we now know that these statistics are flawed as well. Some researchers defined failure so broadly that any time the entrepreneur and their start-up firm parted (Baldwin and Gorecki, 1991; Churchill 1952), it was seen as a failure, even when the entrepreneur sold the business at a profit to another company. This would make contemporary entrepreneurial success stories such as Steve Outtrim and Sarah Hunter failures for selling their businesses for millions. Yet few would see this as a failure.

Have New Zealand entrepreneurs historically had a high failure rate? The answer depends on your definition of failure. If we consider failure as including bankruptcy, being ejected from the company they started, or clearly failing to make a go of it and closing down the business to avoid further losses, then the rate of failure in this historical sample was 31 per cent. In other words, one in three entrepreneurs would experience failure at some point over their lifetime. But this is only one part of the failure question. Indeed, the important question is not “did they fail?” but what happened next? Did the entrepreneurs forsake their ambitions and resume waged work? Did they remain in a financially strained state?

Overall, this was not the case. Eighty-nine per cent of failed entrepreneurs restarted and again achieved business success. In some cases they rebuilt the business that had failed, or took on a new partner, or pursued a completely new product/service innovation. Whatever route was taken, failure was not the end of the line for New Zealand business entrepreneurs at the turn of the century. Rather they carried on to make a renewed contribution to economic growth through additional new ventures.

It is also important to consider failure in terms of the overall number of ventures that these entrepreneurs started. Very few of the entrepreneurs studied started only one new venture during their lifetime. Multiple business start-ups were far more common. This could take many forms. Some entrepreneurs started a business that was only marginally successful and then left it to start another firm in a different location. Others saw a better opportunity with a group of entrepreneurs, or they added to their original firm, providing additional product or process innovations. In total, business failures as a percentage of the overall number of businesses these entrepreneurs were active in represented only nine per cent.

This finding has other implications, as it is common to associate one particular business enterprise with an entrepreneur and, as time passes, a person becomes almost synonymous with the business they founded. In this vein, we might associate Robert Kerridge with Kerridge Odeon Cinemas, or Harvey Turner with Turners and Growers, or George Skellerup with Skellerup Industries. But this was not the only business activity these entrepreneurs commenced. Skellerup’s business ventures, for instance, included the Para Rubber Company, a rubber plantation in Papua New Guinea, a rubber importing company, a waterproof coat manufacturing company, a footwear company and a saltworks.

In total numbers, the 150 entrepreneurs in this historical sample were involved in 535 business ventures. Of these ventures, 426 were entirely new start-ups by the entrepreneurs. Twenty-five per cent of the entrepreneurs in the sample were involved in five or more business ventures over the course of their lifetime. The highest number by a single entrepreneur was 40. Westhead and Wright (1998) have called these highly active entrepreneurs “serial founders”. What this study suggests is that New Zealand entrepreneurs have a heritage of this kind
of behaviour and in this regard, the failure of a commercial venture by an entrepreneur, though an unpleasant experience, is only a stepping stone to a longer-term economic contribution.

More precise failure rates give entrepreneurs more hope in the future. Watson and Everett (1996) claim that the rate at which entrepreneurs close down a venture because they cannot make a go of it is in the region of nine to 17 per cent, depending on the industry. This is very consistent with the historical rate of nine per cent. Closing down due to bankruptcy is between one and two per cent, so despite popular ideas of risk, few entrepreneurs – historically or currently – fail, and those who do recover, re-launch and continue to drive the economy forward.

Yet the failure question has social implications as well. The GEM Summary Report stated: “New Zealanders severely punish failed entrepreneurs. Fear of failure is listed as a major reason for not becoming an entrepreneur” (Reynolds et al, 2002, p.91). This was not a characteristic of any other country in the top-seven group. Other countries had their own unique difficulties – shortage of capital, inflexible labour markets, lack of business skills – but not fear of failure. The United States, for instance, generally holds the opposite view and sees failure as a learning experience, with entrepreneurs often repeating their efforts to launch new businesses. A change in our expectations of entrepreneurs may assist our economic development; persistence after failure produces seasoned entrepreneurs who can move the economy forward, as they have historically.

THE ENTREPRENEURIAL IMMIGRANT

Before the 1870s and 1880s, immigration was New Zealand’s and Australia’s dominant source of population increase (Gibson, 1971). Adding to the existing Maori and Pakeha economic activity, migrants brought capital, became consumers and increased local demand for housing, transportation, education, foodstuffs and retail services (Condliffe, 1930). Many began their own businesses, bringing knowledge or expertise that were in short supply, identifying market needs from a unique perspective, or starting up a business as a way of entering the local labour market. The data from the present study reflected this trend – 75 per cent of the entrepreneurs were immigrants. Not surprisingly, the majority of these entrepreneurial immigrants were from the United Kingdom – 53 entrepreneurs (35 per cent) were from England, 17 per cent from Scotland and seven per cent from Ireland. Others came from a host of countries, including Lebanon, Dalmatia and Prussia. Only 25 per cent of the sample (37 entrepreneurs) were New Zealand-born.

Skilled labour accounted for a significant portion of these immigrants. Thirty-four of them had gained their trade qualifications before arriving in New Zealand, in occupations including drapery, iron moulding, carpentry and joinery, accounting, brewing, printing and engineering. As such, they were well equipped to take advantage of opportunities in the emerging economy. For example, William Dawson was already a fully qualified brewer by the time he came to New Zealand aged 21 and he quickly found employment at Wilson’s Well Park Brewery. Three years later, in 1876, he and two other employees, James Speight and Charles Greenslade, left the firm and took over a redundant malt house to establish James Speight & Company’s brewery. Within 10 years, it dominated the local market and continued its growth to become the largest brewery in New Zealand.

Similarly, Richard Hudson, founder of Hudson’s biscuit and confectionery business, was a qualified baker when he arrived in New Zealand in 1865.
Then, as now, immigrants may be part of the driving force in entrepreneurial venture formation in New Zealand.

Richard Hellaby, co-founder of meat processing firm R. & W. Hellaby, had served his apprenticeship as a butcher before emigrating to New Zealand in 1868. And engineer Eben Hayes, who would found the Hayes Engineering Company, served his apprenticeship as a millwright in Warwickshire before he emigrated to Otago in 1882.

Immigration has again become a contentious issue in New Zealand, with concerns about the economic effects of migration. Yet the Treasury working paper *Brain Drain or Brain Exchange?* suggests that New Zealand entrants are generally highly skilled (Glass and Choy, 2001). Other research suggests that the inability to find suitable employment leads many immigrants to pursue self-employment or start new ventures (Li, 2001). Simon (1989) claims that contrary to popular notions of immigrants taking the jobs of the existing population and being a drain on social services, other dynamics occur. Using examples and studies from North America, Australia, New Zealand, Canada and Israel, he argues that immigrants have a number of positive effects on an economy including a higher propensity to start new businesses than natives, narrowed disparities in income, higher savings rates and the creation of new jobs and lowered unemployment. Razin and Light (1998) claim immigrant groups often concentrate in niche entrepreneurial activities and rather than displacing existing business activity, they thrive in declining niches, creating opportunities for themselves that result in a net contribution to the economy or widening the range of goods and services offered. Then, as now, immigrants may be part of the driving force in entrepreneurial venture formation in New Zealand.

**ACCESS TO CAPITAL**

Capital formation is an essential part of starting and growing a business enterprise and some writers argue that capital is a necessary precursor to entrepreneurial activity. Access to start-up capital is often cited as a reason that New Zealanders do not launch more, and bigger, businesses (MED, 2002). But has it always been this way? The entrepreneurs in this sample provided an opportunity to examine the sources of capital used. Eight sources of capital were identified among the entrepreneurs and businesses in the study. The first cluster of venture capital came from family wealth and inheritance, the entrepreneur’s own savings, and several partners each contributing funds. In the

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**ROBERT LAIDLAW**

**fast growth**

Of all our entrepreneurs, probably none experienced business growth as fast as Robert Laidlaw and his mail order business, Laidlaw Leeds, which gave rise to the Farmers Trading Company. In the first 12 months of trade, Laidlaw shifted premises three times and his staff rocketed from two to 122. How did he carry this off? Firstly, four years of planning went into his enterprise before he started. He carried out market research, pre-planned all his business systems and had in-depth knowledge of the industry he was working in. However, perhaps more importantly, right from the start he had a long-term vision. Said Laidlaw in his first mail order catalogue: “We have set out to build the greatest direct supply mail order business in the Southern Hemisphere. You need not fear unfair competition, no trickery or misrepresentation will be used; our policy, ‘stern, old-fashioned, unfailing honesty’, will govern all our business transactions.”
current environment, entrepreneurs also rely on themselves as well as the “three Fs” of venture funding – friends, family and fools. In addition, the studied firms started through the capital of a partner with an established business; public float; private float to a limited number of investors; money earned from other activities such as mining or farming or professional services. These funding mechanisms are regarded as seed, first and second stage venture investing. Then, as now, firms progressed through stages of development and finance through to public offering. Finally, entrepreneurs borrowed funds from a bank, loan company or private financier to start their businesses.

Twenty-three (15 per cent) of the entrepreneurs had access to family wealth through an inheritance or an existing family business and used this as the source of their capital to start their first venture. This ranged across activities including brewing, winemaking, mercantile operations, transport and shipbuilding. John Ilot and Arthur Ellis both took over family businesses their fathers had commenced, avoiding the need to raise capital. At Te Mata, Bernard Chambers could indulge his interest in winemaking due to several thousand acres of inherited land.

Yet the most common source of start-up capital was the entrepreneur’s own savings. Thirty-five per cent of the entrepreneurs used their own savings as the means to support their first venture. This reflected two factors. Firstly, in some industries, the barriers to entry were low, so opening a retail store, small factory or printing works could be done with a few hundred pounds or less. Secondly, large-scale starts to new ventures were uncommon. Numerous entrepreneurs commenced their first venture by themselves, or with one other family member or business associate. But this did not mean that a small
A firm begun on minimal savings was destined to remain a small firm. Fifty entrepreneurs from the study grew business enterprises that either had branch operations across New Zealand (usually 40 or more chain stores) or, if in manufacturing, construction or the like, distributed goods and services nationwide. Of these, 19 entrepreneurs had started from their own savings and 10 from inheritance or family wealth.

Aldrich and Martinez (2001) distinguish between three types of capital in the new venture process: financial capital; social capital including family networks and the entrepreneur’s independent relationships; and human capital, i.e. knowledge, training and expertise. To create a new firm, entrepreneurs need all three, although it is clear that social and human capital are the most important ingredients. Aldrich and Martinez claim that most new businesses start small, with entrepreneurs drawing upon their own savings and personal assets. As they develop the business, social capital provides the entrepreneur with access to knowledge, capital, clients and suppliers that might otherwise have been unavailable. In this respect, networking or mentoring activities enhance the ability to develop a new business further as they supplement the entrepreneur’s social capital. The rise of formal venture capital markets from the 1950s has resulted in greater and more formalised venture financing, particularly in the US (Brodsky, 1995). Access to significant venture capital is increasingly important in launching businesses into a global marketplace. This formalised venture capital, still relatively new and limited in New Zealand, does provide an accelerated pathway to growth over the historical “bootstrapping” and more incremental capital growth uncovered by the study. This is not to suggest that the need for the entrepreneurs’ own social and financial capital is any less. Venture capitalists expect extended experience (human capital) and social capital to be represented in the management team and financial investments from the entrepreneur and business angels to get the venture started.

WHAT CAN WE LEARN FROM HISTORY?

Clearly, New Zealanders have entrepreneurial traits. We applaud ingenuity and inventiveness, we have a willingness to have a go, are good at...
sometimes in entrepreneurial activity there is added advantage in numbers. Not all the entrepreneurs in the study of New Zealand entrepreneurs commenced a business on their own. In fact, partnerships of one form or another constituted around 50 per cent of all start-ups. Some were family partnerships such as the Logan brothers in shipbuilding, the Walsh brothers in aviation and the Coulls brothers in printing. Others were innovators who joined established entrepreneurs to start a new kind of venture such as bookseller and printer John Blair, who joined existing businessman William Lyon in his bookselling business on Lambton Quay and developed it to become one of the largest printers and booksellers in New Zealand. A final group were complementary partners. For example, drapers Kirkcaldie and Stains, who met while working in the same industry and brought together complementary skills to start a venture together. Harbour pilot James Bradney and engineer Ernest Binns teamed up in 1884 to start shipping company Bradney and Binns. Similarly, William Dawson, who started a jewellery firm of the same name, was one of a group of three founders who left Wilson’s Well Park Brewery in 1876 to launch James Speight & Company.

Certainly, some things have changed for New Zealand entrepreneurs. Markets are increasingly global and in contrast to last century, the 21st century requires entrepreneurs to pursue global opportunities to contribute to New Zealand’s economic vitality and their own business growth. The dual phenomena of global markets and high technology require faster growth and greater capital – particularly financial capital – than our historical entrepreneurs could have imagined. These same barriers confront both those born here and those who immigrate, although the lack of job opportunities may provide additional incentives for immigrants to start new ventures. The sources of wealth of the last century, with domestic trade and primary production in meat and dairy, are no longer enough to sustain us, although they may provide a context and importance resources for our development as a knowledge economy.

The final report of the New Zealand Science and Innovation Advisory Council (2002) highlights a number of points brought out in this article. It isolated a range of factors necessary to move New Zealand back to the top half of the OECD through pursuing innovation-led growth. The report identified that, as a country, we have been good at generating ideas and knowledge, yet far less successful at generating wealth from ideas in the marketplace. How can we capitalise on our entrepreneurial past and our good ideas?

Our history suggests that we recognise, but not over-estimate, the risk of ventures. Further, when ventures (and entrepreneurs) do falter, we should not castigate their initiative, but look for lessons learnt and future, better ventures from these entrepreneurs. Even though it makes for good news

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**PARTNERSHIP safety in numbers**

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Venturing requires innovative ideas coupled with commercial expertise; new ventures are businesses not just inventions.

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stories and award ceremonies, we should also recognise that entrepreneurship is not the exclusive province of youth. Venturing requires innovative ideas coupled with commercial expertise; new ventures are businesses not just inventions. Finally, we should recognise that making New Zealand competitive may require initiatives on many fronts.

The final Science and Innovation Advisory Council report suggests a wide range of measures including private-sector support, government initiatives, fiscal changes, changes to educational curricula, business planning courses, mentoring, venture development specialists, access to funding, expatriate involvement and a change in prevailing cultural attitudes toward failure. In total, more than 90 recommendations and action points were suggested. It is a staggering list and one can’t help but think that if even a quarter of these initiatives were put in place, they would significantly improve our commercial and social environment for decades and allow us to capitalise on both our innovations and our entrepreneurial heritage.

REFERENCES